

Facilitating SME Financing through Improved Credit Reporting

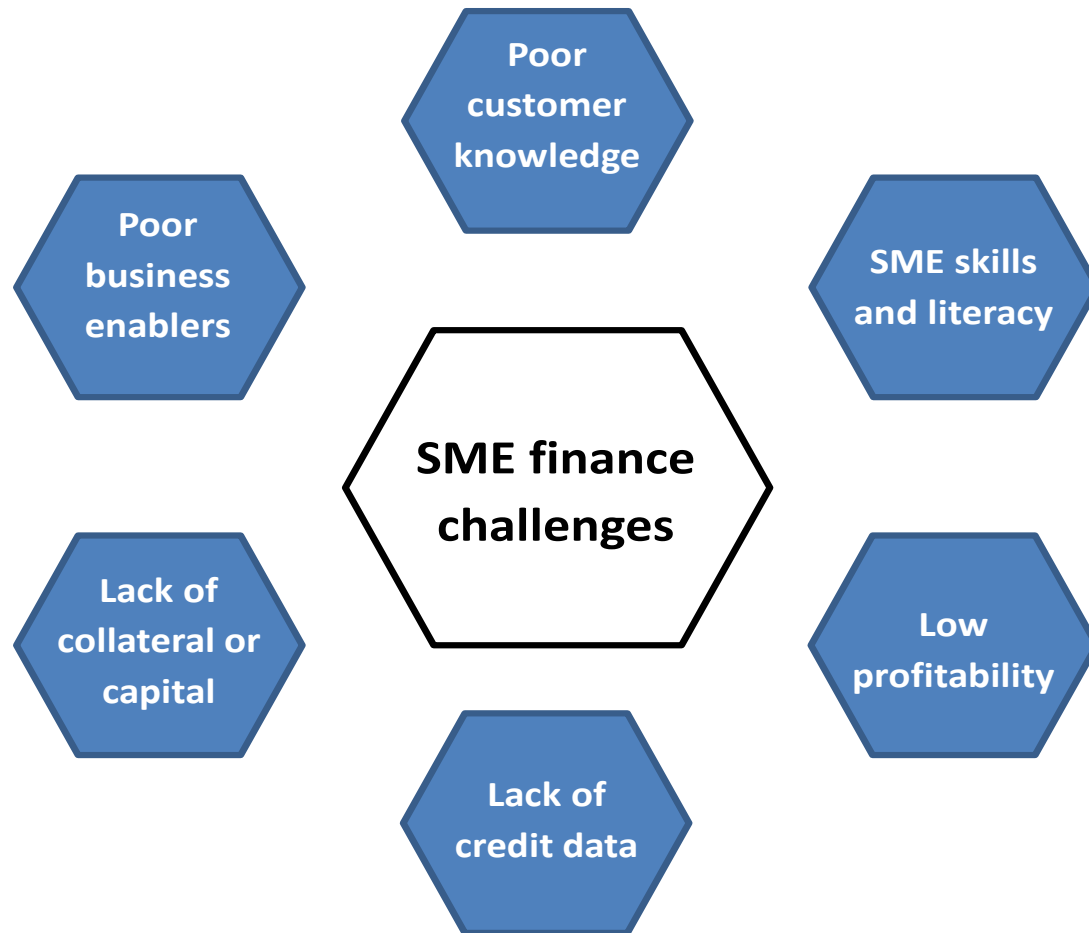
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WORLD BANK GROUP
Finance & Markets

Constraints to SME external financing



Objective of the report

- At its meeting in Rome in March 2013, the ICCR identified credit reporting on SMEs as a key area requiring further attention:
 - ✓ Information asymmetries limit the ability of most SMEs around the world to obtain adequate external financing
 - ✓ while credit data and other relevant information on large corporations and individuals is broadly available in one or more CRSPs in a country, this is not the case for SMEs
 - ✓ enabling and/or improving the flow of credit data and other relevant financial information on SMEs to lenders and other creditors can contribute in alleviating the credit constraints faced by SMEs
 - ✓ how can a more effective flow of Credit Information on SMEs contribute to financing SME activities?
- The report “*Facilitating SME financing through improved credit reporting*” was published in May 2014. It analyzes the status of credit reporting with regard to SMEs using the General Principles as a benchmark. The analysis focuses on the key aspects relating to data (GP1), legal and regulatory framework (GP4), and issues that affect cross-border data flows (GP5)

