



**Asia-Pacific  
Economic Cooperation**

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**2010/SOM3/EC/SEM/003**

Session 1

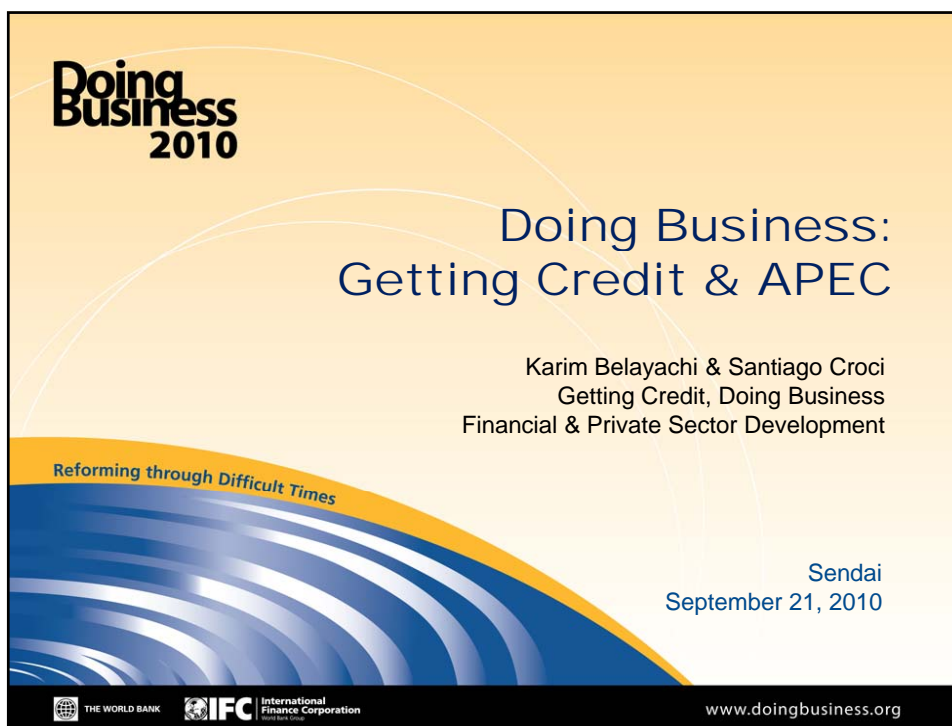
## **Doing Business: Getting Credit and APEC**

Submitted by: World Bank



**JAPAN 2010**

**Seminar on Getting Credit for Small and  
Medium Enterprises  
Sendai, Japan  
21 September 2010**



## Doing Business – Overview



- ✓ Doing Business measures the regulations applying to domestic small and medium-size companies through their life cycle
- ✓ 10 indicators in 183 countries
- ✓ The objective: well-designed, streamlined regulations, accessible to all
- ✓ Doing Business 2010 is the 7th report

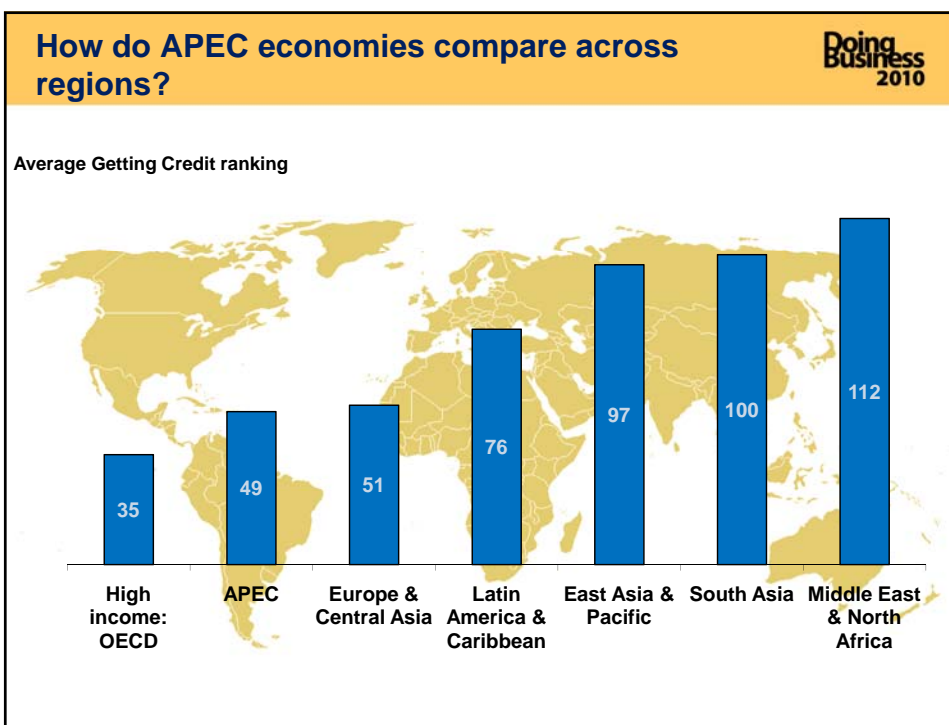
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### Top 30 on the ease of Doing Business 2010 – Singapore tops the rankings 4<sup>th</sup> year in a row



