

The importance of Credit Information and Scoring for Microfinance Lending

The experience of “Red Financiera Rural (RFR)” - Ecuador

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1. Why RFR promote this topic?

- RFR is conformed by 47 MFI members, that represent 500,000 clients attended.
- MFI members are diverse: credit unions, private banks, NGOs and local MFI networks.
- General RFR objectives are:
 - Policy advocacy;
 - **Microfinance market development trough:**
information transparency, product development and second floor finance.
 - Technical assistance and training.

- Information transparency in two ways
 - Financial MFI information;
 - **Financial and social client information.**
- In order to:
 - To increase efficiency to analyze and approve credits;
 - To prevent over indebtedness;
 - To decrease the level of default rate;
- RFR implement project: “Regional service of credit information – SERVIR”

2. SERVIR project

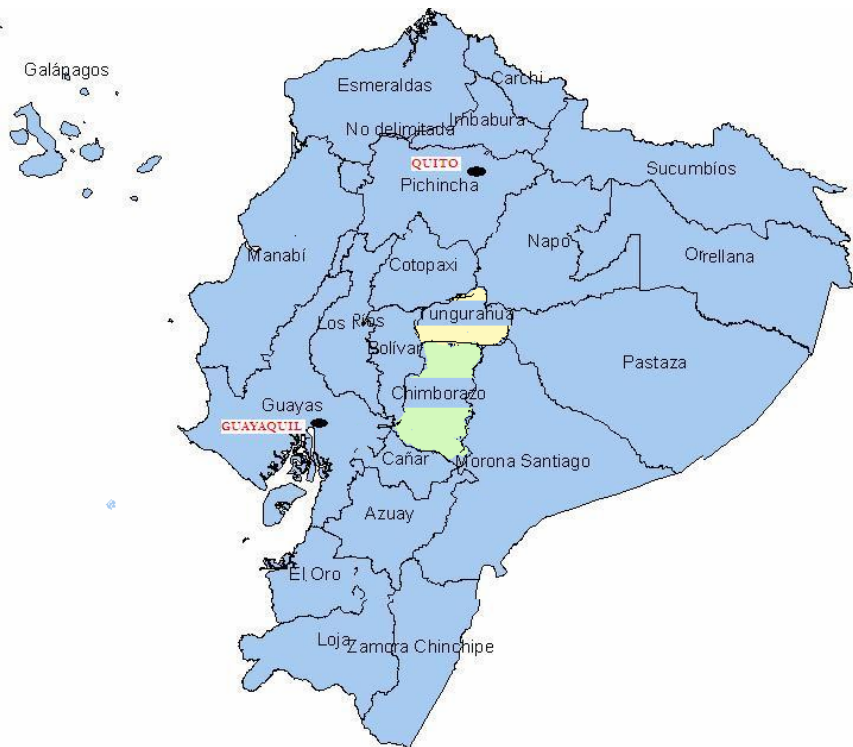
Preliminary information

- All financial institutions regulated by Bank Superintendence in Ecuador are obligated to send credit information to a credit bureau.
- A new credit bureau law was approved, so there are 4 private credit bureaus that administrate credit information.
- There are more than 500 MFI that are not regulated by Bank Superintendency, that represent 40% of the market. They do not send credit information.

