



# Arab Credit Reporting Guide



ARAB MONETARY FUND



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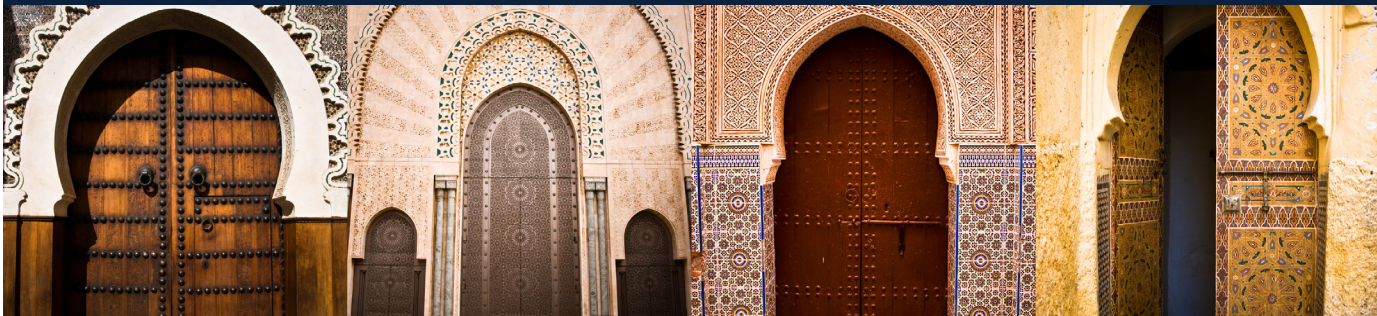


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# ACRONYMS



|               |   |              |   |
|---------------|---|--------------|---|
| <b>ACRI</b>   | Arab Credit Reporting Initiative                  | <b>NGO</b>   | Non-Governmental Organization                             |
| <b>ACRISI</b> | Arab Credit Reporting – Information Sharing Index | <b>NPL</b>   | Non-Performing Loans                                      |
| <b>AMF</b>    | Arab Monetary Fund                                | <b>OECD</b>  | The Organization for Economic Cooperation and Development |
| <b>CB</b>     | Credit Bureau                                     | <b>SME</b>   | Small and Medium Enterprise                               |
| <b>GCC</b>    | Gulf Cooperation Council                          | <b>UEMOA</b> | Union Economique et Monetaire Ouest Africaine             |
| <b>CR</b>     | Credit Registry                                   | <b>VAS</b>   | Value-Added Services                                      |
| <b>CRS</b>    | Credit Reporting System                           | <b>WBG</b>   | World Bank Group  |
| <b>CRSPs</b>  | Credit Reporting Service Providers                |              |   |
| <b>DB</b>     | Doing Business                                    |              |   |
| <b>FDI</b>    | Foreign Direct Investment                         |              |   |
| <b>GDP</b>    | Gross Domestic Product                            |              |   |
| <b>IFC</b>    | International Finance Corporation                 |              |   |
| <b>MENA</b>   | Middle East and North Africa                      |              |   |
| <b>MFI</b>    | Microfinance Institution                          |              |   |
| <b>MSME</b>   | Micro, Small, and Medium Enterprise               |              |   |
| <b>NBFI</b>   | Non-Bank Financial Institution                    |              |   |





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# PREFACE



During the first decade of this century, from 2001 to 2010, attention focused on the development of the credit information industry in the Middle East and North Africa (MENA) region. As MENA's role in the global economy increases along with its attendant demographic integration, the development of comprehensive information sharing systems across the region has become an imperative.

The overall credit information system in the region requires reform at the initiative of stakeholders. Among the challenges are the diverse levels of technology, and lack of awareness and discipline in data collection. In response to traditional risk-assessment methods and, in some cases, a resistance to change, stakeholders have been encouraged to undertake innovative changes in the methods of risk evaluation being used by the credit industry.

In 2001, the International Finance Corporation (IFC) launched the Global Credit Bureau Program. Later renamed the Global Credit Reporting Program, its operations have expanded to include the development of credit-reporting frameworks and systems in emerging markets, working with credit registries (CRs) and credit bureaus (CBs) to create a sustainable credit reporting infrastructure on a global scale. Since 2002, IFC has also partnered with the World Bank to monitor credit reporting environments in more than 180 countries, incorporating survey results into the annual *Doing Business* report. Through these various initiatives, IFC and the World Bank have become recognized leaders in the development of credit reporting in emerging markets.

IFC has focused attention on certain regions to ensure a strong local presence which, with the support from regional organizations, intends to accelerate the development of credit reporting. Within this context, IFC and the Arab Monetary Fund (AMF) have established the Arab Credit Reporting Initiative (ACRI) to promote the development of credit information sharing in MENA. ACRI leverages IFC's global expertise in developing credit information services and AMF's regional network of financial market regulators, to promote reforms that support best practice in credit information sharing. In so doing, ACRI raises awareness about the importance of credit information sharing, while supporting regulators, governmental bodies, and financial institutions in establishing and enhancing credit reporting systems.

