Developing Credit Information Sharing: A High Level Guide for Practitioners

Part 2 of the Credit Information Sharing Toolkit

PREPARED BY SOFTWARE GROUP

IN PARTNERSHIP WITH

FINANCIAL SECTOR DEEPENING KENYA

FOR

KENYA CREDIT INFORMATION SHARING INITIATIVE

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Last Updated:

06 August 2012

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Abbreviations

AMFI	Association of Microfinance Institutions
CBK	Central Bank of Kenya
CCK	Communications Commission of Kenya
CIS	Credit Information Sharing
CRB	Credit Reference Bureau
DTM	Deposit-taking Microfinance Institution
DFI	Development Finance Institution
EACBA	East Africa Credit Bureau Association
FSD	Financial Sector Deepening - Kenya
ID	Identification
ICT	Information and Communications Technology
IT	Information Technology
IFC	International Finance Corporation
KBA	Kenya Bankers' Association
KCISI	Kenya Credit Information Sharing Initiative
KUSCCO	Kenya Union of Savings and Credit Co-operatives
MIS	Management Information System
MFI	Microfinance Institution
PAR	Portfolio at Risk
SASRA	SACCO Societies Regulatory Authority
SACCO	Savings and Cooperative Credit Society

1. How to Use this Guide

1.1. Background

In the 1980s and 1990s, Kenya experienced a severe banking crisis precipitated by a high volume of non-performing loans. Several banks collapsed as a result of this crisis. In response, the Monetary Affairs Committee of the East African Central Bank Governors passed a directive in 1995 to facilitate the establishment of credit bureaus. Several business information companies that would eventually become Kenya's first two credit bureaus were formed within the next five years, but licensed credit bureaus would elude Kenya for another decade and a half.

The first regulations having to do with credit information sharing began in the early 2000s as parliament amended Kenya's banking act. Still, efforts to share information were hampered by lack of coordination, diverging interests, competitive concerns, and a lack of understanding of how such a CIS system would benefit the market. As a result, progress was slow, putting Kenya in a league of other countries which had started this effort in various capacities with little success.

In 2009, a confluence of factors stemming from a new regulatory mandate to share negative information among licensed banks, resulted in a coordinated effort that came to be known as the Kenya Credit Information Sharing Initiative (KCISI) and that would catalyse a (so-far) successful effort to create a robust CIS. KCISI began in earnest as a result of two key stakeholders coming together by way of a joint task force: the Kenya Banker's Association (KBA) and the Central Bank of Kenya (CBK). Shortly after the formation of a task force, sponsors were invited to take part in the process, providing both financial and technical assistance where necessary. This process was institutionalised through a formal project office, complete with a project manager and a corresponding (but limited) budget.

Within four years, the task force had achieved a number of milestones, the most significant of which was getting the agreement of key stakeholders including bankers and regulators to submit full-file credit information. This milestone is significant because it releases the full potential of any CIS by allowing financial institutions and other stakeholders to benefit from having information symmetry between lenders and borrowers. Among other milestones were successful pilots conducted testing financial institutional readiness to submit data to credit bureaus, information campaigns to both consumers and lenders about the benefits of a CIS, and successful (and unique) working relationships between regulators, lawmakers and financial institutions.

For further detail on the history of CIS in Kenya, the reader is referred to the case study, "Credit Information Sharing in Kenya: A Case Study" published by Financial Sector Deepening.

1.2. Objective

This guide codifies the lessons and insights learned from the Kenyan context into actionable steps that practitioners in other countries can use for similar efforts. It is designed for practitioners of all levels, from sponsors, regulators, and industry associations, who wish to learn how to successfully initiate CIS efforts within other contexts. We seek to provide practical steps supported by clear rationale that aid the user to understand how the different parts fit together to form a successful project.

1.3. Organisation

The guide is divided into two main sections: 1) how to prepare for CIS; and 2) how to implement CIS. The first section on how to prepare for CIS lays out critical steps necessary to lay a strong foundation in which to implement CIS. This section also shares the underlying rationale for each step in an effort to help the user understand why each step is important. The rationale is also shared so the user can understand how to best adapt these steps to the unique context in which s/he is operating.

The second section is dedicated to sharing detailed and practical implementation steps. By necessity, these implementation steps are given at a high-level as each step has many sub-activities. To the extent practical, these activities are shared in the guide as well. As with the first section, the intent is to allow the reader to understand the rationale for each step and provide alerts when we feel a particular step or activity is unique to the Kenyan context.

1.4. Using the Guide

Naturally, certain sections of the guide will be more interesting and relevant depending on the type of user. However, we encourage reading the entire guide so that the user can get a better sense for how each step or stakeholder contributes to the success of the project. As alluded to already, the Kenyan context is not a perfect blueprint for all contexts. Therefore, this guide should be a framework which is adapted to suit the user's context. To the extent possible, any context-specific peculiarities in an effort to aid the user in this regard are highlighted.

This guide is a living document. Kenya's CIS efforts are far from complete and as such, this guide simply represents lessons learned from early stages in the process. That said, CIS in Kenya is advanced relative to other developing contexts and this guide is expected to be a particularly useful tool to those who are in similar or earlier stages than Kenya.

1.5. Definitions

For clarity, this section lists definitions of selected terms.

1. *Data Subject*[1] – An individual person or organisation whose data is reported to a credit bureau. In most cases, a data subject is a borrower and participants in the formal financial system but may extend to other classes such as utility company customers, telecommunications company customers, or any individual in a public registry.
2. *Data Provider* – a stakeholder within the CIS ecosystem who provides data about a data subject. This includes banks, utilities, telecommunications companies, or public registries.
3. *Data User* – Any individual or organisation that uses credit bureau data in their decision making process. It includes banks and other financial institutions, landlords, employers or any other authorised such users who are authorised to access credit bureau data.
4. *Data Processer* – Typically a credit bureau or credit registry depending on the ownership structure. In this guide, the term is rarely used, preferring to refer directly.

[11] The nomenclature around Data Users, Providers, and Processor is borrowed from the World Bank Paper, "General Principles for Credit Reporting" published September 2011.

5. *Project Sponsor* – A stakeholder in the CIS process who makes significant financial contribution. This may include sponsor organisations, the government, industry or any other stakeholder who contributes financially. A sponsor may be a singular organisation or a consortium of organisations.
6. *Project Manager* – This refers to the individual with ultimate responsibility for driving the CIS effort.
7. *Project Champion* – The main advocate for CIS within an organisation. This person may or may not have formal authority to manage the initiative within the organisation but serves as the most vocal advocate within the institution.

1.6. A Word about Sequencing

The steps in this guide are ordered roughly in the order of sequence but this sequence may or may not be applicable to other markets. The authors note when a particular sequence is mandatory to the desired outcome. Otherwise, evaluate the appropriateness of this sequence to the specific market context.

2. An Overview of Credit Information Sharing

2.1. Definition

Credit information sharing (CIS) is the process of sharing information about consumers and businesses ("data subjects"[2]) with other users of the system. Optimally, CIS is a data ecosystem in which data providers bring value to the system by contributing data and derive value from the system by drawing information from the system.

2.2. Models

There are several models of CIS. Perhaps the most common is the private sector bureau approach where a privately owned company facilitates the process of credit information sharing. In this model, data providers provide data on a periodic basis – no less than monthly – to credit bureaus which then process this information and deliver various outputs, the most common being credit reports and credit scores on a given data subject. The private ownership structure means that a bureau's sustainability depends upon its ability to provide value-added products that the market values and therefore, encourages innovation on the part of these firms.

Another model for CIS is the credit registry. Here, information is typically collected by a firm and then disseminated to a specific set of users. The credit registry model is used more for supervisory purposes than for commercial.

Ownership of credit bureaus varies by market. Privately owned bureaus dominate but there are instances in which governments or industry associations own and manage the operations of credit bureaus and registries.

2.3. Logic of CIS

2.3.1. Systemic benefits

The benefits that flow to a financial market due as a result of the effective implementation of CIS are well documented. The clearest benefit is the reduction of information asymmetry between lenders and borrowers which can result in negative borrower behaviours such as over borrowing, intentional defaults, and fraud. Due to the scarcity of information, lenders are in turn forced to manage risk based on "average" risk leading to higher lending rates and the equal treatment of all potential lenders. In this system, responsible borrowers unjustly bear the costs for the actions of irresponsible borrowers[3].

Effective CIS systems go beyond individual risk reduction. They improve overall transparency in the market, encourage financial innovation, and provide powerful tools for fraud detection. The benefits of this system as addressed according to the three main stakeholders who benefit the most: data subjects, financial institutions, and regulators. Naturally, private credit bureaus also enjoy a financial benefit but that is beyond the scope of this discussion.

[2] This term is borrowed from the World Bank Publication, "General Principles for Credit Reporting" published September 2011. This section makes moderate use of that report in this section.
[3] Turner, Michael, PhD.

2.3.2. Benefits for data subjects & users

Data subjects fall into two classes: consumers and commercial organisations. In an effective CIS environment, responsible data subjects enjoy lower costs of borrowed capital, have access to more innovative financial products, and have better negotiating power.

Data users – or those who use the system without necessarily being a subject – also benefit from the system. Examples of users in this class include landlords, employers, and insurance companies all of whom may want insights into the character of a potential tenant, employee or new customer. In sophisticated credit markets, responsible borrowing has been linked in varying degrees to other positive attributes such as responsible driving. It is not uncommon for instance, for insurance companies in the in the US to request credit reports when underwriting potential new drivers because customers at the highest tiers have lower accident frequencies than lower-scored counterparts.

2.3.3. Benefits for financial institutions

From a risk management and profitability perspective, financial institutions stand to reap substantial benefits from CIS. Reduced information asymmetry enables better decision making in the loan appraisal process. Value added products from credit bureaus and analytics firms also enables better internal risk management of their portfolios and lending practices. Financial institutions with advanced analytical capability can dramatically benefit from CIS as they offer risk-adjusted products with higher profit potential. Credit providers also have a natural incentive to participate in CIS because of key network effects: the more of them that participate, the better the industry is able to combat systemic issues such as fraud and over borrowing. Institutions that dedicate themselves to the full potential of CIS also enjoy operational efficiencies particularly as the CIS system develops the credibility in accurately predicting borrower behaviour.

2.3.4. Benefits for regulators

Regulators are an important (and unlikely) beneficiary. Prudently managed systems (in theory) result in better managed financial systems that are more stable. A notable exception was the global financial crisis which was fuelled in part by the “sub-prime” lending debacle where lenders ignored lending fundamentals and irresponsibly lent to borrowers who did not have the financial capacity to repay. Notwithstanding this exception, regulators gain important supervisory tools through an effective CIS. For example, central bankers can compare submissions by member banks with submissions to credit bureaus to gauge reporting compliance levels. They can also perform systemic analysis to understand potential problems and areas of vulnerability.

2.4. Pillars of CIS

Good CIS systems are composed of three critical pillars: data, security and governance. Without one of these pillars, the system is dramatically compromised and will have a limited ability to grow or achieve envisioned levels of effectiveness.

2.4.1. Data

Data is the foundation of credit information sharing. Without data, by definition there can be no information sharing. Because data is a critical pillar, special attention must be paid to ensuring its accuracy, completeness, and validity. These functions are the shared responsibility of data subjects, providers and credit bureaus. As more and more decisions are made on the basis of credit reports within a market, the reliability of the basic information must be solid.

This data comes from different sources including credit providers, utility companies, public registries, landlords, the government, and even the judicial system. Since data is so foundational, the more data provided the better, especially in a typical credit-bureau arrangement where this data is being made available to a large number of data users.

The data provided to credit bureaus falls into two classes: negative only data and positive or "full-file" information sharing. As the name implies, negative data is only submitted when triggered by a negative event such as default, late payments or fraud. The usefulness of a negative only data system is limited to identifying a very small population in relation to the entire credit market. Therefore, negative only systems offer a fraction of the benefit to data users. Positive or "full-file" information sharing is far more useful in determining and predicting borrower behaviour. And because anyone participating in the formal financial system is captured in such an environment, the potential for bureaus to offer higher value added services is much greater.

2.4.2. Security

Due to the sensitive nature of data that is shared in this system, security is paramount. Security extends to three areas: data storage, access, and use. From a data storage perspective, any data provider must provide for the secure storage of sensitive information. This includes thinking through encryption and storage media issues. Credit bureaus are also heavily tasked with ensuring that data remains secure within their bureaus as any breaches can significantly undermine the system. Regulatory restrictions can also affect the need for data security. In some markets, certain data users are provided access to data while others are not. Credit bureaus need adequate safeguards in place to ensure regulatory compliance.

Commented [GOK1]: Would it be worthwhile to mention impact of regulations on storage? Ie can't mix data from banks/mfis.
KN: DONE

Data access involves issues of data processing. Organisations must have appropriate protocols in place to prevent unauthorized use of data either from internal employees or from more malicious sources. This involves thinking through the data processing chain, from initial data entry to processing, to the submission of data to credit bureaus.

Data use is the proper utilization of data. Authorized personnel who use data for personal gain or illegitimate purposes open themselves up to litigation risk and more importantly, they erode trust in the system. This is the area open to the most abuse and therefore, must be carefully managed both by data users and by regulators.

2.4.3. Governance

Good governance is a critical component of CIS. Governance entails both regulatory measures and industry practice. Regulatory measures govern the proper use of credit information. It balances the tension between consumer rights to privacy with the need for enough transparency to enable good decision making. It also ensures that credit bureaus are adequately supervised.

Industry practice drives areas such as risk management and codes of conduct and ensures that the overall system derives integrity from a system of checks and balances. Without good governance especially on the part of credit bureaus, the promise of CIS is likely to be unrealized.

2.4.4. Communication

Communication is an essential part of launching any CIS effort. Effective communication accomplishes much: it aligns stakeholders to the effort, it is an effective tool for obtaining buy-in

especially from key stakeholders, it facilitates ownership of the process to the major stakeholder classes, it helps in building the momentum necessary for the effort to succeed, it overcomes resistance from stakeholders who are not convinced of the benefits, and it is an essential way to overcome many of the expected hurdles. Done well, communication unlocks funding, contributes to thoughtful regulations, and results in the types of effective governance structures that enable a thriving CIS environment.

2.5. Enablers of CIS

In addition to the critical pillars mentioned above, the following components enable the growth and effective utilization of CIS. Though not critical, their absence will likely slow down any CIS effort.

2.5.1. Efficiency

The efficiency of an effective CIS system is measured by the data cycle and how quickly users are able to derive benefit from the system after providing data. This is a result of several processes, the first of which starts on the data provider side. The minimum recommended time between updates is once a month. This ensures that data users are making decisions based on accurate and timely information. Ideally, data will be submitted on a real-time basis but this is not always a practical or realistic expectation. Once submitted, credit bureaus should have minimal processing times so that newly submitted information is processed and usable within a reasonable period of time.

Efficiency also refers to data access. An efficient system will provide an interested data user with information nearly instantaneously. This allows credit providers, lenders and underwriters to make rapid decisions enabling higher processing volumes and shorter wait times on the part of data subjects seeking new services.

2.5.2. Reliability

The CIS system must be reliable to be successful. Reliability in this case goes beyond data integrity to system availability. If lenders and other users make heavy use of credit bureaus in obtaining credit reports, the ready availability of the system is critical. For organisations who rely on this information as a matter of policy (or compliance mandate), system downtime can screech their operations to a halt.[4]

2.5.3. Scalability

System scalability ensures that any user who desires to use the system, and has the appropriate authority to do so, is able to use the system without overloading the system. In this case, scalability refers to the ability of the system to grow and handle large volumes both for data users and data providers – often simultaneously.

2.5.4. Technology

It goes without saying that these previous three enablers and the first two critical pillars are a result of a robust technical infrastructure. Massive capital expenditures in the infrastructure of credit bureaus, data users and data providers are typically necessary to build a well-functioning CIS.

[4] World Bank Report, "General Principles of Credit Reporting", September 2011.

3. Laying the Foundation for Credit Information Sharing

3.1. Preparation Overview

Effective preparation for CIS is a multi-dimensional exercise. At an elementary level, it involves a realistic assessment of whether or not the context is ready for CIS. This assessment may be intuitive and obvious based on an examination of a country's context, or it may be more systematic, the result of a professional assessment exercise. But at an even more rudimentary level, it involves a degree of psychological readiness for setbacks and a deep commitment from a number of important stakeholders.

Perhaps the most obvious question is *who* should be doing these assessments and who should prepare for this. Kenya's experience leads to two insights: 1) The initial stages of CIS implementation are often organic with no real process "owner"; and 2) There must be a strong project sponsor who is willing to make financial and other resource commitments to ensuring the project's success. This person (or more often organisation), must be committed to the project's success.

