



# Conference on Credit Bureau Development in South Asia

Organized by the World Bank, the Central Bank of Sri Lanka, and the Credit Information Bureau of Sri Lanka

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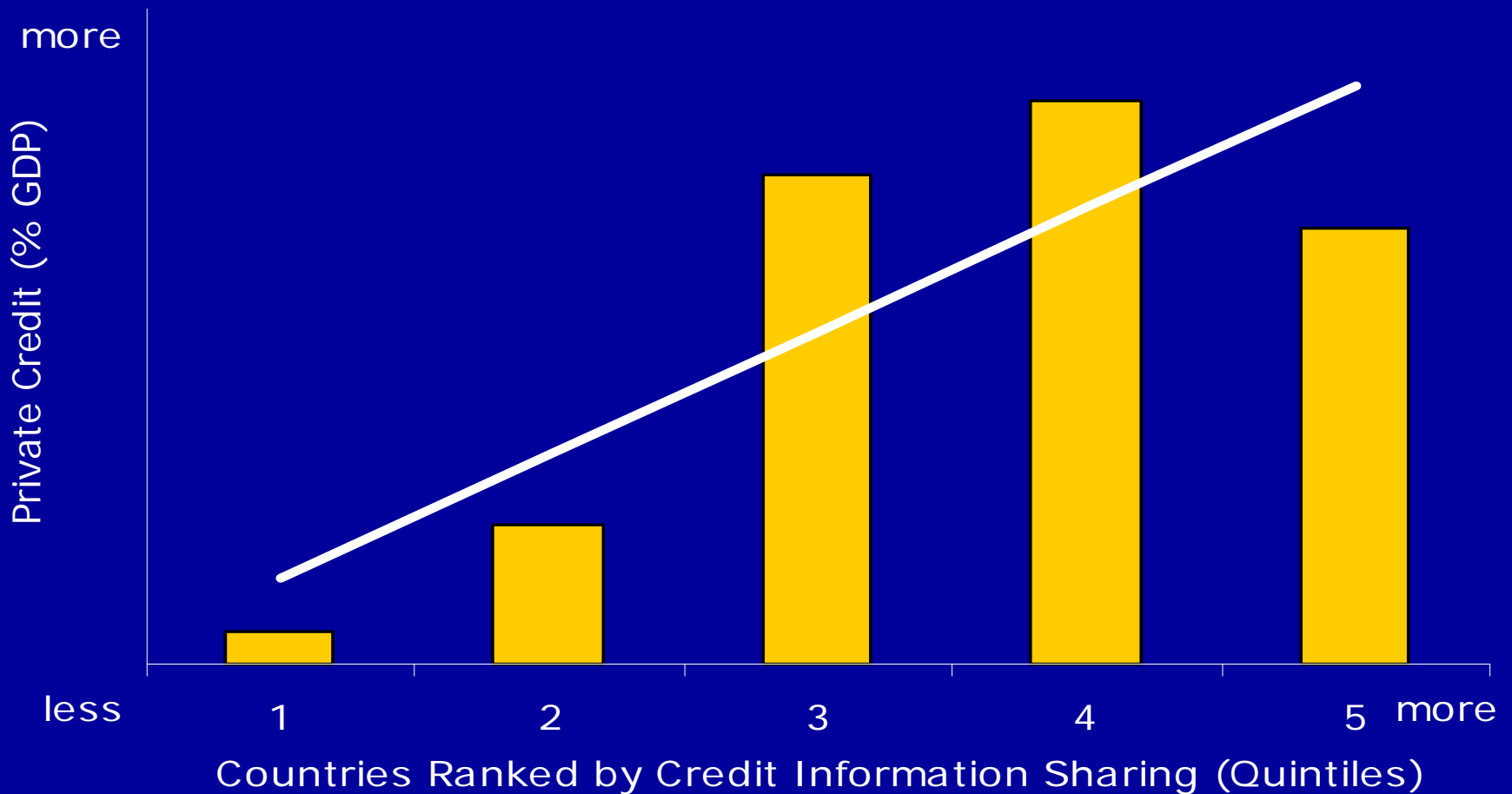
# Why are good credit information systems so important for private sector development and growth in South Asia?

BECAUSE access to credit is consistently rated by firms as one of the greatest barriers to operation and growth.

Hence a credit bureau can be a key supporter of greater access to finance and to faster national economic growth.