As part of ACRI's activities in sharing knowledge and experience, IFC and AMF commissioned the production of this guide to map progress and provide an overview of the credit reporting systems in the region. For the first time, an index representing a quantification of credit reporting in each country has been developed. To offer lessons learned, the guide highlights selected global trends and best practice for credit information sharing. The MENA region, for the purpose of this guide covers 19 countries, including Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, the United Arab Emirates, West Bank and Gaza, and Yemen. The guide contains case studies of the 19 MENA countries with specific recommendations for local conditions.

The Arab Credit Reporting Guide was prepared by IFC's and AMF's credit reporting experts as well as external credit reporting experts<sup>1</sup>. IFC and AMF are grateful for the support from Arab central banks, credit registries in each country and credit bureaus, where present, for their input to the credit information sharing survey distributed and to the case studies presented in this guide. IFC would also like to acknowledge the support of its donors, without whom IFC's MENA Credit Reporting Program's activities would not be possible. In specific we would like to thank donors contributing to the MSME Technical Assistance Facility, a joint initiative between IFC and the World

Bank. The facility is supported by UKaid, Department of Foreign Affairs, Trade and Development Canada, Danish International Development Agency, Japan, and Switzerland's State Secretariat for Economic Affairs.

This guide endeavors to inform stakeholders of the credit information industry in MENA, including central banks, CRs, CBs, international agencies, and lending institutions. Importantly, we hope that this guide will focus attention on the development of the industry in the region. The result would bring large benefits to the ultimate stakeholder, the consumer.

# INTRODUCTION TO THE GUIDE

1



In the 19th century, the first seeds of a credit information sharing were planted in Chicago, USA. An up-market tailor offered credit to customers with financial integrity. This ability and willingness to pay was confirmed by the behavior of earlier customers. The tailor's clientele grew, and he did not have any delinquencies in payment. This established the importance of referencing in taking business decisions.

The environment was not initially supportive of a new credit system, however, given the complete absence of information technology and communication support systems. There was no legal or regulatory framework. Most importantly, the industry's development was hindered by lack of knowledge and understanding by stakeholders (regulators, lenders, and borrowers). How could this concept be leveraged to the advantage of the credit industry and the benefit of the economy, lenders, and borrowers?

To fast forward to more recent times, developed countries, including Australia, Canada, Europe, South Africa, the United Kingdom, and the United States, have advanced credit information systems with robust frameworks.

At the global level, technology and innovation now affect all aspects of life. This is pertinent in the case of credit information sharing. Additionally, legal frameworks have evolved along with best practice. The role played by multi-lateral organizations, notably the IFC and the World Bank, has provided for the export of technical and domain expertise to countries in the process of developing new credit systems.

Given the singularity of each country and regions, they have progressed differently. For example, South Asia saw significant development in the past two decades, from 1990 to 2010, as India, the largest country in the region, established its first credit bureau.

The global economic crisis led to an increasing recognition of the importance of credit information and related products, tools, and services in order to manage risk. The presence of international credit reporting providers at local levels has provided new opportunities to inform stakeholders across a variety of stages.

IFC plays a lead role in the development of global financial infrastructure, particularly credit reporting systems. In addition to successfully extending these activities to MENA as a part of its global initiative, IFC has also partnered with AMF to create ACRI, a regional initiative for credit information.

Since 2008, IFC and AMF have assessed the credit reporting system in this region in order to recommend a better way forward. Thirteen Arab countries were assessed, and reports were prepared for authorities to: (i) highlight credit industry dynamics; (ii) underscore issues that will affect and be impacted by credit information sharing; (iii) determine critical success factors and logical dependencies to any credit information sharing; and (iv) provide international best practice examples and case studies. In addition, ad-hoc domestic workshops and annual regional events are also organized to raise awareness among relevant authorities, market players, and customers, to stress the importance of

undertaking necessary reforms that would provide each country with an efficient credit information sharing system. By reporting on 19 MENA countries, this guide represents an effort to analyze the status and development of credit reporting across the region.

In any credit information framework there are four key stakeholders:

- The Credit Registry/Bureau;
- Credit Providers (regulated and unregulated);
- The Regulator (typically the central bank of the country);
- The Consumer (individual or non-individual).

Any successful and well-ordered system should strike a balance between the various interests of each stakeholder. Crucially, the consumer's credit history is key to the entire process. An over-regulated environment, however, would stifle the consumer as well as credit providers; an under-regulated environment would lead to the abuse of data. Consumer rights and privacy must be protected, without creating inefficiencies that lead to incomplete and fragmented data collection.

In general, the region's banking, credit, and risk-evaluation strategies have much in common. Collateral-based lending, conventional methods of risk evaluation, relationship-based lending, and a low appetite for risk all mesh with more modern tools of risk mitigation. The emerging trend of introducing topical and relevant credit information, or using credit behavior as a significant component, are in line with traditional modes of credit.

The guide explores the situation in each country in depth while finding connections and regional trends. The guide seeks to sweep across MENA in order to understand the credit reporting system—as it exists, as it has developed, and as it is evolving in each of the 19 countries. Of note is the index (Chapter 6), a new tool that IFC and AMF hope will offer an objective approach to tracking the progress of credit information sharing in the region.

