MFIs Capacity Assessment

Final Report

The Consulting Task Force

<u>Consulting Task Force Composition</u>

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1 Executive Summary

The following reports endeavours to convey the main findings and results of the MFIs Capacity Assessment Mission lead by a dedicated Consulting Task Force, under the Leadership of Mr. Jared Getenga, during the 1st quarter of this year.

The most striking finding of the assessment reside probably in the sheer number of Institutions assessed as ready to join the CIS Pilot (due to start in April 2012). Among the 37 MFIs that were assessed, 14 have been deemed ready to join short term whilst another 15 have been deemed ready to join medium term, i.e. possibly in the next 12 months.

It is a rather positive and unexpected result in an area of activity, micro finance, which has been perceived for years, unjustly it seems, as underprepared and underequipped.

It appears even more striking when combined with the fact that these 14 and subsequent 15 institutions represent, anywhere, between 70% and 80% of the activity (depending on whether we count borrowers or total loan amounts).

This finding is a tribute to the professionalism of the Micro Finance activity in Kenya, and represents excellent news for the whole industry. Those institutions joining CIS mean that the MFIs Credit Bureau database will, from the outset, cover the vast majority of borrowers. This will enhance considerably the predictive power of Credit Bureau reports and provide MFIs with all pertinent data necessary to make sounder and more efficient lending decisions.

This positive result has its origins in the implementation, in recent years, of more performing core banking solutions, in particular by largest MFIs and DTMs. It is also a reflection of the marked improvement in Risk Management processes and practices within the Institutions.

In effect better technology means better, electronically captured, data on borrowers and their behaviours, whilst better risk management processes mean an better capacity to fruitfully integrate CRB Reports in the underwriting process.

Nevertheless and however positive the news, it should not mask the fact that an initiative such as CIS, however ready Institutions might be, is by no mean an easy path. Not to say that it is a tremendously complex project. As a comparison, those institutions that have gone through the implementation of a core banking solution will find CIS to be a comparatively much lighter project on the resource and overall cost side.

The difficulty of an initiative such as CIS resides in its complexity. It is not purely an IT project, involving one Institution and one software/IT supplier. Rather, it is a project involving a multiplicity of Credit Institutions, the Credit Bureau operators, the regulatory authorities, the Central Bank, AMFI, KCISI...

All these must work very closely together in order to achieve success.

Another big challenge is presented by the timeline. The CIS Pilot calls on 14 Institutions to join by August 2012. The Road Map for the Pilot is presented in the last section of this report. Whilst none of the tasks listed is in itself insurmountable, the sheer number of tasks to accomplish in a very short time span makes the project rather challenging.

The "Recommendations" Section of this report stresses some of the conditions required to maximize the chances of success. Among them, the necessity to put into place a dedicated project management structure with a view to monitor the entire project and insure that all players and stakeholders work closely together and in synchronisation.

Another recommendation is to involve the Credit Bureau operations as much as possible. In the context of the Pilot, their role is not only that of service providers. They have an important role to play, in training and also in coordinating efforts of the MFIs.

The effort s of an Institution joining a Credit Bureau have often been compared to those of a pilot trying to land an aircraft on the narrow bridge of an aircraft carrier. The pilot in this instance is the MFI, the aircraft carrier the Credit Bureau operator. It is the combined and coordinated efforts of the two that lead to a successful landing.

Especially in circumstances where not one but 14 aircrafts are attempting to land, in a very short time span...

Needless to stress the fact that even before contemplating a successful project, Institutions will need to complete one or many rounds of negotiations with the CRBs and sign a user agreement. It is our experience that when a Central Authority comes in support of these negotiations, they are more likely to be successful, sooner.

We are not suggesting here that a Central Authority takes the lead in negotiating on behalf of an Institution, with a privately owned service provider. But it could be helpful, for instance, to have the common legal framework of such contracts put together by legal specialists. This would free-up precious Institutions' time and resources and allow them to focus on the task at hand: contributing data and implementing CRB querying into their underwriting process.

But first things first, a data sharing initiative presupposes the existence of data of good enough quality to be shared. This aspect is discussed in details in this report. We would like to stress here that any efforts required for improving data quality will pay for themselves handsomely.

Not only because they will allow Institutions to reap the benefits of joining CIS. These are not negligible, far from that. It is estimated that the existence of a good quality Credit Reporting mechanism can reduce user's bad debt provisions by a factor of 30%!

Beyond CIS, improving data quality will, in its own right, allow the Institution to develop all the CRM and marketing projects that they were force to shelve over the years, precisely because those Institutions were under the perception that their data was not good enough and would not permit such efforts to be successful.

Besides the perceived complexity of the projects MFIs have expressed concerns over the regulatory and legal environment of CIS. This aspect is certainly on the top of the priority list of KCISI. It may prove helpful however to intensify communication efforts vis-a-vis the Institutions with a view to bring some reassurance that solutions are under way and in any case will be into place when needed.

Still on the communication side, and as mentioned in the Recommendations Section of this report, we think that a well orchestrated communication effort, towards the Institutions, the staff of the institutions and the consumers can only be beneficial.

Finally we would like to mention one of the specificity of MFIs lending that will undoubtedly add to the complexity of the project: Group lending, in other words the fact that Institutions lend to a group of borrowers as opposed to one individual, raises many questions in the context of CIS.

Who is the money legally lent to? Who is considered in default when payment is overdue? How to report a Group to a credit bureau...

More important is the question of how to identify Groups and their members in a Credit Bureau database and how to construct a meaningful Credit Bureau report on groups.

These are not trivial questions and will require thorough investigations. As group lending is prevalent and is proving to be a major source of risk we would strongly recommend that support from risk experts be sought in finding adequate solution.

2 Background

Kenya Credit Information Sharing Initiative (KCISI) was set up as a joint collaboration of the Central Bank of Kenya (CBK) and Kenya Bankers Association (KBA) with funding from Financial Sector Deepening Trust (FSD Kenya), to oversee the implementation of CIS between commercial banks.

It was determined that Phase II of the project, whose focus was on the Micro Finance Sector, would start with a capacity assessment for the MFIs.
An approach made even more imperative by the following considerations:

- the urgency of incorporating DTMs into the CIS mechanism for banks, occasioned by the anticipated legal requirement mandating sharing of credit information by DTMs
- the need to harness the momentum and obvious demand for formal CIS demonstrated by credit-only MFIs.

In partnership with USAID|FIRM (Financial Inclusion for Rural Microenterprises) KCISI, have initiated a Consulting Mission with the objective to assess the capacity of the MFIs (all DTMs and Credit-only MFIs) operating in Kenya and are members of Association of Microfinance Institutions (AMFI) to participate in the credit reporting mechanism.

A Consulting Task Force under the executive leadership of Mr. Jared Getenga was set up to carry out MFIs capacity assessment. The Consulting Task Force started work in early February 2012.

Its first goal was to develop a methodology, based on a set of transparent criteria, to assess institutions in an efficient manner, namely to evaluate MFI's readiness to participate in the credit reporting mechanism in terms of human resources, credit risk management and information technology.

In parallel, the Consulting Task Force spearheaded communication efforts on the CIS initiative as it was perceived that clear and structured communications were imperative in order to explain the project and its added value for MFIs and in order to get the "buy-in" and support needed from the main concerned, for the mission to be a success.

The Consulting Task Force went on then to carry out the assessments of 37 institutions during the month of March 2012.

Results were presented during 2 workshops in early April: A first one with representatives of KCISI, AMFI, CBK, FSD, was held on April 2, 2012. A second workshop, with the participation of all MFIs, was held on April 11, 2012.

This report endeavours to present the methodology and findings of the mission, the results of the assessment process, to convey main trends, analyze gaps and success factors and to present a roadmap for institutions that will be joining the Pilot CIS initiative.

3 Methodology Summary

3.1 Mission objectives

The Consulting Task Force mission was to perform a capacity assessment of all Kenyan MFI's, with a view to determine their degree of readiness in joining CIS.

The main targets assigned to the Consulting Task Force were to identify the institutions whose state of readiness would allow them joining a Pilot CIS operation - to be initiated in April 2012 and to be completed no later than August 2012; to develop a Road-Map consisting of work streams and tasks to be accomplished by Pilot institutions; to identify overall strengths and weaknesses of all institutions and provide recommendations as to how to overcome them

3.2 Mission Constraints and Challenges

Challenges to be addressed by the Consulting Task Force concerned the methodology itself as well as the tight very deadline for carrying the whole assessment.

To ensure success of the mission, the following issues and questions needed to be addressed and clear responses provided:

- How to assess with sufficient accuracy, 37 MFI's in a one-month-time-span (approximately half a day for each institution)?
- How to determine the specific areas to be assessed? How to assess them?
- How to insure consistency in the process when assessing quantitative areas such processes, procedures, human resources?
- How to insure alignment in results when different teams are at work, carrying out assessments for separate institutions?
- How to insure that once assessments were over, results could be analysed, summarized and conveyed to stakeholders in a non ambiguous way? And how to do that, again, in a very short time span?

3.3 What areas to assess?

3.3.1 What makes an Institution likely to succeed in joining CIS?

Participating in a credit information sharing initiative, successfully, requires the ability on the part of Institutions to provide data, as without data sharing is just not possible.

However, the sheer availability of data is not sufficient. Institutions must be in a position to extract it, to clean it up when and if needed, to submit it to the CRBs as frequently a required.

In other words Institution must have the ability to manage an IT project, a very intense one in the early stages of the project.

But is that sufficient to insure CIS success?

It must be said, it is the prevalent perception that Credit Bureau projects are primarily, not to say solely, data and IT constrained. It is the prevalent view that Technology is the unique factor that drives a Credit Bureau project to success.

Whilst technology is important, KCISI's and the Consulting Task Force view is that it is a necessary condition but by no mean a sufficient condition for success. Credit Risk processes and human resources are equally important, for a series of reasons that we would like to explain here.

Institutions must go through the initial efforts required to submit good quality data to CRBs. During this phase of the project, they typically do not experience any of the direct benefits of participating to a credit sharing initiative. To put it differently, this phase of the project is notoriously painstaking with little immediate benefit to keep the momentum.

Unless Institutions can put themselves rapidly in a position where they benefit from their efforts, where they can actually reap the rewards of participating to CIS, chances are they will get discouraged and stop participating. Many will continue supplying data to confirm to regulations, whilst most will revert to doing business as usual, i.e. without the benefit of a Credit Bureau report.

So success is determined, also, by the Institutions capacity to "reap the rewards" of their data submission efforts. But what does reaping the reward mean?

The main and primary user benefit of any Credit Bureau initiative is the ability to improve credit risk management, firstly in the area of underwriting, secondly in collections, ultimately in many aspects of customer management. MFIs are actually perfectly aligned with this fact. When asked, during the inception workshops, about their perceptions of CIS benefits, the first answer was: "improve credit risk management".

But how is this supposed to happen? How do users improve Risk Management by using CRBs?

Well, conceptually at least, in a very simple manner. For each credit application, users query the CRBs and get a CRB report that recaps relevant credit information (as supplied by all institutions) about the applicant (current amounts outstanding, delinquencies, arrears....)

Information contained in the CRB report can be decisive in making a sharper risk assessment of the applicant. This requires, however, that Institutions have the technical and organisational capability to query CRBs and to interpret the information contained in the Credit Bureau report.

Equally important, this supposes Institutions have the ability to instruct and train their staff in analysing the content of the Credit Bureau report.

Putting it differently, institution who use CRBs reports with highest benefits are those that already have clearly defined risk management processes and procedures and are capable of re engineering them to integrate CRBs reports content.

We have now a better understanding of what can make an Institution successful in joining CIS: availability of good quality data, capacity to shoulder a substantial IT project, good risk management resources and processes and finally the capacity to perform a fair amount of credit related process-reengineering.

All these elements are Key for any institution seeking to join CIS. There is however one last "ingredient" required. Capacity without willingness being akin to wishful thinking, potentially successful Institutions must also exhibit the willingness to share Data, to join the project and the tenacity required to see it to a successful conclusion.

3.3.2 Five specific areas to assess

The discussion exposed in above paragraph led the Consulting Task Force to consider the following five assessment areas.

Area1: Willingness and overall organisational efficiency
Area2: Data availability and data accuracy
Area3: Capacity to make best usage of Credit Bureau reports
Area4: IT capacity
Area5: Risk Management culture

These Areas can be broadly grouped into two main categories for discussions:
Category I: IT Capacity (Area2 and Area 4)
Category II: Credit (Area1, Area3 and Area 5)

3.3.2.1 Willingness and overall organisational efficiency

The first area to explore was the willingness and overall organisational efficiency of Institutions.

This area was assessed during a preliminary interview with the executive management of each Institution. Overall organisation and corresponding org-charts were reviewed.
Senior Management perceptions of CIS and willingness to exchange negative and positive Data were explored.

> Some specifics:
> The fact that an institution already had a CIS project director was conceived as a good indication.
> The fact that said project director reported to executive levels within the organisation was considered to be an even better indication.

3.3.2.2 Data availability and Data accuracy

Credit information sharing presupposes the existence of data, in reasonable form and shape, to be shared.

The Consulting Task Force was aware, from the outset, of the potential difficulties that MFIs usually encounter in this area, difficulties which are by no mean limited to Kenya. Some micro finance organisations have only recently been able to implement the technology required, in particular account management systems, the consequence being that consumer data had been captured and stored in electronic form only as of late.

With this reality in mind the Consulting Task Force went ahead to define minimal data requirements that had a reasonable chance of being met by the MFIs and that could still provide a sound basis for developing a good quality CRB database.

A good starting point was already provided in the current CIS Data Specifications (those used by Bankers). They were presented to and discussed with a representative panel of MFI's during the inception workshops.

Six sets of data were identified to be relevant for MFIs: Individual information, non-individual information, account information, guarantor information, and bounced cheque. Non-individual information refers to non-individual customers such as small businesses, schools, churches, etc. Identification data (all data necessary to identify each and every borrower unequivocally such as National Identification number, Name, Date of Birth for individual and business name and registration number for non-individual) and Account information (loan amount, terms, arrears, etc.) are considered mandatory, while the rest are non-mandatory.

Non mandatory data are those present in the specifications, considered as relevant but perceived as hard to provide and hence were left for a second stage of CIS.

These revised and adapted data specifications were used by the Consulting Task Force to assess each institution capacity. This part of the assessment was carried out during a specific interview with IT departments of MFIs.

Data Availability is evaluated in 3 dimensions. First, that the MFI is capturing the data; 2nd, that the data is stored electronically and can be repurposed to the Credit Bureau reporting format; and 3rd, that the data is accurate.

However, due to the nature of this assessment, only random on-the-spot inspection of data could be used for data accuracy assessment. This includes confirming that the loan portfolio in the balance sheet is the same as the sum of all loan balances.
Then, the loan schedule and arrears calculation are verified by looking at 3 sample data. Lastly, 3 completed loan applications are compared with the data on the MIS to check if data are recorded accurately.

The idea here is to focus on critical data required for credit reporting.

3.3.2.3 Capacity to make best usage of Credit Bureau reports

This area was assessed during a separate interview with the Operation and/or Risk Departments of each Institution.

The Consulting Task Force endeavoured to measure the capacity of the organisation to implement CRBs querying; the focus being on the resources and organisational side rather than the technical connectivity.

A very factual consideration: it takes on average 15 to 20 minutes to query a Credit Bureau and to admin the corresponding CRB report. An institution that operates already at full capacity cannot consider performing this additional task or series of tasks without either recruiting additional resources or the ability to redirect some of its current efforts to that effect.

A sheer measurement of the number of such additional resources required can provide a good indication of some of the organisational challenges faced by Institution when implementing CIS. Challenges no-doubt compounded by the complexity of the existing underwriting process.

The Consulting Task Force endeavoured also to measure how easy or difficult it would be for Institutions to analyze the content of the CRB report, to determine whether Institutions had the Risk Management expertise to do so.

Finally the Consulting Task Force endeavoured to determine whether Institutions had the capacity to reengineer underwriting processes in other words incorporate querying CRBs in the process and make the most of CRBs report.

