SUPPLEMENT OF

Microfinance Credit Information Bureau

Business Finance for the Poor in Bangladesh

In Bangladesh, small businesses employ over half of the country's workforce and contribute to a quarter of the GDP. However, 75% of small businesses in the country remain unserved by the formal financial sector, while the rest are under-served. Microfinance institutions are the primary providers of finance for such micro and small businesses in Bangladesh as these businesses mostly cannot afford to use collaterals for getting loans as per the requirements of banks. Microfinance institutions provide loans without tangible collaterals, focusing more on social collaterals and previous credit behaviours.

Bangladesh has one of the largest microfinance sectors in the world with a portfolio of 31 million clients and BDT 135,000 crores in yearly disbursement managed through nearly 20,000 branches across the country. In the last decade, the industry has become more dynamic in terms of focusing on credit-plus services such as insurance, savings, mobile financial services etc.

Though there is structure and discipline among the service providers in the microfinance sector, there are still a number of challenges the sector needs to overcome to realise its full potential. These include:

- Over indebtedness
- Substandard information sharing and technology transfer
- Lack of linkages between microfinance institutions and banks
- Unmet credit potential of clients

Majority of these challenges can be addressed through the introduction of Microfinance Credit Information Bureau (MF-CIB) - a credit registry that will house the credit histories of all the microfinance clients.

Business Finance for the Poor in Bangladesh (BFP-B) a Foreign, Commonwealth and Development Office (FCDO) of UK government funded initiative, is supporting the establishment of the first Microfinance Credit Information Bureau (MF-CIB) in the country. Apart from FCDO support, Bangladesh Bank (BB) was involved in the set-up process. As part of its MoU with MRA (Microfinance Regulatory Authority), BB has provided technical support for developing MF-CIB software, hardware and maintenance. Once fully functional, the bureau will house the credit histories of over 31 million microfinance borrowers allowing them access their full credit potential.

On 28th January, a virtual closing event was organised to mark the ending of BFP-B programme and successfully operationalise the MF-CIB to MRA with technical support from Bangladesh Bank.

