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# SUPPORTING THE ESTABLISHMENT OF CREDIT BUREAUS

THREE MODEL SCOPES OF WORK AND DIAGNOSTIC CHECKLISTS

**APRIL 2009**

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# **SUPPORTING THE ESTABLISHMENT OF CREDIT BUREAUS**

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## 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.

*Note: A credit bureau or credit registry should not be confused with a credit rating agency. These are distinct businesses. A credit bureau or credit registry gathers credit data and packages it into individual credit files. It makes no determination on the status of the borrower's credit record. That status is determined by the company that provides the credit information. A credit rating agency analyzes a company's various financial components and provides credit ratings of companies that issue certain type of debt obligations.*



## INTRODUCTION

The United States Agency for International Development (USAID) Bureau for Economic Growth Agriculture and Trade (EGAT) created the Financial Sector Knowledge Sharing Project (FS Share) to collaborate with USAID missions to develop effective and efficient financial sector programs that increase access to financial services and develop well-functioning markets worldwide. USAID awarded Chemonics International the FS Share delivery order under the Financial Sector Blanket Purchase Agreement. The three-year period of performance for FS Share runs from July 2008 through 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 for growing the financial sector. FS Share identifies financial sector best practices and aggregates those best practices through model scopes of work, technical briefs, 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 Model Scopes of Work and Diagnostic Checklists**

The objective of *Supporting the Establishment of Credit Unions: Three Model Scopes of Work and Diagnostic Checklists* is to provide a package of flexible model scopes of works and diagnostic checklists to serve as blueprints for designers of financial sector development projects supported by the U.S. government. The checklists provide a framework to evaluate the preconditions in a given country for the successful development and implementation of each of three credit bureau models: a public sector registry; a private credit bureau; and a hybrid model that supports transitioning existing public registries to a private model. To complement these programming tools, FS Share has produced an accompanying technical brief, *Supporting the Establishment of Credit Unions*, that provides a comprehensive review of the three models described above.

The model scopes of work, diagnostic checklists, and technical brief were prepared by Jim Aziz of Baja Group Consultants for Chemonics International. Mr. Aziz's experience with credit reporting spans more than 40 years and 25 countries with organizations including USAID, the International Monetary Fund, the World Bank, and the Asian Development Bank.

## FS Share Rapid Response Hotline

For assistance addressing questions about establishing credit bureaus, contact FS Share Project Manager Roberto Toso at 202-955-7488 or [rtoso@chemonics.com](mailto:rtoso@chemonics.com), or Deputy Project Manager Melissa Scudo at 202-775-6976 or [mscudo@chemonics.com](mailto:mscudo@chemonics.com). To access the FS Share task order and EGAT assistance on any mission financial sector program, scope of work, or procurement question, contact:

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## 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 1

## 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 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**

- 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 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 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"> <li>Proactive central bank leadership secured and confirmed through memorandum of understanding that includes ownership commitment, provision of personnel resources, and financial contribution</li> </ul>
Task 2: Engage other donor agencies to determine current activities related to public or private credit registries	<ul style="list-style-type: none"> <li>Confirmation received that project will be unimpeded and will not be duplicated by other agencies</li> </ul>
Task 3: Create legal and regulatory environment for creation of registry and address secrecy issues	<ul style="list-style-type: none"> <li>If necessary, Bank Act amended to allow the central bank to create the registry</li> <li>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</li> <li>Plan developed to address secrecy issues either through legislative changes and/or amendments or introduction of consent clause</li> </ul>
Task 4: Appoint project manager	<ul style="list-style-type: none"> <li>Qualified individual with experience in project management related to database construction appointed</li> </ul>
Task 5: Create two working groups	<ul style="list-style-type: none"> <li>Internal working group composed of representatives from IT, banking supervision, and management, established within the Central Bank of Fredonia</li> <li>Working group established with supervised financial institutions</li> </ul>
Task 6: Determine database construction	<ul style="list-style-type: none"> <li>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</li> <li>Pros and cons of each option provided, along with cost estimates</li> </ul>
Task 7: Determine financial details of registry construction	<ul style="list-style-type: none"> <li>Financial projections prepared for each of three potential models noted in Task #6, including hardware, software, and facility costs</li> </ul>
Task 8: Determine content of database	<ul style="list-style-type: none"> <li>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</li> </ul>
Task 9: Establish attributes to identify borrowers	<ul style="list-style-type: none"> <li>Agreement reached on system logic to correctly place data in and retrieve information from the database</li> <li>If a UID system is not in place, other attributes developed to use in the identification process</li> </ul>

