



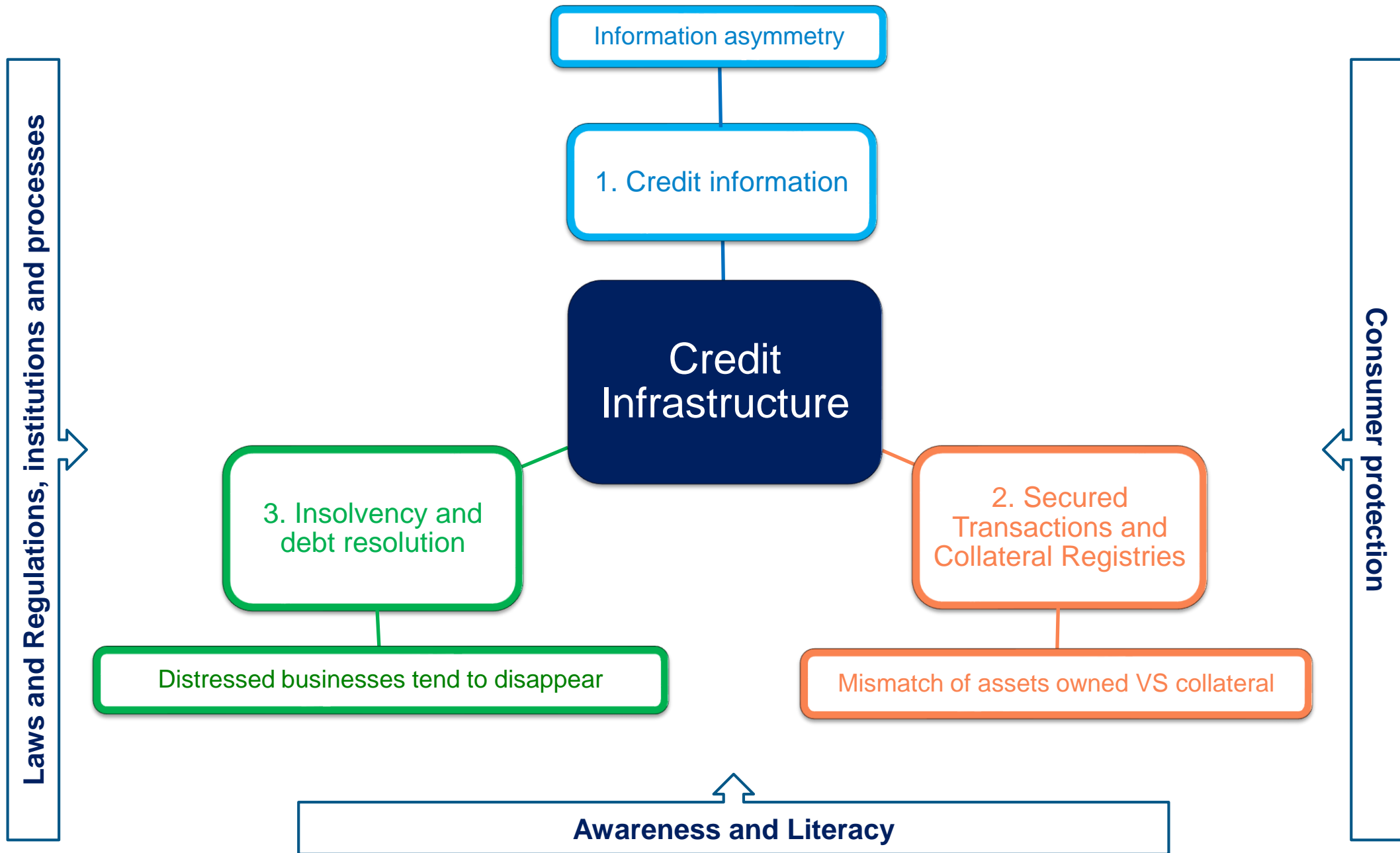
WORLD BANK GROUP
Finance & Markets

5th Africa CIS Conference Nairobi Kenya

OVERVIEW OF CREDIT INFRASTRUCTURE IN AFRICA

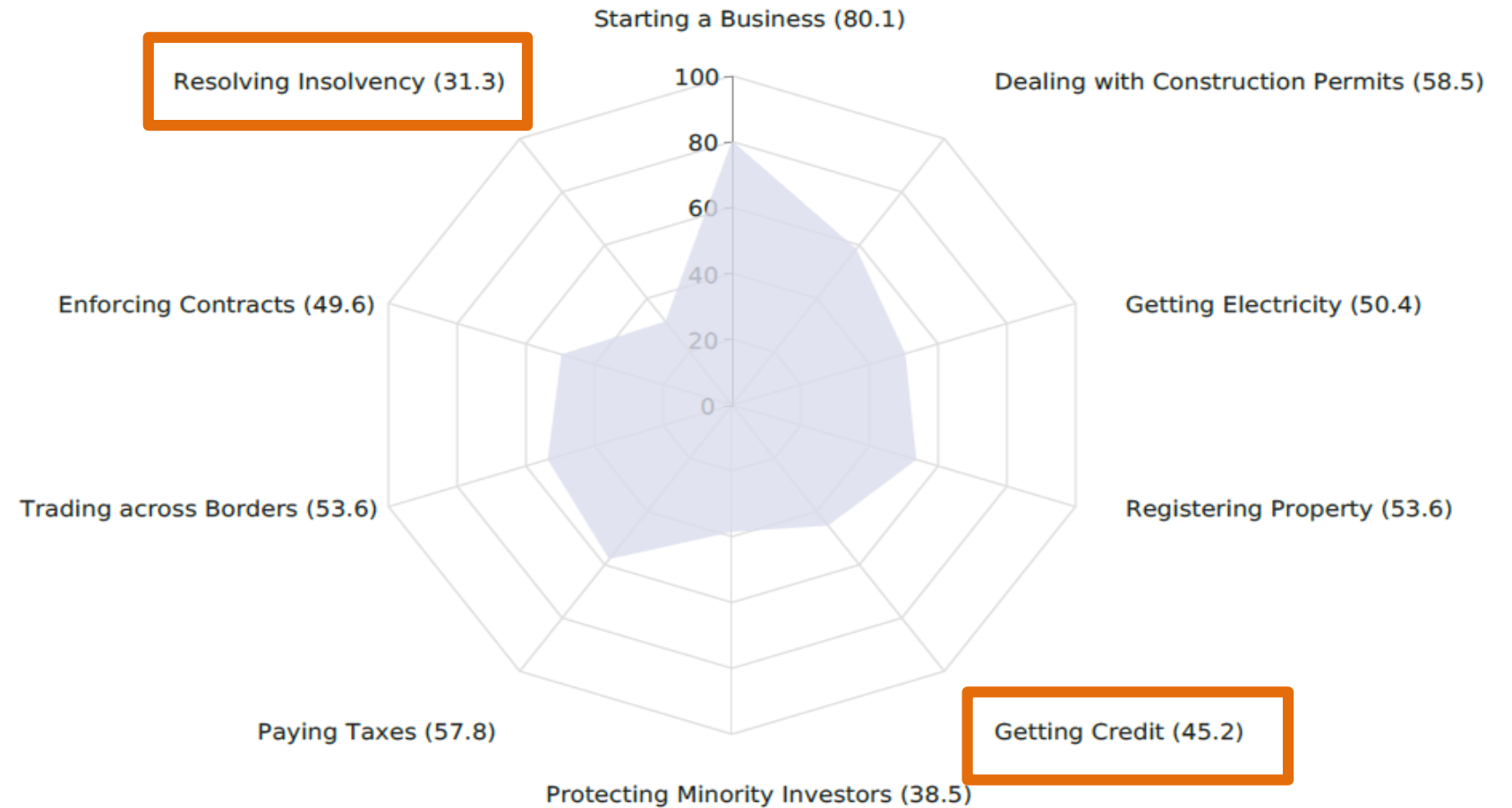
Luz Maria Salamina
Lead Financial Sector Specialist
World Bank Group





An economy's ease of doing business score is reflected on a scale from 0 to 100, for each indicator, where 0 represents the lowest and 100 represents the best performance.