Delimiting the scope of the report

Consumer lending and consumer credit reporting (e.g. based mainly or solely on the personal characteristics of the owner/owners)

Scope – credit reporting & SMEs

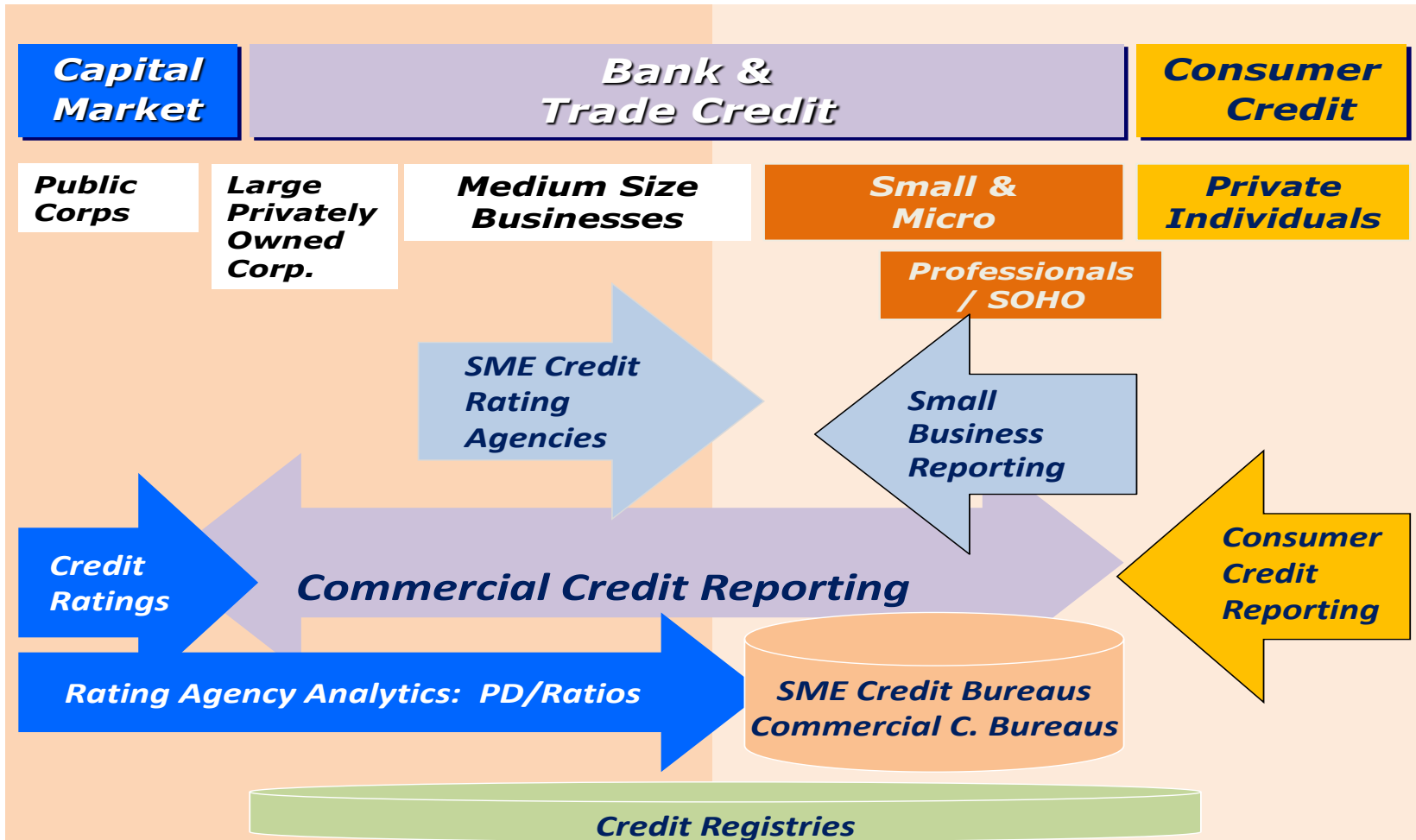
Larger firms (e.g. corporations) that have access to a greater variety of external financing sources, like capital markets



Outline of the report

- I. Introduction
- II. SME Access to Financing
 - Contains a description of the main sources of financing, modalities of credit and the key players in this market.
 - II.1 Financing Needs of SMEs and Forms of Financing
 - II.2 External Financers of SMEs and Products
 - III.3 Constraints to SME Financing (this report focuses only on credit information limitations...there are many others through)
- III. Current Status of Credit Reporting Activities in relation to SMEs
 - III.1 Credit evaluation technologies (“standard” and “alternative” technologies).
 - III.2 Role of Credit Reporting in SME Lending (description of the commercial credit reporting market and players)
 - III.3 Enhancing Credit Reporting for SMEs
 - III.4 Current Status of Commercial Credit Reporting, focusing on SMEs
- I. 10 Possible Actions

Credit information market



Source: Adapted from BIIA.