Commented [GOK2]: I find this a bit contradictory- first we say no real process owner but then say must be a project champion, who to me sounds like an owner.
KN: CHANGED TO PROJECT SPONSOR – I think this is what I meant and also is the rough FSD equivalent

Prior to 2008, Kenya's CIS process was mostly organic, evolving slowly. Regulators and banks had in response to a severe banking crisis in the 80s and 90s, started discussing the need for a CIS. In fact, Kenya's two unlicensed credit bureaus began operating during this time with limited effectiveness due to a paucity of data. In 2008, this organic process was transformed when a joint task force between the KBA and the CBK was formed to address the issue more deliberately. Shortly after the task force formation, Financial Sector Deepening Kenya (FSD) was invited by the members of the task force to take part in the process. After joint deliberations, a project office was formed which was to be the driving force of the effort. Kenya's organic process had transformed into a formal process with real accountability and commitment from a key actors.

This experience answers the question of who should take part in the preparation effort for CIS. At least three parties are critical to the success of the project: sponsors, industry, and regulators. From a sponsor perspective, the financial undertaking of sponsoring a CIS initiative is substantial. Technical assistance grants, subject matter experts and project management all largely need to be funded from sponsors, at least initially. Arguably, more important than the financial contribution is the time and resource commitment from sponsor leadership to the success of the project. Establishing a robust CIS goes well beyond typical sponsor timelines of three to five years, realistically taking anywhere from seven to ten or even fifteen years. Although the project can be segmented into smaller phases, without a sponsor willing to see the project through, odds of success are drastically reduced. Indeed, Kenya's case bears this out pre-2008.

The industry is also a critical part of this process and it can participate through its prominent associations. The industry plays an important role in catalysing other actors. It is the industry that has to buy into the CIS, that has to participate in the process, and that ultimately releases the benefits of CIS into the market. Preparation on the part of the industry requires a commitment from its most influential members to be a part of a process that is often disruptive and costly to their business operations. This cost is borne well before the benefits are ever realized. Understanding and taking the long-view is a critical ingredient. In the case of Kenya, the industry worked closely with regulators and sponsors to undertake a variety of activities from educating the market to working

with credit bureaus. It also contributed financial and in-kind resources. Without the willingness of industry to make these types of investments, any CIS effort will come up short.

Regulators also play a pivotal role in the process. Strictly speaking, regulators are not a pre-requisite to a successful CIS but they are an important actor. In Kenya's case, they were critical. Regulators play two roles: 1) they enable the environment of information sharing and 2) they create the necessary consumer protections to facilitate trust in the system. Unless the market understands and independently initiates CIS, regulators are necessary in jumpstarting the process. It was not until Kenya passed laws mandating information sharing that CIS efforts truly took off. Preparation from regulators includes a willingness to pass laws mandating information sharing. It also involves an open and flexible attitude that adjusts to the circumstances and is willing to work closely with the industry and sponsors to ensure an effective system is created.

3.2. Establishing Baselines

3.2.1. Definition

Baselines are the anchor point at which something is measured. They are used to measure progress before and after a particular action. Assessments are the foundation of baselines if structured correctly. In this section, the terms baseline and assessment are both used to mean the process of conducting a formal evaluation of a particular problem or area with the intention of understanding that issue systematically.

3.2.2. Rationale

With respect to credit information sharing, establishing baselines or conducting preliminary assessments is important because it reveals the relevant market dynamics and areas of focus that any practitioner serious about effecting CIS should be aware of. Assessments are helpful in revealing prevailing thoughts and attitudes around CIS, potential barriers to implementation, existing resources, and perhaps most importantly, the market's readiness for any CIS efforts.

3.2.3. Guidelines

Preliminary assessments may be conducted in any number of areas. In general, the more the better, but due to resource constraints, priority should be limited to five primary areas: industry willingness, regulatory environment, sponsor readiness, credit bureau capacity and technical considerations.

Industry willingness

Without cooperation of the industry, participation will either be non-existent or at best, very limited in its effectiveness. An assessment of the financial markets should be conducted to see if they see the value of credit information sharing. The nature of financial markets in countries can be very divergent: some markets are heavily regulated and have few potential credit users while others are fragmented with credit providers across a number of financial sectors. To the extent practical, the assessments should cover representative samples of all major financial sectors. When resources are limited, then the assessment should focus on the "lynchpin" actors – those whose influence is largest in the market.

Industry willingness can be measured in several ways. The easiest is through industry associations to the extent that those associations are active and have adequate representation of member institutions. These associations can play a large role in any subsequent efforts so care should be made to cultivate good working relationships at the outset. Direct surveys to member institutions are also another effective method, if a bit longer. These surveys have the advantage of providing direct and potentially unbiased input into the process while revealing individual preferences. Having insight into who understands the value of CIS may prove beneficial to a subsequent initiative.

Regulatory Environment

Regulators can either bar or enable effective CIS efforts and therefore, they need to be involved from inception. The regulatory environment as a whole should be well understood as it can range from simple to complex.

Therefore, a complete assessment of the regulatory framework involves the following assessments:

1. Evaluation of existing laws
2. Evaluation of existing regulatory agencies, their functions, oversight jurisdiction and leadership attitudes
3. Prior working relationship of regulators with the industry

Evaluation of existing laws

Existing laws should be evaluated to understand how existing laws would affect the CIS effort, positively or negatively. For instance, in some countries, consumer protection laws can be so strict that they effectively restrict CIS. In others, regulators may have a completely open system without any prior regulatory framework for CIS. Understanding a particular country's regulatory framework is essential to any CIS effort.

Evaluation of existing agencies

The law is a good starting point for assessment but in practice, many institutions are regulated through regulatory agencies who develop a number of guidelines for their respective jurisdictions. Further, financial sector oversight can be fragmented into different agencies. Banks for instance may be under the purview of the central bank while non-deposit taking microfinance institutions (MFIs) could be regulated through a different body. Coordination is a key part of driving CIS and it begins with understanding the different actors.

In evaluating these agencies, it is important to get a sense for the regulatory dynamics and leadership within each agency to understand the most effective intervention mechanisms. Regulatory regimes do not exist within a vacuum and many times, politics and power are an important factor for consideration. A thorough assessment will attempt to define the regulatory dynamics within each industry and identify the most influential (and potentially effective) regulatory agencies with which to work with.

Industry/Regulator Dynamics

Another key dynamic deserving of a separate mention is the relationship between industry and the regulator. There is a natural tension between regulators and the regulated but the nature of these relationships in specific contexts will vary. In some countries or regulatory jurisdictions, the relationship can be quite cordial. Others will have more adversarial relationships. A central assumption and recommendation of this guide for forming CIS is creating good working relationships between industry and regulators; how to do so effectively will depend on an informed perspective of any pre-existing relationships.

A comprehensive assessment will also seek to understand the dynamics of change in the industry. How does the industry enact widespread change? Is it mandated by the regulator or is it typically driven through innovation within the industry? The answer is usually some combination but it is important to understand how individual sectors work with respect to enabling systemic change.

Sponsor readiness

Sponsor readiness is comprised of a sponsor's willingness to make sustained financial contributions to a project and its willingness to devote or acquire the internal human resource capacity needed to

supervise a resource-intensive task. In this guide, a sponsor is any actor who has the financial capacity to make a significant contribution to the CIS effort – typically at least several million dollars. It may be a development agency, the government (rare, but possible), or an outside investor who is willing to bankroll this effort with a long-view towards a private gain (even more rare, but still possible).

Whereas the industry and regulator willingness may be carried out through formal instruments such as surveys, assessing sponsor readiness is a matter of relationship building and networking. As a practical matter, carrying out this assessment will require patience, diligence, and time.

Credit Bureau Capacity

Credit bureaus are the primary intermediary of any credit information sharing system. They are the organisations primarily tasked with aggregating information from the various sources of information and disseminating it in a standard format – typically a credit report or credit score. Credit bureaus also create the value added products that begin to unlock the full potential of a financial system. Existing credit bureaus should be evaluated. There are three possible outcomes: no existing credit bureaus, nascent credit bureaus, and well-developed credit bureaus. If no existing bureau exists, the assessment exercise becomes one of identifying potentially suitable (and interested) international credit bureaus or assessing the feasibility of establishing one. If existing bureaus exist, attention should be given to their internal staff capacity, especially with respect to developing highly sophisticated analytical products, their data infrastructure and their internal controls. If a well-developed bureau exists, the assessment focus may be on the role they are able to play in this effort and their ability to provide technical and financial assistance.

Technical Considerations

Any credit information sharing mechanism depends on timely and accurate up to date information. This is usually facilitated through technology and specifically, the information systems for information users, providers and the credit bureaus. This requires high levels of network reliability and stable Internet connections. Many countries today have adequate connectivity levels but if they do not, practitioners should consider whether the CIS effort is still practical and if so, how to best overcome these technical hurdles. Even in markets with stable and reliable Internet connections, significant capital investments are required for both information providers and under-developed credit bureaus to sufficiently address issues around data protection and access.

Methodology

Any of the assessments above can be done informally or formally depending on resource constraints, prior knowledge of the market, or the practitioner's individual ability and capacity to carry out such assessments. The best method in which to carry out these assessments is through an independent third party that can methodically develop the instruments to carry out this assessment. However, a practitioner may have the resources to carry out these assessments internally. Care should be taken when doing so however, to identify potential biases and develop ways to control for them.

If carrying out formal assessments is not an option, informal assessments can be carried out by networking with key influencers in each of the different areas identified above. Careful

documentation should be kept of these types of conversations so that they can be referenced if a CIS effort is deemed to be feasible. If CIS is not deemed to be feasible, these notes can serve as a valuable historical tool for future practitioners who may revisit the context's fit for CIS at a later date.

3.2.4. Success factors

When conducting assessments, the following success factors are important to keep in mind. They are not being offered as a law; rather as key considerations that will enable the best possible outcome:

1. **Focus on influencers** – it is not possible to assess every person's attitude – nor is that necessary. Prioritize resources to identify key influencers in each market. Often, a small group of 3-5 powerful individuals or organisations may be enough to enact change
2. **Understand sequencing** – an industry assessment may indicate that the industry is not willing or ready. This should not discourage the practitioner if other elements of the assessment reveal mitigating dynamics. For instance, the regulator may have a central role in sparking industry change. The power of the regulator's "stick" far outweighs industry hesitation. That said, any effective CIS effort will understand the industry's reticence and seek to address it adequately since they are the primary users of the system.
3. **Understand sponsor dynamics** – different sponsors have different internal dynamics and external tendencies. Some sponsors place a high value on discrete projects with shorter time horizons. These sponsors can still be particularly useful in enacting change at various points in the system. Other sponsors are willing to take risks on a longer-term basis. These sponsors may be the best choice to champion a CIS effort. The goal of the assessment at this stage should not be who the perfect sponsor is, but rather, the general sponsor appetite for a project of this magnitude. Therefore, it is important to consider sponsor dynamics in the context of their stated funding priorities, the larger sponsor context within the country and any prior historical sponsor efforts in this area.

3.2.5. Contextual notes

In Kenya, the regulator/regulatee relationship in the banking industry is unusual in that the industry has a close working relationship with the regulators. This has facilitated to a large degree the success of CIS in Kenya. It remains to be seen how this dynamic will remain or change as efforts spread beyond the banking industry.

Commented [GOK3]: Should this be regulatee? Hmm Microsoft doesn't like it but not sure
KN: Sometimes we can just overrule Microsoft ☺

Also in Kenya, not every financial sector activity has clear regulatory agencies providing oversight. In the microfinance sector for instance, the primary industry association is the Association for Microfinance Institutions (AMFI). There is no regulatory body that can compel microfinance institutions in the same way the Central Bank of Kenya (CBK) does in banking. Apart from parliament's laws, the dynamic in the MFI industry is driven more by a compulsion to voluntary conformity than to formal conformity to regulations (with the exception of deposit-taking microfinance institutions who are regulated under the Central bank).

In Kenya, not only do different financial sector players fall under different regulatory bodies, but they also fall under different ministries. This has the potential to create jurisdictional issues and conflicting regulations that affect the integrity and effectiveness of CIS especially when organisations consider issues of reciprocity of providing and accessing credit information. The practitioner is

advised to understand how the financial sector in a particular context is subject to these types of structural (and political) considerations.

3.3. Defining Objectives

3.3.1. Definition

In the broadest sense, an objective is a goal that one wishes to achieve. In the context of CIS, this has the potential to be so broad as to provide little practical value. Objectives as considered by this handbook are a series of sub-goals designed to achieve the overall goal of effective credit information sharing. It therefore assumes that this is the practitioner's own overarching objective.

3.3.2. Rationale

Setting objectives is a prudent exercise for anyone considering embarking on an extensive mission to create an infrastructure effective credit information sharing. The main reason to set objectives is to understand in practical terms the work needed to achieve CIS. Done well, setting objectives extends far beyond wishful statements and into practical expressions of what it will take to be successful. Good objectives serve as a prelude to the road mapping exercise where detailed outputs and activities can be defined. Objectives give a clear high-level picture of the key steps needed in the implementation phase and will guide the context-specific adjustments that need to happen.

3.3.3. Guidelines

Setting objectives follows the assessment process. The assessment work should reveal at a high-level the gaps that the practitioner must work on and to some degree, the correct sequence with which to address these gaps. Objectives should therefore closely match the results of the assessments.

Beyond the assessment process, objectives should also be set based on the guidance in this document. For example, if there are no existing credit bureaus, one objective will naturally be to create one or facilitate the creation of one. This would not directly come from the assessment but should be a logical conclusion.

Good objective setting should also involve follow goal-setting best practices. One of the most widely used frameworks is the SMART approach: goals are to be specific, measurable, attainable, realistic and timely. By using this framework, an automatic discipline to evaluate goals is imposed upon the practitioner to ask probing questions about each desired objective and its appropriateness to the project. Following the discipline of setting objectives by this framework gives the practitioner a strong foundation upon which to create a project roadmap later on.

Well defined objectives need to be a priority in several areas. These key areas may be viewed loosely as the pre-conditions for any CIS effort. These areas are: infrastructure considerations, regulatory considerations, and data scope. These are discussed further below.

Infrastructure considerations

Effective CIS has minimal infrastructure requirements in order for it to be successful. One clear pre-requisite is unique identifiers for the population such as a national ID, a social security number, or other clear method for identifying individuals. Without this being present, collecting information and accurately identifying it to the right person becomes a monumental task. In countries without this basic infrastructure, credit information sharing efforts are likely to be limited in their effectiveness. Any regulator, potential sponsor or other CIS practitioner should understand if the basic

infrastructure is in place before undertaking a CIS effort. If it is not in place, this should be the first objective of such an effort.

Other requirements include the presence of an adequate technology infrastructure. This includes reliability of electricity and stable internet and telecommunications networks. If these are not present, a CIS effort is likely to require heavy redundancies and higher operating costs especially for credit bureaus, data providers, and data users all of whom would likely incur higher capital investments in technology than would already be required. Although this can be overcome through certain means, practitioners should reconsider any CIS effort in an environment where technology is inadequate and make this a pre-condition to commencing the project.

Regulatory considerations

There are a number of regulatory considerations that regulators and other practitioners must pay attention to in the CIS effort. The following list of questions is non-exhaustive but provides practitioners a variety of topics to consider as they consider the CIS effort. These questions help guide the objective-setting exercise with respect to regulatory objectives.

Regulation of credit reference bureaus

1. Should the bureaus be a privately owned bureau or a publicly run bureau?
2. If it is privately owned, should it be industry-owned or independently owned?
3. What is the best way to develop existing bureaus? If there are no local CRBs, what is the best approach to attracting an international bureau or paving the way for new local bureaus?

Regulation of CIS

1. Should the nation have a comprehensive national credit act or is it better to regulate through individual agencies?
2. What are the best governance frameworks for CIS?
3. What is the best dispute resolution mechanism?
4. What are the appropriate levels of consumer protection?
5. Which data sources should be included as part of CIS? Who should be mandated to participate in the process?

Regulatory involvement

1. Which agency should be involved in leading the effort on the regulatory side?
2. How much should regulatory agencies commit to this effort in terms of financial cost and in-kind resources?
3. Which agencies should be involved in the CIS effort? What is their appropriate role?

All these questions and more should be part of a structured policy debate among regulators and stakeholders such as potential sponsors, industry and other interested stakeholders. Ideally, policy papers should be generated exploring the different options and building the case for particular policy choices. The best CIS efforts have a strong regulatory component which has carefully considered the particular contextual factors and arrived at a well-structured, thoughtful and balanced regulatory policy.

Data scope

One key decision at the outset of implementing CIS includes the data that should be included as part of CIS sharing. The guide recommends including both positive and negative information from all credit providers in a market. Beyond this, there are other important sources of information that may be included. This includes landlords, utility companies and public registries.

Public registries should carefully be considered due to their unique nature. There are a variety of registries including company registries, national ID registries, land registries and a host of others. Not every public registry will have relevance for CIS and the risk of overcomplicating the effort should be factored in. Some of the factors to be considered in evaluating whether or not to include a certain registry include privacy, usefulness of data to other providers, existing regulation and ease of modifying them, and practical ability of these registries to participate in CIS.