Ease of Doing Business scores on Doing Business topics - Sub-Saharan Africa



A low-angle, upward-looking photograph of several modern skyscrapers with glass facades. The buildings are dark, and some windows are illuminated from within, showing a warm orange glow. A large, semi-transparent circular graphic with a fine grid pattern is overlaid on the left side of the image, partially covering the buildings. The sky is a pale, hazy blue.

Credit Information

Why does Credit Information matter?

INFORMATION ASYMMETRY

- Approve a bad loan
 - Over indebtedness
 - NPLs
 - High cost of credit
- Deny a good loan
 - Less access for consumers
 - Less income for lender



Reduce information asymmetries



Improve borrower discipline /
prevent over indebtedness

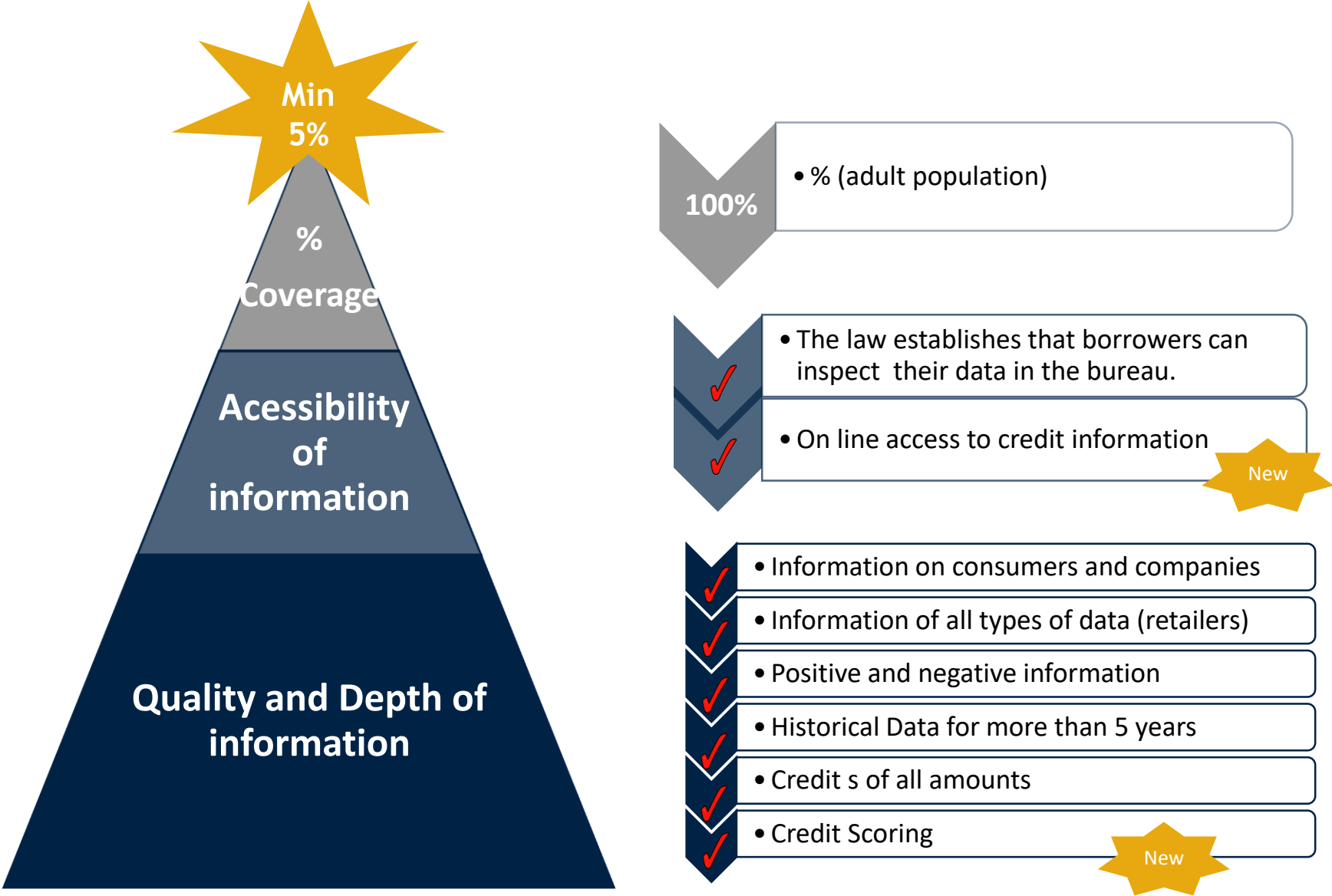


Lower cost of credit, thus
increase access to credit

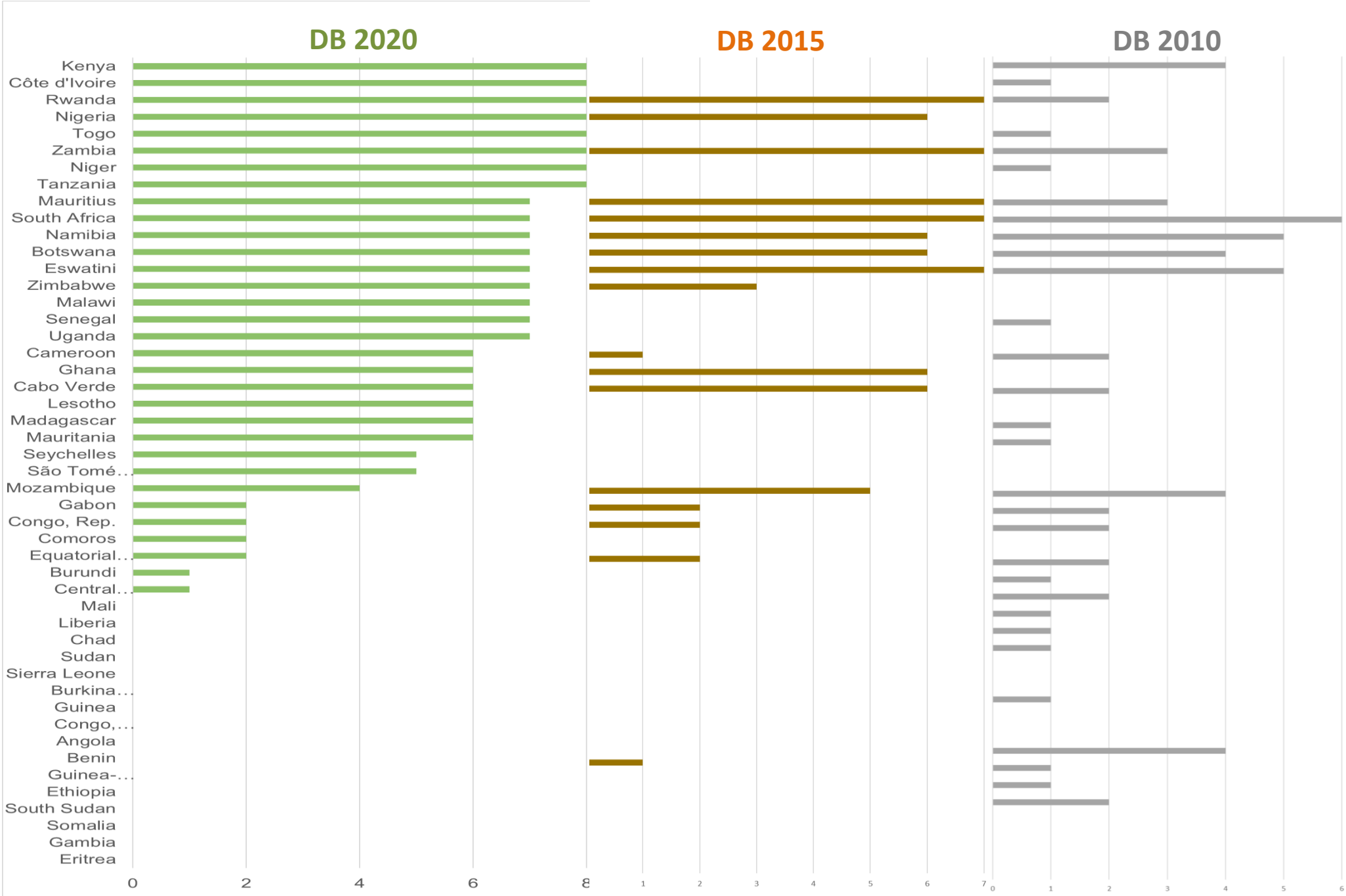


Support bank supervision and
credit risk monitoring

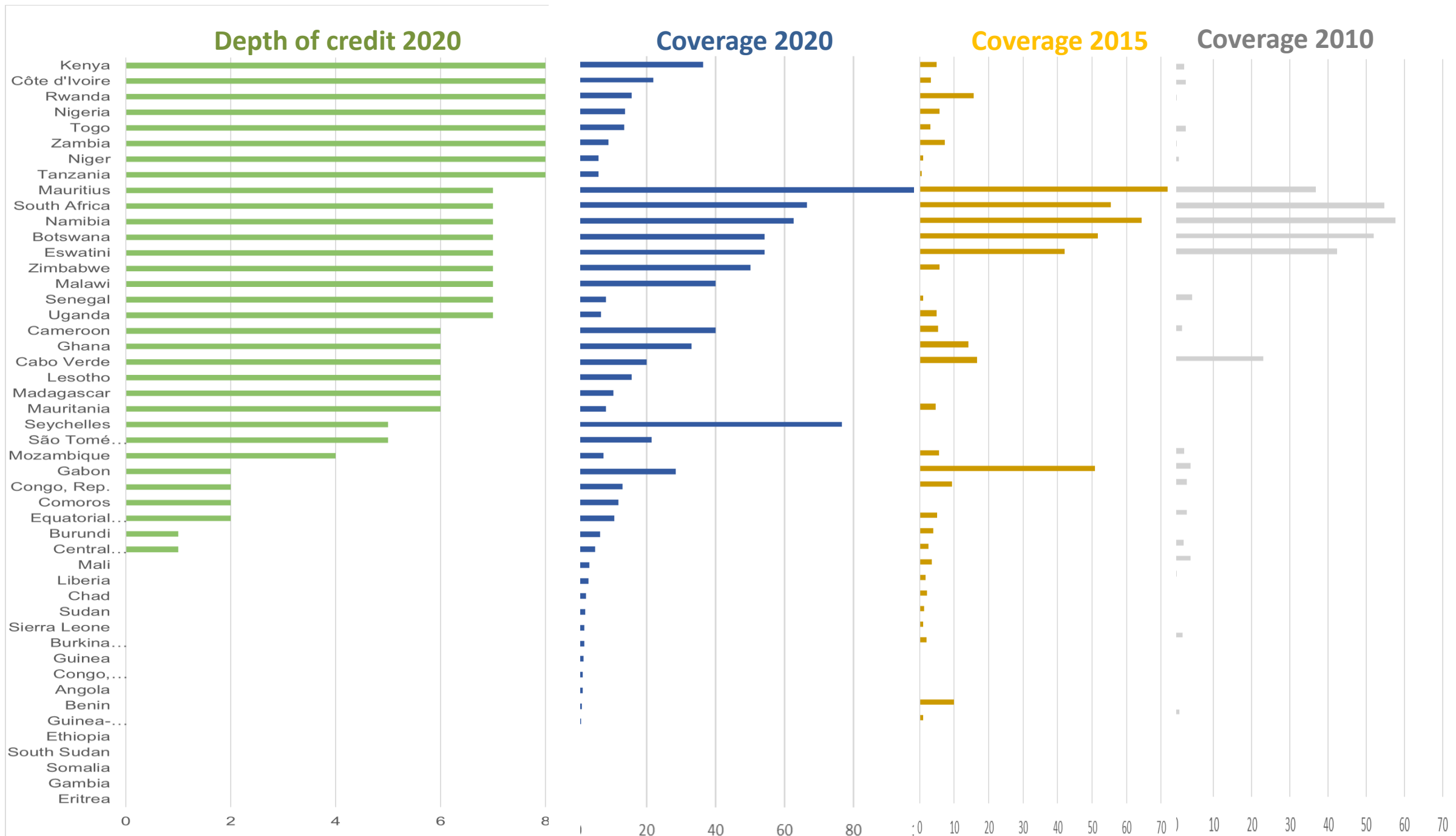
DEPTH OF CREDIT INFORMATION RANKING: 8 OUT OF 8



Doing business – Depth of Credit Information (0-8)



Doing business – Coverage % of adults



OPERATIONAL

- Uniquely identifying borrowers may result in over-indebtedness and higher NPLs
- multiple fragmented data sources which are difficult to collate and aggregate
- completeness and timeliness of data
- lack of digitized data due to minimal usage of digital platforms

