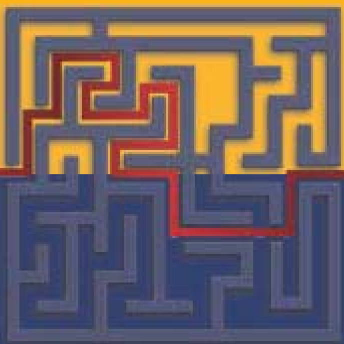
Getting credit



- Malaysia and the United Kingdom remain tied at the top of the ranking on the ease of getting credit.
- Between June 2012 and June 2013 *Doing Business* recorded 9 reforms strengthening legal rights of borrowers and lenders and 20 improving credit information systems. Since 2009, 49 economies have implemented 53 reforms to strengthen legal rights, and 77 have implemented 100 reforms to deepen credit information.
- Palau made the biggest improvement in the ease of getting credit in the past year.
- Ghana is among the 10 economies making the fastest progress toward the frontier in regulatory practice in the area of getting credit since 2009.
- In the past 5 years Pacific island economies have made concerted efforts to improve their secured transactions and credit information systems.
- Implementing collateral registries was among the most common features of reforms strengthening legal rights of borrowers and lenders. Among economies improving credit information systems, the most common change was establishing a new credit registry or bureau.

For more information on good practices and research related to getting credit, visit http://www.doingbusiness.org/data/exploretopics/getting-credit. For more on the methodology, see the section on getting credit in the data notes.

Promoting access to finance for small and medium-size firms has been on the agenda of national governments and the international community for many years, with an increased focus since the recent financial crisis. These firms are more likely than large ones to face constraints on credit in all regions of the developing world.[1] There are many reasons why firms, especially small and medium-size ones, do not get the finance they need. *Doing Business* focuses on 2 regulatory areas in which governments can take measures making it easier for firms to get credit.

Doing Business measures 2 types of systems and institutions that can facilitate access to finance and improve its allocation: the legal rights of borrowers and lenders in secured transactions and bankruptcy laws and the strength of credit registries and bureaus. These systems and institutions work best together.[2] Legal rights can facilitate the use of collateral and the ability to enforce claims in the event of default, while information is one tool to help creditors assess the creditworthiness of borrowers.

For legal rights, the World Bank and other international institutions have recognized that secured credit is more widely available to businesses in economies with efficient, effective laws that provide for consistent, predictable outcomes for secured lenders in the event of nonpayment by borrowers.[3] Sharing credit information through credit registries and bureaus facilitates access to credit because it can empower both lenders and borrowers. By reducing information asymmetries, it enables lenders to make more informed decisions. And it allows borrowers to develop good reputations for repayment, which they can use as collateral, supplementary to traditional collateral that they might not have.

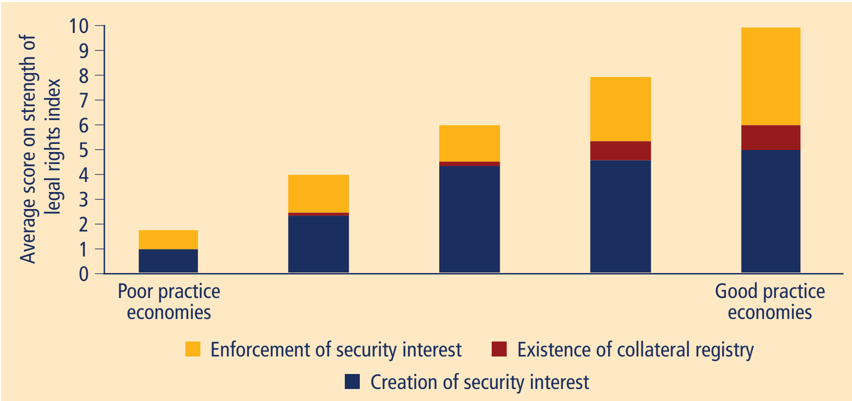
The legal rights of borrowers and lenders and the strength of credit reporting systems are assessed by 2 sets of measures. The first analyzes the legal framework for secured transactions by looking at how well collateral and bankruptcy laws facilitate lending. The second examines the coverage, scope and quality of credit information available through public credit registries and private credit bureaus. But these institutions are not enough to guarantee access to finance for small and medium-size firms or firms in general, because the availability of credit depends on many other factors as well.

