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FINANCIAL SECTOR KNOWLEDGE SHARING

FS SERIES #3: SUPPORTING THE ESTABLISHMENT OF CREDIT BUREAUS

PRIMER, MODEL SCOPES OF WORK,
AND DIAGNOSTIC CHECKLISTS

NOVEMBER 2009

This document was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc. for the Financial Sector Knowledge Sharing Project, delivery order number EEM-E-03-05-00006-00.

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ACRONYMS

AMFA	Association of Microfinance Companies
CBE	Central Bank of Egypt
CIA	credit information agency
EGAT	Economic Growth, Agriculture, and Trade
EOI	expression of interest
FIRST	Financial Sector Reform and Strengthening
FS Share	Financial Sector Knowledge Sharing Project
IFC	International Finance Corporation
MFI	microfinance institution
NBA	National Bank of Azerbaijan
NBK	National Bank of Kazakhstan
RFP	request for proposals
SMEs	small- and medium-sized enterprises

DEFINITIONS

Central bank credit registry: A repository or database of records of individuals' identifying demographic attributes and the payment history and manner of repayment of all their credit obligations. These records are supplied by banks and other financial institutions supervised by a central bank and placed in a database in the central bank's head office or at a location chosen by the central bank. A central bank credit registry can be classified as a credit information agency.

Private credit bureau: Similar to a central bank registry except that it contains broader information including, information from non-bank financial institutions and other financial institutions not supervised by a central bank. It also contains information from public court records, collateral registries, land title registries, corporate registries, bankruptcies, and other sources of credit related information. A credit bureau offers products and services not available from a public registry. A credit bureau is normally a for-profit business, and data contribution is voluntary from data providers, unless otherwise prescribed by law. It also can be classified as a credit information agency.

INTRODUCTION

In 2008, USAID's Bureau for Economic Growth Agriculture and Trade (EGAT) created the Financial Sector Knowledge Sharing Project (FS Share). This project was designed specifically to collaborate with USAID missions to develop effective and efficient financial-sector programs that increase access to financial services and develop well-functioning markets globally. USAID awarded Chemonics International Inc. the FS Share delivery order under the Financial Sector Blanket Purchase Agreement. FS Share has a three-year period of performance, July 2008-July 2011.

Through the FS Share task order, USAID/EGAT and Chemonics proactively collaborate with missions to identify financial sector priorities and develop strategies and programs to grow the financial sector. FS Share identifies financial sector best practices and aggregates them through technical briefs, model scopes of work, diagnostic tools, best practice case analyses, and other tools. These technical deliverables are disseminated to USAID missions to integrate into financial sector programming. On a case-by-case basis, FS Share can assist with implementation and connect mission staff to external resources on best practices. In response to mission demand, FS Share delivers presentations and other knowledge-sharing endeavors.

Objective of this FS Series

This FS Series provides a comprehensive review of three models to support the establishment of credit bureaus: a public sector registry, a private credit bureau, and a hybrid model that supports transitioning existing public registries to potential privatization. The FS Series includes a primer and three model scopes of work and diagnostic checklists, designed to be blueprints for U.S. government program designers who are implementing financial sector development projects aimed at establishing or enhancing existing credit information bureaus. The series also provides illustrative laws used to establish private credit bureaus in India, Kazakhstan, and Ukraine, and a business plan for establishing a best practice credit bureau in Ukraine. **This volume contains the primer, model scopes of work, and diagnostic checklists.**

The FS Series was prepared by Jim Aziz of Baja Group Consultants and Cassandra Cooper for Chemonics International.

FS Share Rapid Response Hotline

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SECTION I. SUPPORTING THE ESTABLISHMENT OF CREDIT BUREAUS

Fast growing economies are partially driven by the availability of credit and the need to have comprehensive, timely, and accurate information on potential borrowers available to lending institutions.

Credit information agencies (CIAs)¹ can provide a significant advantage in expanding a market's financial sector and a country's economy by providing new or enhanced borrowing opportunities to individuals, microfinance institutions (MFIs), and small and medium enterprises (SMEs) that have previously been ignored or marginally served in the credit market. Many of these potential borrowers lack tangible security that would be used for credit collateral and are, therefore, less likely to be able to obtain credit. Credit reporting can help them create "reputation collateral" and by extension, increase their borrowing opportunities among lenders.

Credit reporting has strengthened financial systems by lowering transaction costs, reducing delinquencies and write-offs, improving response time to credit requests, lowering borrowing costs, and increasing availability of credit. Lending institutions—especially banks—thirst for comprehensive credit information from centralized sources and understand the value of a CIA. Credit reporting has also proven to be an effective tool to enhance the stability of banking systems and allow central banks to more closely monitor credit risks in supervised financial institutions.

Public CIAs are normally owned by a country central bank, while private CIAs are owned by the private sector. Currently, 107 of the 192 (55.7 percent) member countries of the United Nations are served by some form of CIA: 43 are served only by private CIAs; 33 have only public CIAs; and 31 have both private and public CIAs.² Neither public nor private CIAs dominates because each country is different and requires its own approach. Each country must be individually analyzed to determine why one type of agency was created over another. Where comprehensive analysis has been completed, no clear pattern emerges regarding the preference of one type of CIA over another.

For borrowers, a CIA represents what they do, rather than who they are. The information in a CIA database demonstrates how borrowers repay their credit and how active they are in the credit market as it relates to their indebtedness. Best practice does not allow information related to race, creed, color, ancestry, ethnic origin, religion, political affiliation, state of health, sex, or criminal record to appear in a CIA database. A successful CIA is populated with as much credit experience data as possible. The more comprehensive the information, the more effective the CIA will be. Best practice requires that both positive and negative credit information be included in all successful CIAs.

Before attempting to create any type of CIA, especially a private CIA, one must understand that the process is costly, time consuming, and fraught with challenges. Owners of a private sector

¹ The term *credit information agency* will be used in this document instead of *credit bureau* to include publicly operated credit registries.

² World Bank, *Doing Business 2009*, and Margaret Miller, "Credit Reporting Systems and International Economy."

CIA must be prepared to incur significant costs before the registry can generate any income. They must have patience and “deep pockets” to see the project through to completion. Building a private CIA is not a simple process. The construction process is tedious and must be completed in a specific order. Private CIAs have failed due to lack of funds, impatience with the process, inability to address secrecy issues, failure of key data providers to provide their proprietary information, and lack of framework legislation, among other issues. In the case of a public CIA, a central bank has the power to mandate the sharing of information, but the cost factor must be considered, as well as legal and secrecy issues. In a number of situations, there are delays in mandatory data contribution to the CIA by banks because their antiquated systems needed to be upgraded to provide comprehensive, timely, and accurate information.

The task of creating either a public or private CIA is challenging and usually requires assistance from international experts. Recently, however, a number of public and private CIAs have been created with an understanding and commitment to the process, teamwork, determination, and international expertise. This technical brief provides information on experience gained and lessons learned from different countries’ attempts to establish a public, private, or hybrid CIA. The brief also provides case studies on the creation of private CIAs and public CIAs being prepared for privatization, and focuses on several major areas requiring discussion when consideration is being given to the creation of a credit information registry.³

A. Lessons learned

A1. Legal Issues

Public CIAs. If a central bank chooses to create a CIA, it must have the authority to do so, which is normally provided by the law or act that legalizes a central bank and its powers. Under central bank laws, the financial institutions under their jurisdiction are required to provide information mandated by the central bank in order to receive a license to operate. Those financial institutions normally conduct the majority of credit activity, both to individuals and businesses. The central bank mandates that the financial institutions under its supervision provide proprietary credit information to its CIA. This information would be available for CIA users as they investigate credit applications.

Along with the authority to mandate reporting of information to a public CIA, regulations must be established that outline the operation of the public registry, the detail of information to be submitted, the conditions under which information may be accessed, and other conditions that may be unique to a country. Albania, Montenegro, and Bhutan have recently created public CIAs and have adjusted their central banking laws to do so. Every country with a public CIA has both the authority to establish the public CIA and to put regulations in place.

Private CIAs. Before a private CIA can be created, a CIA law must be passed. Investors are unwilling to invest in a private CIA unless a legal framework and operating rules have been established and they are satisfied that their business can operate within these rules while ensuring the CIA can be self-sustaining. The thrust of a law is threefold: to provide certainty to potential owners; to ensure the safety of data provided by data providers; and to provide individual rights

³ Unless otherwise identified, the research on international cases has been experienced by the author.

and protections. The law provides conditions for the reporting, maintenance, and distribution of information, which is important to potential providers whose proprietary data would be given to the third-party private CIA. If providers are not comfortable with the law or regulations, they would be reluctant to provide their information, reducing the value of the CIA. Normally, a law does not require financial institutions to provide information to a private CIA,⁴ so contribution is voluntary. The law should also provide for rights and protections for individuals.

The successful creation of a private CIA follows the creation of a CIA law and its regulations. There have been instances when a private CIA project failed due to a lack of a CIA law. Examples include Jordan and initially Kazakhstan. In the case of Kazakhstan, the creation of the registry was put on hold until the law was drafted and passed. During the last three years, laws have passed in Russia, India, and Ukraine, and there is now an active private CIA marketplace in each of these countries. Laws are in place in Angola, Lesotho, Jordan, and Tanzania as they await the possible creation of private CIAs; and laws are under consideration in Bhutan and Azerbaijan.

A2. Secrecy

The main benefit of a CIA is the ability to share credit information among lending institutions. In a number of countries, secrecy laws restrict the sharing of credit information, and these restrictions must be addressed before creating a CIA. Central banks are empowered to mandate that credit information from financial institutions under their supervision be provided to their CIAs. Beyond that, in many countries, the information is not allowed to move beyond the central bank, which means that other supervised financial institutions that are entertaining credit applications are not allowed to obtain information from the public CIA to determine if their applicants have credit experience or outstanding debts with other supervised financial institutions. In the past if a secrecy provision was in place, many central banks would not entertain bank requests for credit information because the public CIA information could only be used to monitor credit within the banking sector and information could not be shared with banks.

With the assistance of international experts, central banks have been encouraged to address the secrecy provisions, and the results have been positive. In Egypt, a provision was added to banking laws allowing for the exchange of information between banks with the central bank as the facilitator. Prior to the change, the central bank only provided aggregated, rather than detailed, information to banks. In Albania, a banking law was passed that allows for the exchange of information. Kazakhstan, Ukraine, and Russia each have laws that allow for the exchange.

“Consent clauses” have also been introduced that allow a borrower to sign a statement that they consent to the sharing of their information between financial institutions, as well as their lending institution sharing the borrower’s credit experience with a CIA. In some countries, the consent clause has been introduced with new laws or amendments to existing laws. Ideally, the consent clause should be in place to provide transparency and foster individual awareness of the existence of the CIA and the fact that a borrower’s information will be a part of it. The

⁴ Russia and Kazakhstan are two exceptions and they are discussed later in this brief.

introduction of the consent clause is normally accompanied by individual rights and protections relating to a borrower's personal credit information.

Prior to any effort to create a CIA, all relevant laws related to secrecy and information must be reviewed to determine whether there is an impediment to sharing credit information. If so, it must be resolved as soon as possible.

A3. Official Support for Creation of a CIA and CIA Laws and Regulations

When a central bank decides to create a public CIA, it must commit to providing financial and other resources. Central banks often need international technical expertise to create a roadmap for the registry and to offer guidance on how to address legal issues. In some countries, other government agencies, including the parliament, may provide input in the legal process. International experts may also educate central bank officials on the need for certain legislation to help ensure that it will be passed. For example, if secrecy issues need to be addressed by the introduction of a consent clause, there may be a need to educate those responsible for passage of legislation that will authorize its use.

It is advisable, when possible, to make necessary changes to regulations rather than to existing laws or to create new laws to address any legal issues. Regulatory changes are made internally and can be completed more quickly. Changes to laws and creation of new laws take more time because they require debate and because there is inherent uncertainty as to whether the law will pass and the priority the government may assign to it.

Central banks have the power to require that best practice credit information be provided by the financial institutions they supervise. Any regulations should include a mandate to report best practice information, the detail of that information, and the appropriate data reporting format. The passage of best practice legislation to create the framework for a private CIA market could take two years or more, depending on support from government officials. Because of this potential timeframe, passing legislation must be the first step in any effort to create a private CIA, and central bank support for this type of legislation is especially important.

Every effort should be made to educate and bring on board all stakeholders to ensure that potential roadblocks to legal and/or regulatory change will have the support of those making the decisions to approve the regulations or pass legislation. At the same time, there should be a thorough analysis to determine the most efficient way to create the legal environment for both public and private CIAs and reach agreement on the results of the analysis by relevant parties.

A4. Reporting Threshold for a Public CIA

The primary purpose of a public CIA has been to monitor and supervise the banking sector to keep it safe and maintain its integrity through a mix of risk-based and inspection-based supervision. Many central banks that maintain a CIA have focused on large-balance credits, which account for the largest percentage of credits issued in the banking sector. This has been done by implementing a reporting threshold. Only credits above a certain monetary value are reported to the public CIA. When the balance falls below the threshold, banks are not required to continue to report the credit information.

Making credit data available to banks has provided a secondary purpose for public CIAs. For a registry to work properly, the database must have complete data on all outstanding credits. Access to this level of detail empowers users with comprehensive debt information and allows borrowers to be recognized for their repayment habits. Anything less diminishes the value of the registry.

Recently created public CIAs have all credit information reported to them and have no thresholds. These include CIAs in Albania, Montenegro, East Timor, and a proposed public CIA for Bhutan. The central banks of several countries, including Azerbaijan, Egypt, Palestine, and Yemen, have eliminated the reporting threshold and place all credit information from financial institutions they supervise in the registry database. The chart below shows data from three countries that had reporting thresholds in 2006 and compares the number of credits reported to the registry with the total number of credits in each country’s banking sector. In two cases, more than 88 percent of borrowers did not have their information reported, and in the third case, 50 percent of borrowers did not have their information reported. The incomplete data restricts a growing retail credit market because it fails to provide lending institutions with necessary information and fails to reward borrowers with good repayment habits by not making their information available.

Country	Number of Registry Credits	Total Number of Bank Credits	Total Number of Missing Bank Credits	Percentage of Credits Missing
Azerbaijan	80,000	158,000	78,000	50
Yemen	8,000	65,000	57,000	88
Palestine	12,000	158,000	146,000	92

If a project is charged with creating a new public CIA or privatizing an existing CIA, all credits should be reported and reporting thresholds should be eliminated.

A5. Private CIA Ownership

In a number of countries, attempts to create a private CIA have failed because of ownership issues. However, joint ventures between several partners have proven effective when the majority of the venture ownership is based locally and international expertise⁵ in constructing and managing a private CIA is offered minority ownership. The international operator brings experience in building a CIA, and its investment as minority owner solidifies its commitment to the success of the construction of the CIA. In addition, experience has shown that local ownership contributes to the successful creation of private CIAs because local parties tend to have high-level business and government contacts who are invaluable in navigating obstacles.

In contrast, when majority ownership is based outside the country, success has not been achieved. In Section II, “International Experience in Credit Bureaus and Lessons Learned,” we

⁵ International operators include Experian, Equifax, and TransUnion, which have worldwide presence. Regionally, international operators include CreditInfo and CRIF.

discuss a case in Jordan where lack of local ownership was a key factor in the failure of the CIA initiative. Recent successful joint ventures have been identified in Russia, Ukraine, India, Kazakhstan, and Egypt. In each of these countries, some of the country banks are majority owners, while international operators with expertise in building and managing private CIAs are minority owners. There are other ownership options, but in practice this structure seems to be the preferred option.

A6. Public CIA Ownership

For public CIAs, ownership is always completely vested in a public agency, which in most cases is the country's central bank. There is no public CIA with any ownership interest from the private sector.

A7. Public versus Private CIAs

As previously noted, there is no standard reason why a country might have a public CIA rather than a private CIA. Countries with large populations either have a private CIA or are in the process of creating one. Recent examples include Russia (population 140 million), India (population 1.1 billion), Ukraine (population 46 million), and Egypt (population 81 million). But this is the case only if there are investors interested in investing in a private CIA and if there is a growing credit market. Other countries with large populations have only public registries because they have a limited number of credit users and a private CIA would not be sustainable. Examples of such countries include Sudan (population 40 million) and Iran (population 65 million).

China, with the world's largest population of 1.3 billion, has a recently created central bank CIA that contains records on 600 million individuals and 13 million enterprises.⁶ There are several reasons that China has a public rather than private CIA. The cost of creating a public registry was lower than the substantial cost of building a private CIA. Also the voluntary data contribution is likely to be slow, but the Bank of China can mandate reporting, giving the bank the ability to bring the CIA to market much sooner to address the surge in the demand for credit. In China, efforts have been extended to create a private CIA, but they have been limited to one or two major cities and the data is only for inhabitants of those cities.

Public CIAs were originally created to assist with banking supervision, while private CIAs were created by the marketplace to share credit information and develop products and services to assist credit grantors in extending credit in profitable and growth-oriented manner. During the past few years, due to demand from the marketplace and with a lack of a private CIA, central banks have stepped in to meet the demand by making the credit information in their CIAs available to financial institutions under their supervision.

Opinions vary on whether a private or public CIA makes sense for a country. A thorough analysis of local circumstances, along with a comprehensive dialogue with local stakeholders, will normally crystallize the solution. A public CIA takes much less time (as little as 16 months in the case of Albania) to complete, while a private CIA takes anywhere from four to five years

⁶ Bank of China Deputy Governor Su Ning, speech at the Launch of National Credit Education Month, May 31, 2008.

to be developed. A strong market demand for an immediate solution might dictate that the public CIA is the correct solution — if the central bank is inclined to move forward on this type of project. Recently, the central banks of Zambia, Moldova, and Lesotho have been unwilling to create public CIAs, despite recommendations during the past three years. As of the writing of this technical brief, they do not have a CIA of any type. In fact, based on statistics from the World Bank’s *Doing Business 2009* report, more than 80 countries have neither a public nor a private CIA.

It has been proven that both public and private CIAs can coexist and can support each other in the marketplace. Although a public CIA is not a substitute for a private CIA, sometimes the sophistication and quality of a public CIA can discourage investors from creating a private CIA. For example, efforts to develop a private CIA in Malaysia have been unsuccessful because of the quality of the Bank of Malaysia’s public CIA. In other cases, a public CIA is created to fill a need and is eventually privatized, which has occurred in Kazakhstan and is underway in Egypt and Azerbaijan. In many cases, a public CIA is the only option for a market that wishes to have a CIA established. Whichever type of registry is created, there must be a commitment to replicate best practices to ensure that users are well-served. The table below provides a comparison of public and private CIAs.

Subject	Public CIA	Private CIA
Primary function	Banking sector oversight Recent secondary purpose to provide credit data to supervised financial institutions	Provide lending institutions and other qualified users with timely, comprehensive, and accurate credit information
Coverage	Limited to banks and other supervised financial institutions	Broad market coverage for any user with permissible purpose
Sources of Information	Banks and other supervised financial institutions	All credit grantors; public record; collateral, land title, and corporate registries; and other sources that have information related to borrowers’ paying habits
Compulsory Participation	Yes	No
Flexibility	Unlikely	Yes, as a response to client needs
Products	Limited	Many, including credit scoring, fraud detection, and others as needed in the marketplace
Response to Market	Reactive, if at all	Proactive to meet needs of users
Consumer Rights and Protections	Not usually, unless data privacy laws cover government bodies	Normally mandated by law
Fee for Service	Unlikely	Yes

Subject	Public CIA	Private CIA
Reporting Threshold	Possibly	No
Positive and Negative	Normally	In most circumstances

A8. Mandatory versus Voluntary Data-Sharing: Timing of CIA Creation

If mandatory credit data contribution to a CIA is required, the database will be created much more quickly than if data is contributed voluntarily. Public registries have been created in as little as 18 months, while the norm for private CIAs is four to five years. Voluntary data contribution is one of the factors that extend the timeframe. Some of the reasons for delays in voluntary contribution to a private CIA include competition among potential data contributors, security concerns, lack of trust, and a “wait and see” attitude. For a private CIA, success is determined by the percentage of market credits housed in its database.

For a public CIA, the data contributors are financial institutions supervised by a central bank, which makes it simple for the central bank to mandate contribution of credit data. For a private CIA, data contribution is normally voluntary. There are two exceptions with different results. In Russia, the Credit Histories Law, which requires all banks to report their credit information to at least one credit bureau, was passed in December 2004 and went into effect in March 2006. Although banks did not conduct all lending activity in Russia, they handled the vast majority of credit.

Mandatory contribution to a private CIA made sense for Russia, but in reality it has not worked. The norm for the more than 1,000 banks in Russia is to report to only one of the 20 private CIAs (most of them at least partly owned by commercial banks). This fragments the market in the sense that a borrower could have outstanding credit with several banks, but each bank may report to a different private CIA. Each private CIA has different information and is required to provide Russia’s central bank with identifying information on the subjects of credit histories housed in their databases. The central bank then provides access to its database in which private CIAs have information stored on each borrower. CIA users then have to add an extra step to their investigation process by first contacting the Bank of Russia to determine if their credit applicant has any recorded credit and, if so, which CIA has the information. Then they have to contact each CIA that has information on their applicant. The system has no checks and balances to ensure that private CIAs follow the law in reporting all borrowers housed in their databases to the Bank of Russia. So there is no guarantee that credit information is being reported to any of the 20 private CIAs⁷.

The theory of mandatory reporting by banks to a private Russian CIA was good, but the practical application has been fraught with problems. It will be few years for the problems to be worked out, which normally happens as the industry consolidates.

In Kazakhstan, the law mandates not only that all banks must contribute to a private CIA, but also that the private CIA must be checked for each legitimate credit application submitted to a

⁷ Information from presentation by Alexander Pruzhinin of the National Bureau of Credit Histories, a Russian private CIA.

bank, ensuring regular transaction activity from which revenue is derived. In contrast to Russia, though, there is only one private CIA in Kazakhstan, so all bank information is placed in one database. There are only 37 banks in Kazakhstan, of which 7 are shareholders in the private CIA; the rest of the banks have no aspirations to start a second private CIA. CreditInfo, the international operator, maintains minority ownership. In both countries, banks conduct most credit activity, so with the mandate for them to report their information, the market is well-served if there is no fragmentation. Of note is that the mandatory reporting of credit information is limited to banks.⁸

If there is only one private CIA, then mandatory submission of bank credit information will work. If there are many private CIAs, then the market data will be fragmented and difficult for users to access in the aggregate.

One successful method for private CIAs to obtain voluntary information is reciprocation. In the credit reporting industry, this means that an entity is only able to request information from a CIA when it contributes its proprietary credit information. If it does not contribute, it will not have access. If the information in a private CIA's database is perceived to have value, companies will contribute credit data to obtain access. The reciprocation approach has another benefit: It brings confidence to other credit data providers that their competition will not have access if they do not provide credit data.

In summary, if there is an urgent need for a centralized CIA in a country, the first step is to determine whether a country's central bank is interested in housing the information. Although the central bank might prefer the creation of a private CIA, it may also understand the urgent need and take the mid- to long-term view that its registry could eventually be privatized, as has been the case in Kazakhstan and Egypt and will likely occur in Azerbaijan and Bhutan.

A9. Positive and Negative Information

A best practice for any CIA database is to have both positive and negative credit information. Negative information reflects any past due or defaulting borrowers.

In many countries, there have been efforts to restrict credit information to negative only credits, which is sometimes referred to as "blacklisting." In those countries without any type of CIA, it is likely that a blacklist might be maintained at a central bank or that banks might share this information with each other.

When one considers that there are many more borrowers who handle their credit responsibly than those who do not, it would seem they should be rewarded for their responsible paying habits. If a credit grantor could determine that a new or current applicant has established a proper payment record with others, then that the individual would qualify for a higher credit limit and a longer credit term. In mature markets, empirical evidence shows that better quality credit risks qualify for reduced interest rates, which also allows for higher credit limits. Experience has proven that the possibility of higher credit limits, lower interest rates, and a positive notation in an individual's credit file are incentives for individuals to handle their credit obligations properly, assuming a record of their payment behavior is available to lenders through a CIA. By the same

⁸ Information confirmed by Javier Piedra, board member of the First Credit Bureau, Kazakhstan's private CIA.

token, individuals with poor credit records are less likely to obtain credit, and if they do, it would be for lower amounts at higher interest rates because they are greater credit risks.

There are at least two exceptions to the best practice. France's central bank has maintained a public CIA for more than 60 years, and in spite of pressures from many sources, they continue to have a "negative only" database. There is no private CIA in France, and in spite of recent efforts to create one, authorities will not allow it. Likewise, in Australia, private CIAs are only allowed to include negative information. Again, there have been unsuccessful efforts from many quarters to have this restriction changed.

In a study covering 43 countries, it was estimated that the sharing of positive credit information reduced risk by between one-third and one-half.⁹

According to best practices, both positive and negative information should be included in a credit registry so borrowers with good payment records will benefit with lower interest costs; those with poor payment records will be exposed and either denied credit or required to pay premium interest rates.

