

Systematized integration of credit reference agencies



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With unprecedented growth and an increasingly competitive global community on the horizon, Africa's economic revolution is intimately linked to their fiscal capabilities. It is within this broad spectrum of economic expansion that businesses and individuals are directly linked to their capacity to borrow and reinvest capital into sustainable endeavors. African nationals have endured centuries of political and economic turmoil, finally reaching a precipice from which to launch a reformative program which supports internal growth and global competition. Credit reference agencies play an intricate role in this restructuring, as provision of finance is entirely

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dependent on their historic records and the collaborative efforts of the loosely knit African banking community. This paper explores examples of internal frailties within the credit system and proposes solutions towards overcoming inadequate resources through systematized integration of credit reference agencies.

As the British and French colonists sailed away from Africa's northern shore, they left behind their legacy, one of tumult and uncertainty. The development of Africa's political and economic structure in the wake of colonial oppression has been a difficult and war-stricken path, one which remains uncertain and ambiguous today. Ultimately, however, in order to support some of the world's most populated regions, the foundation for economic security and opportunity must be laid and supported. Recognizing that the incidence of poverty throughout Africa is unacceptable and consistently counterproductive, the inefficiencies within the African conglomerate system demand revision; and through dramatic reform mechanisms, sustainable industry and globally directed participation will ensure that African nationals are given an opportunity to escape their impoverished existence.

Yet there remain a wide range of conflicting solutions, many of which are directly related to the very colonial heritage which placed African countries in this predicament to begin with. The future of economic growth for these citizens is directly linked to the available funding which can be proffered for development of business and expansion of industry. Currently, funding methods are limited to informal requisition stemming from the family and friends of entrepreneurs seeking materials and startup capital. As banks

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hoard their capital in light of the extremely high number of historic defaults which they have endured, the industry must turn to more strategic methods of evaluating the potential recipient and continue to expand their lending operations. There is a pervasive lack of credit reference agencies throughout the African continent which continues to detract from bank confidence levels and the availability of funding for activation of economic growth. Given the competitive nature of the global environment, inspiring industrial advances should be at the forefront of governmental strategy as in order to maintain the recent financial successes which have sustained incremental poverty reduction, participation on a global scale is becoming a necessity. In spite of the hesitation and challenges which surrounds the creation of translatable credit reference agencies, the future of the African national depends on the wealth of information which they will come to retain. As enterprise is directly dependent on available investment funds, participants continue to seek methods of revenue generation, and through well-informed credit outlets, the participative nature of expanding economics will enable entrepreneurs and businesses to expand their berth and actively compete on a much more even playing field.

As Africa as a whole continues to struggle against rampant economic instability, popular theories recognize a variety of insufficiencies, including lack of available infrastructure, inadequate educational facilities and programs, and limited health care opportunities as main failures within the collaborative regime. There is, however, another piece of the African economic puzzle which has yet to evolve to meet modern competitive expectations, and that is the systematized inclusion of credit reference

agencies and their foundation support mechanisms in the development of commerce and private finance. From a historic perspective, the early development of credit initiatives in Sub-Saharan Africa was entirely localized to a protective function of selective credit allocation. It was within this framework that central banks and government controlled credit mechanisms were strictly regulated, leading to substantial economic decline in the '80's and '90's (McDonald and Schumacher, 2007). Ultimately, banking institutions were used as a domestic funding mechanism for government programs and initiatives; however, this reduction of financial resources meant a limited availability of capital for private borrowers and desirous businesses. As developing economies evolve rapidly through a structure of industry generation, perhaps the most important component is found within the definitive walls of small to medium enterprise (SME's), and their inclusion in growth and capital contribution is essential to stabilize a burgeoning economy (Quintyn, 2008).