Project objectives

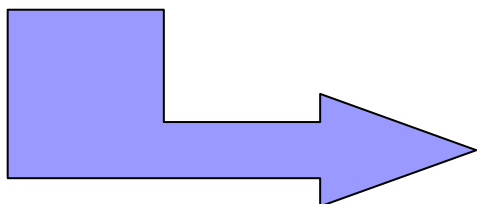
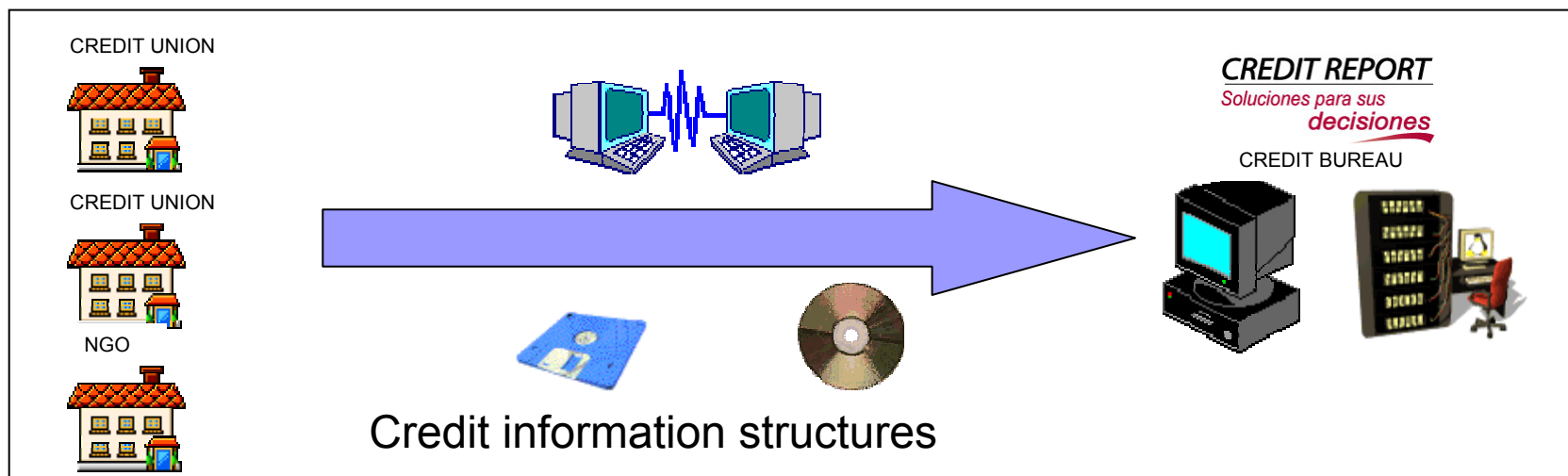
- To include at least 20 MFI not regulated in a specific regional zone, as a pilot project. (It was not required that MFI should be member of RFR).
- To establish an alliance with a credit bureau to develop specific process to collect information and specific products.
- To analyze regional credit information to establish policies.
- To replicate the experience in other regions.
- To include more no regulated MFIs that provide credit information.

Regional zone of the project

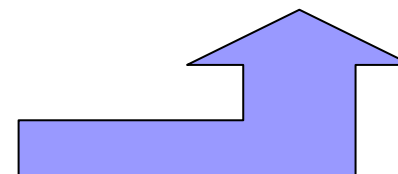


- 2 provinces of Sierra Central;
- Influence located mostly in rural areas;
- High level of indigenous people;
- High level of poverty;
- At least 100 small MFI.

Project methodology



- Technology level (sw, hw)
- Credit management
- Credit information (structures)
- Training
- Communication



- Adaptation of credit information formats
- Product development
- Information validation
- Contract models
- Reports

Activities developed

- Promotion and selection of MFIs
- Credit Bureau selection
- MFI requirements definition
- Informatics MFI diagnostic
- Adjustment of credit information structures (big problem)
- Credit information delivery
- Information validation or rejection
- Processing information
- Availability of information in credit bureau database
- MFI consulting
- Market reports
- Monthly recompilation
- Adding new MFI
- Improving products

Types of MFIs in the project

- Credit Unions: regulated, non-regulated. Most of them were non-regulated and rural.
- NGOs.



Type of clients

- 80% rural, 15% urban marginal, and 5% urban people;
- Most of them are indigenous;
- Most of them lives in conditions of poverty;
- Most of them are small producers.



Problems and solutions

PROBLEMS	SOLUTIONS
<ul style="list-style-type: none"> ➤ MFIs do not trust in share credit information, because it can be used by competence to take its clients. 	<ul style="list-style-type: none"> ➤ Training about credit bureau legislation, that do not permit free access of information without client authorization.
<ul style="list-style-type: none"> ➤ MFIs do not appreciate advantages in using credit bureau. They said that their clients are exclusives from them. 	<ul style="list-style-type: none"> ➤ To provide free report service about shared clients. So, they prove that between 30-70% of their clients have credit information from other institutions.
<ul style="list-style-type: none"> ➤ MFIs do not appreciate advantages in sending credit information. 	<ul style="list-style-type: none"> ➤ To provide free service for 6 months and special price for consulting. Old and new delinquent clients appear to cancel credits, because they are applying for credits in other institutions.
<ul style="list-style-type: none"> ➤ MFIs have basic and old administration software, or only Spreadsheet 	<ul style="list-style-type: none"> ➤ To create small personalized software to extract information from each MFI and install it in MFI to do an automatic process to generate information and structures.
<ul style="list-style-type: none"> ➤ Bad internet connections. 	<ul style="list-style-type: none"> ➤ To establish different ways to send information: diskette, CD.