A10. Study Tours

Especially in the case of a public credit registry, a best practice is to have central bank officials visit other countries that have active public CIAs to gain an understanding of issues to be addressed, how they were addressed by the respective central banks, and other information relevant to construction and management of a public CIA. Even in the case of private credit bureaus, it would be appropriate for government officials to visit credit bureaus in other countries to learn how they operate, how they are regulated, how individual rights and protections are administered, how technical issues are addressed, and how ownership structures are facilitated. There is no substitute for this type of training and knowledge gathering and, without exception, all countries where the author has been engaged in providing technical assistance, study tours have been successful and endorsed by central bank officials.

⁹ Japelli, Tullio, and Pagano, "Information Sharing in Credit Markets: The European Experience," Center for Studies in Economics and *Finance Working Paper #35*, University of Salerno, 2000.

SECTION II. INTERNATIONAL EXPERIENCE IN CREDIT BUREAUS AND LESSONS LEARNED

This section describes experiences from six countries that have attempted to create private credit bureaus, create public credit registries, or prepare public credit registries for privatization. The examples provide the history of each project, results, current status, and lessons learned.

A. Jordan: Access to Microfinance and Improved Implementation of Policy Reform (AMIR) Program (USAID), 1999-2002

Conditions at the Outset of Project

- The Bank of Jordan's public credit registry began in 1966 and required that banks under its supervision report all active credits with balances above a specific threshold amount and report details of loan loss provisions.
- Banks voluntarily reported to their banker's association details about returned checks, and the association would add the names of issuers to a list of returned check issuers. The association would periodically provide banks with names added to the list. In 2000, the Bank of Jordan undertook to assume the Banker's Association's role.
- No private credit bureau and no credit reporting law.
- No specific counterpart for the project, which was a component of the AMIR program.

Actions Taken

- September 1999: Banks and other credit grantors reached a consensus that a credit bureau was necessary and should be established.
- October 1999: Roundtable presentation to banks and other credit grantors gained "philosophical" support for providing key credit information to a private credit bureau as a necessity for success.
- January 2000: Drafting of credit bureau legislation begins.
- January 2000: Request for expression of interest (EOI) placed in local press.
- April 2000: Meetings with best candidates who responded to EOI; international consultant provides input for draft credit reporting legislation.
- May 2000: Interviews with 60 companies as possible participants in private credit bureau.
- April – July 2000: Feasibility study, business case, marketing plan, and financial projections completed; recommendation made for local ownership.
- October 2000: Workshop to present request for proposals (RFP) based on work completed for ownership of credit bureau.
- Quarter 1, 2001: Saudi consultancy firm wins RFP to own and build credit bureau and is provided with all materials created by the project. Saudi firm has no local ownership.

Results

- Saudi firm engages CRIF (an Italian credit reporting company) to handle construction of credit bureau database.

- Temporary Law No. 82 for the year 2003 is never put into force.¹⁰
- The Saudi firm bankrupts the credit bureau because of its ongoing cash outlay and because it has no income while the credit bureau is being built. CRIF is owed money for work it has already done.

Current Status

- No private credit bureau; the Bank of Jordan's credit registry operates with a threshold.
- December 2008: USAID and the International Finance Corporation (IFC) sign agreement to establish legal framework for credit bureaus.¹¹

Lessons Learned

- The law must be in place before the credit bureau begins operations.
- Local ownership, ideally by local banks, must be in place to navigate through obstacles that occur in any effort to create a private credit bureau.
- International ownership was not fully committed to project and allowed it to fail.
- International expertise was critical to assistance with the law, feasibility study, and business and marketing plans.

B. Kazakhstan: Financial Protection Initiative¹² (USAID), 2001-2006

Conditions at the Outset of Project

- National Bank of Kazakhstan (NBK) has a public credit registry that began in 1996 and required reporting above a threshold.
- No private credit bureau and no credit reporting law.
- Governor Grigori Marchenko of the NBK is a strong supporter and provided valuable assistance to the project. The NBK is the project's counterpart.
- Banks and the Bankers' Association support the creation of a private CIA.

Actions Taken

- September 2001: Consultants engaged and complete market analysis.
- December 2001 – January 2002: Feasibility study conducted.
- Quarter 2, 2002: Activity begins to create draft credit bureau legislation.
- Quarter 3, 2002: Business plan, financial projections, and marketing plan for private credit bureau completed.
- January 2003: The first Central Asian Credit Bureau conference initiated by project is held in Almaty, Kazakhstan.
- 2002 – 2003: Negotiations with government regarding draft law.
- Quarters 1 and 2, 2004: Draft law debated in Parliament.

¹⁰ Jordan's foreign minister, Dr. Salaheddin Al Bashir, who created the original draft credit bureau legislation as a consultant for the AMIR program, has confirmed this information.

¹¹ *Trade Finance*, news release, December 4, 2008.

¹² The project was later renamed "Financial Sector Initiative in Kazakhstan."

- Quarter 2, 2004: Government officials take study tour to Experian in London.
- April 2004: Investor in-country “road show” creates interest in owning credit bureau.
- July 2004: Law passes and comes into force requiring mandatory reporting to a private CIA by banks and mandatory CIA check by banks on all legitimate credit applications.
- July 2004: The First Credit Bureau, owned by banks, is established.
- August 2004: RFP issued for company to build registry.
- November 2004: Credit bureau law regulations drafted.
- January 2005: International technical operator selected and buys minority interest in the First Credit Bureau.
- November 2005: Operating license issued.
- January 2006: Initial credit report sold.

Results

- Law and regulations passed and in place.
- Best practice private credit bureau serving marketplace; majority ownership by banks and minority ownership by international operator CreditInfo from Iceland.
- NBK credit registry wound down and any information the national bank needs can be provided by the private credit bureau.

Current Status

- Private credit bureau is profitable.¹³
- No other private credit bureaus on the horizon; market is currently well-served.
- New products, including credit scoring, developed.

Lessons Learned

- The law must be in place before credit bureau begins operations. In the case of Kazakhstan, the project was delayed for two years while waiting for the law to pass.
- Local ownership, in this case by most of Kazakhstan banks, is the best way to ensure the success of a private credit bureau.
- Having an international operator participate in building the bureau and, in this case having a minority ownership position, ensures their commitment to and the success of building the database.
- A strong counterpart that can provide support will remove many impediments to the successful creation of a credit bureau.
- International expertise is critical to the assistance with the law, business plan, marketing plan, financial projections, and guidance throughout the process.
- Stakeholders consulted and stayed updated on activities throughout the project. This ensured ongoing support by data providers and government officials.
- The First Credit Bureau conference was an important tool to educate the local marketplace on the value of a private credit bureau and helped remove some skepticism on the part of some data providers.

¹³ Information provided by international operator and shareholder, CreditInfo.

- Study tour to international operator in United Kingdom educated government officials as they debated draft law.

C. Ukraine: Commercial Law Project and Access to Credit Initiative (USAID), 2003-2007

Conditions at the Outset of Project

- The National Bank of Ukraine maintained a public credit registry with voluntary contribution of bad debt information by banks. Banks were unsupportive and noncompliant; consequently, the registry was of no value and national bank had no interest in making improvements.
- No private CIA and no credit reporting law.
- 2002 – 2004: Several independent efforts to launch a private CIA failed.
- No support from the National Bank of Ukraine due to political instability.

Actions Taken

- April 2003 – October 2003: Draft law created by Commercial Law Centre (a USAID-funded project) with assistance from an international consultant. Stakeholder workshops were conducted in April 2003 and October 2003.
- April 2003: High-level feasibility study completed.
- 2004: Draft law including individual rights and protections debated in Parliament and in committee.
- November 2004: A new USAID project, the Access to Credit Initiative begins.
- November 2004: The World Bank and Ukraine's Ministry of Finance initiate a private credit bureau project but agreed to defer to the USAID project.
- January 2005: Consultants begin activity to create a business plan, marketing plan, and financial projections for a private credit bureau.
- January 2005: A memorandum of understanding is signed with the Association of Ukraine Banks (28 banks that had 50 percent of the marketplace activity) to assist with the creation of a private credit bureau.
- June 2005: Parliament passes credit bureau law on organization, formation, and circulation of credit histories.¹⁴
- August 2005: Detailed feasibility study, business case, marketing plan, and financial projections completed and presented to counterpart, the Association of Ukraine Banks.¹⁵
- October 2005: Workshop conducted for marketplace, including banks, leasing companies, insurance companies, government officials, and local media.
- October 2005: The All Ukrainian Bureau of Credit Histories formed with CreditInfo as partner and international operator; other owners of the bureau include banks, credit unions, financial companies, and leasing and insurance companies.
- Early 2006: PrivatBank credit bureau is formed and joined later by Experian as part owner and international operator; other owners include smaller banks and leasing companies. PrivatBank has 30 percent of Ukraine's banking market.

¹⁴ Available on Ukraine Access to Credit Initiative Web site: <http://www.atci.com.ua/Docs/Ukrainian_Credit_Bureau_Law_ENG.pdf>.

¹⁵ Available on USAID's Web site: <http://pdf.usaid.gov/pdf_docs/PNADF668.pdf>.

- July 2006: First National Credit Bureau of Histories formed with CreditInfo as minority owner and international operator. USAID's counterpart, the Association of Ukraine Banks, is majority owner. The bureau has 32 shareholders with no single shareholder owning more than 9 percent. Subscribers include 53 banks, representing 70 percent of market, but not all report their proprietary data. PrivatBank is not a member.
- 2006: Regulations created for the law that was put into force with a six-month activation period.

Results

- Law and regulations passed and in place.
- Three private credit bureaus in operation, but there is market fragmentation because banks only report to one of three bureaus.
- Individual rights and protections in place.
- All three bureaus follow best practices.

Current Status

- Private CIA is close to profitability.
- No other private credit bureaus on the horizon; market is currently well-served by three credit bureaus; fragmentation is the central issue.
- New products, including credit scoring, developed.

Lessons Learned

- Law must be in place before credit bureau begins operations. In the case of Ukraine, this allowed for faster creation of private CIA.
- Local ownership is key to the successful establishment of a private CIA.
- Workshops are important to educate stakeholders and update them on activities.
- Having an international operator participate in building a private CIA and, in this case having a minority ownership position, ensures its commitment to and success of building the database.
- Ongoing international expertise in all areas is critical to completion of project.
- As an engaged counterpart, the Association of Ukraine Banks was important to the legal aspect of the project. The association was consulted and kept updated on activities throughout the project, which ensured ongoing support by data providers and government officials.
- Obtaining agreement of other donors to step aside and allow USAID to move forward helped avoid duplication of effort and expense. World Bank and IFC officials who agreed to delay their projects were updated on activities.
- Voluntary data contribution is a problem given that banks, which are not obligated to provide information to anyone, are only sharing with one of the three CIAs.

D. Albania: New Public Credit Registry, Bank of Albania; International Monetary Fund Project, September 2006 -January 2008

Conditions at the Outset of Project

- No public or private CIA and no credit reporting law.
- Credit market demonstrates significant growth, but banks have few facts on borrower indebtedness and paying habits.
- 1998: World Bank feasibility study for registry at the Bank of Albania; funding set aside and eventually used elsewhere.
- 2000: Association of Albanian Banks negotiates with Greek Credit Bureau to construct a private credit bureau. The deal was abandoned when it was determined that the data would have to be housed in Greece, presenting sovereignty issues.
- Quarters 1 and 2, 2006: Association of Albanian Banks reactivates CIA initiative with two options: implement a “hub and spoke” registry or build a private bureau in Albania at a cost in excess of \$700,000. Neither option was deemed acceptable. The first option brought up the same sovereignty issue as the Greek initiative, and the second option was too expensive. Commercial banks ask the Bank of Albania to create a public CIA.
- Quarter 2, 2006: The IMF commits Bank of Albania to some type of CIA as a component of Basel II.
- Quarter 2, 2006: Banks’ request for CIA and the Bank of Albania’s commitment to the IMF converge. The IMF agrees to the Bank of Albania’s request for technical assistance.
- The existing privacy law for consumer disclosure for any data maintained in a government database applies to Bank of Albania.

Actions Taken

- September 2006: The Bank of Albania is the project’s counterpart and Governor Ardian Fullani is fully engaged and provides robust support throughout project.
- September 2006: Consultant is onsite; helps to develop a roadmap and action plan for the Bank of Albania to create a public registry.
- September 2006: The Bank of Albania working group is established, is headed by the bank’s project manager, and includes the bank’s head of information technology and legal advisor.
- October 2006: Roadmap spawns task list for all departments: legal, information technology, operations, and project manager. The information technology action plan includes determination of who will build database.
- October 2006: The working group determines secrecy is an issue and must be addressed with introduction of a consent clause.
- December 2006: A law passes allowing for the creation of the Bank of Albania credit registry. Activity commences on regulation drafting. All supervised financial institutions must report all proprietary credit data in detail requested by the Bank of Albania. Individual rights and protections are identified.
- January 2007: Second consultant mission. A decision is made to outsource creation of database with a competition among three potential providers.
- Quarters 1 and 2, 2007: Bank of Albania officials embark on study visits to Italy’s private credit bureau and public registry and to Kosovo’s public registry.

- May 2007: Third consultant mission. Pro Net is selected to supply software and build database; contracts are negotiated and signed; Bank of Albania provides funding for hardware and software.
- June 2007: Launch meeting with all banks, Pro Net, and Bank of Albania officials. Construction begins.
- October 2007: Fourth consultant mission. There is a problem with banks reporting data. The governor is engaged immediately and the problem is solved.
- November 2007: Staff selected.
- November 2007: Programming and customization of software completed; data in test database.
- December 2007: User acceptance testing was successful.
- December 2008: Regulations in force, including mandatory provision of information to the Bank of Albania CIA, mandatory requests to the bank's CIA on all legitimate bank credit applications, and details of individual rights and protections.
- The working group communicated and met regularly throughout the project.
- The IMF provided technical assistance support for five two-week missions over 16 months.

Results

- Law and regulations passed and in place to operate a Bank of Albania credit registry.
- January 2, 2008: Best practice Bank of Albania public credit registry is successfully launched.
- January 29, 2008: Official launch attended by prime minister of Albania, Albanian minister of finance, Governor Ardian Fullani, IMF country representative, more than 100 stakeholders, and Bank of Albania staff. Extensive media coverage of the event, including print, radio, and television.
- Project completed in record time. All bank credits reported to the registry; no threshold.
- Bank of Albania Web site includes laws, regulations, information on individual rights and protections, and generic information related to the public registry.¹⁶

Current Status

- The registry is operating as expected, and banks are pleased with access to centralized credit information.
- The Bank of Albania has developed management reports to allow for closer monitoring of banking sector credits and to assist them as they move from inspection-based to risk-based supervision.
- There are no other private credit bureaus on the horizon; the banking sector is currently well-served

¹⁶ See www.bankofalbania.org for details.

Lessons Learned

- Strong support, commitment, and determination from the Bank of Albania governor and his team allowed for completion of project within record time while successfully overcoming a number of obstacles.
- Government support, cultivated by the Bank of Albania, allowed for law to be completed in four months.
- Creation of roadmaps and action plans provided bank officials with the correct approach to creating their registry.
- Ongoing international expertise and support guided Bank of Albania officials during the project.
- Where a private credit bureau effort fails, a public credit registry is a sound near-to-midterm solution.
- The counterpart honored its end of the agreement to provide staff and financing, allowing the project to move forward to completion.
- The selection of an experienced software provider allowed the project to move quickly.
- Two educational study tours helped Bank of Albania officials to better understand public credit registries and private credit bureaus.

E. Azerbaijan: National Bank of Azerbaijan (NBA); SME Support through Financial Sector Development and Financial Sector Stability Program (USAID), May 2007-Present

Public Credit Registry Upgraded to Best Practice for Possible Privatization

Conditions at the Outset of Project

- No private CIA and no credit reporting law.
- 2002: World Bank provides financial and technical assistance to create a public registry.
- 2003: Public registry building begins.
- 2004: A new banking law is passed that authorizes data sharing and a new public registry.
- September 2005: Registry begins.
- NBA owns source code for database software.
- Reporting threshold in place; no management data on activity.
- Manual process to check new credit applications is time consuming.
- Association of Microfinance Companies (AMFA) would like to have their own registry or participate in NBA registry,
- NBA deputy governor is counterpart; his goal is to bring the NBA public registry to best practice in hopes that the registry can be privatized.

Actions Taken

- May 2007: NBA is counterpart and Deputy Governor Rufat Aslanly is fully engaged and supportive throughout project.
- May 2007: Study for AMFA determines they should wait for new MFI law to pass and then place their credit data in NBA public registry.

- May 2007 – December 2008: Six missions completed resulting in 99 recommendations to move the public registry to best practice in preparation for possible privatization. As of December 2008, 63 recommendations have been implemented.
- Major recommendations implemented:
 - Full time registry manager appointed and reporting directly to deputy governor.
 - Existing registry regulations revised and approved by NBA management board followed by approval from the Ministry of Justice; implemented in September 2008.
 - Threshold eliminated.
 - Full automation for all inquiry requests.
 - Guarantor information added.
 - Major expansion of contributed data to meet best practice.
 - Inquiry records maintained and displayed on credit reports.
 - Mandatory searches by banks on all legitimate credit applications.
 - Proprietary credit data transmission reduced from twice monthly to once monthly.
 - New credits to be reported within two days.
 - Manner of payment introduced.
 - NBA Web site includes special section for credit registry.¹⁷
 - Management and banking supervision reports designed.
 - Additional server purchased and added to database.
 - User manuals created for both users and data providers.
- Workshops and regular communication with commercial banks.
- 2008: Registry manager participates in two study tours.
- 2008: Draft credit bureau law created and ready for parliamentary introduction.
- Consultant worked with registry manager on his professional development, organizational skills, and credit registry knowledge.

Results

- Draft private credit bureau law prepared.
- Current NBA public CIA regulations revised, approved, and implemented.
- Number of credits reported to the registry has grown from 90,000 as of December 31, 2006, to 755,000 (includes 230,000 paid credits) as of December 12, 2008, which banks now have access to.
- Process in place to add 150,000 MFI credits to the NBA credit registry database when new MFI legislation is passed and put into force.
- NBA public CIA will be following best practices by Quarter 2, 2009, making it more attractive for privatization.

Current Status

- Attempting to reconcile the number of credits that banks are reporting to the NBA registry versus the actual number of credits they have in their portfolios.
- Guarantor information to be added on 200,000 borrowers.

¹⁷ See <<http://www.nba.az>> for details on NBA credit registry.

- Need to move from dial-up access to virtual private network so that all of Azerbaijan's 534 bank branches can have direct access. Due to dial-up delays, only head offices of the 45 banks are able to request credit reports.
- Ready to begin negotiations with banks to gauge interest in privatization. Will also invite international operators to make presentations and determine their interest in ownership now that NBA public registry will follow best practices.
- The deputy governor has left the NBA, but the commitment from the NBA governor and the replacement deputy governor remains firm.

Lessons Learned

- Support, commitment, and involvement from the NBA deputy governor and his team ensured the project moved forward.
- Counterparts lived up to their commitment to provide resources and funding for the project.
- Creation of a draft credit bureau law and subsequent passage will allow for privatization of the NBA credit registry.
- Necessary laws and regulations had to be changed prior to moving forward with upgrade of registry database.
- Creation of roadmaps and ongoing action plans leads to success.
- Ongoing international expertise guided NBA officials in the right direction.
- Elimination of reporting threshold allowed for significant credit data expansion.
- NBA owns software code, so it is much simpler to make changes to the database software.
- Regular communication between all stakeholders has been helpful to the project.
- Two educational study tours helped NBA credit registry manager officials gain a better understanding of public credit registries and private credit bureaus.

F. Egypt: Central Bank of Egypt; Strengthening Egypt's Credit Reporting System Project (FIRST Initiative), February 2003-November 2006

Conditions at the Outset of Project

- No private CIA and no credit reporting law.
- The central bank's registry was established in 1957 to assist banks in determining whether credit applicants are indebted to other Egyptian banks. An amendment to the law in 1973 allowed the registry to be used to determine whether other banks had instituted legal action against a borrower.
- Banks were prohibited from approving credit if a credit applicant had a delinquent credit with any bank.
- The registry was automated in 2002. The CBE owns source code for the database software.
- A reporting threshold was in place, and all banks are required to report all credits at or above that threshold.
- Due to secrecy provisions that prevented sharing of details for each credit being provided, credit information provided on successful searches showed aggregated information only on total indebtedness and number of banks owed.
- Law #88 of 2003 gave the CBE wider authority in the operation of its public registry.

- Banks were asking for more detailed credit information on bank credits from the CBE registry.
- The CBE governor seeks assistance to move the registry to a private credit bureau.
- The project's designated counterpart is Deputy Governor Mahmoud Aziz.

Actions Taken

- February 2004: Project begins (first of eight missions) with full review and initial recommendations. CBE officials plan to upgrade CBE registry to best practice with no need for private credit bureau.
- June 2004: Recommendations on hold as CBE still considering options about how to proceed.
- June 2004: CBE agrees to three-phase strategic plan:
 - Phase 1: Upgrade CBE registry to best practice.
 - Phase 2: Encourage non-bank financial institutions to establish a private credit bureau.
 - Phase 3: Merge CBE credit registry with private credit bureau.
- June 2004 – November 2006: CBE registry moved to best practice:
 - Expanded credit data.
 - Lowering of threshold in phases (due to fact that commercial bank information was incomplete and needed to be upgraded).
 - Notification and reporting of new credits by banks.
 - Automated; the registry became first totally automated department within the CBE.
 - Improved access to request reports and submit data.
- September 2004: CBE supervisory board agrees to new strategic plan.
- Quarter 3, 2004: Law changed to require that leasing and mortgage companies report to the CBE registry.
- Quarter 3, 2004: Banks are required to continue to report credits even if balance drops below threshold.
- Quarter 3, 2004: CBE now maintaining information on all paid credits in registry database.
- Quarter 3, 2004: CBE establishes sub-database of all delinquent (more than three months past due) credit card accounts regardless of balance.
- Quarter 4, 2004: Both delinquent credit card database and regular CBE database checked on all search inquiries by banks.
- December 2004: Regulations for private credit bureaus drafted that include individual rights and protections (would eventually become first consumer law in Egypt).
- December 2004: Project consultant meets with USAID, which has created a project to work with any group interested in starting a private CIA. Meeting ensures no overlap; the FIRST project focused on the CBE's public CIA, and USAID will focus on a private CIA.
- Quarter 2, 2005: An amendment to the secrecy law allows for the detail of each bank credit to be presented in CBE credit registry credit reports.
- Quarter 2, 2005: Law 93/2005 authorizes the CBE to license a private credit bureau.
- Quarter 3, 2005: The governor of CBE issues a license to a group of banks that will start a private credit bureau.
- Quarter 2, 2006: The governor withdraws license from the first group of banks due to inaction and reissues the license to second group of banks that plan to begin work on a private credit bureau.

- Quarter 3, 2006: Draft regulations now in force for private credit bureau.
- Quarter 4, 2006: Private credit bureau contracts with technical partner to construct bureau and construction begins.
- July 2008: The private credit bureau, I Score, issues its first credit report using information not provided to the CBE registry. Banks must check both databases when conducting inquiry searches.
- On each mission, the project consultant met with minister of investment to update him on the project and inform him as to where Parliamentary assistance regarding legal issues is needed.
- The CBE Educational Center developed education materials for stakeholders and the marketplace.
- Comprehensive half-day workshops, on four missions, conducted to educate stakeholders, keep them abreast of progress and changes, and provide a forum for feedback on the existing registry and what changes they would like to see.
- During the project, CBE officials visited three other countries to learn more about their public registries and private credit bureaus.

Results

- The CBE public credit registry upgraded to best practice in data, technical, and operations.
- Agreement, in principle, to eliminate threshold and add credits when commercial banks have better identifying information about borrowers.
- Broader reporting of credits; reporting expanded to leasing and mortgage companies as well as delinquent credit cards.
- From June 2004 to November 2006, number of reported credits grew from 356,000 to 847,000 with another 2.7 million credits to be added as thresholds continued to be lowered.
- Legal framework and regulations established for private credit bureau.
- Individual rights and protections introduced.
- Private credit bureau (owned by 28 Egyptian banks) established and issuing credit reports. Registry houses credit card information, non-bank financial institution information, and some bank credit information.

Current Status

- A decision must be made on whether CBE credit data will be moved to a private credit bureau database or an interface built between the CBE registry and the private credit bureau to complete inquiry searches.
- Once a decision is made on the previous point, the CBE will mandate that all inquiry searches be conducted through the private credit bureau.
- It is unlikely that any other private credit bureau will be established.

Lessons Learned

- Support, commitment, and involvement from the CBE deputy governor and his team ensured the project moved forward.