<b>Tasks</b>	<b>Milestones</b>
Task 10: Determine quality of data contributed	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>
Task 11: Ensure mandatory data contribution for all credits and mandatory inquiry searches on all legitimate credit applications	<ul style="list-style-type: none"> <li>Agreement reached with all users on requirements</li> <li>Requirements included in regulations</li> </ul>
Task 12: Conduct potential annual inquiry search activity	<ul style="list-style-type: none"> <li>Survey of all banks conducted to confirm the current credit application activity with an activity projection for each of the next five years</li> </ul>
Task 13: Break down credits from data providers supervised by the Central Bank of Fredonia	<ul style="list-style-type: none"> <li>Detailed breakdown of all credits completed, including direct, indirect, retail, commercial, lines of credit, credit cards, returned checks, overdrafts, guarantors, and paid credits</li> </ul>
Task 14: Develop database technical construction plan based on determination in Task #6	<ul style="list-style-type: none"> <li>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</li> <li>Action items sequenced with completion dates for creation of the registry</li> </ul>
Task 15: Conduct survey of banks to obtain feedback on the proposed credit registry	<ul style="list-style-type: none"> <li>Survey completed and all feedback and recommendations considered by the Central Bank of Fredonia</li> </ul>
Task 16: Develop work plan and roadmap for registry creation	<ul style="list-style-type: none"> <li>Work plan and roadmap agreed to and approved by the Central Bank of Fredonia</li> <li>Activities and timelines broken down by responsibility for individual departments (project manager, operations, legal, and IT)</li> </ul>
Task 17: Conduct workshop	<ul style="list-style-type: none"> <li>Workshop held for all stakeholders to explain the key issues regarding new credit registry</li> <li>Overview of work plan to create the credit registry presented</li> </ul>

## Phase 2: Implementation

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

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

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			
		<b>Total Fixed Price</b>	

*\*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><b>Technical Approach</b></p> <ul style="list-style-type: none"> <li>• Demonstrates a clear understanding of the project objectives and the issues involved.</li> <li>• Presents a logical and coherent approach to reaching the project objectives.</li> </ul>	<b>40</b>
2.	<p><b>Key Personnel</b></p> <p><i>Credit registry expert and technical expert (35 points):</i></p> <ul style="list-style-type: none"> <li>• Qualifications: Demonstrated qualifications and work experience to provide effective technical assistance. Proven and verifiable success in the creation of public credit registries.</li> </ul> <p><i>The team leader/chief of party (20 points):</i></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul> <p><i>Other personnel (5 points):</i></p> <ul style="list-style-type: none"> <li>• Qualifications: Demonstrated understanding of areas of expertise essential to the satisfactory completion of this task order, complementing those of the chief of party.</li> </ul>	<b>60</b>
<b>Total</b>		<b>100</b>

# 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 to 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 2**

# **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"> <li>• Proactive central bank leadership secured and confirmed through memorandum of understanding that includes ownership commitment, provision of personnel resources, and financial contribution</li> </ul>
Task 2: Engage other donor agencies to determine current activities related to public or private credit registries	<ul style="list-style-type: none"> <li>• Confirmation received that project will be unimpeded and will not be duplicated by other agencies</li> </ul>

