

Core Element 2 – Access to Credit

“Giving the poor access to credit allows them to immediately put into practice what they already know – to weave, to husk rice patty, raise cows, peddle a rickshaw. And the cash they earn is then a tool, a key that unlocks a host of other abilities and allows them to explore their own potential. Often borrows teach each other new techniques that allow them to better use their survival skills. They teach far better than we ever could.”

- Muhammed Yunnus, *Banker to the Poor*, p. 140

Legally protected, secure and standardized recording of property rights is only the first step in building property markets. Without the ability to use property as collateral for loans, the titles in owners’ hands still represent “dead capital” – assets that cannot be collateralized or sold. Access to credit needs to be available on a scale that corresponds to the development of the market. Over the last decades microfinance has helped bring many of the poor into the financial system through the use of support groups, pooled savings and microloans.

As finance systems develop, property becomes more liquid – homes can be mortgaged for business start-up capital, to finance property improvements and to eventually allow owners to transfer up the property ladder. As banks develop loan repayment histories and understand credit risks, interest rates stabilize. As the financial system becomes more sophisticated, inflation rates subside, property values start to go up and robust primary mortgage markets evolve into secondary markets where loans can be pooled and securitized into additional capital.

Core Element Goal

An efficient, transparent financial sector that provides a broad range of citizens with access to multiple forms of competitive credit so that they can start businesses, build wealth, and purchase property

Lead Indicator 2.1 – Banks

Core Question: Are traditional banking services robust and extensive enough to serve the needs of the population to help them build wealth and purchase property?

Sub-Indicator 2.1.1 – Access

How easy is it to obtain a bank loan?

Banks are the predominate source of external funding for individuals and companies. As such they are the central pivot in financial intermediation between the deposits of savers and loans

by borrowers. The Scorecard again uses the *Global Competitiveness Report*. The numeric score is based on an Executive Opinion Survey of top management business leaders. Countries are then ranked from highest (very easy to obtain a bank loan) to the lowest (very difficult.)

- Step 1 Visit the *Global Competitiveness Report* Web site:
<http://gcr.weforum.org/gcr2010/>
- Step 2 Click "Rankings."
- Step 3 For Sub-Indicator 2.1.1, Select the "Index" Drop Down
- Step 4 Select the "8.04 – Ease of access to loans"
- Step 5 Find your country on the table.
- Step 6 Record the ranking and numeric score from this external source.
- Step 7 Determine the Sub-Indicator score:

Yes	Very Strong	1 ST – 34 TH countries
	Strong	35 TH – 69 TH countries
No	Weak	70 TH – 104 TH countries
	Very Weak	105 TH – 139 TH countries

Sub-Indicator 2.1.2 – Soundness

How sound are the country's banks?

Financial crises – particularly systemic banking crises – lead to severe and often long-lasting economic contractions. The resolution of a banking crisis entails a significant amount of costly government intervention. These fiscal bailouts are a significant social burden. The added public debt has to be serviced over time, which means that the social costs of systemic banking crises are very serious. The banking system needs to be sound. Banks should have accurate information about the collateral backing loans and significant reserves to weather downturns in economic cycles.

- Step 1 From the GCR Data Table "8.07 – Soundness of banks" (as in Step 1-3 above).
- Step 2 Find your country on the table.
- Step 3 Record the ranking and numeric score from this external source.
- Step 4 Determine the Sub-Indicator score:

Yes	Very Strong	1 ST – 34 TH countries
	Strong	35 TH – 69 TH countries
No	Weak	70 TH – 104 TH countries
	Very Weak	105 TH – 139 TH countries

Sub-Indicator 2.1.3 – Microlending

A loan of a few hundred dollars will make a huge difference in the lives of a poor family. It will give them the ability to purchase livestock for a small farm, a sewing machine to help make accessories and clothes, or supplies for a small store. Microlending customers have excellent repayment histories. Microfinance thus allows citizens without traditional creditworthiness to build a credit history and work toward participation in the traditional banking sector.

**Civil Society Resource – www.globalhousingfoundation.org
Global Housing Foundation (GHF)**

In conjunction with UN-Habitat, GHF brings together the resources necessary to create housing for the working poor. GHF aims to reach the 350,000,000 urban homeless slum dwellers that are employed or have a source of income and offer them the opportunity to own a sustainable home financed with a GHF 'micro-mortgage'.