BFP-B incorporated the component Microfinance Credit Information Bureau in early 2018. An MoU was signed between the Government of Bangladesh and FCDO on 5th July that year. Since its inception in July 2018 until now, in 31-month long operations, all major activities have been completed.
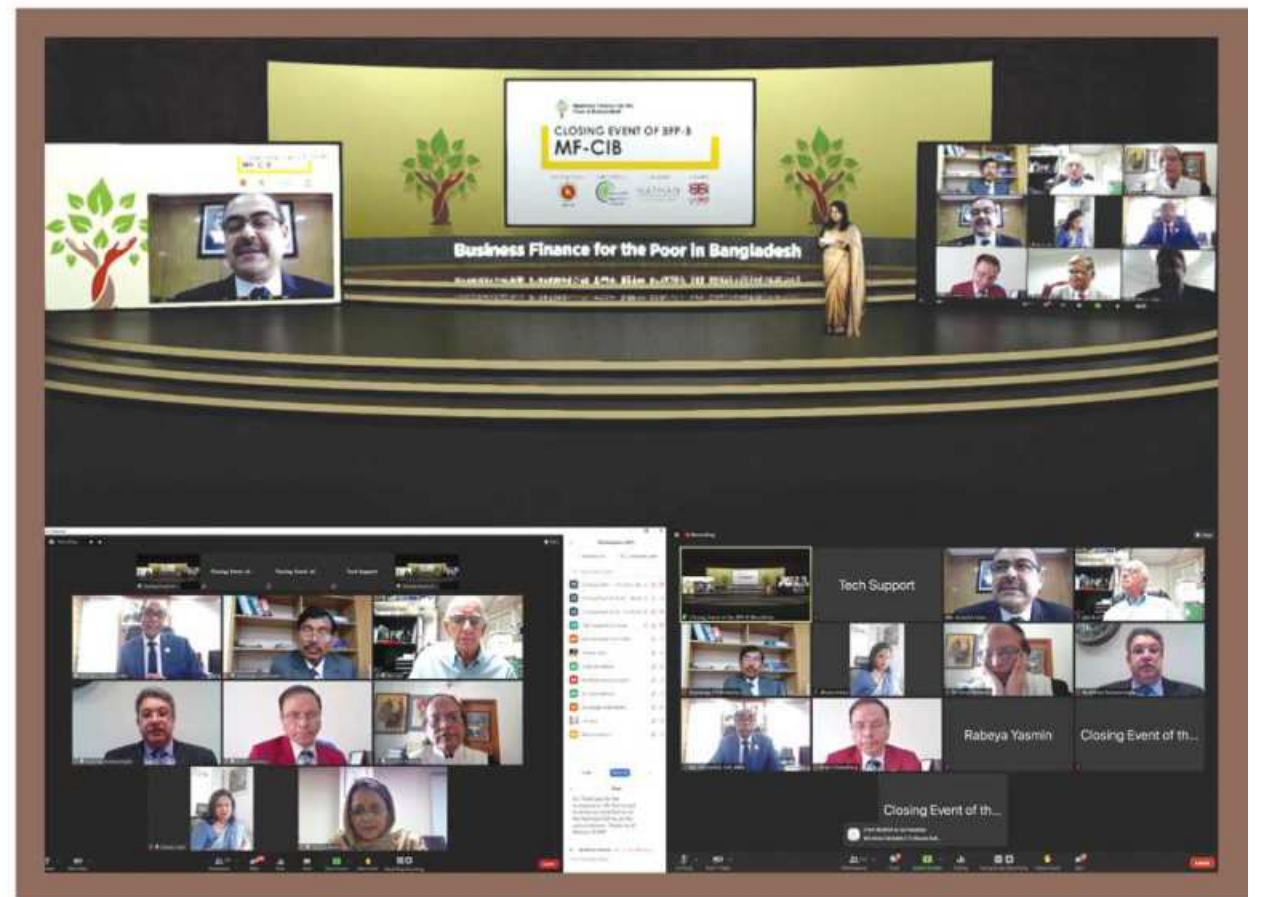
Setting up MF-CIB operations

Setting up the Data Management Unit (DMU) of MF-CIB at MRA started in August 2018. Project Director, International CIB expert, and Legal Advisor were recruited by BFP-B; other key officials were on boarded from MRA to MF-CIB initiative. Once the key officials were on-board, a new office, infrastructure and interior were set up in MRA for operations. Simultaneously, the team went on with the recruitment of the whole unit of about 30 project staff. A sophisticated computer-based training lab has been set up in MRA that can house 30 trainees at a time and a new server room was built and equipped to house the server for MF-CIB.

International training and Exposure visit

In April 2019, BFP-B organised an exposure programme for a 16-member team to visit CRIF High Mark a leading credit bureau in India. The team comprised of the software development team from Bangladesh Bank, technical officials from MRA, MFI officials and senior officials from FID of MoF, FCDO and BFP-B. The purpose of the visit was to gather first-hand experience about the fundamentals of technical as well as business operation of a very large-scale CIB for microfinance.

To ensure the use of most up-to-date technology and skills in MF-CIB software development, a training was organized by BFP-B in Info Trek, Malaysia. Five participants from Bangladesh Bank and one participant from MRA attended the 15-day training from January 20th to February 7th, 2020.

Legal framework, Policy Guideline, Operational Guideline

MRA requires a legal framework to operate MF-CIB. The legal framework lays out all the relevant operational and legal terminologies to operate the bureau. It also lays out the legal rights in terms of sharing credit information for both the MFI and MFI borrower in the incidence of a loan appraisal and contract.

A legal advisor was appointed who worked closely with the team in MRA and BFP-B in drafting the legal document. Gazette notification of the MF-CIB legal framework was published in June 2020.