Rankings on the ease of getting credit are based on the sum of the strength of legal rights index and the depth of credit information index. The getting credit indicators make it possible to compare economies in different parts of the world. Such comparisons show, for example, that the existence of an institution that efficiently records security interests in companies' movable property is strongly correlated with a higher score on the strength of legal rights index (figure 14.1).

Credit registries and bureaus aim to achieve 3 main goals in credit reporting: to cover as many targeted borrowers as possible, to provide as much information in credit reports as possible and to guarantee the privacy of the information and the accuracy of products and services.

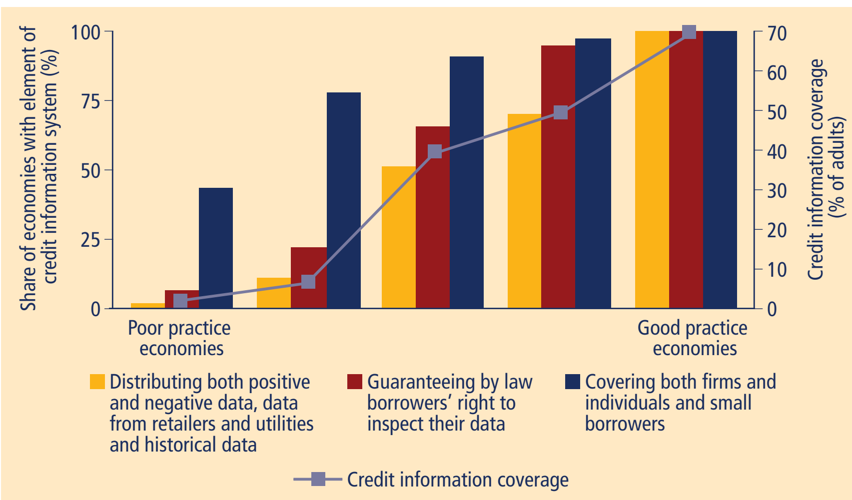
Most credit registries and bureaus start by building inclusive databases covering both firms and individuals and both big and small loans (figure 14.2). As they develop, registries and bureaus tend to broaden the type of information provided in credit reports. While some registries and bureaus receive only negative credit information from banks and

FIGURE 14.1 The biggest variations in the strength of secured creditors' rights are in the existence of collateral registries and the creation of security interests



Note: Poor practice economies are the 15 economies that score 1–2 of 10 points on the strength of legal rights index. The second column represents the 19 economies that score 4 points, the third column the 31 economies that score 6 points and the fourth column the 15 economies that score 8 points. Good practice economies are the 10 economies that score the maximum 10 points.
Source: Doing Business database.

FIGURE 14.2 More developed credit information systems have higher coverage rates



Note: Poor practice economies are the 15 economies that score 1 of 6 points on the depth of credit information index. The second group represents the 18 economies that score 2–3 points, the third group the 32 economies that score 4 points and the fourth group the 57 economies that score 5 points. Good practice economies are the 31 economies that score the maximum 6 points. The figure excludes the 35 economies that do not have a credit registry or bureau and the 1 economy that has a registry but scores 0 points. Credit information coverage is not included in the calculation of rankings on the ease of getting credit. For economies with both a credit registry and a credit bureau, the credit information coverage is the higher of the 2.
Source: Doing Business database.

other financial institutions, the more advanced ones collect positive credit information as well. Three credit registries and 55 credit bureaus also include retailers and utilities as data providers. Many registries and bureaus distribute more than 2 years of historical data, including on repaid defaults.

WHO REFORMED IN GETTING CREDIT IN 2012/13?

In 2012/13, 9 economies improved secured transactions legislation or strengthened secured creditors' rights in bankruptcy procedures (table 14.1). Globally Palau improved the most in the ease of getting credit in 2012/13 with the implementation of a new legal framework for secured transactions.

Three economies in Europe and Central Asia made major reforms by amending existing laws or implementing new ones. Lithuania amended the Civil Code (chapters on pledges and mortgages) and Code of Civil Procedure, making it possible to create a pledge over a property complex. This means that debtors can now use as collateral any group of movable assets, whose configuration or composition is constantly changing. The amendments also made it possible to create an enterprise mortgage using part of or the whole business enterprise as collateral, including its immovable property. In addition, the execution procedure for pledges was simplified to allow for speedier out-of-court enforcement.

