

Starting a business

Dealing with construction permits

Registering property

Getting credit

Protecting investors

Paying taxes

Trading across borders

Enforcing contracts

Closing a business

Maria produces soybeans for export. She registered her small business after obtaining her first microfinance loan. For the past 5 years she has consistently repaid her loans, each time qualifying for a larger amount. Now she wants to obtain a commercial loan to diversify production. Maria's several years as a diligent microfinance borrower will not go unnoticed. In Bolivia, as in 45 other economies, private credit bureaus obtain data on the repayment patterns of microfinance borrowers.

Ideally, Maria's willingness to give her next soybean harvest as collateral would also help her loan application. But Bolivia's legal framework for secured transactions makes it extremely difficult for banks to accept movable assets

TABLE 6.1

Where is getting credit easy—and where not?

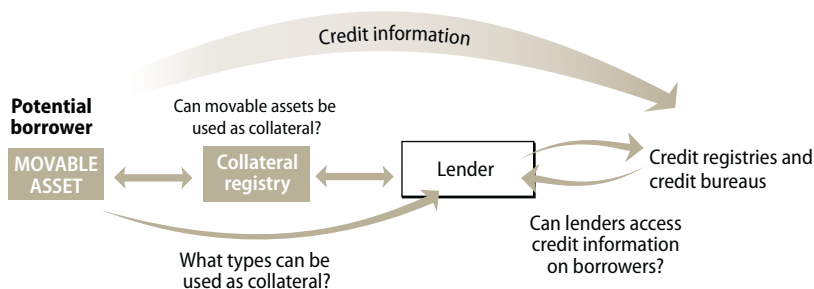
Easiest	RANK	Most difficult	RANK
Malaysia	1	Syrian Arab Republic	174
Hong Kong SAR, China	2	Tajikistan	175
New Zealand	3	Bhutan	176
South Africa	4	Djibouti	177
United Kingdom	5	Eritrea	178
Australia	6	Madagascar	179
Bulgaria	7	São Tomé and Príncipe	180
Israel	8	Venezuela, RB	181
Singapore	9	Timor-Leste	182
United States	10	Palau	183

Note: Rankings are based on the sum of the strength of legal rights index and the depth of credit information index. See Data notes for details.

Source: *Doing Business* database.

FIGURE 6.1

Do lenders have credit information on entrepreneurs seeking credit? Is the law favorable to borrowers and lenders using movable assets as collateral?



such as future crops and inventory as collateral. It requires a specific description of collateral in the loan agreement. Yet how can Maria know at the beginning of the season how many pounds of soybeans she will harvest? Where the secured transactions system has been improved—as it has in such economies as Bosnia and Herzegovina, Cambodia and Vanuatu—farmers, retailers and other small businesses do not face this problem (table 6.1).

Around the world movable assets, not land or buildings, often account for most of the capital stock of private firms and an especially large share for micro, small and medium-size enterprises. In the United States movable property makes up about 60% of the capital stock of enterprises.¹ Unlike in Bolivia and other economies that do not allow a general description of assets granted as collateral, in the United States most of this movable property could serve as collateral for a loan. Research shows that in developed economies borrowers with collateral get 9 times as much credit as those without it. They also benefit from repayment periods 11 times as long and interest rates up to 50% lower.²

In 2009, however, the global financial crisis adversely affected access to credit globally. According to recent research, the volume of loans around the world declined from 74% of global GDP to 65%, while the volume at the national level declined as a share of GDP in more