GHF's micro-mortgage program transforms large numbers of families from slum dwellers to proud homeowners. Their new home will provide them with safety, security and elevated social and economic status.

The Scorecard uses the Microfinance Information Exchange (MIX) for the score for this indicator.

- Step 1 Visit the MIX Market Website: www.mixmarket.org/mfi
- Step 2 Click your country on the map or scroll down and click on your country from the list.
- Step 3 Record the answers to the following questions:
 - 2.1.3.1 How many microfinance institutions are operating in the country? For countries with numerous institutions, list several of the largest.**
 - 2.1.3.2 What is the number of active borrowers per institution?**

- Step 4 Click on the institutions you have listed and record their Website if available.
- Step 5 Visit the Websites to get an idea of the services offered.
- Step 6 Conduct an Internet Search using “Microlending [country name]” to obtain additional information about Microlending in your country.
- Step 7 Return to the Mix Market Website page for your country. The diamond rating system is used to indicate reporting transparency. 5 diamonds indicates the highest level of disclosure and auditing. Use the diamond rating system as well as other information you have gathered determine the Sub-Indicator Score.
- | | |
|-------------|---|
| Very Strong | Numerous 4 or 5 diamond rated microfinance institutions operating in the country relative to the population and poverty levels. |
| Strong | Numerous 3 or 4 diamond microfinance institutions |
| Weak | Few microfinance institutions operating in the country |
| Very Weak | No microfinance institutions operating in the country |

Determine the Lead Indicator Score for Banks

- Step 1 Review the Sub-Indicator scores.
- Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 2.2 – Other Sources


Core Question: Are entrepreneurs free to raise capital outside the banking system including venture capital and/or by issuing stock in a well-regulated stock exchange?

Sub-indicator 2.2.1 – Financial Freedom

How much control does the government exert over financial services?

Excessive banking and financial regulation by the state limits competition, impedes efficiency, and increases costs. Government ownership of banks and high levels of intervention in non-banking financial services undermines the ability of markets to provide services that reflect true market conditions and risks. The Scorecard used the *Index of Economic Freedom* from the

Heritage Foundation as the source for the score for this indicator and others. The hundred point scale goes from repressive (0 – no private financial institutions) to negligible government intervention (100 – no government owned financial institutions).

- Step 1 Visit the *Index of Economic Freedom* Website:
www.heritage.org/index/
- Step 2 Enter your country in the “Find Your Country” search box and press  search.
- Step 3 Record the “Financial Freedom” score.
- Step 4 Click “Financial Freedom” and review the information.
- Step 5 Determine the Sub-Indicator Score
 - Very Strong 100 – 90 – Minimal government control
 - Strong 60 – 80 – Limited government control
 - Weak 30 – 50 – Considerable government control
 - Very Weak 0 – 20 – Heavy government control

Sub-Indicator 2.2.2 – Venture Capital

How easy is it for entrepreneurs to find venture capital?

In the developing world many private real estate and financial service companies are relatively new. These companies are too small to raise capital in the public markets and have not reached the point where they are able to secure large bank loans. Venture capital is often invested in this type of small, less mature company. In exchange for the high risk that venture capitalists assume, they usually get significant control over company decisions and a significant portion of the company's ownership and profits when sold.

The *Global Competitiveness Report* ranks countries from highest (very easy to obtain venture capital) to the lowest (very difficult.)

- Step 1 Visit the *Global Competitiveness Report* Web site:
<http://gcr.weforum.org/gcr2010/>
- Step 2 Click on “Rankings.”
- Step 3 From the “Index” dropdown select Table 8.05 – “Venture capital availability.”
- Step 4 Find your country on the table.

Step 5 Record the ranking and numeric score from this external source.

Step 6 Determine the Sub-Indicator score:

Yes	Very Strong	1 ST – 34 TH countries
	Strong	35 TH – 69 TH countries
No	Weak	70 TH – 104 TH countries
	Very Weak	105 TH – 139 TH countries

Sub-Indicator 2.2.3 – Equity Investors

How easy is it to raise money by issuing shares on the stock market?

As companies develop and highly competent management teams execute well-developed business models, they can grow to the point of going public with an initial public stock offering (IPO) to raise more capital for continued growth. Investment banks and teams of analysts need to be in place to support IPOs.

Step 1 From the GCR “Index” (the same accessed in Step 1-3 above), select Table 8.03 “Financing through local equity market.”

Step 2 Find your country on the table.