CHALLENGES

REGULATORY

- Absence/ weak legal and regulatory framework on data privacy, and cross border information sharing
- unintended side effects such as potential for discrimination
- opaqueness of scoring methodologies.



Key innovations and trends

- Proliferation of big data
- Emergence of new technologies
- Rise of electronic platforms
- Emergence of alternative / digital lenders
- Emergence of scoring techniques

THE CREDIT INFORMATION LANDSCAPE
IS CHANGING = NEW OPPORTUNITIES



THE STANDARDS ALSO ADJUST TO THE “ERA OF DATA AND TECHNOLOGY”:

General Principles 2011



- Data
- Security
- Governance
- Legal Framework
- Cross border

Policies on Alternative Data 2018



- Promote the use digital platforms and open data systems

Cybersecurity Standards 2019



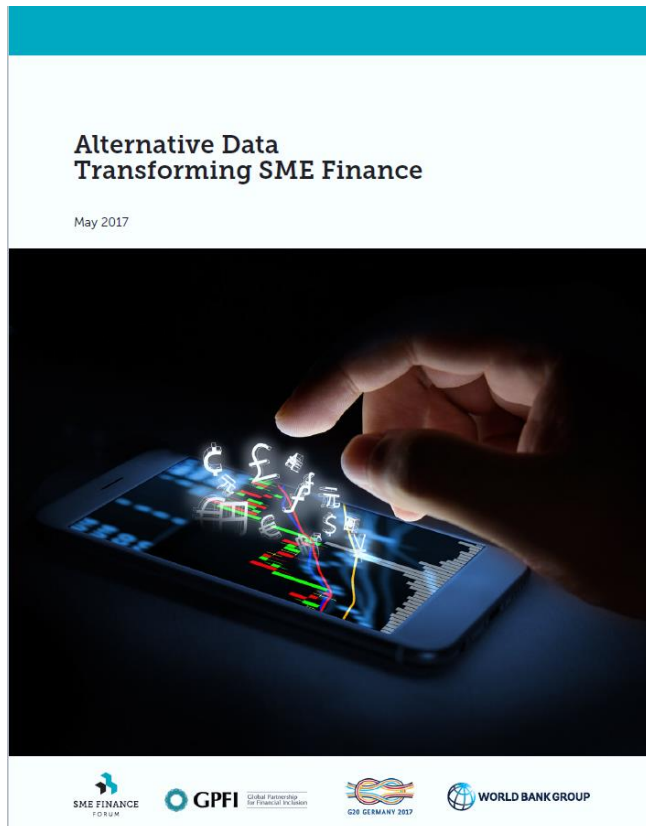
- Be aware of third party incidents.
- Train the BOD

Principles on Credit Scoring 2019



- CRBs should be able to demonstrate that their scores is predictive

BACKGROUND



- ICCR was tasked to draft policies based on the conclusions of the GPFI SME Sub-group report on “**Alternative Data transforming SME Finance**” May 2017
- MSMEs and individuals generate vast amounts digital data from financial and non-banking platforms such as payment systems, mobile, trade transactions and social network.
- Alternative data can be used to assess creditworthiness: **capacity** and **willingness** to repay loans.

