

3.4. Getting Credit

***Doing Business* covers two aspects of the regulatory framework and infrastructure that affect the availability of credit: The indicator has two major components: the availability of credit information, by the public credit registry coverage (or private credit bureau coverage), and the protection of creditor and debtor rights in collateral and bankruptcy laws.** The first aspect, measured by the Depth of Credit Information Index, includes the coverage, scope and quality of credit information available through credit registries and credit bureaus. The second, measured by the Strength of Legal Rights Index, evaluate the degree to which movable property can be effectively used as collateral and the protection of creditor rights and priorities in bankruptcy.

In *Doing Business 2019*, Sierra Leone ranked 161st of 190 countries on the Getting Credit indicator while the economy scored 25.00 percentage points on the “Ease of Doing Business” Score. Under the Depth of Credit Information Index, Sierra Leone receives 0 points out of maximum 8. This is so because the Doing Business methodology does not acknowledge any points for economies where the Credit Registry or the Credit Bureau cover less than 5% of the adult population. In Sierra Leone, the Credit Registry reported that only 1,6% of the adult population is covered by it

Under Legal Rights of Creditors Index, Sierra Leone scores 5 out of 12 possible points, meaning that the country lacks an integrated legal framework for secured transactions, and lacks a modern centralized collateral registry that covers all types of security interests in movable assets an electronic database indexed by debtor’s identifier, which would be available for incorporated and non-incorporated entities which wish to register their security interest in order to make it enforceable against third parties pursuant to the priority of registration. In addition, the rights of secured creditors during reorganization and insolvency are less protected compared to other economies which makes both recovering assets and resolving insolvency much harder. Since Sierra Leone is in the process of adopting a new secured transactions framework, there is an opportunity to modernize its regulations and align them with international best practices.

A. Credit Information

A credit reporting system is an integral part of a well-functioning credit market. Credit reporting systems help satisfy lenders’ need for accurate, credible information about the potential borrower that reduces the risk of lending and the cost of loan losses by providing a reliable indication of whether an applicant will repay a loan. The lack of credit information makes checking borrowers’ credit history an onerous and uncertain process. This raises transaction costs for banks and, ultimately, increases the cost of credit to borrowers. The lack of credit information could also result in the approval of loans based on personal connections, and not necessarily the likelihood of repayment.

Credit reporting systems are essential in facilitating access to financial services for SMEs. When comprehensive credit infrastructures are available, efficient, and reliable, the cost of financial intermediation falls; financial products and services become accessible to greater numbers of borrowers; and lenders and investors have greater confidence in their ability to evaluate

and price risk. The information captured by credit reporting systems are critical to ensuring stability in the financial markets.

Credit reporting service providers can reduce information asymmetry, thus reducing default rates, which in turn should result in lower average interest rates, customized products and services, enhanced competition in the credit market, and, ultimately, greater financial inclusion and increased access to credit for individuals as well as SMEs.

Research suggests that bank risk is lower, while profitability is higher, in countries where lenders share borrowers' information through credit bureaus and registries.⁷⁴ Well-functioning credit reporting systems can help to reduce adverse selection and moral hazard and contribute to both an expansion of credit and a reduction in lending costs by facilitating the adoption of lending technologies based on credit scoring models. The development of credit information systems is particularly important for smaller firms, given the more severe problems of information opacity and asymmetry in these cases.

Sierra Leone scores 0 out 8 points on the Depth of Credit Information Index. As of May 2018, only 1.6 % of adults were covered by the Credit Registry, compared to an average of 7.0 % in the region (Table 3.4.1).

Table 3.4.1 - Credit information ranking and best performers in *Doing Business 2019*

<i>Doing Business</i> Indicator	Sierra Leone	Regional Average	Regional best performer	Best global performer
Depth of credit information index (0-8)	0	3.3	8 (Côte d'Ivoire, Kenya, Nigeria, Rwanda, Tanzania, Zambia)	8 (42 economies)
Private credit bureau coverage (percent of adults)	0	8.9%	29.9 (Kenya)	100 (25 economies)
Public registry coverage (percent of adults)	1.6	7.0%	9.2 (Rwanda)	100 (4 economies)

Table 3.4.2 - Credit information score in *Doing Business 2019* (even if the answer is yes, the score is 0 because the coverage is less than 5% of the population)

Depth of credit information index (0-8)	Private credit bureau	Public credit registry	Score
Are data on both firms and individuals distributed?	No	No	0

⁷⁴ Joel Houston, Chen Lin, Ping Lin, and Yue Ma, 2010. "Creditor rights, information sharing, and bank risk taking," Journal of Financial Economics, Volume 96, Issue 3, Pages 485–512, June.