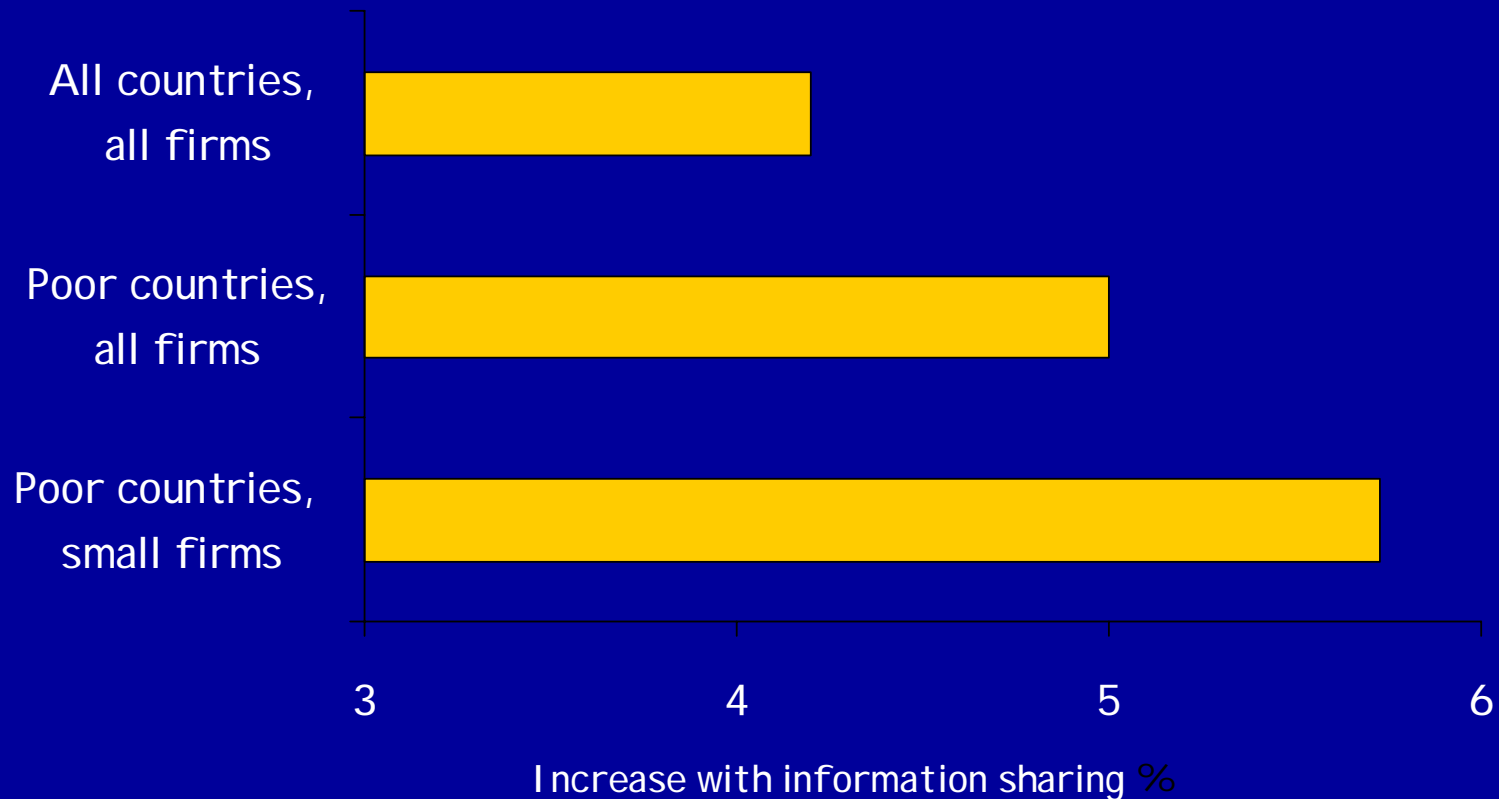
The Doing Business Data Base of the World Bank collects information on two sets of issues related to credit information – credit information registries and creditor rights.

# Credit information helps all markets



# Small firms in poor countries gain most from good regulation

Impact of Credit Information Bureaus on Firm's Access to Finance



Note: Figure shows the impact of information sharing on the percent of firm finance from formal sources, controlling for income, rule of law, firm ownership, age, sector and size. The effect of information sharing is significant at the 1% level in each case, and the effect of small firms in poor countries is significantly different from the full sample.