- Counterparts lived up to their commitment to provide resources and funding for the project, thereby allowing recommendations to be implemented and to move the CBE registry to best practice.
 - The private credit bureau succeeded due to local bank ownership and engagement of international expertise in building the credit bureau database.
 - Laws and regulations were changed prior to moving forward with the upgrade of the registry database to allow detailed exchange of credit information and to provide framework for the creation of a private credit bureau.
 - Educational study tours were important for officials to better understand public credit registry and private credit bureau issues and how to handle them.
 - The minister of investment was an important contributor to legal changes given his understanding and commitment to project.
 - International expertise guided CBE officials as they established a strategic plan and moved their public credit registry to best practice.
 - The elimination of a reporting threshold allowed for significant credit data expansion.
 - The CBE owns the software code, so it will be much easier to make changes to their database software.
 - Regular workshops were important for all stakeholders to better understand CIAs, to learn about the CBE's progress on their CIA expansion plans, and to provide survey feedback to CBE officials. Stakeholders were part of the solution.
- Two donor agencies, FIRST and USAID, communicated to ensure their respective projects did not overlap.

SECTION III. BACKGROUND

Credit Information Agencies, the Financial Sector, and the Resultant Economic Impact

Public credit information registries and private credit bureau firms are critical elements of the institutional framework necessary to support a well-functioning modern financial system. These credit information agencies (CIAs) broaden the reach of the financial sector system to include greater numbers of a country's population.

The credit information that a central bank can provide to banks — and the credit reports that can be provided to the marketplace by private credit bureaus — have become increasingly important throughout the world as demand for such data increases among commercial banks and other financial intermediaries, private firms, retailers, employers, and landlords.

Demand for high-quality credit data has also increased among bank supervisors and regulators because it helps them to monitor credit risks more effectively in supervised financial institutions. In compliance with Basel II, central banks are moving away from the current inspection-based model to risk-based supervision for commercial bank oversight. The current banking crisis has further increased the need for closer monitoring of bank credit portfolios. The information that populates a central bank registry database can be extracted to a variety of reports that can identify potential problems within the banking credit sector, enabling bank officials to address potential problems in a timely and effective manner. One of the objectives of a central bank is to ensure the safety and security of the banking sector; the information in a credit registry provides the central bank with a tool to meet this goal.

The central bank registry is limited to financial institutions supervised by the central bank. Private credit bureaus have a broader market because they proactively respond to market needs by providing products and services for their client base. That client base reaches beyond the limited number of users of a central bank registry.

Research shows a strong relationship between gross domestic product and the extent of credit reporting in an economy and private credit. CIA systems allow credit grantors to extend credit to qualified individuals and companies based on a more precise analysis of their past and present credit obligations and credit standing with accurate and reliable information. The result is lower borrowing costs for consumers and reduced losses and lower credit investigation costs for credit providers. For small and medium enterprises (SMEs), improved access to credit enables entrepreneurs to leverage their own resources to expand their commercial activity, which is another critical enabler of economic growth. Such systems benefit the entire country.

Empirical evidence shows that the standard of living in countries with a CIA is higher than those with none because the information from the CIA supports a growing credit marketplace by enhancing the availability of credit. Credit application investigation costs are reduced because of the comprehensiveness and depth of data contained in the CIA. Credit grantors have less concern about credit applicant's failure to disclose indebtedness because the central database allows them to learn about the applicant's other debts. As a result, the percentage of the population that enjoys access to credit in countries that have a CIA is much greater than countries that do not.

The most effective public and private CIAs contain both positive and negative credit information to allow for recognition of those who honor their credit responsibilities as they build “reputation collateral” and those who do not honor their obligations.

Advantages for borrowers with records of prompt payment include:

- Increased purchasing power
- Increased availability of credit
- Lower borrowing costs
- Incentive to build a credit history resulting, in reputation collateral

Advantages for financial institutions that have access to a CIA include:

- More precise credit granting practices
- Reduced delinquencies and write-offs
- Reduced credit application investigation costs
- Increased opportunities to lend money to more applicants and for higher amounts
- Improved profitability

Public and private CIAs vary throughout the world. In many jurisdictions, government mandated legislation restricts the sharing of information, while in other jurisdictions legislation allows for the sharing of information and provides protections and rights to individuals whose information is being shared by authorized users.

Research has been conducted as to why some countries choose a public CIA operated by a central bank while other countries select a private CIA and frame legislation to allow them to operate in an entrepreneurial manner. The conclusion is that no clear patterns or reasons emerge to explain the different choices. For example, in Asia during the last several years, private credit bureaus have been established in India, Kazakhstan, Sri Lanka, Pakistan, and Thailand, while public credit registries have been established in Bangladesh, China, East Timor, Indonesia, Malaysia, and Nepal. The Kazakhstan credit bureau has absorbed information that was formerly housed in the National Bank of Kazakhstan credit registry.

Central bank credit registries operate to ensure transparency in financial institution reporting and to maintain some control of the credit granting process in financial institutions under central bank jurisdiction. Private credit registries are established to meet the needs of the marketplace. Because of their differing mandates, a public registry is not a substitute for a private credit bureau. However, if a private CIA cannot sustain itself, it is left to the public sector to fill the void.

Some argue that it is better to have a private credit bureau that can respond to market demand for products and services, as opposed to a public registry, which primarily serves the needs of a central bank and provides data to financial institutions under its supervision. A public credit registry serves only a specific market (financial institutions under the supervision of a central bank), but that market normally represents the majority of credit activity that occurs in a country.

On the other hand, a private credit bureau serves the broader marketplace. In principle, a private credit bureau is the best solution, but is not always possible in practice. A public registry can be set up and the information in its database can be available to users in a much shorter timeframe

than a private credit bureau. It will also serve a large portion of the market with potential to grow and be privatized. Creating a public registry is not the ideal solution, but the creation of some type of credit information database must begin somewhere. For many countries, a public registry is that starting point, and this model has been successful.

Regardless of the model, a robust and effective credit reporting system can greatly enhance the ability of a country's financial system to grant credit to qualified individuals and private enterprises, particularly SMEs. Private registries are more responsive to the needs of the marketplace and represent the more desirable solution. However, no two countries are the same, and experience has shown that whatever form a CIA takes, it is ultimately a local solution.

In a number of countries, the percentage of the population that qualifies for or has experienced credit activity is so small that the private sector is reluctant to make the capital investment necessary to create a private credit bureau because they believe the business will not be sustainable. It is then left to the public sector to fill in the gap. This appears to be the case in the examples previously mentioned.

The private sector has also been unwilling to invest in a credit bureau if there is no legislation in place that would provide the rules and regulations for operation. Until a legal framework is in place, private investors will wait until they know and understand the operational ground rules before making their investment decision.

A recent development in private registries is the “hub and spoke” model, in which privately owned databases located in one country and information from another country are placed in a secure sub-database in the database of the “hub” country. This data can only be accessed by authorized users from the country where the data originates. Guatemala, South Africa, and Italy each have a hub and spoke registry, but success has been limited due to sovereignty, privacy, and cost issues.

In the past four years, a number of public credit registries, for example, those in Albania, Azerbaijan, Montenegro, and Sudan, have been created with the primary purpose of assisting commercial banks in their credit adjudication process by providing previously unavailable credit information. Still other public credit registries, such as those in Palestine and Egypt, have expanded their mandates to assist banks by increasing the amount of information they capture in their databases, which provides more comprehensive information to banks and other financial institutions. Still others, such as those in Egypt, Azerbaijan, and Kazakhstan, have already, or are in the process of, encouraging the creation of a private sector credit bureau using the public credit registry as a catalyst.

Central banks have the ability to mandate that all financial institutions provide any and all credit data requested by the central bank — unlike the private sector that relies on voluntary contribution of data. This important distinction should not be overlooked. When a central bank is unwilling to mandate the reporting of this data, its efforts to create a viable registry are unsuccessful, as in the recent case of Ukraine's central bank.

No two countries in the world have similar framework legislation and/or regulations for the credit reporting industry. The framework is a local solution that meets the needs and interests of the local marketplace. All countries with private credit bureaus have some sort of legislation and accompanying regulations that frame their operations and grant rights and protections to individuals regarding their personal credit and demographic information housed in a private credit bureau.

Historically, central banks have created public credit registries to monitor the health and safety of the credit component of the banking sector. These registries generally focused on monetary value of credits versus the actual borrowers and required banks to report specific information only on credits with balances above a certain threshold. Other central banks also required information on past due borrowers over a certain balance threshold. In most cases when the balance fell below the reporting threshold, banks were no longer required to report information on those credits. The information contained in the registries was not generally available to any financial institutions.

With the increasing demand for credit during the last several years, a number of public registries have expanded their mandate to assist commercial banks in their credit adjudication process by providing previously unavailable credit information to help banks refine the credit granting process. More information will help commercial banks make more precise credit decisions as they meet increasing demand for credit from companies and consumers.

When a central bank is involved in the credit registry process, it will be USAID's counterpart. When a private credit bureau is involved, the activity normally has no counterpart, and the project focuses on conducting a feasibility study, developing a business case, determining financial projections, and devising a marketing plan for a private credit bureau. Once that process is complete, the project results are presented to the marketplace, perhaps in a workshop, as the basis on which the credit bureau could be constructed. A successful credit information system begins with a resolution of the key legal, regulatory, and enabling environment issues, with an operational legal and regulatory framework in place. The success of a CIA also requires the application of international best practices and partnering, as necessary, with complementary donor activities.

SECTION IV. MODEL SCOPE OF WORK: CREATION OF A CREDIT REGISTRY FOR THE CENTRAL BANK OF FREDONIA

Title

Expand access to finance with the creation of a robust and comprehensive central bank credit registry database that will be available to qualified users in the marketplace.

Objective

The objective is to provide technical assistance to Central Bank of Fredonia authorities in designing a credit registry that serves prudential and risk management concerns of the central bank while making available information on the experience of borrowers to marketplace lenders that will increase the availability of credit. This will include enabling the Central Bank of Fredonia to establish the legal and regulatory framework and a comprehensive work plan and roadmap to allow for the creation of a central bank credit registry that will make comprehensive, detailed, and timely credit information available to qualified users on the credit experience of borrowers in a manner that replicates best practice.

Ceiling Price

The firm fixed price for this task order is \$xxx,xxx,xxx,xxx.
The obligated amount is \$x,xxx,xxx,xxx.

Definitions

Insert generic definitions in this section.

Background

Insert generic background in this section.

The creation of a robust and comprehensive registry will allow Fredonia to meet Basel II requirements by allowing the central bank to more closely monitor credit activities to ensure confidence in the sector while providing timely, detailed information for commercial banks as they meet the increasing demand for credit.

The success of a credit information system begins with the resolution of key legal, regulatory, and enabling environment issues, draws on international best practices, and is partnered, as necessary, with complementary donor activities. The Central Bank of Fredonia will serve as USAID's counterpart to implement recommendations. The key issues are discussed below.

1. Central Bank Support

Empirical evidence clearly demonstrates that without a high-level champion within the bank, the chance for success is remote, as the project will be competing with other bank priorities. It is a best practice for the deputy governor or governor to serve as the project's counterpart. The central bank must also agree to appoint a project manager who reports directly to the deputy governor or governor to oversee all facets of the registry's construction. If such support is not in

place, recommendations must be made for the necessary action that will result in the support required to move the project forward.

Active central bank support for development of credit information services and the related data flows is a critical prerequisite to project success; lack of support can effectively block implementation.

Current Status

- The governor and deputy governor of the Central Bank of Fredonia have signed a memorandum of understanding with USAID on behalf of the central bank, have verbally agreed to the need for the registry, and have given their unencumbered commitment to the success of the project.
- The Central Bank of Fredonia has committed \$350,000 toward the creation of a registry.
- The Central Bank of Fredonia has requested technical assistance from international experts to guide them in the creation and construction of a credit registry.

2. Other Donor Agencies and/or Funding Providers

Contact with various donor agencies to determine any activity related to public credit registries or private credit bureaus they are currently extending, have extended, or plan to extend is a necessity. Duplication among donor agencies/funding providers has led to wasted funds and overlapping activities, confusing potential stakeholders. Furthermore, lessons can be learned from other donors' past activities, which should be applied to activity under this project.

Agencies to be contacted usually include the IFC, the World Bank, the IMF, the ADB, and the FIRST Initiative, all of which have been or are currently involved in this subject.

Current Status

- The IFC provided a credit facility to create a private registry but was unable to entice private enterprise to commit due to lack of legislation, lack of commitment of primary users to provide all credit data, and limited volume of search inquiry activity on which primary revenue is based.
- The World Bank provided funding to draft laws to frame the credit reporting industry, but the Fredonia government was unwilling to support the legislation.

3. History of Past Activities and Efforts to Create a Public Registry

Research on the history of any and all efforts undertaken to establish a public credit registry or a private credit bureau provides clarity about the issues, problems, and challenges faced; how these challenges were addressed; and the results of these efforts. Understanding the reasons for lack of success and learning from these mistakes ensures that they will not be repeated. Many countries have had more than one false start in the creation of a public credit registry or private credit bureau, which reflects a failure to learn from past experience. Consultation on this subject includes the central bank, local banks, bankers' association, microfinance institute (MFI)

association (assuming MFIs fall under the jurisdiction of the central bank), and other financial institutions that fall under the jurisdiction of the central bank.

Current Status

- The Fredonia bankers' association attempted to create a private registry in 2007, but banks would not voluntarily provide data, did not believe that other banks would provide their complete credit data, and were not prepared to provide funding.

4. Analysis of Fredonia's Legal Framework to Collect and Disseminate Information

The legality of sharing valuable credit information is the cornerstone of the creation of a credit registry or bureau. In a number of countries, secrecy laws restrict any organization besides a government agency or central bank from providing a borrower's credit experience with information that identifies the borrower. For a variety of reasons, governments of these countries are unwilling to pass enabling legislation to allow sharing of borrower credit and demographic information with agencies in the private sector, including banks and other financial institutions. For this reason alone, these countries are unable to create either public credit registries or private credit bureaus.

Many countries have secrecy provisions in their laws that have required either the passage of laws to exempt credit registries or credit bureaus from the provisions or the implementation of a "consent clause" that must be signed by borrowers to allow their personal credit information to be shared with a credit registry or credit bureau and to agree that the information could be provided to an agency authorized by the borrower with written consent. The introduction of a consent clause is a best practice.

However, before any of these circumstances can be addressed, a thorough and detailed analysis of the country's laws on the collection and dissemination of information must be completed to determine under what conditions, if any, information could be shared. The laws to be reviewed normally include: civil code, law on commercial secrecy, banking law, law on the creation of a central bank, law on personal data protection, freedom of information law, money laundering laws, law on state secrets, and any pending draft legislation that deals with the subject. The list could be supplemented with other laws unique to a country.

Current Status

- Following extensive review, it has been determined that secrecy provisions are in place that prevent the sharing of credit information beyond the Central Bank of Fredonia and that it is not possible for the central bank to receive information from one bank and provide that information to another. A section of the civil code implies that native citizens may consent to the sharing of this information. The current practice is for banks to obtain written consent from a credit applicant to disclose information from any dealings with other banks; however, banks have been found to be lacking in cooperation on this exchange of information.
- The Central Bank of Fredonia is seeking international expertise to provide a solution to address the secrecy provisions that would allow for the exchange of credit information.

5. Laws Allowing for the Creation of a Public Credit Registry within the Central Bank

For the Central Bank of Fredonia to create a registry, there must be a legal framework that empowers the central bank with the option of creating a credit registry if and when they make a decision to do so.

Current Status

- Following a review of the Bank of Fredonia Act, it has been determined that a Central Bank of Fredonia registry has not been contemplated, nor is there reference to such an agency in the act.

6. Bank Reporting Requirements to the Central Bank

Central banks normally require banks to periodically report on their credit portfolios, but there are no universal requirements. Central banks that do not have a credit registry may require something as simple as quarterly or monthly submission of hard copy reports on the top 10 borrowers by monetary value. Banks might be required to report information only on borrowers whose obligations exceed a certain percentage of the value of the bank's outstanding capital. Other central banks may require that financial institutions report information on borrowers who have outstanding credit greater than an established threshold; once the balance falls below the threshold, they are no longer required to report it. Still other central banks require that banks report information only on past due credits. Finally, there are central banks that do not require any reporting whatsoever. There is no consistency in the reporting of credit information if there is no central bank credit registry in place.

Some central banks may require banks to report credit information, but it is usually for internal central bank use only. It is not available to banks that could use the information in their credit adjudication processes. Other central banks operate credit registries and make the information available to banks and other financial institutions on the condition they provide information to the central bank database. This practice is known as reciprocity: financial institutions must provide data to receive data.

Central banks generally have the authority to require from banks whatever information is necessary to meet their legislated mandates, including credit information. Central banks that have credit registries in place and mandate commercial banks to provide credit information are successful; those that make the providing of information voluntary are not.

Another consideration is whether the credit information that has been reported to the central bank is deleted or retained. If the information is retained, is it accessible and how much data is retained?

Current Status

- The Central Bank of Fredonia requires all banks to report the names of their top 10 borrowers on a monthly basis. The information includes the amount of the facility, the current balance, the name of the borrower, and the payment status. The information is reviewed by the Central Bank of Fredonia's Banking Supervision Department and compared to data from

previous months. If they are concerned about changes or indebtedness of borrowers, officials from the Banking Supervision Department follow up with individual banks for clarification. The reports are then filed.

- The Central Bank of Fredonia will mandate that banks report credit and identifying information on all outstanding credits whether they are current or past due with content and format that meets the needs of the central bank database.

7. High-Level Database Content

A Central Bank of Fredonia credit registry would not only assist the central bank in closely monitoring the credit activity of banks under its supervision, it would also assist banks in expanding the credit market, especially in retail credit. The significant numbers of individuals who handle their credit responsibly represent an untapped credit market. With access to a credit registry, a credit grantor could determine whether a new or current applicant has established a proper payment record with others. If the applicant has a good record, that individual would qualify for a higher credit limit and a longer credit term. In mature markets, empirical evidence proves that better quality credit risks qualify for reduced interest rates, which also allows for higher credit limits. Individuals deserve to be recognized for good payment behavior. Experience has proven that the possibility of higher credit limits, lower interest rates, and a positive notation in one's credit file are incentives for individuals to handle their credit obligations properly. With the expanding credit market and the introduction of a credit registry, there is no doubt that the amount of retail credit outstanding will increase significantly during the next few years and all banks would share in this growth with resultant profit increases and cross-sell opportunities.

A best practice is that both positive and negative information be included in a credit registry so borrowers with good payment records would benefit from lower interest costs, and those with poor payment records would be exposed and either be denied credit or have to pay premium interest rates.

Experience has also shown that when a credit registry is established and information sharing is voluntary, it takes years to convince credit grantors in the marketplace of the value of supplying information to a database and to overcome their fears that other financial institutions will poach their business. A central bank normally has the authority to require financial institutions under its jurisdiction to provide information. In the case of a credit registry, a best practice is to mandate the information required for a central bank registry to ensure that a comprehensive and complete database is in place when the registry has been fully constructed.

Current Status

- The Central Bank of Fredonia has determined that all credits, positive and negative, will be reported to the central bank registry and that reporting of information will be mandatory for all financial institutions supervised by the bank.

8. Central Bank's IT Infrastructure

All central banks have databases of one sort or another. An analysis of a central bank's database structure includes, the bank's computer room, any parallel operating system and/or off-site

locations, back-up systems (UPS and diesel generators), physical layout of the data center, data center security, number of servers, server capacity, types of servers (test, live production), firewall and security software, duplicate copies of the database content, and communication links to banks and other financial institutions under the direction of the central bank. When completed, the analysis is consolidated into a comprehensive report that contains the following categories:

- Overview, including all hardware, software, and LAN zones
- External communications, including Internet lines, ISP, SWIFT alliance gateway system, and who within the bank has it installed
- Location of controllers, user terminals, and bank connections
- Computer room
- Security details
- Network and back-up management
- Network capacity
- Types of servers

A thorough analysis will determine the ability of the Central Bank of Fredonia to create a database to be populated by commercial bank information and be accessible electronically by banks and other financial institutions under its jurisdiction.

Current Status

- In summary the current database can be expanded to add a separate database of bank information that can be accessed by authorized users. There is, however, no VPN whereby banks would be able to transfer data to the central bank credit registry database, nor would they be able to access the information through a VPN. See Attachment A for the analysis.

9. Analysis of the Sectors Licensed and Supervised by the Central Bank

A full analysis should be completed to determine the number of credits that individual banks maintain in their databases, the comprehensiveness of their borrower identifying information, the detail of their outstanding credits, and their ability to extract and provide data that will be required by the central bank. That data would be used to populate the central bank database. Banks should also be queried on their ability to implement software changes that may be necessary to meet the central bank's data requirements in a timely manner.

Information on the number of annual credit requests and the number of credits granted should be determined to understand the demands that would be made on a central bank credit registry if, as in best practice, banks are mandated to conduct an inquiry search of the central bank credit registry database on all valid credit applications.

Current Status

- Based on a preliminary analysis (Attachment B), it is clear that not all banks have the information necessary to populate a best practice registry.

- Banks understand that if they are unable to provide the necessary data, they will have to make programming changes in their databases to be in compliance within a reasonable period of time and provide the central bank with a specific plan to meet the requirements.

10. Unique Identifier for Borrowers

Countries that have a unique identifier (UID) for individuals have an easier time creating a central bank credit registry because it simplifies the process of placing individual credit and demographic information in credit files and subsequent retrieval by authorized users. A UID also makes the process more accurate. The correct placement of information is critical to the reputation and trust accorded to a credit reporting database. The UID also allows for accurate retrieval of data from a registry database on inquiry searches, which is important for users who seek information on prospective borrowers. If there is no UID, then other types of demographic information can be used, but experience has shown this to be a less desirable option.

Current Status

- Fredonia does not have UIDs for native citizens. For legalized citizens, there is a unique individual taxpayer identification number. The government plans to introduce a UID number program for native citizens in the next few years.

11. Central Bank's Financial Commitment and Determination of Ownership Model and Location of Database

The fact the registry will be a component of the central bank and in anticipation that it will be housed at the bank means that financial obligations will accrue for the construction of the registry. Obligations include costs for hardware, internal software creation, and development or purchase of off-the-shelf software that would have to be customized for the central bank. A future feasibility study would propose several options for the registry. Ideally the proposal should be for a best practice public registry.

Based on recent examples, the cost would range from \$250,000 to \$400,000, depending primarily on the software. If software is purchased from a third party, it would need to be customized for an additional fee. Then a determination would have to be made as to who would hold the source code for the registry software. Software vendors currently license their software for a one-time fee and a monthly service fee for two or three years. If the central bank does not have access to the source code and the vendor has gone out of business or no longer supports the software, then the central bank has limited options. One option would be to pay a large fee for the source code and train its own staff to program the software. A second option would be to rebuild its database with different software at the resultant cost. There are two recent cases in which a software vendor has ceased to support the software, leaving the central bank with no access to the source code. In one case, after lengthy negotiations, the software provider delivered the source code to the banks. The second case is currently in negotiations.

An alternative to housing the database in the central bank is hiring a credit reporting company in another country to host the data and provide services to the central bank. This approach is referred to as a "hub and spoke" model, in which the database is located in Country A and other

countries' data is housed in sub-databases within the "hub" database. There are currently three hub and spoke models operating in the world, but issues of sovereignty, privacy, and cost have prevented widespread adoption of this model.

Current Status

- The Central Bank of Fredonia has committed \$350,000 to fund the creation of the registry.
- The Central Bank of Fredonia requires technical assistance to complete a feasibility study to determine the database structure, data content, location, ownership model, operating procedures, regulations, and other relevant information for their proposed registry. It is seeking a roadmap for various departments and a comprehensive list of recommendations.

12. Regulations and Operating Procedures for the Registry

Regulations must be in place so banks can understand their responsibilities regarding the Central Bank of Fredonia credit registry, including the purpose; responsible authority; reporting of data to the registry; content of the database, restricted information, frequency of reporting, responsibility for information and credit data accuracy, and manner and conditions for use of information and credit data housed in the registry database; authorized users of information and data; conditions for obtaining information from the registry; prohibited usage of information and data from the registry; duration of the information and data retention in the database; obligations of data providers; infractions and penalties; fees (if any) for using registry information and data; right to information and rights and protections for individuals (see #13 below); manner, format, and content of the credit report; disclosure for statistical purposes; indemnification; right of supervisory body to adjust regulations; and completion of borrower consent clauses (if required).

Current Status

- There are no regulations in place.
- The Central Bank of Fredonia seeks technical assistance to create best practice regulations that will meet its needs, recognize local customs, and ensure the effective functioning of the registry.

13. Rights and Protections for Individuals

As a best practice, individuals should have the right to obtain a copy of their own credit information from a registry, and a registry should have a mechanism to make this information available with little difficulty. There should also be a grievance and dispute resolution mechanism so individuals can challenge information in their credit reports that they deem to be incorrect. These mechanisms usually include limits on the time the registry may take to respond to borrower complaints and the source of the data being challenged.