Secured transactions legislation was also changed in other regions. In Sub-Saharan Africa the Democratic Republic of Congo joined the Organization for the Harmonization of Business Law in Africa by adopting the Uniform Act on Secured Transactions. Djibouti adopted a new Commercial Code that regulates security interests over movable property and secured creditors' rights in bankruptcy. Rwanda continued improving its legal framework by adopting a new Law on Security Interests over Movable Property.

Latin America and the Caribbean is the only region where no reforms were recorded in the areas covered by the strength of legal rights index. But reforms are expected in the near future in at least 3 economies. Colombia's Congress recently approved a new secured transactions law, and Costa Rica and El Salvador plan to follow suit in the next few months.

In 2012/13, 20 economies improved their credit reporting systems (table 14.2). Eleven of these—Australia, Bhutan, China, Georgia, Indonesia, Jamaica, Latvia, the Philippines, Singapore, Tanzania and Vietnam—enhanced access to credit information by adopting laws or regulations improving frameworks for sharing credit

TABLE 14.1 Who strengthened legal rights of borrowers and lenders in 2012/13—and what did they do?

Feature	Economies	Some highlights
Expanded range of movable assets that can be used as collateral	Democratic Republic of Congo; Djibouti; Lithuania; Palau	Palau's Secured Transactions Act established that all types of movable assets, present or future, can be used as collateral to secure loans. Moreover, the act allows a general or specific description of the collateral and states that any types of obligations can be secured with movable property.
Created a unified registry for movable property	Afghanistan; Republic of Korea	Afghanistan introduced an online national registry that allows for registration of notices and searches of liens on movable property. Searches can be performed using the identification number of the debtor.
Expanded the types of obligations that can be secured with movable property	FYR Macedonia; Rwanda	Rwanda's Law on Security Interests over Movable Property repealed the previous legal framework for secured transactions, clearly defining the types of obligations that can be secured with movable property.
Strengthened rights of secured creditors during reorganization procedures	Moldova	Moldova's new insolvency law changed reorganization procedures, specifying conditions under which secured creditors can apply for relief of the moratorium during insolvency and restructuring proceedings.

Source: Doing Business database.

information or protecting borrowers' right to inspect their data.

Most credit information reforms provided for the licensing and establishment of future registries or bureaus. Credit bureaus are often established after the financial industry sees the need for a credit reporting system to support informed decisions and facilitate fact-based risk management. Historically, credit registries started as internal databases in central banks with the goal of supervising financial activities in economies to allow for better enforcement of regulations. Over time many of these registries started issuing credit reports to share information externally because functioning credit information systems did not exist.[4] The Bank of Tanzania enacted new credit bureau regulations and issued the first licenses to 2 credit bureaus at the end of 2012.

Tajikistan, Tonga and Vanuatu established credit bureaus in 2012/13, and Brunei Darussalam created a credit registry. The new credit bureaus and registry in these 4 economies collect and distribute data on both individuals and firms and on loan amounts below 1% of income per capita. The credit registry in Brunei Darussalam and credit bureau in Tajikistan also distribute both positive and negative credit information as well as guarantee borrowers' right to inspect their data.

WHAT HAVE WE LEARNED FROM 5 YEARS OF DATA?

Worldwide, 74 of 183 economies have advanced toward the frontier in regulatory practice in getting credit since 2009. Among the 10 economies narrowing the gap the most, Ghana improved the legal rights of borrowers and lenders in secured transactions and the sharing of credit information (figure 14.3). In 2008 Ghana began reforming its legal framework and registration mechanism for movable collateral. When the Borrowers and Lenders Act was enacted that year, the Bank of Ghana established a collateral registry. By June 2013 more than 53,000 security interests had been registered by financial institutions. These account for more than $10 billion in loans secured with movable property—loans that have benefited more than 7,000 small and medium-size enterprises and 30,000 microenterprises.[5]

