

Overview

Starting a business

Dealing with construction permits

Employing workers

Registering property

# Getting credit

Protecting investors

Paying taxes

Trading across borders

Enforcing contracts

Closing a business

Sibongile was meant to fly. “I grew up near an Air Force base and always had a love for planes,” she says, remembering a childhood spent waving at jets at South Africa’s Hoedspruit base.

After a successful 7-year career in human resources, Sibongile seized the opportunity presented by the passage of South Africa’s Black Economic Empowerment Act in 2003: she started her own business, SRS Aviation. Opportunities for government contracts came quickly, but getting financing was difficult. “I took the government tender to the bankers,” says Sibongile. “Forget it, they said. Because the amount of money was too large and the collateral too small.”

Sibongile ended up using her family’s savings, along with her mother’s and aunt’s retirement funds, to finance the first deal: leasing a plane from the

TABLE 6.1

## Where is getting credit easy—and where not?

Easiest	RANK	Most difficult	RANK
Malaysia	1	Bhutan	172
Hong Kong, China	2	Djibouti	173
South Africa	3	Eritrea	174
United Kingdom	4	Madagascar	175
Australia	5	Tajikistan	176
Bulgaria	6	Yemen	177
Israel	7	Afghanistan	178
New Zealand	8	Syria	179
Singapore	9	Timor-Leste	180
United States	10	Palau	181

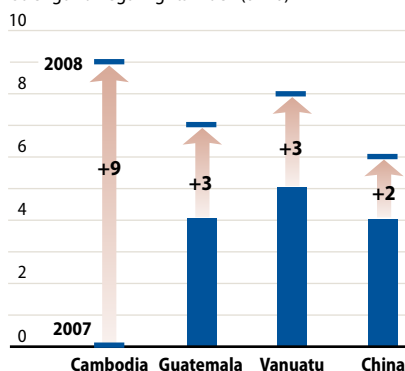
Note: Rankings on the ease of getting credit are based on the sum of the strength of legal rights index and the depth of credit information index. See Data notes for details.

Source: *Doing Business* database.

FIGURE 6.1

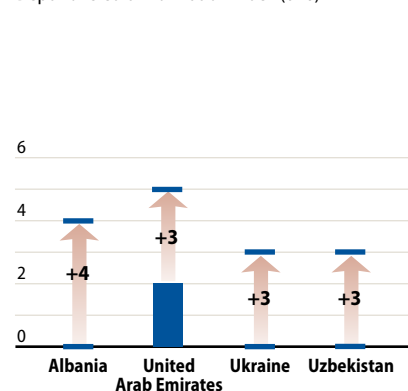
## Cambodia leads in legal rights reform, Albania and the United Arab Emirates top reform in credit information

Strength of legal rights index (0–10)



Source: *Doing Business* database.

Depth of credit information index (0–6)



Russian Federation. “I remember waiting for days at the airport for the plane to arrive, panicking that after paying so much money and risking people’s savings it may not arrive.” But all went well in the end, and Sibongile’s business took off.<sup>1</sup>

Where collateral laws are effective and credit registries are present, banks are more likely to extend loans. Hong Kong (China), Singapore and Kenya facilitate access to credit through laws that allow all types of assets to be used as collateral and do not require a specific description of the collateral or obligation. They also have unified collateral registries and allow out-of-court enforcement of security rights.

In Canada, El Salvador, Georgia, Korea, Peru, Saudi Arabia and the United States credit registries record and make available historical credit information on all bank loans—as well as credit from utilities and retailers—for both individuals and companies. The registries also make available both positive information (such as loan amounts and on-time payment patterns) and negative information (such as late payments and defaults). And they allow borrowers to inspect and dispute their information.

*Doing Business* measures the legal rights of borrowers and lenders and the scope and quality of credit information systems. The first set of indicators describes how well collateral and bankruptcy laws facilitate lending. The second set measures the coverage, scope, qual-

ity and accessibility of credit information available through public and private credit registries (figure 6.2).