1. Singapore	16. Finland
2. New Zealand	17. Mauritius
3. Hong Kong, China	18. Sweden
4. United States	19. Korea, Rep.
5. United Kingdom	20. Bahrain
6. Denmark	21. Switzerland
7. Ireland	22. Belgium
8. Canada	23. Malaysia
9. Australia	24. Estonia
10. Norway	25. Germany
11. Georgia	26. Lithuania
12. Thailand	27. Latvia
13. Saudi Arabia	28. Austria
14. Iceland	29. Israel
15. Japan	30. Netherlands

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## Methodology – Getting Credit

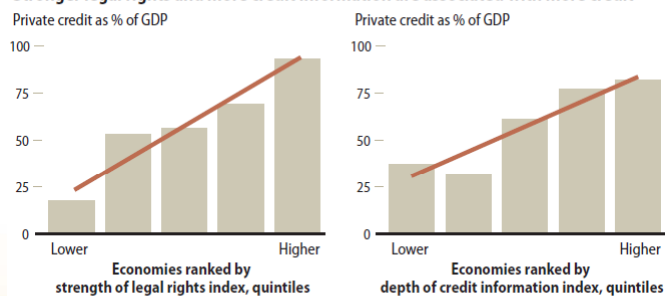
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Getting credit has two separate sub-indices:

- Strength of legal rights: Index from 0 to 10
- Depth of credit information: Index from 0 to 6

FIGURE 6.1

### Stronger legal rights and more credit information are associated with more credit



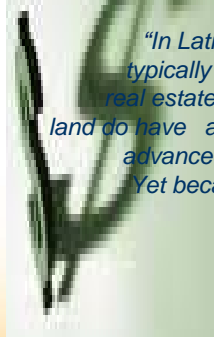
Note: Relationships are significant at the 5% level and remain significant when controlling for income per capita.  
Source: Doing Business database; World Bank, World Development Indicators database (2008).

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## Why Legal Rights?

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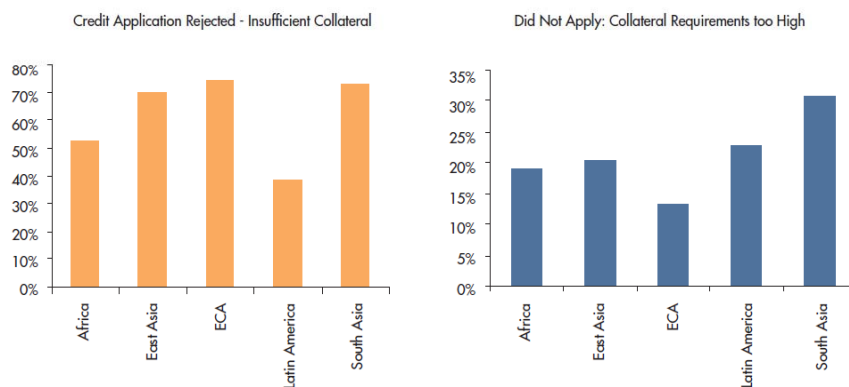
- **Affordable credit** allows for the **creation** or **expansion** of businesses.
- Banks are **more likely to lend** — and at better rates — when a borrower can offer collateral.
- **Types** of collateral available: **immovable** and **movable property**.
- In **developing economies**: movable property is **not** accepted due to a lack of legal framework. However, most SME's do not own real state.