POLICY RECOMMENDATIONS for Credit Information

IMPROVING AVAILABILITY AND ACCURACY OF
INFORMATION

EXPANDING CREDIT INFORMATION SHARING

ENABLING RESPONSIBLE CROSS BORDER DATA
EXCHANGES

BALANCING INTEGRITY, INNOVATION AND
COMPETITION

- Adoption of unique identifiers
- Promote digitization of Public information
- Open data systems and standards
- Promote use of digital platforms
- Digitization of government services
- Regulatory reforms for fintech lenders and expand information sharing to NBFIs
- Assess credit registries new role
- Assess reporting thresholds
- Cross border collaboration
- Harmonization of data protection and privacy laws
- Consideration of regulatory sandboxes
- Promoting risk based pricing



Opportunities



Additionality

Clients with “thin or no” credit files



Complementarity

Enhances the richness of the credit data



Risks



Data Accuracies



Data Privacy



Cyber Risks



Potential for discrimination

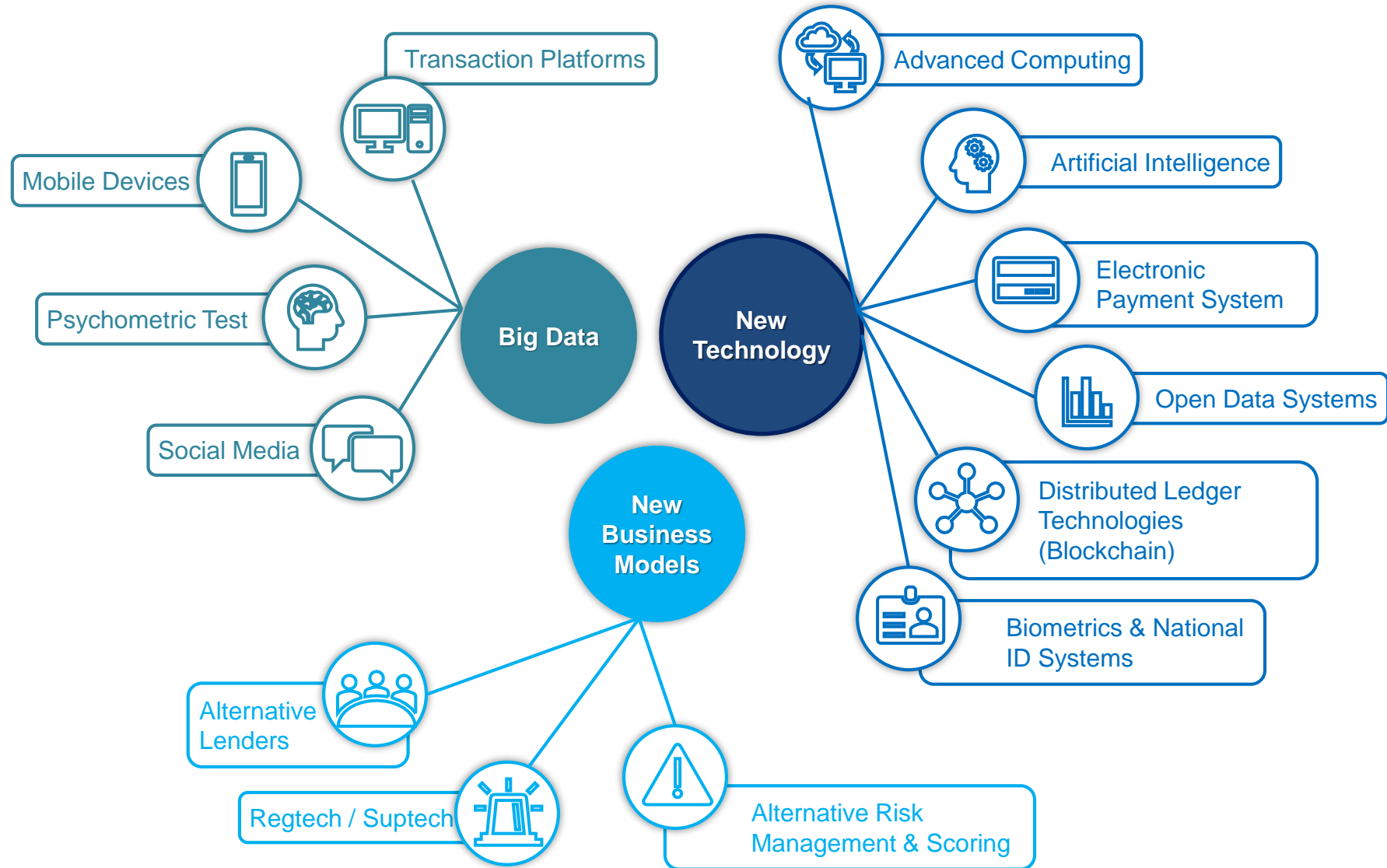
WAY FORWARD

QUICK WINS

- Defining country context of alternative data.
- Legal reforms to promote usage of alternative data and safeguards for protecting consumers.
- Promoting the use of digital platforms.
- Piloting and testing the use of alternative data and data analytics (credit scoring).
- Capacity building
- Consumer awareness and literacy.

Adoption of alternative data will go a long way in promoting inclusion of marginalized groups of societies.

Evolving Credit Information Landscape



How new technologies provide value for Credit information?

An old Problem

- MSME's main constraint to grow is access to credit.
- Lenders' main constraint to lend to MSMEs, is lack of information.

WBG initiatives

- TA to promote MSMEs to use of cloud based solutions to run their business.
- Develop credit scores for MSMEs.
- **Financial institutions, fintechs and others lend to MSME**