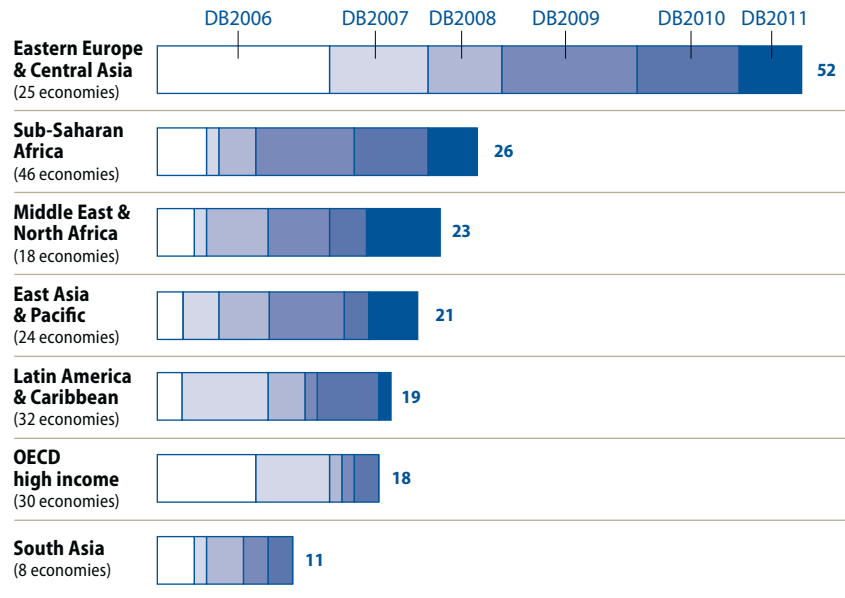
than 80% of countries.³ Supporting the use of collateral to lower the risks associated with lending therefore matters in the current economic context.

Doing Business measures 2 types of institutions and systems that can facilitate access to finance and improve its allocation: credit information registries or bureaus and the legal rights of borrowers and lenders in secured transactions and bankruptcy laws. These institutions and systems work best together. Information sharing helps creditors assess the creditworthiness of clients, while legal rights can facilitate the use of collateral and the ability to enforce claims in the event of default.

Credit histories are no substitute for risk analysis, whose importance has been underscored by the global financial crisis. But when banks share information, loan officers can assess borrowers' creditworthiness using objective criteria. For regulators, credit information systems provide a powerful tool for supervising and monitoring credit risk in the economy. And greater information sharing can support competition. A recent study in the Middle East and North Africa found that lack of credit information systems may curtail competition in the banking sector.⁴

The 2 types of institutions are measured by 2 sets of indicators. One describes how well collateral and bankruptcy laws facilitate lending. The other measures the scope and accessibility of

FIGURE 6.2
Eastern Europe and Central Asia still leading in credit reforms
 Number of *Doing Business* reforms making it easier to get credit by *Doing Business* report year



Note: A *Doing Business* reform is counted as 1 reform per reforming economy per year. The data sample for DB2006 (2005) includes 174 economies. The sample for DB2011 (2010) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.
 Source: *Doing Business* database.

credit information available through public credit registries and private credit bureaus and provides information on coverage (figure 6.1).

Nineteen economies made it easier to get credit in 2009/10. Ghana improved the most in both credit information and legal rights.

WHAT ARE THE TRENDS?

Doing Business data since 2005 show that credit information and secured transactions systems continue to vary across regions, as do their strengths and weaknesses. A brief snapshot of trends over the past 6 years follows (figure 6.2).

LEADING THE WAY IN LEGAL RIGHTS

Economies in the OECD high-income group, Eastern Europe and Central Asia and East Asia and the Pacific stand out globally for their regulations facilitating the use of movable collateral and modern secured transactions systems (figure 6.3). Economies in these 3 regions also had the most reforms strengthening their legal frameworks as recorded by *Doing Business* over the past 6 years. Some created

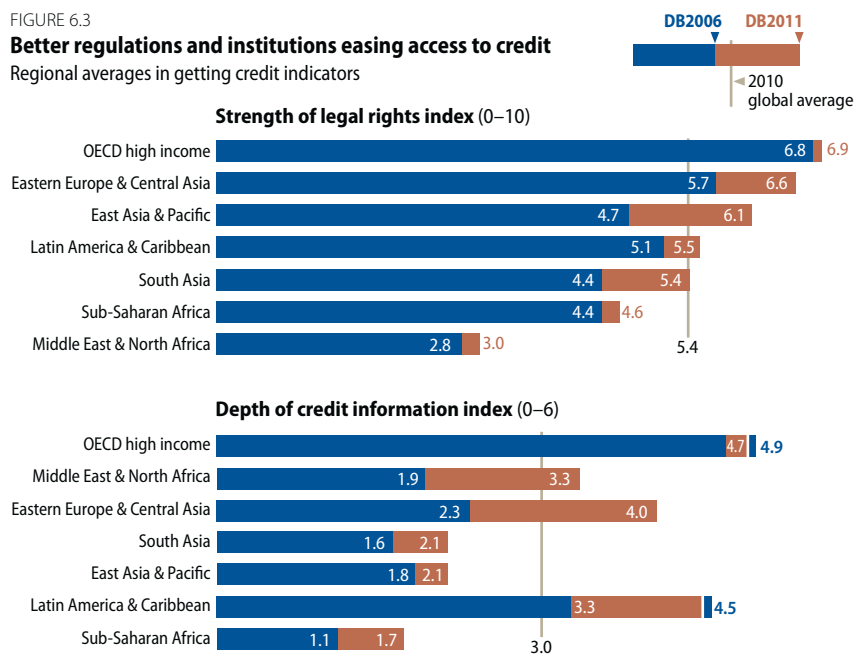
relevant institutions, such as the registries for movable assets in Serbia (established in 2005)⁵ and Cambodia (2007).