*"In Latin America, **Micro, small and medium size enterprises** typically have **95%** of their assets in **movable property** rather than **real estate**... Those owning **no real estate** or lacking formal title to their land do have assets: **their movable property and land use rights**. Under advanced collateral systems, this property could serve as collateral. Yet because of the defective legal system for using collateral, they cannot obtain such credit"*

## Movable property is not accepted as collateral

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Source: World Bank Enterprise Surveys Global Database

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## Why Legal Rights?

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- The terms on which lenders make credit available depend on several factors: the **lenders' cost of capital**, the **transaction costs** to make the loan, and **risks** the loan will not be repaid.
- **Higher costs** and **risks** result in **smaller, shorter loans at higher interest rates**.
- Strong credit rights **mitigates lender's risk** and therefore help expand loan.
- If creditors have **priority** over other creditors or more bargaining **power to force repayment** or **take control of the firm**, they will extend credit on more favorable terms



*"In countries where security interests are perfected and there is a predictable priority system for creditors in cases of loan default, credit to the private sector as a percentage of gross economic product (GDP) averages 60% compared with only 30% to 32% on average for countries without these creditor protections"*

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## What does the indicator cover?

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### Credit cycle: NPSI three main stages

#### Creation:

- Parties to a security agreement.
- Collateral and obligations that are allowed in a security agreement.
- Flexibility through the number of charges that can be used to secure a large number of assets.
- Flexibility of the agreement through a general description of its components.

#### Publicity:

- Third party effectiveness.
- Transparency of information.
- Speed of the process.
- Recommended approach: registration.