African economies developed in spite of lackluster credit programs, as government borrowing reformed dramatically to include the much more liquid and readily available foreign capital market in addition to foreign aid. Beraho (2007) cites the colonial legacy as a direct determinant of the modern economic frailties of Sub-Saharan Africa. Ultimately, the influence of colonial overseers was immediately entrenched in the assumed economic structure during periods of instability following the post-colonial independence. The extreme poverty which accompanied post-colonial activity left African nations rich in natural resources but limited in capacity for export and financial generation. In response, domestic debt, a form of

government sustenance, has been credited with substantial reduction of available capital for lending purposes. Across Sub-Saharan Africa, the ratio of debt to broad money has held constant at 40%, dramatically reducing available financial resources for financing and supporting private initiatives (Christensen, 2004). Escaping the confines of such imbalances has been a slow and difficult process; however, as foreign aid programs and the World Bank become increasingly involved, reform is slowly achieved. Mylenko (2008) notes that given the stabilization of the African macroeconomy as well as lower inflation and improved government treasury monitoring and regulation, banks have been increasingly able to turn towards lending opportunities. Africa is represented by the world's most rapidly growing, yet equitably expiring population, and is limited by inefficiencies in their structural systems as they are characterized as "the world's hardest working yet least productive" people (Kolo, 2006, p. 596). It is from this inefficient system that severe poverty has overwhelmed a diverse and frustrated people and continued limitations spawn from inappropriate fiscal programs and activities.

There is a sustained movement towards more supportive programs, and much of the fiscal evolution over the past decades in Sub-Saharan Africa has been regulated and guided by intra-national monetary unions. Participants in the WAEMU (West African Economic and Monetary Union) include Benin, Burkina Faso, Cote D'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. Other monetary unions include the WAMZ (West African Monetary Zone) represented by Gambia, Ghana, Guinea, Nigeria, and Sierra Leone, as well as the CEMAC (Economic and Monetary Union of Central Africa) inclusive of

Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, and Gabon. It is extremely important to recognize these collaborative monetary efforts given the expanding nature of modern credit reference agencies, as bank collaboration intra-monetarily is a direct representation of the expansionary reality which demonstrates potential for additional corroboration. Analysis of performance indicators over the history of these African Monetary Unions offers substantial implications for other developing nations. Comparatively, the average inflation differential equates to between 8 and 10 percentage points lower in comparison to other low to medium income nations (Gosh et al., 2006). Interestingly, researchers equate the majority of this reduction to monetary discipline, while approximately twenty percent is relative to international confidence levels given the combinative national participation (Gosh et al., 2006).

The development of private finance over the past decade has occurred as a direct result of revised fiscal policies throughout the African continent including the combined efforts of multi-national partnerships. There remains, however, a significant piece of the credit market puzzle which has yet to evolve into a supportive and extensively viable practice, and that is the creation and practice of credit reference agencies. The nature of such entities is one from which both consumer and lender confidence is fully integrated into the business cycle and default is directly undermined by the framework of the system itself. Data demonstrates that the issuance of private sector credit in Sub-Saharan Africa declined in a period between 1980 and 2004 from 15.6 percent of GDP to 15.1; comparatively, growth rates in Asia more than doubled, elevating private sector credit levels to over

40 percent of GDP, and in Latin America, incidence grew by over 50 percent, elevating levels to over 20 percent of GDP (“ Regional Economic Outlook: Sub-Saharan Africa,” 2008).

There exists a pitfall of significant registry deficiency which continues to detract from the participative efforts of banks and credit reference agencies. Given the nature of Africa’s structural evolution, emphasis has slowly begun to shift towards national registries which incorporate accurate reference for mortgages and property data so as to accurately integrate collateral data into the developing structure of credit agencies (Sacerdoti, 2005). Ultimately, these registries are essential to establishing a standardized framework of collateral and credit reform. McDonald and Schumacher (2007) have determined that there is a complimentary relationship between credit issuance and the strength of creditor rights, namely the culpability and recoup potential given the incidence of default. As much of African credit heritage is characterized by default, there is little room for modern programs to allow continued systematic failures. The nature of credit reference agencies opportune an evolve structure from which to ensure compliance and stabilize a deviant legacy of poor payment history.