Doing Business recorded 13 changes in laws to improve the legal rights of

borrowers and lenders in Eastern Europe and Central Asia. In East Asia and the Pacific 10 economies strengthened the legal rights of borrowers and lenders. These include Cambodia, China, the Solomon Islands and Vanuatu, all of which have introduced laws since 2007 allowing small and medium-size companies to use inventory and accounts receivable as collateral. In Tonga, in August 2010 the parliament adopted the Personal Property Securities Bill, which is about to come into force. Some OECD high-income economies, such as Denmark, also improved their collateral laws. And Australia will soon implement its 2009 Personal Property Securities Act establishing a national system for the registration of security interests in personal property.⁶

Still, secured transactions systems differ substantially among the 3 regions. Most economies encourage the use of all types of assets as collateral through laws allowing a general description of assets in the loan contract. In East Asia and the Pacific almost 71% of economies have such laws, and in the OECD high-income group 67% do—though in

FIGURE 6.3
Better regulations and institutions easing access to credit
 Regional averages in getting credit indicators



Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2011 (2010) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.
 Source: *Doing Business* database.

TABLE 6.2
Who made getting credit easier in 2009/10—and what did they do?

Feature	Economies	Some highlights
Created a unified registry for movable property	Georgia, Ghana, Marshall Islands, Solomon Islands	The Marshall Islands and the Solomon Islands outsourced collateral registration to virtual registries (accessible at http://www.stformi.com and http://www.stfosi.com). Ghana now requires any secured credit agreement covering an amount of 500 cedi (about \$350) or above to be registered with the collateral registry.
Allowed out-of-court enforcement of collateral	Belarus, Estonia, Saudi Arabia, Solomon Islands	Estonia amended its code of enforcement procedure to allow out-of-court enforcement after notarization of an agreement providing for this.
Expanded range of revolving movable assets that can be used as collateral	Marshall Islands, Saudi Arabia, Solomon Islands	The Solomon Islands passed Secured Transactions Act No. 5 of 2008. Since the filing office started operating in 2009, 6,439 new registrations of movable collateral have been entered.
Allowed a general description of debts and obligations	Marshall Islands, Solomon Islands	In both the Marshall Islands and the Solomon Islands the secured transactions act permits security interests to secure obligations described specifically or generally.
Gave priority to secured creditors' claims outside bankruptcy procedures	Marshall Islands	The Marshall Islands' secured transactions act provides that parties secured by a security interest or lien have priority over all other claims except those associated with expenses relating to the disposition of the collateral.
Improved regulatory framework related to sharing credit information	Guyana, Jordan, Rwanda, United Arab Emirates, Vietnam	Rwanda reformed its regulatory framework, and a new private credit bureau is starting operations.
Created a new credit registry or bureau	Ghana, Islamic Republic of Iran, Papua New Guinea, Uganda	Uganda's first private credit bureau covers more than 200,000 individuals. A new biometric data system allows each new loan applicant to be identified and issued a financial identity card. Papua New Guinea's credit bureau was set up at the initiative of a group of financial institutions with the goal of sharing credit information about their customers.
Expanded set of information collected in credit registry or bureau	Lithuania, Syrian Arab Republic	Syria's public credit registry removed the minimum threshold for loans to be reported to the central bank.
Provided online access to data at credit registry or bureau	Azerbaijan, Lebanon	Azerbaijan improved its infrastructure and communications systems. Commercial banks can now provide and receive information using an online platform. In Lebanon banks and financial institutions can now access the public credit registry online.