Chapter 2 provides an overview of access to credit in MENA. Issues covered include the level of credit penetration, low consumer debt exposures, overborrowing

by some individuals, and the focus by most lenders on collateral as a measure to mitigate risk. This chapter clearly establishes that traditional risk-management methods will have to give way to more modern solutions, in order to address the ease of access to credit and the consequent need for financial inclusion. The chapter includes sectorial analysis across banking, housing finance, microfinance, and small and medium enterprise lending; it also discusses demographic issues, such as access to finance for women.

Chapter 3 examines risk-management mechanisms in the region. Based on best-practice policies globally, the chapter reviews the availability and use of risk-management tools in the region, and the level of automation and its impact on the use of these global tools. It focuses on the availability of advanced credit reporting systems and other solutions, like credit scores.

Chapter 4 is divided into three sections. The first section introduces the fundamentals of credit reporting—the elements of a functioning and comprehensive credit reporting system. The second section discusses global trends in credit reporting as they have emerged, especially in the past few decades. The third section reviews trends in MENA. This chapter reiterates the developments in the MENA region in the recent past and identifies work that needs to be done to bring the region's credit information system to global standards.

Chapter 5, describes ACRI, the joint program of IFC and AMF. It summarizes the various efforts and achievements of ACRI in the past five years along with proposed activities for the future. Many of the reforms undertaken by authorities in the region were part of the ACRI team's recommendations; in some cases the willingness to reform was strengthened by ACRI's efforts to raise awareness.

Chapter 6 introduces ACRI SI, an index developed to measure and, thus, quantify the development of credit information systems in each of the 19 countries. Specific parameters comprise of the key elements needed for a comprehensive credit information sharing system. The chapter also explains the rationale of the index and discusses the process for its development. The chapter also suggests methods of ensuring updates and maintenance guidelines on a going forward basis.

Chapter 7 gives a detailed overview for each of the 19 countries. The focus is each country's specific credit landscape along with penetration and financial inclusion levels. The chapter looks at each country's financial system and infrastructure, status of credit reporting (from initial development to its current status), legal framework, and emerging role of technology. It concludes with a summary of recommendations specific to each country.

Chapter 8 examines the lessons learned from ACRI, and then goes on to make specific recommendations for the way forward.

Chapter 9 uses case studies (six countries and four subjects) to provide snapshots for better understanding the development process of certain specific aspects of credit information, such as the legal framework, value-added services, and, in some cases, the system itself. One of the

case studies highlights efforts to include microfinance institution data into the mainstream information sharing system. These case studies represent interesting developments in the region.

It is important to note that in certain countries it was difficult to get full responses to the credit information sharing survey, which was distributed to gather information on the status of each country and utilize in this guide. The quality of information in the country section and in other chapters of this guide is a reflection of available data.

The intended audience for this guide is the various stakeholders for credit information in the region, including government authorities, regulators, credit providers (banks, housing finance companies and microfinance institutions, the CRs and CBs), and individual and corporate consumers most affected by information sharing systems.





# OVERVIEW OF CREDIT ACCESS IN MENA

# 2



## 2.1 ECONOMIC OVERVIEW

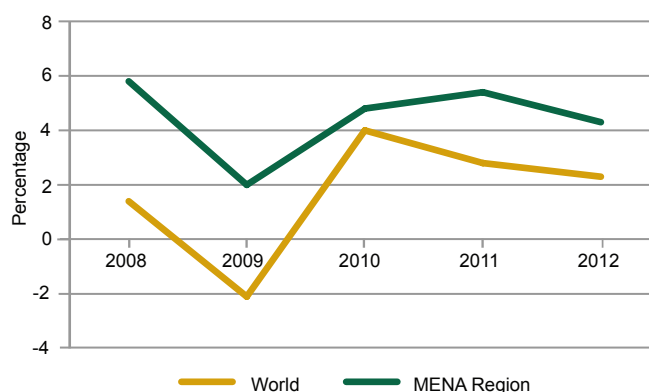
MENA is an economically diverse and important region in terms of its geographic location and vast natural resources. The region accounts for a large share of world petroleum production and exports, and plays a critical role in the world energy market with about 70 percent of the world's oil reserves and 50 percent of gas reserves. Phosphate, iron ore, and cotton are MENA's other important exports.

The countries in the MENA region are in a transitional stage with limited integration into the world economy, large public sectors, and limited private investments. Economic models differ significantly across the region. Some of the economies are well-endowed with natural resources, such as Algeria where hydrocarbon production accounts for 37 percent of Gross Domestic Product (GDP). In some other countries the service sector is more important, such as in Lebanon which has a large financial sector in terms of GDP, or Tunisia and Morocco where tourism represents a key revenue source.<sup>2</sup>

The global situation from 2008 to 2009 was characterized by multiple economic crises: food, fuel, and finance. The impacts on GCC and non-GCC countries varied. The increase in food prices had a profound effect in MENA, the world's largest importer of grains and foodstuffs. The rise in fuel prices brought huge windfall revenues to the oil exporting economies in MENA. In contrast, MENA's non-oil exporting countries saw their current account deficits increase because of high expenditure due to subsidies.