These rights and protections are usually provided under privacy legislation that applies to any government database. The rights and regulations are administered by a government agency. A central bank database is considered a government database, so the central bank registry would fall under privacy legislation already in place.

Countries without privacy legislation that have central bank registries rarely offer rights and protections for borrowers whose information is housed in a registry database. It is left to individual central banks to decide whether to offer rights and protections. Central Banks usually do not want to assume the extra administration associated with offering these rights and protections.

Current Status

- The Central Bank of Fredonia has yet to decide whether to offer rights and protections to borrowers regarding their personal credit information housed in the registry database.

14. Central Bank Inspection

To protect the integrity and reputation of a central bank credit registry, complete compliance with reporting requirements must be achieved in a comprehensive, timely, and accurate manner. A best practice for ensuring this compliance is for central bank officials (or central bank registry staff) to verify that all credits are being reported in compliance with guidelines during bank inspections. They would confirm the accuracy of the data being reported; confirm that all credits are being reported; review circulars related to the operation of the registry to ensure bank personnel understanding; solicit suggestions for improvements in registry operation; and answer questions about the registry. Central bank officials should promptly resolve any errors discovered during the inspection.

Empirical evidence suggests that banks will be reluctant to provide information about their preferred customers, their own bank officials, or people of influence. The inspection visit procedures are the best way to address this potential problem.

Current Status

- In principle, the Central Bank of Fredonia agrees there should be some method to ensure complete compliance with bank credit reporting requirements to the registry. Procedures would have to be developed during the registry's construction stage.

15. Mandatory Inquiry Searches

In countries with no credit registries or credit bureaus, banks and other lenders indicate they have a problem with applicants' failure to disclose all indebtedness. This results in some incorrect lending decisions, which in turn results in future delinquency due to the borrower's inability to meet monthly payment commitments.

Searching the credit registry should be mandatory for three reasons. The first is to determine if there are any undeclared debts currently outstanding. The second is to determine if the applicant has made an inquiry at other financial institutions, which could indicate a credit that has not yet been reported to the registry database, but could have been approved or funded. The third reason is the concern of central banks that some large companies could obtain credit at a number of banks, and in so doing exceed the allowable limits of a bank's paid-up capital. With an inquiry displayed on a credit file, banks would be aware of undeclared credit and be able to ensure that limit is not exceeded. By making searches on all legitimate credit applications mandatory, a

central bank could ensure that banks have comprehensive credit information that would allow them to make more accurate credit decisions. By extension, this would serve to ensure the safety of the banking sector, assuming banks use sound judgment when making credit decisions. Mandatory searching of the credit registry by financial institutions supervised by a central bank is a best practice.

Current Status

- In principle, the Central Bank of Fredonia agrees with compulsory inquiry searches of its credit registry database on all legitimate credit applications.

16. Education

Countries that do not have any type of a credit information agency are normally cash societies operating within an informal exchange of credit information that is generally weak and unreliable. In a number of countries, a central bank registry is created to address the needs of the banking sector, which is keen to grow credit portfolios and understands the need for more comprehensive, timely, and detailed credit information in order to do so. Banks' pursuit of growth in their retail credit portfolios means a country is slowly moving in the direction of a credit society.

Understanding and promotion of credit is generally left to credit grantors, while the government focuses on educating consumers about their rights regarding credit registries (if any), what information they are entitled to obtain from credit registries, and opportunities to challenge what the consumer believes to be incorrect information in his/her credit files.

It is vital to educate new borrowers about the value of credit, the benefits of responsible borrowing and repaying, and the impact their actions will have on their credit registry reports. In best practice, documents such as brochures and pamphlets are developed under the generic subject of "what are credit registries?" This information is distributed to media outlets, central bank personnel, and banks that make them available to customers. A comprehensive education program on the subject of credit registries should be developed by the central bank and a government consumer agency.

A public information system can highlight the benefits to be expected from the introduction of a credit registry and provides adequate consumer protection information to ensure market acceptance by both borrowers and lending institutions. A sound educational program brings transparency and develops confidence and trust in the credit registry system. Indirectly, it also conveys to borrowers that their credit will populate a credit registry database. Evidence has shown that this knowledge has made chronic delinquent borrowers more reliable in repayment of their credit.

Current Status

- The Central Bank of Fredonia agrees that an education component is important.

17. Fines and Penalties

The integrity of any public or private credit registry and the trust afforded to it by users is based on whether its information is complete, comprehensive, and factual. To ensure this is the case, all data suppliers must provide information on all credits with full and accurate detail. In some countries, meeting this objective has been a serious problem. A central bank credit registry best practice is to establish penalties in the form of fines to be levied when commercial banks fail to report required credit information to a credit registry or when reported information is inaccurate.

Current Status

- The Central Bank of Fredonia agrees with this approach.

18. Culture Adjustment

In a number of cases, central banks that have created public credit registries have failed to recognize the need to treat the registry as a business and adjust their approach toward banks as a service provider. This requires a cultural change on the part of central bank personnel in dealing with commercial banks that use the services of the registry. The need for teamwork, cooperation, and transparency has proven effective as central banks create registries, and the Central Bank of Fredonia should be no different.

Current Status

- The Central Bank of Fredonia recognizes the need to treat the registry as an entity that provides a service to banks and the resultant change in relationships with banks that accompanies the service.

Statement of Work

The host and counterpart for this project is the Central Bank of Fredonia.

Tasks and Time Frames

The contractor will work with the host to identify and resolve the issues that must be addressed in the legal and regulatory environment and enabling environment to develop a Central Bank of Fredonia credit registry. The contractor must provide a roadmap and timelines that will include recommendations for the creation of the registry. The roadmap will include tasks for the Central Bank of Fredonia's senior management, project manager, Information Technology Department, and Legal Department. They must address core issues such as requirements for the contribution of data to the registry, database design, and other issues as noted in the diagnostic checklist (see Attachment C) to ensure the registry is operational within two years from the start of the activity.

The contractor will engage with all material stakeholders to build consensus for the actions necessary to achieve the sub-objectives identified in the following pages.

Phase 1: Preparation, Feasibility Study, Roadmap, and Recommendations

Tasks	Milestones
Task 1: Confirm central bank support and ownership	<ul style="list-style-type: none"> Proactive central bank leadership secured and confirmed through memorandum of understanding that includes ownership commitment, provision of personnel resources, and financial contribution
Task 2: Engage other donor agencies to determine current activities related to public or private credit registries	<ul style="list-style-type: none"> Confirmation received that project will be unimpeded and will not be duplicated by other agencies
Task 3: Create legal and regulatory environment for creation of registry and address secrecy issues	<ul style="list-style-type: none"> If necessary, Bank Act amended to allow the central bank to create the registry Comprehensive and best practice regulations established for data contribution and usage by contributors, operation and content of registry, and prohibited data items, fines and penalties, and other relevant items Plan developed to address secrecy issues either through legislative changes and/or amendments or introduction of consent clause
Task 4: Appoint project manager	<ul style="list-style-type: none"> Qualified individual with experience in project management related to database construction appointed
Task 5: Create two working groups	<ul style="list-style-type: none"> Internal working group composed of representatives from IT, banking supervision, and management, established within the Central Bank of Fredonia Working group established with supervised financial institutions
Task 6: Determine database construction	<ul style="list-style-type: none"> Decision made on whether the database will be developed internally using Central Bank of Fredonia staff or outside programmers; customized off-the-shelf software purchased by the Central Bank of Fredonia; or part of a regional credit registry Pros and cons of each option provided, along with cost estimates
Task 7: Determine financial details of registry construction	<ul style="list-style-type: none"> Financial projections prepared for each of three potential models noted in Task #6, including hardware, software, and facility costs
Task 8: Determine content of database	<ul style="list-style-type: none"> Agreement reached on detail of borrower identifying information, borrower credit information; manner of payment structure and inquiry records; potential links to other informational registries and inclusion of information on all active and paid credits; guarantors; returned checks; overdrafts; security; and other content to meet best practice
Task 9: Establish attributes to identify borrowers	<ul style="list-style-type: none"> Agreement reached on system logic to correctly place data in and retrieve information from the database If a UID system is not in place, other attributes developed to use in the identification process

Tasks	Milestones
Task 10: Determine quality of data contributed	<ul style="list-style-type: none"> Meetings held with individual contributors to confirm all required contributory data is in place, accurate, and current and that data can be retrieved for contribution to the database Where data is lacking, action plans with completion dates put in place with each contributor to ensure all required data will be reported to the registry
Task 11: Ensure mandatory data contribution for all credits and mandatory inquiry searches on all legitimate credit applications	<ul style="list-style-type: none"> Agreement reached with all users on requirements Requirements included in regulations
Task 12: Conduct potential annual inquiry search activity	<ul style="list-style-type: none"> Survey of all banks conducted to confirm the current credit application activity with an activity projection for each of the next five years
Task 13: Break down credits from data providers supervised by the Central Bank of Fredonia	<ul style="list-style-type: none"> Detailed breakdown of all credits completed, including direct, indirect, retail, commercial, lines of credit, credit cards, returned checks, overdrafts, guarantors, and paid credits
Task 14: Develop database technical construction plan based on determination in Task #6	<ul style="list-style-type: none"> Database predefinitions, technical specifications, programmer action plan (if built internally or using off-the-shelf software) for database and applications (up to and including user acceptance testing) determined Action items sequenced with completion dates for creation of the registry
Task 15: Conduct survey of banks to obtain feedback on the proposed credit registry	<ul style="list-style-type: none"> Survey completed and all feedback and recommendations considered by the Central Bank of Fredonia
Task 16: Develop work plan and roadmap for registry creation	<ul style="list-style-type: none"> Work plan and roadmap agreed to and approved by the Central Bank of Fredonia Activities and timelines broken down by responsibility for individual departments (project manager, operations, legal, and IT)
Task 17: Conduct workshop	<ul style="list-style-type: none"> Workshop held for all stakeholders to explain the key issues regarding new credit registry Overview of work plan to create the credit registry presented

Phase 2: Implementation

Tasks	Milestones
Task 18: Implement program	<ul style="list-style-type: none"> Work plan and data contribution understood and agreed to by supervised financial institutions Master task list, including completion dates coinciding with the work plan and roadmap created by project manager
Task 19: Establish Central Bank of Fredonia credit registry	<ul style="list-style-type: none"> Central bank legally empowered to create registry Exchange of information among authorized users through the registry legally empowered Regulations created and approved by the Central Bank of Fredonia management board

Tasks	Milestones
Task 20: Database developed using one of three options listed in Tasks 20 A - 20 C	
Task 20 A: Develop database using off-the-shelf software	<ul style="list-style-type: none"> • Contracts signed • High-level requirements identified and included in customization • Escrow agreement for the source code signed • Code placed at secure third-party site
Task 20 B: Construct database internally using central bank programmers	<ul style="list-style-type: none"> • Detailed design developed • Modules developed • Data collected • Pilot project implemented • Database implemented
Task 20 C: House database within a hub and spoke registry	<ul style="list-style-type: none"> • Contracts signed • Data requirements identified • Plan for integration agreed to • Access methods and data transmission methods agreed to • User manuals provided
Task 21: Develop credit report	<ul style="list-style-type: none"> • Credit report agreed to and programmed
Task 22: Financial institutions report data to the Central Bank of Fredonia registry	<ul style="list-style-type: none"> • Phased approach developed for introduction of data to test database with completion dates • Meetings held regularly with Central Bank of Fredonia officials and data contributors to discuss issues prior to, during, and following reporting of information • Data reported to registry • Database tested • Reliability of data confirmed • Database ready for live production
Task 23: Develop technical documentation, policies and procedures, and user manuals	<ul style="list-style-type: none"> • All appropriate user guides, manuals, and technical documents created and in place • Training for Central Bank of Fredonia employees and users of the registry system completed
Task 24: Create job descriptions, develop training programs, and conduct educational study tours to operational public registries	<ul style="list-style-type: none"> • Job descriptions completed and approved by the Central Bank of Fredonia • At least one study tour to an operational public registry completed by registry staff and key officials of the Central Bank of Fredonia • Second study tour scheduled • Training program established to teach registry staff how to operate within the credit registry
Task 25: Create reports	<ul style="list-style-type: none"> • Best practice management reports and other reports requested by the Central Bank of Fredonia Banking Supervision Department and other central bank departments programmed and scheduled for distribution
Task 26: Ensure proper functioning of registry	<ul style="list-style-type: none"> • Internal testing completed • Pilot user has satisfactorily requested credit reports
Task 27: Live production	<ul style="list-style-type: none"> • Following a phased introduction to authorized users, registry is 100 percent live • All problems resolved to the satisfaction of the user group
Task 28: Educate public	<ul style="list-style-type: none"> • Comprehensive public education program for the registry and materials developed by Central Bank of Fredonia and bankers' association • Materials made available at bank branches

This is a performance-based firm fixed price task order. The offeror will propose a technical approach, draft work plan, staffing mix, and cost proposal to achieve the tasks and milestones listed above. Proposed tasks and milestones may differ from the indicative tasks shown above, provided that differences are supported by appropriate justification.

Success Indicators

1. Work plan developed in partnership with the host and approved by the task order contract technical officer (TOCTO); work plan used as a common guide to project implementation and adjusted as needed (with host and TOCTO approval) during the project; outputs and milestones established in the work plan (as amended) reasonably met and will include:
 - a) Creation of comprehensive feasibility study, action plan, and roadmap
 - b) Database construction begins
 - c) Database construction completed
 - d) Initial data contribution from a data provider
 - e) Database moves to live production
 - f) Database users complete successful inquiry searches
 - g) Management reports for registry and for banking supervision successfully created
2. Individual sub-objectives and milestones completed.
3. Written confirmation from the host that the project has been successful in enabling the development of an appropriate legal and regulatory environment for a Central Bank of Fredonia credit registry along with any necessary legal adjustments that will allow for the exchange of credit information between banks and other financial institutions under the jurisdiction of the central bank.
4. Market response in terms of:
 - a) Increase in the level of lending to the marketplace as a percentage of GDP (indicator of increasing financial market depth)
 - b) Growth in the number of borrowers by bank and by banking industry
 - c) Increase or decrease in the approval percentage of credit applications where mandatory search inquiries are completed
 - d) Reduction in the intermediation margin (indicator of increased financial market efficiency)

It is recognized that these four indicators are lagging and may not become apparent until after the project is completed. However, they will be tracked as part of the post-project evaluation process.

Labor

The contractor shall engage up to five consultants (two or three expatriates and two or three Fredonians) to complete this task order. Qualifications include:

U.S. Expatriates (if qualified)

1. *Project oversight.* The contractor will designate the home-office project manager responsible for project mobilization, quality control, and problem resolution. S/he must have a sufficient understanding of the task order objective and subject matter to determine the suitability of proposed task order implementation staff and to provide quality control during project implementation.
2. *Team leader/chief of party.* The financial expert will serve as team leader for the project. S/he must be able to work well with a wide variety of personalities, consistently demonstrate cultural sensitivity and sincere appreciation for differing viewpoints, and help forge consensus among team members.

Qualifications: Ph.D., M.B.A., or other advanced degree in the financial area with at least 10 years of relevant private sector experience and 5 years of experience in other countries, 2 of which should be in Fredonia or a neighboring state. Demonstrated track record in working with the financial sector issues contemplated in this task order is essential. Demonstrated success in achieving financial sector development objectives is required. Strong writing skills are required. Language other than English is not required

3. *Credit registry expert.* The expert will have at least 10 years of direct activity in the credit reporting industry and will have been the lead consultant with direct participation in the creation of at least two central bank credit registries, the upgrading of at least two central bank registries, the creation of at least one private credit bureau, and will have conducted consultancies in at least two countries where private credit bureaus were successfully created. The emphasis should be on the individual as a practitioner rather than as an academic. While academic qualifications are of value, there is no substitute for the individual's practical experience. The individual will have legal experience with proven results in the creation of private and public sector credit reporting laws and regulations. The individual would be expected to work with local lawmakers to craft any required laws and regulations. The individual will also have technical experience in the creation of various types of credit registries. The experience should be verifiable with specific evidence from central banks. Note that an individual whose experience is in the credit rating industry is not qualified for this position.
4. *Technical expert.* This position will be required only if the database is being constructed by the Central Bank of Fredonia. The expert will have had direct experience in developing credit reporting databases, as well as direct experience in technical infrastructure and design. S/he will have had direct experience in creating at least three credit reporting databases that are operating successfully.

Junior Fredonian

This individual will provide administrative support to the credit registry expert and the technical expert.

It is anticipated that the Central Bank of Fredonia will provide logistical and personnel experience in gathering necessary data from the financial institutions that it supervises.

The central bank will be required to provide the project manager from its internal operation if database construction will be handled internally. If outside software is purchased, the Central Bank of Fredonia will work with the vendor to customize and install the software in the central bank.

Labor Hours Ordered

The cost proposal will be structured as follows:

Functional Labor Category and Specialist	Labor Hours Ordered	Fixed Burdened Rate	Total
1. Home-Office Project Manager (25% time)	500		
2. Team Leader/Chief of Party	500		
3. Credit Registry Expert	1,000		
4. Technical Expert	500*		
5. Junior Fredonian	1,000		
Total Labor	3,500		
Transport			
Hotel/Housing			
Per Diem			
Office Expenses			
Communications Expenses			
Commodities/Equipment			
		Total Fixed Price	

**Assumes that central bank will build database internally*

- a) The individuals in Positions 1, 2, and 3 are designated as key personnel. Any replacement for these positions must be approved in writing in advance by the TOCTO.
- b) Subject to the ceiling price established in this task order and the prior written approval of the TOCTO, the contractor may adjust the number of hours actually employed in the performance of the work by each position specified in this order. The contractor shall attach a copy of the TOCTO’s approval to the final voucher submitted for payment.
- c) It is the contractor’s responsibility to ensure that the TOCTO-approved adjustments to the work hours ordered for each functional labor specialist do not result in costs incurred which exceed the ceiling price of this task order. Under no circumstances shall such adjustments authorize the contractor to be paid any sum in excess of the ceiling price.
- d) Cost proposals for multiyear task orders must be disaggregated by annual rate escalation date(s) and summarized for the task.

Technical Proposal Evaluation

The offeror's technical proposal will be evaluated based on the evaluation criteria listed below. USAID will evaluate these proposals using the best value approach. The table below describes the areas of evaluation and their relative weights.

Proposals will be evaluated according to the following point system:

Item	Description	Points
1.	<p>Technical Approach</p> <ul style="list-style-type: none"> • Demonstrates a clear understanding of the project objectives and the issues involved. • Presents a logical and coherent approach to reaching the project objectives. 	40
2.	<p>Key Personnel</p> <p><i>Credit registry expert and technical expert (35 points):</i></p> <ul style="list-style-type: none"> • Qualifications: Demonstrated qualifications and work experience to provide effective technical assistance. Proven and verifiable success in the creation of public credit registries. <p><i>The team leader/chief of party (20 points):</i></p> <ul style="list-style-type: none"> • Qualifications: Chief of party must have demonstrated extensive experience working in international development and implementation of development programs; demonstrated familiarity with the issues involved in this project; and demonstrated leadership experience with responsibilities for organizing and effectively utilizing members of a team. <p><i>Other personnel (5 points):</i></p> <ul style="list-style-type: none"> • Qualifications: Demonstrated understanding of areas of expertise essential to the satisfactory completion of this task order, complementing those of the chief of party. 	60
Total		100

ATTACHMENT A. ANALYSIS OF CURRENT CENTRAL BANK OF FREDONIA IT INFRASTRUCTURE

Overview

The current IT environment at the central bank is based on a local area network (LAN) with 40 servers (28 Compaq+HP, 4 Dell, 4 Fujitsu-Siemens, and 1 Sun) supporting a variety of personal computers (PCs) installed on individual users' desktops. LAN uses 10/100Mbit Ethernet. The LAN is segmented into 7 distinct zones with access to/from each controlled through a separate firewall interface. All internal links and servers are duplicated between the two computer rooms via duplicated gigabit Ethernet connections between switches. The firewalls (Check Point VPN-1/FireWall-1) operate in high availability mode using a high-speed dedicated connection between the computer rooms for synchronization.

The LAN zones are as follows:

1. *External*. This contains the part of the network that is connected to the Internet. It contains (a) the Ethernet interface of the single Internet Cisco router (currently 1 Mbps dedicated Internet connection); (b) the external firewall interfaces; (c) the monitor network interface of the intrusion detection system; (d) Cisco Fast hubs connecting the two computer rooms.
2. *DMZ*. This contains servers that require direct Internet access. These run the following services: (a) external mail server; (b) mail content management server; (c) intrusion detection system management server; (d) external DNS server; (e) Apache Web server hosting central bank's public Web pages; (f) duplicated Cisco remote access servers with eight modems for external access by central bank branches and authorized head-office personnel.
3. *Server VLAN*. This is the most secure zone. It contains all other servers.
4. *Internet access VLAN*. This is used to connect PCs that are authorized to have external Internet access.
5. *Internal VLAN*. This is used for all other PCs.
6. *Network management VLAN*. This is used for all PCs that have network and system management capabilities.
7. *AIPS and AECH systems VLAN*. This is used to connect the AIPS (RTGS) and AECH (clearing system) servers

External Communications

The central bank currently has the following external telecommunications links:

- A single dedicated Internet line is installed between the central bank and its Internet service provider (ISP), operating at dedicated 1 Mbps.
- Eight dial-up modems are installed via duplicated switches. These are used for access from other banks as back-up connections to AIPS and AECH systems, as well as from bank branches. The central bank has implemented a VPN for these connections, using the Check Point VPN-1/FireWall-1 product.
- A SWIFT Alliance Gateway system is installed for financial telecommunications and for use with Treasury management, AIPS, and AECH. The controller is installed in both computer rooms and several user terminals are installed in user departments.
- The Reuters 2000 Market Intelligence System is installed on a PC in the Dealing area. This uses a dedicated telecommunications line. Some PCs have Reuters 3000 based on Internet link.
- All LAN-connected central bank users have internal and external e-mail access. In addition, PCs in the Internet access VLAN have Web browser access.
- The central bank has a public Web site whose pages are hosted using Apache on a Windows 2000 server in the DMZ.

Computer Rooms

- The central bank now has two fully equipped computer rooms with all critical equipment (except for the one Internet link to the ISP) duplicated between them. At present both rooms are located in the Head Office building. They are described below.
- The central bank intends to move the majority of its operations to a new location in central Fredonia in the near to medium future and will reestablish the primary computer room in this location as part of the move. However, no firm decision has yet been made on a building.
- The characteristics of the computer rooms are:
 - *Physical security.* Masonry walls, steel door with heavy-duty lock, toughened glass in windows.
 - *Electric power supply.* In accordance with central bank policy, all servers are supported by rack-mounted uninterruptible power supply (UPS); stand-by power is provided to the central bank building by onsite generators.
 - *Climate control:* Air conditioning is installed, providing cooling but no humidity control.
 - *Air filtration.* No filters fitted, but room is sealed except for a close-fitting door and is operated in unattended mode.
 - *Fire detection and suppression.* Fire detection and suppression systems already installed in the computer rooms, including fire sensors, control panels that localize the zone and trigger alarms, and fire suppression devices installed in every rack.
 - *Raised floor.* Fitted throughout the machine area.
 - *Rack mounting.* In accordance with central bank policy, all equipment is rack-mounted; all current equipment is (or will be) housed in five racks.

Security

A comprehensive security capability has been implemented. This comprises the following elements (all duplicated between the two computer rooms):

- *Firewall.* Two firewalls are installed, running the Check Point VPN-1/FireWall-1 product in high availability mode (unlimited number of nodes) between the two computer rooms. These are used to control all internal and external traffic.
- *Intrusion detection.* A combined network- and host-based IDS capability is installed. Most hosts (servers) on the central bank's LAN are monitored.
- *Content management.* The MIMESweeper products — MIMESweeper for SMTP and MIMESweeper for Web — are installed. They are used to monitor all traffic passing into and out of the central bank's IT environment.
- *Virus protection.* An integrated anti-virus product (F-Secure for MIME sweeper) is used with these products. Centralized McAfee Antivirus defense from Network Associates is installed on all PCs, laptops, and servers, including internal MS Exchange server. All installations and updates are managed from a single console and server.

Network and Back-Up Management

The following products are installed, giving a comprehensive monitoring, alert, and back-up capability. They are duplicated between the two computer rooms.

- *Network management.* The CA-Network and Systems Management product is used. This monitors main hosts, applications, and system resources and provides an integrated system management capability to the management console in the Help Desk/System Management Centre. The event management capability collects and displays SNMP traps from all SNMP-enabled devices on the network.
- *Back-up.* This is implemented using the CA-ARC Serve R11 product. ARC Serve takes automatic back-ups from all servers on the system. The disaster recovery option is also installed.