The challenges which face Africa begin with its current lack of structural capacity, namely registration, standardized policy and legislation, and the volatile nature of government organizations. To overcome the credit crisis and define an effective program, evolution of African economic structures including opportunities for entrepreneurs and SME’s will be essential parts of the rehabilitation. One method which has already generated support and shown long term successes is that of microenterprise and microfinance <https://assignbuster.com/systematized-integration-of-credit-reference-agencies/>

loans. Rhyne and Otero (1994) recognize that in spite of the arbitrary nature of its definition, that microenterprise is generally accepted as a company with less than ten employees and is relegated to the non-agricultural sector of the business community. Additionally, these businesses are oftentimes a source of income which arise where no alternative method for financial gain is available. Given the extreme impoverishment within the African borders, implementing supportive programs is an essential tactic, one which will offer long term stability and positive reform mechanisms for a needy and desirous population.

This paper seeks to identify some of the more prominent systematic failures within specific African infrastructures through specific case studies and devise strategy for evading, manipulating, and evolving such systems to meet financial demand and overcome the credit dilemma. Ultimately, the solutions herein recognize the necessity of credit reference agencies and through the integration of such programs, solutions can be drawn from which to prioritize their sustainability. As integrating credit bureaus and agencies into a frail infrastructure is a long term goal, identifying the key areas of potential failure prior to inception is essential to prudent and productive creation. Ultimately, the findings of this paper determine that given the nature of globalized capitalism, credit reference agencies offer a singular solution from which to pull Africa from the depths of poverty and define its prosperous multinational future. While foreign aid and government reform will assist to waylay many of Africa's social problems, the only true option for overcoming extreme economic difficulties is through supportive initiatives which redistribute opportunities for wealth among the people who truly need

sustainable financial sustenance. In order to ensure that such distribution is appropriately allocated, the historic nature of the credit reference agency will ensure that banks and credit corporations have adequate reference from which to offer the necessary funds for generation of commerce and industry.

The following section represents a sample set of a diverse grouping of African participants. Each of these nations has undergone periods of remarkable recovery yet remains limited in this credit reference agency participation. While developmentally exploiting both natural and human resources to overcome the throes of poverty, these nations have yet to fully extract their legacy from the limiting factors which have undermined social and economic efforts for the past decades.

Nigeria

Nigeria represents a nation of over 144, 700 million inhabitants of which over 54 percent currently live in abject poverty (World Bank, 2008). Endeavoring to stabilize their vacillating economy, government leaders have embarked upon a process of economic reform and consolidation over the past decade with decidedly positive results. Much of the evolution of this economy owes its legacy to the rising oil prices and increased exports in this area as demand continues to pay dividend to a resource rich Nigerian population. Unfortunately, there are other limiting constraints which continue to undermine rapid economic evolution on a broad scale, and as the population continues to grow at an annual rate of over 2. 4%, there remains significant opportunity for developing internal modes of sustenance and advanced and sustainable industries to push the Nigerian economy forward (World Bank, 2008).

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Exemplary of the limiting factors now facing the Nigerian people, the lack of a substantial credit system, and importantly, credit reference agency, has historically undermined entrepreneurial efforts and small to medium enterprise, the keys to sustained economic growth. Before the 2005 consolidation period, over 20% of loans made by Nigerian banks were non-performing, as opposed to the remarkable decline of this negative incidence to just over 8.4% in 2007 (Corbett, 2008). It is a direct result of this negative outlook towards loan participants that the Credit Reference Company of Nigeria has been created in past years which utilizes a network of 11 banks to standardize the systematic handling of customer information and credit history. Pre-consolidation Nigerian banks could not fund long term projects due to their short term capital capabilities, in recent years, this process has now evolved to include 10-20 year loans, thereby enabling infrastructural development and social reform (Corbett 2008).

