G20 Action Plan on SME Financing: Credit Infrastructure Country Self-Assessment Consolidated Report
This report was produced by the World Bank Group for the G20 Global Partnership for Financial Inclusion based on responses received through country-self assessments. This is a consolidation of the responses; no verification for accuracy of responses was made and hence results shown do not constitute World Bank Group opinion of data and findings.

Photo Credits: World Bank Photo Library, Shutterstock
CONTENTS

Acknowledgment ................................................................................................................................................................. iii

Summary .................................................................................................................................................................................. v

Introduction ........................................................................................................................................................................... 1
  Background .......................................................................................................................................................................... 2

Credit Reporting ...................................................................................................................................................................... 5
  Background .......................................................................................................................................................................... 5
  CRS Consolidated Results .................................................................................................................................................. 5
  Results by Income Level Groups ....................................................................................................................................... 7
    High Income ...................................................................................................................................................................... 7
    Non-High Income ............................................................................................................................................................. 8

Secured Transactions & Collateral Registries (STCR) ............................................................................................................. 11
  Background .......................................................................................................................................................................... 11
  STCR Consolidated Results ............................................................................................................................................... 12
  Results by Income Level Groups ....................................................................................................................................... 13
    High Income ...................................................................................................................................................................... 13
    Non-High Income ............................................................................................................................................................. 14

Insolvency .............................................................................................................................................................................. 15
  Background .......................................................................................................................................................................... 15
  Insolvency Consolidated Results ...................................................................................................................................... 16
  Results by Income Level Groups ....................................................................................................................................... 17
    High Income ...................................................................................................................................................................... 17
    Non-High Income ............................................................................................................................................................. 18

Conclusion & Next Steps ....................................................................................................................................................... 19
Annex 1 Methodology ............................................................................................................................................ 21
Annex 2 Reference of Income Level Groups ....................................................................................................... 25
ACKNOWLEDGMENT

On behalf of the Global Partnership for Financial Inclusion Small and Medium Finance Sub-Group co-chairs, Natascha Beinker, BMZ, Germany, and Ozlem Oktay, Undersecretariat of Treasury, Turkey, the Project Manager: Ghada Teima, Lead Financial Sector Specialist, World Bank Group, would like to thank the following for their invaluable contribution and support:

- G20 countries and their representatives and experts who contributed to this exercise

- Global SME Finance Forum

A special thanks to the World Bank Group Team who carried out the consolidation and analysis:

- Insolvency Specialist: Fernando Dancausa, Senior Financial Sector Specialist, World Bank Group
- Credit Reporting Specialist: Fredes Montes, Senior Financial Sector Specialist, World Bank Group
- Secured Transactions Specialist: Murat Sultanov, Senior Financial Sector Specialist, World Bank Group
- Yangyang Zhou, Analyst, SME Finance Forum
- Design Coordinator: Aichin Jones, World Bank Group
- Graphic Designer: Amy Quach
Small and Medium-Sized enterprises (SMEs) make up a large majority of businesses globally and play a crucial role in global economic development through job creation, economic growth, and innovation. For the health of the global economy, it is imperative that they have access to the needed credit to grow and expand. Credit infrastructure remains an important element in ensuring that SMEs (and others) have access to credit when needed and at the lowest possible cost. In order to ensure that SMEs have access to the credit they need and in order to improve existing credit infrastructures, the G20 endorsed an Action Plan on SME financing in 2015. This action plan includes measures aimed at improving the three Credit Infrastructure (CI) priority areas: Credit Reporting Systems (CRS), Secured Transactions & Collateral Registries (STCR), and Insolvency Regimes. In 2016, the Action Plan was converted into an implementation framework, a country self-assessment, which benchmarks the current policy and regulatory state in the three CI areas to agreed-upon international standards. The G20 countries have carried out their initial self-assessments in 2017 as a baseline to enable measuring future progress in the implementation of priority reform.

The initial self-assessment utilized a methodology aimed at capturing the strengths and areas of potential improvement for each G20 member state in each of the priority areas. Responses were self-reported by G20 countries and were compiled and consolidated in this baseline report by the World Bank Group (WBG).