ATTACHMENT B. BEST PRACTICE DATA REQUIREMENTS FOR A PUBLIC OR PRIVATE CREDIT REGISTRY

Demographic Information

The purpose of demographic information (attributes) is to properly identify the individual or business. This allows not only accurate placement of data when it is submitted by providers, but also accurate retrieval of credit data from the database when a search inquiry is made about a credit applicant. Best practice demographic information includes:

- Individual name* (first, middle, and last)
- Business name* (official and trade name and style, if any)
- Unique national identification number* (individuals, if country assigns numbers)
- Passport number (internal or external) or birth certificate number (individuals)
- Fiscal code, tax, or registration number* (companies)
- Address* (number, street, borough, and district)
- Birth date* (individual)
- Individual borrower's father's first name
- Marital status of individual and spouse's name
- Legal authorized signers for a business

** Denotes mandatory information*

Credit Information

Best practice data requirements for credit information (described as a trade line) include:

- Name of credit grantor
- Date credit funded
- Original high credit
- Monthly payment
- Current balance
- Date of last payment activity
- Manner of payment* (1 to 9)
- Collateral

** Manner of payment description is described in the following section.*

It is anticipated that when data providers contribute their credit information, they will also include their proprietary credit identification numbers, which will be captured by the system and serve as the key attribute for locating credit records when they are updated.

Manner of Payment

It is critical to ensure banks are provided with some indication of the debtor's willingness to repay their credit obligations. That indicator could be as simple as a *yes* or *no* response to the question, "Is the credit paid as agreed?" Or the indicator could reflect best practice. There is an

international standard that reflects the willingness of a debtor to repay his/her outstanding credit. The table below indicates this standard and reflects the current payment status of a credit.

Account Payment Status	Account is Contractually	Comment
0	Newly opened	No previous payment history
1	Paid as agreed	Account is not past due
2	One month (30 days) in arrears	Account is one month past due
3	Two months (60 days) in arrears	Account is two months past due
4	Three months (90 days) in arrears	Account is three months past due
5	Four months (120 days) or more in arrears	Account is four or more months past due
6	Local designation to be determined by the central bank	
7	Repossession	The security on a credit account has been repossessed.
8	Being prorated or paid through a consolidation order	Debtors who wish to repay their obligations but lack the ability to fully do so could receive relief by being allowed to make smaller payments to their creditors based on their disposable income.
9	Written off as bad debt	The account has been deemed a loss and has been written off as bad debt

The banks submitting information would need to establish a system, if not already in place, to calculate the number. The number would reflect the current payment status at date of data submission. The value of this information is that it accumulates and is presented as historical information on a trade line (a record of how a borrower repays credit). When a qualified user of a credit registry views a trade line, he/she can see in a snapshot how the borrower has paid the particular credit each month for a specified period of time. Empirical evidence suggests this is a valuable tool for credit grantors in assessing a credit applicants' creditworthiness.

In a number of recent central bank registry activations or upgrades, the central banks have chosen to replace the best practice manner of payment with their own proprietary "asset classification" codes already had in place. This made the transition to provision of the manner of payment simpler and assisted the central bank in their monitoring of the banking sector's credit activity. This manner of payment conforms to best practice, given these central banks had four or five asset classifications.

ATTACHMENT C. DIAGNOSTIC CHECKLIST TO SUPPORT THE ESTABLISHMENT OF A PUBLIC SECTOR REGISTRY CREDIT BUREAU MODEL

One of the key factors in the potential success of a public registry, versus that of a private credit bureau, is that the central bank is in a position to require that all financial institutions under its jurisdiction report any and all credit information necessary to populate its credit registry database. This mandate allows the central bank to employ best practices when populating its database with credit information in a compressed timeframe. With this in mind, the following preconditions must be met to move forward with the creation of the registry. A summary list of the preconditions is included at the end of this section.

1. *Determine commitment level of the central bank.* Who will be responsible for the financing, construction, housing, and maintenance of the registry? Commitment from the governor and deputy governor of a central bank is necessary for the project to succeed. Following best practices, the central bank would initiate a request for technical support from USAID for the potential creation of a registry. That request could result from discussions initiated by USAID with the central bank. The technical support would usually assist banks with credit information and allow the central bank to closely monitor the performance of the commercial banking credit sector. But the purpose should be confirmed with the central bank. The commitment of the governor and deputy governor will be formalized in a memorandum of understanding (MOU) that names the deputy governor as the counterpart. The MOU would outline the central bank's commitment in terms of financial and other resources and philosophy. The financial commitment should be in the low to mid six-figure range. A more specific number will be determined when the design of the registry is decided. USAID's financial support would normally be in the form of technical assistance, training, and perhaps some hardware and software. This precondition is achieved when the MOU is signed.
2. *Ensure that no other donor agencies are engaged in the creation of any type of credit bureau.* Contact should be made with other known donor agencies to determine if they are currently or are considering funding a credit bureau initiative. The donor agencies would include the IFC, World Bank, FIRST Initiative, ADB, EU, EBRD, IMF, DFID, CIDA, and UNDP. This precondition is achieved when it is determined that no active initiatives are underway.
3. *Determine the status of the legal framework for the exchange of credit information and country secrecy or central bank laws that might allow the central bank to establish a credit registry.* If it is determined there is no authority for the central bank to establish a public credit registry, then given the central bank's support, changes to bank laws should not be difficult. The main legal obstacle would be secrecy laws that prevent the sharing of commercial bank credit information beyond the central bank. In the case of a public credit registry, the central bank would be the conduit by which information is passed from one bank to another. If secrecy laws pose an obstacle, they can be overcome through regulation or legal amendments with the support of the central bank. It is important, though, that all parties are aware of these potential obstacles at the outset of the project so legal issues that need to

be addressed can be undertaken in tandem with other activities in the development of the public registry.

4. *Determine needs of financial institutions supervised by the central bank regarding credit information.* There are two primary purposes for a public registry. The first is to provide the central bank with comprehensive, timely, and accurate credit information from the banking sector that will allow it to closely monitor credit activity. The second is to make comprehensive information on the debt structure and paying habits of credit applicants available to financial institutions that will empower them to make more precise and accurate credit decisions. The following questions must be answered to determine the needs of financial institutions:

- Are banks familiar with various types of credit bureaus?
- What do banks need from a credit bureau?
- What problems do banks currently encounter without a centralized credit information database (credit bureau)?
- What are the banks' existing credit investigation practices?
- How would a credit bureau database include those investigations?
- What do banks understand about the benefits of a credit bureau database?
- Do banks have feedback on the central bank's plans to create a registry?

Normally, banks would be required to provide information to the proposed central bank registry; however, all stakeholders should be in agreement for the process of registry creation to move forward in an efficient and orderly manner.

5. *Determine whether there are any existing credit bureaus.* Discussions with banks and other financial institutions will reveal if there are any credit bureaus in existence in the country. If there are companies referring to themselves as credit bureaus, further investigation would be required to determine the actual content of the database and the function of the so-called credit bureau. In developing countries, some companies take liberties with the name *credit bureau* or derivatives of the credit bureau designation. In most of these situations, the so-called credit bureaus are actually private collection agencies that capture the information on delinquent borrowers whose information has been provided to the collection agencies as they perform their efforts to collect past due accounts. The negative information, which is often unreliable, is placed in a database that may not be automated and accessible to users. The information may also be obtained by telephone inquiry to the collection agency. These types of companies operate in an unregulated environment and should not be considered true credit bureaus. Other companies call themselves credit bureaus or some derivative of the name that collect and maintain information on businesses. They normally have little, or no, information about a company's credit experience. The credit information they do have is usually negative and has been gleaned from public records. In a normal credit bureau, individuals comprise more than 95 percent of the credit files, and businesses comprise a small minority of files. The same is true of a public credit registry.

If there is a true credit bureau in the country, information should be collected about its database contents, user group, and conditions under which it operates. Discussion should be

held with the central bank to determine how it sees its relationship to the private credit bureau. Also, if there is no current private credit bureau legislation, the central bank may require assistance in creating framework legislation for private sector credit bureaus.

6. *Review history of past initiatives to create a bureau in either the public or private sector.* Discussions with banks, other financial institutions, donor agencies, and the central bank will reveal if there have been past efforts to create a public credit registry or private credit bureau. If there has been such an effort, it should be determined why those efforts did not succeed and what lessons can be applied to the existing request for technical assistance.
7. *Determine growth in banking sector credit and in delinquency levels during the past three years.* This information is available from financial institutions supervised by the central bank and likely from the central bank itself. Both sources should be used to obtain the information. Because the credit registry database content is focused on active borrowers rather than volumes of borrowings, the number of borrowers should be used to determine the growth in banking sector credit, though the monetary value is also important. Significant increases in retail credit have proven to be one of the drivers toward the creation of credit bureaus. An increase in the number of borrowers will determine and reinforce the urgency to create the registry. Banks should also be polled on the number of credit applications they have received during the past three years and the number of credits extended during the same three year period. This is another indicator on the increased demand for credit. To determine delinquency levels, banks should be asked for the percentage and volume of their credits that are 30 days or more past due along with the monetary value and percentage of credits during the same three year period.
8. *Determine current mandatory reporting requirements.* In discussions with the central bank, find out what details are required in reports on credit portfolios from financial institutions supervised by the central bank. Determine under what authority the central bank department is requesting this data. These details should be recorded to share with the contractor selected by USAID to provide technical assistance.
9. *Determine whether fines or penalties can be levied against banks by the central bank for non-compliance in reporting requested data to the central bank credit registry.* These details and relevant laws or regulations that allow for fines and penalties should be recorded to share with the contractor selected by USAID to provide technical assistance.
10. *Determine whether banks maintain best practice credit information in their databases.* In discussions with bank representatives, determine whether they follow best practices regarding the data they collect. (See Attachment B for best practice data requirements.) Determine how challenging it would be for banks to provide this level of detailed credit data to the central bank registry. The details should be recorded in an Excel spreadsheet to share with the contractor selected by USAID to provide technical assistance.
11. *Evaluate IT infrastructure within the central bank.* With the central bank IT department, discuss infrastructure that would include any databases within the central bank and the type communication links they have with financial institutions under their jurisdiction. The central

bank IT department should provide an overview of their infrastructure similar to Attachment A for use by the contractor selected by USAID to provide technical assistance.

The completion of this checklist will reveal what challenges can be anticipated and give the contractor a clear grasp of the major issues to be addressed as the project progresses. The first three preconditions are the most important, and if they are satisfied, the project has an excellent chance to succeed.

Diagnostic Checklist for Establishment of Public Sector Registry

#	Task	Date Completed
1	Confirm central bank commitment level and sign MOU	
2	Review activity with other donors	
3	Review legal framework regarding secrecy and central bank laws that allow for creation of registry	
4	Determine of needs of banks	
5	Determine existence of other credit bureaus	
6	Review past initiatives to create credit registry	
7	Determine credit and delinquency growth during the past three years in banking sector	
8	Determine detail of any and all credit data reported to the central bank by banks	
9	Determine details of fines or penalties in place for failure of banks to comply with central bank requirements	
10	Determine whether banks have best practice data in their databases	
11	Review central bank IT infrastructure	

SECTION V. MODEL SCOPE OF WORK: UPGRADE OF THE CENTRAL BANK OF FREDONIA CREDIT REGISTRY FOR POTENTIAL PRIVATIZATION

Title

Upgrade the Central Bank of Fredonia credit registry to best practice for potential privatization.

Objective

The objective is to provide technical assistance to Central Bank of Fredonia authorities to upgrade their credit registry to best practice standards for potential privatization. The Central Bank of Fredonia has taken the view that in a transition economy such as Fredonia, the central bank can take initiative in a number of areas to create entities that will meet market needs and potentially turn these entities over to the private sector, as appropriate, in a timely manner. The existing Central Bank of Fredonia credit registry was created with this philosophy in mind. Although there is no current commitment from the private sector to assume ownership of the registry, the central bank is ready to take the initial steps toward establishing a private registry. Similar to other public credit registries, the Central Bank of Fredonia recognizes that their current credit registry database was not created using best practice benchmarks. The bank now wishes to correct that deficiency.

Ceiling Price

The firm fixed price for this task order is \$xxx,xxx,xxx,xxx.

The obligated amount is \$x,xxx,xxx,xxx.

Definitions

Insert generic definitions in this section.

Background

Insert generic background in this section.

The creation of a robust and comprehensive registry will allow Fredonia to meet Basel II requirements by allowing the central bank to more closely monitor credit activities to ensure confidence in the sector while providing timely, detailed information for commercial banks as they meet the increasing demand for credit.

The Central Bank of Fredonia is now ready to move toward creation of a private registry. To ensure that they are still able to meet Basel II requirements, they will contract with the private credit bureau to provide the same reports currently generated by the Central Bank of Fredonia registry and mandate that all bank information be reported to the credit bureau. It should be noted that this remains hypothetical until a determination can be made on whether a private credit bureau will actually be created in Fredonia.

The Central Bank of Fredonia will be USAID's counterpart to implement recommendations provided by technical experts who will prepare the credit registry for future privatization. Drawing on international best practices, some key issues must be addressed for the project to move forward. The key issues are discussed below.

1. Central Bank Support

The active involvement of a deputy governor (at minimum) and the direct commitment of the central bank governor are necessary for the creation of the registry to succeed. Empirical evidence clearly demonstrates that without a high-level champion within the bank, the chance for success is remote, as the project will be competing with other bank priorities. It is a best practice for the deputy governor or governor to serve as the project's counterpart. The central bank must also agree to appoint a project manager who reports directly to the deputy governor or governor to oversee all facets of the registry's construction. If such support is not in place, recommendations must be made for the necessary action that will result in the support required to move the project forward.

Active central bank support for development of credit information services and the related data flows is a critical prerequisite to project success; lack of support can effectively block implementation.

Current Status

- The governor and deputy governor of the Central Bank of Fredonia have signed a memorandum of understanding (MOU) on behalf of the central bank with USAID and have verbally committed to the need for the registry upgrade and their unencumbered support.
- The Central Bank of Fredonia has committed \$100,000 toward upgrading their registry and staff to complete the process.
- The Central Bank of Fredonia has requested technical assistance from international experts to guide them in upgrading the credit registry and to provide recommendations on de-linking the registry and moving it to the private sector.

2. Other Donor Agencies and/or Funding Providers

Contact with various donor agencies to determine any activity related to private credit bureaus they are currently extending, have extended, or plan to extend is a necessity. Empirical evidence suggests that duplication among donor agencies/funding providers has led to wasted funds and overlapping activities, confusing potential stakeholders.

Agencies to be contacted usually include the IFC, the World Bank, the IMF, the ADB, and the FIRST Initiative, all of which have been or are currently involved in this subject.

Current Status

The IFC provided a credit facility to create a private registry but was unable to entice private enterprise to commit due to lack of legislation, lack of commitment of primary users to provide credit data, and limited volume of search inquiry activity on which primary revenue is based.

The World Bank provided funding to draft laws to frame the credit reporting industry but the Fredonia government was unwilling to support the legislation.

3. History of Past Activities and Efforts to Create a Private Credit Bureau

Research on the history of any and all efforts undertaken to establish a private credit bureau provides clarity about the issues, problems, and challenges faced; how these challenges were addressed; and the results of these efforts. Understanding the reasons for the lack of success and learning from these mistakes ensure they are not repeated. Many countries have had more than one false start in the creation of a public credit registry or private credit bureau, which reflects a failure to learn from past experience. Consultation on this subject includes the central bank, local banks, bankers' association, microfinance institute (MFI) association (assuming MFIs fall under the jurisdiction of the central bank), and other financial institutions that fall under the jurisdiction of the central bank.

Current Status

- The Fredonia bankers' association attempted to create a private registry in 2007, but banks would not voluntarily provide data, did not believe that other banks would provide their complete credit data, and were not prepared to provide the funding.

4. Analysis of Fredonia's Legal Framework to Collect and Disseminate Information

The legality of sharing valuable credit information is the cornerstone of the creation of any type of credit registry or bureau. In a number of countries, secrecy laws restrict any organization besides a government agency or central bank from providing a borrower's credit experience with information that identifies the borrower. For a variety of reasons, governments of these countries are unwilling to pass enabling legislation to allow sharing of borrower credit and demographic information with agencies in the private sector, including banks and other financial institutions. For this reason alone, these countries are unable to create either public credit registries or private credit bureaus.

Many countries have secrecy provisions in their laws that have required either the passage of laws to exempt credit registries or credit bureaus from the provisions or the implementation of a "consent clause" that must be signed by borrowers to allow their personal credit information to be shared with a credit registry or credit bureau and to agree that the information could be provided to an agency authorized by the borrower by written consent. The introduction of a consent clause is a best practice.

However, before any of these circumstances can be addressed, a thorough and detailed analysis of the country's laws on the subject of the collection and dissemination of information must be completed to determine under what conditions, if any, information could be shared. The laws to be reviewed normally include: civil code, law on commercial secrecy, banking law, law on the creation of a central bank, law on personal data protection, freedom of information law, money laundering laws, law on state secrets, and any pending draft legislation that deals with the subject. The list could be supplemented with other laws unique to a country.

The fact that a country may already have a central bank credit registry does not preclude the need to complete a review of legislation to ensure that the existing credit registry is authorized by law and that any secrecy issues have been properly addressed so as to allow a free and open exchange of information between financial institutions supervised by the central bank and the central bank registry. There is a need to verify whether appropriate legislation is in place and any secrecy issues have been successfully addressed.

Current Status

- It has been determined that secrecy provisions that prevent the sharing of credit information beyond the Central Bank of Fredonia have been addressed with the introduction of a consent clause that credit applicants must sign with each credit application.
- The Central Bank of Fredonia is seeking international expertise to provide recommendations on the formation of legislation and regulations that would provide the framework for a robust private credit bureau marketplace.

5. Laws Allowing for the Creation of a Public Credit Registry within the Central Bank

For the Central Bank of Fredonia to operate a credit registry, there must be some legal framework that empowers the central bank with the option of creating a credit registry if and when a decision is made to do so. It should not be assumed that even though a public registry is in operation, there is legislation that allows it to exist.

Current Status

- Following a review of the Bank of Fredonia Act, it has been determined that a Central Bank of Fredonia has the power to create and operate a public registry within the central bank.

6. Bank Reporting Requirements to the Central Bank

Central banks normally require banks to periodically report on their credit portfolios, but there are no universal requirements. Central banks that do not have a credit registry may require something as simple as quarterly or monthly submission of hard copy reports on the top 10 borrowers by monetary value. Banks might be required to report information only on borrowers whose obligations exceed a certain percentage of the value of the bank's outstanding capital. Other central banks may require that financial institutions report information on borrowers who have outstanding credit greater than an established threshold; once the balance falls below the threshold, they are no longer required to report it. Still other central banks require that banks report information only on past due credits. Finally, there are central banks that do not require any reporting whatsoever. There is no consistency in the reporting of credit information if there is no central bank credit registry in place.

Some central banks may require banks to report credit information, but it is usually for internal central bank use only. It is not available to banks that could use the information in their credit adjudication processes. Other central banks operate credit registries and make the information available to banks and other financial institutions on the condition they provide information to

the central bank database. This practice is known as reciprocity: financial institutions must provide data to receive data.

Central banks generally have the authority to require from banks whatever information is necessary to meet their legislated mandates, including credit information. Central banks that have credit registries in place and mandate commercial banks to provide credit information are successful; those that make the providing of information voluntary are not.

Another consideration is whether the credit information that has been reported to the central bank is deleted or retained. If the information is retained, is it accessible and how much data is retained?

Current Status

- The Central Bank of Fredonia requires all banks to report monthly the names of all borrowers with a balance in excess of a specific threshold. When the balance falls below the threshold, banks are no longer required to report the information. When the balance is reported as paid in full or falls below the threshold, the central bank credit registry deletes the information from its database so there is no record of the borrowings. The information includes the amount of the facility, the current balance, the name of the borrower, and the payment status. The information is reviewed by the central bank's Banking Supervision Department and compared to data from previous months. If there are concerns about any changes or indebtedness of borrowers, officials from the Banking Supervision Department follow up with individual banks for clarification.
- Information in the registry is available to financial institutions supervised by the central bank for all credit applications. If the borrower is new to the financial institutions, a written request must be made to the registry. If the borrower is a current customer of the financial institution, the request can be made using a dial-up line to the registry.
- The Central Bank of Fredonia has mandated that banks report credit and identifying information on outstanding credits beyond a threshold amount, whether they are current or past due, with content and format that meets the needs of the central bank database but does not meet best practice.
- The central bank registry does not receive nor does it provide information on the historic paying habits or status of borrowers whose information is reported to the registry.

7. High-Level Database Content

A Central Bank of Fredonia credit registry would assist not only the central bank in closely monitoring the credit activity of banks under its supervision, but also banks in expanding the credit market, especially retail credit. The significant numbers of individuals who handle their credit responsibly represent an untapped credit market. With access to a credit registry, a credit grantor could determine whether a new or current applicant has established a proper payment record with others. If the applicant has a good record, that individual would qualify for a higher credit limit and a longer credit term. In mature markets, empirical evidence proves that better quality credit risks qualify for reduced interest rates, which also allows for higher credit limits. Individuals deserve to be recognized for good payment behavior. Experience has proven that the possibility of higher credit limits, lower interest rates, and a positive notation in one's credit file are incentives for individuals to handle their credit obligations properly. With the expanding

credit market and the introduction of a credit registry, there is no doubt that the amount of retail credit outstanding will increase significantly during the next few years and all banks would share in this growth with resultant profit increases and cross-sell opportunities.

A best practice is that both positive and negative information be included in a credit registry so borrowers with good payment records would benefit with lower interest costs, and those with poor payment records would be exposed and either be denied credit or have to pay premium interest rates.

Experience has also shown that when a credit registry is established and information sharing is voluntary, it takes years to convince credit grantors in the marketplace of the value of supplying information to a database and to overcome their fears that other financial institutions will poach their business. A central bank normally has the authority to mandate financial institutions under its jurisdiction to provide information. In the case of a credit registry, a best practice is to mandate the information required for a central bank registry to ensure that a comprehensive and complete database is in place when the registry has been fully constructed.

Current Status

- The Central Bank of Fredonia has mandated that all credits, positive and negative, over a certain threshold will be reported to the central bank registry for all financial institutions that it supervises. The information currently requested by the Central Bank of Fredonia is sparse, and the reporting threshold limits the ability of borrowers to have their credit records available when they apply for credit.

8. Central Bank's IT Infrastructure

All central banks have databases of one sort or another. An analysis of a central bank's database structure includes the bank's computer room, any parallel operating system and/or off-site locations, back-up systems (UPS and diesel generators), physical layout of the data center, data center security, number of servers, server capacity, types of servers (live production, test), firewall and security software, duplicate copies of database content, and communication links to banks and other financial institutions under the direction of the central bank. When completed, the analysis is consolidated into a comprehensive report that would contain the following categories:

- Overview, including all hardware, software, and LAN zones
- External communications, including Internet lines, ISP, SWIFT alliance gateway system, and who within the bank has it installed
- Location of controllers, user terminals, and bank connections
- Computer room
- Security details
- Network and back-up management
- Network capacity
- Types of servers

A thorough analysis of the Central Bank of Fredonia credit registry database, how it is populated, and how it is accessed will determine what changes will be necessary to move it to best practice.

Current Status

- The Central Bank of Fredonia has requested technical assistance to evaluate its existing credit registry database to determine what technical changes are required to upgrade the functionality of the registry to best practice while adding additional credit and demographic information to the database.

9. Detail of Data Requested from Banks and Housed in the Credit Registry

Financial institutions supervised by the central bank have been required to report specific details regarding borrowers and their credit experience to the credit registry. A best practice would require data providers to submit these details to a private credit bureau. This standard should be applied to the information provided to a central bank registry that is positioning itself for privatization. An analysis of current reporting practices compared to best practice credit bureau reporting determines what additional information, if any, should be required from these financial institutions.

Current Status

- The Central Bank of Fredonia has requested technical assistance to determine what additional information should be requested from banks to prepare its registry for potential privatization.

10. Analysis of the Sectors Licensed and Supervised by the Central Bank

A full analysis should be completed to determine the number of credits that individual banks maintain in their databases, the comprehensiveness of their borrowers' identifying information, the detail of their outstanding credits, and their ability to extract and provide data that will be required by the central bank. That data would be used to populate the central bank database. Banks should also be queried on their ability to implement software changes that may be necessary to meet the central bank's data requirements in a timely manner.

Information on the number of annual credit requests and the number of credits granted should be determined to understand the demands that would be made on a central bank credit registry if, as in best practice, banks are mandated to conduct an inquiry search of the central bank credit registry database on all valid credit applications.

Current Status

- Based on a preliminary analysis (see Attachments A and B), it is clear that not all banks have the best practice information necessary to populate a best practice registry.
- Banks understand that if they are unable to provide the necessary data, they will have to make programming changes in their databases to be in compliance within a reasonable period of time and provide the central bank with a specific plan to meet the requirements.