If public registries are to be included, then the regulatory champion and project managers should have a strategy for helping facilitate credit bureau access to these registries through some cooperative mechanism.

3.3.4. Success Factors

The success factors needed for effective goal setting are clustered around the principles of flexibility, organisation, and collaboration. These are articulated below:

1. **Be flexible:** Truly detailed objective setting happens once a project team has been formed and is in place. For an isolated practitioner considering CIS, the first few objectives may not be a massive project, but rather, the undertaking of getting the buy-in and resources to form a formal project team. Therefore, this is one area where the next section (3.4 Establishing Leadership) may come after the assessment phase and then followed by this objective-setting exercise. It is also important to understand that these objectives may change as new information comes to the surface. Therefore, it is important in this early phase to remain open to change.
2. **Be systematic:** A broad goal of creating an effective CIS infrastructure is daunting if it has never been done before. But if this objective is systematically broken down into its component parts, it can seem less overwhelming and provide a good starting point even if the practitioner may never personally see the task through to completion.
3. **Be collaborative:** Depending on the project stage, setting objectives should be a collaborative effort. At a minimum, key stakeholders should be a part of the process. The implementation section later discusses this in detail, but at a high-level, early planners and practitioners in this process should have a prevailing sense of unity among the initial objectives.

3.3.5. Contextual Notes

In Kenya, the reader will remember that in 1995, the EACBG issued directives to facilitate credit information sharing. Although the market soon responded with the formation of two business information companies that would eventually become Kenya's first two licensed credit bureaus, there was no formal effort. As such, these directives although useful in starting a process, were so

broad and uncertain that they could not be considered objectives in the sense in which they have been defined here. They also point to the need to closely follow the SMART framework in goal-setting to ensure accountability, discussed in the next section.

Before banking regulations went into effect in 2008 mandating formal information sharing, the International Finance Corporation and the East Africa Credit Bureau Association had worked together to effect those regulatory changes. Their objective as a coalition was clear: change the law to facilitate credit information sharing. Because they had a specific and measurable goal that was also realistic (Kenya's laws had been evolving in this area since the early 2000s) and timely (banks were suffering from non-performing loans), they were able to coalesce resources in concert with other actors to influence the law. This enabled them to successfully meet their objective.

Objective setting in Kenya continued, this time in response to a regulatory mandate to participate in negative-only information sharing among licensed banking institutions. The process of objective setting was dynamic, first starting when the Central Bank of Kenya and the Kenya Banker's Association formed a joint task force to consider how banks could be comply to these regulations. Sponsors became part of the discussions and soon, they realized that the best way to effect change was to create a formal project office tasked with driving this project. With the formal project office, further objectives could be set.

This experience points to several lessons in objective setting. First, the principles of flexibility, buy-in and organisation are reinforced – the setting of one objective and its successful achievement led to additional objectives. Sequentially, some objectives happened before a formal accountability was created. Others happened only after the structure was created, pointing to the dynamic nature of the process. And finally, setting objectives is usually not an exclusive role. Different people set different objectives and each party focusedon their objectives to contribute to the larger project. In hindsight, these different objectives were discrete components of what was necessary for a functioning credit system and each actor played an important role.

This experience imparts a final important note: time and circumstance frequently do not permit a neat sequencing of events, but if each actor plays their part well, they can still make a meaningful contribution to the process of creating a robust credit information sharing infrastructure.

3.4. Establishing Leadership

3.4.1. Definition

Leadership is the process of leading others towards a defined objective. In the context of CIS, establishing leadership is more narrowly defined to mean the process of creating a formal structure with the responsibility and authority to drive the major aspects of the CIS process. This structure may reside within an organisation or exist separately.

3.4.2. Rationale

It is possible but rare to encounter an instance where an effective CIS system was developed without a formal process. At a minimum, in a vacuum of leadership, regulators have shaped the outcome of a CIS industry. With an absence of leadership, there is a lack of clear roles and responsibilities and the myriad of concerns each party has is likely to overshadow any promise of potential benefits. Proper management of the CIS process is complex. It requires an acute understanding of many

different (and sometimes competing) factors. A formal project structure provides the different actors a single point of contact and enables the coordination needed to address the gaps identified in the assessment phase. If objectives have already been set, a formal structure enables the accountability needed for a detailed project roadmap to be executed. If they have not yet been set, this provides the optimal forum to set objectives and achieve the necessary buy-in.

3.4.3. Guidelines

Leadership has been called an art and in the process of establishing CIS it is an appropriate reference. The guidelines provided here can only be considered indicative best practices and not exhaustive in any way. Leadership structures will vary dramatically by context. In one context, the regulator will be in charge; in others, the credit reference bureaus may delegate that task to an association; and in other contexts, financial institutions themselves may come together to create an independent, jointly owned structure. That said, the principles applicable in creating a leadership structure are universal and will apply regardless of the actual structure created.

The requisite leadership structure for driving a CIS process needs to have clearly defined roles and responsibilities, the ability to work well with key influencers, recognized authority and a competent leader.

Define Roles and Responsibilities

No one leadership structure will be able to do everything that a successful CIS requires no matter how well funded. By necessity, different actors in the system need to be responsible for their individual and collective responsibilities. Still, the leadership structure created needs to have a project orientation and be responsible for ensuring the completion of certain tasks including communication and coordination. Each individual in the organisation should have clearly defined roles. These may fall along functional roles, such as communications, legal/regulatory, and technical. In a project of this magnitude, management by committee is not the appropriate leadership structure.

Develop ability to coordinate

The core function of the leadership structure and project team is one of coordination. The team often needs to coordinate between industry associations, regulators, IT personnel, credit bureaus, and consumers. These tasks are often accomplished with the help of consultants and the coordinated parties but core responsibility for the coordination lies with the organisation. As such, the leadership structure needs to be established in such a way as to maximize the success of this function. This may mean sourcing its team members from the industry, actively working to create those relationships, or finding other mechanisms to open the channels of communication. Care should be chosen to avoid creating appearances of conflicts of interest which is often a core concern among many industry participants in the nascent stages of CIS initiatives.

Recognized Authority

Regardless of where the project team comes from, the leadership structure needs to have recognized authority. This is an area that requires local fluency in market dynamics. In some markets, the regulator has the most authority; in others, financial institutions and the private sector wield considerable influence. The practitioner needs to be aware of these dynamics in deciding the

best leadership structure. In an industry where there are no credit bureaus, outside bureaus coming in and establishing a leadership structure through their own industry association is likely to have dubious authority within the market, hampering their efforts. In contrast, the local banking institution may be well respected in a number of different circles and have the best chance of creating a successful leadership structure.

Competent Leadership

A well-designed leadership structure with a poor leader is destined to failure. Enough cannot be said about the need to select a competent project manager for this effort. This is not the person with the highest academic credentials or most experience of the market. A competent leader should have the ability to see the big picture, adapt and be flexible to changing conditions, the self-awareness and willingness to learn new things, the personal credibility and authority to lead an internal team while interfacing with senior members of the external environment. S/he is preferably a senior person with relevant experience to bear, a deep familiarity with the context (or ability to learn quickly if being an outsider is not an intrinsic hindrance to the effort), and perhaps most importantly, should not have any real or implied conflicts of interest. The CEO of a major bank for instance, may not have the credibility to lead this effort if other actors have heightened competitive concerns.

Forming the project team

After establishing the overall leadership structure and selecting the project manager in charge of driving the overall project, the next step is to assemble the project team. Each project team generally needs several competencies to be effective. These competencies may be structured in any number of ways but the simplest approach is to hire staff that can spearhead each competency area. There are three competencies in general that the CIS project team must play a significant part in: communications, legal and data/technical. These areas are discussed below.

Communications

Communications is arguably one of the most important areas the project team is responsible for driving. Therefore, having a strong communications lead is critical to the success of the project. This person is responsible for managing all the communications efforts among stakeholders and plays a vital role in supporting the project manager's communications efforts. As a result, the communications lead needs to have a number of qualities to enable success. These includes strong organisational skills, an ability to understand the big picture to tailor communications messages appropriately, an analytical ability to process information and make resource allocations decisions wisely, and the critical skills necessary to assess what is and is not working to make the right adjustments. To do this proficiently, the communication's lead should also have an awareness of the available communications channels. These may include television, radio, newspaper, branch advertising, newsletters, field visits or any number of other channels. Knowing which communications channel to use is an important part of the resource allocation process and an area in which the communications lead should have proficiency. Because this person frequently works with senior-level personnel and will also coordinate communications campaigns with outside parties, this person also needs a high level of professional maturity, an ability to supervise various third parties, and their own ability to communicate clearly.

Commented [GOK4]: What about awareness of the most effective communication channels for the context.
KN: Done

Legal

The legal lead is in charge of supervising efforts taking part on the regulatory front. This person may coordinate an internal legal team or be in charge of commissioning outside legal counsel to advise on the appropriate regulatory strategy. The legal lead does not need to be a lawyer, but s/he needs to have a firm command of the regulatory landscape and be willing to build relationships across a variety of regulatory agencies. Frequently, and especially in the early stages of CIS, this person also needs to have the ability to build productive relationships with a wide range of stakeholders which may include industry associations, data providers, credit bureaus, and regulatory authorities.

Additionally, the legal lead should have a strong orientation towards detail especially as it relates to regulations. In early stages of CIS, the regulatory framework is evolving and as lawmakers circulate drafts of potential regulations to the CIS project team, the legal lead needs to understand the implications of small nuances in language. Attention to detail is critical to catch phrases that can seem innocuous but have large impacts in the regulatory sphere.

The legal function also requires frequent coordination. This coordination can happen between banks and other data providers seeking to create an association, it could be between a task force committee charged with reviewing draft regulation, or it could be at sensitization forums that happen as part of a communications campaign. The legal lead needs to accurately assess stakeholder needs and desires and manage them within the context of building a strong regulatory framework while being able to effectively coordinate any (and often) conflicting needs and desires.

Data/Technical

The process of beginning CIS has a large data management and technical component. This component often starts with the development of a data specification but extends to other areas such as helping data providers become compliant with the data specification, working with credit bureaus to facilitate the initial submissions of data, evaluating institutions for readiness to take part in CIS, and with providing support on various technical issues. Due to the highly technical nature of this function, the data lead should be proficient with the salient parts of data management. This includes understanding emerging standards for data sharing, different file formats along with their advantages and disadvantages, the current management information systems used by data providers and their corresponding limitations, internal staff competencies within data provider organisations and a familiarity with the existing technology infrastructure within the country.

In addition to being proficient with the technical aspects of data management, the data/technical lead should also have a firm grasp of the various data elements within a CIS environment and understand their implication in the CIS effort. Most often, this knowledge is gleaned from having worked in the industry, possibly as a credit officer or other such role, but it may also come from other experiences or be inculcated through training. Regardless of how it is gained, it is important that the data lead possess a high degree of understanding of how the data specification affects lenders operationally and in their underwriting process. This knowledge helps facilitate better communications with the different stakeholders and also allows the data lead to act as an interpreter of sorts between the business-oriented stakeholders and technical staff in charge of the actual submission process.

Commented [GOK5]: I would argue that they also really need to know the meaning of the data- ie sound understanding of credit and data elements related to processing credit facilities. Just thinking of how we need Mark to really understand the implications of the data definitions and provide guidance to the Banks/MFIs on how to fulfil them.

KN: Just added a paragraph ("In addition…") I think this covers it but feel free to change.

These tasks require a high degree of technical and managerial proficiency. On the technical side, the data lead should have sufficient training in computer science or related fields. This training may be formal or have been acquired as a result of professional experiences. On the managerial side, the data analyst needs strong organisational skills and high orientation towards detail. The lead should also be patient in nature, understanding that the process of preparing organisations for CIS can be filled with frustration and also requires providing significant support.

The lead must understand how to communicate deeply technical requirements to highly technical staff but also be able to shift to communicating clearly with people who are less technical but equally as crucial. For instance, the data lead must be able to clearly communicate with the project manager, CEOs, and other senior officials who may not have a technical orientation but need to approve critical deliverables such a data specification. Therefore, the data lead needs to be a well-balances and mature professional who can work collaboratively across a number of different skill-sets.

Common themes emerge when looking at the different competencies needed within the project team. All leads need to have strong communication and coordination abilities. Each lead is in charge of a critical part of the CIS effort and needs to have the professional maturity to work in a number of capacities and adequate base skills in each of their respective functional areas. They need to understand how their efforts fit into the big picture and frequently, they need to be able to have good working relationships with each other since many of their efforts will overlap. The selection of a good project team therefore is one of the most important decisions that the project manager can make initially. It needs to be made early and with the due diligence required to assemble an effective team.

3.4.4. Success Factors

Many leadership efforts across the world have failed despite their best designs and intentions. To minimize the odds of failure, the following success factors are instrumental. They are not exhaustive but should be instructive in some of the key issues to consider. They consist of achieving buy-in, understanding the proper role of creativity, collaboration, and overcoming potential hurdles.

1. **Achieve buy-in.** Without the proper buy-in of this leadership structure, the necessary authority necessarily to carry out a number of critical tasks is not possible. Buy-in can be achieved in several different ways. The easiest will arise if the structure is the natural outgrowth of existing efforts such as the creation of a project team from a joint task force.
2. **Be creative.** The variability of context means that a perfect prescription or even the optimal set of factors to create the perfect leadership structure will not be possible. Perhaps it is difficult to find the right leader, or perhaps the remains a lot of market reticence to undertake an effort this large. Creativity here can save the day. Consider creative options to achieve buy-in such as team composition. Where getting recognized authority is elusive, consider the value of the endorsement of powerful opinion leaders especially from industry or regulatory authorities.
3. **Be open.** Openness in this regard refers to the actual structure of the leadership team. It may involve actors from different spheres (industry, regulatory) and it may be housed independently or better yet, given additional credibility by being housed in an industry

association. This principle applies to all parties involved – regulators must be open to trusting industry (unless a blatant degree of recklessness is present) and industry must be willing to trust regulators.

4. **Be bold.** Courage in this context means being willing to press forward with a coalition of the willing. In the early stages of CIS, few understand the benefits of the system and even fewer are willing to endure through the costs with such unclear benefits. Still, if a small critical mass of people are willing to move forward – perhaps one sector and the regulator – this may be enough to begin influencing those who remain on the side lines, especially if this small coalition achieves early successes.
5. **Be selective.** The project leader is a crucial position. Early wins will spark the momentum needed to overcome resistance and begin the process of consolidating success into an effective CIS. Early losses can damage the credibility of the leadership structure and dampen efforts to enact CIS. Proper diligence should be taken to choose a leader with the skills and self-awareness needed to drive this effort successfully.

3.4.5. Contextual Notes

Kenya's CIS effort did not have a leader per se until August 2009, when the Kenya Credit Information Sharing Initiative was formalized and a project manager was chosen. This does not mean that there were no informal leaders. The credit bureaus for instance had started operations and were doing the best they could with limited information. In the background, they consistently lobbied for change. The International Finance Corporation played a major role in revising regulations – without their leadership, it is unclear when the necessary changes would have taken place.

The Central Bank of Kenya and the Kenya Banker's Association worked closely to form a joint task force that astutely recognized the need for a formal project office. They played a major leadership role in the formation of that task force. Financial Sector Deepening came on board as a major participant but chose to relegate formal project management to the KCISI.

Each of these actors played informal leadership roles until the formal project office was established. After the establishment of the project office and project manager, it was time to go to work – except this had never been done before in Kenya. Though the project manager had never done this before, he displayed the necessarily leadership qualities. He embarked on a fact-finding mission around the world to learn about different CIS systems, he worked closely with industry actors to collaboratively find solutions to problems, and he was able to secure the necessary internal resources to compensate for his areas of weakness. In doing so, he demonstrated a strong self-awareness, resourcefulness and quickly achieved personal credibility by involving the industry.

Also, of particular note, the project manager was a Central Bank employee. However, the project received explicit permission from the bank's governor releasing him into the project signalling both the Central Bank's commitment to this effort and removing the appearance of potential conflict of interest from the project.

Commented [GOK6]: Just need to ensure this section aligns well with all Marie is saying in her case study. Sure it does but worth a check to ensure the two docs are fully consistent.

KN: Agreed – we can do this after we have the final case study…

Commented [GOK7]: We are all clearly part of the Jared fan club ☺

3.5. Creating a Roadmap

3.5.1. Definition

A project roadmap or plan (used interchangeably here) is a document that outlines the major specific outputs, activities, timelines, responsible parties and frequently, cost implications. All activities and outputs must usually take place within an overarching timeframe – and in the case of CIS, as measured in years.

3.5.2. Rationale

A project roadmap is an invaluable tool for managing a project the magnitude of CIS. Its central purpose is to keep the project manager on task but its usefulness extends far beyond that. Two of the most important are discussed here: accountability and coordination

The project roadmap develops clear points of accountability. The project manager remains the ultimate point of accountability and this accountability is frequently enforced by an underlying funding source. But beyond that obvious point of accountability, by assigning roles and responsibilities, the project roadmap makes clear the individual roles the different actors play, from the sponsor community to the industry associations, to individual organisations. When the project encounters potential obstacles, the clear delineation of roles allows for effective problem solving.

