Credit Reporting at the Base of the Pyramid

Key Issues and Success Factors

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"An essential element in the prevention of multiple-lending and over-borrowing is the availability of information to the MFI of the existing outstanding loan of a potential borrower. This is not possible unless a Credit Information Bureau is established expeditiously."

—Malegam Committee Report, Reserve Bank of India, January 2011

"Don't wait until the problems are there before putting a credit bureau in place."

—An MFI leader in Nicaragua, autumn 2009

"[Our] Central Registry of Credits is a comprehensive one: along with commercial banks, [microcredit organizations and] all other types of credit institutions are included. And it is detailed, too, containing all relevant data on all kinds of borrowing, for both individuals and legal entities. As such—and since it prevents multiple, excessive indebtedness—consulting it is indispensable for making sound lending decisions. With the establishment of Central Registry of Credits, we have reached a higher level of financial discipline and . . . the level of nonperforming loans [has] significantly decreased."

—Kemal Kozarić, Governor, Central Bank of Bosnia and Herzegovina, April 2011

CGAP
1818 H Street, N.W., MSN P3-300
Washington, DC 20433 USA
Telephone: +1 202.473.9594
Email: cgap@worldbank.org
www.cgap.org

Introduction

Over the past five years, the microcredit sector has experienced unprecedented growth. The number of borrowers served by microfinance institutions (MFIs) has increased threefold to reach 120 million clients, according to MIX estimates as of December 2009—and by other estimates the number may be as high 190 million (Microcredit Summit Campaign 2011). In large markets, such as Mexico and South Africa, commercial banks and consumer lending companies have expanded their activities to include microfinance for low-income households.

Unfortunately, the growth of microcredit is not always sustainable. Some iconic markets, such as India and Bosnia–Herzegovina, are experiencing large-scale credit crises, and they are not alone. The portfolio at risk (PAR) of MFIs worldwide has increased steadily over the past three years, according to the Symbiotics SYM50 index. This is an alarming trend for an industry that has been heralded for its outstanding asset quality.

The deterioration in the quality of MFI loan portfolios can be attributed to several factors. Some fast growing MFIs have outgrown their risk management systems and controls. These weaknesses have often been exacerbated by high staff turnover, leading to a further erosion of credit discipline. Rapid growth has also been focused in narrow geographies, which in turn affected borrower repayment incentives and behaviors.

In some microfinance markets, the entrance of banks and consumer lenders hastened unhealthy competition among different base-of-the-pyramid lenders. The risk of over-indebtedness among borrowers rose markedly in several countries, such as Peru and Morocco.[1]

Hardly an article or blog has appeared in recent months on the microcredit delinquency crisis without mention of the critical role of effective credit reporting in averting, or at least reducing, the risk of over-indebtedness and borrower defaults. Although credit reporting alone cannot create credit discipline in a market or compensate for inadequate underwriting standards, it can help microlenders better originate loans, manage credit risk, and create a powerful incentive for repayment among borrowers. Over the past 10 years, credit reporting has rapidly expanded in emerging markets, but many of these initiatives have emerged in the mainstream banking and consumer lending sectors, often leaving microlenders and the low-income consumers they serve outside of this information infrastructure. Today, only a handful of countries have well functioning and inclusive credit reporting systems that include the range of bank and nonbank lenders that serve the poor.

This report takes a fresh look at the state of credit reporting at the base of the pyramid. The data and analysis for this paper are drawn from IFC and CGAP market intelligence on credit reporting systems. In Part

1. Over-indebtedness refers to the risk faced by credit customers of taking on levels of debt that may be greater than they can manage, or that cause undue sacrifices to repay. This can result from a range of causes, including personal errors in estimating levels of manageable debt (by consumers and/or lenders), changes in household income, or unforeseen events that have significant economic impact, such as medical emergencies or natural disasters. Over-indebtedness is a growing risk in many microfinance markets, but remains challenging to define, as it includes the subjective, and highly personalized, question of "how much credit is too much?" However, Schicks and Rosenberg (2011) identify six concepts being used as definitions, or proxies, for over-indebtedness: negative impact, default and arrears (late payments), debt ratios, multiple borrowing, borrower struggle and sacrifice, and composite indicators.

I, we present the microlending market, the diversity of players, and their evolving demand for credit information. In Part II, we describe three main approaches for credit reporting at the base of the pyramid: credit bureaus, credit registries, and MFI-specific systems for exchanging client information. Each of these approaches is illustrated by country examples. Part III examines the lessons learned for effective credit reporting at the base of the pyramid and identifies key success factors as well as common challenges. Part IV presents a summary of recommendations for policy makers, microlenders, donors, and others interested in encouraging credit reporting at the base of the pyramid.

Box 1. Key Messages on Credit Reporting at the Base of the Pyramid

- MFIs still dominate the base-of-the-pyramid lending landscape in many markets. However, in increasing numbers, other types of lenders—including commercial banks, consumer lenders, and retailers and other nonfinancial firms—are also now targeting these market segments. For credit reporting to be effective as a tool in averting over-indebtedness at the base of the pyramid, all relevant lenders in a given market need to participate.
- Country-level factors determine which approaches to credit reporting at the base of the pyramid will have the best prospects for success—credit bureaus, credit registries, MFI-specific client databases, or some hybrid of these. The various approaches to credit reporting are not mutually exclusive: two or even several approaches can very well coexist and overlap in the same country.
- Credit reporting systems, like credit markets, are dynamic, and they can be expected to evolve over time in response to market and regulatory changes and to better respond to lender and consumer demands for improved services.
- No one approach carries a guarantee of success in any market, and each has its predictable or likely limitations, especially those influencing which types of lenders can, and have the incentive to, participate.
- There are challenges to effective base-of-the-pyramid credit reporting, some of the most important being *(i)* establishment of credit reporting systems that cover all types of base-of-the-pyramid lenders in a given market; *(ii)* regulatory or cost barriers that limit participation; *(iii)* comparatively high costs of obtaining and processing high-quality data on base-of-the-pyramid borrowers; *(iv)* establishing the identity of base-of-the-pyramid borrowers; and *(v)* protection of data privacy and accuracy at a reasonable cost given high transaction volume and low loan sizes. But growing global experience also shows likely success factors in addressing the challenges.
- Policy makers, donors, and lenders serving those at the base of the pyramid all have roles to play in developing credit reporting systems that gather reasonably thorough and accurate data on base-of-the-pyramid borrowers and cover the full range of formal lenders from which these clients are borrowing. Policy makers can remove regulatory barriers to participation and fashion incentives—or even mandates, if removing the barriers proves insufficient to get reasonable market coverage. Donors have the means to support policy makers, credit reporting service providers, and base-of-the-pyramid lenders to understand the benefits of comprehensive credit reporting systems and to overcome obstacles—and they have the means to inform base-of-the-pyramid borrowers why this is in their best interest. Base-of-the-pyramid lenders have the most important role to play: by supplying data and purchasing credit reports they provide the building blocks of credit reporting systems with the potential to foster responsible lending at the base of the pyramid and avert irresponsible lending that leads to over-indebtedness.