From 2008 to 2011, GDP growth was extremely volatile as a result of multiple factors. Economic performance across oil importing and exporting countries exhibited substantial variation. The freezing of credit markets combined with a drop in the oil prices and burst of the real estate bubbles resulted in a sharp contraction of credit. In GCC countries, there was a significant decline in GDP growth from 6 percent in 2008 to 1 percent in 2009. Non-GCC countries were comparatively less affected, as credit growth was generally slower; banks were not overextended and were not reliant on external funding. These countries, however, faced a slowdown because of lower exports as well as reduced tourism revenues, foreign direct investment, and remittances. In non-GCC countries, GDP growth declined from about 6 percent in 2008 to about 3.5 percent in 2009.<sup>3</sup> As shown in Figure 2.1, the economy recovered in 2010 because of the rebound of oil prices, stabilization of

Figure 2.1: GDP Growth (Annual %)



Source: data.worldbank.org

the financial sector, and government stimulus packages in oil exporting countries.<sup>4</sup>

2011 witnessed the beginning of uprisings across the region. Young and educated populations reacted to the lack of economic opportunities; an unequal share in the benefits of growth led to social frustration, widespread protests, and political unrest in Egypt, Libya, Syria, Tunisia, and Yemen.<sup>5</sup>

There has been a significant economic toll from prolonged political transitions. MENA's growth rate slowed to about 2.8 percent in 2013 because of weak tourism, lower foreign direct investment (FDI) inflow, and the European Union's recession.<sup>6</sup>

Ample oil and gas resources, a young workforce, and a growing momentum to diversify economies suggest that MENA's growth potential is high. At the same time, the region will continue to face long-term challenges, such as high unemployment, delays in policy reforms, weak regulatory systems for corporate governance, and lack of access to finance.<sup>7</sup>

As of 2012, the population of MENA was over 340 million. The female to male ratio was around 50 percent— except in Bahrain, Oman, UAE, and Qatar, where the ratio ranges from 25 to 38 percent.<sup>8</sup> The GDP per capita was \$8,409 as of 2011.<sup>9</sup> Figure 2.2 shows the population and GDP per capita for MENA countries.

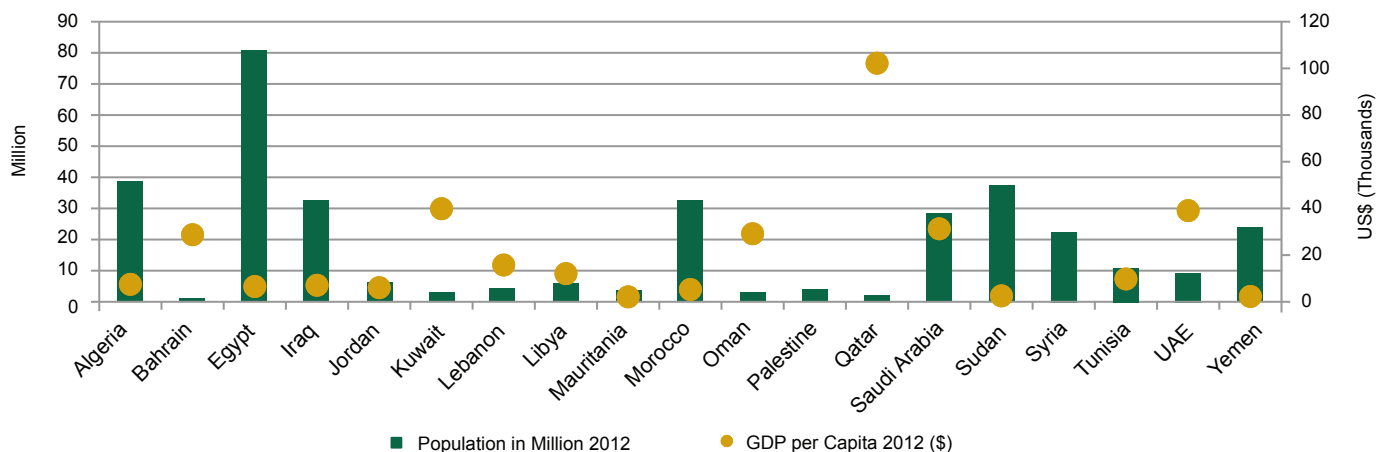
## 2.2 CREDIT MARKET

Banks dominate the financial landscape of MENA countries. On average, bank assets account for 130 percent of GDP; the GCC average is about 145 percent, reflecting much higher income levels, and the non-GCC average is about 120 percent. However, there are significant differences between the two non-GCC sub-regions. Bank assets amount to 140 percent of GDP in emerging economies where private banks are dominant (Egypt, Lebanon, Jordan Morocco, Tunisia, and Yemen). In the countries where state banks lead financial markets (Algeria, Iraq, Libya, and Syria), bank assets amount only to 65 percent of GDP.<sup>10</sup>