3.3.2.4 IT Capacity

This area was also assessed during specific interviews with Institutions' IT departments. The Consulting Task Force aimed at assessing Institutions capacity to lead and resource the CIS project on the IT side.

The CIS project has, as stated earlier, 2 sides to it: Data submission and Querying.
On the data submission side, the 1t stage consists of developing software programmes to automate data extractions and submissions. Developing and testing such programmes requires project management capabilities, resources and IT knowledge.

The Querying side on the other hand requires the ability to establish internet connectivity to the CRBs servers. For high volume users, it may prove desirable, at some point in time, to establish direct connectivity between the application processing modules of the account management systems and the CRBs.

Finally, all the efforts depicted above are constrained by the MFI basic IT infrastructure and its reliability.

In summary the aim in assessing this specific area is to evaluate if the IT department has the resources, budget, and systems necessary to cope with the implementation of CIS, be it on the provision of data or on the implementation of Credit Bureau querying, it also to verify basic IT infrastructure and computer systems reliability.

3.3.2.5 Risk Management Culture

This area was assessed during a separate interview with the Operations/Risk Management Department of each institution.

The Consulting Task Force aimed here at capturing the degree of risk management sophistication in three specific areas: Underwriting, Collections/Bad Debt write-off, Risk Analytics.

For Underwriting and Collections the Consulting Task Force endeavoured to answer the following specific questions:

- Are they adequately resourced?
- Are the corresponding processes and procedures clearly identified and formalized?
- Are the corresponding processes supported by dedicated IT systems?
- Are they adequately monitored?

Risk Analytics were assessed on the basis of dedicated resources, use of scoring systems, ability to extract meaningful risk management indicators...

3.4 A Scoring approach to quantify Institutions capacity

Having determined the 5 main assessment areas and the overall approach, the Consulting Task Force went on to determine specific criteria, as transparent and consistent as possible, and approaches to quantify assessment results, even for areas such as processes and procedures, which do not lend themselves naturally nor easily to quantified approaches.

One of the main constraints of the capacity assessment was for the Consulting Task Force to be able to review and summarise results in a very short time span. Detailed notes were to be taken during each interview; however it was anticipated that summarizing all notes, 37 sets of them, without losing the gist would prove an arduous exercise.

In light of this the Consulting Task Force opted for a scoring approach. In other words, each of the main 5 areas above would be assigned an "Area Score" comprised between 0 (least capacity) and 3 (maximum expected capacity).

Area Scores were to be assigned during the various interviews whist the interviews were to be piloted by well-defined and clear scripts (please refer to the Methodological safeguards section below).

As an end result, the capacity of each MFI would be encapsulated in five numbers ranging from 0 to 3; five numbers in effect corresponding to the five Area Scores.
(We will denote these 5 scores S1, S2, S3, S4, S5, for shorthand in the remainder of this paragraph.)

These Area Scores in their own right would provide precious information. However the Consulting Task Force felt that a unique capacity indicator, a unique number summarizing the five Area Scores had to be provided. Hence the Consulting Task Force decision to compute a Final Capacity Score for each Institution.

The Final Score, computed as an average of the 5 Area Scores, would then become an important criteria, in effect the main criteria, used in rank-ordering MFIs and determining their ability to join the CIS initiative.

Data and IT (Areas 2 and 4) being perceived as the main constraining factors in the capacity to join CIS, the Consulting Task force decided that the Final Capacity Score should reflect that fact. Instead of computing the Final Capacity Score a simple arithmetic average of the 5 Area Scores, it was decided to compute it as a weighted average, using the following formula:

Final Capacity Score = 20% S1 + 30% S2 +14% S3 + 30% S4 +6% S5

In other words:

The Capacity to join CIS for an MFI was defined to equal:

20% of the MFI Willingness and organizational efficiency +
30% of the MFI capacity to provide accurate Data +
14% of the MFI capacity make best usage of Credit Bureau Reports +
30% of the MFI Capacity to shoulder the IT side of the Project +
6% of the MFI capacity to manage risk

3.5 Methodological Safeguards

Scripts to be used by the teams performing the assessment were carefully designed. They listed specifics questions relating to each of the 5 areas to be assessed. Guidelines for assigning Scores were embedded in the scripts in order to provide assessment teams with strong guidance on how to assign Scores.

Data quality was queried even further, by sampling actual specific data elements, in particular those pertaining to mandatory CIS fields and computing percentages of accuracy.

Each assessment was performed during a 2-stage interview process. The 1s stage was an interview with Executives of each MFI with the objective of understanding the overall organization of the Institution, its willingness to participate to CIS and exchange negative and positive data.

It was followed by 2 parallel workshops with senior management of the MFI, dedicated to IT/Data on the one hand and Risk Management/Human Resources on the other hand.
The 1st workshop objective was to assess and score areas 2 and 4.
The 2nd workshop objective was to assess and score areas 1, 3 and 5.

Beyond Area Scores, each interview process lead to notes and to an assessment summary. Each assessment was followed by a team debrief, discussions, comparisons of notes.

The Methodology itself was piloted on the first 5 institutions before scripts were eventually finalized. The pilot was also used to develop team alignment and ensure homogeneity of assessments and Scores.

A detailed internal review was carried out once all assessment results were in, to query again the Methodology, the assessment and to cross-validate findings.

It is only after this phase was thoroughly completed that the Consulting Task Force went on with the analysis of findings.

3.6 Success Factors and best-practice

The success factors, in other words the specific organizational/infrastructure factors that would contribute to higher scores are:

- Strong focus on, executive sponsorship of CIS within the organization.
- Willingness to exchange negative and positive data.
- Well defined organization with distinct Risk Management structures and responsibilities
- Availability of CIS mandatory data
- Accuracy of Data overall
- Capacity to incorporate, diligently, CB Reports in the underwriting process
- Good Risk Management processes
- Reliable IT systems
- Experienced HR both in IT and Credit operations

The worst possible Final Score was 0; the best possible Final Score was 3.
(It must be noted that neither 0 nor 3 were reached by any of the Institutions)

The intent of the Consulting Task Force was that a Final Score of 3 would represent Best-Practices. This deserves some explanations...

Around the world and in particular in emerging markets, participation of MFIs in Credit Bureaus is on the increase but faces challenges. MFIs Risk Management practices vary greatly from one country to the next and are usually constrained by technology and organizational factors.

In other words MFI risk management Best-Practices are being defined literally as we speak...

As a result the Consulting Task Force decided to define best-practices as being those of a well managed finance house in emerging markets. Such institutions would certainly be able to join a Credit Bureau initiative, contribute data, make best use of the Credit Bureau report and could easily position themselves to make best use of any Credit Bureau future added-value service such as CB Scores, fraud detection and the like.

3.7 Final outcome: Tiers Structure

Once assessment had been carried out for all institutions, Final Scores computed, results analyzed the Consulting Task Force decided to split the institutions into 3 groups:

Tiers 1: Institutions Ready for Pilot immediately
Tiers 2: Institutions to join Pilot in a second stage, after closing the most important gaps identified
Tiers 3: Institutions that could not join CIS, short term due to systems and organizational challenges

Tiers were based on the Final Score, but not only. Institutions in each "Tiers" were put under scrutiny; their assessment was re-visited before confirming their Tiers assignment.

Details on the composition of each Tiers are provided in the remainder of this reports.

3.8 Caveats

The assessment was carried by the Consulting Task Force in a thorough and highly professional manner.

Interpretation of the final results is clear: institutions that belong to Tiers 1 have unequivocally the capacity to join the Pilot phase. Having the capacity, however, is not a guarantee that they will effectively join and be operational on the due date.

In effect participating to the Pilot successfully is an intensive project that requires budget, resources and tenacity to overcome obstacles. *It is not only an IT project but an organizational project that requires in-depth risk management process reengineering capabilities.*

In the remainder of this report we have suggested potential ways in which MFIs could be supported during the Pilot exercise to maximize their chance of success in during the Pilot. Indeed they will need as much support as possible.

Moreover, the deadlines for the Pilot (August 2012) are extremely ambitious. They have not been matched in any country, for any Credit Bureau operation we know of. This makes the need for support even more pressing.

Finally, the success of the Pilot will be determined as much by the MFIs themselves, as by the Credit Bureaus and their ability and willingness to provide assistance, support and training to the institutions.

We will therefore stress the need for overall project coordination and programme management by dedicated resources, under the leadership of KCISI, during the course of the Pilot. A pilot programme management structure needs to be put into place as early as possible with clearly defined tasks and responsibilities, reporting mechanisms, escalation paths.

4 Findings

The CIS assessment has provided significant information and insight into the microfinance industry in Kenya. This information served as a context for the CIS assessment and should also serve as reference to KCISI for MFI CIS implementation itself.

Please note that in subsequent discussions, individual MFIs name will not be provided. Instead, a reference number comprised between 1 and 37 has been assigned and used to reference them throughout the document.

4.1 MFI Segmentation

The MFIs assessed for the KCISI initiative are non-commercial bank members of the Association of Microfinance Institutions (AMFI) in Kenya. There are 37 institutions assessed with a total number of borrowers of 743,774 and total outstanding loan portfolio (OLP) of KES 25,481,594,234[1].

These institutions can be further classified into different types. The following table describes each of this MFI type:

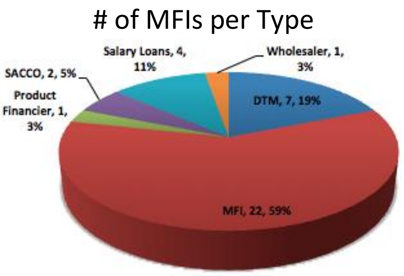
Type	Description
DTM (Deposit-Taking Microfinance)	An MFI that is licensed and regulated by the Central Bank of Kenya and are permitted to mobilize and intermediate (or lend) deposits from the general public.
Product Financier	An MFI that provides financing specifically for a product. E.g. an institution providing a loan for purchase of an energy-efficient stove.
SACCO (Savings And Credit CO-operative)	Also known as credit unions, in other countries. It is usually owned, governed, and managed by its members who have the same common bond: working for the same employer, belonging to the same church, labour union, social fraternity or living/working in the same community. Nowadays, there are SACCOs who open memberships to the general public. The SACCO members agree to save their money together in the SACCO and to make loans to each other at reasonable rates of interest.
Salary Loans Provider	These are MFIs who provide loans that are guaranteed by the loanees income (in the form of salary or produce sold). Loan repayments are collected via check-off system, wherein loan repayments are deducted from the loanees income.
Wholesaler	A wholesaler is a financial institution who provides financial services to institutional customers, including MFIs. Services include lending, cash management, commercial mortgages, working capital loans, leasing, trust services, and so on.
MFI	In this discussion, all the assessees are MFIs. However, the type “MFI” refers to the typical MFI that provides small loans to microentrepreneurs, with most loans guaranteed with cash collaterals and group guarantee.

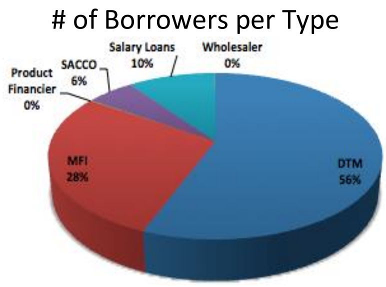
This segmentation is important in understanding the MFI, its motivations, hesitations, and possible use of the CRBs.

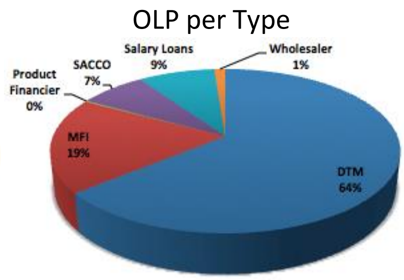
[1] These numbers are based on self-reported numbers provided by the MFIs themselves. The numbers are based on latest information an MFI has which is either as at end of December 2011, January 2012, or February 2012.

For instance, Salary Loan Providers experience very low bad debts since the loans are checked-off the loanees' income. If the primary benefit of CIS is only to lower bad debt then there needs to be another benefit (with corresponding product design) catered for Salary Loan Providers.
On another angle, it is hard to imagine how a wholesaler might be querying the same database as its target customers, the MFIs. But will it be possible for a wholesaler to have an aggregate or institutional view of the CRB database? In other words, can all these institutions share one database and will they all find benefit in doing so?

The charts below show the number of MFIs and the market share of each of type of MFI:







4.2 MFIs Scores and Tiers Structure

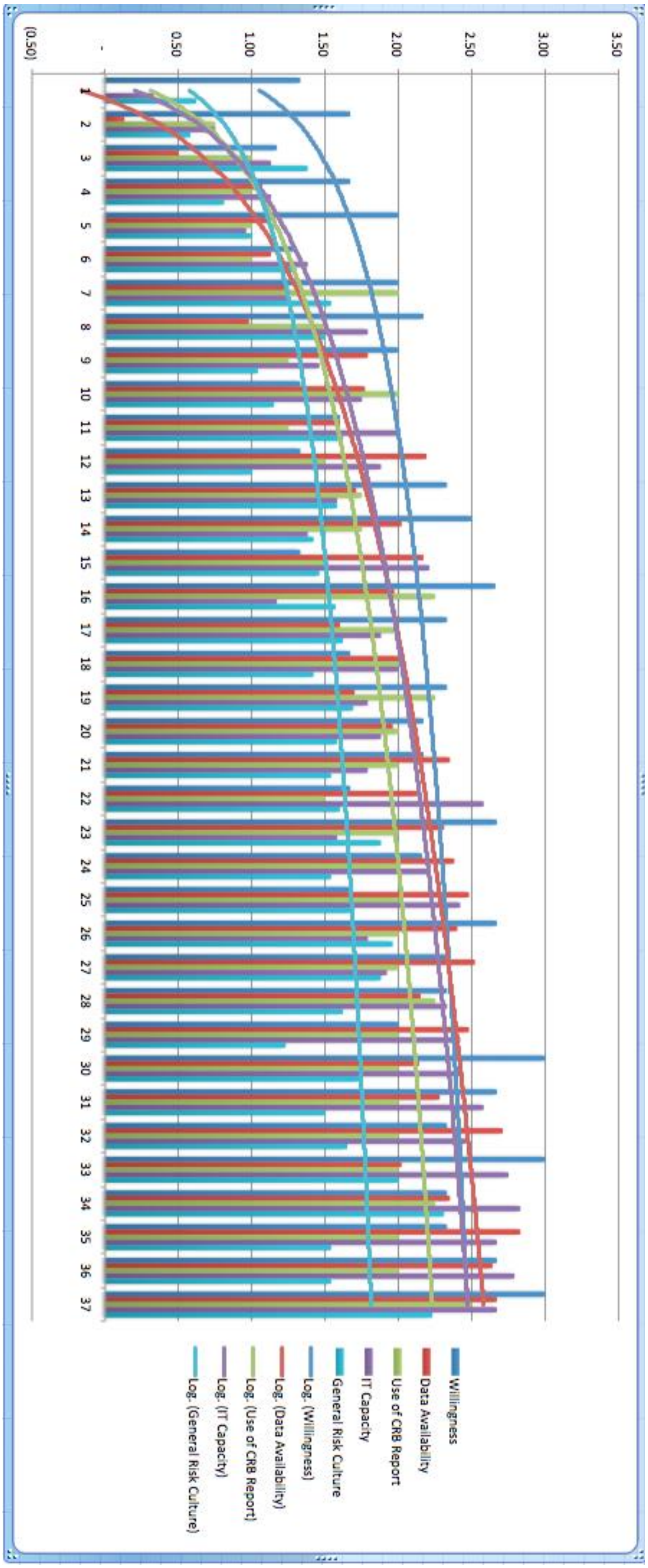
4.2.1 MFIS Area Scores

There are several trends amongst the Final Scores of the MFIs assessed. To recap from the Methodology Section there were 5 areas to be assessed:
Area1: Willingness and overall organisational efficiency
Area2: Data availability and data accuracy
Area3: Capacity to make best usage of Credit Bureau reports
Area4: IT capacity
Area5: Risk Management culture
Each Area was assigned an Area Score ranging from 0 (lowest) to 3 (Maximum). Area Scores were combined into a Final Score, with more weight being put on Areas 2 and 4 than on the other Areas.