The consolidated baseline results illustrate uneven results. Collectively, the G20 shows strengths in certain areas such as Data Quality, Sufficiency, and Timeliness in CRS; Enforcement in STCR; and Reorganization Plan in Insolvency. There is room for improvement in areas like Cross-Border Credit data flows in CRS, Registration elements in STCR, and the Automatic Stay component of Insolvency. The data pointed to inconsistency within and between groups. High Income countries performed well in certain areas such as Pre-Insolvency Procedures in Insolvency and Scope and Creation in STCR but not in others such as Registration and Priority of Liens in STCR and Cross-Border Data Flows. The same can be said for non-high income countries, who performed well in areas such as Data Quality, Sufficiency, and Timeliness in CRS and Reorganization Plan in Insolvency. Overall, the data points towards opportunities to improve credit infrastructure frameworks by targeting, in a specific manner, areas that are illustrating lower responses such as Cross-Border Data Flows in CRS and Registration and Priority of Liens in STCR.

Results for all countries within the Credit Reporting section show that some principles are observed by mostly all the countries while others might not be applicable to all such as in the case of cross-border data flows, and finally others require further improvement.

2. The self-assessment is a high level benchmark and should not be used as a substitute for in depth assessments e.g. as part of IMF/ WBG Financial Sector Assessment Programs (FSAPs).
3. ICCR, UNICTRAL and WBG Guidelines and Principles.
4. Total number of countries excluding EU were 19 of which 16 countries provided full responses. This exercise was a self-assessment and therefore The World Bank Group did not independently verify the accuracy or correctness of the responses. This was a strictly self-reported exercise.
Most of the countries include complete data in their systems that allows them to produce comprehensive reports and scoring models. This leaves little room for improvement, including alternative data, as the respondents reported that data quality is high - accurate, complete and up to date. Most of the countries also reported that the general principle on Data Processing, Security, and Efficiency is broadly observed in the G20 countries and no major improvements in terms of security measures in the CRS are required. Governance of credit reporting systems showed mixed responses as well as the identification of risk and adoption of adequate risk management policies and practices.

With the exception of a few countries that have adopted all key principles of modern **secured transactions**, the majority of the G20 jurisdictions require some type of reform of their legal and institutional framework. At least half of the countries are in need of substantial reforms to create a more robust and effective platform to promote movable asset based lending and enhance access to credit for their business and entrepreneurs.

In such reform initiatives, particular attention should be given to the importance of having a broad scope with the inclusion of all types of transactions that secure the performance of obligations over all types of movable properties. Effective enforcement provisions which allow for both non judicial and judicially supported repossession and disposition of assets must be in place. Quite importantly, countries should adopt a modern publicity framework focusing on the creation of electronic notice based registries.

An analysis of the data collected in the survey shows important variation in the quality of the **insolvency frameworks** among economies. Part of the variation may be due to the fact that high income countries have tended to update their insolvency systems more proactively in recent years, perhaps as a response to the financial crisis. This reform process allowed the implementation of many best practices in the area of insolvency, which were formally endorsed rather recently. Although all G20 countries have formal insolvency frameworks that address the situation of a business entering financial distress, some regimes in non-high income countries are outdated and require modernization. A specific dimension for policy makers to focus on is, for the reasons explained above, the automatic stay.

The results obtained under this analysis can be a useful tool for governments seeking to reform their insolvency laws because it helps in identifying specific areas where insolvency regulations are lagging behind. The results suggest that, in addition to reforming the automatic stay, there is opportunity in many economies to improve reorganization proceedings and the regime applicable to insolvency practitioners.

In summary, this initial self-assessment, or baseline, used a methodology aimed at capturing the strengths and areas of improvement for the G20 countries in each of the areas of credit infrastructure. While progress has been made over the years, there is room for improvement where results showed some inconsistency between and within the groups as described in the respective sections.

The G20 countries have committed to implementing reform in the three CI areas based on this baseline report and to monitor progress every two years. Interested non-G20 countries, which have been increasing access to finance for SMEs, as a national priority are welcomed to join the effort to carry out the self-assessment and embark on reforms as well.

Implementing partners of the GPFI with operational expertise in credit reporting systems, secured transactions and collateral registries and insolvency regimes could potentially offer support to G20 and willing non-G20 countries in conducting more in depth assessments and the implementation of such reform.

This baseline report will be used as the initial benchmark to compare against progress of G20 in the areas of credit reporting systems, secured transactions and collateral registries, and insolvency regimes in 2019.

---

5. Through their standard advisory services engagement process.
INTRODUCTION

The Global Partnership for Financial Inclusion (GPFI) is an inclusive platform for all G20 countries, interested non-G20 countries and relevant stakeholders to carry forward work on financial inclusion, including implementation of the G20 Financial Inclusion Action Plan, endorsed at the G20 Summit in Seoul.