This leads to the second role of project roadmaps: coordination. Remember that the project roadmap contains the component steps that must be taken to achieve the larger goal of creating an effective CIS infrastructure. The project map makes clear each actor's role and enables cohesiveness around this larger objective.

3.5.3. Guidelines

Any project roadmap needs to be grounded and keep clear the main objectives. If the objective-setting exercise was successful, then the project team has a strong foundation from which to start. Now is the time to define specific outputs and the activities required to achieve them. There are many different formats for a project plan but any strong project plan should have the following elements: objective, strategy, summary of key project outputs and activities, underlying rationale for these key outputs, project implementation logistics, milestones, risk analysis and timeline. These are discussed below.

Objective

This section should list the objective of the overall project and if necessary (e.g. for internal approval purposes), personalize it to the specific implementing agency. This may mean linking that objective to its internal priorities.

Additionally, this section should also articulate the specific objectives the particular phase will address.

Strategy

The strategy section of the project plan should articulate the overarching strategic framework upon which the plan is based. This includes highlighting key constraints, areas upon which the plan hopes to build upon or potential obstacles to overcome. Typically, the strategy section is closely tied to the

high-level objectives that were created in the first phase and draws a clear line between how the achievement of these objectives supports the overall objective.

Project Outputs and Activities

This summary section provides a one or two page snapshot of the defined project outputs and linked activities. After defining activities, "activity owners" need to be identified and assigned. This provides the ownership and specific accountability required to ensure that critical steps are not neglected. Concurrent to this process is the definition of success metrics. These can be subjective (e.g. an adequate regulatory framework) or objective (e.g. achieve 95% acceptance rate of financial institutional data submitted to credit bureaus). Regardless of the metric, it needs to be agreed to by both the project team and the respective activity owner.

Activities should also be evaluated for cost. The assigned activity owner may or may not have the ultimate responsibility with respect to cost (or even the capacity to fund the activity) but provisions should be made to provide the necessary funding to achieve certain activities. For example, a customer awareness campaign may be led by the project team but it is unlikely the project team will fund it internally unless it has been created with a budget that allows for this cost item. In that case, a sponsor or industry association (or both) are likely to work closely with the project team to ensure that the funds necessary are present to enable successful execution of the activity.

Underlying Rationale

This section expands on the snapshot of project outputs and provides the underlying rationale for each of these elements. This rationale is especially critical because it provides an important avenue for institutional memory and allows for project continuity in the event of staffing disruptions.

It may choose to focus on the most important activities under that section and provide the supporting reasoning.

Project Implementation

The project implementation section addresses the logistics of the project implementation plan. Questions such as who will be the implementation agent, what are the appropriate procurement policies, how will the governance and accountability work, and what is the budget are all answered in this section.

Milestones

Milestones are the specific metrics the project will hold itself accountable to achieving. These milestones should be as objectively measurable as possible. Additionally, there should be metrics along appropriate time intervals. For a multi-year project, this typically means yearly or bi-annual milestones depending on length.

Risk Analysis

No project plan is complete without some consideration to potential risks. To the extent possible, all project specific risks should be articulated, classified (e.g. low, medium, high) and its impact to the

project measured. After identifying risks, mitigation steps should be developed and included in the risk analysis section.

Timeline

A project timeline should be developed that captures the anticipated timeframes for which each activity will happen. This helps project managers in anticipating resource needs, visualizing periods of intensity, understanding dependency linkages, and evaluating the realism of both individual objectives and the project as a whole.

Taken together, all these sections provide a comprehensive (but not unnecessarily long) document that provides a clear roadmap of the project, key milestones and dependencies, and an articulation of the underlying assumptions and logic, potential risks, constraints and resource requirements. Note that it is not a detailed work plan, but rather, a comprehensive appropriately high-level project plan that can be shared with relevant parties to develop organisation specific work plans.

3.5.4. Success Factors

The success factors required to create a successful roadmap are the same ones required for effective project management: taking an iterative approach, being specific, and forward problem anticipation.

1. **Be iterative.** This is a variant on collaboration but is specific to project planning. Rarely will the first draft of a project plan be the final one. Numerous stakeholder consultations will likely need to take place. These ordinarily take place within individual committees and their individual tasks, which are then escalated to organisational levels and potentially to a national working task force level. Buy in from key stakeholders is critical and to the degree they have the opportunity to participate in the process, the greater the likelihood the final project plan will be optimized for success.
2. **Be specific.** At the project roadmap level, a moderate level of detail is present. There should be a clear logic chain that leads the reader/user from the activity level to the attainment of objectives. At this stage, everything is mostly theoretical and the project may still fail for a number of reasons, but it should not be due to blatant inconsistencies in the project plan.
3. **Anticipate problems.** Effecting CIS in a new market or one in which it has failed before means that there will be blind spots. Funder priorities may change, the political environment could shift, and key influencers may disappear. All these are legitimate reasons but to the extent possible, the project team should work with the stakeholders to anticipate as many problems as possible and develop mitigation strategies. Minimally, this should include contingency funds for unforeseen circumstances and basic disaster planning.
4. **Be modular.** One of the most crucial decisions the project team and sponsor can make is how to break down what can be a ten year process into manageable phases that are consistent with internal sponsor dynamics and are manageable by stakeholders. The phases should not be too short as to provide little time to achieve meaningful results, nor should it be so long as to be discouraging. A recommended length is four to five years.

3.5.5. Contextual Notes

When then KCISI project team created its project plan, it did so collaboratively with FSD. This plan received input from a number of important stakeholders including the industry association and the regulator. The team also broke the project into phases. The first phase focused on laying the groundwork to share full-file information among banks. The second phase, which is currently under execution, builds on the first phase by continuing expansion of the system to non-bank credit providers and starts to encourage usage.

This experience illustrates the need for a modular approach. In Kenya's example, one important project peculiarity was the commencement of credit sharing with negative only data. In retrospect, most stakeholders have agreed that beginning with full file information sharing would have been optimal. One practitioner noted that this process can be staged: the regulatory framework and project plan can require full-file sharing so that all participants have a clear view into the future, yet on a practical basis, it may be advisable to begin with negative full file sharing in order to iron out technical issues with a smaller data set.

In Kenya's case, uncertainty into whether or not full-file sharing would ever be mandated caused the market to take ad-hoc measures to comply with the law for negative only sharing. When the market shifts to full-file sharing as is now mandated, these actors will be at a disadvantage as they revisit system and compliance issues anew.

4. Implementing Credit Information Sharing

Section 3 is about the process required before practitioners, regulators, and stakeholders within a potential CIS market begin their CIS efforts in earnest. This section assumes that practitioners have completed the process of establishing baselines, setting overarching objectives for the project, selected the leadership team that will drive this effort and have put in place a high-level project roadmap for key activities that need happen. It goes without saying that all this assumes that a pre-assessment of the potential CIS market has been conducted and the elements required to proceed are in place.

This section on the implementation of credit information sharing is about the detailed steps required to enact credit information sharing. In a sense, it expands on the specific objectives that were created in Section 3 and provides additional guidance on the major areas that practitioners, project managers and regulators should focus on to ensure a successful CIS effort. The section begins with an "Implementation Planning" overview. This differs from Section 3 by emphasizing the need for more detailed project plans around specific initiatives. For example, Section 3 might have as an objective in its roadmap, to raise awareness among stakeholders. In this section, a detailed plan would be created to achieve that objective within the context of obtaining buy-in from stakeholders. In short, Section 3 is general while this section goes into more substantial detail.

4.1. Implementation Planning

Commented [GOK8]: I think we need some intro to this section as I start to get confused on why we are talking setting objectives again when we already did this in the foundation section.

KN: I've added a couple of overview paragraphs which hopefully solve this issue.

4.1.1. Definition

The transition from the preparation phase to implementation is marked by the establishment of the project team and the operationalization of the various project outputs that have been identified. It is much more specific. Where the project roadmap is a very high-level document with moderate amounts of detail and a strategic focus, implementation planning involves going into the details that were not specified in the project roadmap. Implementation planning is more tactical in nature than creating the project roadmap.

4.1.2. Rationale

Implementation plans give the project manager concrete action steps from day one. The project manager will align overall objectives to the project roadmap, but s/he will use an implementation plan to accomplish the subset of activities required to achieve the goals of the project roadmap.

It may seem that this emphasis on planning is overdone, but for a project of this magnitude, it is wholly appropriate. The resource expenditures will go far beyond the sponsor's funding contributions and in aggregate, the effort to establish CIS will take hundreds of thousands of person-hours. An effort of that scale should be well managed and extensive planning upfront is a part of the process.

4.1.3. General Principles

The following principles, gleaned from experience and hindsight, apply to the implementation planning process. They cover three aspects of planning: objective setting, resourcing, and measurement. The fourth principle covers the converse side of planning: monitoring and evaluation.

Principle 1: Develop Clear Project Outputs

Developing clear project outputs and deliverables will reveal the natural sequence of certain activities and provide the blueprint for the tactical steps to follow. Each market may have contextual differences from the steps noted in this guide; a concrete set of outputs will illuminate much of the way forward.

Principle 2: Map Key Internal Resource Needs

In this stage, the person most responsible for the implementation plan is the project manager and s/he may not have a project team in place. The manager needs to understand key knowledge gaps and competencies required for success and begin resourcing for them. A strong project team is a critical element of driving the CIS effort forward given the heavy coordination efforts the team will be leading.

Principle 3: Conduct Comprehensive Assessments

The project manager may come into the project with a series of assessments already complete. These assessments helped inform the general project direction and roadmap. The project manager needs to commission additional assessments that dive further into previous assessments (especially if they were conducted informally) and cover new areas. For example, at this stage, consumer attitudes towards CIS need to be measured to serve as baselines through which to monitor the effectiveness of communications efforts.

The importance of assessments takes on particular importance if there have been any previous efforts towards CIS in the country as there may be existing attitudes that could serve as a hindrance to the project.

Principle 4: Continuously monitor and evaluate

Monitoring against the project plan is an important aspect of the implementation process. Proper monitoring and evaluation ensures that problems are caught in time to be rectified and allows for adjustment of the implementation plan as needed to adapt to changing circumstances. The practice of commissioning comprehensive assessments is the first step to good monitoring and evaluation since these assessments provide a baseline against which to conduct future evaluation efforts.

This principle is best applied both formally and informally. A formal framework for monitoring and evaluation needs to be put in place at appropriate timelines – perhaps at the conclusion of any major efforts (e.g. communication campaigns, regulatory achievements, pilots) and also at fixed periodic intervals such as the end of each year. This formal framework helps build accountability and also ensures that key lessons are being captured in a timely fashion. Informal monitoring and evaluation methods are also valuable because they help alert the project team to any potential problems well in advance of a formal evaluation exercise. These informal methods can take a

number of different forms including monthly and quarterly updates to relevant project teams, regular meetings with key stakeholders, and on-going communication efforts including feedback channels that stakeholders can use.

Project managers and sponsors should ensure that the right monitoring and evaluation framework is in place prior to the implementation process. By doing it before the implementation has kicked off, the entire project is also aware of the success metrics against which their efforts will be evaluated by. Effective monitoring and evaluation also allows for more effective resource deployment as the various stakeholders evaluate what is working and what needs to change.

Commented [GOK9]: Stray few words/unfinished sentence.

KN: Finished

4.1.4. Tactical Steps

The following tactical steps are recommended activities that support many of the key objectives of implementation planning. Many of these steps are applicable in various context but the timing and sequencing may vary. Practitioners with specific responsibility for their implementation are advised to personalize them as needed.

1. Identify key project stakeholders from banks, CRBs, and regulators
2. Establish the critical steps for participating institutions to support implementation of negative information sharing
3. Identify major gaps in capacity among participating institutions with the potential to frustrate implementation efforts
4. Review lessons from jurisdictions that have implemented similar CIS systems
5. Determine the cost and timeline for implementation for each institution
6. Reach consensus on methodology/approach to complete steps to implementation
7. Document agreed way forward and ensure sign-off from key stakeholders

4.1.5. Success Factors

Project managers can take certain steps to maximize the outcome of project planning and more importantly, to set the project tone going forward. These are outlined below.

1. **Establish basic principles among actors.** Project managers rarely have the ability to command and control the establishment of CIS. Much of their authority is derived from the legitimacy with which the market sees the project. Moreover, their compliance on any specific issue is difficult to compel and even if it is compelled, institutions can opt for compliance based mind sets and miss the spirit of the effort. All these reasons necessitate that the project manager develop working principles of collaboration, partnership and a sense of common purpose. These principles make it far easier to make future requests and aid in securing resources that may not have been budgeted for.
2. **Be meticulous.** The importance of comprehensive assessments has been stated but being detail oriented in this process allows the manager to anticipate problems far in advance. Problems will invariably occur but will be easier to mitigate to the extent the process has been meticulously attended to.
3. **Document.** Documenting the entire process from inception to the end is valuable. It enables effective institutional memory keeping and it facilitates knowledge transfer in the event of

staff changes. This process also allows other practitioners in other contexts to learn from a particular effort and contributes to the global pool of knowledge.

4. **Establish a Plan for Learning.** As stated earlier, few project managers will be well equipped to implement CIS in their particular contexts. Self-aware managers will take the opportunity to remediate specific knowledge gaps by creating a plan to get up to speed on the credit information sharing industry. This plan need not be complex. It may include visits to conferences, expert consultations (this will be common) and field visits to other markets with credit bureaus.

4.1.6. Contextual Notes

The process of implementation planning in Kenya was a joint effort between several actors including the Kenya Bankers' Association (KBA), Financial Sector Deepening (FSD), the Central bank of Kenya (CBK) and the Kenya Credit Information Sharing Initiative (KCISI). After regulations were passed mandating negative-only information sharing, the CBK and KBA formed a joint task force to decide how to move forward. At this time, a formal project office had not been formed. The task force invited FSD to take part in these conversations and soon after, a formal project office was formed and came to be known as KCISI.

The team went on a multi-day retreat to address the critical tasks that needed to be performed. These became the basis for a phase I project plan. Because the process happened jointly with a number of important stakeholders, there was a tremendous amount of buy-in. The project manager had also formed strong relationships with the banks and regulator and fostered a spirit of cooperation. Later in the project, when he required additional resources such as office space or personnel, they were easy to obtain from KBA due to the close working relationship and the collaborative spirit with which he worked.

It is important to point out that many of the lessons in this section were learned in hindsight. For all that went well, the team in retrospect commented on areas they felt could have used more focus. For instance, the guidance on comprehensive assessments arises from the fact that they wish they had done more to assess pre-existing attitudes within financial institutions, their readiness levels and establish baselines on consumer attitudes. These steps would have informed their approach and allowed them to be more efficient.

Commented [GOK10]: Small aside as I recall when I first met Jared and he wanted to attend some MFI training to better understand the sector. Supports this point nicely

Commented [GOK11]: You have previously used FSD without definition. Perhaps before final submission just ensure it is defined on first use and then acryonm from there on it. Noticed same with IFC

KN: Done. I changed IFC but FSD is referred to on page 17. But it's a good point to make sure all our abbreviations are defined.

4.2. Developing a Functional Regulatory Framework

4.2.1. Definition

A regulatory framework consists of the system of laws, regulations and codes of conduct – formal and informal – that govern the operation of a credit information system. They may exist as part of a unified framework or in patchwork form across various agencies. In the context of this guide, regulations are the catch all term for any statutory requirement related to CIS and may include laws from a parliamentary body or regulations from regulatory agencies.

4.2.2. Rationale

Without a well-functioning regulatory framework that clearly spells out the parameters under which data users, subjects and providers operate, an effective CIS system is not likely, particularly in contexts where this has never been done before. Many credit providers have competitive concerns around the sharing of their data with third parties. Data subjects may also be sensitive to their information being shared and used by others and may dispute this process through the judicial system. Without a clear legal framework, the potential liability issues will prevent credit providers from sharing data.

4.2.3. General Principles

"The overall legal and regulatory framework for credit reporting should be clear, predictable, non-discriminatory, proportionate and supportive of consumer rights. The legal and regulatory framework should include effective judicial or extrajudicial dispute resolution mechanisms"[5]

The general principles governing the creation of a functional regulatory framework have to do with creating an enabling environment.

Regulations should be clear and definitive

Paradoxically, regulator attempts to create leeway by leaving the law purposely vague can have the converse effect of paralysing participants. Regulations should be clear and definitive when it comes to the critical elements of credit information sharing. From a legal perspective, this accomplishes two things: 1) credit providers have a clear mandate (and statutory excuse) to provide information to third parties which shields them from some of the liability issues identified; 2) it provides data subjects and others the faith in the system's security and stability.

There are three specific points on which the law needs to be clear: 1) data to be shared; 2) credit bureau licensing requirements; 3) consumer rights; 4) access to data

Commented [GOK12]: Shouldn't the law also clearly define who has access?