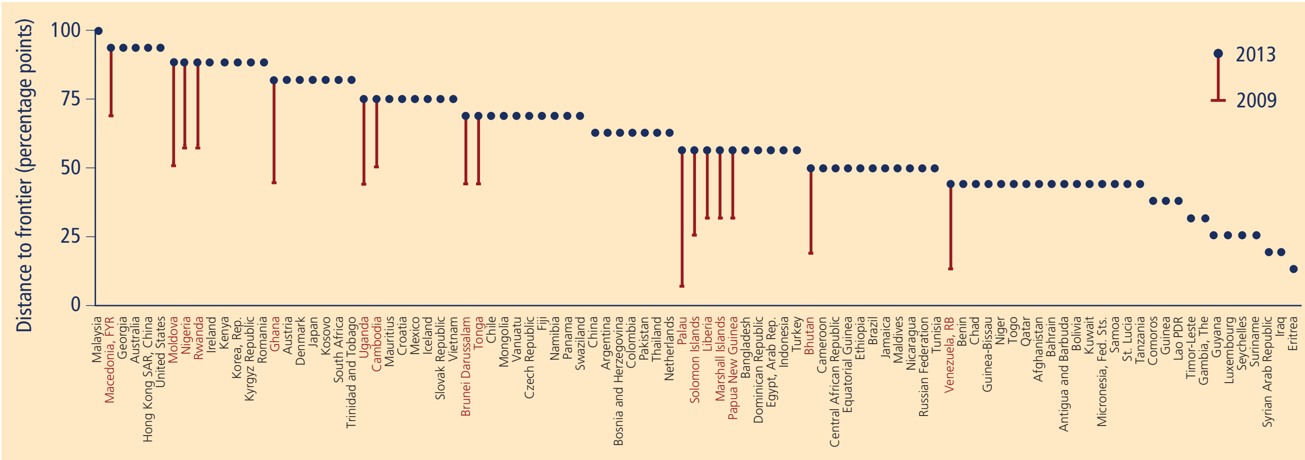
In 2010 XDS Data Ghana, the country's first credit bureau, started operations. By January 1, 2013, it listed 1,357,230 individuals and 170,141 firms with information

TABLE 14.2 Who improved the sharing of credit information in 2012/13—and what did they do?

Feature	Economies	Some highlights
Improved regulatory framework for sharing credit information	Australia; Bhutan; Georgia; Indonesia; Jamaica; Latvia; Tanzania; Vietnam	Tanzania adopted regulations that provide for the licensing of credit bureaus and specify the functions and purposes of their databases.
Expanded set of information collected and distributed by credit registry or bureau	Bahrain; Mauritius; Ukraine; Uzbekistan; Venezuela, RB	Bahrain's credit bureau started distributing payment histories from retailers.
Created a credit registry or bureau	Brunei Darussalam; Tajikistan; Tonga; Vanuatu	Brunei Darussalam established a credit registry that retrieves and provides information from private commercial banks and finance corporations.
Guaranteed by law borrowers' right to access data	Bhutan; China; Philippines; Singapore	In China the new Credit Information Industry Regulations guarantee borrowers' right to access their data in the credit registry free of charge twice a year.

Source: Doing Business database.

FIGURE 14.3 Ghana is among the 10 economies advancing the most toward the frontier in getting credit over the past 5 years



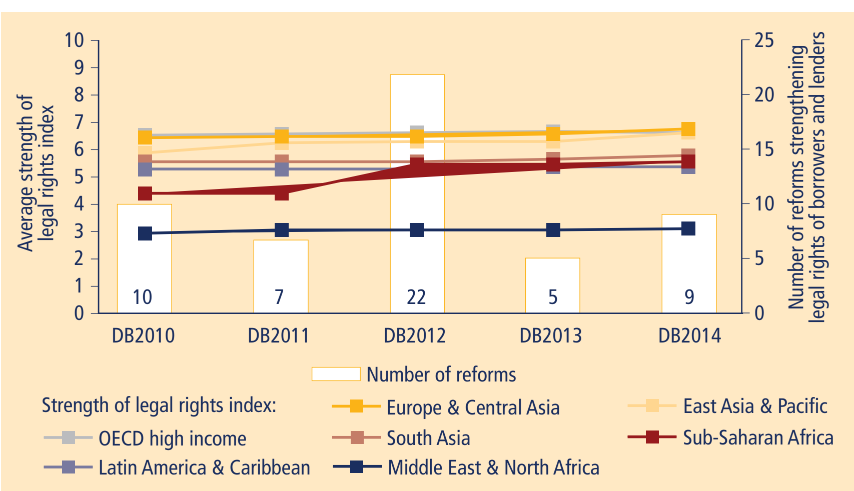
Note: The distance to frontier scores shown in the figure indicate how far each economy is from the best performance achieved by any economy on the getting credit indicators since DB2005 (2004). The scores are normalized to range between 0 and 100, with 100 representing the frontier. The data refer to the 183 economies included in DB2010 (though for practical reasons the figure does not show all 183). Barbados, Libya, Malta, Myanmar, San Marino and South Sudan were added in subsequent years. The vertical bars show the improvement in the 16 economies advancing the most toward the frontier in getting credit between 2009 and 2013.
Source: Doing Business database.