11. Unique Identifier for Borrowers

Countries that have a unique identifier (UID) for individuals have an easier time creating a central bank credit registry because it simplifies the process of placing individual credit and

demographic information in credit files and subsequent retrieval by authorized users. A UID also makes the process more accurate. The correct placement of information is critical to the reputation and trust accorded to a credit reporting database. The UID also allows for accurate retrieval of data from a registry database on inquiry searches, which is important for users seeking information on prospective borrowers. If there is no UID, then other demographic information can be used, but experience has shown this to be a less desirable option.

Current Status

- Fredonia does not have UIDs for native citizens. For legalized citizens, there is a unique individual taxpayer identification number. The government plans to introduce a UID number program for native citizens in the next few years.
- The Central Bank of Fredonia is seeking technical assistance to determine whether there are additional attributes that should be collected from banks that will make the data placement and file retrieval processes more effective and accurate.

12. Financial Commitment by the Central Bank

The fact that the database is housed in the Central Bank of Fredonia means that an analysis should be completed to determine its capacity for expansion and what needs to be done to create additional capacity, state of the art access, and data contribution methods. The central bank must commit funding for whatever upgrades are needed to meet the future needs. The central bank should also commit to providing resources to handle system upgrades; work with banks to provide additional data requirements; provide an internal project manager; and prioritize the recommendations presented by technical advisors and agreed to by the central bank.

Current Status

- The Central Bank of Fredonia has agreed to support this project by providing necessary resources, including a project manager and financial resources to move the registry to best practice standards for future privatization.

13. Regulations and Operating Procedures for the Registry

Regulations are in place for the operation of the Central Bank of Fredonia credit registry. The upgrading of the registry to best practice for possible privatization will normally require changes to these regulations. Changing the regulations is preferable to changing the law that allows for the creation of the registry. This law also authorizes the central bank to operate the registry and gives the Central Bank of Fredonia authority to make any regulatory changes deemed necessary.

Current Status

- Regulations are in place.
- The Central Bank of Fredonia is seeking technical assistance for recommended changes to the regulations that would allow for the upgrade of the registry to meet best practice.

14. Rights and Protections for Individuals

As a best practice, individuals should have the right to obtain a copy of their own credit information from a registry, and a registry should have a mechanism to make this information available with little difficulty. There should also be a grievance and dispute resolution mechanism so individuals can challenge information in their credit reports that they deem to be incorrect. These mechanisms usually include limits on the time the registry may take to respond to borrower complaints and the source of the data being challenged.

These rights and protections are normally provided under privacy legislation that applies to any type of government database. The rights and regulations are administered by a government agency. A central bank database is considered a government database, so if there is privacy legislation in a country, the central bank registry would fall under that legislation.

Countries without privacy legislation that have central bank registries normally do not offer rights and protections for borrowers whose information is housed in a registry database, and it is left to individual central banks to decide whether to offer them. Central banks usually do not want to assume the extra administration associated with offering these rights and protections.

Current Status

- The Central Bank of Fredonia does not currently offer native citizens rights and protections. It agrees that it will have to reconsider this position.
- The central bank is seeking technical assistance on how to position the registry to offer individuals rights and protections and to understand how the process would work.

15. Central Bank Inspection

To protect the integrity and reputation of a central bank credit registry, 100 percent compliance with reporting requirements must be achieved in a comprehensive, timely, and accurate manner. A best practice for ensuring this compliance is for central bank officials (or central bank registry staff) to verify that all credits are being reported in compliance with guidelines during bank inspections. They would confirm the accuracy of the data being reported; confirm that all credits are being reported; review circulars related to the operation of the registry to ensure bank personnel understanding; solicit suggestions for improvements in registry operation; and answer questions about the registry. Central bank officials should promptly resolve any errors they discover during inspection.

Empirical evidence suggests that banks will be reluctant to provide information on their preferred customers, their own bank officials, or people of influence. The inspection visit procedures are the best way to address this potential problem.

When a database is upgraded to best practice, as proposed by the central bank, reconciliation should be undertaken to ensure that all existing credits are being reported to the credit registry. This is normally done by matching information on existing credits — the totals of which each bank should be reporting to the central bank's Banking Supervision Department in a timely manner — with the number of credits that the same banks are reporting to the credit registry.

Current Status

- The Central Bank of Fredonia's Inspection Department is reviewing reported credits during bank inspections, but it has not been able to confirm that all existing credits are being reported to the credit registry.

16. Mandatory Inquiry Searches

In countries with no credit registries or credit bureaus, banks and other lenders indicate they have a problem with applicants' failure to disclose all indebtedness. This results in some incorrect lending decisions, which in turn results in future delinquency due to the borrower's inability to meet monthly payment commitments.

Searching the credit registry should be mandatory for three reasons. The first is to determine if there are any undeclared debts currently outstanding. The second is to determine if the applicant has made an inquiry at other financial institutions, which could indicate a credit that has not yet been reported to the registry database, but could have been approved or funded. The third reason is the concern of central banks that some large companies could obtain credit at a number of banks, and in so doing exceed the allowable limits of a bank's paid-up capital. With an inquiry displayed on a credit file, banks would be aware of undeclared credit and be able to ensure that limit is not exceeded. By making searches on all legitimate credit applications mandatory, a central bank could ensure that banks have comprehensive credit information that would allow them to make more accurate credit decisions. By extension, this would serve to ensure the safety of the banking sector, assuming banks use sound judgment when making credit decisions. Mandatory searching of the credit registry by financial institutions supervised by a central bank is a best practice.

Current Status

- The Central Bank of Fredonia credit registry currently does not retain information on inquiry searches and is unable to present this information as a component of credit reports.
- The central bank understands the importance of this information and is seeking international expertise to assist them in capturing and presenting it in credit reports.

17. Education

Countries that do not have any type of a credit information agency are normally cash societies operating within an informal exchange of credit information that is generally weak and unreliable. In a number of countries, a central bank registry is created to address the needs of the banking sector, which is keen to grow credit portfolios and understands the need for more comprehensive, timely, and detailed credit information in order to do so. Banks' pursuit of growth in their retail credit portfolios means a country is slowly moving in the direction of a credit society.

Understanding and promotion of credit is generally left to credit grantors, while the government focuses on educating consumers about their rights regarding credit registries (if any), what they

information they are entitled to obtain from credit registries, and opportunities to challenge what the consumer believes to be incorrect information in his/her credit files.

It is vital to educate new borrowers about the value of credit, the benefits of responsible borrowing and repaying, and the impact their actions will have on their credit registry reports. In best practice, documents such as brochures and pamphlets are developed under the generic subject of “what are credit registries?” This information is distributed to media outlets, central bank personnel, and banks that make them available to customers. A comprehensive education program on the subject of credit registries should be developed by the central bank and a government consumer agency.

A public information system can highlight the benefits to be expected from the introduction of a credit registry and provides adequate consumer protection information to ensure market acceptance by both borrowers and lending institutions. A sound educational program brings transparency and develops confidence and trust in the credit registry system. Indirectly, it also conveys to borrowers that their credit will populate a credit registry database. Evidence has shown that this knowledge has made chronic delinquent borrowers more reliable in repayment of their credit.

Current Status

- Although the Central Bank of Fredonia maintains a credit registry, it has yet to create any type of education program.
- The central bank is seeking international expertise in developing an education program for the marketplace.

18. Fines and Penalties

The integrity of any public or private credit registry and the trust afforded to it by users depends on whether the information is complete, comprehensive, and factual. To ensure this is the case, all data suppliers must provide information on all credits with full and accurate detail. In some countries, meeting this objective has been a serious problem. A central bank credit registry best practice is to establish penalties in the form of fines to be levied when commercial banks fail to report required credit information to a credit registry or when reported information is inaccurate.

Current Status

- The Central Bank of Fredonia Law does not address the issue of penalties. The central bank is seeking international expertise in determining best practices from which to develop their own fines and penalties program.

19. Culture Adjustment

In a number of cases, central banks that have created public credit registries have failed to recognize the need to treat the registry as a business and adjust their approach toward banks as a service provider. This requires a cultural change on the part of central bank personnel in dealing with commercial banks that use the services of the registry. The need for teamwork, cooperation,

and transparency has proven effective as central banks create registries, and the Central Bank of Fredonia should be no different.

Current Status

- The Central Bank of Fredonia recognizes the need to treat the registry as an entity that provides a service to banks and the resultant change in relationships with banks that accompanies the service.
- Currently, the Central Bank of Fredonia has limited outreach to banks, but it has agreed to become more proactive in its efforts to work with banks to employ best practices.

Statement of Work

The host and counterpart for this project is the Central Bank of Fredonia.

Tasks and Timeframes

The contractor will work with the host to identify and resolve the issues that must be addressed in the legal and regulatory environment and enabling environment to upgrade the Central Bank of Fredonia credit registry to best practice in preparation for possible privatization. The contractor must provide a roadmap and timelines that will include recommendations for the upgrade of the registry. The roadmap will include tasks for the Central Bank of Fredonia senior management, project manager, Information Technology Department, and Legal Department. They must address core issues such as requirements for the expansion of data contribution to the registry, database design, and other issues noted in the diagnostic checklist in Attachment C that would upgrade the registry to best practice within 12 months of the start of the project.

The contractor will engage with all material stakeholders to build consensus for the actions necessary to achieve the sub-objectives identified below.

Phase 1: Preparation, Feasibility Study, Roadmap, and Recommendations

Tasks	Milestones
Task 1: Confirm central bank support and ownership	<ul style="list-style-type: none"> • Proactive central bank leadership secured and confirmed through memorandum of understanding that includes ownership commitment, provision of personnel resources, and financial contribution
Task 2: Engage other donor agencies to determine current activities related to public or private credit registries	<ul style="list-style-type: none"> • Confirmation received that project will be unimpeded and will not be duplicated by other agencies
Task 3: Confirm legal and regulatory environment for creation of registry is in place and secrecy issues have been addressed	<ul style="list-style-type: none"> • Corrective action taken where legal and/or regulatory deficiencies have been discovered • Plan developed to address secrecy issues either through legislative changes and/or amendments or introduction of consent clause
Task 4: Appoint project manager	<ul style="list-style-type: none"> • Qualified individual with experience in project management related to database construction appointed

Tasks	Milestones
Task 5: Create two working groups	<ul style="list-style-type: none"> • Internal working group composed of representatives from IT, banking supervision, and management, established within the Central Bank of Fredonia • Working group established with supervised financial institutions
Task 6: Estimate cost of software required to accommodate expanded data and other customization that will allow registry to move to best practice; establish scope of work from which the cost estimate will be determined	<ul style="list-style-type: none"> • Cost determined based on whether changes are completed internally by central bank personnel or externally through licensed software vendor • Customization plan created • Cost determined based on new requirements and required software programming to change functionality of data contribution and placement, data retrieval, and method of search requests
Task 7: Determine timeframe for completion of software changes	<ul style="list-style-type: none"> • Project plan developed that will identify required software changes and detail sequence of activities and timelines for the completion of software upgrade to meet best practice
Task 8: Determine expanded content of database	<ul style="list-style-type: none"> • Existing credit registry database contribution requirements matched against best practice information • Agreement reached on additional details of borrower identifying information, borrower credit information, manner of payment structure, and inquiry record required from data contributors • Agreement reached on data to be contributed on all credit related activity • Potential links to other informational registries made and information included and, if feasible, added to software changes to allow the data to be placed in the database
Task 9: Confirm attributes to identify borrowers and reflect best practice	<ul style="list-style-type: none"> • Agreement reached on changes in system logic to take into account expanded identifying data that will be required to ensure accurate data placement and retrieval
Task 10: Determine ability of data contributors to provide expanded data	<ul style="list-style-type: none"> • Meetings held with individual contributors to confirm all additional required data populates their databases and is accurate and current • Ability to retrieve data for contribution to the database confirmed • Where data is lacking, action plans with completion dates developed and put in place with each data contributor to ensure all required data will be reported to the registry
Task 11: Ensure mandatory data contribution for all credits and mandatory inquiry searches on all legitimate credit applications	<ul style="list-style-type: none"> • If these two mandates have not been established, then: <ul style="list-style-type: none"> ▪ Agreement reached with all users on the requirements ▪ Requirements included in regulations
Task 12: Conduct potential annual inquiry search activity if none has been completed or if mandatory search inquiries are not in place	<ul style="list-style-type: none"> • Survey of all banks conducted to confirm current credit application activity along with an activity projection for each of the next five years

Tasks	Milestones
Task 13: Break down credits from data providers supervised by the Central Bank of Fredonia	<ul style="list-style-type: none"> Detailed breakdown of all credits completed, including direct, indirect, retail, commercial, lines of credit, credit cards, returned checks, overdrafts, guarantors, and paid credits Numbers of credits currently being reported to the registry database compared to determine whether banks are reporting all credits if there is no threshold or potential size of database if a threshold is being eliminated
Task 14: Develop database technical construction plan based on determination in Task #6	<ul style="list-style-type: none"> Database predefinitions, technical specifications, programmer action plan (if built internally or using off-the-shelf software) for database and applications (up to and including user acceptance testing) determined Action items sequenced with completion dates for creation of the registry
Task 15: Conduct survey of banks to obtain feedback on the proposed credit registry	<ul style="list-style-type: none"> Survey completed and all feedback and recommendations considered by the Central Bank of Fredonia
Task 16: Develop work plan and roadmap for registry creation	<ul style="list-style-type: none"> Work plan and roadmap agreed to and approved by the Central Bank of Fredonia; activities and timelines broken down by responsibility for individual departments (project manager, operations, legal, and IT)
Task 17: Conduct workshop	<ul style="list-style-type: none"> Workshop held for all stakeholders to explain the key issues regarding new credit registry Overview of work plan to create the credit registry presented
Task 18: Conduct study tour	<ul style="list-style-type: none"> Study tour to a best practice central bank registry or private credit bureau completed by registry staff and key officials of the central bank if they have not participated in such a tour already Second study tour scheduled

Phase 2: Implementation

Tasks	Milestones
Task 19: Implement program	<ul style="list-style-type: none"> Work plan and data contribution understood and agreed to by supervised financial institutions Master task list, including completion dates coinciding with the work plan and roadmap created by project manager
Task 20: Change existing legislation and/or regulations	<ul style="list-style-type: none"> Legislation and regulations updated as necessary to allow for the implementation of all upgrades to the registry, such as expanded data and access methods
Task 21: Create legislation to provide the framework for a robust private credit bureau marketplace	<ul style="list-style-type: none"> Agreement achieved on basic principles of credit bureau legislation Draft law created to provide the framework for a robust private credit bureau marketplace with assistance from credit bureau practitioner familiar with credit bureau laws

Tasks	Milestones
Task 22: Upgrade database using one of three approaches listed in Tasks 22 A - 22 C	
Task 22 A: Construct database using off-the-shelf software	<ul style="list-style-type: none"> • New contracts signed • Required programming changes identified • Work plan in place with company that will be make changes • Cost and completion date agreed to by all affected parties
Task 22 B: Construct database internally using central bank programmers	<ul style="list-style-type: none"> • Detailed design for upgrades developed • Testing phase completed • Database implemented
Task 22 C: House database within a hub and spoke registry	<ul style="list-style-type: none"> • Contracts signed • Enhancements identified • Plan for integration agreed to • Access methods and data transmission methods agreed to • User manuals provided
Task 23: Upgrade credit report	<ul style="list-style-type: none"> • Credit report programmed to allow for the insertion of expanded data and other enhancements
Task 24: Financial institutions report expanded data to the Central Bank of Fredonia registry	<ul style="list-style-type: none"> • Phased approach for introduction of data to test database developed with completion dates • Meetings held regularly with Central Bank of Fredonia officials and data contributors to discuss issues prior to, during, and following reporting of information • Expanded data reported to registry • Database tested • Reliability of data confirmed • Database with expanded data ready for live production
Task 25: Update technical documentation, policies and procedures, and user manuals	<ul style="list-style-type: none"> • All appropriate user guides, manuals, and technical documents updated to reflect upgrading of registry to best practice • Training to introduce changes in the registry database and its operation to Central Bank of Fredonia employees and users of the registry system completed
Task 26: Revise job descriptions and training programs	<ul style="list-style-type: none"> • Job descriptions revised to reflect upgrades to the system • Training programs revised to reflect upgrades to the system
Task 27: Create additional reports	<ul style="list-style-type: none"> • Additional best practice management reports and other reports requested by the Central Bank of Fredonia's Banking Supervision Department and other central bank departments programmed and scheduled for distribution
Task 28: Ensure proper functioning of updated registry	<ul style="list-style-type: none"> • Internal testing completed • Expanded data properly housed in the database and appears in upgraded credit reports • Any changes to data contribution methods and data access methods working correctly
Task 29: Live production	<ul style="list-style-type: none"> • Following test phase, upgraded registry is 100 percent live • All problems resolved to the satisfaction of the user group

Tasks	Milestones
Task 30: De-link the registry from the Central Bank of Fredonia	<ul style="list-style-type: none"> Rationalization plan for de-linking the Central Bank of Fredonia credit registry from the Central Bank of Fredonia prepared with emphasis on necessary conditions, benchmarks, and how the database will be transformed — including its physical location and content
Task 31: Educate public	<ul style="list-style-type: none"> Comprehensive public education program for the registry and materials developed by Central Bank of Fredonia and bankers' association and made available at bank branches if public education program is not already in place

This is a performance-based firm fixed price task order. The offeror will propose a technical approach, draft work plan, staffing mix, and cost proposal to achieve the tasks and milestones listed above. Proposed tasks and milestones may differ from the indicative tasks shown above, provided that differences are supported by appropriate justification.

Success Indicators

1. Work plan developed in partnership with the host and approved by the task order contract technical officer (TOCTO); work plan used as a common guide to project implementation and adjusted as needed (with host and TOCTO approval) during the project; outputs and milestones established in the work plan (as amended) reasonably met and will include:
 - a) Creation of comprehensive action plan and roadmap to upgrade the registry and expansion of data contribution to best practice
 - b) Database software upgrade begins
 - c) Database software upgrade completed
 - d) Initial introduction of expanded data contribution from a data provider
 - e) Database upgrade, including expanded data, moves to live production
 - f) Database users complete successful inquiry searches
 - g) Updated management reports, including expanded data, for registry and for banking supervision successfully created
2. Individual sub-objectives and milestones completed.
3. Written confirmation from the host that the project has been successful in drafting a law that would allow for a private credit bureau environment to operate in Fredonia. Further confirmation that any necessary changes to existing laws and regulations related to the upgrading of the registry to best practice have been completed and implemented.
4. Market response in terms of:
 - a) Increase in the level of lending to the marketplace as a percentage of GDP (indicator of increasing financial market depth)
 - b) Growth in the number of borrowers by bank and by banking industry
 - c) Increase or decrease in the approval percentage of credit applications where mandatory search inquiries are completed

- d) Reduction in the intermediation margin (indicator of increased financial market efficiency)

It is recognized that these four indicators are lagging and may not become apparent until after the project is completed. However, they will be tracked as part of the post-project evaluation process.

Labor

The contractor shall engage up to five consultants (two to three expatriates and two to three Fredonians) to complete this task order. Qualifications include:

U.S. Expatriates (if qualified)

1. *Project oversight.* The contractor will designate the home-office project manager responsible for project mobilization, quality control, and problem resolution. S/he must have a sufficient understanding of the task order objective and subject matter to determine the suitability of proposed task order implementation staff and to provide quality control during project implementation.
2. *Team leader/chief of party.* The financial expert will serve as team leader for the project. S/he must be able to work well with a wide variety of personalities, consistently demonstrate cultural sensitivity and sincere appreciation for differing viewpoints, and help forge consensus among team members.

Qualifications: Ph.D., M.B.A., or other advanced degree in the financial area with at least 10 years of relevant private sector experience and 5 years of experience in other countries, 2 of which should be in Fredonia or a neighboring state. Demonstrated track record in working with the financial sector issues contemplated in this task order is essential. Demonstrated success in achieving financial sector development objectives is required. Strong writing skills are required. Language other than English is not required

3. *Credit registry expert.* The expert will have at least 10 years of direct activity in the credit reporting industry and will have been the lead consultant with direct participation in the creation of at least two central bank credit registries, the upgrading of at least two central bank registries, the creation of at least one private credit bureau, and will have conducted consultancies in at least two countries where private credit bureaus were successfully created. The emphasis should be on the individual as a practitioner rather than as an academic. While academic qualifications are of value, there is no substitute for the individual's practical experience. The individual will have legal experience with proven results in the creation of private and public sector credit reporting laws and regulations. The individual would be expected to work with local lawmakers to craft any required laws and regulations. The individual will also have technical experience in the creation of various types of credit registries. The experience should be verifiable with specific evidence from central banks. Note that an individual whose experience is in the credit rating industry is not qualified for this position.
4. *Technical expert.* This position will be required only if the database is being constructed by the Central Bank of Fredonia. The expert will have had direct experience in developing credit

reporting databases, as well as direct experience in technical infrastructure and design. S/he will have had direct experience in creating at least three credit reporting databases that are operating successfully.

Junior Fredonian

This individual will provide administrative support to the credit registry expert and the technical expert.

It is anticipated that the Central Bank of Fredonia will provide logistical and personnel experience in gathering necessary data from the financial institutions that it supervises.

The central bank will be required to provide the project manager from their internal operation if database construction will be handled internally. If external software is purchased, the central bank will work with the vendor to customize and install the software.

Labor Hours Ordered

The cost proposal will be structured as follows:

Functional Labor Category and Specialist	Labor Hours Ordered	Fixed Burdened Rate	Total
1. Home-Office Project Manager (25% time)	500		
2. Team Leader/Chief of Party	500		
3. Credit Registry Expert	1,000		
4. Technical Expert	500*		
5. Junior Fredonian	1,000		
Total Labor	3,500		
Transport			
Hotel/Housing			
Per Diem			
Office Expenses			
Communications Expenses			
Commodities/Equipment			
		Total Fixed Price	

* Assumes central bank will build database internally

- a) The individuals in Positions 1, 2, and 3 are designated as key personnel. Any replacement for these positions must be approved in writing in advance by the TOCTO.
- b) Subject to the ceiling price established in this task order and the prior written approval of the TOCTO, the contractor may adjust the number of hours actually employed in the performance of the work by each position specified in this order. The contractor shall attach a copy of the TOCTO's approval to the final voucher submitted for payment.
- c) It is the contractor's responsibility to ensure that the TOCTO-approved adjustments to the work hours ordered for each functional labor specialist do not result in costs incurred which exceed the ceiling price of this task order. Under no circumstances shall such adjustments authorize the contractor to be paid any sum in excess of the ceiling price.

- d) Cost proposals for multiyear task orders must be disaggregated by annual rate escalation date(s) and summarized for the task.

Technical Proposal Evaluation

The offeror's technical proposal will be evaluated based on the evaluation criteria listed below. USAID will evaluate these proposals using the best value approach. The table below describes the areas of evaluation and their relative weights.