Tasks	Milestones
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"> <li>• Corrective action taken where legal and/or regulatory deficiencies have been discovered</li> <li>• Plan developed to address secrecy issues either through legislative changes and/or amendments or introduction of consent clause</li> </ul>
Task 4: Appoint project manager	<ul style="list-style-type: none"> <li>• Qualified individual with experience in project management related to database construction appointed</li> </ul>
Task 5: Create two working groups	<ul style="list-style-type: none"> <li>• Internal working group composed of representatives from IT, banking supervision, and management, established within the Central Bank of Fredonia</li> <li>• Working group established with supervised financial institutions</li> </ul>
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"> <li>• Cost determined based on whether changes are completed internally by central bank personnel or externally through licensed software vendor</li> <li>• Customization plan created</li> <li>• 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</li> </ul>
Task 7: Determine timeframe for completion of software changes	<ul style="list-style-type: none"> <li>• 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</li> </ul>
Task 8: Determine expanded content of database	<ul style="list-style-type: none"> <li>• Existing credit registry database contribution requirements matched against best practice information</li> <li>• Agreement reached on additional details of borrower identifying information, borrower credit information, manner of payment structure, and inquiry record required from data contributors</li> <li>• Agreement reached on data to be contributed on all credit related activity</li> <li>• 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</li> </ul>
Task 9: Confirm attributes to identify borrowers and reflect best practice	<ul style="list-style-type: none"> <li>• 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</li> </ul>
Task 10: Determine ability of data contributors to provide expanded data	<ul style="list-style-type: none"> <li>• Meetings held with individual contributors to confirm all additional required data populates their databases and is accurate and current</li> <li>• Ability to retrieve data for contribution to the database confirmed</li> <li>• 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</li> </ul>
Task 11: Ensure mandatory data contribution for all credits and mandatory inquiry searches on all legitimate credit applications	<ul style="list-style-type: none"> <li>• If these two mandates have not been established, then: <ul style="list-style-type: none"> <li>▪ Agreement reached with all users on the requirements</li> <li>▪ Requirements included in regulations</li> </ul> </li> </ul>

<b>Tasks</b>	<b>Milestones</b>
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"> <li>Survey of all banks conducted to confirm current credit application activity along with an activity projection for each of the next five years</li> </ul>
Task 13: Break down credits from data providers supervised by the Central Bank of Fredonia	<ul style="list-style-type: none"> <li>Detailed breakdown of all credits completed, including direct, indirect, retail, commercial, lines of credit, credit cards, returned checks, overdrafts, guarantors, and paid credits</li> <li>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</li> </ul>
Task 14: Develop database technical construction plan based on determination in Task #6	<ul style="list-style-type: none"> <li>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</li> <li>Action items sequenced with completion dates for creation of the registry</li> </ul>
Task 15: Conduct survey of banks to obtain feedback on the proposed credit registry	<ul style="list-style-type: none"> <li>Survey completed and all feedback and recommendations considered by the Central Bank of Fredonia</li> </ul>
Task 16: Develop work plan and roadmap for registry creation	<ul style="list-style-type: none"> <li>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)</li> </ul>
Task 17: Conduct workshop	<ul style="list-style-type: none"> <li>Workshop held for all stakeholders to explain the key issues regarding new credit registry</li> <li>Overview of work plan to create the credit registry presented</li> </ul>
Task 18: Conduct study tour	<ul style="list-style-type: none"> <li>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</li> <li>Second study tour scheduled</li> </ul>

## Phase 2: Implementation

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

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

Tasks	Milestones
Task 30: De-link the registry from the Central Bank of Fredonia	<ul style="list-style-type: none"> <li>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</li> </ul>
Task 31: Educate public	<ul style="list-style-type: none"> <li>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</li> </ul>

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			
		<b>Total Fixed Price</b>	

*\* 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><b>Technical Approach</b></p> <ul style="list-style-type: none"> <li>• Demonstrates a clear understanding of the project objectives and the issues involved.</li> <li>• Presents a logical and coherent approach to reaching the project objectives.</li> </ul>	<b>40</b>
2.	<p><b>Key Personnel</b></p> <p><i>Credit registry expert and technical expert (35 points):</i></p> <ul style="list-style-type: none"> <li>• Qualifications: Demonstrated qualifications and work experience to provide effective technical assistance. Proven and verifiable success in the creation of public credit registries.</li> </ul> <p><i>The team leader/chief of party (20 points):</i></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul> <p><i>Other personnel (5 points):</i></p> <ul style="list-style-type: none"> <li>• Qualifications: Demonstrated understanding of areas of expertise essential to the satisfactory completion of this task order, complementing those of the chief of party.</li> </ul>	<b>60</b>
<b>Total</b>		<b>100</b>



## 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									
4	Are branches linked to the head office?	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								
-	If yes, do they store that number in their database?	no	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									
	- Name (first, last, middle, or other detail)	yes	yes	yes	yes									
	-Address (detail - numeric and street)	yes		yes	yes	yes								
	-Town/City	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									
	- Date of credit	yes	yes	yes	yes									
	- High credit	yes	yes	yes	yes									
	- Current credit balance outstanding	yes	yes	yes	yes									
	- Required monthly payment	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						
	- 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 3**