As the majority of Nigerian nationals have limited desire to trust their savings to the banking system, much of the evolution over the past years has required significant adjustment in public perspective and a necessary increase in consumer confidence. In Nigeria, private sector credit and banking deposits have doubled since the 2005 banking consolidation and the number of banking branches have increased by over one third (IMF Country Report, 2008). As a testament to the efforts at financial modernization, the expansion of this banking network is a direct indication of a necessitated communication network, one which has the capacity to share consumer information and at the same time, retain the privacy of these participants. Indicative of the evolving perception regarding credit and modern

purchasing methods, in 2004, Nigeria recorded less than 50, 000 credit card transactions per month as opposed to the remarkable growth to over 51, 000, 000 per month that were recorded in March of 2008 (“ Nigeria; The Rise of the Card Payment System,” 2008). Yet these charges are not representative of an extension of credit and simply attest to the acceptance of electronic payment processing as inhabitants continue to support alternate modes of payment.

Unfortunately, in spite of bank and economic reform, poverty levels are holding at approximately 55 percent of the Nigerian population, further exacerbated by limited resources available given the rising population and under capitalized infrastructural reform (IMF Country Report, 2008). It is within the incapacitated growth mechanisms that Nigerian credit reference agencies are most needed, as funding unprecedented reform requires the capabilities which can only be imbued through finance and bank funding mechanisms. Recognizing the SME’s hold a key to Nigerian development, there is continued support for credit based initiatives from which to extend financial opportunities to these developing industries. The IFC (International Finance Corporation), a World Bank affiliate continues offer its partnership as Nigeria strives to develop and maintain consumer data, their efforts intimately linked with the economic future of the nation.

Tanzania

Tanzania, a much smaller nation than Nigeria, is represented by a population of over 39. 5 million inhabitants, over 36 percent of whom live below the poverty line (World Bank, 2008). Equally representative of the reformation efforts of developing African countries, Tanzania has endeavored to undergo <https://assignbuster.com/systematized-integration-of-credit-reference-agencies/>

structural evolution in the past few decades, actively pursuing economic opportunity for its population who continues to expand by around 2.6 percent annually. One of the most significant failures within the Tanzanian system has been the lack of property registry. The World Bank (2005) reported that 90 percent of nationals could not be located through property registry and only had six national offices at their disposal for registry purposes, each fraught with unnecessary and “irrelevant red tape.” Given this lack of registry foundation, there is little collateral leverage to be gained by participating in government registration programs, therefore, citizens do not find overwhelming motivation or desire to legalize their claims to land. Additionally, the World Bank (2005) notes that there is limited liquidity of property rights for similar reasons of registration difficulties and obscure transference policies, therefore, entrepreneurs have limited opportunity to leverage their properties and gain the initial financing needed for startup capital.

Characteristic of more widespread African credit issues, only 4 percent of respondents in a recent survey claimed access to trade credit as a source of start-up finances, thereby placing all required resources directly at the informal level and limited to a partnered initiative between friends and private investors (Sharma and Upneja, 2005). This failure within the credit system is directly related to the lack of credit reference agencies and the supportive information they could provide; however, given the state of the Tanzanian recording structure, there seems to be a much more pressing issue of registry and records to overcome before such projects can become a reality. In addition to the failure to support corporate trade credit, there is an

overall limitation which is obvious when considering the widespread state of Tanzanian credit. More formal data recognized private credit initiatives at 8 percent of GDP in 2005; however, comparatively Kenya's private credit in the same period was over 23 percent of GDP (World Bank, 2005). The lack of lending directly correlates to the lack of creditor rights and available, traceable collateral for loans. As default rates continue to undermine any efforts towards credit system evolution, there remains a substantial field of doubt which overwhelms banks and their lending efforts.