Policy Guideline and Operational manual are ready for the commencement of the piloting of the system and will be finalised after completion of the pilot.

Procurement of server and other IT equipments

In order to set up an office for about 30 full-time project staff and 30 trainees at a time during training, the workstations, conference room and training lab were equipped with all necessary IT equipment.

The project involved major procurement of IT systems to set up MF-CIB operations. As MF-CIB would create and preserve a gigantic data base and borrowers' history, procuring 5 heavy duty servers, Oracle and VMware, SAN Switch, SAN Storage and other necessary equipment, has been among the most crucial tasks for the team.

Readiness and capacity building of MFIs

One of the most critical parts of implementation of MF-CIB has been- ensuring the readiness of the physical and technical environment in MFI branches. BFP-B in collaboration with MRA supported in capacity building of the MFI staff and standardising data at MFI level to comply with the MF-CIB software.

To standardise data entry across all MRA registered MFIs, Bangladesh Bank developed a CIB based data entry system for the MFIs to ensure all MFI branches meet the minimum standards necessary to transmit data to MF-CIB.

MRA team undertook on-site and off-site inspection to monitor and follow up the progress at MFI branch level and conducted multiple workshops with MFIs and their IT vendors to ensure readiness.

BFP-B also supported in organising training sessions for the MFI staff to enhance their IT skills. The trainings were conducted initially in the training labs and subsequently virtually during the COVID-19 lockdown. The participants were the data management focal person from MFIs. The main objectives of the training are:
- To enable the MFI staff to use MF-CIB software system efficiently
- Increase staff knowledge and skills on their role as MF-CIB system user
- To enable the branch staff correctly collect and manage borrowers' data

Between September 2019 and December 2020, the technical training for 655 staff members from 255 MFIs was organised by DMU.

Software development

Software development was completed by Bangladesh Bank (BB) at the end of September 2020. The software testing started in October 2020 and is currently ongoing. Once the testing of all modules is completed, the pilot will commence in May 2021.

The software development process was initiated in April 2018 with the development of the Business Requirement Document (BRD). BRD was completed and submitted to Bangladesh Bank in November 2019. In the next step, System Requirement Specifications (SRS) was completed and submitted in May 2019. Both BRD and SRS were developed by IT systems supplier Data Soft, commissioned by BFP-B. Software development was progressing well in the beginning of 2020. However, the pace of development was then impacted by the outbreak of Covid-19 pandemic The data structure of the software was completed in June 2020 and all remaining modules of the software were eventually completed in September 2020.

MF-CIB Pilot

Once the testing of all modules of the software is complete, the initiative would move on to a pilot phase. 100 branches have been selected for the MF-CIB pilot. The selection criteria were:
1. Compliance with MRA act 2006 and Rules 2010
2. Willingness to submit borrower's subject/personal and contract/loan related data to MF-CIB System.
3. Adequate ICT infrastructure and manpower.
4. Readiness of MFIs to submit data to MF-CIB

Although the plan was to start pilot operations in the last week of December 2020. However, due to COVID-19 -induced delays, the revised plan has been proposed:
- Complete all system testing in February 2021
- Web hosting, User ID and User access in March 2021
- Start pilot of MF-CIB in May 2021 with 100 branches
- Cover total 500 branches in pilot operation in August 2021

MF-CIB operations going forward

Once the pilot has been successfully completed, a phased roll out plan will be followed for nation-wide implementation. MRA has already started the process of staff recruitment for MF-CIB. Staff deployment will be completed in multiple phases between February 2021 and June 2022. MRA's aim is to cover nearly 10,500 branches gradually by 2022.

A fully functional MF-CB would be a historic milestone for the microfinance sector in Bangladesh. Although FCDO's support is coming to an end, BFP-B has created the necessary infrastructure and environment and made significant progress towards achieving this goal. Going forward, establishing interoperability between MF-CIB and CIB for commercial banks would allow the microfinance borrowers to realise their full credit potential.