At the G20 Summit in Seoul, the Leaders of the G20, recognizing financial inclusion as one of the main pillars of the global development agenda, endorsed a concrete Financial Inclusion Action Plan. Financial inclusion was not only prominently included in the Leaders’ Declaration, but was also highlighted as an important component under the Seoul Development Consensus and the financial sector reform agenda. Subsequently, the Leaders announced the establishment of the GPFI to institutionalize and continue the work began by the Financial Inclusion Experts Group (FIEG) in 2010. The GPFI was officially launched on 10 December 2010 in Seoul.

Within financial inclusion and the global development agenda, Small and medium-sized enterprises (SMEs) play a crucial role for employment, job creation, investment, innovation and economic growth around the world. They account for about 90% of businesses and more than 50% of employment worldwide, and are therefore crucial for the recovery of the world’s economy. Considering this important role, it is critical to ensure that viable SMEs around the world have access to the credit they need to expand.

By endorsing the G20 Action Plan on SME Financing in 2015, the G20 agreed, and encouraged non-G20 countries to fully develop credit infrastructure for SMEs, improve SME financial capability through targeted learning and support interventions and enable competition through an enabling regulatory environment.

Lack of a sound credit infrastructure is one of the major problems in the credit market for SMEs. Having a solid credit infrastructure will help countries reduce the information asymmetries and legal uncertainties that increase risk to lenders and constrain the supply of finance to SMEs.

The priority reform measures in the Action Plan focus on credit infrastructure (CI) and are:

- Improvements of the credit reporting framework for SMEs
- Reforms that allow banks and non-banks to lend to SMEs against movable collateral
- Insolvency reforms

To these ends, an initial G20 self-assessment of the legal frameworks of each country with respect to the three priority areas of the G20 Action Plan has been undertaken in the form of an implementation framework covering the above three priority CI areas.
Background

As recognized by the G20, one of the key recommended actions is to accelerate and replicate successful policy reforms that facilitate the expansion of financial services to SMEs, both on the demand and supply sides. The approach is to use specific, SME-related aspects of recognized standards to prioritize areas of reforms, guided by agreed-on indicators which allow the countries to self-report progress.

Diagnostic assessments against aspects of international good practices are necessary as a first step to inform the selection and sequencing of reforms in the areas of credit market infrastructure. For the development of these assessments, reference to recognized international standards was made. These references are not comprehensive but, rather, draw on selected aspects of the recognized standards most relevant to promoting SME access to finance.

In the area of Insolvency and Creditor/Debtor Rights (“ICR”), which includes both insolvency and secured transactions, the World Bank ICR Principles (2015), together with the UNCITRAL Legislative Guide on Insolvency (2015) form the unified international standards, as designated by the Financial Stability Board (FSB).

The self-assessment framework is composed of a questionnaire covering three CI areas: 1) Credit reporting systems, 2) Secured Transactions & Collateral Registries, and 3) Insolvency regimes. Each question is assigned a particular score in the overall matrix, the sum of which adds up to a score of 10 for each of the three sections (Total score = Σ 1 (Yes) x weight of question). Following the completion of the questionnaire, respondents may see the calculated total points and a visual radar graph for each of the three areas, which plots existing country practices compared to agreed-upon international market development good practices. For illustrative purposes:

In order to better illustrate the overall credit infrastructure self-assessment state of the G20 countries, two types of consolidated results are provided: the consolidated indicator scores of the surveyed countries, and the counts of Yes/No responses in total/each dimension/section among the surveyed countries.

By adding up the average indicator scores for each question of each section, a total score is produced that reveals the overall assessment results of the 19 countries by section. Apart from the overall score produced, group scores were calculated for non-high income and high income countries for each section. Visual radar graphs was also produced for each section which will be broken down into all respondents, high income, and non-high income countries.

---

6. Nineteen G20 countries were requested to complete self-assessments excluding the European Union. Responses not received from: India, Russia (STCR and insolvency) and South Korea.

7. The classification of “high income/non-high income” follows the World Bank Group’s classification of countries by income level updated in December, 2016. The level of income is determined by each country’s gross national income (GNI) per capita for the previous year: high-income economies are those with a GNI per capita of $12,476 or more. (Refer to annex 5)
A baseline for each country is illustrated in 2017 and progress will be reported in a consolidated report every two years.

The purpose of the questionnaire is to enable countries to conduct a self-assessment of their respective legal frameworks in the three priority reform areas of the G20 Action Plan. The self-assessment is a simplified and independent framework that would allow for specialized self-assessments of the legal framework for SMEs at country level in G20 countries. It is not a substitute for full country assessments / diagnostics. Full assessment methodologies exist for all three areas and are the ones used by external assessors (e.g. FSB, IMF/WB through the Observance of Standards and Codes (ROSCs), and Financial Sector Assessment Programs (FSAPs).