Part I. Lending at the Base of the Pyramid and Demand for Credit Reporting

Credible estimates of the number of microborrowers from MFIs range between 120 million and 190 million worldwide.[2] But, an estimated 2.7 billion adults worldwide do not have a savings or credit account in their name with a bank or other formal institution (CGAP and World Bank 2010). Most of these "unbanked" people are poor, many are informally employed, and their incomes tend to be irregular. For these consumers, credit is needed to smooth consumption and may be used to purchase consumer goods or longer term assets, such as land, animals, housing, or tools needed for work. These individuals also tend to lack physical collateral to pledge when seeking a loan. For consumers at the base of the pyramid, developing their "reputation collateral" in a credit reporting system can be a highly valuable asset, one that facilitates credit with their existing lender(s) and that enables them to seek other sources of finance rather than being tied to one provider.

Policy makers increasingly recognize the need for financial services at the base of the pyramid and the relationship that access to finance has with other development goals in livelihoods, health, education, and gender equality, among others. The private sector has also awakened to the market potential that these 2.7 billion consumers represent. New players to this market segment, including commercial banks, credit card companies, consumer finance companies, and retailers, are offering credit products and other financial services to consumers with ever lower income levels. These new providers do not employ high-touch lending methodologies, but rather they need data to drive their lending models and credit decisions. As lending expands to the massive market for financial services at the base of the pyramid, the need for reliable, accurate information on existing and potential low-income borrowers is also growing.

Understanding the Data Needs of Different Financial Services Providers to the Base of the Pyramid

Microlenders can be broadly classified into four types: informal lenders; specialized financial services providers, such as MFIs; commercial banks and consumer lenders; and suppliers of goods and services, such as retailers (pharmacies, grocery stores, etc.) or, in rural areas, firms providing agricultural inputs. Within each of these provider types, different lending methodologies may be used. Nonetheless, these microlenders tend to share some similar operational elements, including the extent of their demand for, and use of, credit reporting information.

Informal lenders. Informal financial services providers, such as moneylenders, as well as semi-formal lenders, such as village banks in Africa or self-help groups in India, are an important source of microcredit for low-income families in many markets. This is especially the case in sub-Saharan Africa.[3] Informal lenders are part of

2. See Microcredit Summit Campaign (2011) and Symbiotics SYM50 index. Cf. Wyman (2008), which estimates 180 million borrowers worldwide from all types of lenders, specifically for microenterprise purposes.
3. A recent Finscope survey in Tanzania shows that 16.5 percent of the adult population in Tanzania borrows from informal lenders compared to only 1.5 percent from formal financial institutions. Informal microlenders are characterized by relatively high interest rates and lack of reliability (Armendariz de Aghion and Morduch 2005).

the community and, generally, have a good knowledge of their clients. They do not use formal credit reporting information, but rather, they gather intelligence on their clients' credit history through their social networks and personal relationships with borrowers. Because data on these informal lenders can never be captured adequately, market coverage of any base-of-the-pyramid credit reporting service provider never provides the full picture of lending activity in a particular country.

Microfinance institutions. MFIs are financial providers that specialize in serving low-income market segments. They can be regulated financial institutions (such as banks or regulated finance companies), although the largest numbers of MFIs in most markets take other legal forms, such as financial cooperatives and nongovernmental organizations (NGOs). MFIs have become a major source of microcredit for the poor. The 1,929 MFIs reporting to MIX are active in 111 countries and serve 91.7 million microcredit borrowers. Over time, many MFIs have developed original and robust lending methods, which often involve strong loan officer–client relationships, a good knowledge of customers' reputation and business that is supported by frequent visits to the business, and nontraditional guarantee forms, such as mutual group guarantees.

Until the past few years, many MFIs demonstrated excellent asset quality, with the sector average for nonperforming loans, defined as portfolio at risk (PAR) over 30 days, being consistently below 4 percent.[4] In this context, most MFI managers feel they can do business without solid credit reporting and only in a few, more advanced and competitive markets, such as Peru, Bolivia, and Ecuador, have MFIs been incorporating credit reports into their underwriting processes. However, credit risk is now seen as one of the major risks facing the MFI industry, according to Lascelles and Mendelson (2011). In this context, many policy advisers and industry experts, as well as MFI managers, have been calling for existing or new credit reporting systems to be integrated into the microfinance sector.

Banks and consumer lenders. Banks and consumer lenders are moving down market with new offerings for low-income families. These include institutions such as Banque Centrale Populaire in Morocco, which is providing consumer loans as well as other financial products (savings and insurance) to poor families. These formal sector lenders prefer to lend to low-income borrowers with regular incomes, such as salaries or government benefits. They tend to rely on credit scoring methods and are keen to incorporate credit information into their underwriting processes when such data exist. But the experience of consumer lenders in microlending has not always been successful. In the 1990s, in Bolivia, consumer lenders offered loans about the same size as microenterprise loans, quickly and flexibly, to salaried workers. While, in theory, the market for consumer lending is distinct from the microcredit market—salaried employees versus informal enterprises—in practice, consumer lenders often compete directly with other microlenders, including MFIs. When the Bolivian microlending market expanded unsustainably with the entrance of consumer lenders, one of the main policy responses of the government was to enhance credit reporting at the base of the pyramid.

Retailers and other nonfinancial credit providers. Retailers and other types of firms that provide credit or services in advance of payment (such as utilities, schools, or sellers of agricultural inputs) may also use arms-length lending methodologies that require access to credit data. While smaller retailers are likely to base decisions on informal relationships with their borrowers—more akin to the informal sector lenders discussed earlier—larger retailers require credit data for their risk management and lending technology. Since many low-income consumers first have access to retail credit or to post-paid utilities before they have access to loans from formal financial institutions, including these providers in credit reporting systems can be helpful in establishing credit histories for the unbanked. It is also useful to note that, in some markets, including several in Latin America (such as Peru, Uruguay, and Chile), retailers have a long history of collecting and sharing payment data on both individuals and firms.