- Access to credit may be expanded significantly by credit registries.
- The information-sharing role of credit registries helps creditors to assess risk and allocate credit more efficiently.
- This means that entrepreneurs don't need to rely on only personal relations when trying to obtain credit.

## THE DOING BUSINESS INDICATORS

- The DB indicators of the World Bank report whether public credit registries or private credit bureaus operate in surveyed countries and the amount of credit information they cover.
- An index of the extent to which the rules of credit information registries facilitate lending is constructed on the basis of: scope of information collected; scope of information distributed; ease of access to information and quality of information.
- The data were obtained from surveys of public and private credit registries.

# Regulations on Secured Lending

- Effective regulations on secured lending - or collateral - are another institutional solution to credit constraints.
- With collateral, a lender can seize and sell the borrower's secured assets upon default of a loan, which limits the potential losses of a lender and acts as a screening device for borrowers.
- Therefore, with effective collateral law, systems and enforcement, one may expect increased access to credit and better allocation of credit.
- Doing Business reports an indicator of creditor rights, which measures the powers of secured lenders in bankruptcy.

The creditor rights indicator is an index that measures four powers of secured creditors in liquidation and reorganization laws

1. First, whether there are restrictions, such as creditor consent, on entering into reorganization proceedings.
2. Second, whether there is no automatic stay (or 'asset freeze') on realizing collateral upon bankruptcy.
3. Third, whether secured creditors are satisfied first upon liquidation, and
4. Fourth, whether management is replaced by a court or creditor appointed receiver in reorganization.

A value of 1 is assigned for each variable when a country's laws and regulations provide these powers for secured creditors.

The aggregate creditor rights index sums the total score across all four variables.

A minimum score of 0 represents weak creditor rights and the maximum score of 4 represents strong creditor rights.

Data for the variables were obtained from an examination of bankruptcy laws and legal summaries, verified through a survey of bankruptcy lawyers and cross-checked with data gathered for the Doing Business bankruptcy project.

**These two measures are important indicators of well functioning credit markets.**

**Across countries, stronger creditor rights and more information sharing are associated with deeper credit markets and lower default rates.**

**The presence of credit registries is also associated with a lower spread between lending and deposit rates.**

Firms in countries with information sharing are less likely to report obstacles to obtaining finance and evidence of credit constraints.

Countries with stronger legal creditor protections have larger debt markets, and higher rates of capital investment and productivity growth.

And the overall link between the development of financial markets and growth is well established.

The following tables shows two measures pertaining to credit systems in South Asia - indicators of the presence and structure of public and private registries, and a creditor rights index measuring the powers of secured lenders.

<b>BANGALDESH – Credit Information</b>	
Public credit registry (PCR) operates	YES
Year of PCR establishment	1992
PCR coverage (borrowers per 1000 capita)	1
PCR Access Index	63
PCR Collection Index	40
PCR Distribution Index	71
PCR Quality Index	31
PCR Index	51
Private credit bureau operates	NO
Private credit bureau coverage (borrowers per 1000 capita)	0
<b>Creditor Right Indicators</b>	
Restrictions on entering reorganization	NO
No automatic stay on enforcing security	NO
Secured Creditors are paid first	YES
Management does not stay during reorganization	YES
Creditor Rights Index	2
<b>Credit Market Outcome Variables</b>	
Private credit (% GDP)	24.3
Five bank concentration ratio (%)	50.9
Interest rate spread (%)	6.2

<b>INDIA – Credit Information</b>	
Public credit registry (PCR) operates	NO
Year of PCR establishment	...
PCR coverage (borrowers per 1000 capita)	0
PCR Access Index	0
PCR Collection Index	0
PCR Distribution Index	0
PCR Quality Index	0
PCR Index	0
Private credit bureau operates	NO
Private credit bureau coverage (borrowers per 1000 capita)	0
<b>Creditor Right Indicators</b>	
Restrictions on entering reorganization	YES
No automatic stay on enforcing security	YES
Secured Creditors are paid first	NO
Management does not stay during reorganization	YES
<b>Creditor Rights Index</b>	<b>3</b>
<b>Credit Market Outcome Variables</b>	
Private credit (% GDP)	27.0
Five bank concentration ratio (%)	42.6
Interest rate spread (%)	0

