

Update

Progress to establishment of Tanzania's Credit Reference System

Following the issuance by the Bank of Tanzania (**BOT**) at the end of 2012 of licences to two private companies to act as credit reference bureaux (**CRBs**), we look at the progress to date in establishing a credit reference system in Tanzania, what the system is intended to achieve and the potential impact on the local banking market.

Progress to date

The framework for the credit reference system was initially established under the Bank of Tanzania Act 2006 as a system designed to collect and provide credit data on the payment record of clients of all banks, financial institutions, savings and credit schemes and other entities in the credit/lending business in Tanzania. In 2010, this was progressed further by the publication of the Bank of Tanzania (Credit Reference Bureau) Regulations.

The credit reference system involves two parties, on one side the Databank and on the other side, private CRBs. The Databank is an archive of sorts containing borrowers' credit information and controlled by BOT. Banks and financial institutions will supply BOT with all of their clients' credit data including off-balance sheet operations, and BOT will secure this information in the Databank. In addition, non-financial institutions such as utility providers, phone companies, debt collection agencies and public institutions such as the Business Registration and Licensing Authority (BRELA) and the courts will input data into the Databank.

BOT transmits the same data in unprocessed form to the CRBs for interpretation, processing and presentation in a report. Ultimately, the CRBs will compile all of the data and issue reports (upon request) to interested stakeholders at a given price in order for them to assess the credit worthiness of any potential borrowers. The information may be used by prospective lenders for conducting credit investigations on individual borrowers or potential borrowers and assessing and reducing non-performing loans, or by BOT in monitoring of the sector.

In 2011 BOT invited interested companies to apply for licences to operate as CRBs. Any company incorporated in or outside Tanzania with a minimum paid-up capital of 650 million Tanzanian shillings was eligible to apply for a licence.

Following a tender process organised by BOT with the support of the World Bank, at the end of 2012 BOT issued the first licences to operate as CRBs to two privately owned companies, Dun & Bradstreet Credit Bureau Tanzania Limited and CreditInfo Tanzania,

with CreditInfo also selected to set up a Credit Reference Databank System. While each has a local office in Dar es Salaam, Dunn & Bradstreet Tanzania is part of US-based Dunn & Bradstreet, which has assets of USD 1.99 billion, and CreditInfo Tanzania is a unit of Germany's CreditInfo, which has operations in 17 countries.

BOT is currently focusing on building up the Databank by pushing the licenced banking institutions to submit the required data and a BOT representative recently confirmed that these institutions have already started uploading data to the Databank on a monthly basis. However, the CRBs are not yet fully operational (in the sense of publishing reports) and we understand that the delay is being caused by delays in accessing the necessary data from all other sources (utility providers and other entities aside from the licenced banks). Because of the required input from these parties, BOT is not yet able to put a firm date on when the CRBs will be fully operational, although all parties are aiming for the system to be up and running as soon as possible.

Potential impact

The overriding aim of the credit reference system is of course to enable lenders to assess the credit risk of potential customers. This should make credit decisions by lenders both quicker and less risky, as lenders will have ready access to the credit history of potential borrowers. It will apply to both corporate and individual borrowers, but is expected to have particular impact on personal lending and in particular in the microfinance market, where lenders may not have access to the financial statements or the borrowing and saving history of borrowers in the same way as for corporate loans or loans to existing customers of the mainstream banks.

Moreover, it is hoped that the pooling of credit information and subsequent reduction of the risk of lending will in turn both increase the supply of credit to businesses to fuel growth

and bring down average interest rates. A drop in interest rates would be a significant benefit for the borrowing market; according to data attributed to BOT, the average lending rate charged by commercial banks in Tanzania continues to rise, increasing from 14.84% in January 2012 to 15.57% in January 2013.

It is also hoped that the credit reference system will lower default rates, both by alerting lenders to borrowers with poor credit histories (so lessening the likelihood of such borrowers accessing further credit) and by allowing lenders to keep track of existing borrowers. BOT suggests for example that students who take educational loans will now be more easily traced to their eventual employers.

This view is supported by industry professionals such as the Managing Director of Barclays Tanzania, Kihara Maina, who is reported to have agreed that the introduction of credit reference bureaux will significantly lower interest rates and default rates in the country, but to have pointed out that the system would be strengthened if supplemented by other initiatives such as a national identity card, which would allow banks to identify potential borrowers with more certainty.

In addition, it is thought that the introduction of the system may have benefits for borrowers, both in terms of educating them on the importance of creditworthiness in managing their finances and securing future debt, and more directly in allowing them access to their own consolidated credit history.

Finally, there will be clear benefits in terms of analysis, monitoring and oversight by BOT of individual indebtedness in the country. BOT will use the information contained in its Databank to determine total indebtedness and payment performance of borrowers for internal control purposes and in carrying out its role of monitoring of the banks and financial institutions.

Risks

There are however clearly risks inherent for banks and other data providers in providing customers' private credit data to third parties, notwithstanding the current lack of specific legislation on data protection in Tanzania. The credit data provided will include the borrower's particulars such as name, address, date of birth or company registration number, names of its directors/shareholders, registered place of business, type, date, currency and amount of loan, outstanding balance, etc. Banks may also have to furnish information on defaults, electronic payment instruments, cheques that are returned or refused for lack of funds or fraud, and any other information when and if so required by BOT.

An adverse credit report could cause material damage to a potential borrower (whether individual or corporate) in effectively barring them from obtaining future credit. Borrowers will have the right to access their own credit data and to challenge information contained in the credit reports and banks may find themselves liable to the CRBs or the customers themselves if they incur any loss or damage resulting from inaccurate information reported by the banks. Therefore, although the banks are legally required to provide such information, it is vital to ensure that all credit information is accurate, complete and not misleading in order to avoid any future liability towards either the CRBs or the customers themselves.

Further information

If you would like further information on any issue raised in this update please contact:

Peter Kasanda

E: peter.kasanda@clydeco.com

Michaela Marandu

E: michaela.marandu@clydeco.com

Teresa Hettich

E: teresa.hettichclydeco.com

Clyde & Co LLP
The St Botolph Building
138 Houndsditch
London EC3A 7AR

T: +44 (0)20 7876 5000

F: +44 (0)20 7876 5111

Further advice should be taken before relying on the contents of this summary.

Clyde & Co LLP accepts no responsibility for loss occasioned to any person acting or refraining from acting as a result of material contained in this summary.

No part of this summary may be used, reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, reading or otherwise without the prior permission of Clyde & Co LLP.

Clyde & Co LLP is a limited liability partnership registered in England and Wales. Authorised and regulated by the Solicitors Regulation Authority.

© Clyde & Co LLP 2013