Both creditor protection through the legal system and credit registries are associated with higher ratios of private credit to GDP. For example, an increase of 1 in the creditors’ rights index is associated with a 6.5 percentage point increase in the average annual growth rate of the private-credit-to-GDP ratio in the 3 years after the reform relative to the 3 years before.<sup>2</sup>

Research shows that introducing a credit registry is associated with an increase of 4.2 percentage points in firms’ reliance on credit.<sup>3</sup> This is in part because introducing registries increases the repayment rate: borrowers become less willing to default, since defaults can prevent future loans. In developing econo-

FIGURE 6.2

## Rankings on getting credit are based on 2 subindicators

Regulations on nonpossessory security interests in movable property

62.5%  
Strength of legal rights index (0–10)

37.5%  
Depth of credit information index (0–6)

Scope, quality and accessibility of credit information through public and private credit registries

Note: Private bureau coverage and public registry coverage do not count for the rankings. See Data notes for details.

mies the repayment rate can increase by up to 80% when a credit registry starts operation. Small firms benefit the most: in transition economies that introduced new credit registries, their access to credit grew twice as fast as that of large firms.<sup>4</sup>

Strengthening the legal rights of borrowers and lenders allows businesses to invest more in new technologies. One recent study finds that economies that score higher on creditor protections have newer airplanes.<sup>5</sup> Beyond that, their airlines invest in better safety and communication technologies. Why? Part of the reason is that where strong protections are lacking, creditors offer only leasing, not loans. So in economies with weak creditor protections, most planes are leased, and airline owners have less incentive to upgrade their safety features.

New evidence suggests that establishing strong legal rights and new credit registries may also reduce income inequality.<sup>6</sup> One possible explanation is that these changes allow more entrepreneurs to expand their business. Borrowing money from the bank becomes more about their creditworthiness—and less about whom they know.

## WHO REFORMED IN 2007/08?

Cambodia's new secured transactions law made it the top reformer in getting credit in 2007/08. Albania was the runner-up reformer. It created a new public credit registry with full information on loans of all sizes, for individuals and for firms.

Before the new law took effect in Cambodia, business owners could use only immovable property as collateral. With little land under private ownership, getting a loan was an unreachable dream for most small to medium-size businesses. The new law changed that. Cambodian entrepreneurs can now use a broad range of movable assets to secure a loan. That includes revolving assets such as inventory and accounts receivable. A general description of collateral suffices in loan agreements, permitting such wording as "all assets" or "all movable property" of the borrower. Thanks to these and other provisions of the law, Cambodia's score on the strength of legal rights index shot up from 0 to 9.

Three other economies in East Asia and Pacific—Vanuatu, China and Taiwan (China)—also made it easier for businesses to use movable property as

collateral. Vanuatu passed a new secured transactions law, the Personal Property Securities Act. China revised its property law to allow borrowers to use a variety of revolving assets and a combined set of assets (such as raw material, production equipment and finished goods) as collateral. The new law is expected to put into circulation more than \$2 trillion worth of movable assets.<sup>7</sup> Taiwan (China) amended its civil code to allow parties to a pledge agreement to set the loan amount as a maximum line of credit.

In South Asia, Sri Lanka exempted secured creditors from automatic suspension of enforcement procedures in court during bankruptcy.

Georgia amended its civil code in June 2007 to allow parties to agree that collateral can be sold without court intervention. Guatemala passed a law in October 2007 establishing a special regime for registering security interests in movable property. The law went into effect in January 2008.

Twenty-seven economies reformed their credit information systems in 2007/08, improving the quality and scope of information collected and distributed by credit registries and bureaus (table 6.2). Uzbekistan created both a public credit registry and a private credit bureau. Albania, Liberia and Montenegro launched new public credit registries—and in Montenegro the coverage of borrowers went from 0 to 26% of the adult population. Ukraine and the United Arab Emirates each set up a private credit bureau. Zambia is doing so.

