Getting credit

- **Malaysia, South Africa and the United Kingdom remain tied at the top of the ranking on the ease of getting credit.**
- **Between June 2011 and June 2012 *Doing Business* recorded 5 reforms strengthening legal rights of borrowers and lenders and 16 improving credit information systems.**
- **Cambodia improved the most in the ease of getting credit in the past year.**
- **Guatemala is among the 10 economies advancing the furthest toward the frontier in regulatory practice in the area of getting credit since 2005. Of the rest, 5 are in Eastern Europe and Central Asia.**
- **Among regions, Sub-Saharan Africa had the most reforms strengthening legal rights of borrowers and lenders in the past 8 years, while Eastern Europe and Central Asia had the most improving credit information systems.**
- **Among reforms strengthening legal rights in the past year, the most common feature was implementing collateral registries. Among those improving credit information systems, the most common was guaranteeing by law borrowers' right to inspect their own credit data.**

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.

The United Nations Commission on International Trade Law (UNCITRAL), in its *Legislative Guide on Secured Transactions*, emphasizes the importance the international community places on secured credit: "All businesses, whether engaged in mining, lumbering, agriculture, manufacturing, distributing, providing services or retailing, require working capital to operate, to grow and to compete successfully in the marketplace. It is well established that one of the most effective means of providing working capital to commercial enterprises is through secured credit."[1]

In that spirit *Doing Business* measures 2 types of institutions and systems that can facilitate access to finance and improve its allocation: credit registries or credit bureaus and the legal rights of borrowers and lenders in secured transactions and bankruptcy laws. These institutions and systems work best together.[2] Information sharing through credit registries or bureaus helps creditors assess the creditworthiness of clients (though it is not the only risk assessment tool), while legal rights can facilitate the use of collateral and the ability to enforce claims in the event of default. Creditors' rights and insolvency regimes are fundamental to a sound investment climate and can help promote commerce and economic growth.[3]

These 2 types of institutions are measured by 2 sets of indicators. One set analyzes the legal framework for secured transactions by looking at how well collateral and bankruptcy laws facilitate lending. The other looks at the coverage, scope and quality of credit information available through credit registries and credit bureaus.

TABLE 13.1 Where is getting credit easiest—and where most difficult?

Easiest	RANK	Most difficult	RANK
Malaysia	1	Congo, Dem. Rep.	176
South Africa	1	Iraq	176
United Kingdom	1	Malta	176
Australia	4	Syrian Arab Republic	176
Georgia	4	Djibouti	180
Hong Kong SAR, China	4	Eritrea	180
Latvia	4	Madagascar	180
Montenegro	4	São Tomé and Príncipe	180
New Zealand	4	Tajikistan	180
Poland	4[a]	Palau	185

Note: 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. See the data notes for details. Economies shown with the same number are tied in the ranking.

a. The United States is also tied in the ranking at 4.

Source: Doing Business database.

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 (table 13.1).

WHO REFORMED IN GETTING CREDIT IN 2011/12?

In 2011/12, 5 economies improved access to credit by reforming their secured transactions legislation or strengthening the rights of secured creditors during bankruptcy proceedings (table 13.2).

Three of the 5 reforming economies are in Eastern Europe and Central Asia. Considered one of the success stories of collateral reform in the 1990s, Romania

TABLE 13.2 Who strengthened legal rights of borrowers and lenders in 2011/12—and what did they do?

Feature	Economies	Some highlights
Expanded range of movable assets that can be used as collateral	Georgia; Romania	In Romania a new civil code repealed the previous legal framework for secured transactions while maintaining most of its modern principles. The new code introduced the concept of *hypothèque*, allowing security interests in immovable as well as movable property.
Created a unified registry for movable property	Australia; Sri Lanka	In Australia the Personal Property Securities Act 2009 and associated regulations came into effect, and a single, national online registry began operating. The web-based registry allows creditors to conduct searches and register security interests in personal property at any time.[a]
Strengthened rights of secured creditors during reorganization procedures	Kazakhstan	In Kazakhstan a new law introduced changes to the regulation of the rehabilitation procedure under bankruptcy legislation, specifying several conditions under which secured creditors can apply for relief during the procedure.

a. Accessible at http://www.ppsr.gov.au.

Source: Doing Business database.

TABLE 13.4 Who has the most legal rights for borrowers and lenders—and who the least?