### **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"> <li>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</li> </ul>
Task 2: Engage other donor agencies to determine current activities related to credit registries	<ul style="list-style-type: none"> <li>Confirmation received that this project will be unimpeded and that there is no duplication with other agencies</li> </ul>
Task 3: Create draft legislation that will provide framework for a private sector credit reporting environment	<ul style="list-style-type: none"> <li>In conjunction with local law drafters, draft credit bureau law created and presented to government officials for consideration and passage</li> <li>Consideration given to requirement that banks must report their credit information to at least one private credit bureau</li> </ul>
Task 4: Conduct a feasibility study to establish a private credit bureau	<ul style="list-style-type: none"> <li>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</li> </ul>
Task 5: Prepare a business plan for the private credit bureau	<ul style="list-style-type: none"> <li>Business plan completed that includes the following: <ul style="list-style-type: none"> <li><i>Business concept:</i> Emerging market experience and Fredonia, competition, demographics, and selected wage indices</li> <li><i>Credit bureau structure and operation:</i> Ownership and management, purpose of the bureau, credit bureau operations, staffing, locations, and general overview</li> <li><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</li> <li><i>Technical summary:</i> Summary of technical options and technical assistance/consulting</li> <li><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</li> <li><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</li> <li><i>Plan to populate the database:</i> Timelines and determination of data sources to place data in the database</li> <li><i>Consumer relations center:</i> Design, procedures, staffing, and education plan</li> <li><i>Other areas</i> appropriate to the business plan</li> </ul> </li> </ul>

Tasks	Milestones
Task 6: Develop financial scenarios for a private credit bureau	<ul style="list-style-type: none"> <li>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"> <li>Conservative growth/conservative pricing</li> <li>Conservative growth/aggressive pricing</li> <li>Aggressive growth/conservative pricing</li> <li>Aggressive growth/aggressive pricing</li> </ul> </li> </ul>
Task 7: Prepare management reports	<ul style="list-style-type: none"> <li>A series of proprietary management reports developed for use by credit bureau management</li> </ul>
Task 8: Draft expression of interest (EOI) for credit bureau ownership, interview candidates, and select qualified candidates	<ul style="list-style-type: none"> <li>EOI published for the Fredonia credit bureau</li> <li>Responses received</li> <li>Qualified applicants interviewed</li> <li>Most qualified candidates determined</li> </ul>
Task 9: Recommend ownership	<ul style="list-style-type: none"> <li>Options for ownership of a Fredonia credit bureau discussed</li> <li>Recommendation made for ownership of Fredonia credit bureau, along with rationale</li> </ul>
Task 10: Conduct workshop	<ul style="list-style-type: none"> <li>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</li> </ul>
Task 11: Conduct study tour	<ul style="list-style-type: none"> <li>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</li> </ul>

## Phase 2: Implementation

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

Tasks	Milestones
Task 17: Create a public awareness education program	<ul style="list-style-type: none"> <li>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</li> </ul>

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:

<b>Functional Labor Category and Specialist</b>	<b>Labor Hours Ordered</b>	<b>Fixed Burdened Rate</b>	<b>Total</b>
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			
		<b>Total Fixed Price</b>	

- 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><b>Technical Approach</b></p> <ul style="list-style-type: none"> <li>• Demonstrates a clear understanding of the project objectives and the issues involved.</li> <li>• Presents a logical and coherent approach to reaching the project objectives.</li> </ul>	<b>40</b>
2.	<p><b>Key Personnel</b></p> <p><i>Credit registry expert and technical expert (35 points):</i></p> <ul style="list-style-type: none"> <li>• Qualifications: Demonstrated qualifications and work experience to provide effective technical assistance. Proven and verifiable success in the creation of public credit registries.</li> </ul> <p><i>The team leader/chief of party (20 points):</i></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul> <p><i>Other personnel (5 points):</i></p> <ul style="list-style-type: none"> <li>• Qualifications: Demonstrated understanding of areas of expertise essential to the satisfactory completion of this task order, complementing those of the chief of party.</li> </ul>	<b>60</b>
<b>Total</b>		<b>100</b>

## **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	



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