Six more economies in Eastern Europe and Central Asia introduced credit information reforms, bringing the total to 10, the most of any region. Georgia now distributes a full range of information, including on-time repayment patterns and outstanding loan amounts. Coverage has increased 20 times. Kazakhstan's private credit bureau is adding new suppliers of information at a rate of 2 a month. Prominent among them are nonbank institutions such as retailers and utility companies. Coverage has shot up by 80%. Moldova passed a new law to

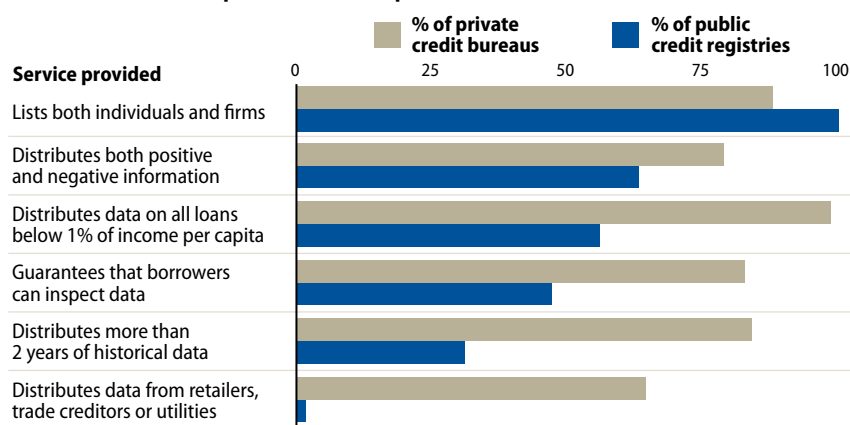
TABLE 6.2

### More credit information, more access—popular reform features in 2007/08

Provided online access to credit registry	Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon, Sri Lanka, West Bank and Gaza
Expanded set of information collected in credit registry	Azerbaijan, Belarus, Georgia, Kazakhstan, Mauritius, Sri Lanka, Tunisia, Vietnam
Introduced regulations guaranteeing that borrowers can inspect data in credit registry	Belarus, Egypt, Georgia, Indonesia, former Yugoslav Republic of Macedonia, Morocco, Tunisia
Established new credit registry or bureau	Albania, Liberia, Montenegro, Ukraine, United Arab Emirates, Uzbekistan
Expanded range of revolving movable assets that can be used as collateral	Cambodia, China, Guatemala, Vanuatu
Allowed out-of-court enforcement of collateral	Georgia, Guatemala, Vanuatu
Allowed maximum rather than specific amounts in debt agreements	Cambodia, Taiwan (China)
Gave priority to secured creditors' claims outside and inside bankruptcy procedures	Cambodia, Vanuatu
Exempted secured creditors' claims from an automatic stay in reorganization	Cambodia, Sri Lanka
Created a unified registry for movable property	Cambodia

Source: *Doing Business* database.

FIGURE 6.3

**Private credit bureaus provide more comprehensive services to lenders**

Source: Doing Business database.

facilitate the creation of a private credit bureau. Azerbaijan, Belarus and the former Yugoslav Republic of Macedonia also reformed.

The most popular credit information reform feature was providing online access to members. The regional public credit registry of the Central African Monetary Union made information ac-

cessible to banks online. That led to exponential growth in coverage in Cameroon, Chad, the Republic of Congo and Gabon. Sri Lanka's credit bureau and West Bank and Gaza's public credit registry set up systems allowing banks to update information and obtain credit reports online.

Many economies issued regulations

guaranteeing borrowers access to their credit information. Egypt issued such regulations for the private credit bureau. Georgia amended its civil code with the same purpose. In the former Yugoslav Republic of Macedonia a new law on personal data protection guarantees that borrowers can review their data in the new public credit registry. In Belarus and Tunisia new laws allow individuals and firms to inspect their credit data in all central bank offices. Morocco published new circulars guaranteeing that borrowers can review their data in credit registries—and laying the groundwork for new private bureaus.