<b>NEPAL – Credit Information</b>	
Public credit registry (PCR) operates	NO
Year of PCR establishment	...
PCR coverage (borrowers per 1000 capita)	0
PCR Access Index	0
PCR Collection Index	0
PCR Distribution Index	0
PCR Quality Index	0
PCR Index	0
Private credit bureau operates	NO
Private credit bureau coverage (borrowers per 1000 capita)	0
<b>Creditor Right Indicators</b>	
Restrictions on entering reorganization	YES
No automatic stay on enforcing security	YES
Secured Creditors are paid first	NO
Management does not stay during reorganization	NO
Creditor Rights Index	2
<b>Credit Market Outcome Variables</b>	
Private credit (% GDP)	29.6
Five bank concentration ratio (%)	78.2
Interest rate spread (%)	4.1

<b>PAKISTAN – Credit Information</b>	
<b>Public credit registry (PCR) operates</b>	<b>YES</b>
<b>Year of PCR establishment</b>	<b>1992</b>
<b>PCR coverage (borrowers per 1000 capita)</b>	<b>1</b>
<b>PCR Access Index</b>	<b>50</b>
<b>PCR Collection Index</b>	<b>30</b>
<b>PCR Distribution Index</b>	<b>42</b>
<b>PCR Quality Index</b>	<b>44</b>
<b>PCR Index</b>	<b>42</b>
<b>Private credit bureau operates</b>	<b>YES</b>
<b>Private credit bureau coverage (borrowers per 1000 capita)</b>	<b>0.2</b>
<b>Creditor Right Indicators</b>	
<b>Restrictions on entering reorganization</b>	<b>NO</b>
<b>No automatic stay on enforcing security</b>	<b>NO</b>
<b>Secured Creditors are paid first</b>	<b>YES</b>
<b>Management does not stay during reorganization</b>	<b>NO</b>
<b>Creditor Rights Index</b>	<b>1</b>
<b>Credit Market Outcome Variables</b>	
<b>Private credit (% GDP)</b>	<b>26.4</b>
<b>Five bank concentration ratio (%)</b>	<b>60.0</b>
<b>Interest rate spread (%)</b>	<b>0.0</b>