Step 3 Record the ranking and numeric score from this external source.

Step 4 Determine the Sub-Indicator score:

Yes	Very Strong	1 ST – 34 TH countries
	Strong	35 TH – 69 TH countries
No	Weak	70 TH – 104 TH countries
	Very Weak	105 TH – 139 TH countries

Determine the Lead Indicator Score for Other Sources

Step 1 Review the Sub-Indicator scores.

Step 2 Determine the Lead Indicator Score based on the aggregate of the Sub-Indicator scores.

Lead Indicator 2.3 – Credit Bureau

Core Question:	Is comprehensive credit information available through public and private credit bureaus?
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Information needed to make reliable credit decisions includes a potential borrower's income and the value of the collateral put up for a loan. To make the most reliable decisions and to price the potential risk, providers of credit also need to know information on a borrower's credit history. Does the potential borrower already have other outstanding debts? Have those debt payments been paid on time? Accurate positive and negative information on both individuals and companies needs to be recorded by credit bureaus and made available to lenders and borrowers. The Scorecard uses the "Getting Credit" data from the *Doing Business* project as the primary source for this Indicator.

- Step 1 Visit the *Doing Business* Web site: www.doingbusiness.org
- Step 2 From the "select an economy" drop down select your country.
- Step 3 Record your country's rank for "Getting Credit" for the current and previous year.
- Step 4 Click on "Getting Credit"
- Step 5 Record the answers and scores to the following questions:

Sub-Indicator 2.3.1 – Coverage

What is the depth of information available in credit bureaus?

Doing Business uses a 0-6 scale.

Very Strong	5-6
Strong	3-4
Weak	1-2
Very Weak	0

Sub-Indicator 2.3.2 – Public Credit Bureau

What is the extent of public credit registry coverage?

Very Strong	25% and greater
Strong	10% - 24.9%
Weak	Less than 10%
Very Weak	No public credit bureau

Sub-Indicator 2.3.3 – Private Credit Bureau

What is the extent of private credit registry coverage?

Very Strong	50% and greater
Strong	20% - 49.9%

Weak Less than 20%
Very Weak No public credit bureau

Step 6 Click on “Details” and review the information to get a better understanding of the status of credit information in your country.

Determine the Lead Indicator Score for Credit Bureau based on overall ranking:

Very Strong 1ST – 46TH countries
Strong 47TH – 92ND countries
Weak 93RD – 137TH countries
Very Weak 138TH – 183RD countries

Determine the Core Element Score for Access to Credit

Step 1 Review the Lead Indicator scores.

Step 2 Determine the Core Element Score based on the aggregate of the Lead Indicator scores.

↻ Core Element Linkages

Access to Credit ↔ Financial Transparency

To make responsible credit decision, banks and non-bank financial service providers need accurate, accessible data in standardized formats on actual sales prices and operating costs for properties. Well trained, independent and ethical asset valuers must be in place. Transparent financial reporting by public companies, continuous development of financial markets and processes for the orderly dissolution of companies and the redistribution of assets also need to be in place.

Without databases of true market data and highly-trained property market analysts, markets will be slow to develop and be vulnerable to extreme cycles of boom and bust as well as longer periods of recovery. This linkage is represented in the Scorecard by placement and color. The Core Elements Access to Credit and Financial Transparency are located across from each other and have similar colors.

Please review the information for the Financial Transparency on page 55.

Field Assessment

No matter how small or informal, property transactions are taking place in every market. While many developing markets are still largely cash-based, international investment and financing continues to grow as investors seek new markets and higher returns. In addition to Internet research, interviews and survey questions, investigate the actual transactions taking place within the market that include some form of financing.

- Step 1 Partner with an outside expert with property market experience – preferably someone with transactional experience in a formal market outside your region.
- Step 2 Together with the expert, visit local banks, brokers, developers and/or valuers and ask them to tell you about recent transactions that involved financing. Be sure to include both residential and commercial properties.
- Step 3 Determine the answers to the following questions:

Field Question 4 **How available are mortgage loans for purchasing property, who is the typical user and what are the prevailing trends?**

Field Question 5 **What are the interest rates, term and loan-to-value ratios?**

Field Question 6 **Are there any informal barriers to borrowing such as for women or minorities?**

Core Element Map for Access to Credit

Legend – colors indicate the strength of institutions that support property markets.

- Very Strong
- Strong
- Weak
- Very Weak
- Unknown

