

ABSTRACT:

CREDIT INFORMATION SHARING: GUIDELINES TOWARDS CREDIT INFORMATION MARKET DEVELOPMENT IN AFRICA

BY: **FRANCES KATHERINE BUNDRED**

DEGREE: **MASTERS OF COMMERCE**
DEPARTMENT: **AGRICULTURAL ECONOMICS, EXTENSION &
RURAL DEVELOPMENT
UNIVERSITY OF PRETORIA**

STUDY LEADER: **PROF. GERHARD COETZEE**
CO-STUDY LEADER: **WJ GRANT**

The developing world is plagued with development challenges, which centre on the necessity for poverty reduction. Linking the poor to developed markets and economic opportunities is seen as a means of poverty reduction. In particular, financial services are a key element of economic development for the poor because financial services contribute to generating incomes and livelihoods (Young, 2005). However, access to financial services by the poor is inhibited by imperfect markets and in particular imperfect information. Credit information systems attempt to address information asymmetry that exists between borrowers and lenders through sharing information on borrowers' credit histories.

Africa lags behind in the establishment of credit information systems compared with other regions in the world. The primary objective of this study is hence to define and test a framework for central banks, donors and practitioners to use as a guideline when considering the design and implementation of credit reporting systems that recognise country context.

The study includes a comprehensive literature review and two African case studies (Uganda and South Africa). An analytical framework was developed and tested through the literature review and a series of stakeholder interviews with regulators, credit bureaus, financial institutions, donors and consultants in South Africa and Uganda. The framework highlights four key theme areas for consideration in the development of credit information markets, namely:

- social, cultural and political environment;
- level of technological development;
- economic context (with a strong focus on the nature of the credit market), and;
- legal and regulatory framework.

The case studies were analysed using this framework, to extract key lessons and critical success factors for introducing credit information systems in developing economies. Based on these assessments, the following critical success factors and steps for credit information marketing were identified:

- A comprehensive, objective market assessment needs to be conducted by a suitably qualified expert to enable the design and development of an appropriate system;
- Stakeholders should all contribute to defining credit information needs jointly. This process leads to consensus building, a common view on the requirements and an opportunity to learn;
- A credit information market strategy/plan needs to be developed that outlines the responsibilities of different stakeholders, the process and the principles that will guide the development;
- Appropriate legislation and regulations need to be developed that support the growth of a healthy, inclusive credit information market;
- Capacity building of all stakeholders needs to take place including consumers, financial institutions, regulators and industry bodies;
- A transparent, competitive tendering and licensing process should be followed when selecting credit bureaus, and;
- Government support of the development process is critical.

The study also makes recommendations on the role of different stakeholders and describes an evolutionary development life cycle of credit information markets.