4. See MIX, 2006–08 MFI Trend Lines Benchmarks covering 1,019 MFIs worldwide.

Part II. Some Different Approaches to Credit Reporting at the Base of the Pyramid

Around the world, three broad approaches to covering base-of-the-pyramid borrowers in credit reporting systems have been tried, often in combination (and with almost as many country-specific variations as there are countries attempting this). (See Box 2.) **Credit bureaus** have sought to expand their database to include payment data on low-income individuals (and to expand their customer base to include lenders such as MFIs targeting these individuals as borrowers). Less commonly, **credit registries** have incorporated nonbank microlenders (most typically in countries where they have been brought under the regulatory jurisdiction of the banking authority).[5] Finally, **MFI-specific client databases** have been created, often because of obstacles to expanding existing credit bureaus or credit registries to include either or both low-income customers and nonbank lenders targeting them.[6]

However, these three basic approaches **do not make up a simple menu from which policy makers or industry participants choose.** Many factors influence the way in which credit reporting develops in a country, including the structure of its retail credit markets (and in particular, the concentration of assets in a few institutions and the degree of overlap in different categories of lenders that target or might target base-of-the-pyramid borrowers) and the financial system regulatory framework (especially the extent to which nonbank lenders are clearly regulated). Donor agency policy and domestic political economy also play a role in determining which approaches are tried, what challenges they face, and which have the best chances of success.

It is also important to understand that the three approaches to credit reporting described are not mutually exclusive: two or even all three approaches can very well coexist and overlap in the same country; hybrid approaches may also exist. And, as credit reporting systems, like credit markets, are dynamic, they can be expected to evolve over time in response to market and regulatory changes and to better respond to client demands for improved services. Finally, none of the three models carries a guarantee of success in any market, and each has its predictable or likely limitations.[7]

Credit bureaus. Credit bureaus collect information on a borrower's credit history from various sources, including financial institutions, nonbank lenders, telecommunications companies, courts, and other available sources. The information is then merged and analyzed to form a comprehensive credit history record for each borrower and is sold to lenders in the form of credit reports. Most credit bureaus are privately operated, for-profit entities and can be found in more than 100 countries worldwide. Credit bureaus generally hold a broad range of data that often includes both positive (on time) and negative (delinquent) payment information. Of course, the quality and scope of credit bureaus varies, within countries

5. Credit bureaus and credit registries are different types of credit reporting service providers. Service providers can be either private entities or public sector entities. *Credit bureaus* represent a model of credit information exchange the primary objective of which is to improve the quality and availability of data for creditors to make better informed decisions. *Credit registries* represent a model of credit information exchange the main objectives of which are to assist bank supervision and enable data access to regulated financial institutions to improve the quality of their credit portfolios. For more information, see World Bank (2011).
6. In this report, we use the term "credit reporting service providers," "credit reporting mechanisms," or simply "credit reporting" when referring generically to credit bureaus, credit registries, or MFI-specific databases to avoid repeating the three general approaches described in this section.
7. The numerous challenges to building well-functioning credit reporting systems at the base of the pyramid are discussed in Part III.

Box 2. Ecuador

The Ecuadoran rural finance network, RFR, looked at alternative approaches to credit reporting and settled on a partnership with one of the privately operated credit bureaus in the country, Credit Report. It selected the firm because of the strength of its technology platform, financial soundness, ownership by the international credit reporting firm Equifax (representing experience), and the price per report that the bureau guaranteed for RFR members. At the time the deal with RFR was struck, there were six privately owned credit bureaus operating in Ecuador. In 2011, after years of intense competition and bare bones pricing—reports cost less than $ 0.10 each—only Credit Report is left. The unique access it had to data on borrowers at the base of the pyramid through RFR's members was one of the key factors that contributed to its success, as it had superior market coverage compared with its competitors. For RFR and the MFIs it serves, working with a privately owned credit bureau provided access to data from other parts of the credit market; access to related tools, such as credit scoring; and access to quality data—all at a very attractive price.

Box 3. Bosnia–Herzegovina

In Bosnia–Herzegovina, the privately owned and operated credit bureau LRC was established in 2000, but this did not protect the credit market from an over-indebtedness crisis in 2009. The crisis may have stemmed in part from the fact that participating in LRC is voluntary, resulting in incomplete credit reporting coverage. To address the issue of over-indebtedness, the Central Bank Governing Board expanded the scope of its Central Registry of Credits (abbreviated in the local language as "CRK"). Regulated financial institutions—all formal lenders, including banks and MFIs—are required to join CRK. While LRC offers a broader range of services, it is also more expensive to use and still does not have comprehensive market coverage. CRK services, on the other hand, are more affordable, and most importantly CRK covers the whole lending market.

and across nations. However, it is generally true that credit bureaus contain data from the widest range of sources, including nonbank and nonfinancial sources, such as utility payments, that are more likely to cover poor people who have not previously borrowed from a formal lender (see Box 3). In addition to providing credit reports, credit bureaus differentiate themselves from other types of credit reporting service providers by providing a wide range of value-added services. These typically include credit scores that provide a rank-order number or "score" to indicate the relative creditworthiness (or alternatively, risk) of customers, as well as other services, such as identity verification, debt collection, fraud monitoring, and so forth. There are numerous examples of credit bureaus affirmatively reaching out to MFIs and other lenders to base-of-the-pyramid borrowers, both as suppliers of data and purchasers of credit reports and scores. However, there are also examples of credit bureaus owned and dominated by banks and other mainstream financial institutions that are essentially closed to participation by MFIs and similar lenders.

Credit registries. Credit registries are typically owned and operated by a central bank or other financial supervisors. In most countries, credit registries collect credit information from prudentially regulated financial institutions, which may exclude many, if not all, microlending institutions (unless they are licensed as banks). However, in an increasing number of countries, a range of MFIs is coming under formal oversight by banking authorities (even if nondepository lenders are, appropriately, exempted from full-blown prudential regulation), with the result that MFIs have the option—or more typically are compelled—to report to a credit registry (see Box 4). The primary objective of most credit registries is to support banking supervision and to provide data to regulated financial institutions to enable them to better manage credit risk and improve the quality of their credit portfolios.