Advanced Computing



Electronic Payment System

If MSMEs run their business on internet platforms,



they leave a digital trace

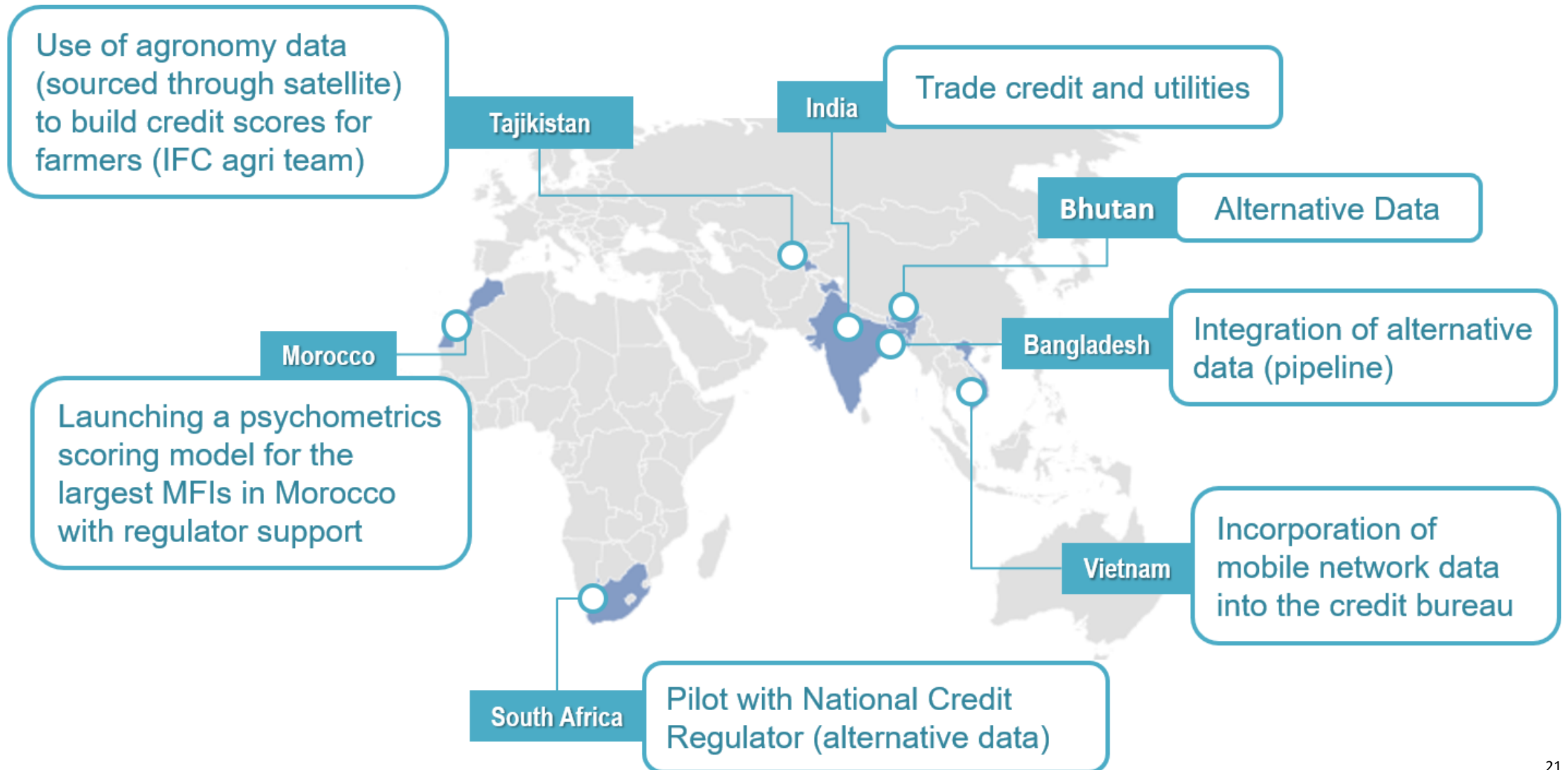
If MSMEs transact with cards, mobile,



they leave a digital trace

Access to this data will facilitate evaluation of credit worthiness for MSMEs

WBG is promoting the use of alternative data in client countries



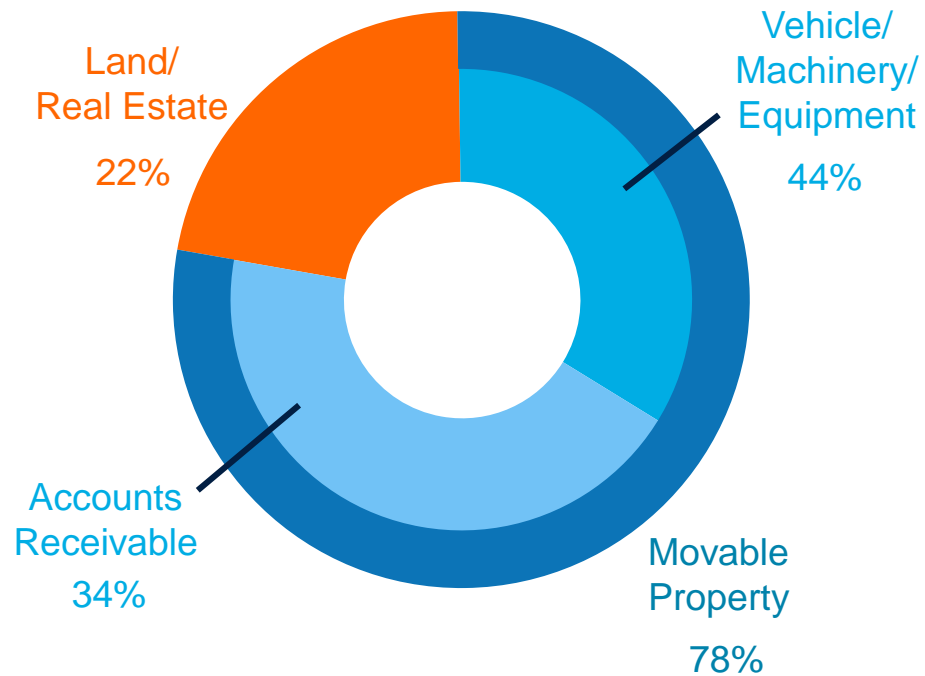


Secured Transactions & Collateral Registries

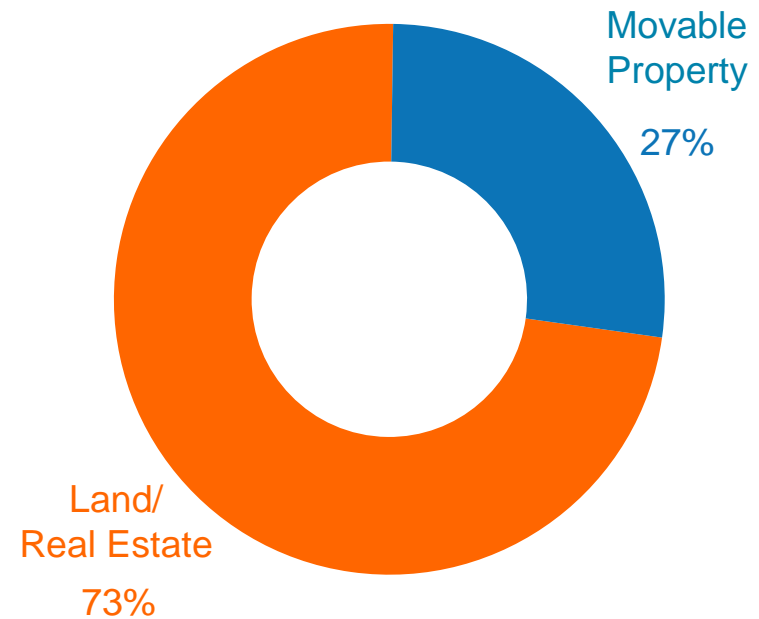
Collateral Gap

**Mismatch between assets
owned by companies and collateral required**

**Capital Stock of
Firms**



**Collateral Taken by Financial
Institutions**



What are the main concerns that creditors have when lending against movable collateral?

| I | II | III |
|--|---|--|
| How can the creditor know that the asset offered as collateral is not already pledged to another creditor? | How can the creditor make sure that other creditors will not take his collateral? | In case of default, how does the creditor collect the asset in a manner that is simple, affordable and fast? |
| <ul style="list-style-type: none">• Search the database (Collateral Registry) where the security rights for all movable assets taken as collateral for loans are registered. | <ul style="list-style-type: none">• When the creditor registers the asset in the collateral registry, a “time stamp” is recorded and the rule of “First to Register” applies. This guarantees the priority right of the right creditors | <ul style="list-style-type: none">• Extrajudicial:<ul style="list-style-type: none">(i) repossession by the secured creditor.(ii) settlement agreement in an alternative dispute resolution (ADR) mechanism, such as arbitration, mediation or conciliation.• Judicial:<ul style="list-style-type: none">(i) The law should include specific fast-track judicial procedures for the repossession and disposal of movable collateral. |

Doing Business Strength of Legal Index (0-12)

Legal framework for secured transactions – creation publicity and enforcement of security interests in movable assets.

Centralized – web based solutions

Notice based meaning (no paper documentation filed)

Public Registry – registration and search services available to all

Registration by creditors or their agents

Secured creditors are paid first (i.e. before tax claims and employee claims) ..

Law allows parties to agree on out of court enforcement

...

...

...