on their borrowing history from the previous 5 years. All financial institutions and insurance companies are required to provide data on loans of all sizes to the credit bureau. Lenders can access valuable information on firms and individuals—such as payment history, default information, property information and loan guarantor details.

Strengthening legal rights

High rankings on the strength of legal rights index capture economies where laws allow registered entities to easily use movable property as collateral—while secured creditors' rights are protected. In the past 5 years *Doing Business* has recorded 53 reforms affecting the strength of legal rights index.

FIGURE 14.4 Europe and Central Asia and OECD high-income economies remain at the top on the strength of legal rights index



Note: To ensure accurate comparisons, the figure shows data for the same 183 economies for all years, from DB2010 (2009) to DB2014 (2013). The economies added to the *Doing Business* sample after 2009 and so excluded here are Barbados, Libya, Malta, Myanmar, San Marino and South Sudan. This figure uses regional classifications for 2013.
Source: Doing Business database.

Economies in East Asia and the Pacific have consistently improved secured transactions regimes for small and medium-size firms (figure 14.4). Various Pacific island economies have implemented new secured transactions legislation and registries. Over the past year Palau replaced an outdated framework with a new Secured Transactions Act. Since 2006 the Marshall Islands, the Federated States of Micronesia, Samoa, the Solomon Islands, Tonga and Vanuatu have passed new collateral laws that strengthened their secured transactions regimes.

All these laws except Samoa's took a unitary approach to secured transactions, treating all types of security interests in movable property—such as pledges, charges and financial leases—equally in terms of creation, publicity, priority and enforcement. Among their many modern features, the new laws broadened the range of assets that can be used as collateral. The types of obligations—such as future or conditional obligations—that can be secured with movable property were also broadened. The new frameworks provide for clear priority rules outside bankruptcy and out-of-court enforcement procedures for secured creditors, so they can provide credit on more favorable terms.

A key feature of these reforms was the establishment of notice-based collateral registries, where security rights are publicized and subsequently effective against third-party claims. The Marshall Islands, the Federated States of Micronesia, Palau, the Solomon Islands, Tonga and Vanuatu have established such registries. In economies that introduce modern movable collateral registries, firms tend to receive increased access to bank finance, lower interest rates and longer loan maturities. Recent studies show that the impact of a new collateral registry can be economically significant. In economies with such reforms, the number of firms with access to bank finance increases by about 8% on average, with a 3 percentage point reduction in interest rates and a 6-month extension of the maturity of loans. And a bigger positive impact is felt by smaller firms.[6]

Reform momentum in the region seems to be continuing. Papua New Guinea is awaiting the implementation of a new collateral registry. A new secured transactions regime is also expected in Samoa, which adopted collateral provisions for corporations with its 2001 Companies Act and passed the Personal Property Securities Act in 2013, which is pending implementation of its collateral registry. After East Asia and the Pacific, Latin America and the Caribbean is the other region where economies have established the most collateral registries, with Chile, Guatemala, Honduras and Mexico doing so in the past 5 years.

Other regions have also made great strides in improving their collateral regimes. Europe and Central Asia has slightly surpassed OECD high-income economies as the region with the highest average score on the strength of legal rights index. In the past 5 years 9 economies in Europe and Central Asia—including Estonia, Georgia, Kazakhstan, Lithuania and the former Yugoslav Republic of Macedonia—have modernized their secured transactions systems, compared with 4 OECD high-income economies (Australia, the Republic of Korea, Poland and Sweden).