KN: Good point. I've added a paragraph to address.

Data to be Shared

Effective credit information sharing systems must have both positive "full-file" information and negative data shared. Negative only systems provide very limited usefulness. The law should mandate the sharing of all information by credit providers and provide a regulatory framework for non-credit providers such as utilities, telecommunications companies, and public sources to also join the system.

[5] World Bank, 2011, General Principle 4.

Credit Bureau Licensing

Regulations should put in place clear requirements for credit bureau licensing. Particular focus should be placed on data security, internal controls, and access to data. These regulations give both data subjects and providers the legal and business reassurance that the system is secure and that credit providers are indeed legitimate, vetted organisations.

Consumer Rights

Consumers in this case include all potential data subjects including individuals, businesses and other organisations. The legal framework needs to have a credible mechanism to protect consumers. This mechanism captures two aspects of consumer rights: 1) Data use on the part of any organisation accessing credit reporting data to use as the basis for decision making; and 2) dispute resolution.

Due to the sensitive nature of credit information, the proper use of data should be limited to a few legitimate purposes such as underwriting processes, gauging consumer debt, verifying consumer information and marketing. Regulations should protect consumers against unfair discrimination practices and illegitimate uses of data (such as for political purposes). Regulations should provide mechanisms for consumers to contest inappropriate data use but also be sufficiently clear as to legitimate use to prevent frivolous lawsuits.

The regulations should provide a clear, efficient dispute resolution system.[6] Due to the large number of expected disputes, the mechanism is ideally extrajudicial and should be able to handle large numbers of inquiries efficiently. Different markets use different models. In the US for instance, dispute resolution practices are spelled out in the regulations and take place principally between the credit bureau and consumer. In others, third parties such as ombudsmen handle the dispute process. The principle here is to have a clearly defined mechanism in the law that gives consumers clear rights and well defined dispute resolution mechanisms. By so doing, the rules of engagement become clear to all parties which encourages better adherence to the law.

Access to data

The law should clearly define who should have access to data. Having clearly articulated guidance allows everyone to know what the proper usage of that data should be. Regulations in this regard should go beyond considering obvious users of data and consider non-traditional users. This could include landlords, insurance companies, other regulatory agencies, and private companies developing services that ostensibly provide value to the financial infrastructure. In that respect, regulators may choose to define principles of data access and the appropriate use of data as opposed to listing specific institutions or categories which may need later revision. Ultimately, the regulator in each specific CIS context will need to make decisions on data access based on their own context. The World Bank Guide on Credit Reporting, published in September 2011, provides an example of such principles of data access.

Regulations should be practical

[6] World Bank Paper, September 2011.

In the early stages of credit information sharing, there is a temptation for regulators to enact regulations from a knee-jerk position or in response to limited information. This can be counterproductive. The level of work required to achieve compliance for many organisations is often disruptive. If no present credit bureaus exist, requiring credit providers to report to a credit bureau can lead to the hasty creation of poorly structured and resourced bureaus. If present bureaus exist but lack sufficient capacity, new regulations can have a crippling effect.

Practically, this principle is not advocating for the slow enactment of regulations, but rather, allowing adequate implementation time for organisations to comply with new regulations. Further, this principle is best coupled with the previous principle. For instance, regulations can mandate full-file information sharing but stage the requirement to begin with negative file information for a period of time before requiring full-file submission. This offers the market the benefit of clarity but allows adequate preparation for organisations and for the testing processes.

Regulations should be comprehensive

Ideally, the regulatory framework will cover all aspects of the credit information sharing system including the full range of potential data sources, data subjects and credit bureau licensing requirements. The following table lists potential participants in the system.

Data Subjects	Data Users	Data Providers	Data Processors
Individuals Businesses Associations Schools Churches Other civic organisations	Financial institutions Government Landlords Insurance companies Utility companies	Banks MFIs SACCOs and other credit providers Retail credit providers Utility companies Public registries Landlords Insurance companies	Credit bureaus Credit registries

Regulations should allow for each of these participants to participate in the system. For each of the participant classes above regulations should specify the appropriate use, rights and responsibilities.

[add guidelines by participant class]

Regulations should be unified

The task of forming a comprehensive regulatory framework is daunting if done on a piecemeal basis. Various participants fall under different regulatory jurisdictions. Central Bank regulations for example, will not apply to utility companies who are frequently regulated by different bodies. In many markets, the problem of fragmented regulations is solved through the passing of a comprehensive national credit act that supersedes individual regulatory regimes and unifies the regulations for each participant to ensure uniform conformity.

4.2.4. Tactical Steps

The following tactical steps are useful in thinking through how to develop a regulatory framework especially in contexts where there is pre-existing regulation pertaining to CIS.

1. Review relevant legislation and regulations for inconsistencies, omissions and ambiguities that could compromise effective operation of credit reporting
2. Agree approach to amending regulations; present review recommendations for implementation
3. Identify and address gaps in regulator capacity to perform licensing function
4. Establish requirements for regulatory supervision, monitoring and reporting of effective credit reference system operation
5. Ensure capacity exists to carry out supervisory functions and agree on approach to fill any gaps
6. Develop capacity of a local credit providers' association to provide industry voice and support industry driven compliance with regulatory standards and consumer protection norms
7. Review regulatory frameworks of other jurisdictions that allow for (i) participation by other non-bank credit providers, (II) positive information sharing and (iii) full-file information sharing
8. Recommend a compliance timeline and strategy for the proper timing of regulations and to ensure adequate implementation time

4.2.5. Success Factors

Creating a successful regulatory framework is arguably the most time-intensive and critical factor to ensuring a successful implementation. Although this process does not have to be sequential, regulatory mandates often precede industry action especially with respect to the data shared. The following factors, coupled with the principles above will facilitate the successful achievement of the tactical steps outlined above.

1. **Understand regulatory dynamics.** The right regulatory strategy begins with understanding the regulatory dynamics of any markets. In some places, the nexus of power resides with one or two highly influential individuals. In others, it is quite diffused. Understanding who the major regulatory forces are and internal dynamics will inform any regulatory strategy particularly when it comes to obtaining the proper approach to creating legislation as comprehensive as a national credit act. Practitioners should be aware the most powerful influencers may be outside the government in the form of industry associations, unions, or other such agents.
2. **Form close working relationships.** To the extent practical and appropriate, the project team should find a way to work closely with regulators in the spirit of cooperation. In environments where there is pre-existing collegiality with regulators, this is a natural extension of existing efforts. In markets where the working relationship is strained or non-existence, new approaches should be taken to form this relationship. It is vital that industry and regulators collaborate together to achieve the right balance between regulator responsibilities and allowing for the efficient and appropriate use of data.

4.2.6. Contextual Notes

Kenya's regulatory environment has heavily informed this guidance in two areas: clarity and staging. Early regulations around credit reporting and credit information sharing began to appear in the 2000s, yet they left the participation into the system optional. This uncertainly left many lenders on the side line as competitive concerns and potential liability issues kept them from joining the system. When the first regulation appeared in 2008 mandating negative information sharing, the industry was ignited into action and began a serious and sustained effort to create a viable credit information sharing system. Prior to that, banks shared information on negative defaulters as a matter of individual preference and other actors were rarely included in the system.

The 2008 regulations played an important role in sparking negative-only information sharing but left open questions as to positive, full-file information sharing. Again, the law was unclear and as had been the practice, banks chose to comply with the mandatory section of the law. If the law had mandated positive information sharing and specified an adequate compliance timeline, the result would have been much different. When banks began compliance efforts in 2008, due to the low volume of non-performing loans, many complied by make-shift, often manual processes. In 2012, the law changed to mandate positive information sharing and those institutions that engaged in minimal efforts for compliance now must revisit their processes to be compliant with a much larger volume of data. Clarity in the law, coupled with staging, might have accelerated the market's readiness for full participation in CIS.

Kenya is also a good example of a fragmented regulatory environment. Regulations initially focused on the banking industry which is regulated by the Central Bank. As a result, CIS efforts in 2008 and 2009 were led by and focused on the banking industry. The benefits of CIS however, extend far beyond banking to microfinance institutions, savings and cooperative societies, utility companies and other users. However, initial regulations had closed the system to everyone except banks undermining one of the key tenets of CIS: reciprocity among data providers and users. In retrospect, creating an open system from the beginning or at least leaving the system open to future credit providers would have alleviated some of the problems in implementation as of this writing (2012).

Kenya has another pertinent regulatory example: the importance of an influential regulator. The Central Bank governor, Professor Njuguna Ndung'u, played an important role in highlighting the benefits of credit information sharing in public and private forums. This endorsement by a high-level official was instrumental in giving the project credibility and in enabling the project team to work collaboratively with industry and regulators to identify optimal regulatory guidelines.

4.3. Working with and Developing Competent Credit Bureaus

This section focuses on the role of the credit bureau in the context of a credit information sharing system. The process of establishing a credit bureau is a complex, time consuming and capital intensive undertaking. It is also far beyond the scope of this guide. The reader is referred to outside resources for a detailed understanding of credit bureaus[7]. This section focuses on the main characteristics a credit bureau must possess and some of the working protocols needed to enable successful CIS.

4.3.1. Definition

Credit bureaus are specialized service providers that receive, process, and disseminate data from a credit information sharing environment. They have different ownership models and offer a range of products and services from basic credit reporting to sophisticated analyses. This guide remains agnostic to the ownership model but assumes that bureau(s) within a practitioner's context are willing and able to provide data to a wide set of users or can reasonably achieve that goal.

4.3.2. Rationale

The rationale for a credit bureau is clear: credit bureaus serve as intermediaries that help facilitate the processing of immense amounts of data. When structured correctly, they are independent and free from undue outside influence and as such, are able to take on the task of receiving and processing sensitive data with the proper expected level of care. Commercially oriented bureaus have a particular interest in maintaining this independence and have strong incentives to innovate within the market.

4.3.3. General Principles

For successful CIS, the following principles apply to credit bureaus and their ability to bring value to the system. In many developing markets, credit bureaus are not likely at full readiness; therefore, these principles are particularly important for parties that are able to facilitate and provide technical assistance for their readiness. Regulators are also urged to pay particular attention to them because credit bureau readiness is an important enabling factor and must be present before institutions can submit data. This is a rare instance in which following the appropriate sequence is paramount.

Credit bureaus must have adequate capacity

A fundamental principle with respect to any existing bureau in a market is the sufficient capacity to handle the data processing needs of the environment. In initial stages, this capacity requirement extends to four areas: human resources, technical, analytical and regulatory.

Human Resources

[7] One such excellent resource is the International Finance Corporation (IFC). It has published a seminal guide on credit bureaus, "Credit Bureau Knowledge Guide", published 2006. See: http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/FI-CB-KnowledgeGuide-E/$FILE/FI-CB-KnowledgeGuide-E.pdf, last accessed July 23, 2012.
USAID's Business Climate Legal & Institutional Reform Project (BIZLIR) has also published a best practice guide, "Development of Private Credit Bureaus, Lessons from Romania" (Issue 7, May 2006). See: http://www.bizclir.com/galleries/bestpractices/01.128.08BP7_Romania.pdf, last accessed July 23, 2012.

Due to the sheer volume of data expected in a CIS, the bureau needs adequate staff capacity to perform many of the tasks particular to credit bureaus. For instance, bureaus must receive data from banks, perform necessary validation checks and return results to the banks – all in a timely manner. Shortage of qualified data analysts can undermine user perceptions of CIS and discourage use in the system.

Beyond the need for qualified data analysts, the bureau in early stages needs to develop its own plan to provide technical assistance to data providers who will often have problems interfacing with the bureau's IT system. This may mean procuring additional support staff or allocating these duties across the entire organisation (including executive leadership).

Technical Capacity

Technical capacity includes all technological requirements necessary for the bureau to function correctly and meet its regulatory obligations. This will include its data management architecture such as its data centres, security policies, and encryption procedures. It includes its network infrastructure and its bandwidth's ability to handle large volumes of data simultaneously. Because many organisations will eventually rely on bureau data as a critical part of their operations, network downtime can have a disproportionately adverse effect on the financial markets.

Analytical Capacity

One of the benefits of credit bureaus is their ability to offer value-added products. These products require high levels of advanced analytical capability to develop. Bureaus with limited capacity in this area in initial stages are common but with time, practitioners interested in fostering effective CIS should devote resources to developing their analytical capacity in this area.

Regulatory Capacity

Bureaus are often heavily regulated but they require the regulatory bandwidth to effectively provide data for legitimate purposes to legitimate parties. Restrictive regulatory regimes can limit the effectiveness of bureaus.

Credit bureaus must have sufficient internal controls

With the caveat above in place, credit bureaus need to have strong internal controls to prevent the unauthorized use of data. These controls form part of the governance structure that is discussed in section 4.6 on *Creating Effective Governance and Risk Management*.

CIS must be commercially attractive to commercial bureaus

Privately held bureaus have commercial gain as their incentives. Typical bureaus make money by selling credit reports, scores, and other tools. The most ubiquitous, the credit report, has to be priced cost-effectively for data users. This requires credit bureaus to sell a high volume of reports and other products to be sustainable. If the expected volume of data users in a given CIS environment is too low, many commercially held bureaus may choose not to participate due to a poor business case. In this event, practitioners can explore other ownership structures or wait for the market to mature.

4.3.4. Tactical Steps [revise]

1. Each credit bureau project team to implement their particular roadmap
2. Pilot the supply of data by banks ready to implement at an early stage to agreed initial depository institution (CBK or as determined otherwise)
3. Review pilot activity to identify constraint, correcting and improving processes as required
4. Support institutions encountering implementation challenges in pilot stage
5. Assist prospective credit reference bureaus to fulfil licensing requirements
6. Provide capacity building to banks and credit bureaus for fully automated data extraction, cleaning, transmission and updating
7. Pilot data sharing with licensed bureaus
8. Stress testing of bureaus to ensure they can cope with high volumes
9. Review pilot activity and implement remedial action if required
10. Update roadmap for full roll-out based on experience from pilot phases

Commented [GOK13]: Could also add 'stress testing of bureaus to ensure they can cope with high volumes'

KN: Done

4.3.5. Success Factors

A successful CIS effort requires close collaboration between credit bureaus and data providers. In initial stages, bureaus must provide technical assistance to data providers. The following success factors provide guidelines on how to best establish good working protocols with data providers.

1. **Develop automation tools.** Ideally, the process of collecting, validating and submitting data will be happen with minimal human intervention to minimize error processing. Credit bureaus can assist in this effort by providing the industry with standardized automation tools.
2. **Provide technical support.** Credit Bureaus must provide technical support to data providers. This ensures uniformity in data submissions and enables the bureau to efficiently process data in a timely way for data users.
3. **Form coalitions.** Credit Bureaus are the most interested party in functional credit sharing regulations. They should be utilized in any advocacy efforts and regulatory strategies. Increasingly, they will have international experience they can leverage to enact local change.

Commented [GOK14]: Could also mention

KN: Hanging sentence…what did you want to write?

4.3.6. Contextual Notes

Credit bureaus in Kenya existed from the time nascent efforts at credit information sharing began. However, there was no regulatory framework to license bureaus and until 2008, the law did not mandate information sharing. As a result, the bureaus relied heavily on voluntary participation and provided a limited range of services. The bureaus worked together to advocate for regulatory changes. The East Africa Credit Bureau Association, working with the International Finance Corporation (IFC), was successful in bringing about the regulatory infrastructure needed to move the industry towards mandated information sharing.

4.4. Developing Data Specifications

4.4.1. Definition

Developing data specifications is the process of defining the protocols that will be used to submit data. These protocols include a variety of requirements including specific data fields and submission guidelines (including format and scope). The data specification should be provided to all data providers in a clear and easy to understand format.

Commented [GOK15]: I find this sentence confusion. See if you can simplify- its data field definitions, submission guidelines including format and data scope (ie historical). Not sure if that is any clearer

KN: Read through the changes – hopefully this is clearer.

4.4.2. Rationale

Without a common data specification ("data spec"), the process of submitting information to bureaus would be disorganised and unwieldy. A data spec allows every provider to follow the same protocol, making it easier for credit bureaus to perform validation checks and more importantly, to produce the most accurate information profile possible of a given data subject.

4.4.3. General Principles

The general principles in mind are designed to provide practitioners guidance at a high level on key things to keep in mind. In practice, the process of developing data specifications is very detailed and to some degree technical. That level of specificity is outside the scope of this paper but nonetheless relevant in any serious CIS effort.

Start with basic infrastructure

Thus far, this effort assumes that the requisite national infrastructure is in place to enable CIS. The most critical component is having unique identifiers. Some countries may not have unique identifiers for individuals. If these are not present, a CIS effort will be stymied. Names are often not unique enough especially in markets that follow naming conventions that propagate a common pool of names. A comprehensive national solution to create unique identifiers must first be developed before the CIS system can achieve full scalability.