Source: Doing Business database.

Eastern Europe and Central Asia only 54% do. Where a general description of assets is not allowed, the use of certain types of movable collateral—such as inventory and accounts receivable—is less appealing. Imagine a computer sales company wanting to use its inventory as collateral where the law requires that each computer be identified by serial number, color, weight and value. Using the inventory as collateral would be almost impossible—because any changes to it would have to be recorded at the registry or in the loan agreement.

In Eastern Europe and Central Asia 69% of economies give the highest priority possible in bankruptcy to secured creditors (including, in several cases, priority over labor and tax claims). Only 16% of economies in the Middle East and North Africa and 9% of those in Latin America and the Caribbean do so. First priority for secured creditors

is not enough, though. Clear priority rules to resolve conflicting claims between secured creditors when a debtor defaults can influence lending decisions too. Strong creditor rights expand the availability of loans because where lenders have better legal protection during bankruptcy and reorganization, they are more willing to extend credit on favorable terms.⁷ A recent study finds that where secured creditors have priority over unsecured claims, the recovery rate for loans tends to be higher and the risks for creditors lower.⁸

CATCHING UP IN CREDIT INFORMATION

Credit information systems are well developed in most OECD high-income economies, and economies in Eastern Europe and Central Asia are catching up. In the past 6 years the region implemented 36 improvements to credit in-

formation systems, more than any other region (figure 6.4). The average coverage by public credit registries and private credit bureaus increased from 4% of the adult population to 30%, while in OECD high-income economies it rose from 54% to 67%. While coverage remains uneven, and a reliable credit information system is only one element of stable financial markets, some economies benefited from such systems during the global financial crisis. A recent study suggests that in Serbia the credit bureau helped preserve liquidity in the banking sector and ensure its stability during the crisis.⁹ A study in transition economies suggests that in economies with poor creditor rights, information sharing can improve both access to credit and the terms of loan contracts.¹⁰

In East Asia and the Pacific half the economies have no credit bureau or registry, scoring 0 on the depth of credit

Peru—have updated their secured transactions legislation since 2005. But Chile, Honduras, Mexico and Nicaragua are expected to adopt new laws and regulations in the near future.¹² They will join the growing number of countries that are adopting the Inter-American Model Law on Secured Transactions developed under the umbrella of the Organization of American States in 2002.

Initiatives are also under way to further improve credit information sharing. Eighteen economies already have good systems, with a score of 5 or higher on the depth of credit information index. And Latin America has the largest percentage of economies with systems that include data from utilities, retailers and trade creditors. But 12 economies, most of them small economies or Caribbean island states, lack any kind of credit bureau.

For small economies, the high fixed costs of private credit bureaus can be prohibitive. One alternative, if allowed by law, is to transfer the data to a neighboring economy.¹³ Another is to create a regional credit bureau. Credit bureaus covering Costa Rica, El Salvador and Honduras work out of a hub in Guatemala. Such a system makes services efficient while reducing the initial investment for each participating economy.

Now a project is under way to set up a regional credit bureau in the Caribbean. Guyana recently passed the first credit bureau law in Latin America to allow the transfer of data to a regional credit bureau, the Credit Reporting Act 2010.

MORE OPPORTUNITY IN SOUTH ASIA

South Asia has opportunity for further improvement. So far only India has a registry that is unified geographically and by asset type and that covers security interests in companies' movable property. But the registry is limited because it registers only security interests over the assets of incorporated companies, excluding such entities as sole proprietorships. Afghanistan adopted a new secured transactions law in 2009 but has not yet implemented its registry. Nepal also adopted such a law, in 2006, but its registry too is not yet operating. And Sri Lanka passed a new secured transactions law in 2009 but has not yet implemented it.

South Asia has had the fewest improvements to credit information systems, limited mainly to India and Sri Lanka. But Afghanistan is now undertaking a groundbreaking effort to establish a modern credit registry.

WHAT HAS WORKED IN SECURED TRANSACTIONS?

A sound secured transactions system has 3 main pillars. The first, already addressed, relates to creation of the security interest, covering how and what kind of movable property can be used as collateral. The second consists of the methods of publicizing the security interest, usually through registration. The third deals with priority rules and enforcement of the security interest, determining how easily creditors can recover their investment after default by the debtor. Over the years economies have focused on a number of features of these 3 pillars (table 6.3).