Due to the significant disparity among countries regarding the definition of the term “small and medium-sized enterprises” (SMEs), SMEs are not strictly defined for this exercise and respondents used their own “national” definition of an SME in completing this questionnaire.

Each of the Three Priority Reform Areas of the G20 Action Plan on SME Financing are of equal significance and weight.
Background

In May 2009, an international task force chaired by The World Bank with support from the Bank for International Settlement was created with the ultimate goal of producing international standards for credit reporting. As a first result of such work, the General Principles for Credit Reporting were produced, and published in September 2011.

Since then, the international task force has been transformed into the International Committee on Credit Reporting (ICCR) and is working in promoting and facilitating observance and implementation of the standards by providing additional information and guidance.

The G20 Action Plan on SME Financing identified credit infrastructure for SMEs, including improvements of the credit reporting framework for SMEs, as a key priority. In this context, a simplified diagnostic assessment against international standards has been developed so that countries can conduct a self-assessment against the General Principles for Credit Reporting.

The ICCR has published an assessment methodology to provide guidance to assessors for evaluating observance of the five principles, six roles for participants and five recommendations for oversight set forth in the General Principles for Credit Reporting. In this context the present framework does not replace the General Principles Methodology which is part of the FSB non-core compendium of Standards for the Financial Sector. The present simplified framework allows self-assessments at the country level for G20 members.

CRS Consolidated Results

Consolidated results for all countries within the Credit Reporting section show that some principles are observed by mostly all the countries while others might not be applicable to all respondents, and finally others require further improvement. The results show that not all countries meet the pre-conditions to allow for systematic cross-border data flows between credit reporting systems, with 47 percent of respondents showing that there is no pre-condition such as the existence of a common economic area or a large number of SMEs accessing credit in two or more jurisdictions. On the contrary, most of the countries report that quality data included in their systems is fully observed. Only 12% of the responses indicate that further improvement with regards to data quality is needed, which means that most of the countries reported that their systems include complete data that allows them to produce comprehensive reports and scoring models tailored to SMEs based on such data. This leaves little room for improvement, including alternative data, as the respondents reported that data quality is high - accurate, complete and up to date. Most of the countries also reported that the general principle on Data Processing, Security, and Efficiency is broadly observed in the G-20 countries and no major improvements in terms of security measures in the CRS are required. Only 15 percent of the responses show that security measures or efficiency could be improved.

8. 9 out of 19 surveyed countries do not meet the pre-condition for cross-border data flows. The parts illustrating “cross-border data flows” in the bar charts only reflect the overall numbers of “Yes/No” responses from the countries that meet this pre-condition.
With 69 percent of responses being “yes”, the results indicate that generally the surveyed countries’ systems have adequate governance policies and procedures in place, while with 31 percent of which being “no”, indicating some additional actions need to be taken, such as adopting business continuity protocols and procedures or seeking system efficiency. This is also true for the adequate identification of risks in the particular space of CRS and designing and adopting risk management practices to address those risks. Not all countries adopt a risk management approach and information systems, technology and procedures are not typically audited by independent experts on Information Technology, Data Protection and Security aspects.

The adoption of a legal and regulatory framework is also an area of concern as not all countries have in place a clear, predictable, non-discriminatory legal framework that is also supportive of consumers’ rights. 27% of responses show that the surveyed countries’ systems still lack a legal and regulatory framework covering CRS aspects. Surprisingly, only 24 percent of the responses indicate that there is no authority in charge of CRS oversight. This area could require further development and the full detailed methodology would allow each country to identify additional actions to improve their systems.
Results by Income Level Groups

High Income

Results from the questionnaires show that CRS in high-income countries has a strong data quality while other areas such as governance and legal/regulatory environments require further improvements. In addition, 40% of high-income countries responded that they have not adopted measures to enable cross border data flows.

Governance and risk management, for example, remains an area for improvement, with 28% of the responses being “no” in the category. This sub-category can be an ideal area to reform when considering difficulty-to-result ratios—a mere desire to reform, coupled with appropriate legislation, may achieve results in this sub-category.