Sub-Saharan Africa has the most economies reforming secured transactions, with 22—17 of which became members of the Organization for the Harmonization of Business Law in Africa and adopted the Uniform Act on Secured Transactions. Overall, 16 economies, representing all regions except the Middle East and North Africa, introduced collateral registries over the past 5 years. Nevertheless, enactment of secured transactions laws is planned for Jordan, the United Arab Emirates, and West Bank and Gaza. The reform process has also started in Morocco.

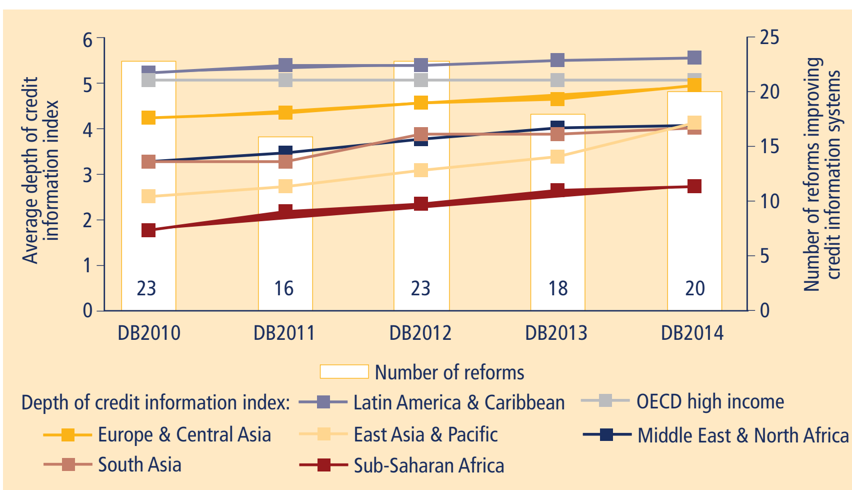
Deepening credit information

In the past 5 years 77 economies—half of those with a credit reporting system as recorded by *Doing Business* (154 in total)—implemented 100 regulatory reforms to improve their credit information systems (figure 14.5). All 7 regions implemented at least 1 reform a year in the past 5 years except in 2011, when only 5 regions made such reforms. East Asia and the Pacific is the region implementing the most reforms in the past year, with 8.

Since 2009, 23 economies have passed legislation that provides borrowers with the right to access data held on them.[7] These include 5 in East Asia and the Pacific (China, Mongolia, the Philippines, Singapore, Vietnam), 5 in Europe and Central Asia (Cyprus, Montenegro, Serbia, Tajikistan, Uzbekistan), 4 in the Middle East and North Africa (Algeria, Oman, West Bank and Gaza, the Republic of Yemen), 4 in Sub-Saharan Africa (Angola, Ethiopia, Rwanda, Sierra Leone), 3 in Latin America and the Caribbean (Colombia, Costa Rica, Guatemala), 1 in South Asia (Bhutan) and 1 OECD high-income economy (the Slovak Republic).

Today 111 of the 189 economies covered by *Doing Business* guarantee by law consumers' right to access their credit information. In the other 78 economies borrowers do not have that right by law, though many credit registries and bureaus allow borrowers to inspect their own data in practice. While some credit registries and bureaus charge a fee for the access, more than half of the responding registries and bureaus grant free access at least once a year or under certain circumstances (such as following an adverse action by a lender).[8]

FIGURE 14.5 Latin America and the Caribbean leads the world in the depth of credit information index



Note: To ensure accurate comparisons, the figure shows data for the same 183 economies for all years, from DB2010 (2009) to DB2014 (2013). The economies added to the *Doing Business* sample after 2009 and so excluded here are Barbados, Libya, Malta, Myanmar, San Marino and South Sudan. This figure uses regional classifications for 2013. The data on the depth of credit information index exclude the 35 economies that do not have a credit registry or bureau: 12 in Latin America and the Caribbean, 11 in Sub-Saharan Africa, 7 in East Asia and the Pacific, 2 in the Middle East and North Africa, 1 in Europe and Central Asia, 1 in South Asia and 1 OECD high-income economy.
Source: Doing Business database.