UNIFYING REGISTRIES

A centralized collateral registry protects secured creditors' rights by providing objective information on whether assets are already subject to the security right of another creditor. It also helps clarify priority among creditors.

Sixty-seven of the 183 economies covered by *Doing Business* have an efficient institution for registering security interests in business assets over their entire geographic area.¹⁴ Thirteen economies, most of them in Eastern Europe and Central Asia and East Asia and the Pacific, have collateral registries that follow good practice standards (figure 6.5). These feature online access for registration and searches; register almost all types of assets as collateral, regardless of the nature of the parties involved; establish clear parameters for priority; and maintain a central database searchable by the debtor's name or a "unique identifier." Once registered, security interests immediately have effect against third parties.

Electronic systems can increase efficiency, but they are no magic wand. Spain created an electronic registration system in 2002. But since the law still requires registrants to have their deed notarized before completing registration, most people still submit a paper-based registration form. As a result, there have

TABLE 6.3
Good practices around the world supporting access to credit

Practice	Economies ^a	Examples
Allowing out-of-court enforcement	105	Australia, India, Nepal, Peru, Russian Federation, Serbia, Sri Lanka, United States
Allowing a general description of collateral	87	Cambodia, Canada, Nigeria, Romania, Rwanda, Singapore, Vanuatu, Vietnam
Maintaining a unified registry	67	Bosnia and Herzegovina, Ghana, Guatemala, Marshall Islands, Federated States of Micronesia, Montenegro, New Zealand, Romania, Solomon Islands
Distributing data on loans below 1% of income per capita	110	Albania, Bolivia, Bulgaria, France, Republic of Korea, Mexico, Saudi Arabia
Distributing both positive and negative credit information	96	Argentina, Brazil, China, Ecuador, Lithuania, Morocco, Portugal, Rwanda, United Kingdom
Distributing credit information from retailers, trade creditors or utilities as well as financial institutions	51	Australia, Canada, Denmark, Japan, Kenya, Kuwait, Netherlands, South Africa, United States, Uruguay

a. Among 183 economies surveyed.
Source: *Doing Business* database.

TABLE 6.4

Who has the most credit information and the most legal rights for borrowers and lenders—and who the least?

Legal rights for borrowers and lenders (strength of legal rights index, 0–10)			
Most		Least	
Hong Kong SAR, China	10	Bhutan	2
Kenya	10	Burundi	2
Kyrgyz Republic	10	Eritrea	2
Malaysia	10	Madagascar	2
Montenegro	10	Bolivia	1
New Zealand	10	Djibouti	1
Singapore	10	Syrian Arab Republic	1
Australia	9	Timor-Leste	1
Denmark	9	Palau	0
United Kingdom	9	West Bank and Gaza	0

Borrowers covered by credit registries (% of adults)			
Most		Least	
Argentina	100	Burundi	0.21
Australia	100	Djibouti	0.20
Canada	100	Côte d'Ivoire	0.19
Iceland	100	Burkina Faso	0.18
Ireland	100	Ethiopia	0.13
New Zealand	100	Niger	0.13
Norway	100	Qatar	0.10
Sweden	100	Mauritania	0.10
United Kingdom	100	Mali	0.10
United States	100	Madagascar	0.05

Note: The rankings reflected in the table on legal rights for borrowers and lenders consider solely the law. Problems may occur in the implementation of legal provisions and are not reflected in the scoring. Those on borrower coverage include only economies with a public credit registry or private credit bureau (139 in total). Another 44 economies have no credit registry or bureau and therefore no coverage. See Data notes for details.

Source: *Doing Business* database.

been fewer online registrations than expected. In 2007 there were 10,472 online registrations but 24,941 paper-based ones. And in 2009, while 20,586 online registrations were recorded, there were 32,739 paper-based registrations.¹⁵

Cost matters for the use of collateral registries. A survey of 31 registries suggests that the higher the fees to register or amend a security interest or to search the registry, the lower the volume of transactions recorded. The 2 economies with the lowest registration fees, New Zealand (\$2) and Romania (\$10), have the most registrations. New Zealand's peak was 649,188 registrations, in 2005, while Romania's was 531,205, in 2007. Malaysia, with one of the highest registration fees (\$90), had a peak of only 25,066, in 2008.