Project results (jun. 05 to oct. 06)

Loans and consults

- 44.056 consults
- 9.877 credits.
- 90% of the consults were help to officer to approve an credit.

MFI number

- They have increased from 2 to 37 MFIs

Users number

- They have increased from 7 users to 171 users

Total credit portfolio

- They have increased from USD. 13.264.478 to USD. 20.232.880
- 53% in 16 months.

Portfolio at risk

- The credit default rate decrease in 2%.
- Credit recovery by legal actions, reduce in 0,4%.

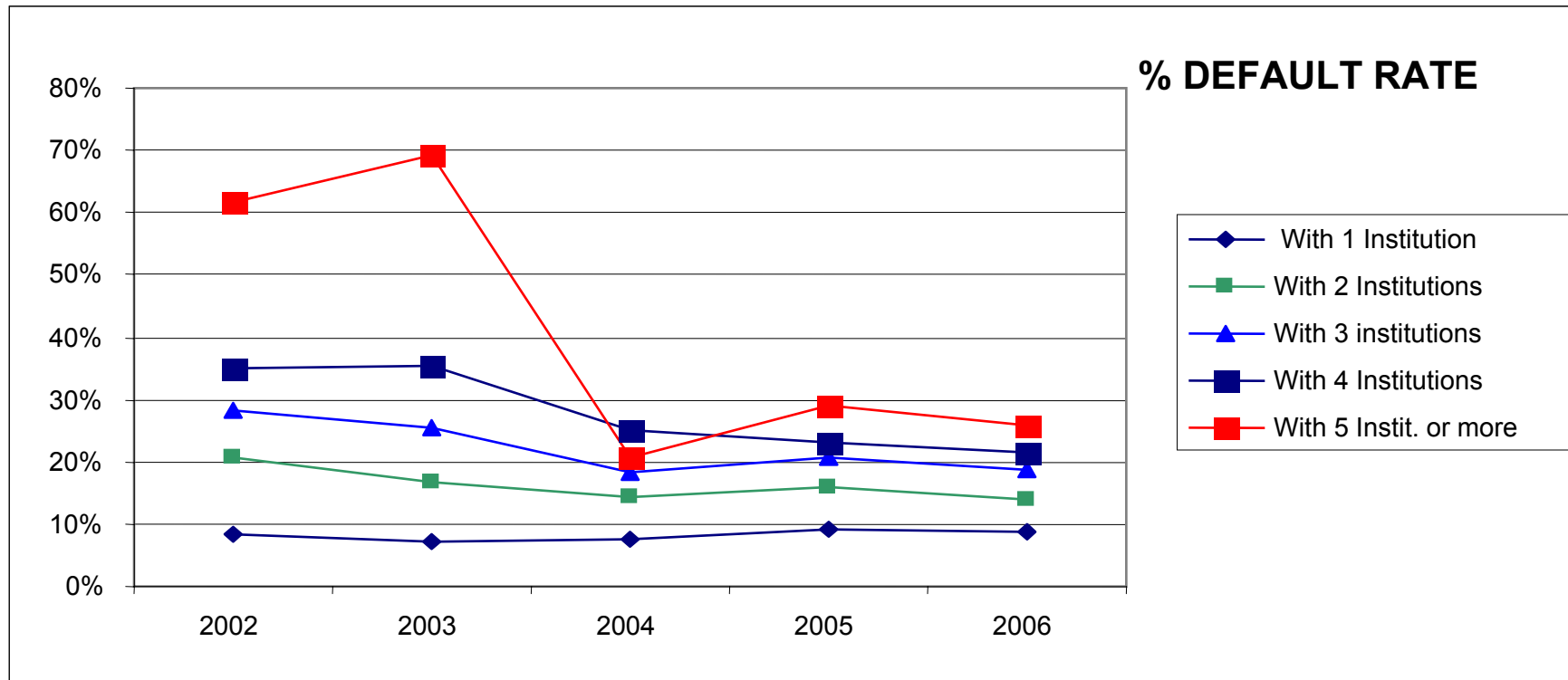
Client numbers

- They have increased from 43,496 to 58,134 clients
- 33.65% in 16 months.

Credit amount average

- It has increased from USD. 1,800 to 2,400.
- 33.33% in 16 months

Example of market analysis: Default credit rate and overdebt



Results after the project

Today:

- 113 non regulated IMF are sending information from 158,911 clients, that represent USD. 211 millions.

New propose

- To collect not only finance information, but also social information: age, gender, family structure, education level, geographical place, economic activity, among others.
- In order to develop a **complete credit scoring model**.

THANK YOU