#### Enforcement:

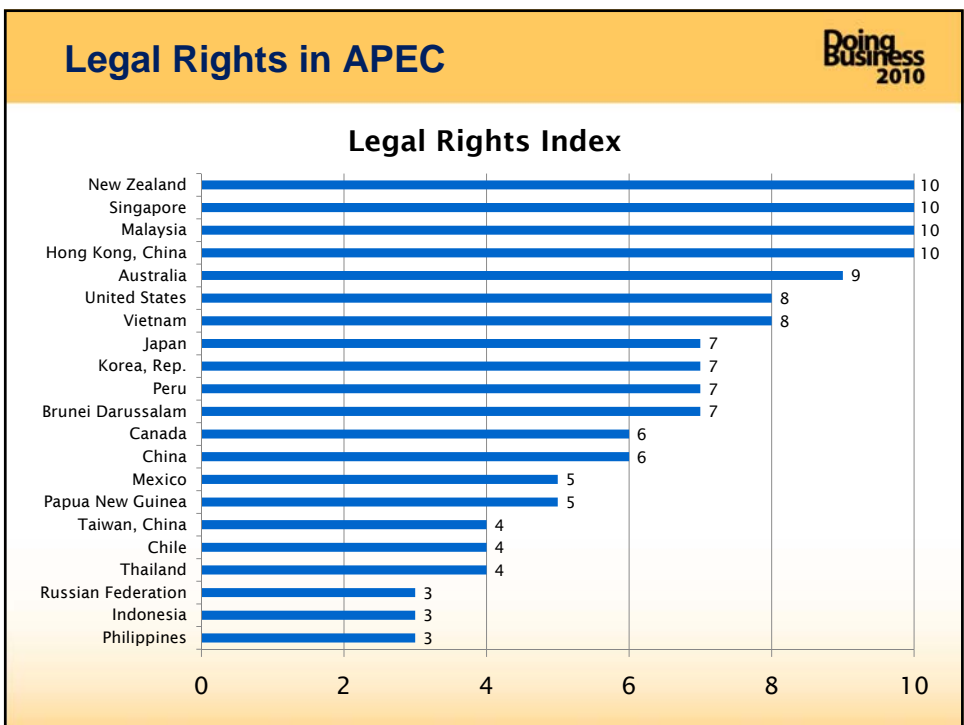
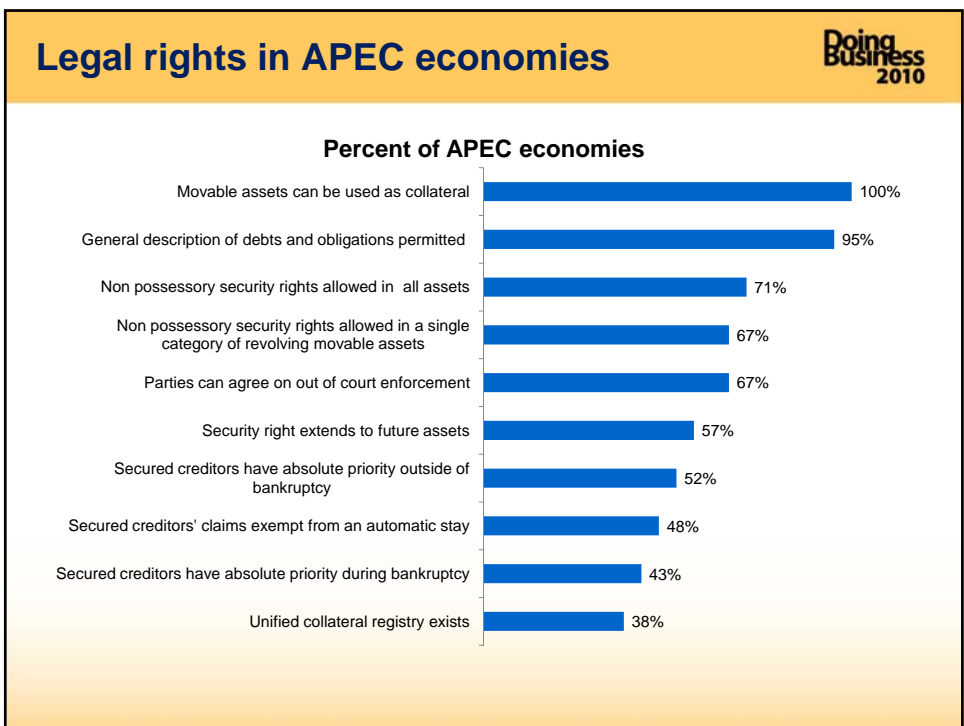
- Priority rules outside/inside bankruptcy
- Secured creditors protection during reorganization/bankruptcy processes.
- Out of court enforcement

## Legal Rights Index (0-10)

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Strength of legal rights index (0-10)	10
Can any business use <b>movable assets as collateral</b> while keeping possession of the assets?	1
Does the law allow businesses to grant a non possessory security right in a <b>single category of movable assets</b> , without requiring a specific description of the collateral?	1
Does the law allow businesses to grant a non possessory security right <b>in substantially all of its assets</b> , without requiring a specific description of the collateral?	1
May a security right <b>extend to future or after-acquired assets</b> , and may it extend automatically to the products, proceeds or replacements of the original assets ?	1
Is a <b>general description of debts and obligations</b> permitted in collateral agreements, so that all types of obligations and debts can be secured by stating <b>a maximum amount</b> ?	1
Is a <b>unified collateral registry</b> in operation?	1
Do secured creditors have <b>absolute priority</b> to their collateral <b>outside bankruptcy</b> procedures?	1
Do secured creditors have <b>absolute priority</b> to their collateral <b>in bankruptcy</b> procedures?	1
During reorganization, are secured creditors' claims <b>exempt from an automatic stay on enforcement</b> ?	1
Does the law authorize parties to agree on <b>out of court enforcement</b> ?	1

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## Reforms that improved legal rights in APEC