Credit reporting results of high-income countries reveal strong performance throughout the sub-categories. In high-income countries and overall, these economic areas have a pre-condition that requires them to develop measures that enable cross-border data flows. All high-income countries that met pre-conditions for cross-border data flows, have in place mechanisms that enable the cross-border transfer of data between different credit reporting systems. In addition, all of them have adopted one of the three most common models of data transfer which refers to portability of credit reports, consumers’ right to access their own report or enabling creditors accessing data through third parties.
Non-High Income

Results of non-high income countries illustrate that the sub-section of Governance of CRS requires additional development. So does the sub-section of identifying and managing risks associated with the activity of sharing credit information between creditors related to payment behavior. Governance arrangements in CRS is associated with transparency of the CRS in relation to the management, composition of the Board, services products and prices. In addition, the responses related to the context also show that oversight framework for credit reporting needs attention. Responses show also that data quality is met by almost all CRS operating in these countries. This response means that all CRS have complete and comprehensive data that allows them to develop value added services such as credit scores and credit reports designed to evaluate SMEs’ creditworthiness. Although these responses show a high level of data quality across all the non-high income countries, it might be useful to conduct a more detailed analysis for the specific case of data quality for SMEs evaluation.

Contrary to high income countries, legal and regulatory environment responses appear to be stronger in non-high income countries. This is perhaps reflected by the fact that non-high income countries do not have legacy legal systems. Their legal reforms also seem to be easier and affect less number of legal instruments that need to be amended than in high income countries.

Finally, on cross-border data flows, a large number of non-high income countries show no need to exchange data with other countries. This might be a result of lack of economic agreements with other countries or low volumes of migrants applying for credit in hosting countries. It should be noted that for this sub-section only 42% of the countries provided meaningful responses.
In summary, results for all countries within the Credit Reporting section show that some principles are observed by almost all the countries while others might not be applicable to all, such as in the case of cross-border data flows, and others require further improvement. Most of the countries include complete data in their systems that allows them to produce comprehensive reports and scoring models. This leaves little room for improvement, including alternative data, as the respondents reported that data quality is high - accurate, complete and up to date. Most of the countries also reported that the general principle on Data Processing, Security, and Efficiency is broadly observed in the G20 countries and no major improvements in terms of security measures in the CRS are required. Governance of credit reporting systems showed mixed responses as well as the identification of risk and adoption of adequate risk management policies and practices.
Background

According to research, providing legal and institutional structures through which movable assets can be effectively used as collateral significantly improves access to finance by those firms that need it the most. Well-functioning secured transactions systems enable businesses to use their assets as security to generate capital.

Further economic analysis suggests that SMEs in countries that have stronger secured transactions laws and registries have greater access to credit, better ratings of financial system stability, lower rates of non-performing loans. The end result is higher productivity and more growth.

The G20 Action Plan on SME Financing identified the development of credit infrastructure for SMEs including improvements of secured transactions systems as a key priority. The area of secured transactions is where the disparity among G20 countries’ performance is the greatest. For example, some G20 jurisdictions still use document registration, which requires delivery and recording of the agreement and possibly other documentation at the registry, instead of a modern notice registration system. Other countries do not have a centralized registry or a single registry for all types of movable assets.

In such context, the diagnostic assessment against SME-related aspects of international standards is recognized as an area of focus including the assessment against the World Bank ICR Principles (2015), the UNCITRAL Legislative Guide on Secured Transactions (2007) and the UNCITRAL Model Law on Secured Transactions (2016).
STCR Consolidated Results

The consolidated STCR bar and radar charts reveal differences among different aspects related to STCR. Scope and Creation, Third Party Effectiveness and Priority, and Enforcement are strong, registration sub-sections are less strong. This is mainly due to the fact that even in some high income countries which have created effective/workable provisions to create and enforce security rights, registration systems are not fully electronic or notice based.

The Registration and Registry along with the Registration and Priority of Liens sub-sections have only 55 and 53 percent “yes” response rates. Registration plays a central role and has an impact on enforcement, priority, and other factors.
Results by Income Level Groups

High Income

High Income countries’ trend adhere to the overall trend set in the consolidated results above, with areas dealing with registration leaving room for improvement.
Non-High Income

Non-high Income countries generally responded with lower STCR “yes” response rates than their high-income counterparts. With the exception of Registration and Priority of Leans, and nearly identical responses with respect to Registration and Registry, non-high income countries performed poorer in every other category.

In particular, non-high income countries performed poorer than their high-income counterparts in the Scope and Creation sub-section of STCR.

In summary, with the exception of a few countries, the majority of the G20 jurisdictions do not have all elements identified in the G20 Action Plan Implementation Framework to promote movable asset-based lending.
Background

Effective insolvency regimes have a dual aim: to save viable businesses and to ensure that non-viable businesses can quickly exit the market, allowing the deployment of assets to more productive firms. This is particularly important in liberating productive resources from unproductive enterprises and in ensuring that creditors and potential investors are protected if a business fails.