Other economies eliminated the minimum threshold for loans recorded in credit registries. Sri Lanka's private bureau started using a new online system to collect data on all loans, regardless of value. Coverage grew threefold, to around 1.3 million individuals and firms. Azerbaijan saw coverage more than double after eliminating its minimum loan cutoff of \$1,100. So did Belarus, after abolishing its \$10,000 cutoff. Mauritius too eliminated its cutoff, of \$3,000.

Tunisia now collects and distributes more detailed information—both positive and negative—on borrowers. Sri Lanka extended the length of time information is recorded from 1 year to 2—and distributes positive information for 5 years. Indonesia now distributes 2 years of historical information. Vietnam extended the period that data are distributed from 2 years to 5. That helps explain its 49% increase in coverage, to more than 8 million individuals and firms. Finland passed a new credit information law that regulates the use of corporate credit data.

Two economies saw developments that reduced the efficacy of their credit information systems. Indonesia's private credit bureau closed, unable to compete with the public registry (figure 6.3). And Burundi was forced to double the minimum cutoff for loans registered in the database to around \$900, to cope with technical limitations and a sudden increase in loan transactions.

TABLE 6.3

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

<b>Legal rights for borrowers and lenders (strength of legal rights index, 0–10)</b>			
<b>Most</b>		<b>Least</b>	
Hong Kong, China	10	Burundi	2
Kenya	10	Madagascar	2
Malaysia	10	Rwanda	2
Singapore	10	Afghanistan	1
Australia	9	Bolivia	1
Bahamas, The	9	Djibouti	1
Cambodia	9	Syria	1
Denmark	9	Timor-Leste	1
New Zealand	9	Palau	0
United Kingdom	9	West Bank and Gaza	0

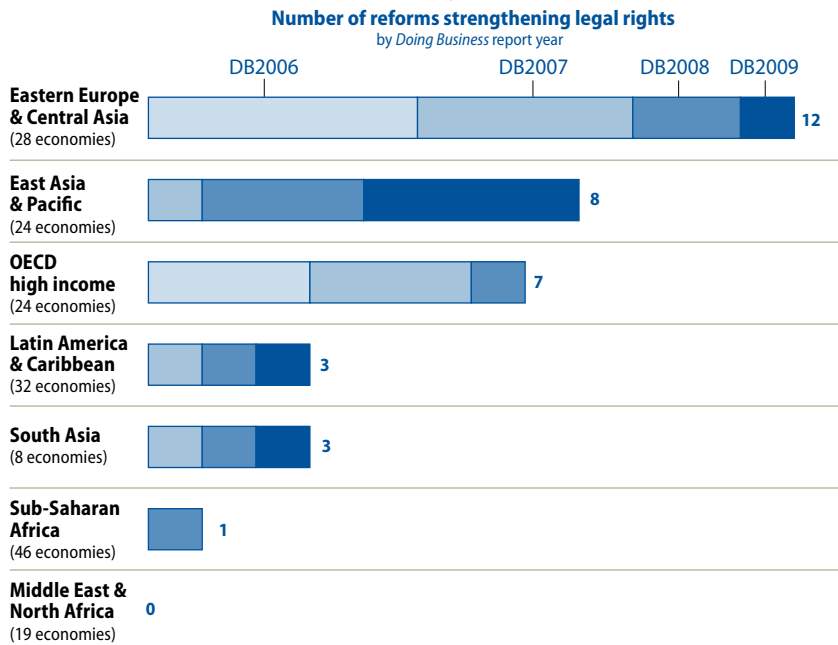
  

<b>Borrowers covered by credit registries (% of adults)</b>			
<b>Most</b>		<b>Least</b>	
Argentina	100	Nepal	0.24
Australia	100	Algeria	0.20
Canada	100	Djibouti	0.18
Iceland	100	Mauritania	0.17
Ireland	100	Ethiopia	0.13
New Zealand	100	Madagascar	0.07
Norway	100	Yemen	0.07
Sweden	100	Nigeria	0.06
United Kingdom	100	Zambia	0.05
United States	100	Guinea	0.02

Note: The rankings on borrower coverage reflected in the table include only economies with public or private credit registries (129 in total). Another 52 economies have no credit registry and therefore no coverage. See Data notes for details.