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- |  |  |
|--|--|
| <p>New Zealand: Personal Property Securities Act (1999)</p>                | <ul style="list-style-type: none"> <li>• A wider range of movable assets, including future property, can be used as collateral.</li> </ul>   |
| <p>Vietnam: Civil Code (2005) and Decree 163 (2006)</p>                    | <ul style="list-style-type: none"> <li>• General description of assets.</li> </ul>   |
| <p>Mexico: Ley General de Títulos y Operaciones de Crédito (2001/2003)</p> | <ul style="list-style-type: none"> <li>• Wider range of obligations secured and maximum amount of debt.</li> </ul>   |
| <p>People's Republic of China: Property Law (2007)</p>                     | <ul style="list-style-type: none"> <li>• Unified collateral registry is operational and is searchable by debtor's name.</li> </ul>   |
| <p>Peru: The Bill on Guarantees Based on Moveable Property (2006)</p>      | <ul style="list-style-type: none"> <li>• Secured creditors have priority to their collateral outside bankruptcy procedures.</li> <li>• Allow out of court enforcement by law.</li> </ul> |

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## Getting Credit (Credit Information)

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### Public credit registry:

Database managed by the public sector, usually by the central bank or the superintendent of banks that collects information on the creditworthiness of borrowers (persons or businesses) in the financial system and facilitates the exchange of credit information amongst banks and financial institutions.

### Private credit bureau:

Private firm or nonprofit organization that maintains a database on the creditworthiness of borrowers (persons or businesses) in the financial system and facilitates the exchange of credit information amongst banks and financial institutions.

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## Methodology – Getting Credit (credit information)

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Affects  
ranking

### Depth of credit information: (Index from 0 to 6)

1. Data on both **firms** and **individuals** are distributed
2. Both **positive and negative** credit information is distributed
3. Data from **retailers**, trade creditors or **utilities** as well as financial institutions are distributed
4. 2 years or more of **historical data** are distributed
5. Data on **all loans** below 1% of income per capita are distributed
6. By law, borrowers have the right to access their data

Does  
NOT  
affect  
ranking

- **Public registry coverage:** number of individuals/firms as a % of adult population
- **Private bureau coverage:** number of individuals/firms as a % of adult population

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→ Impacts score if the coverage is less than 0.1% of adult population

## What type of information do credit bureaus collect?

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### 1. Positive and negative data

- Positive information :
  - Amount of loans (original, outstanding, installments)
  - On time repayment patterns
- Negative information:
  - Arrears
  - Defaults (normally after a certain time it is considered a default, and the bank may cancel the loan)
  - Court judgments, bankruptcies

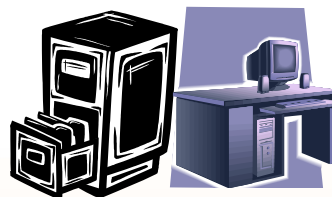
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## What type of information do credit bureaus collect?

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### 2 . Individuals and Firms

- Are individuals and firms listed in the database?
- Please note that we count sole proprietors as individuals and not firms.



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## From where do the bureaus get their data?

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### 3 . Sources of data

- Many sources of data, to target various segments of the population:
  - Bank loans, mortgages
  - Leasing companies
  - Credit cards
  - **Utilities** (telephone-cell-, electricity, garbage collection, fines, etc...)
  - **Retailers** (consumer credit for white goods, furniture: Carrefour, Walmart, JC Penney)
  - **Trade credit** (firms like Nestle or a big distributor such as Coca-cola giving extended terms of payment to its clients-companies)
  - Microfinance institutions

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What type of information do credit bureaus collect?

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#### 4 . Historical data

“Past behavior is a good predictor of future payments”

-Mr. A. Banker

- At least 2 years of data are distributed
  - What happens to a default & arrear when it is repaid: is it deleted?



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What type of information do credit bureaus collect?

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#### 5 . Minimum loan amount to distribute loans

The **minimum loan amount** required to be included in the registry:

- for loans, for defaults, etc.
- We give one point if threshold is lower than 1% of income per capita

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## What type of information do credit bureaus collect?

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### 6 . Is it guaranteed by law that borrowers can verify their data?