MFI-specific client databases. A third approach to credit reporting for microlenders typically grows out of the self-identified microfinance sector (see Box 5). In countries around the world, MFIs, regardless of their legal type, have begun sharing credit history data about customers on their own—initially often very informally, such as sharing Excel spreadsheets of "blacklists" of delinquent customers. These schemes have serious limitations (including, typically, on the legal side), but they can be established relatively quickly and offer valuable information on MFIs' shared customers and delinquent clients. Some donors, conscious of the barriers these types of lenders may face in participating meaningfully in either credit bureaus or credit registries, have promoted MFI-specific client databases. Over time, in a number of important markets, such MFI-specific client databases have evolved into privately owned and operated credit bureaus (or a hybrid thereof).

Box 4. Nicaragua

In Nicaragua, in 2002, MFIs began sharing information through Sin Riesgos, a credit bureau promoted by the Nicaraguan microfinance association, ASOMIF. At the time it was created, Sin Riesgos was the only privately held credit bureau operating in the country. Commercial banks were unable to share credit data except via the public credit registry due to the legal framework in place regarding bank secrecy. By 2004, the law on bank secrecy had been changed to allow credit information sharing, and a credit bureau with foreign investment by a major international credit bureau had entered the market. Today, the microlending market in Nicaragua is served by both Sin Riesgos and by the international bureau TransUnion. Over time Sin Riesgos has reached out to lenders beyond the MFI sector, including retailers and commercial banks. Similarly, TransUnion has made in-roads into the microfinance sector, especially after the recent crisis and "no pay" movement.

Box 5. Credit Reporting Worldwide

The World Bank's annual survey, Doing Business, measures business regulations for local firms in 183 economies and selected cities at the subnational level. The Getting Credit Indicator from Doing Business covers the following:[a]

- *Depth of credit information index*. Measures rules and practices affecting the coverage, scope, and accessibility of credit information available through either a public credit registry or a private credit bureau.
- *Public registry coverage*. Reports the number of individuals and firms listed in a public credit registry with information on their borrowing history from the past five years.
- *Private bureau coverage*. Reports the number of individuals and firms listed by a private credit bureau with information on their borrowing history from the past five years.

	Comparative Regional Presence of Credit Reporting, 2010		
	Depth of credit information index (0–6, 6 = Best Score)	Public registry coverage (% of adults)	Private bureau coverage (% of adults)
East Asia and Pacific	2.1	8.2	17.3
Eastern Europe and Central Asia	4.0	13.1	21.3
Latin America and the Caribbean	3.3	10.1	31.5
Middle East and North Africa	3.3	5.3	7.0
OECD	4.7	8.0	61.0
South Asia	2.1	0.8	3.8
Sub-Saharan Africa	1.7	2.7	4.9

a. Available at www.doingbusiness.org. The Getting Credit Indicator also measures the legal rights of borrowers and lenders with respect to secured transactions.

Part III. Challenges and Success Factors in Credit Reporting at the Base of the Pyramid

The challenges to effective credit reporting at the base of the pyramid—and the factors that influence the success of credit reporting systems as a means of averting or mitigating over-indebtedness among base-of-the-pyramid borrowers—can be roughly grouped into four categories:

1. **Market-level issues**, which affect all lenders targeting this market regardless of their type.
2. **Lender-level issues,** which vary according to the characteristics of the type of lender in question, particularly its regulatory status.
3. **Credit reporting service provider-level issues,** which relate to providing quality and sustainable credit reporting services to microlenders.
4. **Borrower-level issues,** which relate most directly to the base-of-the-pyramid borrowers who are the subjects of credit reporting.

These groupings of challenges and possible success factors are closely interrelated and often overlap. A challenge or success factor at one level is likely to have corollaries at the other levels as well.

Market-Level Issues

Among the market-level issues affecting base-of-the-pyramid credit reporting, three concerns tend to figure as the most important: *(i)* the extent to which available credit reporting systems cover all significant lenders targeting low-income borrowers; *(ii)* the feasibility of uniquely identifying base-of-the-pyramid borrowers; and *(iii)* the quality of the data on such borrowers that can be assembled.

Market coverage. One of the key drivers of the effectiveness of credit reporting at the base of the pyramid is microlender market coverage. Because data on informal lenders can never be captured, the market coverage of any base-of-the-pyramid credit reporting service provider can never provide the full picture of lending activity in a particular country. But even leaving aside this challenge, developing credit reporting databases that capture accurate and comprehensive data from all types of *formal* lenders that are lending to base-of-the-pyramid borrowers—MFIs (and other microcredit providers, such as financial cooperatives), banks, consumer lenders, and retailers and other nonfinancial credit providers—is a formidable goal that few, if any, credit reporting service providers have fully achieved and sustained. While maximum market coverage is the ideal, in reality, this is not always possible. Moreover, in the short run, pursuing this ideal could slow down and frustrate efforts to start any form of credit reporting that reaches the base of the pyramid. Quite frequently, credit reporting service providers have started to work with microlenders that command a majority of the market share, before reaching out to the smaller market participants.

The reasons for less-than-total market coverage are many, and they vary from region to region and country to country. The most important factors are often lender-level issues, such as having (or not having) a particular regulatory status to participate in a particular credit reporting system, or cost and benefit considerations specific to a particular type of base-of-the-pyramid lender (as discussed later in this report). In some cases, the way data are collected and stored by a lender can be a factor. For example, if a credit bureau is seeking data on payments that are late by seven or 14 days and a given lender identifies loans as

past due at 30 or 60 days, the lender may have to change its internal record keeping and concepts on delinquency to participate in the bureau. Agreeing on standard formats for collecting and storing payment credit data can facilitate credit reporting in a market.

There can also be instances where competitive pressures discourage credit information sharing and comprehensive market coverage. In particular, if there are one or two dominant base-of-the-pyramid lenders, they may see little or no benefit from sharing information with a credit reporting service provider since they have information on a significant share of the population who are their clients. Dominant lenders can also view information sharing as detrimental to their competitive position, if sharing data enables others to enter the market more easily or gain market share. Of course, this problem is not unique to lending at the base of the pyramid; this same dynamic is sometimes at work in mainstream, commercial banking markets, where one or two dominant lenders may delay or impede the development of credit reporting systems.