UNIFYING THE LAWS

To function properly, collateral registries must be supported by an adequate

legal framework. Some economies, such as New Zealand and Romania, have a secured transactions law that treats all security interests in movable property equally with respect to publicity, priority and enforcement, regardless of the form in which the security interest is given (whether a pledge, a financial lease or a loan and trust agreement, for example). Such laws are in line with internationally accepted practices. New Zealand adopted its law in 1999. Called the Personal Property Securities Act, it includes all types of collateral. New Zealand also has a modern, online collateral registry for all types of movable assets. Not surprisingly, the filings to register collateral far outnumber those in similar economies. And searches in the registry rose from 661,944 in 2002 to close to 2.5 million in 2009.¹⁶

Although movable property is widely used as collateral, many economies still have fragmented collateral

laws, with separate laws dealing with different subsets of lenders or types of collateral.¹⁷ Hong Kong SAR (China), Ireland, Malaysia and Singapore are all examples. This fragmentation increases the risk of conflict between laws, such as when determining the priority rules for secured creditors. It also increases the risk of the same security being registered in different places, and that means greater risk for lenders. Such systems are not only less transparent but also more costly to operate.

ALLOWING OUT-OF-COURT ENFORCEMENT

For security interests to be cost-effective requires quick and inexpensive enforcement in case of default.¹⁸ Efficient enforcement procedures are particularly important for movable property, which generally depreciates over time. The efficiency of enforcement can influence the accessibility and terms of credit. Most economies recognize this: 105 of the 183 economies covered by *Doing Business* have legal provisions allowing the parties to a security agreement to agree to some form of out-of-court enforcement.

WHAT HAS WORKED IN CREDIT INFORMATION?

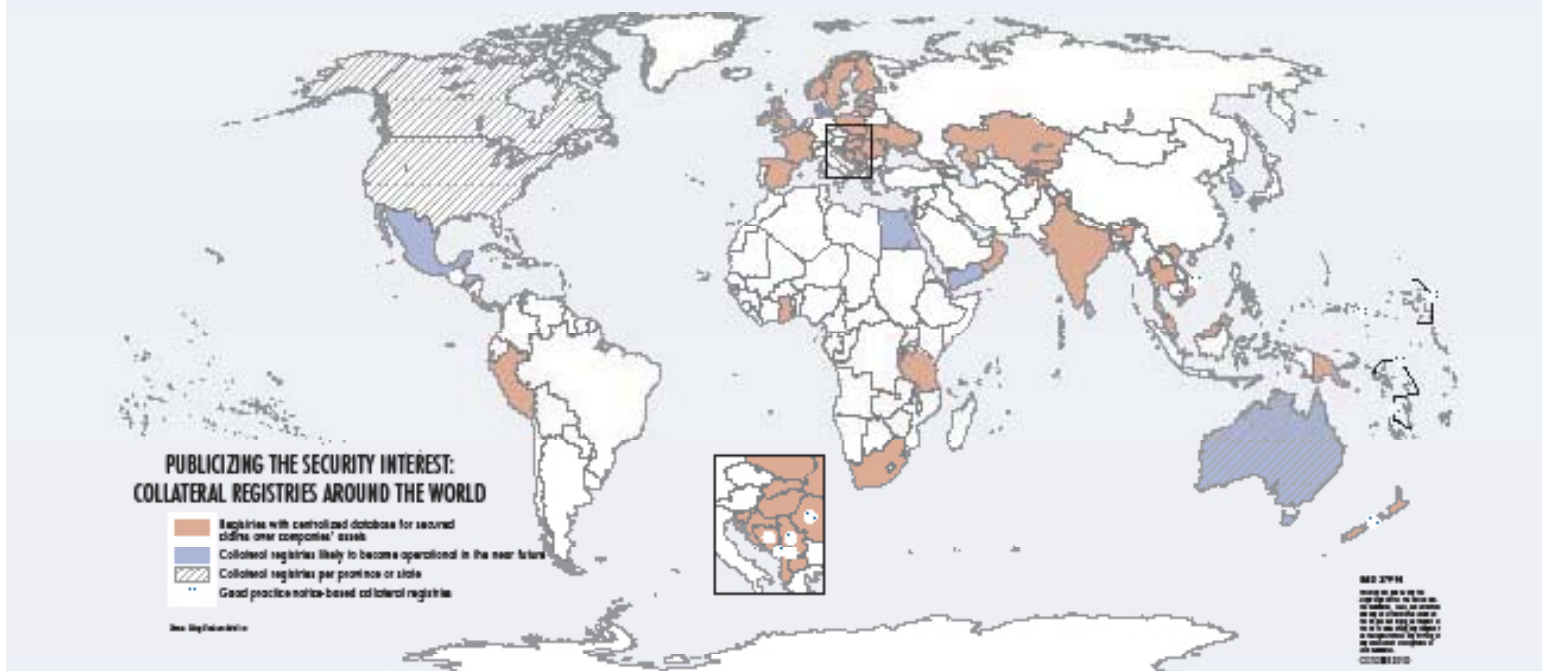
Forty-four economies around the world still lack any kind of credit information system. But not just any credit bureau will do; many continue to cover only a tiny fraction of the adult population (table 6.4). Specific practices help increase coverage, encourage use and protect borrowers.