Source: Doing Business database.

FIGURE 6.4

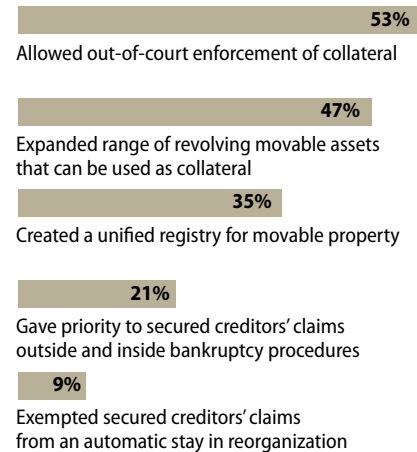
**Collateral reform—East Asia & Pacific rapidly moving forward**

Note: A reform is counted as 1 reform per reforming economy per year.  
Source: Doing Business database.

FIGURE 6.5

**Top 5 reform features in legal rights**

Reforms including feature since DB2006 (%)



Note: A reform may include several reform features.  
Source: Doing Business database.

**WHAT ARE THE REFORM TRENDS?**

In the past 4 years 34 reforms have strengthened the legal rights of borrowers and lenders in 27 economies around the world—while 88 reforms have improved credit information systems in 61 economies.

Eastern Europe and Central Asia has had the most reforms strengthening the legal rights of borrowers and lenders in the past 4 years, with a total of 12 (figure 6.4). Large emerging market economies, with the exception of the Russian Federation, also figure prominently on the list of reformers. China was a repeat reformer in the past 2 years, broadening the range of movable assets that can be used as collateral. India reformed in 2 successive years starting in 2006, establishing an online collateral registry and expanding the availability of out-of-court enforcement. Ukraine improved the standing of secured creditors in bankruptcy by giving their claims priority over labor and state tax claims. Vietnam made it easier for entrepreneurs to get a loan by expanding the range of assets that can be used as

collateral and by allowing out-of-court enforcement.

Allowing parties to agree to pursue out-of-court enforcement if the debtor defaults has been the most popular reform feature strengthening the legal rights of borrowers and lenders (figure 6.5). The ability to make such an agreement can persuade lenders wary of long court procedures to make a loan in the first place. Beyond India and Vietnam, economies that have allowed such agreements include Croatia, France, Ghana, Honduras, the Kyrgyz Republic and Peru.

Establishing a geographically unified collateral registry that covers substantially all movable property has been another popular reform feature. Such a registry allows potential lenders to find out easily and with certainty whether there are competing claims on the collateral. India stands out among those that have taken such a step. Its huge geographic area and large population make its creation of an online, unified national database of security rights in movable assets a notable achievement.

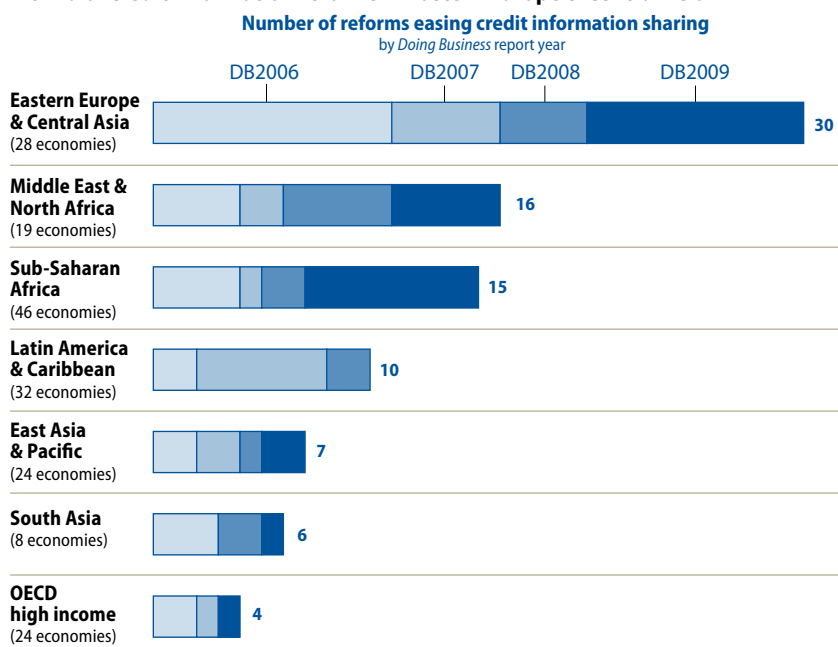
Many economies passed new secured transactions laws. Three of this