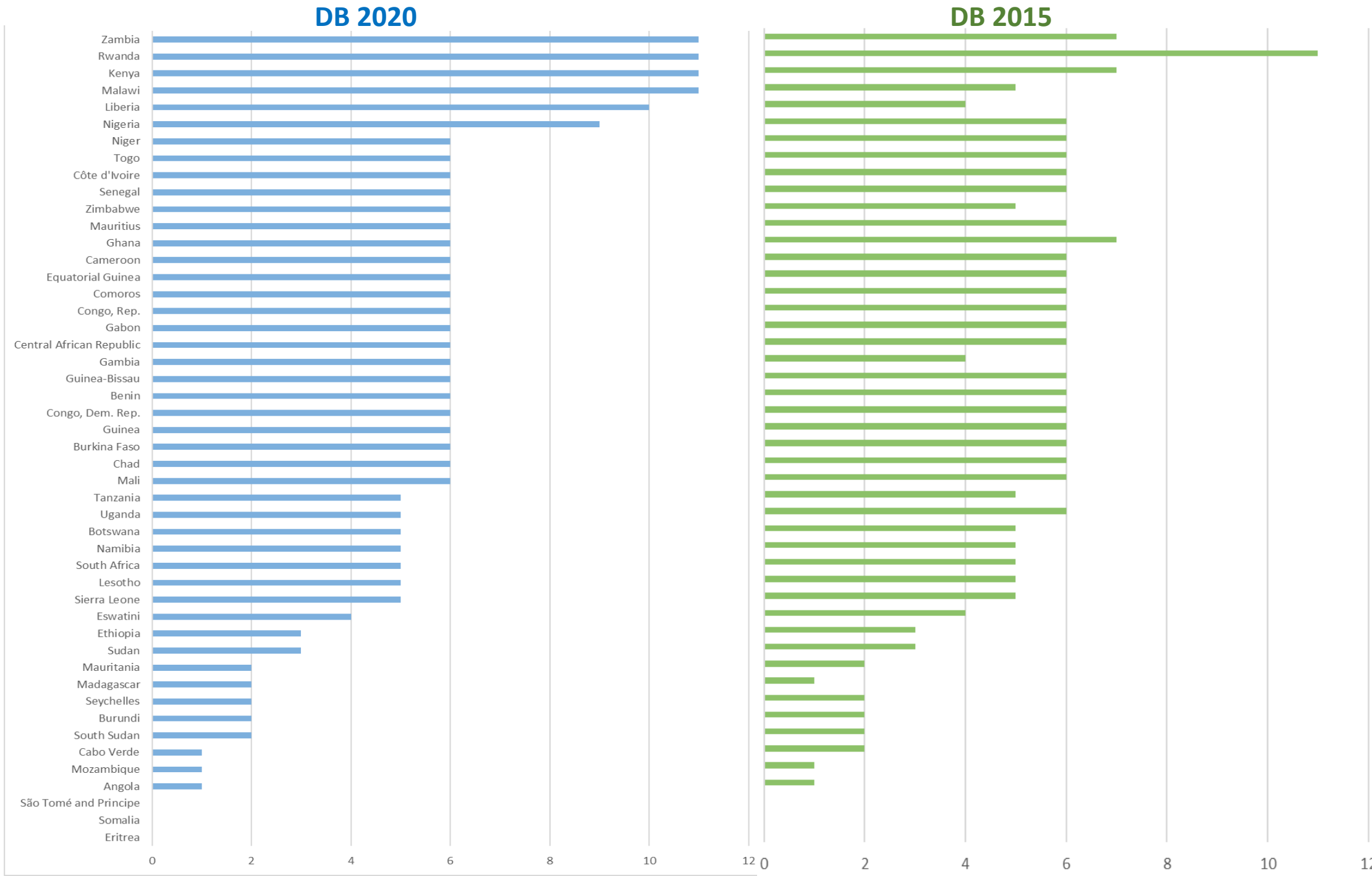
Collateral Registries for Movable Assets: Does their Introduction Spur Firms' Access to Finance?

by Inessa Love, Sole Martínez Pería and Sandeep Singh

| Variable | Effect | |
|--|----------------------|---|
| Access to finance | 8 percentage points | ↑ |
| Access to a loan | 7 percentage points | ↑ |
| % of working capital financed by banks | 10 percentage points | ↑ |
| Interest rates | 3 percentage points | ↓ |
| Loan maturity | 6 months | ↑ |

Study also provides evidence that the **impact of the introduction of movable registries on firms' access to finance is larger among smaller firms**, who also report a reduction in

Doing Business Strength of Legal Rights Index (0-12)



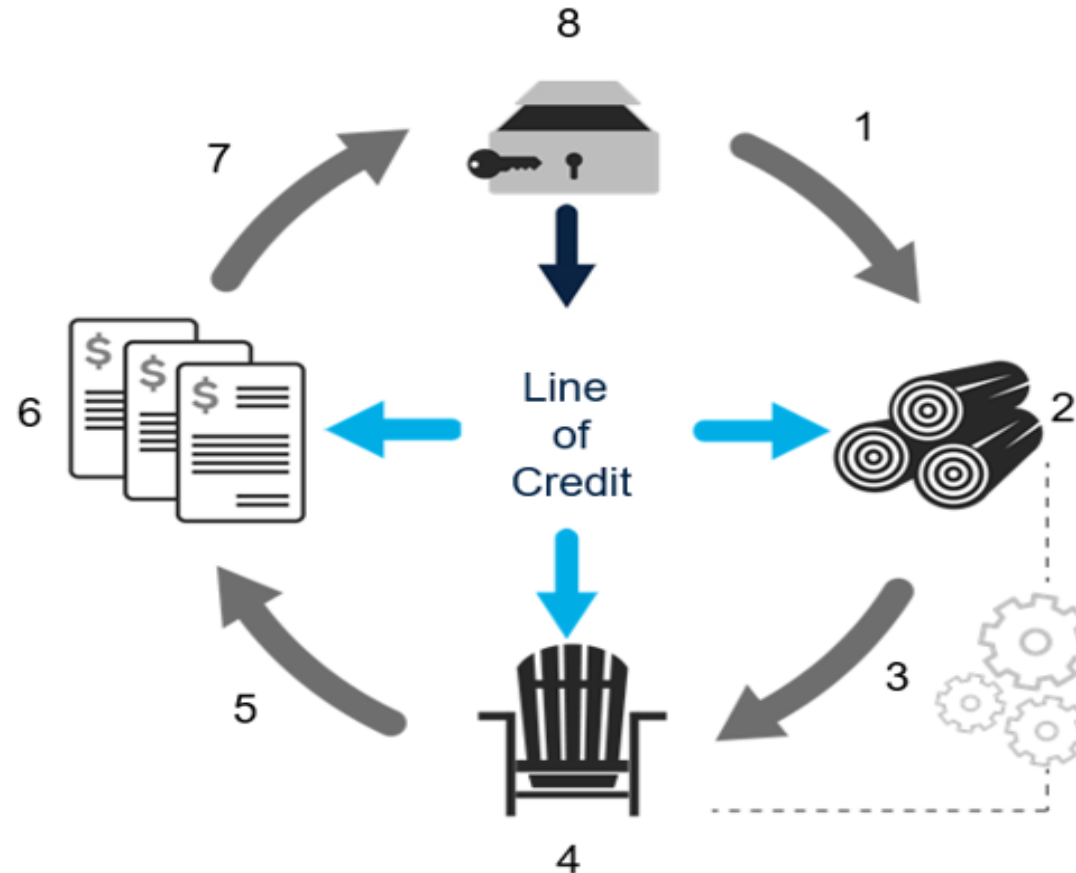
Digital Platforms and product Development

Digital tools automate the verification process of the collateral throughout the lending cycle. ...particularly important when the collateral pledged generates the cash flow for repayment of the loans (such as raw materials, WIP inventory, invoices, etc.) .