The chart below shows the scores for all 5 areas of for all MFIs.
MFIs are numbered from 1 to 37 and ordered from the lowest to highest Final Score. For each of the MFI, each area score is represented by the bar graph (different colours for each Area). The lines that run across all MFIs represent the trend for each of the 5 Areas.
The following trends can be observed:

- The steepest curve is for Area 2: Data Availability and Accuracy, meaning that the MFIs score vary the most in this area. Scores ranged from 0 to 2.83
- The flattest curve is for Area 5: Risk Management culture meaning that MFIs practices do not vary greatly. Scores ranged from 0.58 to 2.31
- Area 5: Risk Management culture is the lowest score amongst MFIs except for the lowest 6 MFIs, in which Area 2: Data Availability and Accuracy is lowest

- Most MFIs are willing to participate in KCISI. Area 1: Willingness and overall organizational efficiency is the category with the highest score for most MFIs. Scores being driven mostly by the Willingness component
- More generally, a higher degree variability is present in lower Scores (on the left side) and on the high Scores (on the right side) than on the middle Scores where curves are flatter


Willingness
Data Availability
Use of CRB Report
IT Capacity
General Risk Culture
Log. (Willingness)
Log. (Data Availability)
Log. (Use of CRB Report)
Log. (IT Capacity)
Log. (General Risk Culture)

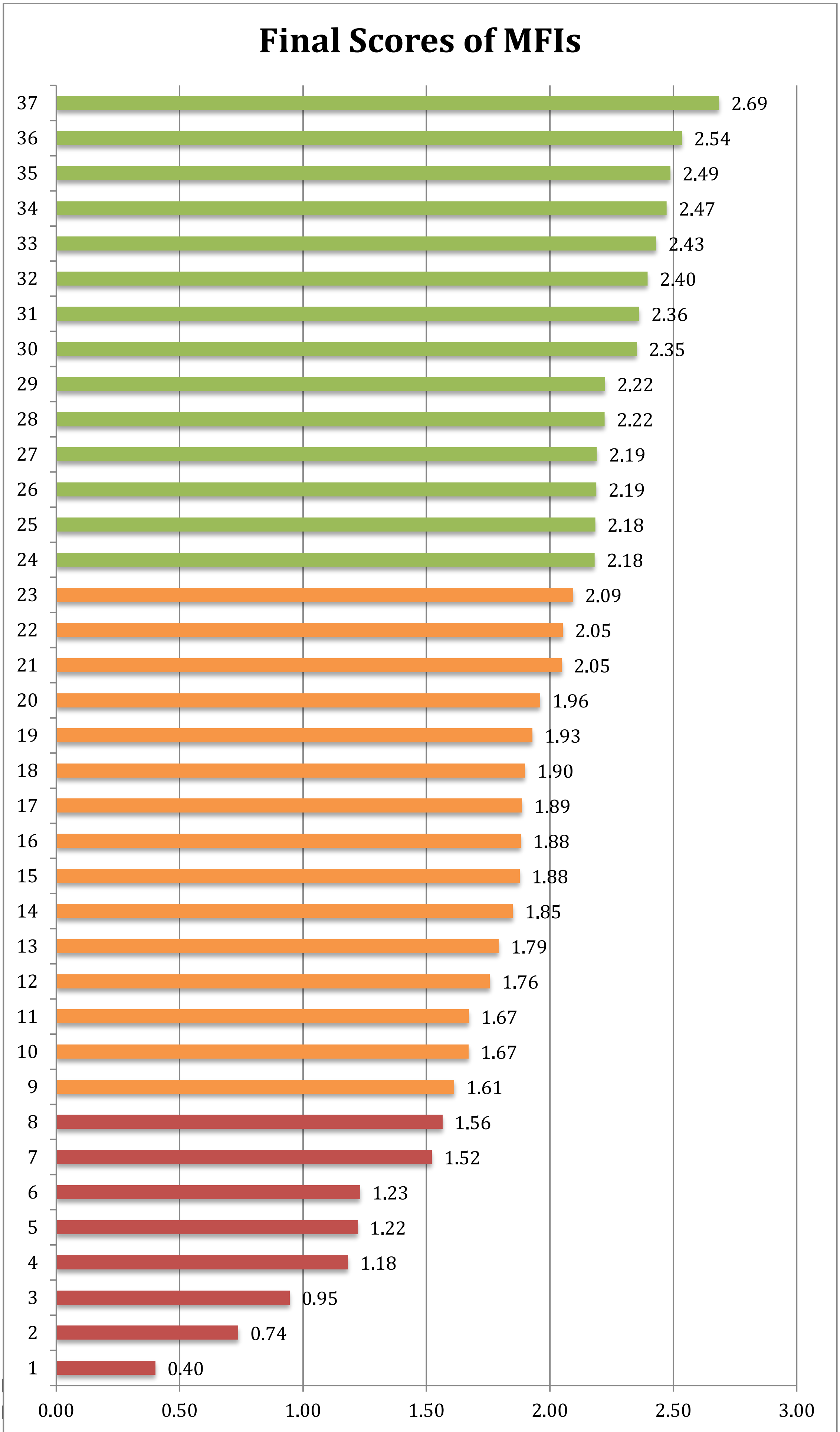
4.2.2 MFIs Final Scores and Tiers Structure

The chart below shows the score of each MFI listed from highest to lowest.
The scores range from 2.69 to 0.40, with an average of 1.88. 62% of the MFI are on or above this "industry average".

As described earlier, the MFIs were grouped into 3 tiers, Tier 1 the highest scorers being assessed as the most ready to join CIS. As exhibited by the chart below, Tier 1 MFIs (green colour) are MFIs that scored 2.60 and up, Tier 2 (orange colour) scored from 1.60 to 2.59, and Tier 3 (red colour) scored 1.59 and below.

These thresholds were established after a careful analysis of all results of the assessment and after deliberating on the status of each MFI. It appeared that MFIs belonging to Tier 1 had the best chances of joining CIS short term, those in Tier 2, medium term whilst those in Tiers 3 had some structural adjustments to make before they could contemplate joining CIS, long term.

With these thresholds and subsequent discussions, the Consulting Task Force determined the a Tiers structure with 14 MFIs in Tiers 1, 15 in Tiers 2, 8 in Tiers 3



Final Scores of MFIs
37
36
35
34
33
32
31
30
29
28
27
26
25
24
23
22
21
20
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
2.69
2.54
2.49
2.47
2.43
2.40
2.36
2.35
2.22
2.22
2.19
2.19
2.18
2.18
2.09
2.05
2.05
1.96
1.93
1.90
1.89
1.88
1.88
1.85
1.79
1.76
1.67
1.67
1.61
1.56
1.52
1.23
1.22
1.18
0.95
0.74
0.40
0.00
0.50
1.00
1.50
2.00
2.50
3.00

The graph to the right shows the average score for each of the assessment areas per tier.
This shows that the scores are consistent across all 5 areas of assessment, for all 3 tiers.
Tier 1 scores the highest for all areas, followed by tier 2, and then tier 3.
It also shows that Tier 2 Score is only about 20% lower compared to Tier 1 while Tier 3 is much lower than Tier 1 and Tier 2, except for Willingness.

4.2.3 Tiers Structure and Market share

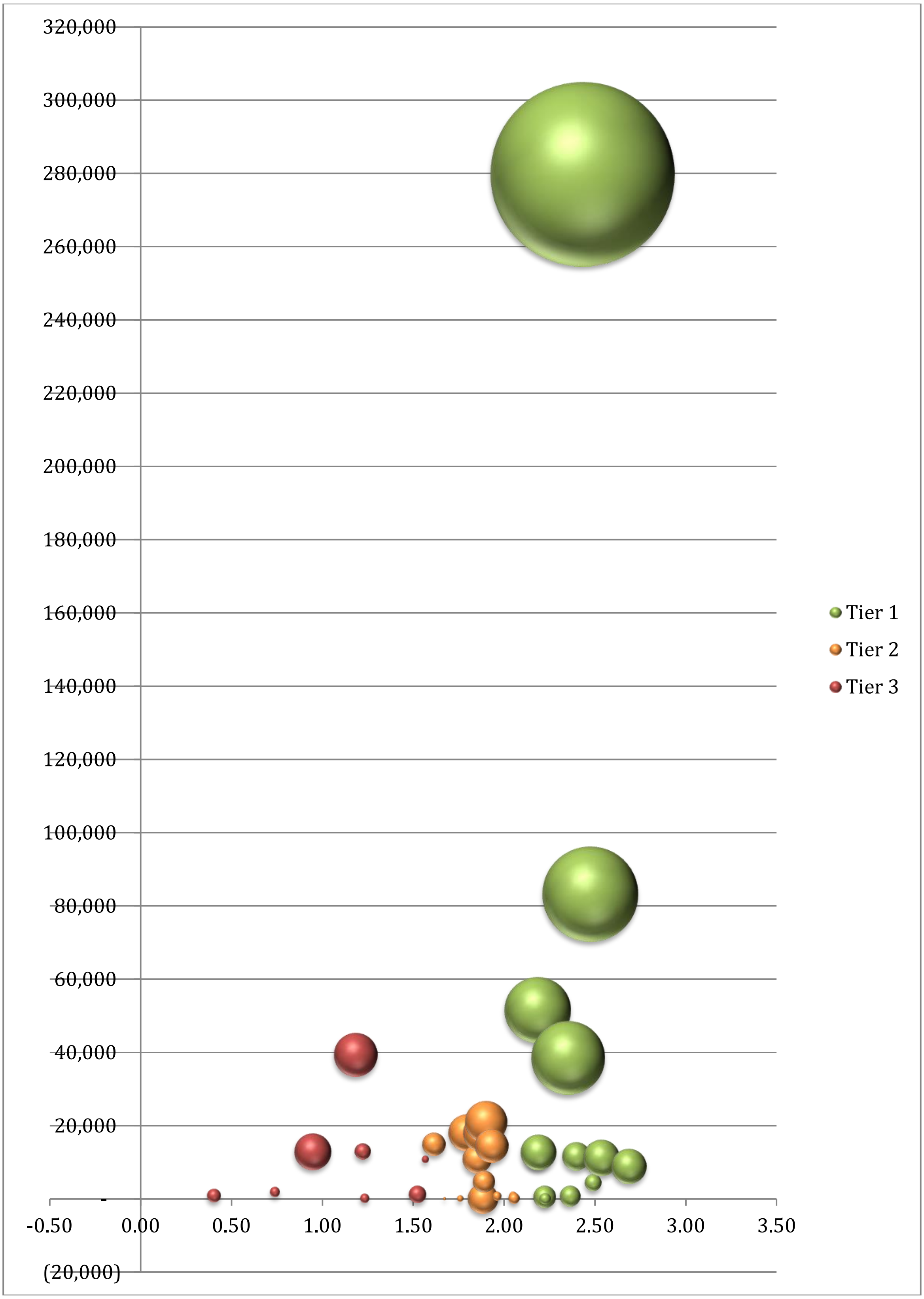
The graph below aims at providing a view of the Market Size of MFIs in each tier, size being measured in terms of number of borrowers.

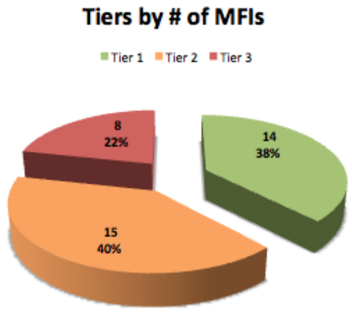
The number of borrowers is on the Y-axis, whist the Final Score is on the X-axis. The size of each circle is proportional to the number of borrowers of each MFI.

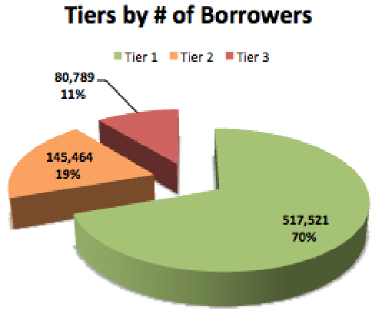
This chart shows the following:

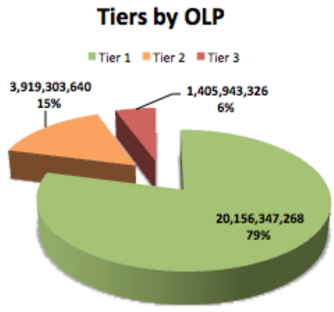
- Tier 1 MFIs range from small MFIs to the largest MFIs.
- Tier 2 MFIs tend to congregate from small to medium size MFIs.
- Tier 3 MFIs have very small MFIs in terms of OLP and have 3 MFIs with more than 10,000 borrowers.
- The size of the outstanding loan portfolio is directly proportional to the number of borrowers. However, as shown in the above chart, there are 3 MFIs in Tier 1 and Tier 2 with less than 1,000 clients with a relatively big portfolio. The average loan sizes for these MFIs are greater than KES 100,000.
- The small MFIs (less than 10,000) clients in Tier 3 have smaller OLP compared to their counterparts in Tier 2 and Tier 3. This may mean that the average loan size is smaller or that the disbursements are slower, meaning that OLP are composed mostly of old loans.

It can be inferred from this chart that if all MFIs in Tier 1 and Tier 2 are able to participate in CIS, this will mean that 89% of the total borrowers representing 94% of the total portfolio will be in the CRBs medium term.


320,000
300,000
280,000
260,000
240,000
220,000
200,000
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
-
(20,000)
-0.50
0.00
0.50
1.00
1.50
2.00
2.50
3.00
3.50
Tier 1
Tier 2
Tier 3





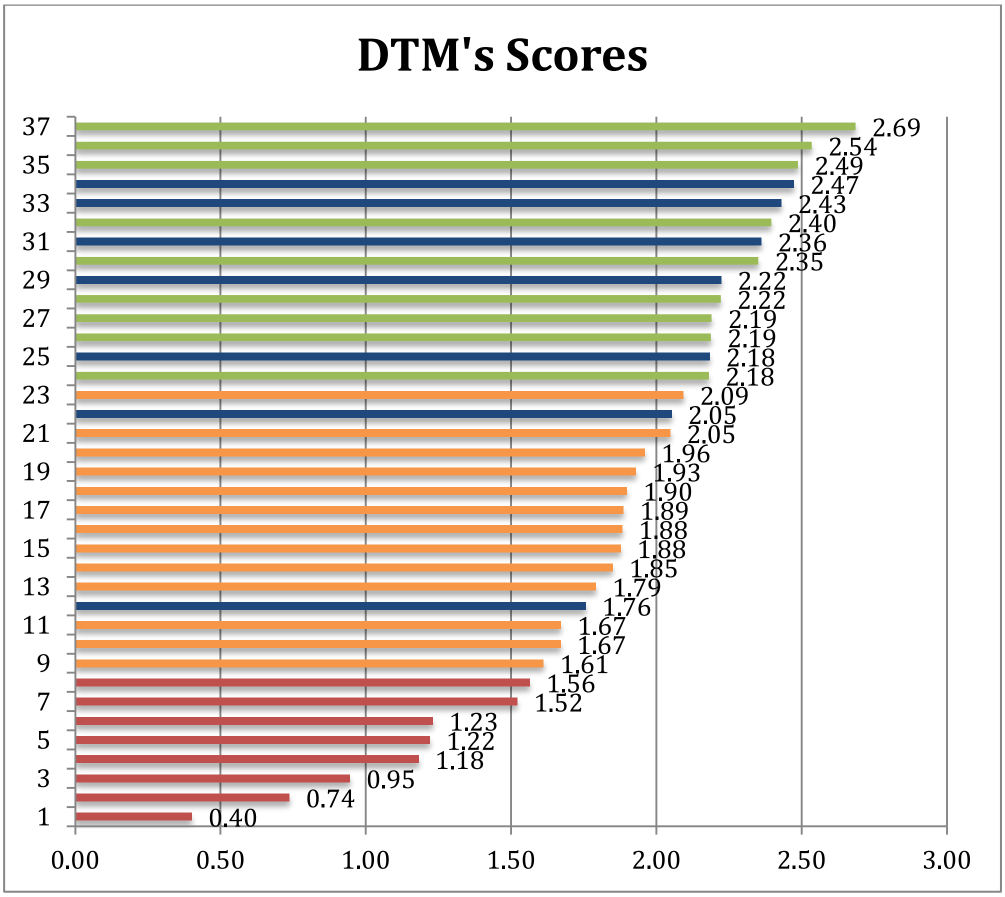


4.3 Specifics on DTMs

There are 7 Deposit-taking Microfinance Institutions amongst the MFIs assessed. Together, these 7 DTMs own 54% of the total market in terms of number of borrowers. As licensed and regulated institutions, DTMs are mandated by law to share negative data (non-performing loans) with banks on the existing CRBs.