Involve the right stakeholders

Developing data specifications begins with having the right people involved. This will involve credit bureaus, influential credit providers, and to the extent possible, non-bank providers. The data specification should be standardized across all sectors. Therefore, to the extent practical, involving stakeholders from a wide range of sectors, from banking to microfinance institutions to utility companies, government agencies and any other anticipated users is recommended.

Develop with a long-term view

In early stages, there is a tension between what data is available and what data would be optimal. Frequently, the gap is quite wide because the information desired is not usually being collected as a matter of practice or it may not be entered into an information system. Still, users should error on the side of more information than less in developing the data spec and work towards enabling the capacity in the market to collect data

4.4.4. Tactical Steps

1. Assemble a data specifications task force and assess current data landscape for potential areas of concern

2. Design a sample data specification with file definitions, field lengths, and formatting requirements
3. Clearly define the scope of the data that must be submitted eg. Historical, loans with active balance etc
4. Circulate data specification to a representative sample of credit providers for input and recommendations
5. Assess current ability of data providers to provide the requested information to determine mandatory vs. optional files and fields
6. Provide training to credit providers on the final data specification including explanation of each data file and fields
7. Provide credit providers with data validation tools and training on how to remediate data errors

4.4.5. Success Factors

The process of developing the data spec is laborious. It requires a balancing between short term objectives and long term goals. It also involves many actors each of whom will need to invest a fair amount of organisational effort to be compliant with the specification. The following principles make the process of creating a data spec more manageable.

1. **Be realistic.** In creating a data spec for the first time, the risk of over specification is present. This can create an onerous burden for credit providers, especially if they have never participated in such a system. A practical approach needs to be taken that balances the need for more information with the business realities of data providers. Additionally, data providers may in principle agree to a particular spec but need time to be compliant. These factors need to be taken into account before mandating the data spec. Finally with respect to realism, it is also important to understand the practical limitations of CIS. In some instances, the regulator may wish to capture information on fraudulent activities. Given the sensitivity of CIS, the difficulty in proving suspicious activities, and the potential liability associated with reporting such data, regulators and other practitioners involved in creating the data spec should factor in these and other practical limitations.
2. **Explain rationale.** Even when a data spec has been provided and agreed to in principle, data providers need to understand the rational for each file being provided and the fields. Credit bureaus may understand the need for specific fields due to their analytical foresight but many data providers in the market may not understand how some fields are related to others or relevant to the effort. By taking the time to explain up front, credit bureaus can elicit higher compliance rates as organisations take the data spec seriously. Further, some industries may not use certain fields. Data specification development and education efforts should focus on every class of data provider, not just credit providers.
3. **Be iterative.** As in many other parts of this effort, the data specifications team should elicit feedback on any proposed specification and integrate that feedback into the final specification.

4.4.6. Contextual Notes

Kenya's initial efforts at creating a data specification were met with mild resistance. Some were overwhelmed by the need to submit 12 files each month , a finding which was validated by an

Commented [GOK16]: Should we mention standardizing specs across sectors or is that presumed? Other thought- consider impact of different lending/credit methodologies and products on the spec- ie how to handle group guarantors

KN: I just added a couple of sentences in the section on involving other stakeholders. I think that if that is done, then the impact of different lending practices will be accounted for since these stakeholders will voice their concerns depending on their individual data use.

Commented [GOK17]: Another thought for creation- there is data like fraudulent acts which is useful but given the difficulty proving fraud in court, doesn't become v realistic. So perhaps just a comment on realistic expectations both in terms of availability but also legal contexts

KN: Great comment. I've added a couple of sentences in the section on "Being realistic" directly to the left.

external expert. As a result of this feedback generated, the data specification was consolidated to eight files, two of which are currently optional.

The data specification further specifies optional versus mandatory fields in an effort to reduce the load on data providers. With time, the specification will evolve but at least the foundation has been laid and appropriate industry buy-in is taking place.

4.5. Obtaining Positive Buy-in From Stakeholders

4.5.1. Definition

As traditionally understood, buy-in is the process of achieving common agreement from all stakeholders on a specific initiative or change. The process of CIS is unusual: at a high level, the benefits of CIS are clear especially to practitioners who frequently work in an international context. At a local level, CIS can be viewed as a disruptive and potentially threatening force. In this guide therefore, the process of buy-in is defined as an educational and collaborative process designed to achieve the requisite commitment from key stakeholders in the CIS effort. It is better viewed as the process of transferring ownership of CIS to stakeholders in the local context.

4.5.2. Rationale

The development world is littered with stories of well-meaning sponsors and experts who have initiated a number of efforts in a range of areas only to see them fail. It is therefore critical to ensure local *understanding* of why a specific initiative is important and a corresponding level of *ownership*. Many stakeholders may agree in principle to implement a specific initiative especially if that initiative comes with financial incentives, but few will go to the next step of assuming process ownership unless the benefits are clear.

Unless the local market adopts ownership of CIS, it is impossible to catalyse change externally on a sustained basis. Local ownership is a critical ingredient and it must happen across the entire stakeholder spectrum: regulators, data providers, users and subjects all need to eventually *buy-in* to the system and independently understand the benefits of CIS. When each of these parties is on board, the forum for constructive change is created and results in a virtuous cycle of continuous improvement of the system. If the value is only clear to one or two parties, the system may work but will be limited in its effectiveness.

4.5.3. General Principles

The following principles will make any effort to secure buy-in and transfer process ownership much easier. Practitioners may need to adjust them to local contexts for cultural considerations but in general, they have universal applicability.

Engage early

Putting together a project team and declaring bold pronouncements on CIS is likely to meet resistance. Engaging key stakeholders early in the process ensures those are likely to be affected the most have a chance to voice their concerns. Further, the effort should not appear to be laced with underlying motives. Therefore, any early engagement should be through a multi-party task force or an independent project team.

Engage widely

It is particularly important to engage a wide range of stakeholders such as regulators, industry groups and any potential credit bureaus. This strategy ensures that 1) the overall effort is not perceived as being tilted towards a particular special interest; and 2) the process of ownership begins to happen from the parties that will be responsible for the system's maintenance after the initial project phases. It also validates the message that CIS is beneficial across the entire financial and national sector, not just to moneyed interests.

Engage systematically

The first two principles of engaging early and widely do not imply a haphazard approach to engagement. The process of obtaining buy-in must be systematic. As the tactical steps suggest, beginning with an early assessment of who the specific stakeholders are, their existing predisposition to CIS and their concerns is a critical first step.

The process of systematic engagement is mindful of sequencing. For example, engaging consumers about the benefits of CIS before ensuring that the financial industry is ready for such a campaign is premature. Proper systematic engagement respects lines of authority, cultural considerations, and industry dynamics. By far, the most effective model of achieving buy-in is through a participatory process but for it to be effective, it must be well-organised or risk being too unwieldy, resulting in a "too many cooks in the kitchen" outcome.

Over communicate

The process of obtaining buy-in requires frequent communication that borders on over communication. At every possible juncture, stakeholders should be kept updated on the project progress and during appropriate times, be given the opportunity to participate in critical decision making.

Communication takes on a number of different forms including workshops, retreats, media coverage, internal organisational communications, letters from important stakeholders, individualized technical assistance programs, community visits, and newsletters. Each of these approaches has clear benefits and potential drawbacks. How to craft a detailed communication strategy is covered in section 0 on

Launching Participation among Data Providers. The principles there are broadly applicable to other stakeholder groups.

4.5.4. Tactical Steps

1. Assess current stakeholders attitudes/understanding of the benefits of credit referencing to establish a baseline
2. Design and implement appropriate communication programmes to tackle awareness and understanding of key issues across all stakeholder groups
3. Assess the impact of communication strategy and revise as required

4.5.5. Success Factors

Due to the importance of obtaining buy-in early in the process and ensuring that ownership takes place, the following success factors should be heeded carefully. They are applicable regardless of context and will be of particular use to practitioners in context where efforts have either stalled or the process of effecting CIS seems daunting.

1. **Focus on the willing.** In the earliest stages of CIS, practitioners may encounter discouragement is the majority of stakeholders do not seem to understand the benefits or the potential concerns result in a very small number of interested stakeholders. Practitioners should remain encouraged and work with this small number of stakeholders instead of focusing on who is not on board. With time and patience, these small stakeholders can enact powerful changes.
2. **Get quick wins.** A small coalition of stakeholders (or even a larger one) should focus on getting quick wins no matter how small or insignificant they seem. Quick wins start the process of building momentum and once the momentum starts, the effort is likely to begin taking on a life of its own making it easier to push for larger, more systemic change. The power of quick wins should not be under-estimated.
3. **Be responsive.** Engaging early, widely and systematically are all valuable steps but an implicit assumption and understanding in seeking concerns from stakeholders is that the project team will be responsive to those concerns. Responding to concerns, even if only to explain a specific decision or rationale, legitimizes the process to stakeholders. It allows begins to build an intrinsic value to the process and also facilitates the process of transferring ownership to them. This success factor needs to be balanced with the need to accomplish certain tasks. Therefore, it is not carte blanche license to stakeholders to engage in delay tactics but rather, an important validation step for those stakeholders genuinely engaged in the process.

4.5.6. Contextual Notes

Kenya is a classic case study in successfully obtaining buy-in. Early efforts in credit information sharing began with a small coalition of the willing: mainly the credit bureaus, a handful of regulators, financial institutions and later on, sponsors. This coalition persevered and worked to obtain the necessarily regulatory framework to enable credit information sharing. In the meanwhile, rudimentary information sharing began, enabling the bureaus to build basic capacity.

When the regulations changed in 2008 to require negative information sharing, the coalition's composition changed – some participants dropped out and other joined in. A formal task force of the Kenya Banker's Association (KBA) and Central Bank of Kenya (CBK) was now tasked with

operationalizing the regulatory mandate in an industry that at that point, had a substantial number of concerns. Still, the coalition moved on, inviting new partners and forming the formal project structure, the Kenya Credit Information Sharing Initiative (KCISI).

KCISI quickly formed a project plan that included the systematic engagement of stakeholders through an assessment of attitudes and plans to address those attitudes. It then engaged in a communications campaign to the relevant parties including the formation of project champions in all member banks. These project champions became important liaisons between internal bank staff and the project, enabling KCISI to dramatically leverage its limited staff resources to the entire industry. KCISI also worked closely with the regulator, the Central Bank of Kenya and reported at each governing council meeting with regular progress reports. Each month, the project also published a newsletter with any relevant updates or communications. After each workshop, notes were captured and distributed to relevant stakeholders. At each point in the process, stakeholders were always kept abreast.

The project team also accomplished quick wins and capitalized on it through a systematic approach to tasks. The first quick win was achieving consensus with the industry association on creating the project champions mentioned above. These champions sought internal feedback on the project's first major accomplishment: defining the data specification. The first iteration of the data specification was considered long bordering on cumbersome, especially considering that most of the requested information had never been captured. With their input, the specification was revised demonstrating the project team's genuine desire for constructive feedback. With momentum established, the project team worked with credit bureaus and the banks to being piloting data submissions. Again, this process was managed systematically and with a view towards receiving feedback and incorporating it into the process. Within one year of formation, the KCISI project team had developed a data specification, piloted data submission and had begun live submission of the required negative-only data. This was an impressive accomplishment given the necessary coordination between the Central Bank, 43 member banks, and the credit reference bureau.

Beyond the obvious lessons, this experience is instructive in several other ways. First, it highlights that coalitions can change. The initial individuals who began credit information sharing efforts in Kenya are not all the same. Some have stayed and some have gone. Practitioners should keep this in mind as they seek to form their own coalitions. Second, note that momentum began to truly pick up after a regulatory change. Sometimes the process of buy-in is catalysed by an external event. With compliance suddenly mandated, many people had a strong incentive to buy-into the process. However, the prior efforts were critical to enabling the successful transition to negative information sharing. Two credit bureaus were already in place and both were licensed within two years of the 2008 regulation change. It is unlikely the process would have progressed as quickly if these bureaus were not in place. And finally, the team focused on working with those who were willing. Although some organisations complied out of necessity, others understood the benefits and fully embraced the efforts. As the effort gained prominence (especially with the Central Bank governor's endorsement), other industries began to see the value of CIS and wanted to join in the process – even though the regulatory structure was not yet favourable to their participation.

Today, CIS in Kenya has gained widespread acceptance in principle even as the implementation continues. There remain challenges and much work to be done, but the continued perseverance of

individuals and organisations has transformed the effort into a nationwide task, reflecting the early marks of local ownership taking place.

4.6. Creating Effective Governance and Risk Management

4.6.1. Definition

Governance encompasses all actions driving the management and operations of CIS. These include agreements between data providers and credit bureaus, CRBs own internal governance arrangements including ownership and management structure, and the relationships between regulators, data providers and data subjects. Risk management is the practice of identifying and mitigating the risks associated with CIS. These risks may be specific to an internal organisation or shared across several stakeholder groups.

4.6.2. Rationale

Good governance and risk management are key hallmarks of a well-designed CIS effort. Because of the sensitive nature of information, failure points at any major stakeholder can undermine the entire system especially in the early stages. Having good governance structures make sure that individual incentives are aligned with the long-term objectives of the system. Effective risk management ensures that potential risks are identified and appropriately address. Taken together, these two activities of ensuring good governance and effective risk management imbue trust into the system and open the way for effective information sharing among data providers, users and subjects.

4.6.3. General Principles[8]

The following principles should be the goal of any practitioner seeking to create effective governance and risk management structures. They are all equally important and are universal in nature.

Transparency

The principle of transparency is designed to ensure that participants in this system understand how the system works and are able to understand their role within the overall credit information sharing infrastructure. It seeks to avoid the appearance of mystery, conflicts of interest or any other impediments that would prevent stakeholders from participating for legitimate reasons. Ultimately, transparency fosters responsible borrowing behaviour, financial innovation by institutions, and creates the environment under which the value added products from credit bureaus can be properly utilized. Transparency in governance arrangements and risk management structures is best measured through the level of clarity. This clarity is achieved through proper reporting and disclosure. These three elements are discussed further below.

Clarity

The goal of transparency is clarity. All actors in the system need to have clarity with respect to their individual roles within the system.[9] For instance, data providers need to know what is expected of them in terms of data submissions (format and frequency), standards of conduct, and their obligations (including potential liability) within the system. It should be clear what the consequences of their actions will be in this framework. Data users need a similar level of transparency. Proper use

[8] This section is informed by Kenya's experience and principles found in the World Bank's "General Principles for Credit Reporting" published September 2011.
[9] Ibid., World Bank, 2011.

of credit data should provide comfort around litigation issues and conversely, improper use should have clear, predictable consequences. Data users should understand the parameters of proper use of their data and understand potential avenues for dispute.

Reporting

Transparency is enabled in part by proper reporting. Regulatory structures can initiate supervisory efforts in this area that require appropriate reporting which can then be subject to audits and as appropriate, made available to the public.

Simple reporting on measures taken within the system can be made public without having to make available potentially sensitive reports (particularly on sensitive internal credit bureau operating information). Within credit bureaus, proper governance structures should include regular operating reports to the board of directors informing it of any potential risks to the proper functioning of the system.

Disclosure

Proper disclosures facilitate transparency and ensure that nothing is cloaked in secrecy. This process is especially important as it relates to data subjects who at a minimum, need to be aware that their information is being used within the system to make decisions that impact them. Data subjects should be notified well in advance when potential negative listing is imminent to provide them the opportunity for remedial action.

Proper disclosure should include on-going requirements as well as "trigger events" that automatically require disclosure to the appropriate authorities. For example, material changes in a bureau's ownership structure that impact its independence or give rise to conflicts of interest should be mandated by law. A data provider new to the system, such as a utility company, should also disclose to its customers that it has begun participating in credit information sharing and will be sharing its data to with credit bureaus. Other trigger events could include disaster scenarios, data breaches, regulatory changes, and policy changes regarding data use.

Accountability

Proper accountability within the system is the backbone of credit information sharing. The old saying rings true, "trust, but verify." Without accountability, actors in the system can develop perverse incentives such as violating reciprocity rules, abusing data, and ignoring credit information sharing best practices. Accountability gives all actors comfort that overall system compliance is present.

Accountability is best established through several formal and informal instruments including regulatory supervision, independent audits, dispute resolution mechanisms, and industry norms.

Regulatory supervision

Proper regulatory supervision gives the entire CIS infrastructure credibility. For data providers, it provides them the necessary comfort that credit bureaus are vetted organisations and that an independent party is monitoring them to ensure that the data providers are submitting is subject to proper safeguards. For credit bureaus, it ensures that any potential competitors are legitimate and from a self-interested perspective, erects the appropriate barriers to entry. For data subjects, it

provides comfort that there are effective resolution channels in the event of data misuse. For data users, it provides the impetus to use data legitimately.

Effective regulatory mechanisms ensure adequate supervision in the areas of credit bureau sustainability and system-wide security (see next sub-section). It should also cover both good governance and risk management.