Secured Revolving Lines of Credit

PROCESS

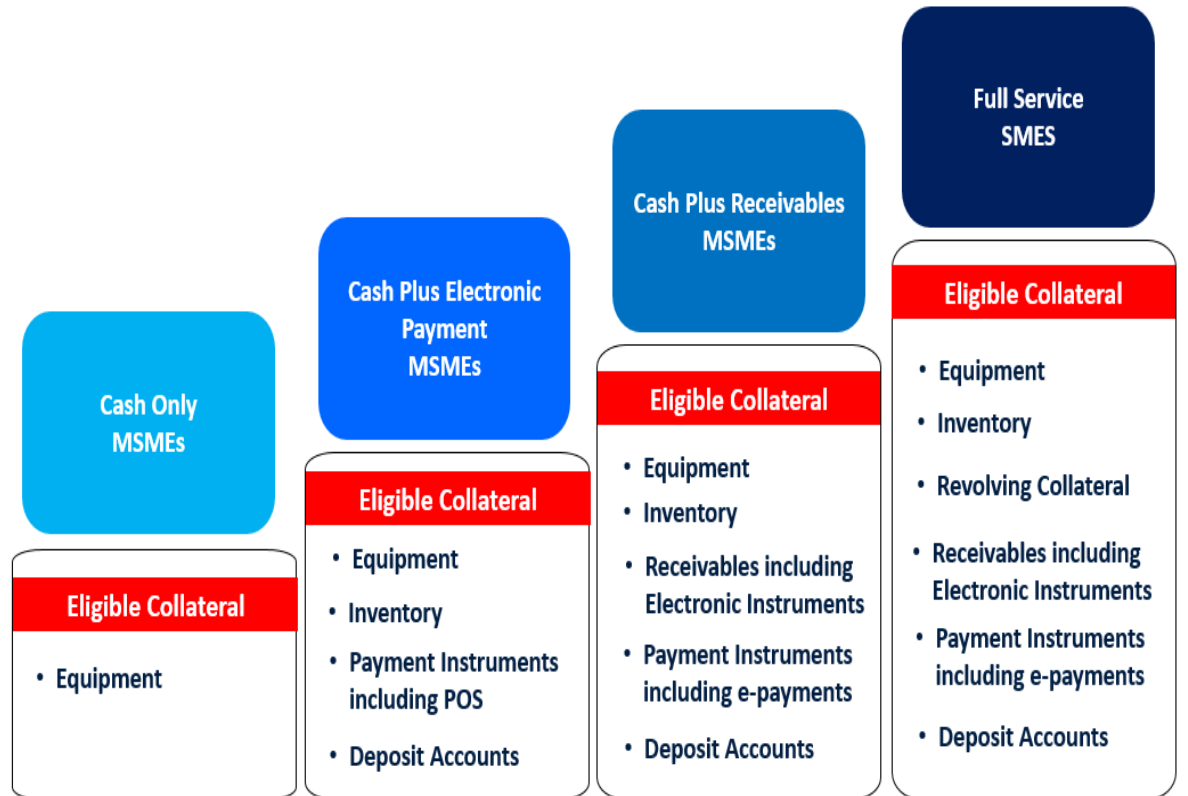
1. Loan to SME
 2. Security Interest in the Raw Materials
 3. Manufacturing Process
 4. Security Interest in Inventory
 5. Sale of Inventory
 6. Security Interest in Invoices
 7. Payment of Invoices by SMEs Clients
 8. Deposit of Payments in Controlled Account
- Lender repayment with Deposits and new advance at 1



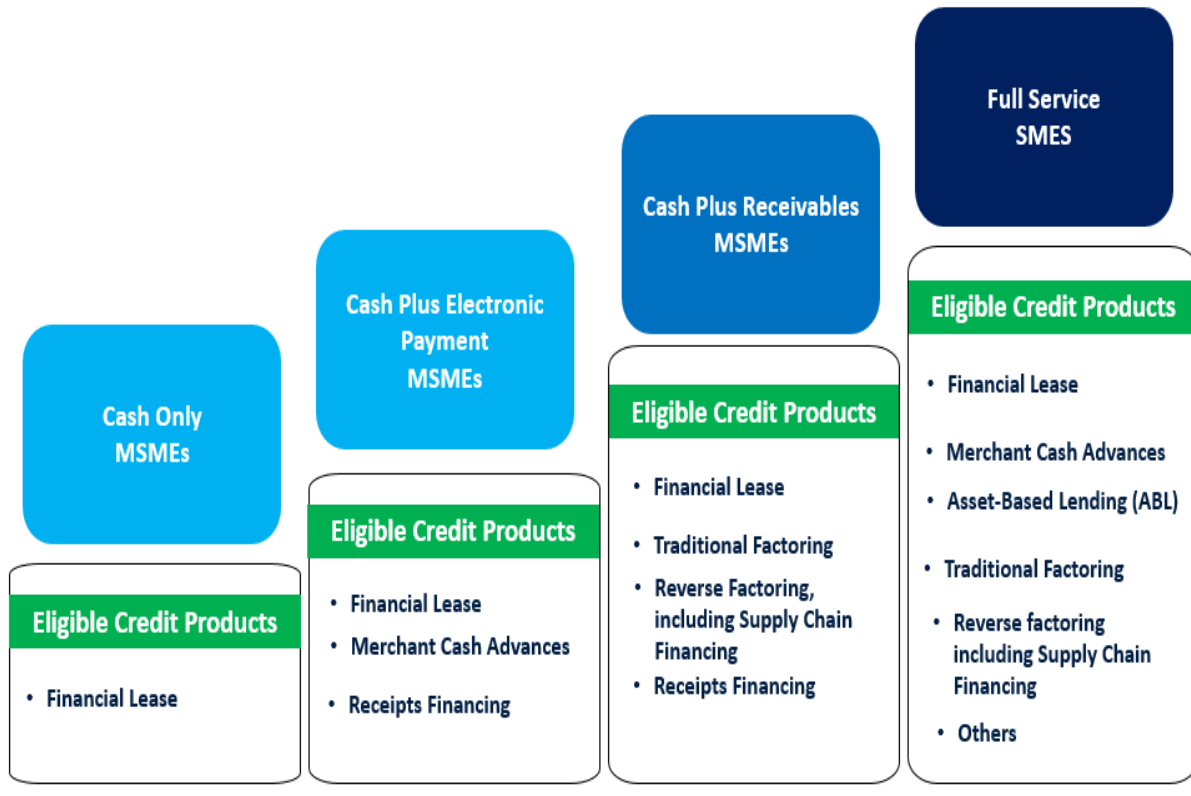
Segmentation for a better fit

Segmentation helps match the collateral with credit products that best fit the different MSMEs needs

...by type of collateral



... by type of credit product



Insolvency



Doing Business: Strength of Insolvency Framework Index (0-16)

A significant determinant of insolvency rankings in the DB report is the “strength of insolvency framework” index

❖ This indicator assesses the countries’ legislation in 4 major categories:

- **Commencement of proceedings**

- Insolvency proceedings should be available to debtors and creditors and on the basis of both balance sheet insolvency and illiquidity

- **Management of debtor’s assets**

- The law should allow the debtor or IP to accept or reject ongoing contracts, avoid preferential or undervalued transactions and obtain post-commencement financing on priority terms