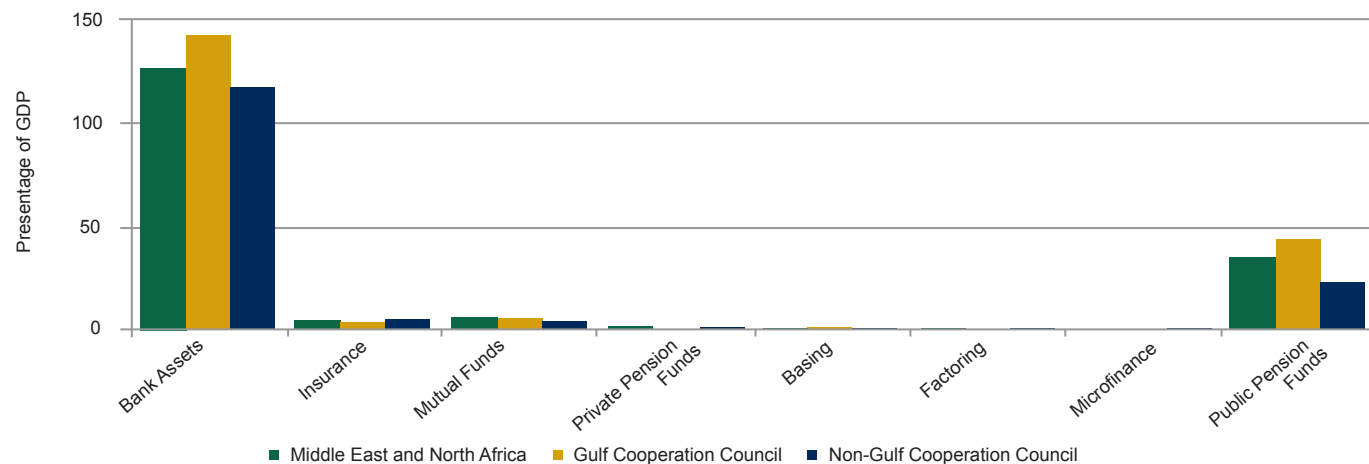
As shown in Figure 2.3, the non-banking financial institution (NBFI) sector is less developed due to gaps in legislation or weak supervision and enforcement. In relation to GDP, insurance companies and mutual funds account for less than 5 percent; leasing and factoring account for less than 1 percent; outstanding microcredit accounts for just 0.2 percent.

MENA has the highest average loan concentration ratio in the world, as measured by the ratio of top 20 exposures to total equity. This reflects deep connections between large banks and large enterprises. Small and medium enterprises remain deprived of bank credit, with only 20 percent of them enjoying a loan or line of credit. This concentration ratio is somewhat lower in the GCC, indicating the region's

Figure 2.2: Population (2012)



Note: UAE data as of 2011.  
Source: World Bank & Global Finance Data.

**Figure 2.3: Assets of Financial Institutions as a Percentage of GDP**

Note: Data are from 2009 or latest year available.

Source: World Bank staff compilation based on data from Axco, Euromoney, Factors Chain International (FCI), International Monetary Fund (IMF), Investment Company Institute (ICI), Micro Finance Information Exchange (MIX), World Bank, and national sources. Financial Access and Stability - A Road Map for the Middle East and North Africa – The World Bank Roberto and Zsofia Arvai - 2011

progress in developing consumer lending and the larger equity base. Alternatives to bank finance are limited, even for larger enterprises, as the region's nonbanking institutions are less developed. The reach of the microfinance industry is restricted, and housing finance is at a nascent stage.<sup>11</sup>

## BANKING SECTOR

As of 2011, more than half of the total financial assets in the region were banking assets (57 percent), with state banks representing a large range—from 13 percent (Kuwait) to 90 percent (Algeria). State banks dominate the banking system in three countries: Algeria, Libya and Syria. There is a second group of countries (Egypt, Qatar, the UAE, Morocco, and Tunisia) where state banks no longer dominate but still hold a significant shares varying from 25 to 50 percent of total assets.

Credit supplied by banks is about 60 percent of GDP. Banks are thus the main source of external financing for households and corporations.

Foreign banks have increased their market share in both the GCC and non-GCC countries. The increase was modest in the GCC but more significant in non-GCC countries. In most countries the expansion of foreign banks (both regional and international banks) has been relatively recent,

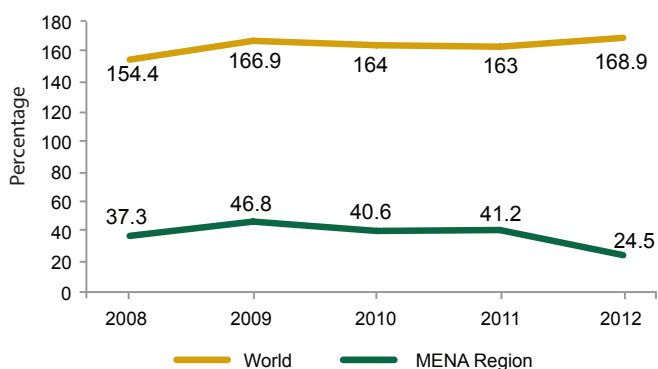
and many of these banks remain small. They confine their operations to specific niches and may not yet be able to challenge domestic banks in their main markets.<sup>12</sup>