Strength of legal rights index (0–10)

Most		Least	
Australia	10	Eritrea	2
Hong Kong SAR, China	10	São Tomé and Príncipe	2
Kyrgyz Republic	10	Timor-Leste	2
Latvia	10	Yemen, Rep.	2[b]
Malaysia	10	Bolivia	1
Montenegro	10	Djibouti	1
New Zealand	10	Palau	1
Singapore	10	Syrian Arab Republic	1
South Africa	10	Venezuela, RB	1
United Kingdom	10[a]	West Bank and Gaza	1

a. Kenya also has a score of 10 on the strength of legal rights index.

b. Four other economies also have a score of 2 on the strength of legal rights index: Jordan, Madagascar, Tajikistan and Uzbekistan.

Source: Doing Business database.

went a step further in harmonizing its secured transactions legislation. It adopted a new civil code, entering into force in October 2011, that repealed the previous legal framework for secured transactions. Inspired in part by the law of the Canadian province of Quebec, the new code introduces the concept of *hypothèque* to cover security interests in movable and immovable assets. While positive overall, this reform also rendered out-of-court enforcement procedures more formalistic. Kazakhstan introduced new grounds for relief from an automatic stay for secured creditors during rehabilitation proceedings. Georgia amended its civil code to allow a security interest to extend to the products, proceeds and replacements of an asset used as collateral.

Sixteen economies improved their credit reporting system in the past year (table 13.3); 1 economy made access to credit information more difficult. Seven of these economies—Costa Rica, Ethiopia, Mongolia, Montenegro, Oman, Uzbekistan, and West Bank and Gaza—introduced new laws or regulations guaranteeing the right of borrowers to inspect their personal data.

TABLE 13.3 Who improved the sharing of credit information in 2011/12—and what did they do?

Feature	Economies	Some highlights
Guaranteed by law borrowers' right to access data	Costa Rica; Ethiopia; Mongolia; Montenegro; Oman; Uzbekistan; West Bank and Gaza	In West Bank and Gaza a new ordinance gave borrowers the right to inspect their credit data.
Improved regulatory framework for sharing credit information	El Salvador; Hungary; New Zealand	New Zealand adopted a legal framework for expanding the set of information collected by credit bureaus.
Provided online access to data at credit registry or bureau	Bangladesh; Ethiopia; Syrian Arab Republic	Ethiopia introduced a new online system for sharing credit information.
Expanded set of information collected in credit registry or bureau	Ethiopia; Mauritius	In Mauritius the public credit registry developed a new format for credit reports that includes on-time payments and unpaid installments and also began collecting data from retailers.
Created a new credit registry or bureau	Cambodia; Sierra Leone	Cambodia's first private credit bureau started operations, covering more than 1.1 million individuals.
Lowered or eliminated threshold for loans reported	Algeria	Algeria eliminated the minimum threshold for loans included in the database.

Source: Doing Business database.

Cambodia established its first private credit bureau, which began operating in March 2012. The bureau collects and distributes both positive and negative credit information on individuals and includes all loans in its database, regardless of size. In addition, a regulation on credit information sharing issued in May 2011 guarantees the right of borrowers to inspect their own data. The country made the biggest improvement in the ease of getting credit in 2011/12.

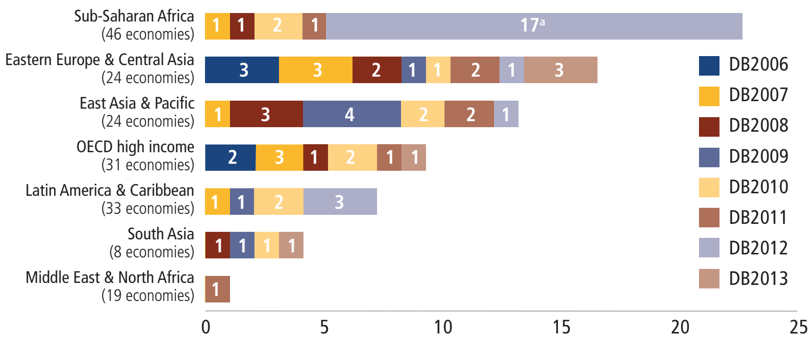
Mauritius also improved access to credit information in the past year. Its credit registry now reports both positive and negative data and collects payment information from retailers.

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

Several economies have incorporated good practices in their legal framework for secured transactions with the aim of improving access to finance for small and medium-size enterprises. Such reforms are usually reflected in a change in score on the strength of legal rights index (table 13.4).

FIGURE 13.1 Sub-Saharan Africa leads in number of legal rights reforms

Number of *Doing Business* reforms strengthening legal rights of borrowers and lenders by *Doing Business* report year



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) includes 174 economies. The sample for DB2013 (2012) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.

a. During the period covered by *Doing Business 2012*, amendments to the Uniform Act on Secured Transactions strengthened legal rights in the 16 member economies of the Organization for the Harmonization of Business Law in Africa (OHADA).