The chart below shows that 5 out of the 7 DTMs are in Tier 1, 1 in the upper end of Tier 2, and another in the lower third of Tier 2.

In conclusion, 6 out of the 7 DTMs are ready to participate in KCISI while the 7th one may need work. This least-ready DTM was supposed to receive its license within a month from the time of the assessment and as thus, already considered by AMFI and this assessment, as a DTM.



4.4 Management Information Systems

4.4.1 General Trends

Management Information Systems have a strong bearing on the capacity to join CIS. Beyond CIS, the landscape of MIS, the way they are used is extremely interesting to observe.

The assessment revealed several interesting observations about MFIs and more generally Information Technology used by MFIs.

About 90% of MFIs have computerized and automated MIS. This was an important positive surprise for the assessment teams who were expecting to see more incidence of "manual" account management. (The industry is nevertheless fragmented in its choice of MIS. There are 16 MIS used by 37 MFIs in the market)

More surprising there does not seem to be a strong correlation between an MIS and MFI Final Scores. In other words the most popular systems, or those perceived to be more sophisticated, do not necessarily seem to provide the best value for the MFI.

A very important element to note is that Temenos T24 and Bankers Realm are the 2 MIS that hold most of the MFI data. It may prove very beneficial for CRBs and MFIs to work on a combined software utility to help integrate with these two dominant MIS.

It should be noted however that there are several versions of these 2 MIS in the market and that these different versions should be considered when creating any such utility.

4.4.2 MIS Market Shares

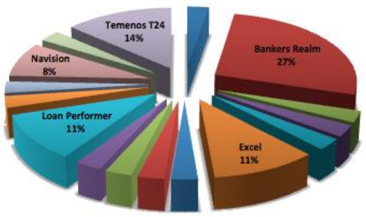
Below is a table listing all the MIS, their number of installations, the combined # of borrowers, and outstanding loan portfolio.

#	MIS	# of MFIs	# of Borrowers	OLP
1	Abacus OneWorld	1	11,281	441,279,015
2	Bankers Realm	10	82,298	3,233,857,485
3	BlueFish	1	13,000	450,000,000
4	CommSoft Savings and Loans	1	250	26,000,000
5	CreditEase	1	40,000	1,000,000,000
6	Excel	4	16,989	194,700,000
7	FinExtreme	1	214	12,000,000
8	FinMFI	1	12,784	420,883,169
9	Focus	1	4,499	94,460,047
10	Kredits	1	11,808	220,000,000
11	Loan Performer	4	56,086	842,161,406
12	Loan Tracker	1	175	303,000,000
13	Mifos	1	14,589	375,869,318
14	Navision	3	36,710	780,835,214
15	Reward - Loan Information	1	1,291	96,517,360
16	Temenos T24	5	441,800	16,990,031,220
	TOTAL	37	743,774	25,481,594,234

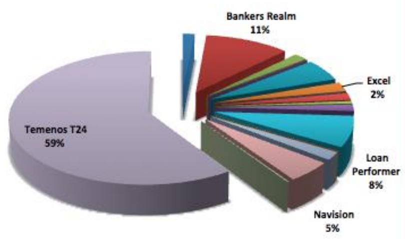
There are 16 different MIS for 37 MFIs (1:2) which shows a fragmented technology choice amongst MFIs. There are only 5 MIS, which are installed in more than 1 MFI: Bankers Realm, Temenos T24, Loan Performer, Excel, and Navision.

However, most of the data (about 70% of total population) in terms of number of borrowers and OLP are in Temenos T24 and Bankers Realm.

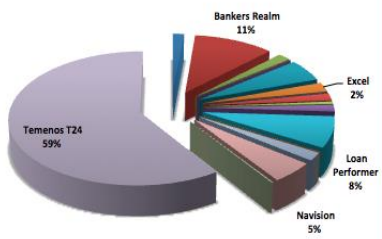
# of MFIs per MIS



# of Borrowers per MIS



OLP per MIS



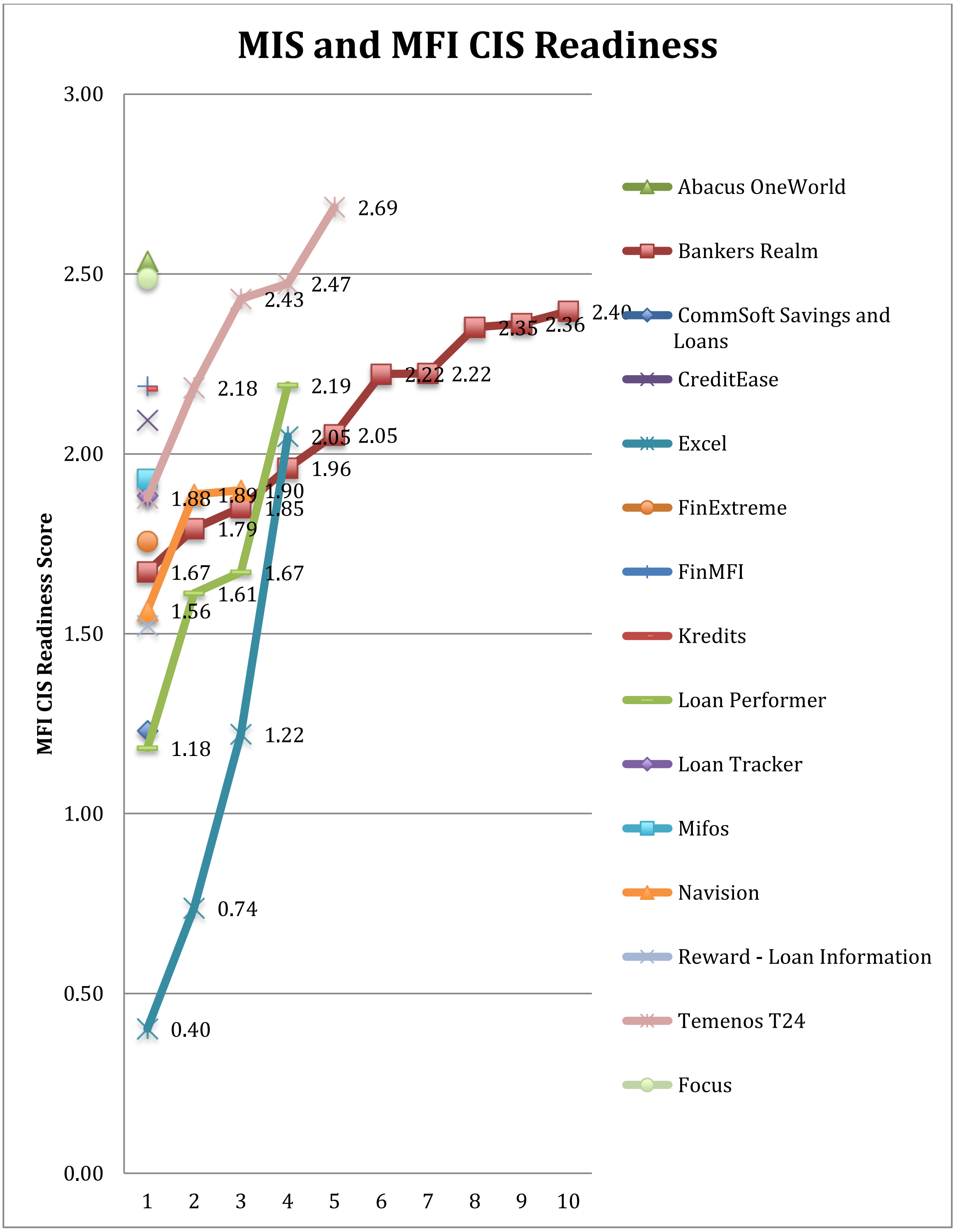
4.4.3 MIS and CIS Readiness

Whilst there are dominant MIS in the market, the most popular systems do not necessarily provide the best value for the MFI vis a vis the CIS initiative.

The chart below shows the different MIS software used by the MFIs graphed against the final CIS Readiness score of all the MFIs. The chart shows that:

- The most popular MIS (in terms of number of installations), Bankers Realm, does not necessarily bring the most value to the MFI. MFIs with Bankers Realm had a wide range of score from 1.67 to 2.4.
- The 2nd most popular MIS, Temenos T24's results is more consistent. The score ranged from 1.88 to 2.69.
- The next 2 popular MIS (Loan Performer and Navision) have low scores ranging from 1.18 to 2.19. While MIS implementations vary greatly and the success is mostly dependent on standardized processes and procedures, this assessment together with the Consultants experience with these 2 MIS, confirms the inadequacy of these two MIS in terms of functionality and data quality controls.
- Excel is still used by some MFIs, although, there are only 4 MFIs left using it. The same assessment carried out a few years ago would have shown probably a much higher incidence of usage of Excel or other spreadsheets. This is a good news and shows improvement in the industry. Today 90% of the MFIs have computerized MIS to manage and monitor their portfolio.

- Automation and sophisticated MIS is not necessarily a guarantee of CIS readiness!... One MFI using Excel has actually been assessed as CIS ready whilst others using more sophisticated systems are in Tiers2 and 3.



5 Common Strength, Trends and Weaknesses

As a recap of the methodology section, the areas of assessment were grouped into 2 Categories: Information Technology and Credit.

Whilst it was perceived that Human Resources were imbedded into each Area of assessment, a specific paragraph is dedicated to HR in this section, to address the very specific challenges in this domain that might not have been captured elsewhere.

5.1 Information Technology

Information Technology makes up 60% of the weighted Final Score of an MFI.

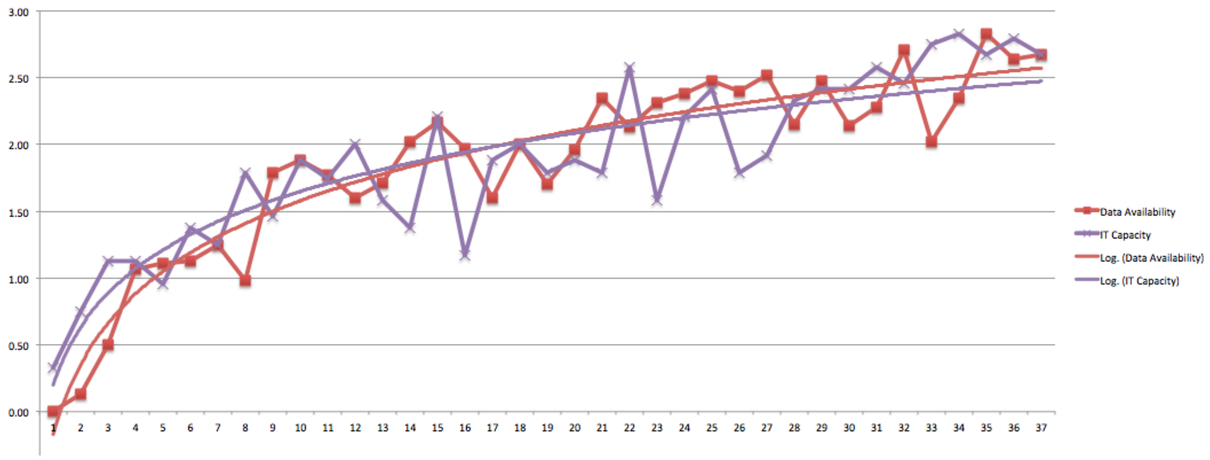
It is broken down into two areas of assessment:

- Area 2: Data Availability and Accuracy (weight 30%)
- Area 4: IT capacity (weight 30%)

Area2 asks whether an MFI has the mandatory data for CIS reporting and (verified via spot-checks) if the basic client and loan information are accurate, including the calculation of loan schedule and arrears.

Area 4, on the other hand, looks at the speed of the delivery of information, the capacity of the IT team in managing technology projects (as opposed to the depth of their programming skills), and the existing basic IT infrastructure such as data back-up and connectivity. The IT infrastructure is evaluated to ensure that MFIs can report and query the CRB in an on-going basis.

IT Capacity contributes to 30% of the assessment because it is so important in both CIS data submission and querying.



The chart above shows the overall results of the IT assessment:

Main observations:

There is a strong correlation between Data Availability and IT Capacity.

There are 0s on Data Availability – A couple of MFIs are not able to show any reliable data.

There is no perfect score. Even the highest MFI has something to work on. There is only a single MFI, the highest scoring who has all the relevant data on MIS, ready for extraction.

Common Strengths:
The following common strengths were observed across all MFIs:
There were hardly any infrastructure issues reported. Very few MFIs reported having issues with electricity supply. In all areas where electricity is unreliable, MFIs are able to supplement with generators. Almost all offices have access to Internet via modem while head-offices have Internet via DSL connection and leased lines.
More than 50% of MFIs have centralized MIS and most of them have accurate information.

Common Issues
The top 3 highest issues that the Task Force encountered are incompleteness of data, followed by Weak IT team and Late Reporting.
These issues can be readily addressed. If an MFI has adequate MIS, data can be gathered and entered into the MIS; Weak IT team can be supported with outsourcing, while Late Reporting can be addressed by business process re-engineering.

Biggest issues such as inadequate MIS, weak IT infrastructure, and absence of IT budget will require more resources and time to address but the number of MFIs with these issues are low.

Detailed Issues:
The following issues were observed across all MFIs, listed starting with the most common issue:

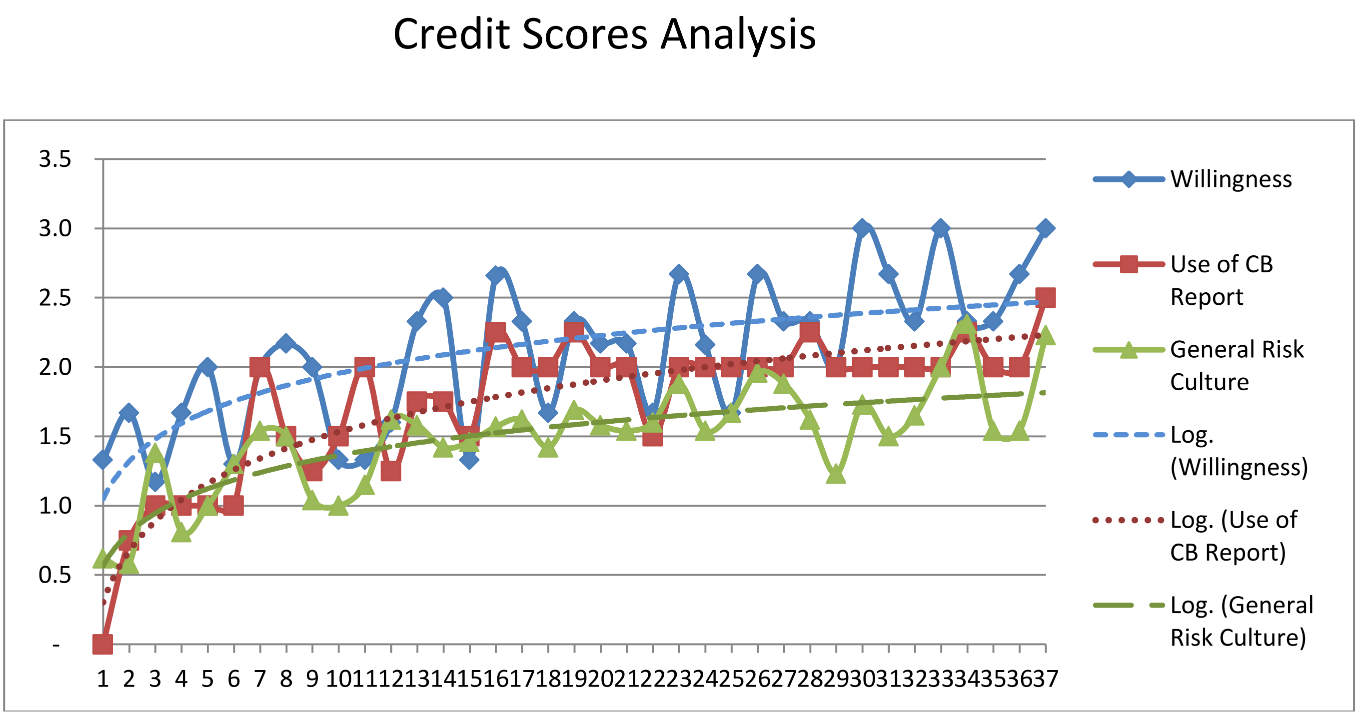
Issue	# of MFI	% of MFI
Missing physical location	24	64.86%
Incomplete client records	21	56.76%
Missing guarantor information or relationship	15	40.54%
Weak IT team	13	35.14%
Late reporting	11	29.73%
Missing/incomplete company and stakeholder information	9	24.32%
Inadequate MIS	9	24.32%
No centralized MIS	7	18.92%
Weak IT infrastructure	4	10.81%
Inaccurate client and loan data	3	8.11%
Cant verify MIS accuracy	2	5.41%
None (or not enough) IT Budget	2	5.41%

5.2 Credit

Credit Risk Management assessment comprises 40% of the total weighted scores.
It is broken down into three areas of assessment:
Area 1: Willingness to participate in the CIS project and overall organization (20%)
Area 3: Capacity to make best use of credit bureau reports (14%)
Area 5: General risk Culture (6%).