Many economies expanded the coverage of borrowers by lowering the minimum threshold for loans included in registry or bureau databases.[9] From 2009 to 2013 the number of economies with a minimum loan threshold below 1% of income per capita (including those where loans of all sizes are reported) increased from 104 to 129. The minimum threshold is often lowered by enacting new laws and regulations. In 2012 Algeria issued a Regulation on the Organization and Functioning of the Risk Center requiring banks and other financial institutions to declare all loans every month. In Brazil a circular that went into force in 2011 reduced the minimum threshold for loans reported by the central bank's credit information system by 80%. In 2010 Mongolia's credit registry eliminated the minimum threshold for loans included in its database. As a result the registry's coverage doubled after just 1 year.

Globally 8 economies expanded the set of information collected and distributed by adding data from retailers and utilities to credit reports. In 2010 Armenia adopted a decree granting the Armenian Credit Reporting Agency access to data of 3 national utility companies (Armenian Water and Sewerage, Electric Networks of Armenia and ArmRosGazprom). In 2011 the Bank of Mauritius Act went into force, extending coverage by the Mauritius Credit Information Bureau to all institutions offering credit facilities—including leasing facilities, hire-purchase companies and utilities.

Including credit information from retailers and utilities is an effective way of expanding the range of information distributed by credit registries and bureaus. Information on payment of, say, electricity and phone bills can help establish good credit histories for people without previous bank loans or credit cards. In Rwanda, when 2 mobile phone companies and an electricity and gas company started providing credit information in 2011, the country's credit bureau saw an immediate 2% increase in the number of firms and individuals registered in its database. Today credit registries and bureaus in 57 economies collect and distribute credit information from retailers and utilities.

Two other prominent features of credit information reforms were the development of online platforms to retrieve data and the provision of additional value added services. In the past 5 years 8 economies have established online platforms that allow for the retrieval and exchange of credit information. Credit bureaus also offer fraud detection, debt collection, marketing services and credit scoring, while credit registries offer ratings to financial institutions and other services to financial supervisors.

In the past 5 years 19 economies established credit registries or bureaus. Seven are in East Asia and the Pacific (Brunei Darussalam, Cambodia, the Lao People's Democratic Republic, Papua New Guinea, Timor-Leste, Tonga, Vanuatu), 5 in Sub-Saharan Africa (Ethiopia, Ghana, Rwanda, Sierra Leone, Uganda), 4 in Europe and Central Asia (Cyprus, the former Yugoslav Republic of Macedonia, Moldova, Tajikistan), 2 in the Middle East and North Africa (the Islamic Republic of Iran, Morocco) and 1 in South Asia (Bhutan).

In China the introduction of a public credit registry increased access to credit when banks learned additional information about borrowers through the registry.[10] Among 47 economies in Sub-Saharan Africa, more than half have a credit registry but only 11 have credit bureaus. But a project is under way to establish credit bureaus in the 8 member states of the West African Economic and Monetary Union. Bureaus have also been licensed in Jamaica, Tanzania and Vietnam, and a new registry is being established in the United Arab Emirates.

NOTES

This topic note was written by Santiago Croci Downes, Catrice Christ, Nan Jiang, Magdalini Konidari and Yasmin Zand.

1. Kuntchev and others 2012.
2. Djankov, McLiesh and Shleifer 2007.
3. World Bank 2011b; UNCITRAL 2007.
4. World Bank 2012, p. 21.
5. Earlier findings were discussed at the International Finance Corporation's Secured Transactions and Collateral Registries Peer to Peer Learning Event, Accra, Ghana, July 3–5, 2012.
6. Love, Martínez Pería and Singh 2013.
7. In addition, Guyana adopted the Credit Reporting Act No. 9 of 2010, which guarantees consumers' right to access their data. The first credit bureau license was granted to Creditinfo with effect from July 15, 2013, and it is expected to be open for business to the public starting December 1, 2013.
8. Eighty of 99 credit bureaus and 61 of 93 credit registries responded to the question, "What is the cost for borrowers to inspect their data?"
9. While lowering a minimum threshold for loans included in registry or bureau databases is an effective way of expanding coverage, it may have side effects in increasing the number of borrowers blacklisted for small credit incidents.
10. Cheng and Degryse 2010.