Source: Doing Business database.

One example is Guatemala, which enhanced its secured transactions regime by issuing a decree in 2007 that broadened the range of movable assets that can be used as collateral and created a registry for movable property that began operating in January 2009. In addition, Guatemala strengthened its credit information system in 2009 through a decree guaranteeing the right of borrowers to inspect their own data in any public institution. Thanks to these changes, Guatemala ranks among the 10 economies advancing the furthest toward the frontier in regulatory practice in the area of getting credit since 2005 (table 13.5).

Guatemala is far from being the only example. In the past 8 years *Doing Business* recorded 72 reforms strengthening legal rights of borrowers and lenders in 58 economies. Sub-Saharan Africa and East Asia and the Pacific are among the regions with the most such reforms (figure 13.1).

The data also reflect a difference in focus. Governments in East Asia and the Pacific focused more on aspects relating to the creation and publicity of security interests in movable property (figure 13.2). Those in Sub-Saharan Africa gave greater emphasis to aspects relating to the enforcement of security interests. For example, the new Uniform Act on Secured Transactions adopted by the Organization for the Harmonization of Business Law in Africa (OHADA) introduced a novel provision allowing out-of-court enforcement between "professionals."

Worldwide, creating a collateral registry was among the most common features of legal rights reforms. While there are different types of collateral registries, notice-based registries are widely considered the most effective.[4] Since 2005 a number of economies have tried to unify the information on collateral under some sort of centralized registry: Australia, Chile, France, Georgia, Ghana, Guatemala, Honduras, the Marshall Islands, Mexico, the Federated States of Micronesia, Peru, Rwanda, the Solomon Islands, Sri Lanka, Vanuatu and Vietnam. Some of these new registries, accompanied by legal reform, have proved to be a real success story. One example is Mexico's registry, which began operating in September 2010. By April 2012 the number of filings had increased by 4 times, and the secured amounts registered totaled $172 billion.[5]

The past 8 years also saw 171 regulatory reforms to improve credit information systems, implemented in 99 economies—more than half of the 146 economies with a credit reporting system as recorded by *Doing Business* (figure 13.3). Eastern Europe and Central Asia had the largest share of economies with improvements: 85% implemented at least 1 such reform, for a total of 43. And 14 of the 18 economies with 100% coverage of borrowers are in the OECD high-income group (table 13.6).

The efforts to improve credit reporting should be no surprise: responsible finance is much in the news these days. But since the onset of the financial crisis in 2008, consumer protection issues have also received attention worldwide. In the past year, for the first time since 2005, the most common feature of credit

TABLE 13.5 Who has narrowed the distance to frontier in getting credit the most since 2005?

Most improved	Improvement in distance to frontier (percentage points)
Cambodia	69 (0→69)
Georgia	63 (31→94)
Rwanda	56 (25→81)
Croatia	44 (31→75)
Ghana	43 (38→81)
Guatemala	38 (50→88)
Kyrgyz Republic	38 (50→88)
Kazakhstan	37 (19→56)
India	31 (50→81)
Russian Federation	31[a] (19→50)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005—in this case for the getting credit indicators. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years. The first column lists the top 10 most improved economies in order; the second shows the absolute improvement in the distance to frontier between 2005 and 2012.

a. Afghanistan, Mauritius, the Solomon Islands, Uganda and Zambia also have an improvement of 31 percentage points.

Source: Doing Business database.

information reforms as recorded by *Doing Business* was guaranteeing by law borrowers' right to access their data. The main objective is to balance the ability of institutions to exchange credit information with the protection of individuals' right to privacy.