Success factors in overcoming the base-of-the-pyramid market coverage challenge are as various as the reasons giving rise to it. Broadly speaking, credit reporting systems should encourage comprehensive information sharing, which implies the collection of accurate, timely, and relevant data from all relevant and available sources. In some markets, the financial regulatory authority may mandate regulated financial entities to provide data to the existing credit reporting service provider, as a means of reducing risk in the system through greater transparency. However, some relevant data sources may fall outside the purview of the financial regulatory authority (e.g., telecommunications companies, utilities, and unregulated microlenders) and may not be easily incentivized to participate in credit information sharing. Coordination across regulatory authorities and market awareness of the importance of credit reporting are important to ensuring the comprehensiveness of data collected by credit reporting service providers. Some competition among credit reporting service providers can also encourage the development of comprehensive databases and foster innovation in related products and services.

Customer identification. The challenge of uniquely identifying base-of-the-pyramid customers for credit reporting purposes is significant in many countries. Yet, without a reliable means of uniquely identifying borrowers, credit reporting mechanisms are more costly to implement, and the quality of data is reduced—in some cases to the point of rendering the data of little or no value.

The factors contributing to this challenge are familiar: many countries, particularly poorer ones, lack comprehensive and reliable national identification systems, and the approaches used in credit reporting in wealthier countries without national identification systems—such as gathering data on multiple fields (a borrower's name, date of birth, and address)—may not work as effectively at the base of the pyramid. This is because the names and contact information of low-income borrowers may be captured differently each time they apply for a loan or service. This may be because of inconsistent spelling of a name (a special problem for illiterate borrowers who have others fill in their forms), no fixed address, and no birth certificate or even knowledge of one's date of birth. In some instances, identification information may be used for verification but is not captured electronically.

In countries that do have a national identification system, improving the effectiveness of base-of-the-pyramid credit reporting may be as straightforward as mandating the use of borrowers' identification as a condition of participating in the credit reporting system. This was the case in Pakistan's MFI-specific client database launched by Datacheck, an existing private credit bureau in the country, with the Pakistan Microfinance Network. Note that the absence of a national identification system need not prevent or stall the development of credit reporting. In several markets, credit bureaus have developed sophisticated matching algorithms and programs to derive the identity of a person based on various pieces of data. In countries without national identification systems, the success of base-of-the-pyramid credit reporting depends initially on making the best of imperfect alternative customer identification approaches. Frequently, public records agencies hold identification information that can enhance the ability of a credit reporting service provider to accurately identify borrowers. However, the databases held by these agencies are not always available to credit reporting service providers or, if available, access comes at an additional cost. Therefore, a success factor in alleviating borrower identification challenges may be to compel these public records agencies to make their data available to credit reporting service providers.

Data quality. Just as all types of base-of-the-pyramid lenders are affected by the feasibility of uniquely identifying borrowers for credit reporting purposes, so are they all affected by the quality and reliability of the data captured by any credit reporting service provider, regardless of approach.

The capacity of different types of lenders to deliver high-quality, reliable data is likely to vary, and in this respect, it constitutes a lender-level issue. Similarly, the success factors leading to the inclusion of high-quality, reliable data in base-of-the-pyramid credit reporting tend to depend on characteristics of participating lenders.

Box 6. Limits of Credit Reporting Data in Identifying Over-Indebtedness

Credit reporting can be a useful tool to monitor the level and depth of use of credit products at the base of the pyramid, which can help inform a range of public and private sector policies, from consumer protection to borrower screening and lending criteria. However, there are limits to what credit reporting systems can tell us about the financial lives of the individuals captured within the reporting system. Borrowers' credit histories must, therefore, be combined with other information on their financial lives to develop a more complete picture of the state of financial inclusion and any potential market risks from overextension of credit. The following are some of the most important limits of credit reporting:

- Data will not provide information on debt-to-income ratios, which is an important factor in assessing the affordability of credit for borrowers and their risk of over-indebtedness.
- Similarly, the most common use of credit information for market monitoring at the base of the pyramid—number of concurrent loans outstanding—has not proven to be a universally applicable measure of the risk of over-indebtedness for individuals or within a market.
- The economic unit captured by credit bureaus is an individual, whereas at the base of the pyramid—and particularly for informal sector workers—the more important economic unit is generally the household.

Lender-Level Issues

Lender-level issues are about the business case for credit reporting services. What are the perceived benefits? And what are the costs associated with the credit reporting services? What lender capacity or lender-related regulatory issues affect the practical and economic feasibility of participating in base-of-the-pyramid credit reporting?

Benefits of participation. The benefits of participating in credit reporting systems for base-of-the-pyramid lenders tend to vary significantly among different types of lenders. Banks and consumer lenders, because they are likely to rely on credit scoring in their loan underwriting, are also likely to see the benefits of participating in credit reporting systems clearly. However, even these types of lenders may not see a benefit, depending on their market position. As previously observed, dominant lenders of any type in a particular market may prefer not to share their data with other lenders who might encroach on their market share.

For MFIs and other microcredit providers, such as financial cooperatives, the benefits of participating in credit reporting mechanisms often don't appear clearly until market saturation and cross-borrowing among their customers become evident. Low competition among formal lenders is common at the outset in many markets, particularly in rural areas. And even in more mature markets, MFIs have succeeded in fending off competition by informally agreeing to divide the market (as occurred, e.g., in Egypt for many years). But as markets become more competitive, the high-touch lending methodologies based on close knowledge of customers commonly used by MFIs are not sufficient to prevent the risk of over-indebtedness, and the benefits of credit information sharing in such markets often become clearer only as evidence of cross-borrowing among MFIs increases.

However, not all MFI managers see multiple lending as a bad thing, and they tend to look on it, at least initially, as a means to better distribute risks among microlenders. Moreover, many MFI managers weigh the benefits of participating in credit reporting against the risk that other MFIs will poach their best clients to gain market share. Finally, MFIs' often legitimate concern that existing credit reporting service providers won't adequately cover their clients dampens appreciation of the possible benefits of participation.

A key success factor in persuading MFIs and other microlenders of the benefits of participating in credit reporting involves simply demonstrating that cross-borrowing is occurring. This was done in Bolivia, Ecuador, Nicaragua, and more recently in Egypt, to name a few markets where MFI credit reporting has been or is being established. For a further discussion on how credit reporting affects the poor, see Box 7.

Costs of the credit reporting services. Paying the cost of purchasing a credit report may be a challenge for all types of base-of-the-pyramid lenders, because loan sizes are small relative to conventional retail lending (including consumer lending in higher loan amounts). Moreover, loan tenures are shorter, and repayments are more frequent, driving up report costs as a percentage of the amount lent.