Bank lending is traditionally concentrated with large, corporate customers. Banks in some countries use a substantial amount of their available liquidity for public sector enterprises and also to fund government debt. Private sector credit as a percentage of GDP for MENA is 41 percent; several countries have lower than average percentages, such as Algeria (14.5 percent), Egypt (29.1 percent), Libya (10.6 percent), Qatar (36.5 percent), Saudi Arabia (36.4 percent), Sudan (12 percent), and Yemen (5.1 percent).<sup>13</sup> At the same time, some countries exhibit low loan-to-deposit ratios, including Lebanon (38 percent), where less than half of the banking sector's large deposit base is used to extend loans to the economy. In contrast, Morocco and Tunisia have loan-to-deposit ratios in excess of 100 percent as shown in Table 2.1. In both these countries, the banking sectors have difficulties matching rapid loan growth with adequate deposit growth, which leaves them in a difficult position in terms of liquidity. This leads banks to look for a diversification of their funding sources, such as bond markets, as observed to some extent in Morocco.<sup>14</sup> As seen in Figure 2.4, domestic credit by banking sector, as a percentage of GDP, has reduced considerably in the MENA region in 2012.

**Table 2.1: Banking Soundness Indicators (%) — 2013**

|              | Tier 1 Capital | NPLs to Total Loans | Provisions to NPLs | Loans to Deposits |
|--------------|----------------|---------------------|--------------------|-------------------|
| Egypt        | 15.2           | 9.5                 | 95                 | 50                |
| Jordan       | 15.8           | 7.7                 | 69                 | 71                |
| Lebanon      | 11.8           | 3.8                 | 70                 | 36                |
| Morocco      | 13.2           | 5.4                 | 70                 | 103               |
| Saudi Arabia | 17.1           | 2.9                 | 140                | 80                |
| Tunisia      | 10.3           | 14                  | 60                 | 111               |
| UAE          | 20.2           | 8.4                 | 94                 | 90                |

Source: IIF Regional Overview on Middle East and North Africa - "Arab Spring" Countries Struggle, GCC Prospects Favorable

**Figure 2.4: Domestic Credit Provided by Banking Sector (% of GDP)**

Source: data.worldbank.org

In MENA, the average share of small and medium enterprise (SME) lending by banks is low, less than 8 percent of total lending. But there are significant differences between the two main sub-regions and individual countries as shown in Figure 2.5. The average share of SME lending in the GCC is only 2 percent, as it reflects to a large extent the structure of oil-based economies, which are less diversified and dominated by very large enterprises. The share of SME lending in the non-GCC region is 13 percent. In the case of non-GCC countries, the share varies significantly: below 10 percent in Syria, Egypt, and West Bank and Gaza; about 10 percent in Jordan; 15-24 percent in Tunisia, Lebanon, Yemen, and Morocco. State banks play an important role in SME lending in several MENA countries, as indicated by an average share of SME loans of 9 percent of total lending. This number is very close to the average share of private banks.<sup>15</sup>

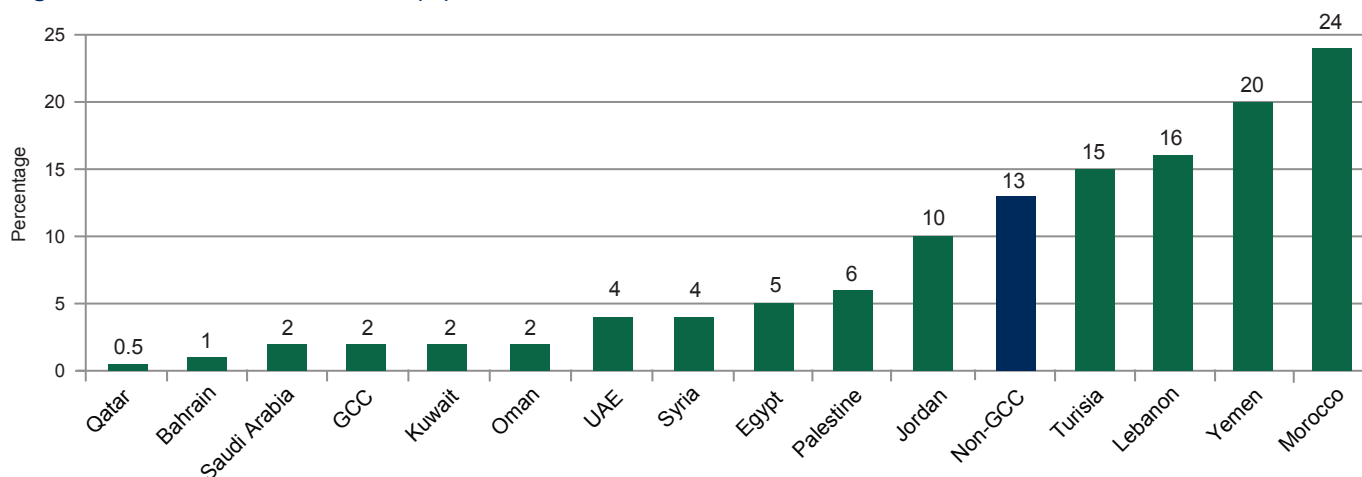
As in other regions of the world, bank credit in MENA has experienced a marked turnaround. After accelerating to peak real annual growth rates ranging from about 20 percent (Lebanon) to almost 100 percent (Sudan) before the global crisis, credit has decelerated sharply. As shown in Figure 2.6, the decrease averaged at about 30 percent, and several countries are experiencing declines of more than 40 percent. For many of the MENA countries, the loan-to-deposit ratio also fell from mid-2008 to 2011, with declines ranging from 2 to 13 percent.<sup>16</sup>