Proposals will be evaluated according to the following point system:

Item	Description	Points
1.	<p>Technical Approach</p> <ul style="list-style-type: none"> • Demonstrates a clear understanding of the project objectives and the issues involved. • Presents a logical and coherent approach to reaching the project objectives. 	40
2.	<p>Key Personnel</p> <p><i>Credit registry expert and technical expert (35 points):</i></p> <ul style="list-style-type: none"> • Qualifications: Demonstrated qualifications and work experience to provide effective technical assistance. Proven and verifiable success in the creation of public credit registries. <p><i>The team leader/chief of party (20 points):</i></p> <ul style="list-style-type: none"> • Qualifications: Chief of party must have demonstrated extensive experience working in international development and implementation of development programs; demonstrated familiarity with the issues involved in this project; and demonstrated leadership experience with responsibilities for organizing and effectively utilizing members of a team. <p><i>Other personnel (5 points):</i></p> <ul style="list-style-type: none"> • Qualifications: Demonstrated understanding of areas of expertise essential to the satisfactory completion of this task order, complementing those of the chief of party. 	60
Total		100

ATTACHMENT A. ANALYSIS OF BANK DATABASES

#	Question	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10	Bank 11	Bank 12	Bank 13
1	Number of branches	3	2	89	8	21	15	35	7	29	11	1	4	2
2	Is data stored in a central database?	yes	yes	yes	yes	no	yes	yes	yes	yes	yes	yes	yes	yes
3	Are they able to create automated copies of their credit databases?	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
4	Are branches linked to the head office?	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
5	Current total number (number, not \$) of outstanding credits	330	39	47,046	6,140	29,207	1,304	4,882	544	4,220	5,317	42	237	33
	#5 broken down into number of outstanding individual credits	232	18	46,535	5,955	11,849	892	4,034	408	4,000	4,867	32	219	26
	#5 broken down into number of commercial/ corporate credits	98	21	511	185	17,358	412	848	136	220	450	10	18	7
-	Number of credit requests received annually	390	89	13,800	3,000	22,829	650	13,200	620	20,000	1,583	20	1,500	480
-	Number of credits granted annually	96	39	13,000	2,140	20,917	600	2,700	358	6,000	856	4	270	11
-	Do they require customers to provide national ID number (passport no./birth certificate ID)?	no	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
-	If yes, do they store that number in their database?	no	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes

#	Question	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10	Bank 11	Bank 12	Bank 13
6	Detail of demographic information they maintain in their database	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
	- Name (first, last, middle, or other detail)	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
	-Address (detail - numeric and street)	yes	yes	yes	yes	yes	yes	yes	yes	yes		yes	yes	yes
	-Town/City	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
	-Birth date	yes	yes	yes	yes	yes	yes	no	no	yes	yes	yes	yes	yes
	-Spouse name	yes	yes	yes	yes	yes		yes		yes	yes	yes	yes	yes
	- National ID # (Passport no./ birth certificate)	yes	yes	yes	yes	yes		yes	yes	yes	yes			yes
	- Other details	yes	yes	yes	yes	yes	yes	no	no	yes		yes	yes	yes
7	Detail of credit information maintained in their databases on credits	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
	- Date of credit	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
	- High credit	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
	- Current credit balance outstanding	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
	- Required monthly payment	yes	yes	yes	yes	yes	yes	yes		yes	yes	yes	yes	yes
	- Date of most recent payment on credit	yes	yes	yes	yes	yes	yes	no	yes	yes	yes	yes	yes	yes
	- Security on credit	yes	yes	yes	yes	yes	yes	yes		yes	yes	yes	yes	yes
	- Payment status of credit (current or in arrears)		yes	yes				no	yes					yes
	- Other details		yes											
	- Date of liquidations in total		yes										yes	
	- Date of revision				yes	yes								yes

#	Question	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10	Bank 11	Bank 12	Bank 13
8	Do they retain information on paid credits? If so, for how many years?	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
	- 1 year			yes					yes					
	- 1 to 5 years	yes	yes		yes	yes	yes	yes		yes	yes	yes	yes	yes
	- More than 5 years	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	no	yes	yes
9	Do all their branches have access to the Internet?	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
10	For credit applications, is the central database checked to determine if the credit applicant has any outstanding credits in that bank's network?	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
	Actual number of borrowers as of June	295	30	76,190	3,982	29,334	1,100	3,823	616	4,013	5,145	42	203	32
	Differences	(35)	(9)	29,144	(2,158)	127	(204)	(1,059)	72	(207)	(172)	-	(34)	(1)

ATTACHMENT B. BEST PRACTICE DATA REQUIREMENTS FOR A PUBLIC OR PRIVATE CREDIT REGISTRY

Demographic Information

The purpose of demographic information (attributes) is to properly identify the individual or business. This allows not only accurate placement of credit data when it is submitted by providers, but also accurate retrieval when a search inquiry is made about a credit applicant. Best practice demographic information includes:

- Individual name* (first, middle, and last)
- Business name* (official and trade name and style, if any)
- Unique national identification number* (individuals, if country assigns numbers)
- Passport number (internal or external) or birth certificate number (individuals)
- Fiscal code, tax, or registration number* (companies)
- Address* (number, street, borough, and district)
- Birth date* (individual)
- Individual borrower's father's first name
- Marital status of individual and spouse's name
- Legal authorized signers for a business

* Denotes mandatory information

Credit Information

Best practice data requirements for credit information (described as a trade line) include:

- Name of credit grantor
- Date credit funded
- Original high credit
- Monthly payment
- Current balance
- Date of last payment activity
- Manner of payment* (1 to 9)
- Collateral

* Manner of payment description is described in the following section.

It is anticipated that when data providers contribute their credit information, they will also include their proprietary credit identification numbers, which will be captured by the system and serve as the key attribute for locating credit records when they are updated.

Manner of Payment

It is critical to ensure that banks are provided with some indication of the debtor's willingness to repay their credit obligations. That indicator could be as simple as a *yes* or *no* response to the question, "Is the credit paid as agreed?" Or the indicator could be reflective of best practice. There is an international standard that reflects the willingness of a debtor to repay his/her

outstanding credit. The table below indicates this standard and reflects the current payment status of a credit.

Account Payment Status	Account is Contractually	Comment
0	Newly opened	No previous payment history
1	Paid as agreed	Account is not past due
2	One month (30 days) in arrears	Account is one month past due
3	Two months (60 days) in arrears	Account is two months past due
4	Three months (90 days) in arrears	Account is three months past due
5	Four months (120 days) or more in arrears	Account is four or more months past due
6	Local designation to be determined by the central bank	
7	In repossession	The security on a credit account has been repossessed.
8	Being prorated or paid through a consolidation order	Debtors who wish to repay their obligations but lack the ability to fully do so could receive relief by being allowed to make smaller payments to their creditors based on their disposable income.
9	Written off as bad debt	Account has been deemed a loss and has been written off as bad debt.

The banks submitting information would need to establish a system, if not already in place, to calculate the number. The number would reflect the current payment status at date of data submission. This information is valuable because it is cumulative and can be presented as historical information on a trade line (a record of how a borrower repays credit). When a qualified user of a credit registry views a trade line, he/she can see in a snapshot how the borrower has paid the particular credit each month for a specified period of time. Empirical evidence suggests that this is a valuable tool for credit grantors in assessing an applicant's creditworthiness.

In a number of recent central bank registry activations or upgrades, the central banks have chosen to replace the best practice manner of payment with their proprietary "asset classification" codes already in place. This made the transition to provision of the manner of payment simpler and assisted the central bank in their monitoring of the banking sector's credit activity. This manner of payment conforms to best practice, given these central banks had four or five asset classifications.

ATTACHMENT C. DIAGNOSTIC CHECKLIST TO SUPPORT THE UPGRADING OF A PUBLIC SECTOR REGISTRY CREDIT BUREAU FOR POSSIBLE PRIVATIZATION

The fact that a central bank wishes to upgrade its credit registry to best practice, with the intent to privatize it in the future, is a positive development, but it does not guarantee that privatization will occur. However, there is no downside to the upgrade: Financial institutions under the jurisdiction of the central bank will be better served with more comprehensive credit information, and the central bank will have more comprehensive information with which to monitor the banking sector. Although a central bank can require all financial institutions under its jurisdiction to report any and all credit information necessary to populate its credit registry database, it may not issue such a mandate. It might also have a threshold in place, requiring reporting only on credits above a certain balance. If the central bank does not mandate reporting and if reporting thresholds are in place, it is relatively simple to institute changes to allow for a smooth upgrade of the registry to best practice. The upgraded registry will contribute to a more positive environment for potential privatization. The following preconditions need to be in place to proceed with the project. A summary list of preconditions is included at the end of this section.

1. *Determine commitment level of the central bank.* Who will be responsible for upgrading the registry software and data expansion to meet best practice? Given that the central bank has probably initiated the request for technical assistance, there should be no doubt as to their commitment level. It is important to ensure that they have requested technical assistance to create a private credit reporting environment to expand the potential user group that will both provide information to the credit bureau and broaden the availability of information to authorized users to support expansion of the availability of credit. Commitment from the governor and deputy governor of the central bank is necessary for the project to succeed. The central bank should have funds available to finance software upgrades and to commit resources to complete the software changes and data expansion that will move the registry to best practice. A memorandum of understanding (MOU) should formalize the commitment of the governor and deputy governor to the project, name the deputy governor as the project's counterpart, and outline a pledge of financial and other resources. The financial commitment should be within a range estimated by the central bank's IT department. USAID's financial support would normally be in the form of technical assistance, training, and perhaps hardware and software. This precondition is achieved when the MOU is signed.
2. *Confirm that no other donor agencies are currently, or plan to be, engaged in the creation of any type of credit bureau.* Contact should be made with other known donor agencies to determine if they are currently or are considering funding some type of credit bureau initiative that would duplicate the efforts of the upgrade activity. If they are considering funding such a project, an agreement should be reached to ensure there is no duplication of effort. The donor agencies would include the IFC, World Bank, FIRST Initiative, ADB, EU, EBRD, IMF, DFID, CIDA, and UNDP. The other donor initiative could fund another type of credit registry, such as a business-only credit registry, since the upgrade of the central bank registry database is largely focused on individual borrowers. This precondition is achieved when it is determined that there are no active initiatives underway, or when it is confirmed that active initiatives do not conflict with the objective of the upgrade.

3. *Determine the status of the legal framework for the exchange of credit information and secrecy or central bank laws that might allow the central bank to establish a credit registry.* The central bank should be authorized through a central bank act to create a public credit registry at its discretion. If this authorization has not been put in place, the central bank must agree that appropriate legal changes will be made to allow for the registry's existence. The central bank should be aware of any secrecy issues regarding the exchange of credit data within the financial institution sector that it supervises. If the secrecy issue has not been addressed, the central bank must agree to make any necessary changes to allow for the exchange of credit information through the public registry.
4. *Confirm that the central bank is prepared to support the creation of a law and regulations that would provide the framework for a private sector credit bureau environment.* The preparation for potential privatization must include the creation of such a law and regulations to meet best practice standards; to provide certainty for potential investors regarding the operating environment for private sector credit bureaus; and to provide individuals with rights and protections regarding their personal credit information. If such a law is already in place, but does not meet best practice standards, the central bank should support changes to the law or to the regulations that accompany it.
5. *Determine existing regulations for credit registry operation for the central bank and the financial institutions under its jurisdiction.* If there are none, then the central bank should understand that regulations must be created to frame the public registry's functions. If there are regulations in place, then the central bank should understand the regulations will need to be changed to move the registry to best practice. These regulations would address fines and penalties to ensure financial institutions under the central bank's jurisdiction report all required information to the public registry. If there are no fines and penalties in place, then the central bank should understand they will have to be created.
6. *Determine if the existing public registry includes a reporting threshold.* If there is a threshold, the central bank must agree to eliminate it and to require that all existing credits held by financial institutions under its jurisdiction are to be reported to the upgraded registry.
7. *Establish basic current data reporting requirements and usage of the registry.* To meet best practice standards, the central bank must agree that the reporting of all credit data will be mandatory and that all legitimate credit applications will require an inquiry search. There may be some resistance to the mandatory search requirement, but every effort should be made to obtain support for it. The primary reason for mandating the search is to ensure that financial institutions under the jurisdiction of the central bank have a complete picture of the borrowing and payment habits and debt structure of credit applicants to make more precise credit decisions. A secondary purpose is to ensure that borrowers are unable to hide undeclared credit and credit applications.
8. *Determine ability and capacity, of the central bank to make necessary software changes to upgrade its credit registry and expand its database.* If the database is housed within the central bank, its IT department probably has the expertise to handle the changes. If the

registry is housed within the central bank and uses software licensed from a vendor, then a determination will have to be made as to whether the central bank IT department has access to and is allowed to change the source code to complete the upgrade. If not, then the software vendor will have to be contracted to complete the software changes. If the registry participates in a hub and spoke environment, then the company that manages the database will be required to provide a price quotation that would allow the central bank to move to best practice and add expanded credit information to its sub-database within the “hub” database. The amount of new data for the database will have to be determined based on two components: the total number of credits that will populate the database as it moves to best practice standards and the degree of expanded information financial institutions are required to submit for the registry to meet best practice standards.

9. *Obtain feedback on and suggestions to improve the existing registry from financial institutions under the central bank’s jurisdiction.* This will help determine whether the central bank is delivering a credit reporting service to banks or taking a one-sided approach to the registry. It has been proven that the latter approach is not effective. It will also help determine whether the financial institutions have a positive view of the move to best practice and are inclined to work with the central bank toward possible privatization.
10. *Determine whether banks maintain best practice credit information in their databases.* In discussions with bank representatives, determine whether they follow best practices regarding the data they collect. (See Attachment B for best practice data requirements.) Determine how challenging it would be for banks to provide this level of detailed credit data to the central bank registry. The details should be recorded in an Excel spreadsheet to share with the contractor selected by USAID to provide technical assistance.
11. *Determine whether there are any existing credit bureaus.* Discussions with banks and other financial institutions will reveal if there are any credit bureaus in existence in the country. If there are companies referring to themselves as credit bureaus, further investigation would be required to determine the actual content of the database and the function of the so-called credit bureau. In developing countries, some companies take liberties with the name *credit bureau* or derivatives of the credit bureau designation. In most of these situations, the so-called credit bureaus are actually private collection agencies that capture the information on delinquent borrowers whose information has been provided to the collection agencies as they perform their efforts to collect past due accounts. The negative information, which is often unreliable, is placed in a database that may not be automated and accessible to users. The information may also be obtained by telephone inquiry to the collection agency. These types of companies operate in an unregulated environment and should not be considered true credit bureaus. Other companies that call themselves credit bureaus or some derivative of the name collect and maintain information on businesses. They normally have little, or no, information about a company’s credit experience. The credit information they do have is usually negative and has been gleaned from public records. In a normal credit bureau, individuals comprise more than 95 percent of the credit files, and businesses comprise a small minority of files. The same is true of a public credit registry.

12. *Determine the number of legitimate credit applications received by financial institutions annually.* This information will allow for an estimate of search inquiry activity, assuming searches are mandated on all legitimate credit applications. These figures would be used to determine capacity needs so the system software can be programmed to handle the automated searches promptly and efficiently for inquiries originating at individual financial institution branch offices.

The completion of this checklist will determine what challenges can be anticipated and provide the contractor with a clear grasp of the major issues that need to be addressed. Item 1 is the most important of all the preconditions. If it is satisfied, then the project of upgrading the registry to best practice in preparation for possible privatization has an excellent chance of success.

Diagnostic Check List for Upgrade of Public Sector Registry

#	Task	Date Completed
1	Confirm central bank commitment level and sign MOU	
2	Review activity with other donors	
3	Review legal framework regarding secrecy and central bank laws that allow for creation of registry	
4	Confirm central bank support for creation of necessary laws and regulations	
5	Confirm existing regulations for credit registry operation	
6	Ensure central bank agrees to eliminate reporting threshold if one is in place	
7	Confirm basic data reporting and usage requirements; if not mandatory, ensure central bank agrees to mandate them	
8	Confirm ability and capacity of central bank to change software and add data	
9	Obtain feedback from financial institutions on existing operation of central bank registry	
10	Determine whether financial institutions can provide expanded data; if not, determine when they will be able to do so	
11	Determine existence of private credit bureaus	
12	Calculate number of annual credit applications in banking sector	

SECTION VI. MODEL SCOPE OF WORK: CREATION OF A PRIVATE CREDIT BUREAU

Title

Establish a private credit bureau for Fredonia.

Objective

The objective is to provide technical assistance in the form of a comprehensive overview and roadmap for the components that will assist in the establishment of a private credit bureau in Fredonia. Although there is no specific counterpart for this project, a survey of the marketplace has determined there is a need and demand for a robust and comprehensive credit bureau that will meet the needs of lending institutions and other businesses engaged in the extension of credit. Although the Central Bank of Fredonia is not interested in creating a public credit registry, it does support, in principle, the creation of a private credit bureau.

Ceiling Price

The firm fixed price for this task order is \$**xxx,xxx,xxx,xxx**.
The obligated amount is \$**x,xxx,xxx,xxx**.

Definitions

Insert generic definitions in this section.

Background

Insert generic background in this section.

The creation of a credit infrastructure is an important economic component for Fredonia in its desire to build a strong economy. Credit is a key ingredient for facilitating commerce, and a credit bureau is an integral part of creating an environment where credit is available to more Fredonians. In Fredonia, there is an understanding of the value of a credit bureau and the support it provides to grow the credit sector in the country. The central bank has indicated it is not prepared to create its own public registry; however, it supports, in principle, the creation of a private credit bureau and will extend whatever assistance possible to promote it. Fredonian banks have indicated their support and need for a credit bureau as they embark on ambitious credit growth programs. Other potential users of credit information have echoed their support and need for the information provided by a credit bureau. Past efforts at creating a credit bureau have been ineffective, but it appears that the elements are now in place for success.

Without a specific counterpart committed to contributing financial and other resources, the challenges will be great. However, recent cases in countries like Kazakhstan and Ukraine have proven that with USAID's support, success is possible. Several key issues must be addressed for the project to move forward. A discussion of the key issues follows.

1. Central Bank Support

A number of central banks have chosen not to participate in the creation of a credit registry for their countries. Nonetheless, their support for the creation of a private credit bureau is important. Their ability to provide moral persuasion in areas such as participation in the bureau, voluntary providing of credit information, and creation of laws to frame a private credit bureau marketplace have been critical to successful credit bureau launches. If the support is not in place, it will be more challenging for a credit bureau to be created.

Current Status

- The governor of the Central Bank of Fredonia supports the creation of a private credit bureau for Fredonia. He understands the value of a credit bureau and will provide whatever support possible to encourage financial institutions under the authority of the central bank to cooperate with this initiative. He will also encourage the broader marketplace to support the proposed credit bureau.

2. Other Donor Agencies and/or Funding Providers

Contact with various donor agencies to determine any activity related to private credit bureaus they are currently extending, have extended, or plan to extend is a necessity. Duplication among donor agencies/funding providers has led to wasted funds and overlapping activities, confusing potential stakeholders.

Agencies to be contacted usually include the IFC, the World Bank, the IMF, the ADB, and the FIRST Initiative, all of which have been or are currently involved in this subject.

Current Status

- The IFC provided a credit facility to create a private registry, but was unable to entice private enterprise to commit due to lack of legislation, lack of commitment of primary users to provide all credit data, and limited volume of search inquiry activity on which primary revenue is based.
- The World Bank provided funding to draft laws to frame the credit reporting industry, but the Fredonian government was unwilling to support the legislation.

3. History of Past Activities and Efforts to Create a Private Credit Bureau

Researching the history of any and all efforts undertaken to establish a private credit bureau provides clarity about the issues, problems, and challenges faced; how these challenges were addressed; and the results of these efforts. Understanding the reasons for lack of success and learning from these mistakes ensure they are not repeated. Many countries have had more than one false start in the creation of a public credit registry or private credit bureau, which reflects a failure to learn from past experience. Consultation on this subject includes the central bank, local banks, bankers' association, microfinance institute (MFI) association (assuming MFIs fall under the jurisdiction of the central bank), and other financial institutions that fall under the jurisdiction of the central bank.

Current Status

- The Fredonia bankers' association attempted to create a private registry in 2007, but banks would not voluntarily provide data, did not believe that other banks would provide their complete credit data, and were not prepared to provide the funding.

4. Analysis of Fredonia's Legal Framework to Collect and Disseminate Information

The legality of sharing valuable credit information is the cornerstone of the creation of any type of credit registry or bureau. In a number of countries, secrecy laws restrict any organization besides a government agency or central bank from providing a borrower's credit experience with information identifying the borrower. For a variety of reasons, governments of these countries are unwilling to pass enabling legislation to allow sharing of borrower credit and demographic information with agencies in the private sector, including banks and other financial institutions. For this reason alone, these countries are unable to create either public credit registries or private credit bureaus.

Many countries have secrecy provisions in their laws that have required either the passage of laws to exempt credit registries or credit bureaus from the provisions or the implementation of a "consent clause" that must be signed by borrowers to allow their personal credit information to be shared with a credit registry or credit bureau and to agree that the information could be provided to an agency authorized by the borrower by written consent. The introduction of a consent clause is a best practice.

However, before any of these circumstances can be addressed, a thorough and detailed analysis of the country's laws on the subject of the collection and dissemination of information must be completed to determine under what conditions, if any, information could be shared. The laws to be reviewed normally include: civil code, law on commercial secrecy, banking law, law on the creation of a central bank, law on personal data protection, freedom of information law, money laundering laws, law on state secrets, and any pending draft legislation that deals with the subject. The list could be supplemented with other laws that might be unique to a country.

When a country is engaged in the creation of a framework for a private credit bureau environment, the best practice is to pass legislation to frame the credit reporting industry. Passing a law and subsequent regulations provides certainty for investors about the operational ground rules by which they are expected to conduct business. A law also provides rights and protections for individuals regarding their personal information that will be viewed by authorized users of a credit bureau.

Current Status

- It has been determined that secrecy provisions that are in place prevent the sharing of credit information beyond the Central Bank of Fredonia. They will have to be addressed with the introduction of a consent clause or some other legal change that will allow the exchange of information between authorized users of a credit bureau.
- No credit reporting legislation in place. A credit reporting law must be drafted and subsequently passed by the Fredonian Parliament and brought into force. After the law is

brought into force, accompanying regulations must be drafted to fill in the details of the broad concepts mandated by the law.

5. Feedback from the Credit Community

Assuming there is no counterpart committed to contributing financial and other resources or ownership of the private credit bureau, it must be determined whether there is strong support for the creation of a private credit bureau. One of the major problems has been a lack of commitment on the part of data contributors to provide their proprietary credit data to the credit bureau. If credit data is not contributed to the credit bureau, then there is no information to provide to authorized users of credit reports. The credit bureau will not be able to function and will ultimately fail.

Discussions should be held with banks, other lending institutions, and credit grantors to determine their interest and commitment to the success of a bureau. In-depth discussions must occur to understand why they need a bureau and how a credit bureau can assist them. A list of suggested survey questions can be found in Attachment A.

Current Status

- A survey of banks and other lending institutions has determined that there is a strong demand for a credit bureau to support the growth of credit in Fredonia. Those surveyed are committed to providing their credit data to a credit bureau.
- Past failed attempts at creating a credit bureau were a result of the unwillingness of potential data providers to contribute their data to the credit bureau. Since the last attempt, credit demand has grown and delinquency levels have increased. The need for a credit bureau is greater than ever, and the current circumstances appear to have eliminated the refusal of data providers to contribute their information.

6. Counterpart

There will not be a counterpart to provide financial and other resources for this project. However, in some countries, bankers' associations may want to play an active role in the project. If this is the case, every effort should be made to develop a memorandum of understanding detailing the association's role in the project. The bankers' association would encourage the creation of a credit bureau to help its members obtain the ability to retrieve borrower credit information from a central location.

7. Ownership

An important question is who will own the credit bureau? A number of recent initiatives have not succeeded due to lack of emergence of an individual or entity to take ownership of the credit bureau. Given the substantial capital investment requirements (more than \$1 million) and the length of time necessary to bring a credit bureau to market (three to five years) the waiting list for credit bureau ownership is short.

Three international credit bureau operators — Experian, TransUnion, and Equifax — have a worldwide presence in either fully-owned credit bureaus or joint venture credit bureaus with local partners. None of the three are unwilling to take on the task of creating a private credit bureau themselves. They prefer to partner in a minority position or purchase an active credit bureau outright. There are several regional operators, such as CreditInfo (based in Iceland) and CRIF (based in Italy) that take the same approach as the three international operators.

During the past several years, successful efforts to create credit bureaus have been based on the proven formula of the creation of joint venture projects with the main ownership stake being assumed by the country's banking community. Usually, a group of banks, rather than a bankers' association, would be the driving force in the development of the bureau. The banks have been joined in the ownership structure by companies that can provide technical expertise directed at the construction of the bureau. By having an ownership position, the banks guarantee they will provide their proprietary information. The local ownership component will also help resolve local issues that may arise during the project, as local owners will have the necessary contacts and expertise to resolve them. The joint venture should include an international or regional operator to build the bureau and hold a minority stake, while local banks hold a majority stake. Prior to the creation of a joint venture, a comprehensive business case must be presented for review by the marketplace.

Current Status

- A group of Fredonian banks have indicated their interest in pursuing the creation of a private credit bureau. They wish to better understand issues to be addressed and the financial commitments to be made and to engage with a company with expertise in the creation of credit bureaus.

8. Analysis of the Banking Sector

The largest provider of credit in the marketplace is the banking sector. Under normal conditions when a credit bureau is being constructed, banks would supply the first submission of data that will populate a database.

When constructing a database, some basic facts should be determined, including: the number of credits from data providers expected to populate the database; number of data elements and the number of characters with each credit; depth of borrowers' identifying information; and type of identification used for borrowers. In addition, information on the number of annual credit requests and the number of credits granted should be determined to understand the demands that will be made on a credit bureau (assuming that data users would request a credit report for each credit application). The strategy of banks, as it relates to their plans for their credit portfolios, should also be explored. A survey can be used to obtain the required information (see Attachment A for suggested questions). This information should be first obtained from banks and later from other potential users.

Current Status

- Based on a preliminary analysis, there are more than 200,000 open credits within the banking sector that could be provided to a credit bureau.
- Annually, banks receive 200,000 credit applications, of which 50 percent are approved.
- Banks are growing their credit portfolios and expect an increase in the number of credit applications received and the number of credits approved.
- All banks have comprehensive information on their borrowers, including accurate identification of their customers.

9. Unique Identifier for Borrowers

Countries that have a unique identifier (UID) for individuals have an easier time creating a central bank credit registry because it simplifies the process of placing individual credit and demographic information in credit files and subsequent retrieval by authorized users. A UID also makes the process more accurate. The correct placement of information is critical to the reputation and trust accorded to a credit reporting database. The UID also allows for accurate retrieval of data from a registry database on inquiry searches, which is important for users as they seek information on prospective borrowers. If there is no UID, then a variety of other types of demographic information can be used, but experience has shown this to be a less desirable option.