Box 7. The Impact of Credit Reporting on the Poor: Empirical Evidence from Guatemala

The use of credit reporting can have important implications for both providers and borrowers. To measure these impacts, McIntosh, Sadoulet, and de Janvry (2006) tracked client and loan data from a Guatemalan MFI before and after it began to use credit history data. Their findings make a case for the potential business and development impacts of credit reporting systems and the data they provide on borrower histories.

In the Guatemalan MFI used for this research, McIntosh, Sadoulet, and de Janvry found that after the MFI began using the credit reporting database, "the average percentage of individual loans with at least one late payment decreased from 67.2 percent for pre-credit reporting loans, to 52.8 percent for post-credit reporting loans." (Group loans showed little change in payment patterns.) Separating these data by clients with asset values above or below 1,000 quetzales (approximately $125), the study found that the impact was greatest on poorer clients, as the number of loans for clients with asset values less than 1,000 quetzales with at least one late payment dropped from 63 percent to 48 percent (compared to a reduction of 54 percent to 48 percent for clients with asset values greater than 1,000 quetzales.) Note that, initially, the credit information gathered from the credit reporting database reduced total lending to poorer clients, although much of this shift to clients with higher asset values eventually disappeared, as the MFI began to use the credit information more effectively when assessing the credit-worthiness of its poorer clients.

Perceived benefits in relation to costs may depend on the type of lender involved. Because credit scoring is likely to be integrated into the underwriting of loans from banks and consumer lenders, the cost of supplying data, purchasing reports, and analyzing the reports relative to the amount lent may seem justifiable. Moreover, because these lenders typically make larger loans, their overall volume of inquiries—and sometimes their ownership participation in credit bureaus—may allow them to cut advantageous deals for all the reports and value-added analytics they purchase.

For MFIs and other microcredit providers, the price of reports and analysis from credit bureaus is likely to seem high relative to the impact of the information on their lending. This is not just a factor of the absolute costs of obtaining reports, but also of concern that data on base-of-the-pyramid borrowers will be deficient. For some time in Mexico, for example, Buro de Credito, which primarily served the commercial banking segment of the market, charged MFIs and other microcredit providers relatively high rates (due to their low numbers of inquiries and limited market power) and offered little data on low-income borrowers. Circulo de Credito, a privately operated credit bureau, then entered the Mexican market to focus specifically on low-income consumers. In other markets, MFIs use a simple MFI-specific client database (rather than credit bureaus) because of the high cost of purchasing a credit report relative to its perceived value.

Capacity to participate. It is generally assumed that banks and consumer lenders have both the requisite management information system (MIS) and appropriately skilled personnel to participate in either credit bureaus or credit registries. Typically, the same can be said only of those MFIs and other microcredit providers that are large and sophisticated enough to run core banking platforms (which tend to be those regulated by the banking authority or a similar nonbank regulatory agency).

For the rest, both technological and human capacity issues can vary widely in their significance. At one end of the spectrum are microcredit providers with highly developed MIS and staff to operate it. For these institutions, participating in an MFI-specific client database may require little more than some modest retrofitting. However, a more substantial overhaul of their existing systems and upgrades to backend processing mechanisms, hardware, and software will likely be needed to enable the capacity and processing speeds required to participate in credit bureaus or credit registries. These MFIs tend to be market leaders and account for the larger number of customers.

At the other end of the spectrum are the many MFIs and other microcredit providers around the world that are only semi-automated, or are still using manual systems. For these institutions, the additional investment needed in an MIS and the personnel to operate it may very likely tip the balance against their participation in any form of credit reporting. (While some credit reporting service providers accept data supplied on paper, the costs of processing this information and the attending data quality and timeliness issues make this impractical.)

For MFIs and other microcredit providers that fall somewhere between these polar extremes, the opportunity to participate in a credit reporting mechanism may lead

them to invest in an MIS to improve their capacity. This, in turn, would result in collateral improvement in their operations overall in terms of efficiency, productivity, cost effectiveness, risk analysis, and client outreach.

The group lending methodologies used by some MFIs and other microcredit providers can add to the challenges to participating in credit reporting. Some MFIs track credit information only at the group level, and few data are available on individual group member behavior. Even in cases where it is possible to identify the credit history at the group-member level, social solidarity mechanisms may affect actual individual behavior. However, the information on clients' exposure is valuable even if the repayment history at the individual level is difficult to assess.

Improvements in MFIs' MIS and human capacity greatly facilitate MFIs' integration into credit reporting mechanisms. Factors that play key roles in enabling MFIs and other microcredit providers to participate in credit

Box 8. Lender-Level Regulatory Issues in Credit Reporting at the Base of the Pyramid

Although some regulatory issues in credit reporting at the base of the pyramid, such as licensing, supervision, and rules of operation, vary based on the nature of the credit reporting mechanism in question (credit registries, credit bureaus, or MFI-specific client databases), the type of lender (banks, nonbank consumer lenders, MFIs or other microcredit providers, or retailers and other nonfinancial credit providers, such as utilities) also typically triggers specific regulatory issues. The following are among the most commonly encountered issues:

- Bank secrecy provisions in a country's banking law often limit participation in privately operated credit bureaus (unless the provisions are modified or over-ridden), but typically do not prohibit information sharing with credit registries operated by a public sector body. As with consumer data privacy protection, bank secrecy limitations on data sharing typically can be worked around by obtaining borrowers' consent in the loan documents (presuming the bank in question has the impetus to do so).
- Nonbank consumer lenders may be barred from participating in credit registries unless they are regulated by the banking authority or similar nonbank regulatory agency. Consumer data privacy regulation also often limits data sharing without customers' consent, although in many instances, such limitations may be easily worked around with boilerplate consent provisions in lending documents (as with bank secrecy provisions).
- MFIs and other microcredit providers are likewise often barred from participating in credit registries unless they are regulated by the banking authority or similar nonbank regulatory agency, and they are highly likely to be subject to the same consumer data privacy regulation (and to have available the same workarounds) as nonbank consumer lenders. The same rules are likely to apply for participating in both credit bureaus and MFI-specific client databases (though less formal information sharing among MFIs may well pass under the regulatory radar screen, even if it is not clear that it is permitted by regulation).
- Retailers and other nonfinancial credit providers are likely to face the same regulatory treatment as consumer lenders and MFIs that are not regulated by the banking authority or similar nonbank regulatory agency, and they can generally use the same workarounds to participate in credit bureaus (provided they have the impetus to do so).