The banking sector overall has remained sound, with significant capital and liquidity buffers and improvements in regulation and supervision. Despite the difficult domestic and international economic environment of recent years, banks in the GCC, Lebanon, Jordan, and Morocco have continued to perform well.<sup>17</sup> The economic downturn in some countries, however, is affecting the performance of banks, especially the quality of loan portfolios. The most affected banking sectors are in Egypt and Tunisia because of economic and political struggles resulting from each country's political uprising. In Egypt one of the major issues was a significant drop in foreign exchange reserves; in Tunisia, banks' exposure to the weakened tourism industry led to the crisis of increasing non-performing (NPLs) loans.

In most of the countries in the region, regulators have implemented different measures to support banks. In some countries, further measures to strengthen the banking sector will be necessary to support the development of the private sector.<sup>18</sup>

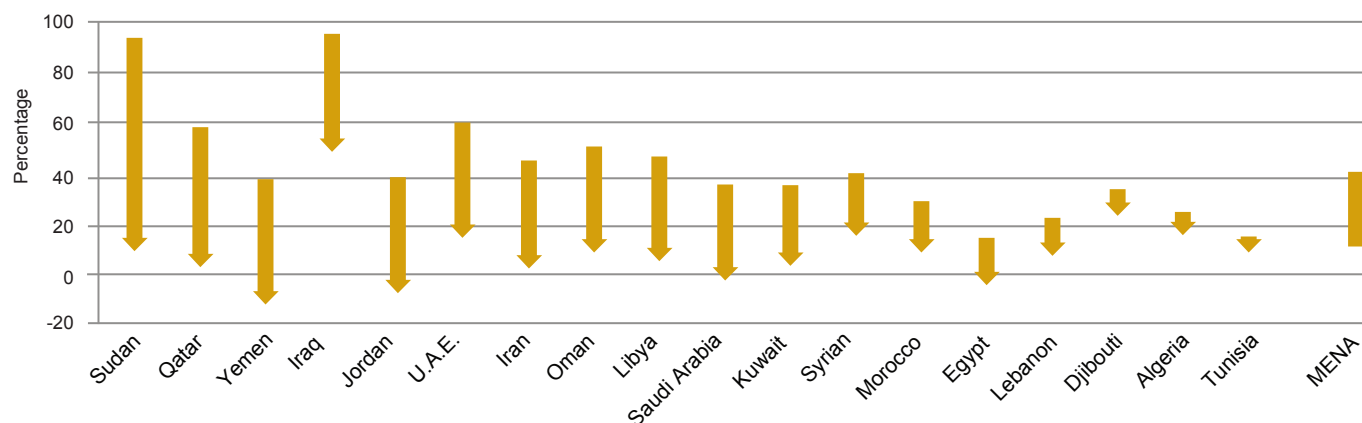
## Islamic Banking

The Middle East region is one of the largest Islamic banking markets in the world. It has evolved in the past decade from a niche market to an important segment of the local banking industry, and has now reached a critical mass. Islamic banking assets in MENA increased to \$416 billion in 2010, representing a five-year annual growth of 20 percent (compared to less than 9 percent for conventional banks). The main reasons for the growth of Islamic banking in the region are strong government involvement, increasing demand, the wide range of Islamic products, and the entrance of numerous new players.<sup>19</sup>

**Figure 2.5: SME Loans/Total Loans (%)\*: MENA Countries**

\*Reported numbers are weighted averages and Non-GCC average includes Iraqi banks that were not reported in the graph as the coverage Iraq is not more than 30%.

Source: The status of bank lending to SMEs in the Middle East and North Africa region: the results of a joint survey of the union of Arab Banks and The World Bank, Roberto Rocha, Subika Farazi, Rania Khouri and Douglas Pearce, 2011

**Figure 2.6: Declines in Real Credit Growth (year-on-year-growth)**

Note: High point of the arrow is the largest year-on-year growth rate of credit to the private sector since 2006Q1. Low point is the last available data in IF\$ (2009Q1, Q2 or Q3 for most countries. 2008Q4 for Kuwait, Syria, Algeria). Regional average is unweighted.

Source: IFS and staff calculation. "Recent Credit Stagnation in the MENA Region: What to Expect? What Can Be Done?" International Monetary Fund, 2010.