If the government assigns UIDs, it must be confirmed that the UID is the principal identifier for individuals in a country. Similarly, for companies, there would normally be a unique identifier such as a tax ID number. If the government does not assign UIDs, the logic currently used by credit grantors to place data in and retrieve data from their proprietary databases will determine the identifying attributes of borrowers that will be required for data contribution to a credit bureau. This information would be obtained during a survey completed with lending institutions (see Attachment A for suggested questions). The lack of UIDs will make the creation of the registry more difficult, but not impossible. Most lending institutions have already addressed the lack of UIDs in the management of their own databases, and the lessons they have learned can be adapted to the credit bureau database.

Current Status

- Fredonia does not have a unique identifier for individuals. For legalized citizens, there is a unique individual taxpayer identification number. The government plans to introduce a unique identification number program for native citizens in the next few years.
- Banks interviewed have provided a list of the demographic attributes they use to place data in and retrieve information from their proprietary databases.

10. Rights and Protections for Individuals

As a best practice, individuals should have the right to obtain a copy of their own credit information from a registry, and a registry should have a mechanism to make this information available with little difficulty. There should also be a grievance and dispute resolution mechanism so individuals can challenge information in their credit reports that they deem to be

incorrect. These mechanisms usually include limits on the time the registry may take to respond to the borrower complaint and the source of the data being challenged.

These rights and protections are normally provided under privacy legislation that applies to any type of government database. The rights and regulations are administered by a government agency. A central bank database is considered a government database, so if there is privacy legislation in a country, the central bank registry would fall under that legislation.

Countries without privacy legislation that have central bank registries normally do not offer rights and protections for borrowers whose information is housed in a registry database. It is left to the central banks to decide whether to offer rights and protections. Central banks usually do not want to assume the extra administration associated with offering these rights and protections.

Current Status

- There are no privacy laws in Fredonia, so consumer rights and protections should be housed in credit reporting legislation.

11. Mandatory Reporting

Under most central banking laws, the central bank can mandate the reporting of credit information from all financial institutions that it supervises to the public credit registry. This ability shortens the time it takes to create a public registry. Without the benefit of such a mandate, the creation of a private credit bureau may be hindered by the reluctance of major lenders to share their proprietary information.

There have been recent attempts to make the sharing of data with private credit bureaus mandatory, at least by banks. Although the intent was to encourage the sharing of data, one case resulted in fragmentation in the marketplace. In Russia, the credit reporting law mandates that banks must report their data to at least one private credit bureau. Russia has 20 credit bureaus, and no bank provides information to more than one credit bureau. In contrast, the law in Kazakhstan mandates that banks must provide their information to a credit bureau (subject to written consent). There is only one credit bureau in the country, and it functions smoothly and meets marketplace needs. In Ukraine, where reporting is not mandated, there are three credit bureaus, and no bank reports to more than one. Credit grantors who wish to obtain information on a credit applicant must check with all three credit bureaus in Ukraine and perhaps with all 20 credit bureaus in Russia, while they only have to check with one in Kazakhstan. This extra effort drives up the cost of credit reports for the lending institution, and they still may not receive a full picture of the credit applicant's debt obligations.

In all three countries, each credit bureau has some percentage of individual bank ownership. Kazakhstan's success derives from the fact that the largest banks have an ownership interest in the single credit bureau. The downside is that it is unlikely there will be any future competition because it would not be in the banks' best interest to own one credit bureau and provide their proprietary information to a second, which would be a competitor.

In time, the industry will downsize, as smaller credit bureaus are swallowed by larger bureaus, and banks will begin to provide their data to more than one credit bureau. However, this may take years and does not help the industry as a whole. Whether the information sharing is mandated or voluntary, it will take more than three years for a credit bureau to supply sufficient information to satisfy the marketplace.

In mature markets like Canada and the United States, where each country has three private credit bureau/repositories, reporting by banks and other financial institutions to all three is standard practice. Smaller credit grantors may report to only one or two of the three, but the cost of checking all three bureaus is minimal. In the United States, an industry of “resellers” has been created. These resellers obtain credit reports from the three major credit bureaus, repackage them as one credit report, and sell them to lending institutions. The reseller market is both efficient and cost effective.

Current Status

- A decision will have to be made regarding mandatory sharing of data by banks with a private credit bureau, and the decision will have to be included in a credit reporting law.

Statement of Work

No identified host or counterpart has been identified for this project. The project will prepare a comprehensive document that will support the creation of a private credit bureau to assist in the growth of credit in Fredonia and, by extension, for the economy of Fredonia. After the document has been introduced, USAID will provide technical assistance to the entity deemed best qualified to move forward with the creation of the credit bureau.

Tasks and Timeframes

The contractor will work with central bank and government officials to create draft legislation that will allow for the creation of a credit bureau industry, as well as compensate for any secrecy issues regarding the sharing of credit information. The contractor must provide a feasibility study, business plan, financial projections, roadmap, and timelines for the creation of a private credit bureau. This task will be conducted in tandem with activities to draft credit reporting legislation to be presented to the Fredonian Parliament for passage. Once legislation is passed, the contractor will work with government officials to draft regulations for the legislation.

The contractor will engage with all material stakeholders to build consensus for the actions necessary to achieve the sub-objectives identified in the following tables.

Phase 1: Feasibility Study and Business Case for a Private Credit Bureau in Fredonia

Tasks	Milestones
Task 1: Confirm central bank support	<ul style="list-style-type: none"> Central bank agrees to support a private credit bureau, support the creation of draft credit bureau legislation, and encourage banks to voluntarily provide their data to the bureau
Task 2: Engage other donor agencies to determine current activities related to credit registries	<ul style="list-style-type: none"> Confirmation received that this project will be unimpeded and that there is no duplication with other agencies
Task 3: Create draft legislation that will provide framework for a private sector credit reporting environment	<ul style="list-style-type: none"> In conjunction with local law drafters, draft credit bureau law created and presented to government officials for consideration and passage Consideration given to requirement that banks must report their credit information to at least one private credit bureau
Task 4: Conduct a feasibility study to establish a private credit bureau	<ul style="list-style-type: none"> Study conducted providing comprehensive overview of the marketplace, including all sectors that could provide data to a credit bureau and those that would use the services of a credit bureau); detailed discussion of challenges to be addressed in creating a private credit bureau in Fredonia; plan to overcome the challenges; and comments on recommended ownership for the private credit bureau
Task 5: Prepare a business plan for the private credit bureau	<ul style="list-style-type: none"> Business plan completed that includes the following: <ul style="list-style-type: none"> <i>Business concept:</i> Emerging market experience and Fredonia, competition, demographics, and selected wage indices <i>Credit bureau structure and operation:</i> Ownership and management, purpose of the bureau, credit bureau operations, staffing, locations, and general overview <i>Marketing and sales plan:</i> Products and pricing that should be considered for offering to the marketplace, initial sales approach, and ongoing sales strategy <i>Technical summary:</i> Summary of technical options and technical assistance/consulting <i>Building the credit bureau infrastructure project plan:</i> Determination of hardware and software needs, identification of requirements for system and access methods, data center blueprint, database design, module design, product design, access and security (for both data and plant) design, accounting software application development, data collection, user acceptance testing, pilot project, implementation, parallel system, disaster recovery plan, Web design, automated access design and construction, credit report design, and programming <i>Data procurement:</i> Methodology to obtain credit data on a voluntary basis, discussion of data sources available in Fredonia, and discussion about content of database <i>Plan to populate the database:</i> Timelines and determination of data sources to place data in the database <i>Consumer relations center:</i> Design, procedures, staffing, and education plan <i>Other areas</i> appropriate to the business plan

Tasks	Milestones
Task 6: Develop financial scenarios for a private credit bureau	<ul style="list-style-type: none"> Financial assumptions and projections developed, including cash flow estimates and four financial scenarios each for Years 1 - 5 based on: <ul style="list-style-type: none"> Conservative growth/conservative pricing Conservative growth/aggressive pricing Aggressive growth/conservative pricing Aggressive growth/aggressive pricing
Task 7: Prepare management reports	<ul style="list-style-type: none"> A series of proprietary management reports developed for use by credit bureau management
Task 8: Draft expression of interest (EOI) for credit bureau ownership, interview candidates, and select qualified candidates	<ul style="list-style-type: none"> EOI published for the Fredonia credit bureau Responses received Qualified applicants interviewed Most qualified candidates determined
Task 9: Recommend ownership	<ul style="list-style-type: none"> Options for ownership of a Fredonia credit bureau discussed Recommendation made for ownership of Fredonia credit bureau, along with rationale
Task 10: Conduct workshop	<ul style="list-style-type: none"> Workshop conducted for all stakeholders to explain the key issues related to the creation of a credit bureau highlighting international standards and best practices and emphasizing the need for support, given data is supplied on a voluntary basis – assuming that the draft law does not make it mandatory for banks to report to at least one private credit bureau
Task 11: Conduct study tour	<ul style="list-style-type: none"> At least one foreign credit bureau visited by central bank and government officials to learn how credit bureaus operate, how credit reporting legislation functions, how oversight of the industry is conducted, how consumer rights and protections are administered, and other issues about which they should be aware

Phase 2: Implementation

Tasks	Milestones
Task 12: Present feasibility study and business plan	<ul style="list-style-type: none"> Workshop conducted with stakeholders, potential owners of a credit bureau, and government officials to review the feasibility study and business plan
Task 13: Distribute feasibility study, business plan, and financial projections to interested parties	<ul style="list-style-type: none"> Feasibility study, business plan, and financials posted on USAID/Fredonia Web site Copies distributed at workshop presentation (Task #12)
Task 14: Draft regulations	<ul style="list-style-type: none"> Legislation passed Regulations developed and agreed to by agency responsible for credit bureau oversight
Task 15: Work with stakeholders to conclude ownership and initiation of at least one credit bureau	<ul style="list-style-type: none"> Ownership group established License issued to ownership group to operate a credit bureau Activities commenced to create the bureau
Task 16: Provide technical assistance	<ul style="list-style-type: none"> International technical support to assist the ownership group in creating a credit bureau agreed to by USAID Funding to train staff provided Study tour for representatives of the ownership group agreed to by USAID

Tasks	Milestones
Task 17: Create a public awareness education program	<ul style="list-style-type: none"> Comprehensive public education program for the marketplace developed by contractor in conjunction with government agencies to educate the public about credit bureaus and their rights and protections regarding personal credit information that may be housed in a credit bureau database

This is a performance-based firm fixed price task order. The offeror will propose a technical approach, draft work plan, staffing mix, and cost proposal to achieve the tasks and milestones listed above. Proposed tasks and milestones may differ from the indicative tasks shown above, provided that differences are supported by appropriate justification.

Success Indicators

1. Work plan developed in partnership with the host and approved by the task order contract technical officer (TOCTO); work plan used as a common guide to project implementation and adjusted as needed (with host and TOCTO approval) during the project; outputs and milestones established in the work plan (as amended) reasonably met and will include:
 - a) Creation of comprehensive feasibility study, business plan, financial projections, and project plan for creation of a private credit bureau
 - b) Creation of draft credit reporting legislation and introduction to the Fredonia Parliament
 - c) Introduction of all studies at a stakeholders’ workshop
 - d) Creation of a public awareness education program
 - e) Creation of regulations for draft credit reporting legislation
 - f) Formation of ownership group
 - g) Commencement of creation of private credit bureau by ownership group

2. Individual sub-objectives and milestones completed.

3. Written confirmation from the host that the project has been successful in enabling the development of an appropriate legal and regulatory environment for a Central Bank of Fredonia credit registry along with any necessary legal adjustments that will allow for the exchange of credit information between banks and other financial institutions under the jurisdiction of the central bank.

4. Market response in terms of:
 - a) Increase in the level of lending to the marketplace as a percentage of GDP (indicator of increasing financial market depth)
 - b) Growth in the number of borrowers by bank and by banking industry
 - c) Increase or decrease in the approval percentage of credit applications where mandatory search inquiries are completed
 - d) Reduction in the intermediation margin (indicator of increased financial market efficiency)

It is recognized that these four indicators will not be measurable until the credit bureau is in operation and users are able to obtain credit applicants' credit reports. Therefore, the indicators likely will not become apparent until after the project is successfully completed. However, they will be tracked as part of the post-project evaluation process.

Labor

The contractor shall engage up to five consultants (two or three expatriates and two or three Fredonians) to complete this task order. Qualifications include:

U.S. Expatriates (if qualified)

1. *Project oversight.* The contractor will designate the home-office project manager responsible for project mobilization, quality control, and problem resolution. S/he must have a sufficient understanding of the task order objective and subject matter to determine the suitability of proposed task order implementation staff and to provide quality control during project implementation.
2. *Team leader/chief of party.* The financial expert will serve as team leader for the project. S/he must be able to work well with a wide variety of personalities, consistently demonstrate cultural sensitivity and sincere appreciation for differing viewpoints, and help forge consensus among team members.

Qualifications: Ph.D., M.B.A., or other advanced degree in the financial area with at least 10 years of relevant private sector experience and 5 years of experience in other countries, 2 of which should be in Fredonia or a neighboring state. Demonstrated track record working with the financial sector issues contemplated in this task order is essential. Demonstrated success in achieving financial sector development objectives is required. Strong writing skills are required. Language other than English is not required

3. *Credit registry expert.* The expert will have at least 10 years of direct activity in the credit reporting industry and will have been the lead consultant with direct participation in the creation of at least two central bank credit registries, the upgrading of at least two central bank registries, the creation of at least one private credit bureau, and will have conducted consultancies in at least two countries where private credit bureaus were successfully created. The emphasis should be on the individual as a practitioner rather than as an academic. While academic qualifications are of value, there is no substitute for the individual's practical experience. The individual will have legal experience with proven results in the creation of private and public sector credit reporting laws and regulations. The individual would be expected to work with local lawmakers to craft any required laws and regulations. The individual will also have technical experience in the creation of various types of credit registries. The experience should be verifiable with specific evidence from central banks. Note that an individual whose experience is in the credit rating industry is not qualified for this position.
4. *Technical expert.* This position will be required only if the database is being constructed by the Central Bank of Fredonia. The expert will have had direct experience in developing credit

reporting databases as well as direct experience in technical infrastructure and design. S/he will have had direct experience in creating at least three credit reporting databases that are successfully in operation.

Junior Fredonian

This individual will provide administrative support to the credit registry expert and the technical expert.

Labor Hours Ordered

The cost proposal will be structured as follows:

Functional Labor Category and Specialist	Labor Hours Ordered	Fixed Burdened Rate	Total
1. Home-Office Project Manager (25% time)	500		
2. Team Leader/Chief of Party	500		
3. Credit Registry Expert	1,000		
4. Technical Expert	500*		
5. Junior Fredonian	1,000		
Total Labor	3,500		
Transport			
Hotel/Housing			
Per Diem			
Office Expenses			
Communications Expenses			
Commodities/Equipment			
		Total Fixed Price	

- a) The individuals in Positions 1, 2, and 3 are designated as key personnel. Any replacement for these positions must be approved in writing in advance by the TOCTO.
- b) Subject to the ceiling price established in this task order and the prior written approval of the TOCTO, the contractor may adjust the number of hours actually employed in the performance of the work by each position specified in this order. The contractor shall attach a copy of the TOCTO’s approval to the final voucher submitted for payment.
- c) It is the contractor’s responsibility to ensure that the TOCTO-approved adjustments to the work hours ordered for each functional labor specialist do not result in costs incurred which exceed the ceiling price of this task order. Under no circumstances shall such adjustments authorize the contractor to be paid any sum in excess of the ceiling price.
- d) Cost proposals for multiyear task orders must be disaggregated by annual rate escalation date(s) and summarized for the task.

Technical Proposal Evaluation

The offeror's technical proposal will be evaluated based on the evaluation criteria listed below. USAID will evaluate these proposals using the best value approach. The table below describes the areas of evaluation and their relative weights.

Proposals will be evaluated according to the following point system:

Item	Description	Points
1.	<p>Technical Approach</p> <ul style="list-style-type: none"> • Demonstrates a clear understanding of the project objectives and the issues involved. • Presents a logical and coherent approach to reaching the project objectives. 	40
2.	<p>Key Personnel</p> <p><i>Credit registry expert and technical expert (35 points):</i></p> <ul style="list-style-type: none"> • Qualifications: Demonstrated qualifications and work experience to provide effective technical assistance. Proven and verifiable success in the creation of public credit registries. <p><i>The team leader/chief of party (20 points):</i></p> <ul style="list-style-type: none"> • Qualifications: Chief of party must have demonstrated extensive experience working in international development and implementation of development programs; demonstrated familiarity with the issues involved in this project; and demonstrated leadership experience with responsibilities for organizing and effectively utilizing members of a team. <p><i>Other personnel (5 points):</i></p> <ul style="list-style-type: none"> • Qualifications: Demonstrated understanding of areas of expertise essential to the satisfactory completion of this task order, complementing those of the chief of party. 	60
Total		100

ATTACHMENT A. SUGGESTED QUESTIONS FOR CREDIT GRANTORS

Credit Policy and Procedures

1. What are the maximum loan sizes for retail loans, retail letters of credit, SME loans, and credit cards?
2. What are the maximum terms for items listed in #1?
3. What are the interest rate ranges for items listed in #1?
4. Outline the step-by-step process for investigating new credit applications? What checks do you complete? What is the timeframe for completion? How much does the investigation cost?
5. Outline the step-by-step process for investigating current customer applications. What checks do you complete? What is the timeframe for completion? How much does the investigation cost?
6. What level of security is used and what is the value of security?
7. How extensive is the use of guarantors?
8. Do you require pay assignments or direct deposit from an applicant's employer to the bank?
9. How long does it take to process and complete credit requests?
10. What is your estimated cost for completing a credit request?

Portfolio and Activity

1. Number of credits and value of outstanding retail and commercial loans, lines of credit, and credit cards (broken down by Visa/MC/other)
2. Approval rate for new credit applicants, broken down by product lines
3. Approval rate for current credit applicants, broken down by product lines
4. Delinquency (30 days or more past due) rate of \$ outstanding by product lines
5. Bad debt as percentage of \$ outstanding by product lines
6. Number of credit applications received for each of the past three years

Proprietary Database

1. What is the level of detail for demographic and credit information (ratings) maintained in your databases?
2. How do you identify borrowers? (for example, national ID number or passport number)
3. How difficult is it to identify borrowers?
4. Do you retain information on paid accounts? If so, how long do you keep information? How many paid accounts do you presently have in your database?
5. Are you prepared to share information in your databases with other banks and beyond as part of a credit bureau?
6. How would you transfer your information to a credit bureau? If the process is not automated, when do you expect this will happen?

Miscellaneous

1. Do you have credit applicants sign an authorization to complete credit checks and to share the applicant's credit information with other creditors?
2. Do you believe that credit information can be shared beyond the banks? If not, why not?
3. How many branch office locations are in your company?
4. Are branches linked by computer?
5. Do you check with your network of branches on credit applications to determine if the applicant currently has credit with another branch?

Credit Bureau

1. Do you understand what a credit bureau is?
2. Would you like to see a credit bureau?
3. How can a credit bureau assist you?
4. What do you believe has to be done to set up a credit bureau?
5. What are the roadblocks to a credit bureau?
6. How can the roadblocks be overcome?

Additional Questions for Telecommunications Companies

1. Do you have instances of delinquencies?
2. If so, are you able to collect them?
3. What are your annual dollar write-offs?
4. Are you concerned about fraud?
5. Do you have a way to check new customers against a "non-desirable for credit" database?
6. Would you like another source to help you collect your write-off accounts?

Additional Questions for Property Managers and Landlords

1. Do you have tenants who have problems paying rent?
2. If so, how do you handle them?
3. Would you like to have a database where landlords could share their experiences, both good and bad, with other landlords?
4. Would you like to know if another landlord had a bad experience with a prospective tenant?

Additional Questions for Insurance Companies

1. Have you experienced someone filing a claim with two different insurance companies for the same event, given they might have two policies?
2. If yes, is this an industry problem?
3. If yes, is there a database where this information is stored and could be accessed with new insurance policies and claims?
4. Would you be comfortable sharing your information for a database of this nature?
5. If so, what type of data are you prepared to share?

ATTACHMENT B. DIAGNOSTIC CHECKLIST TO SUPPORT THE CREATION OF A PRIVATE CREDIT BUREAU

This project is focused on preparing a feasibility study, financial projections, and a comprehensive business plan that includes a marketing plan, a technical plan to create a credit bureau, an operational plan for the credit bureau, and a data procurement plan. For a public registry, a central bank can require banks to provide credit information, but that is normally not the case for a private credit bureau. Therefore, a sincere commitment by major data providers to contribute their proprietary credit data to the private credit bureau is critical. Also vital is a comprehensive plan for the establishment of the bureau that creates a perceived value that will entice data providers to share their credit information with it.

For the creation of private credit bureaus, there is usually no counterpart that has committed financial and other resources to the project, nor is there an identified owner. This project will create a document that will be presented to stakeholders from whom one or two potential credit bureau owners will emerge.

This project will also assist in drafting credit reporting legislation that will provide the legal framework for a best practice marketplace in which the credit bureau(s) can operate.

Given the circumstances noted above, the following preconditions are necessary to proceed with the project. A summary list is included at the end of this section.

1. *Obtain the support of the central bank on the principle of creating a private credit bureau for Fredonia.* The fact that there is no identified owner of the credit bureau amplifies the need to have major stakeholders, such as the central bank, committed to the project's success. In cases when a successful private credit bureau was created, the central bank's support was viewed as a critical component, especially in terms of the credibility it added to the project and the encouragement it gave commercial banks to provide their credit information. USAID should initiate discussion with the central bank at the governor level to ensure its support.
2. *Ensure that no other donor agencies are engaged in the creation of any type of credit bureau.* Contact should be made with other donor agencies to determine whether they are currently or are considering funding some type of credit bureau initiative. The donor agencies would include the IFC, World Bank, FIRST Initiative, ADB, EU, EBRD, IMF, DFID, CIDA, and UNDP. This precondition is achieved when it is determined that no active initiatives underway.
3. *Review legal framework regarding secrecy and central bank laws that allow for creation of a private credit bureau.* Empirical evidence suggests that the main legal obstacle to the creation of a private credit bureau is secrecy laws that prevent the sharing of commercial bank credit information beyond the central bank or other government agencies. If secrecy laws pose an obstacle, they can be overcome through regulation or legal amendments with the support of the central bank. It is important, though, that all parties are aware of these potential obstacles at the outset of the project so legal issues that need to be addressed can be undertaken in tandem with other activities in the development of the public registry. If there

is no framework legislation for a private credit bureau industry, best practice is that an enabling law should be drafted, passed, and brought into force.

4. *Obtain feedback from financial institutions, including non-bank financial institutions (credit unions, microfinance institutions), on their support for the creation of a private credit bureau and their willingness to share proprietary credit information.* Any success in the establishment of a private credit bureau has rested on the need of the marketplace for a bureau and the willingness of potential data providers to share their information. Contact must be made with decision makers for the largest lenders in Fredonia to determine what problems they currently encounter without access to a private credit bureau and if a private credit bureau would assist them in their lending activities. If they agree that a private credit bureau is of value to them and to the marketplace, they should be asked about their willingness to provide proprietary data to a private credit bureau and under what conditions. Any concerns or objections to the sharing of their information with a private credit bureau should be noted and a plan to overcome objections should be provided in the business plan.
5. *Determine if there is a counterpart in the marketplace that would support this activity.* In a number of countries, bankers' associations have provided support to establish a private credit bureau by developing senior contacts in banks and organizing gatherings of bank representatives. If there is such support, an MOU should be drafted and signed committing the association to that support.
6. *Determine if there is potential for local ownership of the private credit bureau.* When a component of ownership is locally based, the creation of the credit bureau has a much greater chance of success. Although it is not a precondition to move forward on this project, it is suggested that the subject of ownership should be discussed with large data providers, especially banks, bankers' associations, and others as determined by local USAID officials to determine their interest in ownership of a private credit bureau. If there is interest, those companies should be engaged in resolving issues that may arise and impede the completion of Phase 1 activities.

Items 1, 2, and 4 are the most important of the preconditions, and if they are satisfied, the project should move forward.

Diagnostic Checklist for Establishment of Public Sector Registry

#	Task	Date Completed
1	Confirm central bank commitment level and sign MOU	
2	Review activity with other donors	
3	Review legal framework regarding secrecy and central bank laws that allow for creation of a private credit bureau	
4	Determine needs of banks, their support for the creation of a private credit bureau, and their willingness to share proprietary credit information	
5	Determine availability of marketplace counterpart	
6	Determine local interest in ownership of credit bureau	

ANNEX A: REFERENCES

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