Independent Audits

Independent audits provide the initiator of the audit that the factual statements made by a particular stakeholder are indeed true. These audits may be part of a regulatory supervision effort or they can be a part of governance arrangements between credit bureaus and data providers, or data providers and the appropriate industry association (such as credit providers). Participant stakeholders and the practitioner should consider including the use of independent audit clauses as they institute governance agreements.

Independent audits can be commissioned for various purposes. They can be sweeping examinations of a credit bureau for instance, or limited to specific areas such as IT security or data submission compliance. They can also be commissioned internally as a part of a managerial best-practice for individual managers and stakeholders to identify potential risks and obtain professional recommendations from credible experts on how to remediate those risks.

Independent audits should be viewed as a valuable risk management and good governance tool that is available to a variety of stakeholders.

Dispute Resolution Mechanisms

In any CIS, disputes are inevitable. The highest occurrence is between data subjects and data users or providers. Inaccuracies in a credit report have the potential to negatively impact data users. These inaccuracies can rise through clerical errors, misunderstandings, or other benign reasons. Nevertheless, an effective non-judicial approach should be designed to ensure that any disputes are handled fairly and efficiently. When data users have an effective channel through which they can bring disputes, the system gains a large measure of credibility. Conversely, data users also gain increasing comfort in the system and are able to place a greater reliance in the system because there is a clear accountability chain as to the validity of the data.

Perhaps quite importantly, a credible dispute resolution system discourages irresponsible borrowers from trying to "game the system." When the market accepts the impartiality and independence of this system, both borrowers and providers have an incentive to follow the rules.

The tactical steps discuss the process of setting up a credible dispute resolution process further.

Industry Norms

Formal systems to ensure accountability provide the necessary clarity and comfort to all users, but industry norms can be one of the most powerful informal ways to instil accountability. Each participant class has unique peculiarities that may vary from other users in the system. For instance, banks will have different interests and uses for the credit information system than would utility companies, telecommunications providers or even landlords. Further, although uniformity of

regulations across participant classes may exist, they are often difficult to custom-tailor to each peculiar use. Industry norms fill in this gap by addressing industry specific needs and creating codes of conduct within an industry. These industry norms may address differences in areas such as data specifications, reporting protocols, and data use.

Industry norms are usually formed through industry associations and in the course of time, through the formation of standard operating practices among industry participants.

Security

Good governance ensures that security threats are dealt with through effective risk management. Security encompasses the full spectrum of threats that could compromise the integrity of the system such as theft, unauthorized uses, data breaches, data loss, and disasters. While it is impossible to identify every threat, there are a number of security measures that the data providers and users should take as part of their risk management strategies. These include proper internal controls, adequate data protection measures, and operating contingencies.

Internal controls

Internal controls protect against the unauthorized access to and use of data. Proper internal controls ensure that only people with a need to know have access to data and that proper data segregation rules are in place. Additionally, internal controls facilitate regulatory compliance, especially on the part of credit bureaus.

Data Protection

On the data provider, user and processor sides, adequate measures need to be taken to safeguard the security of data. This includes having redundancy policies with respect to data backup and storage, proper data encryption so that in the event of theft data is unreadable to those with unauthorized access, and adequate technology controls governing access protocols.

Often, this area necessitates capital investments on the part of credit bureaus and data providers to ensure robust systems that have adequate protection. It should be noted that failure to properly put in place the right protections can leave the organisation vulnerable to costly litigation and ensuing liabilities.

Operating Contingencies

In addition to the technical aspects, organisations need to think through their operational plans in the event of a number of scenarios. These include disaster recovery plans, staff turnover, and planning for peak usage. The most common risk is staff turnover; organisations should train multiple staff on the various aspects of their individual operations related to CIS. For bureaus, this means having multiple data analysts and an IT staff with multiple competencies so that the absence of critical staff does not disrupt the entire operation. For data providers, this means having multiple staff capable of handing the submission process to ensure timely submissions even in the event of staff absences.

Equity

Good governance ensures that everyone in the system is treated fairly and equitably. The nexus of power should not be one-sided and neither should any party receive preferential treatment over another. This is particularly important for data providers and subjects. If data providers feel that some data providers are unfairly gaming the system and gaining from it, they will react negatively and may stop participation in the system or initiate litigation. If data subjects feel that the system is unfairly biased against them, they may take any number of actions from voicing simple complaints to litigation and in extreme cases, influencing regulators towards change.

Equity is enhanced through some of the steps articulated above like accountability and transparency, but it is also enhanced through the principle of reciprocity. This principle provides access to the system for anyone providing data as long as their use is legitimate. For data users, reciprocity means realizing tangible benefits from the system in return for their information being shared. Frequently, this means having negotiating power with respect to borrowers and enjoying differentiated product offerings that reward responsible behaviour and punish irresponsible borrowers. This makes it incumbent upon data providers and credit bureaus to offer the appropriate value added and differentiated products.

4.6.4. Tactical Steps

Creating effective governance structures is a time intensive process. It requires the participation of many different stakeholders and seeks to address a number of important and sensitive issues. Unlike other sections, this section on tactical steps lists items that typically take months or even years. Further, the tactical steps described in this section are recommendations whose implementation will take on very different forms based on the environment, stakeholder preferences and regulatory/market dynamics. As such, they are described broadly. Practitioners who have created positive buy-in, have formed strong leadership teams and taken a proactive approach to governance and risk management will be well positioned to take effectively implement these tactical steps.

1. Create an industry association.
2. Create industry codes of conduct.
3. Create dispute resolution mechanisms.
4. Create and review key governance arrangements between key stakeholders including: credit bureau to data provider, credit bureau to data user, credit bureau and government, government to data providers, government to data users, and data users to data providers.

4.6.5. Success Factors

Creating good governance structures and risk management structure is often a learning process that takes place over a long period of time. Continuous adjustments should be made as circumstances change and the nuances of each market become clear. The following success factors guide the practitioner through this process.

1. **Sequence.** It may be tempting to try to achieve the most compelling governance and risk management structure but that is nearly impossible in early stages. There are too many unknowns and evolving circumstances will likely dictate change. Therefore, some thought should be given to the most critical factors first which will be a formal system of accountability and ensuring a robust security infrastructure. With time, informal mechanisms will emerge and should not be forced. The market will also reveal which areas of transparency are valued most and will enable them as an organic process.

2. **Balance.** There must be an appropriate balance between regulator-mandated governance/risk management structures and industry-driven ones. Regulations can be difficult to change once enacted so special consideration should be given by regulators when considering any changes. Industry driven mandates are always preferable so long as the industry demonstrates the capacity for self-regulation and subsequent norms enforcements. Practitioners need to understand which structures are more effective and have the discernment to know when regulation is preferred to industry mandates (e.g. mandating full-file information sharing).
3. **Collaborate.** This is one area where good collaboration efforts between government, industry and credit bureaus go a long way towards creating effective CIS. There are natural tensions arising from each participants' individual priorities and diverging interests, yet if these parties can work well within those tensions, the outcome is likely to be optimal for the entire system.

4.6.6. Contextual Notes

Kenya continues to work on creating an effective governance structure and addressing risk management issues. During the initial licensing phase of credit bureaus, the regulator sought outside counsel on how to best go about creating the licensing requirements for a bureau. Resulting regulations imposed an additional cost on the bureaus particularly in the area of data security and making the appropriate capital investments. This turned out to be wise move in hindsight as it increased bureau capacity and gave banks subsequent reassurance that their data would be secure at these credit bureaus. In essence, the regulators facilitated buy-in and legitimacy of the system not only mandating that banks provide their information to the bureaus, but also that bureaus developed sufficient capacity to receive that information.

One of the early goals of the Kenya Credit Information Sharing Initiative project team was to create a credit provider's association which would be open to all credit providers. The association's objective was simple enough: to create a group that could specifically address the common concerns shared by credit providers and especially as they related to this initiative. Although the goal was in place, the project team deferred its implementation for a later date choosing to postpone it until the right conditions were in place. This included wider participation among the different classes of credit providers (e.g. banks, MFIs, cooperatives, e.tc.) and an organic process of ownership. In other words, the project manager wanted to avoid appearing as if he was dictating to the industry what they should do. Instead, he facilitated the creation of a national task force with members across the credit provider spectrum who could then initiate the process of forming the Kenya Credit Provider's Association.

This process illustrates several principles. First, the project manager understood the importance of proper sequencing and the implications of buy-in. Instead of blindly initiating a process to achieve a goal for the sake of checking it off, he objectively evaluated the underlying objective behind the goal and set about ensuring the proper conditions were in place even if it meant delaying the timeline for the goal. This demonstrated flexibility and a willing to be patient for the right conditions which was more important for the overall project. By doing so, the end result has greater buy in and has a better sense of its mission and its ability to effect change. As of this writing, the KCPA is in its infancy but is already working on important initiatives such as draft recommendations for a national credit

act. It is positioned well for success but only because the project team understood that the process of effective governance cannot be rushed.

Creating effective governance structures takes time and it takes a great deal of coordination, yet done well, it facilitates the type of environment that leads to greater transparency, accountability, system security and wide-spread legitimacy. These are the elements that allow the financial sector to truly reap the benefits of CIS.

4.7. Launching Participation among Data Providers

4.7.1. Definition

Launching participation among data providers is the process of moving from the theory of CIS to the practice by having data providers start to submit and use data to and from credit reference bureaus.

4.7.2. Rationale

For a CIS system to "go-live", data must be submitted to the system. Without doing so, there is no data to use and the exercise remains theoretical. Typically, this step has been preceded by a number of critical steps before it such as ensuring a proper regulatory framework, credit bureaus are ready and there is sufficient buy in. These steps may not even be complete and may be happening concurrently but at some point, without live testing, CIS cannot move forward.

In the early stages of the process, practitioners must understand that it is a learning process, much like other steps and will require adjustments along the way. It is encouraged that data providers begin to provide data as soon as practically possible. The question of when will vary but in general will be when: credit bureaus are ready, data providers are ready, and there is widespread consensus from at least one large segment of data providers. Naturally, any regulatory requirement will be helpful in spurring potentially reluctant providers into compliance readiness.

4.7.3. General Approach

The approach below is a synthesis of best practices and general principles on the process of getting live data to be submitted on a continuous basis.

Project management approach

The process of launching data provider participation involves many moving parts. A clear project management plan is an essential component. However, effective project management will make note of the following principles and adapt them to individual context.

1. Homogeneity

Project managers are encouraged to launch participation into CIS with homogenous data provider classes. In other words, it is better to pick specific types of providers with similar characteristics. For instance, starting with banks and moving systematically to microfinance institutions, other credit providers, and then non-credit providers. There are several advantages to this approach. First, beginning with a homogeneous group ensures that similar problems can be addressed using an efficient system. Because the group has similar characteristics, they are likely to encounter many of the same problems. Second, it allows the group as a whole to start benefiting from the system and consolidates their particular buy-in. Third, it provides efficiencies across the entire project as the project team and credit bureaus liaise with the same parties, allowing them to easily and quickly address industry peculiarities.

If participation begins with a heterogeneous group in different industries, the project team is likely to be overwhelmed, the process of buy-in is likely to be compromised and guidance may end up being erratic.

2. Phasing

Commented [GOK18]: I'm not really clear on why we are talking PM again when this was already setout in the prerequ and implementing. Are we now meaning PM for individual providers? This whole section feels quite repetitive with previous topics already covered.

KN: Agree it's a bit repetitive. In this context, it's part of what's needed to actually launch CIS whereas the PM discussed earlier has to do with the overall project. Let's see what they say. There are also small differences in this section such as recommending going to homogenous data provider classes.

To the extent possible, the project should be phased pursuant to existing constraints. Phasing is done to better manage the large numbers of participants and data. Phasing can be done across different levels. If the data provider class is made up of a large number of participants, they can be divided into different groups. These groups can then be allocated specific windows during which they enter into the process. From project management perspective, it allows the project team to be more responsive to participants in the system, incorporates learning from one group to the next, and makes large-volume submissions more manageable for credit bureaus. Phasing can also be done as a way to assess readiness. For example, different groups can pilot the system at different stages. Once the entire group is ready, it can go live at a specific date. Phasing can also be done by type of data submitted. The system can start with negative data only as

3. Planning

It goes without saying that the project should have a detailed plan. This plan should include a communications strategy, plan for securing legal consents, data preparation and submission objectives, and a measurement plan. Some of these areas are covered below as separate guidelines.

Communications strategy approach

A detailed communications strategy should be designed to train credit providers about this process and to develop awareness campaigns for consumers and the media. A good communications strategy has several elements: baseline assessments, detailed objectives, focused messages, thoughtful use of communications channels and supporting infrastructure. These elements are discussed below.

1. Baseline assessments

Before creating the communications strategy, a baseline assessment should be carried out to understand stakeholder attitudes. This assessment will inform the strategy's objectives and its messages. It will also help in establishing the appropriate support infrastructure. This assessment can be carried out by the project team or better yet, through a firm with relevant expertise in this area.

2. Detailed objectives

Done well, the assessment process should inform the project team on the appropriate objectives. Sample objectives could include achieving staff proficiency in CIS, developing data subject awareness of credit information sharing, and achieving rates of awareness among these parties. As in the project planning phase, objectives should be specific, measurable, realistic and bounded by reasonable timeframes.

3. Focused messages

A general communication campaign with diffused messages may confuse the market and achieve suboptimal results. It is important to pick a few central themes and reinforce these in the communications phase. Messages should be tailored towards specific objectives and participants and they should not be contradictory. Further, the best way to achieve success in this area is to

ensure that these messages are repeated widely, frequently and through the different variety of communications channels available.

4. Communications channels

The project manager and practitioners have a variety of standard and non-standard communications channels available to them. All of these channels should be utilized as appropriate. Practitioners are encouraged to be particularly creative in this area as some of the most effective channels may not be immediately obvious. Examples of typical channels include television, radio, newspapers, brochures, banners, workshops, field visits, and in-branch advertising.

5. Supporting Infrastructure

A good communications strategy ensures the supporting infrastructure available to support the messaging is in place. Any contact number or feedback sources provided should be readily accessible and feedback should always be acknowledged. Staff should be in place to answer questions from the public and once implementation begins, support staff should be in place to handle the expected queries. The project team can be creative in the creation of this infrastructure. For instance, support tasks can be shared by individual banks, the credit bureaus and the project team depending on the type of support or questions the public may have. The principle here is to ensure that the messaging is backed by actions that reinforce the messages. This builds the projects credibility especially to actors who up to now may not have been as involved in the process as early participants.

Legal & regulatory approach

Organisations need to take a number of prudent steps to ensure they are in legal and regulatory compliance with respect to CIS before going live. In an emerging regulatory framework, compliance may be simple but could involve operational changes. Two aspects are highlighted here: legal consents and regulatory reporting.

1. Legal Consents

Data providers are typically required to disclose to their customers that information collected about them will be shared. The simplest way to do this is through the revision of loan applications and account opening documents by adding a consent clause. The consent clause is informs the customer that through the utilization of a particular product of service, s/he is giving implicit consent for information about them to be shared with credit bureaus under applicable legal provisions.

Before CIS is widely known in the market, consent clauses should not be buried in fine print or limited to formal documents. Data providers should make a concerted effort to educate consumers about the anticipated changes and provide them with a forum through which they can ask questions. Therefore, a variety of other channels are recommended such as customer letters, mobile text alerts, in-branch banners and brochures, and consumer statements and invoices.

2. Regulatory Reporting

Many data providers may have additional reporting burdens to their respective regulatory agencies. Even if these requirements are not explicit, regulatory agencies are likely to use information from credit bureaus as part of their supervisory efforts. Organisations are encouraged to ensure that their

reporting to credit bureaus is consistent with the reports to their regulatory authorities. If regulators decide to conduct an organisational audit using credit reports as a potential verification tool, inconsistencies may lead to severe regulatory penalties especially as the system develops. Therefore, thinking through the process of ensuring reporting consistency is highly encouraged.

Data preparation and submission approach

The actual sharing of credit data with bureaus entails two important work streams: 1) preparing data for submission; and 2) the submission process itself. Preparing data involves formatting data according to the agreed upon data specifications. Submitting data involves following an agreed upon protocol to submit data to credit bureaus. Below are additional guidelines in preparing for this process.

1. Preparing data

Preparing data for submission involves several different steps. These general steps are the collection of data, assessment of conformity to data with agreed upon specifications, a data remediation strategy, and data validation.

- *Data collection.* Data collection is the process of aggregating data from several different sources into a central format so that it can be submitted to credit bureaus. These sources will usually include the organisation's information management system, physical applications, archives, and any other available sources. This is one of the most time intensive exercises and another reason why this guide recommends phasing the project into manageable segments.
- *Data conformity.* Organisations should assess their current data with the required data specifications. Few organisations, if any, will be prepared to submit all the mandatory requirements of data specification. This may be due to issues out of their control such as the lack of a national unique identifier or other unavailable information. Frequently, it is because most data providers have never had to collect the required information. Regulators in particular, need to be aware that legacy issues will mean incomplete information and leave flexibility in the regulations for this.