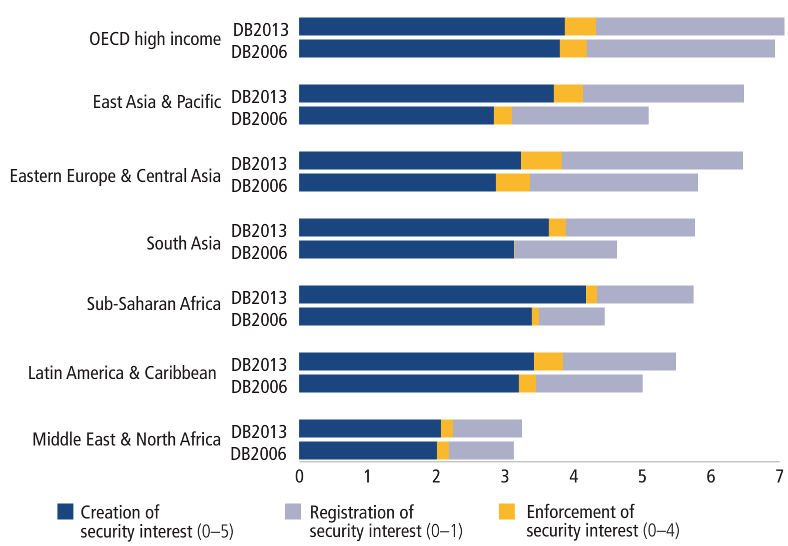
Today 104 economies guarantee by law consumers' right to access their credit information. In 72 of them the law guarantees this access at no cost.[6] Among the rest, consumers can obtain a credit report at no cost in 9 economies in practice, at little cost in 7 economies ($2.60 on average) and at a relatively high cost in 14 economies ($13.30 on average). In 100 of the 146 economies with a credit reporting system the law guarantees the right of consumers to dispute erroneous data.[7] And in 55 economies regulations require the bureau or registry to either flag the disputed data or block their distribution.[8]

In the past 8 years 30 economies adopted legislation providing borrowers with the right to access data held on them. Efforts also focused on expanding the sources of information collected by credit registries or bureaus: 28 credit information reforms were aimed at having these entities distribute both positive and negative information, collect alternative data from utilities or retailers or report historical information (figure 13.4). In 2005 credit registries and credit bureaus in 42 economies around the world included credit information from sources other than banks. Today those in 55 economies do so.

The other main focus was expanding the coverage of borrowers, such as by lowering or eliminating the minimum threshold for the loans included in a credit bureau or registry's database. Where these thresholds are high, retail and small business loans are more likely to be excluded. In 2005, 79 economies had a minimum loan

FIGURE 13.2 East Asia and the Pacific made the biggest improvement in laws on the creation of security interests in movable property

Regional averages in strength of legal rights



Note: To ensure an accurate comparison, the figure shows data for the same sample of 174 economies for both DB2006 (2005) and DB2013 (2012) and uses the regional classifications that apply in 2012. The economies added to the *Doing Business* sample after 2005 and therefore excluded here are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. DB2006 data are adjusted for any data revisions and changes in methodology. *Creation of security interest* refers to the first 5 components of the strength of legal rights index. *Registration of security interest* refers to the component relating to the existence of a collateral registry. *Enforcement of security interest* refers to the last 4 components. See the data notes for details.

Source: Doing Business database.

TABLE 13.6 Who has the most credit information—and who the least?

Depth of credit information index (0–6)			
Most		Least	
Argentina	6	Benin	1
Canada	6	Burkina Faso	1
Germany	6	Burundi	1
Japan	6	Djibouti	1
Korea, Rep.	6	Guinea-Bissau	1
Lithuania	6	Liberia	1
Malaysia	6	Mauritania	1
Mexico	6	Niger	1[b]
United Kingdom	6	Guinea	0
United States	6[a]	Madagascar	0

Borrowers covered by credit registries or bureaus (% of adults)			
Most		Least	
Argentina	100	Bangladesh	0.82
Australia	100	Haiti	0.70
Canada	100	Sierra Leone	0.68
Iceland	100	Mauritania	0.53
Ireland	100	Nepal	0.47
New Zealand	100	Burundi	0.26
Norway	100	Djibouti	0.23
Sweden	100	Madagascar	0.10
United Kingdom	100	Ethiopia	0.07
United States	100[c]	Guinea	0.01

Note: The rankings on borrower coverage reflected in the table include only economies with a credit registry or credit bureau (146 in total). Another 39 economies have no credit registry or bureau and therefore no coverage (see http://www.doingbusiness.org). See the data notes for details.

a. Twenty other economies also have a score of 6 on the depth of credit information index: Armenia, Austria, Bolivia, Costa Rica, the Dominican Republic, Ecuador, Egypt, El Salvador, Georgia, Guatemala, Honduras, FYR Macedonia, Panama, Paraguay, Peru, Poland, Rwanda, Saudi Arabia, South Africa and Uruguay.