- It has to be written in the law

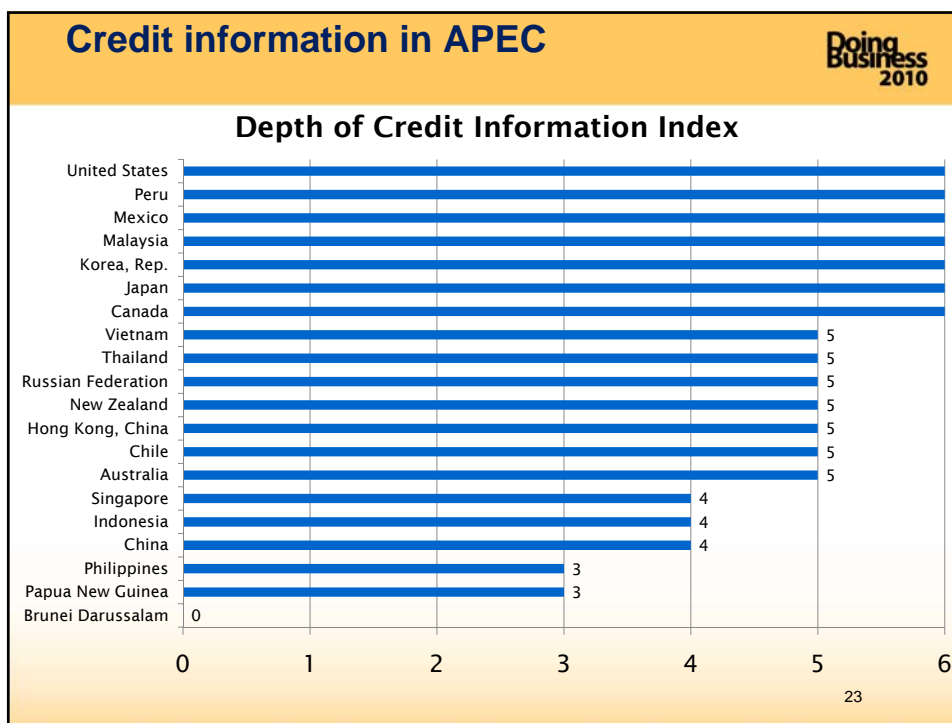
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## Credit Information Index (0-6) in Chile

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Depth of Credit Information	Private Credit Bureau	Public Credit Registry	DB score (5)
Are data on <b>both firms and individuals</b> distributed?	Yes	Yes	1
Are both <b>positive and negative data</b> distributed?	No	Yes	1
Does the registry distribute credit information from <b>retailers, trade creditors or utility</b> companies?	Yes	No	1
Are <b>more than 2 years</b> of historical credit information distributed?	No	No	0
Is data on <b>all loans below 1% of income per capita</b> distributed?	Yes	Yes	1
Is it <b>guaranteed by law</b> that borrowers can inspect their data in the largest credit registry?	Yes	Yes	1
<b>COVERAGE (% of adult population)</b>	<b>33.9</b>	<b>32.9</b>	

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### Reforms that improved Credit information systems in APEC

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<p>People's Republic of China (2006): established credit registry</p>	<ul style="list-style-type: none"> <li>Improved scope of credit information that is distributed (ex: historical data, positive and negative information)</li> </ul>
<p>Indonesia: increased scope of credit information / lowered thresholds on loans being reported</p>	<ul style="list-style-type: none"> <li>Low minimum threshold (or none) for loans being reported</li> </ul>
<p>Papua New Guinea (2008): new private credit bureau</p>	<ul style="list-style-type: none"> <li>Data from non-regulated institutions is distributed (ex: retailers, utilities)</li> <li>Borrowers can access their credit report</li> </ul>
<p>Philippines (2008): new act setting regulations for credit information</p>	<ul style="list-style-type: none"> <li>Allow out of court enforcement by law.</li> </ul>
<p>Vietnam (2010): Decree on Credit Information Operations</p>	

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Thank you. For more information:  
[www.doingbusiness.org](http://www.doingbusiness.org)

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Country	Reforms	Ranking
Rwanda	7	67
Chad	6	100
Guinea	6	100
Guinea-Bissau	6	100
Guinea	6	100
Guinea-Bissau	6	100
Guinea	6	100
Guinea-Bissau	6	100
Guinea	6	100
Guinea-Bissau	6	100

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