CASTING A WIDE NET

An ongoing study in Italy has looked at the effect of providing a credit bureau with repayment information from a water supply company. The findings show that more than 83% of water customers who previously lacked a credit history now have a positive one thanks to paying their utility bills.¹⁹ This makes it easier for them to obtain credit.

Including such data in credit bu-

FIGURE 6.5



reus can also benefit the utility companies. According to a recent study surveying 70 utility companies in the United States, 72% reported that the benefits of credit reporting amounted to at least 2–5 times the costs. Half of all customers indicated that they would be more likely to pay their bills on time if those payments were fully reported to credit bureaus and could affect their credit score.²⁰

In emerging markets, where the working poor make up more than 60% of the labor force,²¹ allowing the distribution of payment information from sources other than banks could make a big difference. China has close to 750 million mobile phone subscribers. Only a fraction have taken out a commercial loan in the past. For all others, the ability to unlock credit through a history of reliably paying mobile phone bills could open new opportunities.

REPORTING GOOD AS WELL AS BAD

A credit information system that reports only negative information penalizes borrowers who default on payments—but fails to reward diligent borrowers who pay on time. Sharing information on reliable repayment allows customers to establish a positive credit history, useful information

for financial institutions seeking proven good customers. A study of Latin American economies suggests that private credit bureaus that distribute both positive and negative information and have 100% participation from banks help increase lending to the private sector.²²

STEERING CLEAR OF HIGH THRESHOLDS

Coverage can also be affected by minimum thresholds for the loans reported. High thresholds hurt groups that could benefit most from credit information systems—such as small and medium-size enterprises and female entrepreneurs, whose loans are typically smaller. Private credit bureaus tend to have lower minimum loan thresholds, with a global average of \$459. For public credit registries the average exceeds \$30,000.

When smaller loans are reported to credit bureaus, more borrowers can establish credit histories. When Belarus eliminated its \$10,000 threshold in 2008, more than 1 million women and men benefited from having their loans—no matter the size—reported to the credit registry. Coverage of individuals rose from around 113,000 to 1,920,000 in a single year.²³

WHAT ARE SOME RESULTS?

In a world with asymmetric information, banks are more likely to lend to larger firms, which typically are more transparent and use international accounting standards. But supported by information sharing systems, banks can sensibly extend credit to smaller and less transparent firms by basing their credit decisions on past borrower behavior.²⁴ This can increase entrepreneurs' opportunities for success, regardless of personal connections. One study found that an increase of 10 percentage points in the population share covered by a private credit bureau is associated with a 6% increase in private sector lending.²⁵