Regulation is not always a barrier to relevant lenders participating in credit reporting at the base of the pyramid. Indeed, in a number of countries, regulation has been used effectively, not only to enable broad participation in credit reporting systems, but also to encourage or even to compel participation. In both South Africa and Bolivia, for example, consumer loan contracts are not legally enforceable if they are not supported by a credit report or other individualized analysis of borrower's capacity to repay. As more countries cope with or attempt to avert market saturation and over-indebtedness problems at the base of the pyramid, the number adopting reforms to enable, encourage, or compel relevant lenders' participation in credit reporting systems will likely increase.

reporting include donor (and sometimes investor) interest in subsidizing these capacity improvements, active support by MFI network associations (as in the case of Pakistan's PMN and Ecuador's RFR), and policy-level support in making this type of capacity building a priority.

Credit Reporting Service Provider-Level Issues

Credit reporting service providers—whether they are credit bureaus, credit registries, or MFI-specific client databases—constantly struggle to find sustainable business models that offer good quality credit reporting services for base-of-the-pyramid lenders. They need to develop automated processes to reduce costs, while they provide value-added services to microlenders' high-volume business.

Credit report pricing. The quality of the data lenders contribute to credit bureaus (which, with MFIs, in many cases, is linked to their capacity, as discussed earlier) can also influence the prices they pay for reports and analysis. If the credit bureau faces high costs in cleaning and processing data supplied by microlenders, this will be reflected in the price of the credit report. Conversely, the prices that can be charged by a credit reporting service provider are related to the quality and comprehensiveness of its database. Credit reporting service providers that offer better quality and more comprehensive information on base-of-the-pyramid borrowers are able to demand higher prices than competing service providers.

The level of competition in the credit reporting market is another factor that influences costs of credit bureau reports and analysis. Based on information from several markets with credit reporting systems geared to base-of-the-pyramid borrowers, the average cost of a basic credit report for such customers can be as low as $0.08 in highly competitive markets, like Ecuador (until recently), or as high as more than $1 in a less competitive or less mature environment. Many markets report fees of $0.25 to $0.40 per report.

Quality of service. Some credit reporting service providers that have developed a niche in the microlending market have gone the extra mile in understanding the particularities of lenders operating in this space and the complexities involved. In Latin American markets, service providers spend considerable effort working with microlenders to develop awareness and appreciation of the benefits of credit reporting (e.g., offering trial periods at lower costs, free portfolio analysis, and even microlender training). Another success factor is the provision of customized services, such as credit reports or even credit scoring tailored to low-income markets. Delivery method can also be an important and differentiating quality-of-service issue with respect to credit reporting service providers. A system that can be easily accessed by relevant microlender staff helps reduce transaction costs and facilitates the integration of credit information into the loan underwriting process.

Borrower-Level Issues

Many issues in credit reporting at the base of the pyramid that are triggered by the characteristics of low-income borrowers affect lenders and credit reporting service providers at least as profoundly as they affect customers themselves. Two sets of issues, however, are of direct importance to borrowers: protection of the privacy and accuracy of the data about borrowers contained within the credit reporting system (and in the reports and other analytics it provides) and the borrowers' own awareness regarding credit reporting.

Consumer data privacy and accuracy. For borrowers, perhaps the most critical issues in credit reporting are protecting consumers' data privacy and ensuring a reasonable standard of accuracy for information about them that appears in credit reporting databases.

As observed in Box 9, data privacy protections, whether they are found in bank secrecy rules or in more general regulation on consumer data privacy, typically can be accommodated by obtaining borrowers' consent to share credit information that they provide in their loan application. Data accuracy concerns generally can be addressed by affording customers convenient opportunities to review and correct information about themselves that is contained in the database. With base-of-the-pyramid customers, both data privacy and data accuracy protections may not be effective without attention to specially designed disclosure and recourse mechanisms that recognize the particularities of their situation.

Box 9. Consumer Outreach and Credit Reporting

Authorities, policy makers, service providers, and lenders alike play an important role in ensuring that consumers' rights are protected with respect to their personal data and their awareness of the importance of such protections. This may entail a variety of education and awareness-raising campaigns through popular media (television, radio, press) and education efforts made by both credit reporting service providers and lenders. Authorities also can play an important role in ensuring or enforcing consumer privacy rights by taking a hard line with both credit reporting service providers and credit data providers that fail to respect consumer rights and take corrective measures in a timely fashion.

New technologies offer a variety of scalable approaches to raising consumer awareness of credit reporting, including at the base of the pyramid. For example, clients of microlenders could receive SMS reminders when a payment is due, with a corresponding message that failing to pay will be reflected in the relevant credit reporting mechanism—or indicating positive data were sent to the credit reporting service provider when a payment is made on time. Comic books and street theater are other ways to keep the interest of low-income borrowers with limited literacy so that messages on their rights and responsibilities in credit reporting get through. In some markets, such as Colombia, soap operas have been used to communicate basic information about how credit reporting works to a mass audience. While credit reporting service providers have a potentially critical role to play in educating consumers (and have access to the borrower at "teachable moments," such as when a loan has been denied due to adverse data in the credit report), market incentives may not adequately compensate for the level of investment in this kind of education that is socially desirable. Lenders who want their borrowers to repay and policy makers who seek to promote a strong credit (and repayment) culture should also contribute to consumer outreach and financial literacy and capability efforts around credit reporting.

Note that data privacy protection regulations will not be effective unless there is systematic enforcement. Without this, base-of-the-pyramid clients may be even more vulnerable than more affluent clients to data theft or inappropriate disclosure to third parties.

Consumer awareness. An equally important challenge at the borrower level is building awareness of credit reporting among consumers whose data are to be shared. Awareness of the benefits of building a favorable credit history potentially positions good customers to take advantage of the best deal on offer, which can help foment healthy competition among base-of-the-pyramid lenders. Awareness of the negative consequences of an unfavorable credit history can have a deterrent effect and reinforce responsible borrowing.

Part IV. Recommendations for the Development of Credit Reporting at the Base of the Pyramid

There is strong evidence that multiple borrowings and the risk of over-indebtedness are already causing stress in such high-profile microcredit markets as Bosnia–Herzegovina and Morocco. This trend will undoubtedly continue to spread to more countries as the number of institutions serving borrowers at the base of the pyramid grows. Credit reporting systems that include data on low-income borrowers have a potentially important role to play in helping manage the rapid expansion of credit to these market segments.