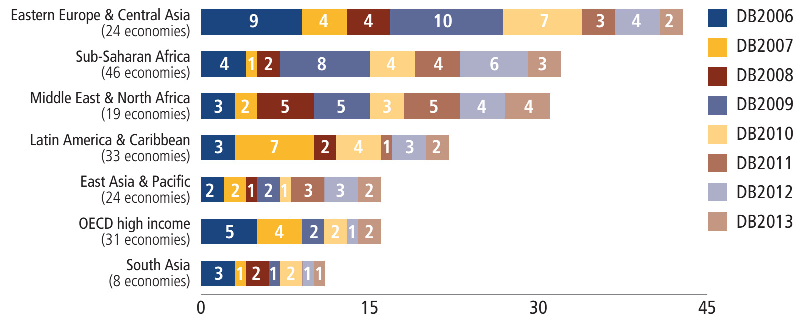
b. Four other economies also have a score of 1 on the depth of credit information index: Côte d'Ivoire, Mali, Senegal and Togo.

c. Eight other economies also have coverage of 100% of the adult population: Croatia, Germany, Israel, Italy, Japan, Korea, Serbia and Uruguay.

Source: Doing Business database.

FIGURE 13.3 Eastern Europe and Central Asia leads in number of credit information reforms

Number of *Doing Business* reforms improving credit information systems by *Doing Business* report year

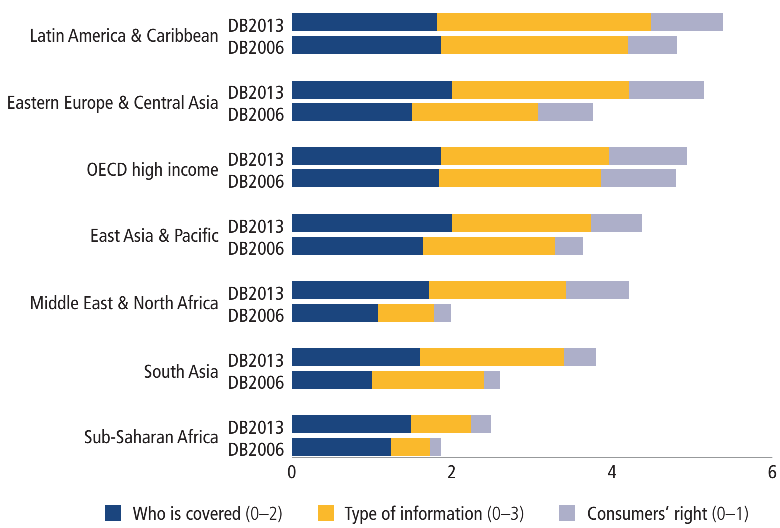


Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) includes 123 economies. The sample for DB2013 (2012) includes a total of 146 economies.

Source: Doing Business database.

FIGURE 13.4 Guaranteeing by law borrowers' right to access data was the biggest focus of credit information reform worldwide in the past 8 years

Regional averages in depth of credit information



Note: To ensure an accurate comparison, the figure shows data for the same sample of 123 economies for both DB2006 (2005) and DB2013 (2012) and uses the regional classifications that apply in 2012. DB2006 data are adjusted for any data revisions and changes in methodology. *Who is covered* refers to whether both individuals and firms are covered by a bureau or registry and whether loans below 1% of income per capita are included. *Type of information* refers to the availability of information from retailers or utilities, distribution of positive and negative information and availability of historical data. *Consumers' right* refers to whether the law guarantees borrowers' right to inspect their own data.

Source: Doing Business database.

threshold below 1% of income per capita (including those in which loans of all sizes are reported). Today 123 economies do.

An encouraging trend over the past 8 years has been the establishment of new credit bureaus or registries in economies that previously had none—25 in total, mainly in Eastern Europe and Central Asia. Credit information is still hardly shared in Sub-Saharan Africa, despite the pickup in efforts to develop credit information systems starting in 2008. Since then Ghana, Liberia, Rwanda, Sierra Leone, Uganda and Zambia have established new credit reporting systems. In East Asia and the Pacific 10 of 24 economies still have no credit bureau or registry. But things are improving. Brunei Darussalam, Lao PDR, Samoa, the Solomon Islands, Tonga and Vanuatu are all working to get their credit reporting systems operating.[9]

NOTES

This topic note was written by Santiago Croci Downes, Hayane Chang Dahmen and Joanna Nasr.

1. UNCITRAL 2007, p. 1.
2. Djankov, McLiesh and Shleifer 2007.
3. World Bank 2011b.
4. Alvarez de la Campa, Croci Downes and Tirelli Hennig 2012.
5. Estimates were provided by the Mexican government.
6. No data are available for 2 economies.
7. No data are available for 7 economies.
8. No data are available for 13 economies.
9. As of June 1, 2012, the credit bureaus in Tonga and Vanuatu had loaded the information into their systems but the databases were not yet accessible to banks.