Main issues identified

- Lack of reliable identity information for the SME
- Many SMEs are not included in the CRS
- SMEs data is mostly negative
- Lack of data to assess SME's repayment capacity
- Not all SMEs are aware that they need to provide accurate data to creditors
- Type of credit behavior-related data are not easily available to CRSPs
- CRSPs are based on consumer lending or on commercial lending
- Certain legal aspects are not developed (e.g. transparency, financial disclosure standards, role of other data sources, access and re-use of SMEs credit data, non discrimination of users and role of authorities as overseers of CRS)
- Lack of standardization of data at the international level creates difficulties when comparing data from different countries

Possible actions to enhance credit reporting to further facilitate SME financing

- **Possible Action 1: Need to increase reporting of SME credit data**

Authorities could seek for ways for all relevant data providers, including non-bank creditors, to increase reporting of SME positive and negative data

- **Possible Action 2: Increase SME transparency, including through mandatory reporting of their financial information**

Authorities could therefore seek to increase transparency of SME activities and performance through mandatory reporting of key financial information to the relevant public registers or public sector authorities. Policies to reduce the regulatory burden on SMEs by exempting them from this type of requirements would have to be weighed carefully against other relevant policy objectives

- **Possible Action 3: Co-responsibility of SMEs**

SMEs could therefore seek to ensure that the information they generate about the business to apply for external financing (and other purposes) is sufficient and reliable. When needed, SMEs could seek training from authorities and any other parties to develop the necessary skills for this. Creditors, in their role as users, could also provide valuable feedback to SMEs by making their credit policies and decisions more transparent

Possible actions to enhance credit reporting to further facilitate SME financing

- **Possible Action 4: Cooperation of public sector agencies providing national ID services**

Relevant public sector agencies in their role as other data sources, specifically to the extent they provide identification services, could seek to agree with CRSPs a way that the latter can access national ID databases for validation purposes

- **Possible Action 5: Public records agencies/public registers to enhance their contribution to credit reporting**

Public records agencies/public registers in their role as other relevant data sources could aim at improving the quality of their record holdings and ensuring that these can be accessed easily and efficiently by all interested parties like CRSPs

- **Possible Action 6: Governments to clarify the permissible uses of the information they collect through various means**

Governments in their role as other relevant data sources would need to define clear policies regarding the permissible uses of the information that is collected by public sector agencies and information available in public records. This may require changes to the legal framework

Possible actions to enhance credit reporting to further facilitate SME financing

- **Possible Action 7: Better cooperation between commercial credit information companies and consumer credit bureaus, to improve credit reports on SMEs**

Commercial credit information companies and consumer credit bureaus could seek to collaborate and, to the extent permitted by the law, share data among themselves that might be useful to each other and to their respective users, and eventually develop certain credit reporting products jointly

- **Possible Action 8: Authorities to oversee and provide leadership in improving credit reporting**

Authorities would have to scale up their oversight capacity on the commercial credit reporting system. Consistent with the model presented in the General Principles report, one authority should be designated as leading overseer, and should use all the tools available to it to accomplish its oversight objectives

Possible actions to enhance credit reporting to further facilitate SME financing

- **Possible Action 9: Improve comparability of credit data that is shared across border**

CRSPs and authorities would strive to increase the degree of convergence and harmonization of key characteristics of credit data that is shared across borders to ensure that such data is useful. This may include envisaging a core set of variables to be shared across borders on an SME, covering both financial data and credit performance aspects

- **Possible Action 10: Improve availability of information (e.g. qualitative and quantitative) on the status of commercial credit reporting**

Authorities could push for/participate in a global survey or similar tool to be performed periodically to obtain detailed, comprehensive and systematic information about credit reporting activities both in their jurisdictions and at the global level