Given the disconnect between small businesses and reception of credit from Tanzanian banks, the ability to start and maintain a business in the modern environment is extremely limited and continues to be undermined by a lack of capital. Most concerning is that given the lack of external funding, disposable income or working capital is thereby reintegrated into the business and utilized for daily refurbishments as available. Tanzanian business owners are therefore limited by both the economic factors which drive the success of their business, and their own personal integration into the business operations through consummation of personal finance, lack of new equipment and materials, and inability to improve upon current models to evolve standards to more modern efficiencies (Sharma and Upneja, 2005). These failures are a direct result of the Tanzanian credit crisis and require the inclusion of a well positioned credit reporting agency in order to ensure that SME's have sustained opportunities for generating much needed investment capital.

One of the most remarkable advances which has sustained the fleeting, but evolving stability that is becoming visible within the Tanzanian infrastructure <https://assignbuster.com/systematized-integration-of-credit-reference-agencies/>

is the adjustment of government funding from domestic lending to foreign sources and foreign aid (Sharma and Upneja, 2005; World Bank, 2005). Eliminating this form of consequential taxation on bank reserves has expanded the Tanzanian opportunity for investment and greater private funding. Unfortunately, characteristic of other African nations, a lack of any form of credit reference agency prevents broad based credit dispersion among citizens and thereby limits loans to corporations and larger scale economic participants. Tanzania currently has plans to develop and establish an operational credit reference databank by the end of June, 2009 in order to extend credit into the private sector. The extension of private credit is currently projected to increase around 22 percent per year yet is entirely linked to governmental stability and internal mechanisms of fiscal policies (“United Republic of Tanzania: Third Review Under the Policy Support Instrument,” 2008). The nature of finance is derived from available resources which can be distributed for a nominal return. Given the current state of government spending, this opportunity is more realistic today than it has ever been; however, the Tanzanian government must evade the pitfalls of internal borrowing in order to enable these funds to be distributed among industrial participants, thereby facilitating the expansion of industry and inclusion of additional commerce in the resource limited business sector.

Kenya

Kenya is a nation of similar size to Tanzania, boasting a population of just over 36.6 million people, yet over 55.5 percent of these inhabitants live below the poverty line (Population Reference Bureau, 2008). Most significant in Kenya’s modern history, political unrest and lacking economic growth

have continued to undermine efforts of reform and population support mechanisms. Credit considerations are simply another indication of the limited capabilities which a tumultuous nation has to overcome its financial and social deficits. In 2003, over one third of all bank loans were considered non-performing (NPL's), directly undermining the lending power of institutions, as well as enhancing the proclivity for default among participants (" Kenya: Bankers Unveil Plan to Keep Tabs on Borrowers," 2007). In spite of the frail political economy, currently the development of a credit reference bureau is in its advanced stages, as recognizing the merits of such collaborative information sharing, Kenyan banks actively seek to minimize risk and improve their loan to repayment ratios.

Remarkably, in Kenya, over recent decades exceptional opportunities have evolved for entrepreneurial credit extension as startup capital and materials costs represent a substantial portion of business success ratios. Kenyan extension of credit is significantly higher than other African regions as over 85 percent of businesses currently have opportunity to borrow from their providers (World Bank, 2004). These surveyed corporations, while a representation of Kenyan businesses, offer an optimistic perspective on the future of industry and finance. Given the relative youth of the Kenyan population with 4 out of every 10 citizens being under the age of 15, there is substantial opportunity to ensure that financial resources are available for these growing future business owners (Population reference Bureau, 2008). Ultimately, Kenya presents a fairly optimistic outlook for the future of credit extension and opportunities for broad scale industrial financing; however,

the completion and full integration of their credit reference bureau stands to offer the most reliable statistics after its inception later this year.

