

Getting credit

Credit information and legal rights

Firms consistently rate access to credit as among the greatest barriers to their operation and growth. *Doing Business* constructs two sets of indicators of how well credit markets function—one on credit registries and the other on legal rights of borrowers and lenders.

Credit registries—institutions that collect and distribute credit information on borrowers—can greatly expand access to credit. By sharing credit information, they help lenders assess risk and allocate credit more efficiently. And they free entrepreneurs from having to rely on personal connections alone when trying to obtain credit. Three indicators are constructed to measure the sharing of credit information:

- Public registry coverage, which reports the number of individuals and firms covered by a public credit registry as a percentage of the adult population.
- Private bureau coverage, which reports the number of individuals and firms covered by a private credit bureau as a percentage of the adult population.
- Depth of credit information index, which measures the extent to which the rules of a credit information system facilitate lending based on the scope of information distributed, the ease of access to information and the quality of information.

The data are from surveys of public registries and the largest private credit bureau in the country.

Effective regulation of secured lending—through collateral and bankruptcy laws—can also ease credit constraints. By giving a lender the right to seize and sell a borrower’s secured assets upon default, collateral limits the lender’s potential losses and acts as a screening device for borrowers. The strength of legal rights index measures 10 aspects of the rights of borrowers and creditors in collateral and bankruptcy laws, including whether:

- General rather than specific description of assets and debt is permitted in collateral agreements (expanding the scope of assets and debt covered).
- Any legal or natural person may grant or take security in assets.
- A unified registry operates that includes charges over movable property.
- Secured creditors have priority both within bankruptcy and outside it.
- Parties may agree on out-of-court enforcement of collateral by contract.
- Creditors may both seize and sell collateral out of court, no automatic stay or “asset freeze” applies upon bankruptcy, and the bankrupt debtor does not retain control of the firm.

The index ranges from 0 (weak legal rights) to 10 (strong legal rights). The data were obtained by examining collateral and bankruptcy laws and legal summaries and verified through a survey of financial lawyers.

Where good-quality credit information is available and legal rights are stronger, more credit is extended. Benefits flow beyond those gaining access to credit. With better-functioning credit markets, unemployment is lower, and women and low-income people benefit the most.

Benchmarking—credit information
South Asia—compared with global best practice

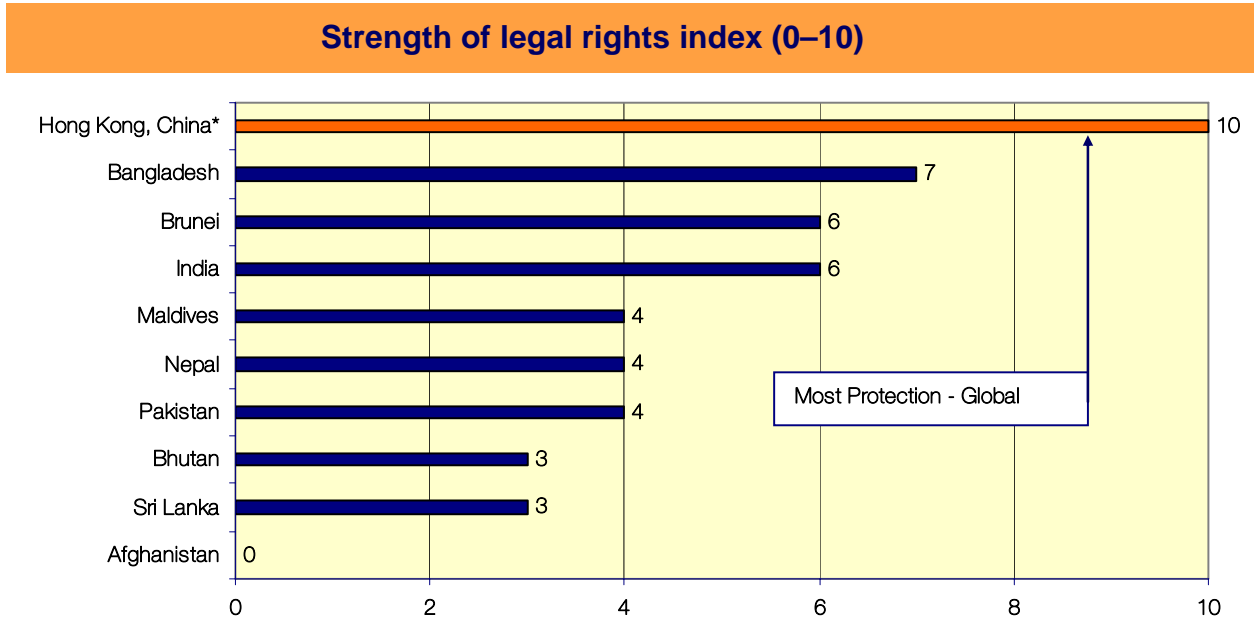
Economy	Public registry coverage (borrowers /% adults)	Private bureau coverage (borrowers /% adults)	Credit Information Index **
Portugal	67.1 (highest coverage)	11.3	4
Argentina*	25.5	100.0 (highest coverage)	6
Pakistan	4.6	1.4	4
Bangladesh	0.7	0.0	2
India	0.0	10.8	4
Sri Lanka	0.0	2.9	3
Nepal	0.0	0.2	2
Afghanistan	0.0	0.0	0
Bhutan	0.0	0.0	0
Brunei	0.0	0.0	0
Maldives	0.0	0.0	0

*Other economies that offer the most coverage include Australia, Canada, Iceland, Ireland, New Zealand, Nicaragua, Norway, Sweden and the United States.

**The index measures whether either public or private credit registries have both positive information (loans outstanding, on-time repayment history) and negative information (defaults, late payments); data on both firms and individuals; data from retailers, utilities or trade creditors as well as financial institutions; more than two years of historical data; data on loans below 1% of income per capita; and legal guarantees of consumers' right to inspect their data. Higher values indicate greater information sharing.

Source: *Doing Business* database.

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*Another economy with the most protection of the rights of borrowers and lenders is the United Kingdom.
Source: Doing Business database.