The willingness of MFIs to participate in CIS was measured by assessing level of leadership of the project, whether there was a direct and specific leader and general organizational structure that would deliver the project.

While IT would assess ability to submit data and to technically connect to the Credit Bureaus, Credit assessed ability to use reports from the bureaus. General risk culture assessed MFIs risk management framework by evaluating the underwriting, debt collection processes as well as the capacity of the MFI to make use of analytics.
Structures, Processes & procedures, human capital resource and monitoring optimality were evaluated for both the underwriting and Debt collection. The use of IT system specifically dedicated to Underwriting and Collections was investigated and took part in the assessment.



The above graph shows the following in regard with credit scores

- The willingness to participate in the CIS initiative was generally higher than other credit parameters. The most willing MFIs are those with higher scores in ability to use CRB reports and where general risk culture is relatively high.

- It Can also be observed that most MFIs are willing to participate. This is an important observation. It means that should they work on the other areas especially on IT parameters, they would significantly improve their readiness.

- Ability to use CRB reports, when they would become available, was also observed to be higher where the risk culture is high. It should be pointed out that while this score is important, it is relatively easy to achieve especially when willingness in high.

- General risk culture trails other scores. This is the area that requires longer term efforts as observed elsewhere in this report. It can be interpreted that most MFIs prioritize business growth whilst focus on risk comes later. Those with a high risk culture have generally performed better in other parameters.

Common Strengths

- Clear customer definition and Focus: All MFIs had a very clear customer/Market focus. Those that focused on salary loans predominantly dealt with salary loans while those focusing on low-end micro consumer business loans did so religiously. The benefit in this is that they are able to understand their market segment and be more responsive to it

- Innovation: Most MFIs were observed to be highly innovative. Most of the innovation is in product delivery mechanism other than in product design. Use of technology such as Mpesa (A mobile based electronic funds transfer system) was used by a number of MFIs in both loan disbursement and loans repayment

- Customer Knowledge: Emanating from point number one above, MFIs generally knew their clients well. The 'KYC' (Know your customer) concept is well understood and this enables them to grow their customers more easily

Common Trends

In addition to the above, there were cross cutting issues among most of the MFIs irrespective of the Tier.

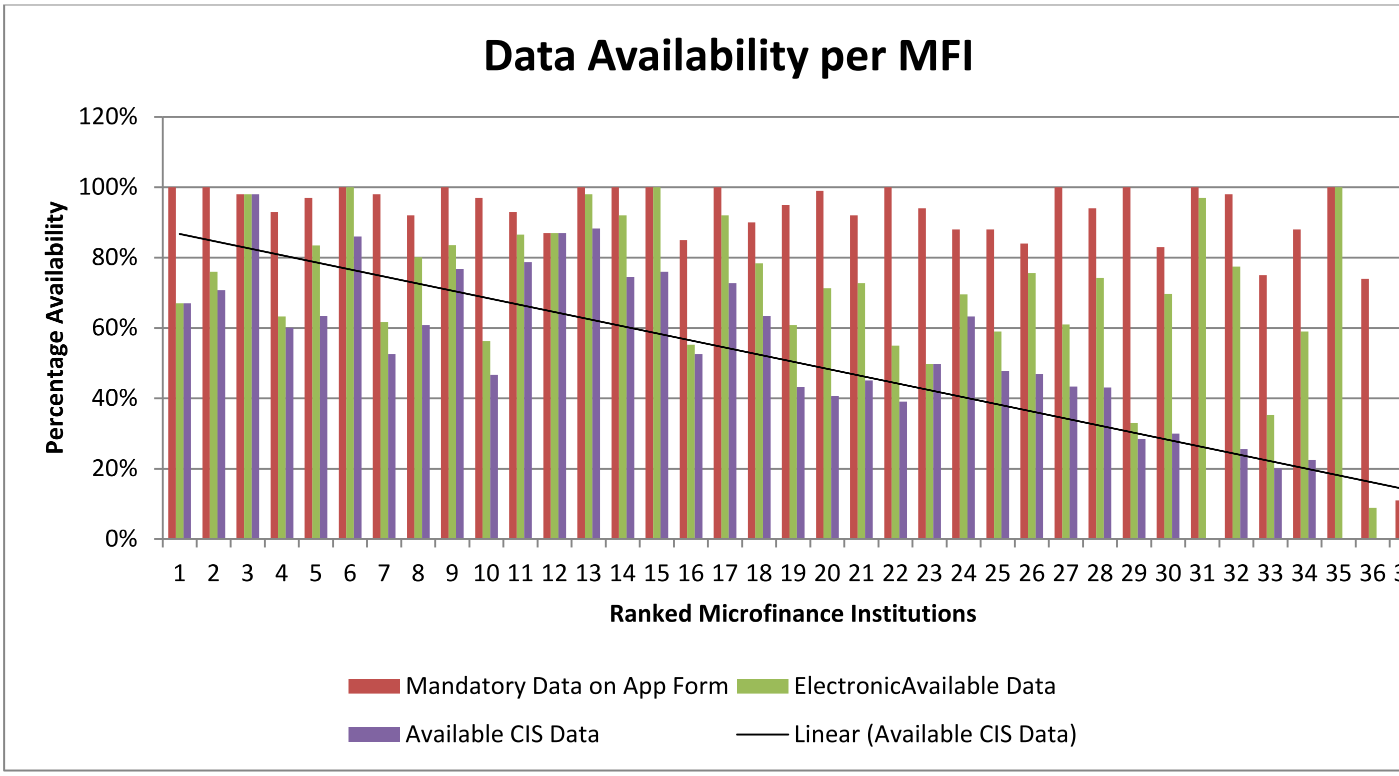
- Historical background: Most of the MFIs had an NGO background. It was observed that a majority of them either started as NGOs serving a specific philanthropic interest but later grew to be a fully fledged MFI. However, the younger MFIs were mainly started as private limited companies indicating a pull towards the market
- Group Lending was the Predominant Business Model. This model has been synonymous with microfinance world-over. It was however observed that MFIs concentrating on consumer loans (Salary loans however) used individual lending other than group lending.
- Most MFIs remained attached to their initial business focus. Only two had changed from one market focus to another as detailed under section 4.6
- Group savings was the main Funding source. This is in line with the group lending being the predominant business model. Other sources of funds included equity, borrowing and donations.

5.3 Specifics on Human Resources

The reviewing team looked at 3 key areas of Data Availability; Data Extraction Capability; and Credit Reference Bureau Data Utilization which were in turn derived from IT Assessment and General Risk

Culture. The premise used is that an MFI has to be effectively resourced to output data in their possession and utilize the same as CRB data inputs.

The assessment here focused on how much data is available for sharing and thus how much human resource effort would have to go into availing it. MFI performing well on this attribute had to have close to 100% collection of CIS mandatory data items on physical application forms and accurately capturing of the same on their respective MIS. If participation is hinged on accurate information, then best MFIs in this attribute are those with high collection and accurate transfer of customer information from physical applications to MIS. In addition, the MFI must be able to effectively use the MIS for managing customer's loan records once granted.



As an example, MFI ranked 4 above had 98% data collection and success rate of accurately transferring it all to their MIS while one ranked 36 collected 74% of the data, transferred only 12% of it but failed to update it in their MIS for the past 3 years hence 0 accuracy. This implies MFI 4 will have less challenges with updating customer data to CIS sharing minimum requirements as opposed to MFI 36 which will certainly need more resources and support. It is thus evident that the MFI ranking took into consideration effort required to clean up and avail the data as captured by the Available CIS Data trend line.

It's important to note that none of the MFIs reached 100% for full and accurate transfer of CIS data. Clean up exercise would require the following set of actions:

- Request from customers CIS mandatory data not collected
- Retrieve original applications for comparison
- Identify corrections and new data for transferring to MIS
- Approve the changes
- Input the changes into the CIS
- Call over the input information against approved changes

- File retrieved application and approved changes sheet

MFIs will have different resource needs depending on the volume of loans and quality of data; this will be addressed separately on individual MFI basis

Data Extraction Capability

The assessment here focused on MIS capability for report generation and human resource expertise to automate the same. MFIs performing well on this attribute had a MIS that easily supports data extraction with an in-house team well versed with report generation/automation.

	Ranked Microfinance Institution																									
	7	8	9	10	11	12	14	15	16	17	20	21	22	25	26	27	28	29	30	31	32	33	34	35	36	37
1. Report writing expertise	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
2. Technical Limitations																										
c. Vendor Support - Must source vendor support for reports				■		■					■				■		■			■	■			■		
a. Split Database - not consolidated / infrequent consolidation													■					■	■			■	■			
b. Closed Database - Cannot create reports										■		■				■							■			
d. Information mostly on physical documents																									■	■

Table 1: Data Extraction Capability

For ease of reporting, only MFIs with difficulty with this attribute are under consideration in above table. Most of the MFIs will need basic one time training/supervision support for CIS report generation, however, the 26 captured above may need to either outsource or hire resources to successfully generate the reports. It's important to note that all of the tiers 3 MFIs are suffering from one MIS technical limitation or other thus hampering their journey towards CIS participation. Assumed (not assessed) resource required is that for signing off of extracted reports as true reflection of customers data and loan position – at least in the interim period till there is a confirmation to a reasonable certainty of the quality of automated data extract.

Data Utilization

The assessment here focused on number of additional resources needed – both stated & calculated; for an MFI to make use of CRB reports in their underwriting assessment of applicants and subjective assessment done on capacity of their current resources to utilize the same. MFIs were also asked preferred mode of requesting CRB reports thus resources for credit assessment distribution between centralized (processing centre) and decentralized (branches) - though a couple still chose the middle ground.

CALCULATED

Branch Range	**# of MFIs**	**Usage Mode vs Resources**						**Total MFI**	**Total Resources**
		Decentralised		**Centralised**		**Hybrid**			
		# MFI	**Resources**	**# MFI**	**Resources**	**# MFI**	**Resources**		
1	13	0	0	1	8	0	0	1	**8**
2 - 5	7	0	0	1	6	1	1	2	**7**
6 - 10	4	1	5	2	3	1	2	4	**10**
11 - 15	4	3	5	1	1	0	0	4	**6**
16 - 20	4	0	0	2	4	0	0	2	**4**
21 - 25	3	1	1	1	2	0	0	2	**3**
26 - 30	0	0	0	0	0	0	0	0	**0**
31 - 35	1	1	7	0	0	0	0	1	**7**
> 36	1	1	8	0	0	0	0	1	**8**
Totals	**37**	**7**	**26**	**8**	**24**	**2**	**3**	**17**	**53**

Table 2: Calculated Resource Requirement against branch size and usage mode – desk top analysis against volume of applications generated by MFI per day

STATED

Branch Range	# of MFIs	Usage Mode vs Resources						Total MFI	Total Resources
		Decentralised		Centralised		Hybrid			
		# MFI	Resources	# MFI	Resources	# MFI	Resources		
1	13	0	0	4	4	0	0	4	**4**
2 - 5	7	1	2	1	10	1	1	3	**13**
6 - 10	4	1	5	2	4	1	1	4	**10**
11 - 15	4	0	0	1	2	0	0	1	**2**
16 - 20	4	0	0	2	4	0	0	2	**4**
21 - 25	3	1	2	1	2	0	0	2	**4**
26 - 30	0	0	0	0	0	0	0	0	**0**
31 - 35	1	0	0	0	0	0	0	0	**0**
> 36	1	1	16	0	0	0	0	1	**16**
Totals	**37**	**4**	**25**	**11**	**26**	**2**	**2**	**17**	**53**

Table 3: Stated Resource Requirement against branch size and usage mode – actual stated additional resource estimates by respective MFI

It's interesting to note that only 17 of 37 MFIs had a need for extra resources to support use of CRB reports in credit assessment – both calculated and stated. It was even more intriguing that the total numbers of resources required across the network were the same for both calculated and stated numbers though not with the same MFIs. Important to note that the smaller MFIs almost always chose centralized modes (obvious for one branch MFIs) while the larger ones adopted decentralized mode.

All the MFIs confirmed need to have their resources trained on aspects of CRB reports and how they can be made of value in credit assessment. 3 MFIs – ranked elsewhere in this report as 9; 36 & 37, were deemed as not having current sufficient resources to utilize reports as a result of under capacity or model not necessitating.
Specific MFIs resource requirements will be addressed separately on per MFI basis

Common Strengths
CIS mandatory data collected from clients on application forms stands at 92% - all MFIs with exception of 3 clustered in tier 3 have collected more than 80% mandatory CIS data from their clients. Clean up work is thus centered on internal confirmation of data accuracy in the system with limited need to get back to clients

11 of the MFIs have the capacity to easily extract reports from their MIS, 22 have issues that can be resolved in timely way i.e. training; securing vendor support or conducting frequent database consolidation. Only 4 MFIs face stiff challenges of closed databases & data being on physical records thus difficulty in extraction.
32 of 37 MFIs were evaluated as having trainable current resources to utilize CRB reports for credit assessment though some may need to hire additional ones. Only 5 have to hire completely new resources.

Common Issues
The average difference between an MFIs available CIS data and that required for effective CIS participation stands at 49.6% - this implies lots of data clean up required across the board with bulk of it being in Tier 3 MFIs
CIS reporting requirements being fresh to MFIs, most have expressed need for some support in extracting the necessary reports in the interim period; this should be factored in the pilot phase through a joint MFI / CRBs forum
MFIs asserted in unanimity on need for training on various aspects of CRB reports and their potential application in credit assessment

6 Gap Analysis by Tiers

6.1 Tiers 1 Gap Analysis

Among the 37 MFIs that were assessed during the mission, 14 were deemed ready to participate to the CIS Pilot “short term”.

There were lengthy discussions as to what short term could exactly mean. The timeline allocated to the Pilot was 6 months. It is the opinion of the Consulting Task Force that this timeline is very aggressive, hard to meet even by the most prepared institutions.

Even though it is ambitious we suggest it still be used as a target to motivate Tiers 1 institutions.

6.1.1 Conditions for accessing Tiers 1

Tiers 1 MFIs are those that had a weighted score of 2.18 and above.

As stated elsewhere in this document, the cut-off was established after ranking the MFIs according to the score and deliberating on minimum requirements to effectively participate in Credit Information Sharing.

It is indicative that Institutions in this tier basically had non-prohibitive policies for sharing both positive and negative data and information with other MFIs. Moreover to belong to tiers 1, an MFI must have been assessed reasonably above average in degree of willingness to participate; availability of CIS mandatory client’s data; and ease of extracting it (IT Capability).