A number of studies demonstrate that the positive results of developing effective and efficient insolvency systems can be extended throughout the economy. Insolvency reform in accordance with international best practices have been linked to lower cost of credit, increased access to credit, improved creditor recovery, strengthened job preservation, promotion of entrepreneurship, and other benefits for small businesses. Countries that implement sound insolvency regimes also manage to increase financial inclusion and thereby promote overall economic stability. A systematic approach to debt resolution and insolvency thus strengthens the investment climate and advances economic growth.

The G20 Action Plan on SME Financing identified the development of credit infrastructure for SMEs, including improvement of insolvency frameworks, as a key priority. In this context, the insolvency part of the self-assessment benchmarks the existing regulatory framework in each country against internationally recognized standards, as set by UNCITRAL’s Legislative Guide on Insolvency Law and the World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes.
Insolvency Consolidated Results

Insolvency frameworks appear to be the strongest component of credit infrastructure in G20 member states when taking into account the depth and breadth of positive responses. Indeed, practically all but one country have implemented at least 60% of the best practices measured in the questionnaire, with particularly high levels of implementation in dimensions like the Reorganization Plan and the Protection of the Insolvency Estate. A notable exception to these high levels of implementation is the Automatic Stay (discussed below).

The questions in regard to the Automatic Stay only have a 53% positive response rate, which is in stark contrast with the levels above the 70% threshold achieved in other areas. However, it should be noted that all countries included in this analysis have some sort of automatic stay of secured creditors’ actions upon commencement of insolvency proceedings. Despite the existence of the automatic stay in practically all countries, some important features of the stay are missing in many countries, which explains the low scores under this dimension. These features include the requirement that the duration of the stay is limited in time and the possibility that the stay be lifted in certain circumstances, like perishable goods.

9. By automatic stay it is meant “…a mechanism to protect the value of the insolvency estate that not only prevents creditors from commencing actions to enforce their rights through legal remedies during some or all of the period of the liquidation or reorganization proceedings, but also suspends actions already under way against the debtor.” See UNCITRAL Legislative Guide on Insolvency Law (2005), p. 83.

10. These figures refer to the unweighted percent of positive responses obtained through the self-assessment.
Results by Income Level Groups

High Income

High-income countries show the highest degree of implementation of the best practices in insolvency measured by the questionnaire.

In line with the consolidated results explained above, insolvency results for high-income countries are extremely strong in all dimensions except for the Automatic Stay—which is nevertheless stronger than the results reported for non-high income countries.
Non-High Income

Non-high income countries show lower performance in practically all categories of insolvency when compared to their high-income counterparts.

Two dimensions stand out as those where the gap existing between high-income and non-high income countries are the widest. One is the dimension of the Automatic Stay, while the other one is the area of Insolvency Practitioners and SME insolvency.

In summary, an analysis of the data collected under the survey shows all G20 countries have formal insolvency frameworks that address the situation of a business entering financial distress.

The results obtained under this analysis can be a useful tool for governments seeking to reform their insolvency laws because it helps in identifying specific areas where insolvency regulations are lagging behind. The results suggest that, in addition to reforming the automatic stay, there is opportunity in many economies to improve reorganization proceedings and the regime applicable to insolvency practitioners.
CONCLUSION & NEXT STEPS

This initial self-assessment, or baseline, used a methodology aimed at capturing the strengths and areas of improvement for the G20 countries in each of the areas of credit infrastructure. While progress has been made over the years, there is room for improvement where results showed inconsistencies between and within the groups as described in the respective sections.

The G20 countries have committed to implementing reforms in the three CI areas based on this baseline report and to monitor progress every two years. Interested non-G20 countries, which have increased access to finance for SMEs, as a national priority are welcomed to join the effort to carry out the self-assessment and embark on reforms as well.

Implementing partners\(^{11}\) of the GPFI with operational expertise in credit reporting systems, secured transactions and collateral registries and insolvency regimes could potentially offer support to G20 and willing non-G20 countries in conducting more in depth assessments as well as the implementation of such reform.

This baseline report will be used as the initial benchmark to compare against the progress of G20 countries in the areas of credit reporting systems, secured transactions and collateral registries, and insolvency regimes in 2019.