But developing credit reporting systems that gather reasonably thorough and accurate data on base-of-the-pyramid borrowers and cover the full range of formal lenders from which these clients are borrowing face numerous challenges, as discussed in Part III. These challenges cannot be overcome without the engagement of policy makers, donors, and lenders serving those at the base-of-the-pyramid.

Policy makers should provide appropriate support, encouragement, and urgency to existing initiatives to develop or enhance credit information sharing among microcredit providers and should consider what constraints stand in the way if there are no such initiatives. As observed in Part III, policy makers have a role at each level of challenge—at the market level, at the level of base-of-the-pyramid lenders, at the level of credit reporting service providers, and at the level of base-of-the-pyramid borrowers themselves.

At the market level, policy makers may mandate microcredit provider participation in information sharing where viable credit reporting mechanisms exist. Where information sharing has not yet developed, authorities can set out a timetable for developing information sharing that reaches the base of the pyramid. The approaches to credit reporting—credit bureaus, credit registries, MFI-specific client databases, or some hybrid—that have the best chances of success in covering these market segments vary from country to country. In all cases, policy makers should focus on policy and regulatory constraints that impede development of credit reporting systems that maximize coverage of the base-of-the-pyramid market, regardless of the legal form or regulatory status of the lender. In some cases, for example, policy makers can take steps to improve market coverage of credit registries, such as by allowing nonbank lenders to participate in the credit registry or by revising downward—or even eliminating—the minimum loan size required to be included in the credit registry where such rules exist. Policy makers also play a key role in overcoming the challenges of uniquely identifying base-of-the-pyramid borrowers for credit reporting purposes, such as facilitating or mandating data sharing among relevant government agencies and credit reporting systems, or programs to establish or extend secure national unique customer identification systems.

At the base-of-the-pyramid lender level, establishing a conducive regulatory environment for credit information sharing is the primary task facing policy makers. Here, too, the specific regulatory provisions that will be most successful vary from country to country, but in every country, policy makers need to focus not only on removing obstacles to broad participation by all relevant lenders, but also on providing incentives—and, where necessary, even mandates—for their participation. Policy makers must also balance individual needs for protection of data privacy and accuracy against the needs of the broader economy for transparency and workable tools reinforcing repayment discipline and averting over-indebtedness.

At the credit reporting service provider level, policy makers should assess regulatory requirements that add unnecessarily to the cost of obtaining meaningful credit reports on base-of-the-pyramid borrowers. In addition, regulations to protect data accuracy can contribute to improved data quality, such as by requiring credit reporting service providers to disclose the numbers of complaints they receive and propose remedial action; undergo audits to evaluate data quality; and establish clear and practical procedures for base-of-the-pyramid borrower complaints.

At the borrower level, in addition to data privacy regulation, policy makers play a role in developing awareness of credit reporting among the low-income population. This need not be a direct role (though, in some countries, this is both appropriate and feasible), but could be done through partnerships with other stakeholders. Policy makers need to specifically focus on determining which approaches to base-of-the-pyramid borrower awareness building on credit reporting is appropriate for the needs and skill levels of the low-income population in their country. In many countries, the most effective approaches include alternative communication tools, such as comic books or even SMS messages delivered via cell phones.

Donors, too, have potentially important roles in supporting the development of effective base-of-the-pyramid credit reporting at each of these different levels. These roles could include, for example, the following:

- Encouraging participation in credit reporting systems across the range of base-of-the-pyramid lending institutions they support (and thus increasing market coverage).
- Funding country-level studies that help to demonstrate the benefits of credit reporting (and incidence of cross-borrowing among base-of-the-pyramid borrowers that may be a harbinger of over-indebtedness).
- Supporting capacity-building initiatives in MFIs and other base-of-the-pyramid lenders so they can supply high-quality data to credit reporting service providers and make good use of the reports that these providers generate.
- Providing funding to offset the upfront costs related to participating in credit reporting systems, such as information technology-related investments.
- Supporting consumer awareness raising and financial capability-building programs to increase base-of-the-pyramid borrowers' understanding of their rights and responsibilities in relation to credit reporting, as well as of the benefits of developing a positive credit history and potential adverse effects of a negative one.

Base-of-the-pyramid lenders play the most direct role in any move toward increased credit information sharing on low-income borrowers in every country. Unless these lenders see the value in credit reporting in relation to costs of participation and the price of credit reports, they are unlikely to make the upfront investments required for successful participation. Beyond possible investments in hardware and software, there may be costs for telecommunications for secure connections with the database, costs for modifying the format or definition of payment data (and possible modification of lending methodology) so they conform to the credit reporting service provider's requirements, regulatory compliance costs related to data privacy and responding to customer complaints, and capacity building expenses related to staff development so they can both supply and use the data effectively. In some markets, lenders may make these investments in response to a crisis or in response to encouragement, pressure, or even mandates from policy makers. Where these incentives or requirements are lacking, donor support can help reduce the costs of participation and increase the likelihood of credit reporting starting before a delinquency crisis is at hand.

Effective credit reporting systems that cover both the relevant base-of-the-pyramid lenders and their low-income borrowers is a critical investment for the global microcredit industry to ensure sustainable growth and avoid client over-indebtedness. Global experience shows there is no single package of interventions that is optimal in every market, and that overcoming all the challenges to building effective base-of-the-pyramid credit reporting systems is a long-term endeavor. Therefore, the immediate focus should be on pragmatic solutions adapted to current local market conditions and the capacity and the needs of the microlenders active or becoming active in the base-of-the-pyramid market. With the engagement of policy makers, donors, credit reporting service providers, base-of-the-pyramid lenders—and base-of-the-pyramid borrowers themselves—these solutions have the potential to improve and evolve over time to increase the breadth of coverage and the depth of data services provided—and to serve as ever more effective tools to reduce the risk of delinquency crises and over-indebtedness among base-of-the-pyramid borrowers.

The unprecedented growth in microcredit in the past five years has brought the sector to maturity in a first set of countries and regions and resulted in market saturation in some. These are early cases, but more and more markets will reach this stage as the success of the sector continues. Against this backdrop, early building of effective credit reporting that covers base-of-the-pyramid clients and the full range of formal lenders from which they borrow is not only important, it is urgent. There are different ways to do this, and there are challenges. But experience shows it can be done.

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