Though important in ranking, other aspects of use of CRB report and General risk culture would not be a hindrance to an MFI that’s intent to be part of initial CIS pilot.

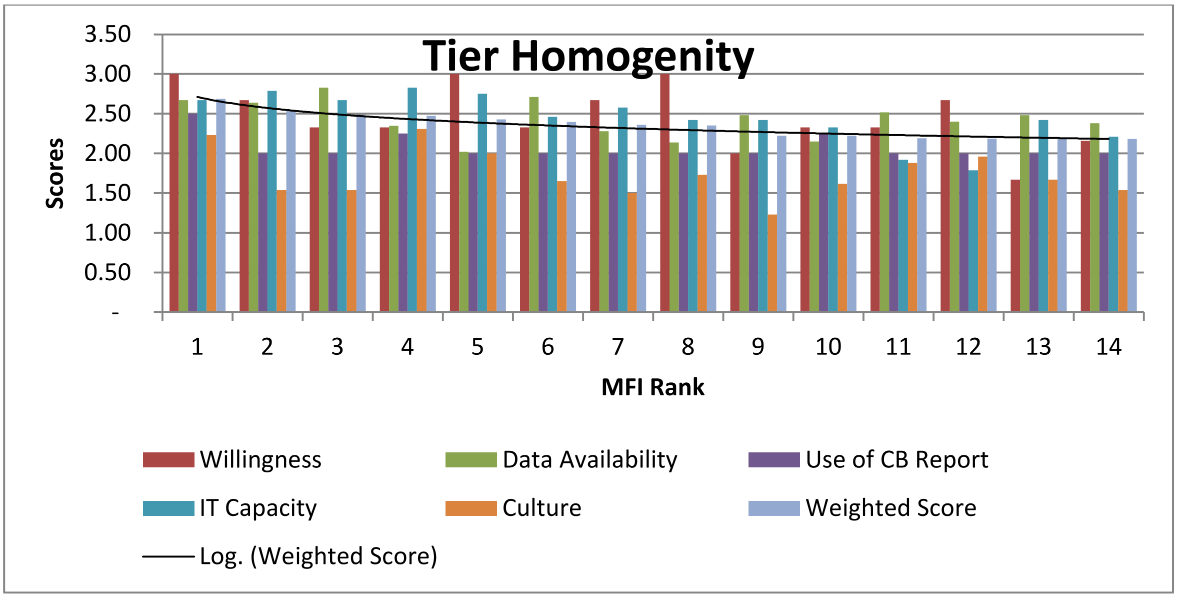
Measure	Proxy	Ave. Cut-off
Willingness to participate	• Demonstrated ownership at Board / CEO level • CIS Project Team set up or Project Manager / Head confirmed • Active CIS champion • Ease of access to confirm data & IT readiness	2.46
Availability of data	• Data collected on application form against CIS mandatory data • Accuracy of client and loan data captured in MIS	2.43
IT Capacity	• Capacity assessment of system to allow extraction of reports • Independent assessment of in-house IT team capabilities • Evident IT Infrastructure to support CIS	2.45

Table 1: Average cut-off points for the 3 core areas determining participation in CIS

The weighted score cut-off of 2.18 was deliberately selected so as to have the 3 areas above at a high score – 30% above average for availability of data & IT Capacity; reviewing each in turn:

6.1.2 Homogeneity of Tiers 1

From the overall tier scoring range, the difference between the highest at a score of 2.61 and the lowest at a score of 2.18 is quite narrow – a mere 0.43. This implies tier homogeneity thus greater chances and likelihood of pilot's success.



6.1.3 Tiers 1 Composition

Tier 1 is composed of 14 MFIs, 4 of them Deposit Taking also referred to as Deposit Taking Microfinance Institutions. Together they have 675,013 borrowers ranging between 151 and 325,000 borrowers.

Tiers 1 has KES 19.7 Billion in outstanding loan portfolio (OLP) with institutions ranging between KES 23M to KES 10.3 B. The average bad debt for Tier 1 is 4% with a low of 0.2% and high of 12.5%.

The 14 institutions in tier 1 vary greatly in size, MFIs ranked as 4; 5; 8; and 13 cover 91% and 87% of the total number of borrowers and OLP of the tier respectively.

6.1.4 Common Trends, Strengths and Weaknesses

Common Trends

Target Market	All lend to clients with businesses with 2 biased to women entrepreneurs and another 2 to Rural based SMEs
MIS	Leading MIS are Banker's Realm & Temenos' T24 – accounting for 65% of MIS used in this tier
Branch Network	Branches in Tier 1 account for over 60% of all branches for the 37 MFIs assessed
Average age	10. Ranging from 1 to 22

Predominant Business Model	Group lending model, followed by loans directly to individuals
Resource Requirement	Owing to its large share of portfolio, Tier 1 generally needs more resources to address data clean up; extraction & usage

MFI Rank	Target market	Predominant Business Model
1	SMEs	Groups
2	Employees & SMEs	Salary Loans & Group lending
3	SMEs	Groups
4	SMEs	Groups
5	Women SMEs	Groups
6	Rural SMEs	Groups
7	SMEs	Individuals
8	SMEs & Farmers	50:50 Businesses & Individuals
9	SMEs	Individuals
10	SMEs	Individuals
11	Rural SMEs	Groups
12	SMEs & Employees	50:50 Businesses & Individuals
13	SMEs	Groups
14	Women SMEs	Groups

Tiers 1 have a diversity of institutions from those striving to strongly adhere to their social missions to those purely for profit. This is reflected in the diversity of the business models with MFIs keen on social mission having primarily group model of lending while the rest being individual or salary based From a strategy point of view, the following commonalities were observed:

- All the DTMs and those planning to be are focused on raising funds to finance their branch expansion and for onward lending – growth is their primary focus
- MFIs not focused on growth in this tier are seeking to reduce their bad debt portfolio and in some cases have stopped lending all together
- All the MFIs in this tier expressed profound need for controlled lending owing to risk of over borrowing in a competitive industry; supporting tools for assessment of customer gearing

In either case, participating in CIS will support the MFIs in this tier to meet their strategic needs perhaps the reason Willingness to Participate in CIS is highest in Tier 1.
Common Strengths

Common strengths

Common Strengths	Comment
Getting it right with Clients	Emphasis on training of group and enforcing of stringent credit risk management practices
Stable Management Information System	Generally a stable core banking system that gives Management Information
Quality Focus	Solid Risk Management and underwriting committee's supported by sound Processes and Procedures
High degree of Control	Sound Organization structure & management; with clear separation of duties in credit roles between loan initiation; administration; monitoring and collections

As noted above 9 of 14 MFIs in tier 1 have systems from two of the leading vendors in this sector internationally granting them stability to focus on other areas of business. It could be said that as a result of these systems, the MFIs in this tier have been able to focus on sound credit management policies and structures that eliminate ambiguity. It is also noteworthy to mention that MFIs engaging in group lending in this tier spend considerable time and effort to fully train their clients on best financial practises seeing that most of them are their first ever financial intermediaries.

Common Weaknesses

Common Weakness	Comment
Inadequate MIS	Purchase an origination and collection systems or enhance existing MIS to enable institution to have electronic data of both rejected applications and written off records
Resource Exposure	Training of IT resources in extracting the CIS files from MIS and Credit Managers in interpreting Credit Bureau reports.
Credit Risk Management	Need to consider hiring resource with analytical skills to supplement the standard reports obtained from MIS thus use data more effectively for business decisions.

None of the MFIs' MIS was used for purpose of managing applications processing and decisioning. Also none of the MFIs' MIS was confirmed as being used to track details of a collection effort per client.
Because modern originations & collections systems are able to interface with CRBs, they are imperative for greater control over underwriting and collection efforts and support automation which lowers costs and increases profitability of low ticket loans that characterize the sector.

MFIs in this tier have in their employment service some of the best resources in management and technical areas like IT and Credit Management. However with CIS being new to the industry, most of the MFIs will need support to learn how to extract the correct files for submission to CRBs while exploiting the new development to innovate and profitably lend to customers.

Key to this is empowering their staff on CRB reports for MFIs to enrich their credit assessment policies.

Though not unique to this tier, most of the MFIs need to approach the area of credit risk management more pragmatically by having specific resources charged with responsibility of conducting an analysis of portfolio: drilling performance indicators; identifying ideas for product

enhancements; testing new products or enhanced features; etc. Such a resource would have a core responsibility of reviewing lending manual to confirm or update for continued relevance.
Interventions

- MFIs will need to urgently avail resources to for clean-up of records in this tier to ensure pilot success. Because of number of borrowers for the large MFIs, the exercise may be deemed as daunting and perhaps create inertia. We recommend recruiting of a central external programme coordinator at AMFI to walk and oversee the MFIs in Tier 1, especially the large ones towards CIS success.
- The Tier and indeed entire sector has numerous MIS in use. As state d above, none of the MFIs are currently effectively being used to support originations and collections. Intervention by way of conducting industry benchmarking for standard MFI systems specifications will ease the burden on institutions by having developers unilaterally respond to them as standard features at no 'customisation' costs to their potential clients
- In the short term, MFIs in general but more for Tiers 1 need capacity enhancement in extraction of files from their MIS as well as reviewing of CRB reports. In the medium to long term, there is a real need for an Excellence Training Centre to certify MFI professionals; develop Technical Training courses e.g. process management; product development; project management; credit assessment and management of groups; management of microloan etc.

6.2 Tiers 2 Gap Analysis

6.2.1 Tiers Composition

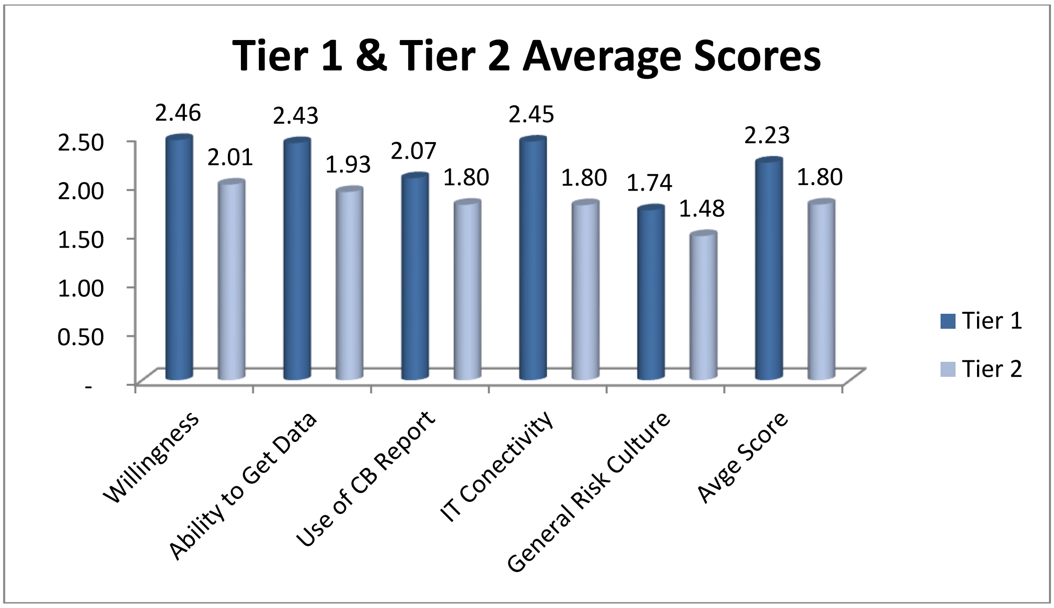
As mentioned earlier in the report, Tier 2 institutions constitute of MFIs that could join the Pilot in a second stage after closing the most important gaps. These MFIs also have capacity to join the Pilot sooner so long as they close various gaps that have been highlighted.

Among the 37 MFIs that were assessed during the mission, 15 were classified as Tiers 2.

There were lengthy discussions as to the time frame needed for them to fill gaps and join CIS. The timeline allocated to the Pilot being of 6 months it was agreed that a reasonable time frame for Tiers 2 could be of 12 months.

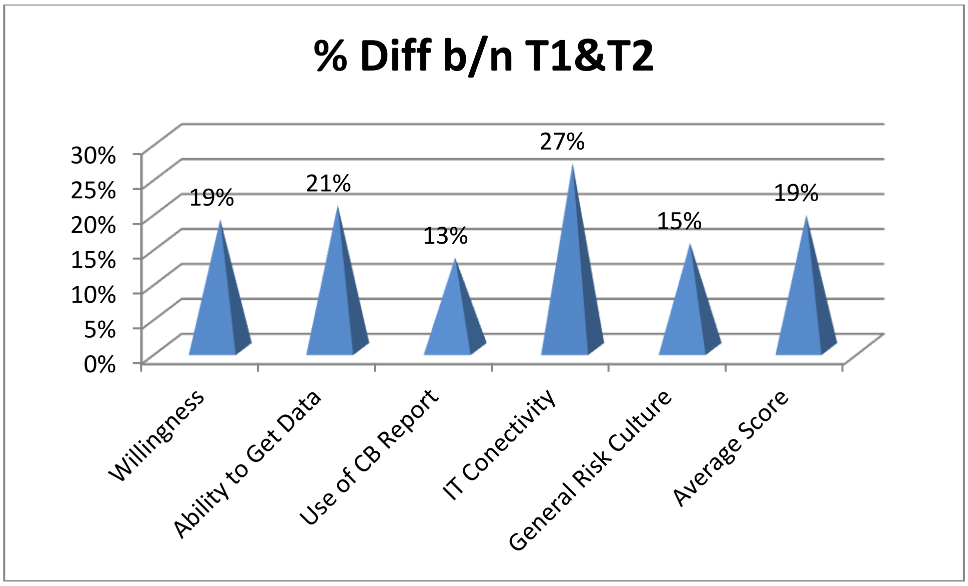
6.2.2 Comparison Tiers 1 and Tiers 1

In order to appreciate this group further, Tier 2 MFIs have been compared with Tier 1 and various commonalities drawn. Overall, they were seen to exhibit common traits with regard to readiness to joining the CIS initiative.
The following graph shows a comparison of various scores between the two Tiers.



It can be observed that Tier 2 MFIs scored lower than Tier 1 in all parameters. In summary the average un-weighted score for Tier 2 was 1.8 points from a maximum of 3 while Tier 1 scored 2.23.

The Consulting Task Force conducted a sensitivity analysis to determine the most important score within the two tiers. The graph below shows the percentage difference between two tiers for every score.



The graph shows that IT capacity is the parameter where the two tiers had the greatest difference by 27%. This means that on average, Tier 2 scored lesser than Tier 1 by 27% in IT connectivity. On average Tier 2 scored lower than Tier 1 by 19%. Use of CRB reports had the lowest differential at 13%. It is worth noting that the second most important parameter causing the difference between the Tiers was ability to get data where Tier 2 scored lesser than Tier 1 by 21%.

6.2.3 Common Trends, Strengths, Weaknesses

Trends

Trend	Comment
Market Focus	Specific focusing one customer segment such as employees, Youth etc
IT System	5 out of 15 MFIs use Bankers Realm
Background	Most had an NGO Background
Average Age	8 years
Predominant Business Model	Group Lending
Loyalty to Market Focus	High. Only two institutions has a strategic shift to a different market focus. (One Africa changed from group lending to individual while SISDO changed from Agriculture to Business
Main Funding Source	Group Savings. Others include Equity and Borrowing.

This groups of institutions was also observed to have some common strategic focus in a number of areas. These included the following, reducing Bad debts, Product diversification and diversify Funding base.

Growth was also observed as a common strategic focus. Methodology of growth was however non homogenous ranging from Increasing Branch Network, regional expansion and increasing customer base.

Strengths

Common Strengths	Comment
Clear Customer Definition	This is due to common aspect of having a specific market focus.
Processes and Procedures	Adequate to support current business
Customer Knowledge	Very sound. KYC (Know your customer very strong). This is because of character based lending.
Quality Focus	All are cognizant that Quality of loan book is most critical
Social Mission	Seen to be high. This is a strength since it enhances an organization's long term survival.
Innovation	Observed both in product design and delivery methods

It can be noted that these common strengths can be utilized to ensure that several of the MFIs in this category get into the First Pilot. Customer knowledge could for example be used to ensure quick data clean up.