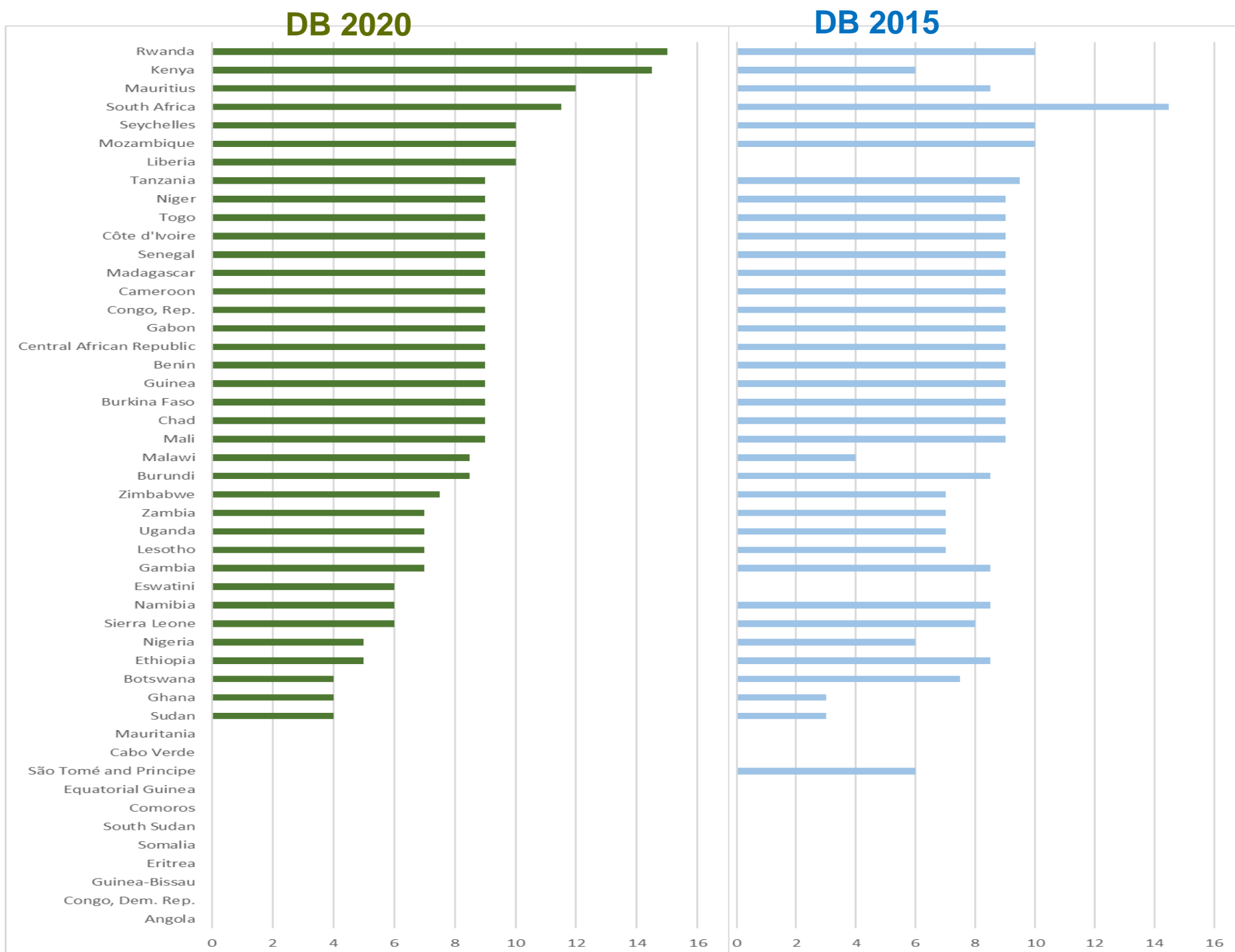
- **Reorganization proceedings**

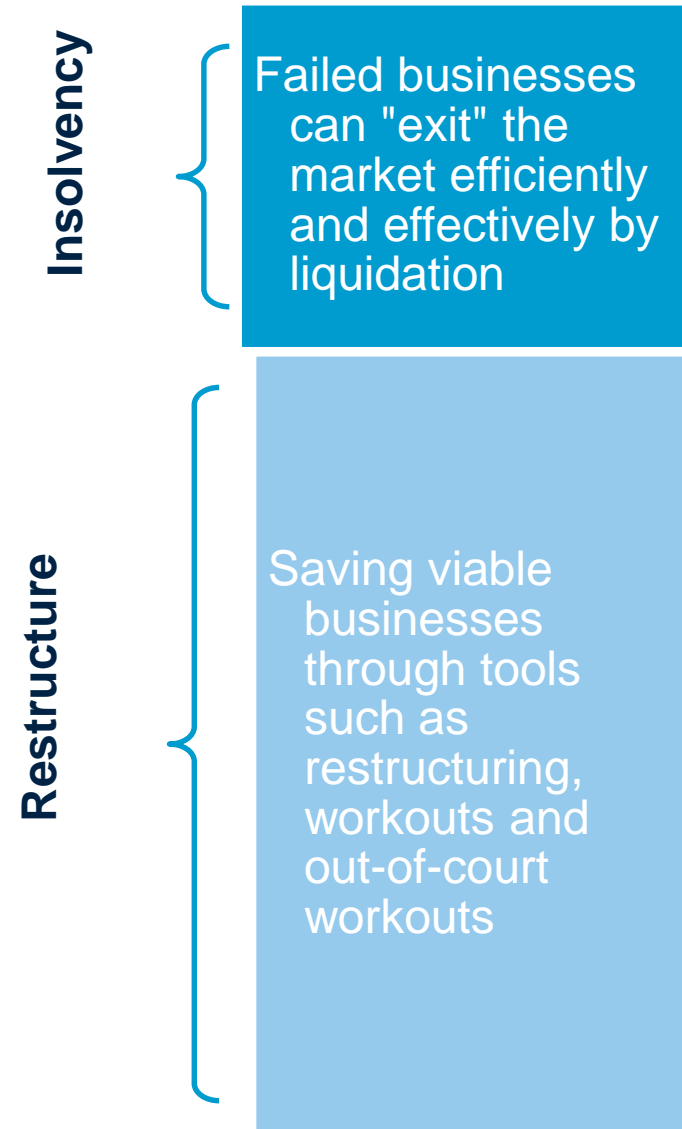
- The law should allow all creditors to vote on the reorganization plan and also provide equal and fair treatment to dissenting creditors

- **Creditor participation**

- The law must require creditors to approve the selection of IP, the sale of crucial assets and also allow them to object to the admission of claims

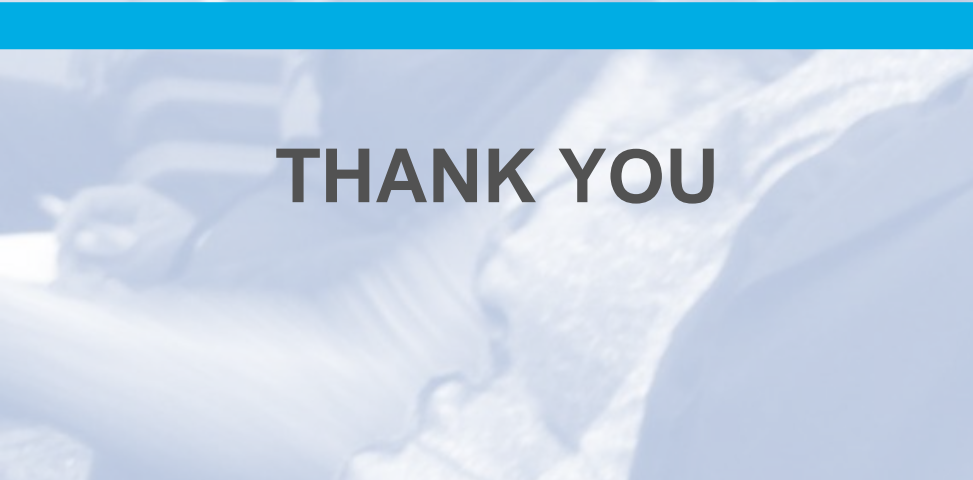
Doing Business Strength of Insolvency Framework Index (0-16)





Benefits of effective Insolvency regimes

1. Lower credit costs
2. Increased access to credit
3. Improved creditor recovery
4. Strengthened job preservation
5. Promotion of entrepreneurship
6. Reduced failure rates for small businesses
7. Other benefits for small businesses



THANK YOU