  The typical solution for this is twofold: 1) Organisations and the industry can agree upon the protocol for missing data; and 2) Organisations typically must re-tool their processes and applications to collect required information on a go-forward basis. This leaves organisations with the responsibility to submit data that conforms to agreed-upon protocols
- *Data remediation.* After assessing data for conformity, organisations will need time for remediation. This step is sometimes part of the collection phase. For instance, an organisation may not have some mandatory fields in their management information system but it does exist in the customer's physical files. Remediation involves correcting for any identified data gaps to the extent possible.
- *Data validation.* Data should be checked – or validated – for consistency and for accuracy. Organisations with smaller clients can do this for almost their entire set. Larger organisations can employ sampling techniques to test their data pools and deploy appropriate remediation measures for any invalid data.

The process of data preparation is laborious, resources intensive and takes a fair amount of time, from a few weeks to a few months. It should also be clear that compliance to a desired spec may not be possible with legacy data. The CIS effort should define what data is expected for collection. Ideally, the organisation's entire data set should be submitted. The question of whether this is practical or not will depend on the market context, individual organisation data policy and previous retention rules, the class of data participant, and the time period considered. At a minimum, once a particular class of data providers has agreed to participate in CIS, there should be agreement on a timeline to start collecting the newly required information and for submitting that data to credit bureaus.

Organisations should also work closely with credit bureaus in this area. The more organisations can work with credit bureaus in this area, the better the quality of their submissions will be. Credit bureaus may – and are encouraged – to provide tools that data providers can use in this process such as data validation software. These tools can dramatically improve the efficiency of this process for organisations and ease the preparation and submission burden.

2. Data Submission

Data submission is another important aspect. It is important because this is a critical time when data flows internally from the organisation to an external third party. Inherent in this process is the security risk of data being intercepted and possibly used maliciously. Submission therefore, involves three distinct steps: 1) encryption; 2) submission to bureau; and 3) acceptance from bureau.

- *Encryption.* Encryption is a technical term for transforming readable data into an encrypted or coded format such that no one except the intended party can access the data. Although the underlying cryptographic science is complex and out of the scope of this guide, the process of encryption itself is relatively straight forward. A variety of free and commercial software can be used to encrypt data by a proficient IT staff member. It is important to ensure that data is encrypted at all vulnerable points including removable media such as CDs, DVDs, USB flash sticks or hard drives.
- *Submission to bureau.* Delivering data to credit bureaus may involve the physical delivery of removable media or more often, the submission through a secure internet portal. The project team should create clear submission guidelines including details such as the submission deadline, file format and encryption keys/passcodes if any.
- *Acceptance from bureau.* Once the bureau receives the data, it will perform internal validation checks and inform the organisation what the acceptance rate is and provide a corresponding accounting of any errors. The acceptance rate is the percentage of records submitted that meet the requirements of the data specifications. A high acceptance rate is the goal of any CIS effort although initially, the acceptance rates may be low.

In the launching of data providers into live participation of CIS, there will be a discrepancy between the reality and long-term objectives especially as it comes to submission and acceptance rate. A submission rate is the percentage of an organisation's records actually submitted to credit bureaus. For example, if the project begins with negative-only information sharing and a credit provider submits half of its non-performing loan portfolio, its submission rate is 50%. If the credit bureau accepts three quarters of the records submitted, the acceptance rate is 75%. In early phases, these

two numbers will be lower than desires as data providers learn and develop the processes required to achieve 100% in both categories.

Practitioners including the project team, credit bureau and the data provider industry associations all need to define minimum standards of acceptability and work to get all organisations to that capacity. Regulations may mandate the minimum expected submission rates and these will typically be 100% with a small tolerance. Industry norms will dictate what the minimum acceptance rates should be. The project team can choose to go live once organisations reach acceptance rate reach a reasonable level such as 85% and put in place requirements that organisations reach higher acceptance rates. Ultimately, the higher the acceptance rate, the easier an organisation's burden on error corrections. This trend also gets easier with time as organisations begin to collect all required data and adjust their management information systems accordingly.

Utilizing credit bureaus

Basic education should be conducted on how to utilize credit bureaus. The easiest way is for the project team to work collaboratively with the bureaus on best approach. If a bureau is privately owned, it will have a strong incentive to take on this function. The role of the project team then, is to ensure that information communicated by the bureaus is consistent with best practices.

4.7.4. Tactical Steps

1. Determine a baseline of current negative and positive information sharing undertaken by banks and levels of motivation
2. Conduct initial data submission pilots to determine capacity gaps and areas of technical assistance requirements
3. Develop detailed capacity building programme for banks based on review of experience from pilots
4. Support implementation of capacity building in banks providing backstopping advice
5. Determine how banks currently utilise credit bureau information/reports
6. Gather and disseminate best practice in risk management for credit decisions utilising credit bureau information and support other initiatives to increase usage of the credit bureau by banks

4.7.5. Success Factors

1. **Support providers.** The logistical process of participating in CIS is a heavy investment of time and resources by data providers. Therefore, providing deep tactical support is highly recommended as a key determinant of success. Early obstacles and failures can be discouraging to data providers and cause the loss of hard-earned momentum. Ensuring their success during this process paves the way for the next aspect of CIS which is utilizing the bureau data. Support can be provided more manageably by phasing the project, by working with stakeholders such as credit bureaus who have a vested interest in the success of the project, and with regulators and industry associations who can also provide additional guidance and clarifications. The support team should be as responsive as practically possible.
2. **Provide clear guidelines.** Organisations should have clear guidelines when they run into issues. What should be done about missing data? How far back should data be submitted? When should certain optional fields be made mandatory? These are some of the questions organisations will have and an effort should be made to provide clear answers. These

answers should be the result of a consultation effort with the industry, regulators and credit bureaus.

3. **Pilot.** The role of piloting throughout the CIS process is vital. Section *0* on

4.7.6. Communications

4. Piloting provides a more detailed discussion on piloting. Suffice it to say for now that the project team should conduct pilots in the data submission phase to gauge organisational readiness to "go-live" with data.
5. **Start with the willing.** There are situations when a particular data class is not fully ready to participate nor is it required to statutorily. In these instances, obtaining participation in the credit providing system depends on effective persuasion techniques. Practitioners in these situations are encouraged to start with a coalition of participants within that data class who are ready perhaps on a pilot basis and then share the results with their peers. With time, the benefits of the system become clearer and the principles of reciprocity and growing network effects will put pressure on non-participants to join.

4.7.7. Contextual Notes

Kenya's complete experience on launching the participation of data providers is captured in the case study, "*Credit Information Sharing in Kenya: A Case Study*" published by Financial Sector Deepening. However, a few points bear mentioning.

First, the role of piloting and principle of phasing in Kenya was instrumental in the process which started with banks. Kenya's 43 banks were divided into four arbitrary groups. These groups each had their own piloting window during which they submitted data to credit bureaus to assess their readiness. Evaluations were conducted on their submission and acceptance rates and feedback was provided on the areas of weakness. Banks were coached through the process and within six months of piloting, banks had reached acceptance rates that permitted the industry to go live with data submissions – and they did. Had this process not been phased, it would have given rise to much frustration as the project team and credit bureaus were limited in their ability to provide support. Piloting and phasing were key ingredients to success.

4.8. Indicative Best Practices

The process of creating CIS involves many different activities and competencies. This section attempts to capture best practices that can be deployed throughout the process. Some of these are tactical in nature while others instruct the practitioner on high-level approaches to activities that are critical to the success of the initiative but are not neatly categorized in any of the previous sections.

4.8.1. Communications

4.8.2. Piloting

Definition

Piloting is the process of testing a process on a limited basis prior to a live rollout.

Rationale

Piloting is a recurring theme in many of the activities the project manager will undertake and for good reason. Piloting allows the project team to identify potential problems prior to a full-scale implementation. It can be used to assess readiness on any number of fronts including the readiness of credit bureaus to accept data, credit provider readiness for data submission, and communications program logistics.

Piloting also has the advantage of building buy-in among stakeholders. It provides a chance for the project team to demonstrate its commitment to the project, its commitment to addressing stakeholder concerns and for the team to instil process ownership on the part of participants. So in addition to being a valuable project management tool, it is a way to build and sustain momentum by achieving quick wins.

Guiding Principles

The following principles should be observed for the piloting process to result in the benefits articulated above:

1. **Have well-defined pilot objectives.** Typically, these should be narrow, with specific objectives and clear measures for success.
2. **Create manageable pilot groups.** Successful pilots have a manageable subset of users depending on available resources. They should not be so unwieldy that proper support cannot be given to any individual participant.
3. **Invite frequent feedback.** Part of the purpose of piloting is to gather as much data as possible which is then used to evaluate the feasibility of a particular project. Participants should have easy and frequent opportunities through which to provide feedback.
4. **Adopt learning attitude.** There needs to be a balance between educating users and insisting on specific methodologies. Pilot data may indicate a need to adjust timelines, provide more support, revise requirements or any number of other a. Be open to learning in the pilot process what needs to be changed.

4.8.3. Project Management

Definition

Project management is process of managing the full range of activities required to make a project successful. These activities consist of work planning, working protocol, implementation activities, monitoring and evaluation. Good project management also consists of a range of soft skills and leadership abilities which this section attempts to synthesize.

Rationale

Good projects fall apart with bad project management. Conversely, stellar project management can salvage a project on the brink. With respect to CIS, the important of good project management is magnified due to the scope, complexity and cost of the effort. Setbacks are inevitable in the process, but effective project management is able to compensate and adapt.

Guiding Principles

Although project management is discussed elsewhere in this guide, this section distils knowledge that can be used from a macro-project management perspective or adapted for specific activities.

1. **Begin with the end in mind.** Any project manager needs to understand the larger picture and how specific tasks fit into the overall objective. A project or task objective is often tied into this overall objective. This understanding informs the project manager's approach and provides practitioners the leeway to adapt specific objectives or re-order priorities based on changing circumstances.
2. **Communicate.** Good, frequent communication is a hallmark of good project management. This element captures the three pillars of communication: content, frequency and audience. Project managers should be aware of their constituent stakeholders, understand how frequently to communicate to each of them, and what to communicate. Effective communication should engender a sense of comfort on the part of stakeholders without shielding them from reality. The goal is not to evoke a false sense of comfort, but rather an authoritative demonstration that the manager is in command of all major aspects of the project and is faithfully providing updates – whether or not they bear bad news. Of course, when updates indicate a deviation from the plan, the same updates should include reasons for deviation and any mitigation steps if appropriate.
3. **Have a plan.** This guide has bordered on overemphasizing the importance of planning, yet it cannot be overstated. A project manager balances between the proper level of detailed planning and the practical reality of running the project. Not every task or activity requires a project plan, but most significant tasks require some level of forethought. This should be captured somewhere to develop institutional memory and in the event of staffing disruptions.
4. **Document.** In a project the magnitude of CIS, it is important to leave behind a long trail of work accomplished to date. One reason documentation is not kept due to a lack of time. The easiest way to solve for this is engaging consultants who can prepare pre-and post-activity assessments and reports. This enables the project manager to maintain neutrality and provides practitioners the time to focus on their core tasks while still keeping a high level of documentation. Of course, discretion needs to be used when employing consultants to make

sure resources are being used to document effectively – not every task needs detailed documentation.

5. **Measure.** Good project managers understand the value of measuring progress. Beyond the obvious goal of measuring activities against targets, measurement provides insight on effective resource utilization. For instance, a target may be set for a communication campaign, but a systematic measurement of that campaign will not only provide the end result, but it will likely lead to critical insights about which communication channels were the most effective. Because CIS is a multi-phase project, these insights guide future efforts and generations of leaders who undertake similar efforts.

4.8.4. Effective Fundraising

Definition

Fundraising is the process of securing capital and in-kind resources required to enable CIS. Effective fundraising implies the ability to secure the required capital in a sustainable, cost-efficient manner.

Rationale

Being able to effectively raise money for CIS enables the project team to focus on the different project objectives required to make it a success. Yet, fundraising for most practitioners is not an enjoyable task. Further, the CIS effort is a multi-million dollar effort. Collectively, no single sponsor can fund the entire effort. Therefore, an effective fundraising strategy must be in place and the interested practitioner must have a basic willingness to undertake fundraising efforts.

Guiding Principles

1. **Be collaborative.** Fundraising does not have to be an individual task. Any serious sponsor will insist on basic commitment from key stakeholders including regulators, major potential participants and potential credit bureau partners. Forming a fundraising coalition of high-level officials and executives who are willing to play a part in the fundraising effort not only reduces the psychological burden for the practitioner, but it signals a strong commitment that facilitates an easier fundraising effort.
2. **Understand the major needs.** The implementation section of this guide highlights the need to carry out pre-project assessments to understand the market's readiness for CIS. Such an assessment can include a preliminary estimate of the major areas for funding. It is unlikely in early stages that accurate estimates can be formed, but there are certain areas that are likely to require investments. Understanding what investments need to be made and which party should be responsible for them helps make fundraising manageable. Sponsors will typically fund technical assistance and project-management related expenses while they will expect the private sector to make its own investments to improve internal capacity and readiness. Practitioners should form a funding plan based on a model of shared responsibilities across the market.
3. **Assess and target sponsor priorities.** Funding is most likely to come from sponsors with a fundamental alignment on priorities. Establishing CIS accomplishes a variety of sponsor priorities such as financial inclusion, access to credit, rural development, financial infrastructure development, regulatory development, emerging market development and other such priorities. Because no single sponsor will fund the entire project, targeting sponsors according to priority is an effective approach. See the included resource guide for a list of funders who have funded similar projects in the past.

4.8.5. Technical Assistance

Definition

Technical assistance (TA) is assistance provided to an organisation in the form of consultants or technology.

Rationale

Technical assistance is designed to facilitate knowledge and skills transfer within an organisation or provide additional resources when an organisation does not have sufficient human resource capacity to engage in additional projects.

Guiding Principles

1. **Define the appropriate scope.** Successful TA is premised on a well-defined project scope. This scope is best defined in a Request for Proposal (RFP) or a TOR (Terms of Reference). A well written RFP/TOR gives potential bidders a clear picture of the project and provides them the opportunity to make a realistic assessment of their own time and resource needs. Ultimately, that ensures that the final consulting proposal is a realistic reflection of the expected cost. Consulting engagements should be structured with clear targets in place within specific areas. The work should be manageable within a realistic timeframe given available resources.
2. **Facilitate access.** TA engagements often require access to various individuals. Given compressed timeframes, the project team should facilitate introductions to requested individuals. This lends credibility to the consultants in the eyes of participant and engenders greater cooperation.
3. **Formalize processes.** TA engagements should require inception reports that align the consultant's work plan with the engaging party's objectives. These reports ensure that the consultants' time is optimized and adds an additional step of accountability for the final product.
4. **Follow procurement best practice.** Procuring TA should be a competitive process. Therefore, the engaging party should invite multiple consultants to submit tenders. These tenders should be evaluated by pre-disclosed scoring criteria to enable a fair and impartial process.

4.8.6. Sponsor/Grantee Relationships

Rationale

Once sponsor capital has been secured, the process of ensuring the successful deployment of a grant should not be taken for granted. These relationships are an important part of the CIS framework. Sponsors can often catalyse additional funding either from internal sources of other partners. Conversely, sponsors should also understand the impact of their actions on the project. This section provides guidelines for both sponsors and grantees.

Sponsor Guiding Principles

1. **Define the relationship.** Some sponsors prefer a hands-off approach with only periodic reports while others prefer to be heavily involved. Sponsors should define the relationship by clarifying their preferred style of engagement and setting clear expectations of sponsors on proper working protocol. This is particularly important for practitioners who do not have much prior experience working with the development community.
2. **Be transparent.** Sponsors should also be clear about the scope of their support both with respect to area and time. Some sponsors can support the project on a general basis while others can only provide specific types of TA. Signalling the commitment level of a sponsor, including when the sponsor expects to exit the project facilitates better planning on the part of the project team especially in terms of ensuring funding continuity.

Grantee Guiding Principles

3. **Be transparent.** While sponsors should be transparent with respect to their expectations and commitment levels, grantees must be transparent with respect to uses of funds. This entails proper accountability and sufficient internal controls to enable efficient, accurate reporting. Many sponsors reserve the right to audit accounts making this an imperative for grantees.
4. **Communicate often.** When problems arise with the project, sponsors should be made aware immediately. Sponsors should also be kept abreast of any major accomplishments, potential risks and any relevant scope changes.

5. Resource Guide

5.1. Knowledge on Credit Information

1. “General Principles for Credit Reporting”, World Bank Group, published September 2011
2. “Credit Bureau Knowledge Guide,” International Finance Corporation, published 2006
3. IFC Global Credit Bureau Program

5.2. Potential Sponsors

1. Financial And Legal Sector Technical Assistance Project
2. Financial Sector Deepening
3. Government
4. International Finance Corporation
5. Private Investors
6. United States Agency for International Development