Weaknesses

The level of staff skills and general competencies was seen to be low. This aspect was more predominant with the size of the MFI. Not surprisingly, the smaller and younger institutions showed the stronger difficulties in this area.

Budgeting for CIS seemed also a common difficulty. This directly impacts on the MFIs readiness for the CIS initiative. It directly touches on human capital since additional resources may be required and skill sets discussed above since training will be almost inevitable.

Structures were found to be weak on Tier 2 MFIs. Notably missing were general organizational structures, underwriting and debt management structures.

IT function was run by operational staff in most cases.

High Bad Debts: Average Non-performing Loans – Portfolio at risk 90days (PAR 90Days) was 7%. This was rather high compared to 3.6% for Tier 1 MFIs.

Other weaknesses include high cost of funds that forces them to charge relatively higher rates to their customers, few sources of funding and Narrow Customer market focus.

6.2.4 Capacity Building

Tiers 2 differences with Tiers 1 reside primarily in Data and Human resources.

It is felt that Tiers 1 will require longer time to fill-in gaps in Data and hence any effort geared at shortening the exercise should prepare them to successfully joining CIS.

Institutions should prepare for this exercise, plan for the recruitment of additional resources required, and examine all potential ways of outsourcing part of the efforts.

The second area in which Capacity Building is required is the Human Resources side. One of the important differences between Tiers 1 and Tiers 2 resides in the quality and level of expertise of staff on the IT side and the Credit side.

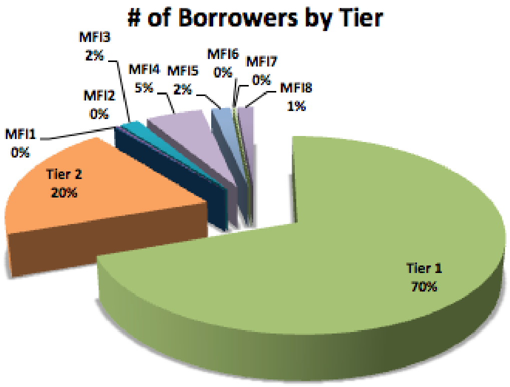
It is our view that specific seminars on risk management should enable Tiers 1 institutions to bridge their gaps faster and more effectively and hence join CIS sooner.

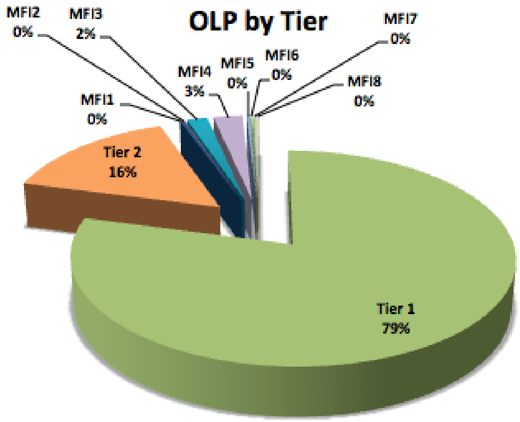
6.3 Tier 3 Gap Analysis

6.3.1 Tiers Composition

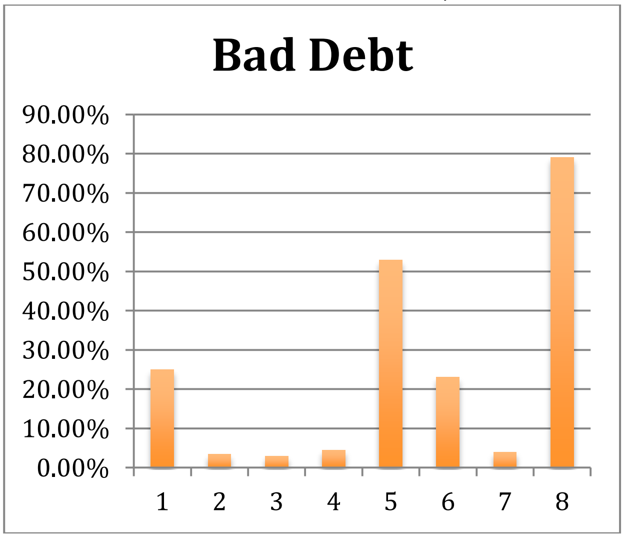
Tier 3 is composed of 8 financial institutions – mostly MFIs, Product financier, SACCO, and Salary Loan providers.

Together these 8 institutions have 80, 789 borrowers with an institution having 250 borrowers to 39,000 borrowers. Tier 3 has a total of KES 1.4 Billion outstanding loan portfolio (OLP) with an institution having an OLP of KES 15M to KES 641 M. The average bad debt for Tier 3 is 24.37%.
As stated above, these 8 institutions vary greatly in size. However, a closer examination shows that Financial Institutions 3 and 4 comprises half of the total population, both in number of borrowers and OLP.





While the average bad debt is 24.37%, the group is equally divided with 4 financial institutions having bad debt below 5% and 4 above 20%, with 2 institutions with a bad debt of more than 50%.



6.3.2 Common Trends, Strengths and weaknesses

Trends

Target Market	Various. Although mostly narrow.
MIS	3 Excel and 5 different MIS solutions.

Type of Institution	Mostly NGOs
Average age	10. Ranging from 3 to 18
Predominant Business Model	Group lending, followed by salary loans
Strategy Shift	2 MFIs shifted from individual lending to group lending
Main funding source	?
Other funding sources	?

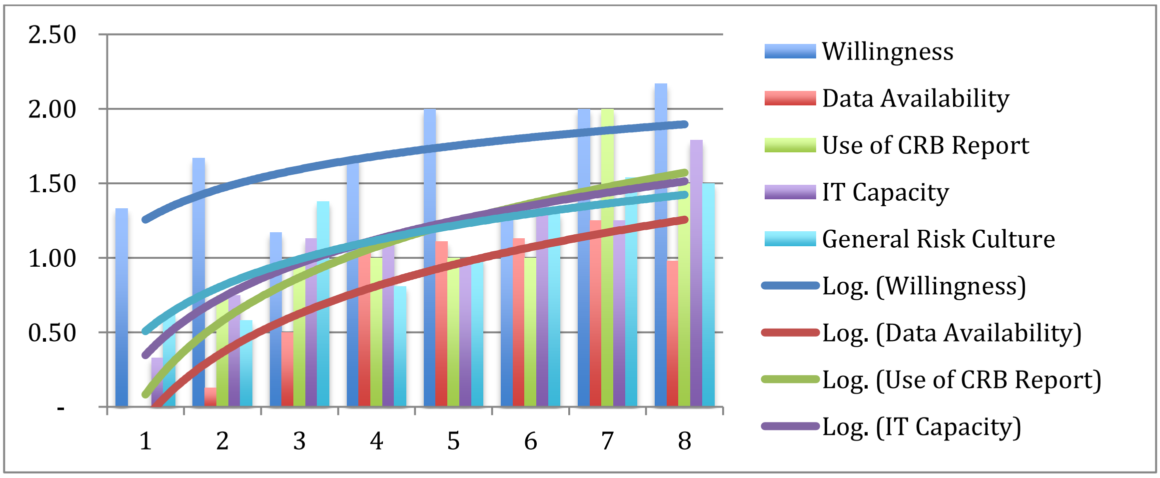
Tier 3 is a diverse set of institutions with different target markets – 1 MFI only provides financing for its product and only caters to schools; 2 MFIs provide only salary loans; 1 MFI is an incubator and mainly focused on creating and testing new financial products; and only the 4 remaining run the usual group lending model and targets the usual microentrepreneurs.

However, there are a few notable traits of this tier:

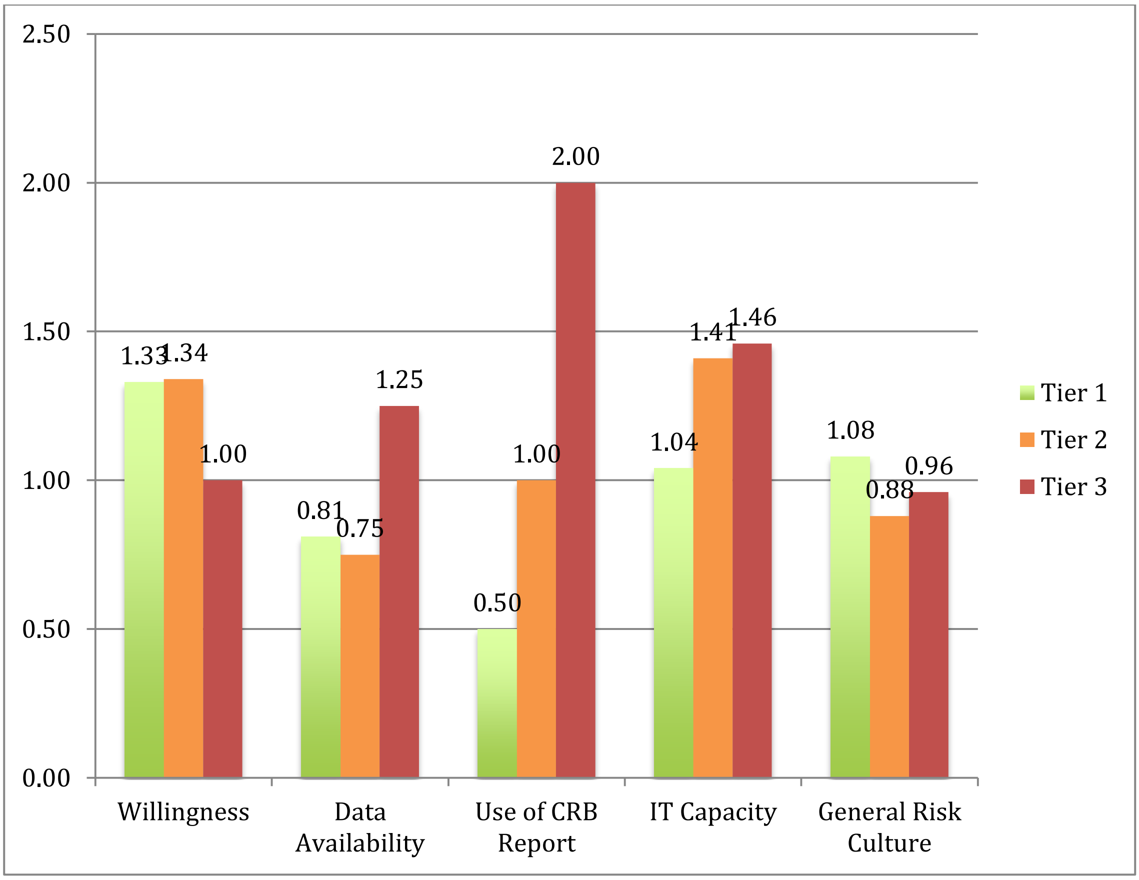
1. Almost everyone has a predominant loan product with only a couple venturing on supply-chain financing.
2. Most MFIs are NGOs except for the salary loan providers, which are private companies limited by shares (Ltd.).

6.3.3 Comparison Tiers 3 and Tiers 2

There is a big gap between Tiers 3 and Tiers 2.
Other than willingness, Tier 3 is 40% lower than Tier 2 in the other 4 categories. Furthermore, compared to the general trend of General Risk Culture as the lowest score, Data Availability is the lowest score in Tier 3.



Lastly, to once again point out the diversity of this tier, the chart below shows how the scores vary the most (except in Willingness) in in Tier 3 compared to Tier 1 and Tier 2. This will later on manifest again as different weaknesses for the MFIs in Tier 3.



6.3.4 Common Strengths

There are no common strengths in Tier 3. Three of the financial institutions have strong support from their mother institutions, sharing their strong IT infrastructure. Although only 2 out of these 3 have full financial support and also inherited strong policies and procedures from their respective parent companies.

6.3.5 Common Weaknesses

There are 2 financial institutions in this Tier, in which the assessment was not fully completed, as these institutions are not able to provide pertinent data and access to their MIS. We would consider that the weakness for these 2 institutions is on Willingness.

Discounting these two institutions, the following are common weakness for the MFIs in Tier 3:

Weakness	Occurrence
IT	6
Organizational Structure	5
Missing/Inadequate Credit Policies and Procedures	4

6.3.5.1 IT
The IT issues in this Tier ranges from missing data to inadequate MIS to inadequate IT funding. More important to note, however, is that IT can only automate processes. Thus, in this case, the real issue lies more on standardization and enhancing the processes. Only once these are resolved can the IT follow.

6.3.5.2 Organizational Structure
This category includes inadequacy in leadership, management, and capacity of existing staff in different areas. Some have issues from leadership, others in management, and others only in specific areas. E.g., 1 MFI is clearly strong in Operations but weak in Finance. However, there are several MFIs who have issues in leadership, which then cascades to management.

6.3.5.3 Missing/Inadequate Credit policies and procedures
This is self-explanatory. About half of the MFIs in this category have missing or non-standard policies and procedures. This is clearly a manifestation of weak management.

6.3.5.4 Bad Debt
About half of the MFIs in this category have a bad debt of greater than 20%, with 2 greater than 50%.

6.3.6 Capacity Building
There are different ways to approach Tier 3
1) By size – Focus on two MFIs with the most number of borrowers and biggest loan portfolio;
2) By Bad Debt – Ignore MFIs with Bad Debt of greater than 50%, expecting that the MFI will need some type of restructuring in the near future in order to survive;
3) By weakness; examine each MFI closely and identify possible quick wins while recommending organizational structure to the other.

This recommendation is based on Approach number 3 – examining each MFI and addressing their weaknesses separately since this approach takes into account weaknesses that are addressable with a change in management.

CIS Awareness Campaign – There are two MFIs in this Tier with reasonably sound organizational structure, policies and procedures and IT except that the assessment were incomplete since the Assessors were not given access to MIS and data needed to be able to verify the IT and credit policies. It is highly likely that these two MFIs will likely be CIS ready if assessed completely based on its strategy, history, and performance.

Specific Consulting Activities – There is 1 MFI with good governance and standard credit policies and procedures. This MFI needs the following intervention: 1) Reduce Bad Debt task force; 2) Review of Finance and Finance human resources; and 3) Complete conversion of MIS
Restructuring and re-engineering – The 5 other MFIs require review of leadership and management, followed by review, re-engineering, and instutionalization of credit policies and procedures. The process re-engineering will then be followed with automation or implementation of the proper MIS.

7 Recommendations

7.1 Project Management

7.1.1 Pilot Project Management Team and Pilot Executive Committee

As stated in the methodology section, the assessment exercise has been carried out according to the highest levels of professionalism by the Consulting Task Force.

MFIs who have been rated ready have the capacity to join the CIS Pilot.
Nevertheless, the Pilot project is challenging and subject to extremely tight deadlines.

Furthermore the Pilot will require intense interaction between MFIs and CRBS in the context of a User/Supplier commercial relationship.

We would therefore recommend that a **Pilot Project Management Team (PPMT)** structure be put together, with adequate resources, supported by relevant Credit Bureau and Project Management expertise.

Skill sets within the PPMT should include:

- Program Management
- Project Management IT
- Project Management Operations
- Legal
- Risk Management and CB set-up expertise

The PPMT will interact directly with MFIs Project Management Teams and CRBs Project teams to define and keep track of overall timelines, identify bottlenecks and provide assistance as may be required by MFIs.

The PPMT must report to a clearly defined **Pilot Executive Committee**, possibly under joint supervision of KCISI and AMFI.

7.1.2 MFIs CIS Project Teams

Along with the PPMPT, **MFIs CIS Project Teams** must be set-up with the following skill set:

- Project Management
- IT and Data
- Risk Management and Credit

MFIs CIS Project teams must come under Executive Supervisors within each MFI. Said supervisor must be an integral part of the team.

7.1.3 Escalation Paths

Key in such a project is the definition of clear escalation paths. Delays or unexpected difficulties must be reported very quickly.

MFIs CIS Project Team escalation path must end at the most senior level within the MFI.

PPMT Escalation path must end at the head of the Executive Pilot Committee.

Clear rules of engagements must be established so escalation does not occur before or long after main issues are encountered. On the other hand, issues that can be resolved within each project team must not be unduly reported. It is a fine balance that the PPMT programme manager will need to enforce...