year's top reformers—Cambodia, Guatemala and Vanuatu—did just that. Peru introduced a new bill on guarantees based on movable property in 2006. Now almost any type of movable asset—tangible or intangible, present or future—can secure a loan, and assets no longer have to be described specifically. More than 20 different types of pledges were consolidated into 1. The country's 17 collateral registries have been combined as well.<sup>8</sup>

The 88 reforms improving credit information in the past 4 years have shown clear results: worldwide, coverage by credit registries more than doubled, to around 1.8 billion individuals and firms. The fastest reforming region was Eastern Europe and Central Asia (figure 6.6). Its average score on the depth of credit information index has more than doubled in the past 4 years—from 2.1 points to 4.4 out of a maximum of 6—and its coverage of borrowers has increased by a factor of almost 5. That propelled the region past Latin America and the Caribbean, and it now ranks behind only the OECD high-income economies.

More than a quarter of the reforms in credit information involved setting up

FIGURE 6.6

**A third of credit information reforms in Eastern Europe & Central Asia**

Note: A reform is counted as 1 reform per reforming economy per year.  
Source: *Doing Business* database.

new registries: 19 economies saw the creation of private credit bureaus; 8 others set up new public credit registries (figure 6.7). The biggest gains were in Eastern Europe and Central Asia, where nearly half the economies established either a public credit registry or a private credit bureau, followed by the Middle East and North Africa.

In 20 economies reforms expanded the range of credit information collected and distributed by public or private credit registries. In 13 of these, the public registry eliminated the minimum cutoff for recording loans, more than quadrupling coverage on average. What made this

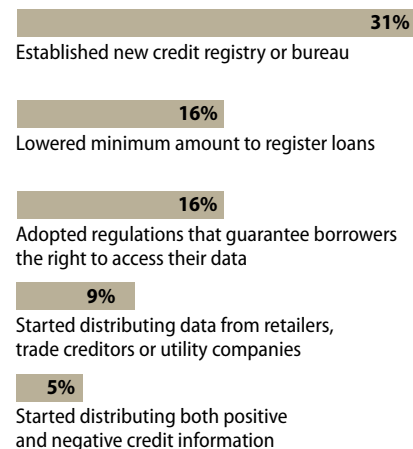
reform possible in many cases was developing the information infrastructure and shifting from a paper-based to an online system.

In the 8 economies private credit bureaus expanded the sources of credit information to nonfinancial institutions such as utilities (like mobile phone companies) or retailers (like supermarkets and furniture stores). Such changes took place in Bulgaria, Georgia, Kazakhstan, Kenya, Kuwait, Nicaragua, Saudi Arabia and Trinidad and Tobago. Now people with a cell phone but no bank loans can still build a credit history—particularly important in poor economies.

FIGURE 6.7

**Top 5 reform features in credit information**

Reforms including feature since DB2006 (%)



Note: A reform may include several reform features.  
Source: *Doing Business* database.

**NOTES**

1. This example is from the World Bank's *Doing Business: Women in Africa* (2008a), a collection of case studies on African entrepreneurs.
2. Djankov, McLeish and Shleifer (2007).
3. Brown, Jappelli and Pagano (2008).
4. Brown and Zehnder (2007).
5. Benmelech and Bergman (2008).
6. Claessens and Perotti (2007).
7. World Bank (2007c).
8. Marechal and Shahid-Saless (2008).