\(^{11}\) Through their standard advisory services engagement process.
The framework is structured as follows:

- Section 1 includes a description of the market development of the Credit Infrastructure sections covering SMEs related aspects;
- Section 2 includes key considerations and directions on how to respond to the questionnaire;
- Section 3 presents a description of the rating scale;
- Section 4 includes a list of key questions corresponding to each principle, recommendations for oversight and possible actions for SMEs credit reporting systems;
- Section 5 includes a glossary of terms.

**Credit Reporting**

**Market Development Stages**

**Developed**

In an advanced CRS covering SMEs, the existing systems include all relevant data to develop credit reports and value added services tailored to SMEs. In addition, the legal framework in the given jurisdiction covering CRS is clear, predictable and enables the flow of information across different credit reporting systems and users while being subject to adequate regulation and oversight. Moreover, the solutions adopted by the credit reporting systems are efficient and cost effective. Under this scenario, CRS should be able to offer creditors (both financial and commercial) innovative and affordable tools to support their credit risk evaluation based on reliable information transferred safely through efficient networks. The CRS is supported by adequate legal and regulatory frameworks and the service providers and other participants are reliable and subject to oversight.

As a result, an advanced CRS covering SMEs contains the majority of the elements in all six sections proposed and scores above 7.5/10 in the questionnaire.

**Developing**

In a developing CRS covering SME related aspects, some of the critical elements for an efficient safe and reliable CRS are in place but some critical aspects are still not developed or are under development. For instance, the legal framework might not be clear or predictable; or existing governance might impede the development of adequate value added services; or systems could be highly fragmented, impeding the collection of all relevant data necessary to evaluate the creditworthiness of SMEs. In addition, the legal framework might not allow the collection of relevant data items or might lack the adequate privacy protection for individuals regarding the use of their data and mechanisms to correct such data. Other aspects that might be lacking are those related to value added services tailored to the evaluation of SMEs (including their management and shareholders).

As a result, a developing CRS covering SMEs includes some critical elements in the six sections proposed and scores greater than 4 and less than or equal to 7.5 out of 10 in the questionnaire.
Formative

A formative CRS can be described as a system that has many deficiencies and lacks many of the basic elements described in the questionnaire. Main elements might refer to the existence of a CRS but one that is not yet collecting sufficient data on a systematic basis and faces severe data quality problems. Additional deficiencies can include (but are not limited to): lack of a CRS collecting relevant data, a CRS focused on consumer credit related information, lack of interoperability of existing systems or lack of adequate measure to protect data from unauthorized access, loss or data corruption or data misuse. In such a context, creditors face difficulties in properly assessing the risk of potential debtors at an affordable cost, thus requesting either collateral from the debtors or conducting highly costly investigations—the costs of which are then transferred to debtors, increasing the cost of credit.

As a result, a formative CRS covering SMEs only includes some elements of the proposed framework and therefore scores 4/10 or below in the questionnaire.

Secured Transactions and Collateral Registries

Market Development Stages

Developed

In an advanced legal framework, secured creditors can effectively create, publicize and enforce their rights over the movable assets of debtors. Such rights can be created over various types of movable assets (tangible and intangible, present or future) of all kinds of debtors (legal entities, sole proprietors, individuals). Legislation establishes clear and transparent priority schemes for various creditors and lienholders in cases of competing claims. Secured creditors can rely on out of court procedures to enforce their rights or fast and effective judicially supported enforcement procedures when needed. Institutional frameworks permit all kinds of creditors and lienholders to publicize their rights through an on-line notice based registry in an effective and efficient way.

Therefore, an advanced legal framework should satisfy two criteria:

- Contain the majority of the elements in sections 1, 2, 4 and 5 of the questionnaire and as a result score above 7.5/10 in the questionnaire.
- Contain all the elements described in questions 1.1 - 1.6; 2.1 - 2.3; 4.1 - 4.3 and 5.1-5.3 since these issues are considered critical for an effective and modern framework.

Developing

In a non-high income legal framework, even though certain aspects of legal and institutional systems require improvement and further reform, key elements of effective creditor and debtor’s rights are in place. In this context, the legal system permits the creation of enforceable security rights over present and future movable assets, allows general descriptions of these assets, contains unambiguous priority schemes, and gives secured creditors the ability enforce their rights out of court. Finally, a registry is in existence that provides creditors the means to ensure transparency of their rights vis-à-vis third parties.