7.1.4 Main KPI's

The following "Key Metrics" will have to be tracked, reported, consolidated and discussed on a regular basis as they will reflect how well the Pilot is on-rolling.

To be clear these metrics must be monitored for each MFI in the Pilot, possibly for consolidated groups of MFIs (DTMs versus non DTMs) and certainly overall, for all institutions in the Pilot:

- Nbr of User Contracts signed
- % of mandatory Data on-boarded (loaded in the CRB Database)
- % of non mandatory Data on-boarded
- Nbr of records in the Database
- Nbr of institutions registered with the CRBs
- Nbr of users of each institutions registered with the CRBs
- Nbr of test queries performed by Users
- Nbr of queries performed by User

Each MFI must keep track of incidents by type (user related, consumer complaints ...)

Each MFI must keep track of its effort in filling gaps for mandatory Data and of cleaning-up existing Data.
In order to track these efforts in a manageable way, we suggest that for each work streams (gaps and clean-up) simple % of achievement metrics be produced at MFIs level to be discussed at PPMT level.

7.1.5 Project success-factors

Beyond strong project management structures, here are some key factors in the success of the Pilot:

<u>Limiting the number of institutions in the Pilot:</u>

The Pilot must be viewed as a "commando operations" that has no other choice but to be successful in a very short time span.

Only those Institutions that are not only ready (Tiers 1), but extremely motivated, who are not likely to abandon the effort on the way must start the Pilot.

Project management resources (PPMT and Executive Pilot Committee) will focus their attention only on the few who will succeed from the outset.

After Pilot completion, other institutions will engage more easily into a known, already harnessed, process with maximum chances of success.

Another way of putting it is that those institutions that are "intimidated" by the Road-Map shown below may benefit by being encouraged to join in a second stage.

<u>Building synergies:</u>

MFI in the Pilot will be faced by similar difficulties. They must be encouraged to share information, knowledge.
They must also be encouraged to share costs...
There is no reason why MFIs with same account management systems should develop separately programmes to extract Data for submissions to CRBs.

<u>Supporting MFIs with Credit Risk Management expertise</u>
Among the list of similar issues faced by MFIs the need for Risk Management expertise is likely to appear top of the list.
In particular, but not limited to, the way CRB Report Data must be incorporated in the underwriting process and any Credit process reengineering required.
We recommend that specific consultant work be planned in this area in other to bring support to the MFIs either individually (consulting engagements) or on a group basis (training sessions).

7.2 Implementation Plan and Road Map

7.2.1 Context

The following Road-Map applies to those institutions that will be joining the CIS Pilot.

Its purpose is to outline the main workstreams, and tasks within workstreams, required to join successfully the CIS Pilot.

A successful Pilot for any CIS meaning:
- Supplying Data, mandatory, negative and positive, to a level of quality such that the Credit Bureau Operations will agree to load it into the database
- Being able to connect to the Credit Bureaus, query for credit applications, pull a Credit Bureau report and use to make decisions

Beyond Data submission process and the CRB's querying process, we will also list all project management tasks to be completed by the MFI's in order to succeed.

Legal environment will require some modifications. We will list those that need to be carried out by MFI's, namely those involving Borrower Contract modification.

Other legal and legal tasks are not in the Scope of this document. Among them, tasks requiring completion to insure that the regulatory framework does allow MFIs to share information and to disclose it to CRBs.

Finally, the success of the project will also be determined by the level of involvement of the CRBs who must provide assistance, support and training, and more importantly must document the on-boarding process that MFIs will need to follow.

7.2.2 Workstreams and Tasks

Time-line for completion is provided in the section below.
In this section we would like to flesh-out workstreams and tasks.

I. Organization
   a. Close assessment process: provide MFI's with details about their specific assessment

b. Finalise pilot composition: agreeing with all parties involved the list of institutions that will participate in the Pilot
c. Define Pilot Project Management Team: Deadline of Pilot project is extremely ambitious. Interactions between players, in particular MFIs and CRBs must be coordinated throughout the Pilot phase. An overall Pilot Project Management Structure, adequately resourced, must be put together, under the supervision of Executive Pilot Committee
d. Nominate MFI's Project Teams: MFI's need to designate a project team, comprised of at least 2 resources knowledgeable in IT and underwriting processes, under the supervision of an executive sponsor
e. Finalize Monitoring and Enforcement Committee

II. Legal
   a. Amend loan contracts existing borrowers: Decisions need to be made regarding existing borrowers and whether MFIs can have them sign an addendum to existing contracts to enable data sharing. Addendum must be written.
   b. Amend future contracts, negative Data sharing: Decisions need to be made concerning future contracts and potential amendments to allow sharing negative Data. New clauses must be written and inserted
   c. Amend future contracts, positive Data sharing: Decisions need to be made concerning future contracts and potential amendments to allow sharing of positive Data. New clauses must be written and inserted
   d. Deploy new loan contracts & amendments: once decisions have been made and wording on contracts or amendments finalized, new contracts versions and amendments need to be deployed
   e. Draft staff confidentiality agreement: CRB Report is highly sensitive information. Staff must be made sensitive to that and to the precautions expected from them in handling this Data. In particular a confidentiality addendum to work contracts must be drafted
   f. Deploy staff confidentiality agreements: MFIs staff must sign confidentiality clause, starting with those who will have access to CRB Reports
   g. Draft Code of Conduct: this document, once finalised, will detail rules and behaviours to be followed by all MFI's participating into CIS. From Reciprocity rules (can query only those that will provide data), to monitoring quality of data submissions, all the way to defining the maximum response time allowed in confirming specific details of a consumers who has questioned the CRB Database content...

III. Data and IT
   a. Finalise Data specifications: this task is very much advanced, discussions have already taken place, and mandatory fields have already been identified. Some minor adjustments still need to be made.
   b. Write Data Specification Manual: this consists in expressing data specifications in an unambiguous manner; respond to frequently asked questions...
   c. Perform gap analysis: each MFI will need to consider all its identified gaps, especially when it comes to mandatory fields and plan for how to fill them
   d. Fill in identified gaps: execution of the plan

e. Clean-up existing Data: where no gaps have been identified, but where quality of Data available is lacking, MFI's will need to initiate action plans for Data clean-up
f. Develop Data extraction tool: MFIs will have to develop and test programmes to extract data from their account management systems and submit them regularly to the CRBs
g. Start iterative extraction process: over a period of time and according to the on boarding plan specifications, MFIs will have to supply Data, starting with samples until such a time as they are in a position to send full submissions that satisfy quality criteria set forth by CRBs. From that point on, Data submissions will be expected to continue satisfying CRBs quality criteria and hence be loaded regularly into the CRBs Databases

IV. Using the Credit Bureau Report
a. Finalise CRB report content: discussions need to take place between MFIs and CRBs to finalise the content of the Credit Bureau Report
b. Finalise MFIs deployment strategy: MFIs need to decide how they will implement querying of the CRBs. Typically institutions start with a centralized querying process where only a few, trained, staff members are authorized to pull CRBs Reports. Once the process is mastered, institutions tend to enlarge the number of staff authorized centrally and in the regions. The ultimate goal is for CRBs querying to take place as close as possible to where Credit decisions are made or even within the sales network
c. Define new Credit process: MFIs must decide how to amend the underwriting process in order to take full advantage of CRBs reports. When they query, how they query, at what point in time... New processes are usually tested, centrally, until such a time as they can be generalized.
d. Start test querying: After deployment strategy has been agreed, Credit Process has been reengineered, connectivity must be established to the CRBs and querying in a test mode must start.
e. Start querying: Once results of the Test Phase above have been integrated, MFIs can start querying the CRBs. At this point in tile they are fully operational!

V. Credit Bureaus & MFIs interaction
a. MFIs to register with CRBs: A process must be established allowing MFIs to register and be assigned a User number
b. Finalise commercial agreement: User contract must be negotiated between MFIs and CRBs, terms and conditions and SLAs must be finalised.
c. CRBs to formulate an "on-boarding plan": this document describes the process followed by the CRBs from receipt of initial sample data submissions. It describes when they expect to receive data, under what form, what test they will be performing, how they inform MFIs about Data quality issues... Describes also what software CRBs are likely to supply to MFIs in order to test Data submissions even before they are sent to the CRBs
d. Execute the on-boarding plan: This task is the same as task III.g above, but viewed under the CRBs angle

e. CRBs to formulate User management plan: CRBs must put together a User manual describing when and how User requests need to be sent and how they are dealt with by the CRBs. Examples: how MFIs need to submit and amend list au authorized users, how incidents are managed...
f. Execute User management plan: This is the counterpart of Task IV.e viewed from the CRBs angle. The latter enter into day to day management of the users. CRBs are live with MFIs Data
g. Provide Test Database: To allow MFIs to test connectivity and querying process without having to wait until the full CRB Data Base is ready, it would be very useful if CRBs could provide a test Data Base

VI. Communication

a. KCISI/AMFI level: all bodies governing the CIS initiative must be in phase as to the challenges that lay ahead, the Road Map and the timeline. They must make sure that all road blocks of a regulatory nature have been taken care of. They have to agree on an overall communication plan with a view to inform consumers about the impending CIS and the consequences.
b. Pilot Project Management Team level: same communication effort must be initiated with the Pilot Project Management Team
c. Project Teams level: Project Teams of all MFIs selected to be in the Pilot must be briefed about overall project management structure, timeline, and what support they will get from KCISI/AMFI in completing the various tasks...
d. MFIS staff level: Staff must understand the initiative, how it will impact their daily work, how to respond to Consumer questions, how to handle incidents...
e. Consumer level: Consumer must be made aware (TV adds? Newspapers articles?) of the CIS initiative and about implications of bad-debt in the future...

7.3 Overall Timeline

Workstream & Tasks		Planning								
I. Organization		Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
a	Close Assessment Process									
b	Finalise pilot composition									
c	Define Pilot Project Management									
d	Nominate MFIs Project Teams									
e	Finalize Monitoring and Enforcement Committee									

Workstream & Tasks		Planning								
II. Legal		Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
a	Amend Loan Contract existing borrowers									
b	Amend futur contracts, negative Data sharing									
c	Amend future contracts, positive ata sharing									
d	Deploy new loan contracts & amendments									
e	Draft Staff confidentiality agreements									
f	Deploy Staff confidentiality agreement									
g	Draft Code of Conduct									

Workstream & Tasks		Planning								
III. Data & IT		Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
a	Finalise Data specifications									
b	Write Data specification manual									
c	Perform gap analysis									
d	Fill in identified gaps									
e	Clean-up existing Data									
f	Develop Data extraction tool									
g	Start Iterative Extraction Process									

Workstream & Tasks		Planning								
IV. Using the Credit Bureau Reports		Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
a	Finalise CRB report content									
b	Finalize MFI deployment strategy									
c	Define new Credit process									
d	*Start test querying*									
e	Start querying									

Workstream & Tasks		Planning								
V. CRBs & MFIs interaction		Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
a	MFIs to register with CRBs									
b	Finalise and sign Commercial agreement									
c	CRBs to formulate of on-boarding plan									
d	Execute on-boarding plan									
e	CRBs to formulate User management plan									
f	Execute User management plan									
g	*Provide Test Database*									

Workstream & Tasks		Planning								
VI. Communication		Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
a	KCISI Level									
b	Pilot Project Management Team level									

c MFIs Project Team Level
d MFIs Staff Level
e Consumer level

7.4 Capacity Building Plan

For each areas of assessment, there are common challenges that were found and recommendations were made address these specific challenges. The following table lists the challenges and the description of the recommended intervention group according to the areas of assessment.

Common Challenges	Recommended Intervention	Description
	Willingness	
Inability to provide required assessment information	Information Campaign and Re-assessment of willingness	Assuming that there will be continued information campaign on KCISI for MFIs, it is recommended that MFIs that were not able to provide information and show their MIS, be included in the information campaign and be re-assessed when they are ready to undergo a complete CIS assessment.
Weak organizational structure	Individual consulting on general organizational structure enhancement	There can an individual assigned to assist an MFI to come up with appropriate structures suitable to address inherent risks such as strategic, Operational, Credit and information systems. This should include, Credit risk approval authority levels and design of various approving authorities. Similar structures are also required for operational aspects such as Debt collection.
	Data Availability	
Incomplete or inaccurate data	Data Capture and Clean-up Strategy, Tools, and Monitoring	There can be an individual assigned to do a data audit on all participating MFIs; map a strategy and plan to capture missing information; create a tool for both data audit and monitoring. The same individual can monitor the progress of data capture, and clean up and development and testing of data extraction utility.
	Use of CRB Report	
Understanding and integrating	Training on Understanding Report	There can be a training that will explain to KCISI participants on the

Common Challenges	Recommended Intervention	Description
the CRB report with current processes	and Workshops on integrating CRB Reports	content of the Credit Report and how to interpret each data item. This should then be followed by a workshop that will guide MFIs on how to use CRB information for their credit processing. The workshop outputs should include plan on when and how to query the CRB and a credit decisioning plan using CRB information.
	IT Capacity	
Creation of data extract	Common Data extract utility for common MIS	70% of the Total Borrowers covered by 15 MFIs use the same 2 MIS. The Credit Bureaus or the MIS providers of these 2 most common MIS can be approached to provide a data extract utility for KCISI.
Delayed reporting	Business Process Re-engineering Workshop	MFIs who require more than 1 week to produce monthly reports can benefit from a BPR workshop focus mainly on producing required monthly reports. The workshop will ask participants to map current process and guide participants in optimizing the process. Operations and IT personnel in charge of producing the monthly reports and a Senior Manager capable of making policy/procedure change decisions should attend this workshop.
MIS Upgrade/Implementation Consultancy	Individual MIS Consulting	MFIs who are in varied stage of automation, not yet automated, or have inadequate MIS should have access to a Consultant that can help them address their MIS needs. CGAP used to have an IS Fund program which co-shares the cost of IT the Consultancy.
	General Risk Culture	
Incomplete/inadequate underwriting process	Individual Consulting on Underwriting process	Just like the IS Fund, a similar fund can be made available to MFIs to strengthen their underwriting process.

Some of these challenges are common amongst MFI in a tier, some common across all tiers. The table below shows these common challenges, the recommended interventions, and an indicator if the Challenge/Intervention is present in the Tier.

○	An empty circle means that the challenge is not prevalent in the Tier.
◔	A part circle means that the challenge exists in some of the MFIs in the Tier.
●	A full circle means that the challenge is prevalent in the Tier. Note, however, that the challenge may be common in a tier but the extent of the challenge may vary. For example, Incomplete or Inaccurate data is a challenge across all tiers but some MFIs may have 5% missing data but others may have 80% missing data.

Common Challenges	Recommended Intervention	Tier 1	Tier 2	Tier 3
Willingness				
Inability to provide required assessment information	Information Campaign and Re-assessment of willingness	○	○	◔
Weak organizational structure	General organizational structure enhancement	○	◔	◔
Data Availability				
Incomplete or inaccurate data	Data Capture and Clean-up Strategy, Tools, and Monitoring	●	●	●
Use of CRB				
Understanding and integrating the CRB report with current processes	Training on Understanding Report and Workshops on integrating CRB Reports	●	●	●
IT Capacity				
Requires assistance in creation of data extract	Common Data extract utility for common MIS	●	●	●
Delayed reporting	BPR Workshop	○	◔	○
MIS Upgrade/Implementa	Individual MIS Consulting	○	◔	◔

Common Challenges	Recommended Intervention	Tier 1	Tier 2	Tier 3
tion Consultancy				
	General Risk Culture			
Incomplete/inadequate underwriting process	Individual Consulting on Underwriting process			

Note that Data Capture and Clean-up, Common data extract utility for Common MIS, and training on use of CRB is common through all tiers. This is because none of the MFIs have 100% complete mandatory data, all MFIs will have to create a data extract, and lastly, for MFIs to fully adopt CIS, they should be able to benefit from it. Training on Use of CRB is both an expressed and assessed need. Also, to state the obvious, when MFIs are ready to participate in KCISI, they will have to undergo the above 3 mentioned activities. Needless to say, these 3 interventions are critical for the implementation of CIS for MFIs.