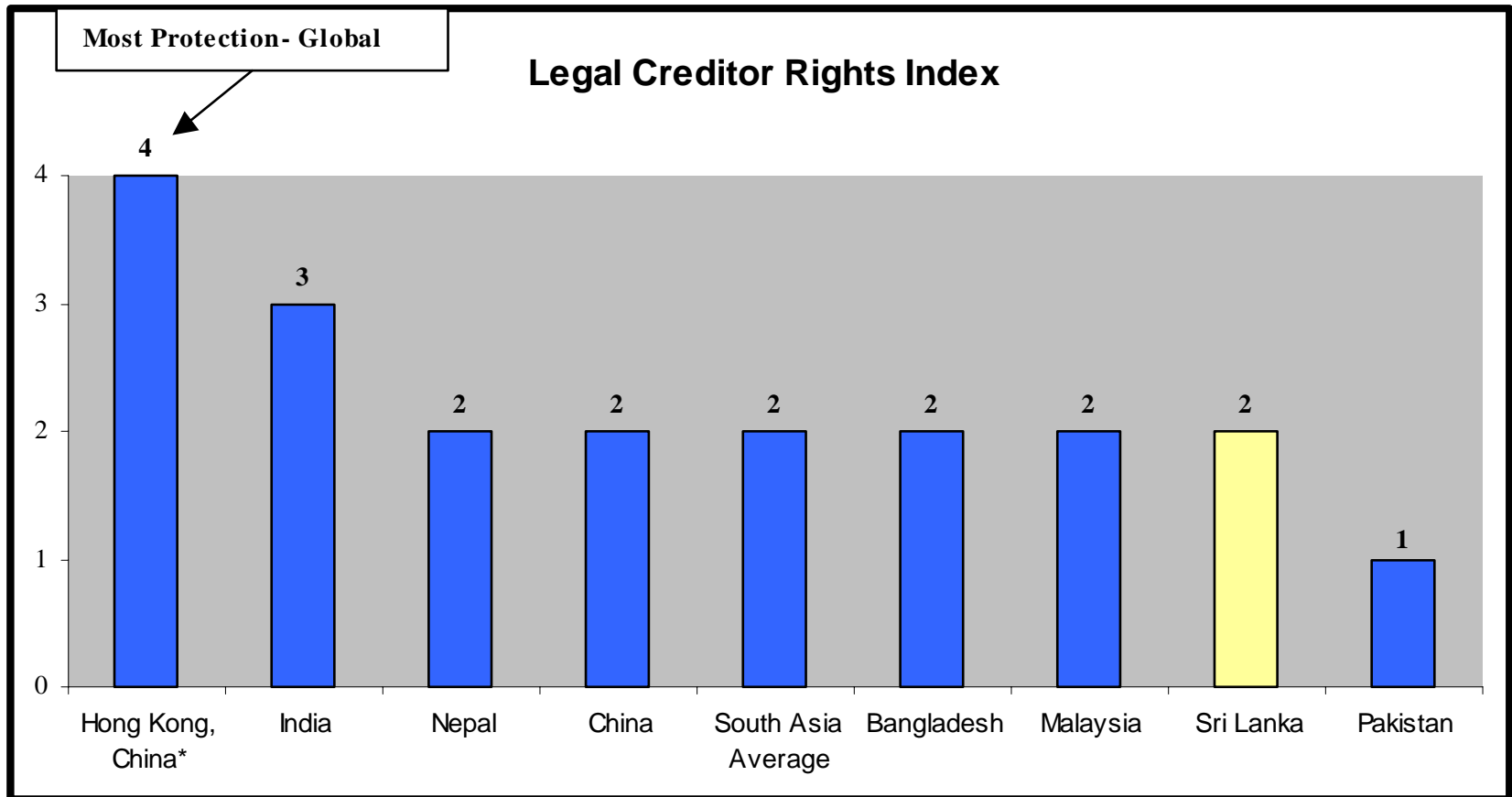
<b>SRI LANKA – Credit Information</b>	
Public credit registry (PCR) operates	NO
Year of PCR establishment	...
PCR coverage (borrowers per 1000 capita)	0
PCR Access Index	0
PCR Collection Index	0
PCR Distribution Index	0
PCR Quality Index	0
PCR Index	0
Private credit bureau operates	YES
Private credit bureau coverage (borrowers per 1000 capita)	9.0
<b>Creditor Right Indicators</b>	
Restrictions on entering reorganization	YES
No automatic stay on enforcing security	NO
Secured Creditors are paid first	NO
Management does not stay during reorganization	YES
Creditor Rights Index	2
<b>Credit Market Outcome Variables</b>	
Private credit (% GDP)	28.7
Five bank concentration ratio (%)	78.7
Interest rate spread (%)	5.9

Note: Scores for each of the public credit registry indices on collection, distribution, access, quality can range from 0 to 100. The total public credit registry index is the simple average of the collection, distribution, access and quality indices, and ranges from 0 to 100. Higher values indicate that the rules of the public credit registry on collection, distribution, access and quality are better designed to support credit transactions. The creditor rights index is calculated following the methodology of La Porta et. al (1998) by first assigning a value of 1 for a "yes" response on each of the four types of creditor rights and then summing the total score across all four variables. A minimum score of 0 represents weak creditor rights and the maximum score of 4 represents strong creditor rights.

Source: Doing Business Database.

# Benchmarking—Creditor Rights Indicator

SOUTH ASIA — Compared to Global Best and Selected Other Countries



\* Other countries that offer the most protection globally include Kenya, Lebanon, Nicaragua, Nigeria, New Zealand, Panama, UK and Zimbabwe.

Source: Doing Business Database.

# Benchmarking - Credit Information Indicators

South Asia — Compared to Global Best and Selected Other Countries. The coverage of credit registries and selected benchmarks with indicators on the number of registered borrowers per 1000 inhabitants.

	Coverage Public Registry (borrowers/1000 cap.)	Coverage Private Bureau (borrowers / 1000cap.)
Portugal	496 (highest coverage)	24
Norway	0	945 (highest coverage)
Malaysia	105	461
China	3	0
Bangladesh	1	0
Pakistan	1	0
Sri Lanka	0	9
South Asia Average	0	0
India	0	0
Nepal	0	0

Source: Doing Business Database

Hence good credit information systems and good creditor rights systems are important for private sector development and growth in South Asia.

Not only will they be important in instilling a stronger credit discipline in a region where the credit culture has been weakened by the pre-dominant presence of large state owned banks - but it will also assist in ensuring that more (and smaller) enterprises obtain access to credit.

And this will have beneficial effects upon poverty alleviation as well as growth.