As a result, a developing legal framework:

- Scores greater than 5 and less than or equal to 7.5 out of 10 in the questionnaire
- Contains all the elements described in questions 1.3 – 1.6; 2.3; 4.1; 5.1.
- A legal framework is also classified as “developing” if it scores above 7.4/10 but lacks one of the elements required of a developed system as specified in (b) above under the “Developed” category.
Formative

A formative legal framework can be described as a framework that has numerous deficiencies and lacks many of the basic concepts described in the above two categories of market development. There are gaps in the coverage of certain types of assets as potential collateral and in the registration system itself. Specifically, these deficiencies can include (but are not limited to): no assurance of priority of security interests given a lack of uniform treatment of various security interests and liens, coupled with a lack of an efficient publicity mechanism; the existence of fragmented registries operating according to types of collateral, types of legal interest, types of borrower, and/or geography; use of document registration, resulting in potential arbitrariness and/or error in registration, along with the imposition of burdensome procedures which can be lengthy and lead to disclosure of proprietary information; and a complex and slow enforcement process that requires time-consuming and costly judicial intervention.

As a result, a formative legal framework scores 5 or lower in the questionnaire.

Insolvency

Market Development Stages

Developed

In an advanced legal framework, insolvent debtors are given the opportunity to initiate proceedings before formal insolvency and are allowed to remain in control of their business. Furthermore, upon commencement of insolvency proceedings, debtors are afforded protection from creditors’ enforcement actions, with due consideration to the interests of secured creditors. During the course of proceedings, the law facilitates the continued operation of the debtor’s business, maximizes the value of its assets and encourages debtors to achieve reorganization. A developed legal framework also contains provisions on the qualifications and duties of insolvency practitioners, allows debtors to obtain a discharge of their residual debts following a liquidation of their assets and provides SMEs with access to special and expedited proceedings for reorganization.

Therefore, an advanced legal framework should satisfy two criteria:

- Contain the majority of the elements in all five sections and, as a result, score above 7.5/10 (top quarter) in the questionnaire.
- Contain all the elements described in questions 1.1, 2.1, 3.2, 3.3 and 5.1 of the questionnaire, as these issues are considered crucial and weigh significantly in the scoring system.

Developing

In a developing legal framework, insolvent debtors face certain difficulties in accessing proceedings and achieving a successful reorganization of their business. These difficulties may refer, among other things, to lack of access to a preventive restructuring framework, inability to obtain post commencement financing or obstacles to discharge. Furthermore, creditors also face a number of challenges such as the inability to obtain relief from the automatic stay or unworkable voting provisions. In general, however, a developing legal system contains many of the elements of a developed framework and works well in practice by facilitating the restructuring of viable businesses despite the obstacles described above.

As a result, a developing legal framework scores greater than 5 and less than or equal to 7.5 out of 10 in the questionnaire.
A legal framework is also classified as “developing” if it scores above 7.5/10 but lacks one of the central elements required of a developed system as specified in (ii) above.

**Formative**

A formative legal framework can be described as a framework that has many deficiencies and lacks many of the basic concepts described in the above sections. These deficiencies can include (but are not limited to): the absence of a system for the regulation of insolvency practitioners; the absence of a mechanism for the management of the estate, the rejection of contacts, and/or the complete absence of reorganization provisions. In such a context, debtors face many difficulties in achieving reorganization and liquidation is the most prevalent outcome, keeping creditor recoveries low.

As a result, a formative legal framework scores 5/10 or below in the questionnaire.
In this report, the reference of “High Income” and “Non-High Income” country is based on World Bank Group’s Country Classification method briefly explained below.

Economies are currently divided into four income groupings: low, lower-middle, upper-middle, and high. Income is measured using gross national income (GNI) per capita, in U.S. dollars, converted from local currency using the World Bank Atlas method. Estimates of GNI are obtained from economists in World Bank country units, and the size of the population is estimated by World Bank demographers from a variety of sources, including the UN’s biennial *World Population Prospects*.

Countries are immediately reassigned on July 1 each year, based on the estimate of their GNI per capita for the previous calendar year. Income groupings remain fixed for the entire fiscal year (i.e., until July 1 of the following year), even if GNI per capita estimates are revised in the meantime.\(^\text{12}\)

For the current 2017 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,025 or less in 2015; lower middle-income economies are those with a GNI per capita between $1,026 and $4,035; upper middle-income economies are those with a GNI per capita between $4,036 and $12,475; high-income economies are those with a GNI per capita of $12,476 or more.\(^\text{13}\)

Following this standard, in this report, the High Income Countries Group includes Australia, Canada, France, Germany, Italy, Japan, Republic of Korea, Saudi Arabia, United Kingdom and the United States. The Non-High Income Countries Group includes Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Turkey.

---