Uganda

Uganda, a nation of 29.9 million citizens, has continued to experience substantial population growth over the past decade, holding near 3.2 percent, a number significantly advanced from other referenced African nations (World Bank, 2008). Of significant concern to the development of a progressive Ugandan infrastructure, trade credit plays an intricate part in sustaining emerging business and defining industrial evolution. Current statistics demonstrate that only 60 percent of firms have access to this capital as material providers must, themselves, be supplied with the external financial means from banking institutions to extend such credit (World Bank, 2004). When firms are afforded the opportunity to borrow directly from banking institutions, the interest fees associated with such loans are oftentimes overwhelmingly costly and therefore, detract from the efficacy of such endeavors. Overwhelmingly, the inadequacies within the Ugandan credit structure can be directly attributed to a lack of credit tracking mechanisms, and thereby, the capacity for benchmarking and substantiation of creditworthiness.

Researchers note that over 40 percent of all loans held in Uganda have a maturity date of one year or less; and of those firms who to receive loans, over 60 percent of all participants are required to post collateral as a loan prerequisite (World Bank, 2004). Essentially, this extreme precedence of default aversion represents an obvious inadequacy in the Ugandan credit reporting system, as given more stringent standards and a confluence of <https://assignbuster.com/systematized-integration-of-credit-reference-agencies/>

bank participants, protection mechanisms would become fully integrated with the reporting system, providing a deterrence net to reduce defaults through natural and appropriate fiscal processes. Characteristic of many African nations, the pervasive nature of credit doubt in terms of default and repayment potential is an indication of the necessity for credit reference agency construction. As lenders seek to develop new streams of available capital, Ugandan SME's represent an expanding opportunity, however, they will require support from structural evolution in order to ensure their continued operation.

There are extreme challenges presented by the African credit woes, most of which will not be overcome through foreign aid or current infrastructure development programs. Indicated by the nations herein, there is substantial need for integration of credit reference agencies into the structure of these modernizing nations; specifically, there is a need for support of small to medium enterprise and the merits of developing an economy through advanced and evolving industry. Ultimately, determining a singular solution to the credit crisis is impossible, however, by coupling several key zones of evolution into a targeted plan of action, the potential for sustained advancement becomes a much more plausible reality.

Quintyn (2008) noted that other developing nations who have evolved through similar credit challenges have utilized a form of hub and spoke credit agency system from which to operate these units with limited startup capital required for each branch. In its "Regional Economic Outlook" (2008), the IMF recognizes that there is a need for leveraged reference agencies, specifically those who are sustained by a technologically advanced central
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hub yet localize their economy of scale operations in areas of public access. Given the limited nature of credit agencies, a hub and spoke system would reduce the cost of a credit report by \$ 2-5 and allow firms the opportunity to extend credit more freely given the support base of their regional offices. The IMF (2008) also recognizes that current credit offerings are only 200,000 people out of every 15 million, a direct result of a lack of credit data and agency interaction within the modern banking structure. In order to overcome the geographical, political, and economic constraints which undermine the constructs of a successful African credit program, the continuity of credit reporting policies across geographic lines must be maintained. While banking unions have taken the initiative to link participants, there remain additional opportunities for broad scale communication expansion and technically advanced sharing techniques which protect both the consumer and the bank from fraud.

In spite of the banking cooperatives which are integrated into the Western and Central African economic structures, there remains a difficult framework for monetary exchange outside of these conglomerates. Pervasive in widespread Sub-Saharan fiscal analysis, the necessity of a central banking structure continues to challenge unorganized methods of bank-dominated financial systems. The application of such a combinative operation is one which would assist in the integration of regional credit reference agencies with centralized control mechanisms. This transformation of the informal structure into a more systematized and coordinated pragmatism would generate synergies between monetary policy and banking oversight, thereby establishing a supervisory committee while propagating a bank dominated

industry (Quintyn, 2008). The central oversight which is lacking in terms of African banks is basically a function of communicable objectives, a framework which is essential when considering the nature of investing in economic futures. African capacity for growth is readily foreseeable, however, there must be an active pursuit of this evolution, one which directly integrates the unique partnerships of a banking network and captures communicative data which is readily available across geographic lines.

There is a continued deficit within the African lending structure, one which demands reform and challenges banks to contin