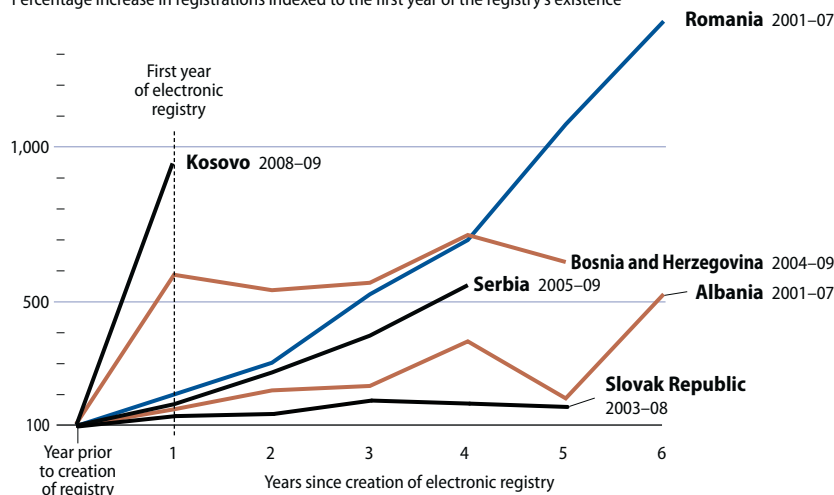
Lending officers tend to have substantial discretion in offering loans, including in the interest rates they set and even in the types of collateral they require from a borrower. This can open the door to bribery. By reducing the discretion in evaluating loan applicants, credit information systems can help reduce corruption in bank lending.²⁶

Access to credit remains particularly sparse in developing economies. In developed economies adults have an estimated 3.2 bank accounts on average, and 81%

FIGURE 6.6

Users take advantage of electronic registries for movable property as collateral

Percentage increase in registrations indexed to the first year of the registry's existence

Source: *Doing Business* database.

have accounts. In developing economies adults have 0.9 accounts on average, and 28% have accounts.²⁷ But the outlook is improving. In the past 6 years 71 economies implemented more than 121 reforms to improve credit information systems. Low-income economies increased the coverage of private or public credit registries from 0.6% of the adult population to 2.3%.²⁸ And 20 more economies gained a private credit bureau.

Institutions are of no benefit if they go unused. But a recent survey of collateral registries is encouraging: 20 of 27 registries that provided information on the volume of registrations showed a substantial increase since 2000 or since the year they were created. In 4 economies that improved their secured transactions

system in the past 10 years—Albania, Bosnia and Herzegovina, New Zealand and Serbia—registrations of movable collateral increased sharply (figure 6.6). Serbia's volume of registrations jumped from 4,346 in 2005 to 24,059 in 2009, while Albania's rose from 1,874 in 2001 to 4,105 in 2009, peaking at 9,860 in 2007.

Romania also improved its secured transactions system, in 1999. In the next 4 years 600,000 new security interests were registered, generating at least \$60 million in sustainable credit.²⁹ Vietnam is another good example. It passed Decree 163 in 2006. Although its registry is still being computerized, the number of registrations increased from 43,000 in 2005 to 120,000 by the end of 2008.³⁰

1. Fleisig, Safavian and de la Peña (2006).
2. Alvarez de la Campa and others (2010).
3. CGAP and World Bank (2010).
4. Anzoategui, Martinez Peria and Rocha (2010).
5. Simpson and Menze (2000).
6. The Australian law was still awaiting implementation on June 1, 2010.
7. Qian and Strahan (2007).
8. Djankov, Hart, McLiesh and Shleifer (2008).
9. Simovic, Vaskovic and Poznanovic (2009).
10. Brown, Jappelli and Pagano (2009).
11. Rocha and others (2010).
12. Kozolchyk (2009).
13. The Czech Republic, with a population of around 10 million, decided to out-source its credit information services in 2002 to a private firm already set up in Italy. The bureau has already reached almost 100% penetration in retail banking. The banking register contains more than 13 million records, covering 6.5 million individuals.
14. These may include company registries, deed registries, filing offices and any other institution with a central electronic database that records security interests over companies' assets.
15. Data provided by the Spanish registry, Colegio de Registradores de la Propiedad, Mercantiles y Bienes Muebles de España.
16. *Doing Business* database.
17. Fleisig and de la Peña (2003).
18. Kozolchyk and Furnish (2006).
19. Preliminary findings of ongoing internal study at CRIF SpA, Italy (credit information services firm).
20. Turner and others (2009).
21. Stein (2010).
22. Turner and Varghese (2007).
23. *Doing Business* database.
24. Brown, Jappelli and Pagano (2009).
25. Turner, Varghese and Walker (2007).
26. Barth and others (2009).
27. Kendall, Mylenko and Ponce (2010).
28. *Doing Business* database.
29. Fleisig, Safavian and de la Peña (2006).
30. Alvarez de la Campa and others (2010).