The conventional form of banking is not a suitable model for financial intermediation under Islamic rules as religious jurisprudence prohibits the payment of interest. Therefore, Shariah-compliant banking is based on different types of incentive structures, such as profit sharing or leasing arrangements.<sup>20</sup>

In MENA, the majority of Islamic banks are in the private sector, and they exist along with the conventional banking and financial institutions. Among the MENA countries, the most developed Islamic banking sectors are in Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.<sup>21</sup>

Note: Data on financial leasing is as of 2009, unless mentioned otherwise. n

Against the backdrop of the financial crisis, the Islamic banking sector has demonstrated more resilience than conventional banks, due to the former's avoidance of interest. The impact of the crisis hit Islamic banks late and indirectly through the slowdown in the real economy. Some banks were affected because of their asset concentration in the real estate sector. However, there was no case of failure for Islamic banks in the region.<sup>22</sup>

Following the uprisings and regime changes, many countries are increasingly keen on expanding their Islamic financial sectors. So far, the institutions account for only a small share of the total banking sector. Jordan has the

"Middle East and North Africa Regional Snapshot," MIX and Sanabel

largest share of Islamic banking assets at 12 percent of the total size of its banking sector (as of 2010). In Egypt and Syria, the share is about 4 percent of total assets, and in Tunisia at about 2 percent. In Algeria and Lebanon the share is even less significant with about 1 percent of banking sector assets, and in Morocco Islamic banking products have yet to be introduced.

A reason for the increasing importance of this sector is that it caters to the financial needs of individuals unwilling to use conventional banking services which conflict with religious practice. Consequently, Islamic banking can contribute to increased banking penetration and intermediation. Most governments in the region are now moving toward opening up their local financial sectors to Islamic financial institutions and products.<sup>23</sup>

## NON-BANKING FINANCIAL INSTITUTIONS

### Microfinance

The microfinance business model is designed to fit the financing preferences of low-income consumers and entrepreneurs who do not have easy access to formal institutions.

From 2006 to 2008, the growth rate of microfinance sector in MENA was almost in line with the global growth rate: Worldwide growth rates were 21 percent for borrowers and 35 percent for SMEs; for the MENA region the rates were 19 percent and 30 percent respectively. The microfinance sector in the region was fairly well insulated from the global financial crisis, as the funding was available throughout the crisis and the microcredit non-governmental organizations did not have direct exposure to investment portfolios or complex financial instruments. At the end of 2008, there were 2.81 million microcredit borrowers, with a total loan portfolio of \$1.5 billion.<sup>24</sup>

While most microfinance institutions in MENA are credit-only (and thus unable to offer a broad range of financial services), there has been some product innovation, particularly in more mature markets like Egypt. Loan products are offered for housing, agriculture, and consumption. The vast majority (94 percent) of microloans made by microfinance institutions are intended

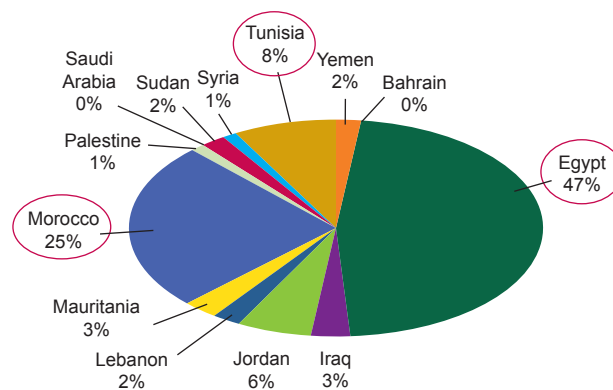
for microenterprise activities, such as loans given to individuals for starting small scale business activities.

The total loan portfolio in MENA remained concentrated in two countries as seen in Figure 2.7: Egypt (47 percent) and Morocco (33 percent). Morocco topped the list in terms of microfinance institutions' branch network, comprising 83 percent of the region's reported total. Jordan had the highest microcredit coverage of its poor population in the region. The top five microfinance institutions represented 43 percent of total outreach, and three of these were in Morocco. Growth rates for individual Arab countries varied, with the highest rates in 2009 recorded in Iraq (42 percent) and Yemen (31 percent). Microcredit in MENA reached relatively poor clients compared to other regions (with the exception of Asia), and a reasonably high proportion of women, who accounted for 63 percent of total microcredit borrowers.

The majority of microloans are also made through solidarity groups (65 percent of all microfinance borrowers). State banks are significant providers of financial services for low-income people and microenterprises in some MENA countries, and the involvement of commercial banks is very limited.<sup>25</sup>

Banks prefer to provide wholesale financing through specialized microcredit providers. One of the big three Lebanese microfinance institutions, Ameen, provides financial services in partnership with four Lebanese banks. Moroccan banks have set up microcredit associations rather than providing microloans directly. In Egypt, two

**Figure 2.7: Microfinance Outreach in MENA (2010)**



Source: Ranya Abdel-Baki, "Challenges to the Development of Microfinance in the Arab World," Sanabel, 2012.

private sector banks offer microcredit in cooperation with microfinance service companies; while several public sector banks (Banque Misr, Banque du Caire, and others) offer microfinance directly to customers. In Yemen, Al Amal microfinance bank was established under the Yemen microfinance banks law, which offers deposit and lending services to low-income clients, including micro and small enterprises. Similarly, a money exchange company in Yemen, Alkumari, has converted to a microfinance bank. Tunisia's Banque Tunisienne de Solidarite was also set up with a focus on microcredit. Microfinance banks, or specialized microfinance institutions, are considered as an alternative model. The Arab Gulf Program for Development (AGFUND) and the Aga Khan Agency for Microfinance have committed to establishing specialized financial institutions that provide a broad range of financial services to low-income people and microenterprises, on a sustainable basis. AGFUND has set-up microfinance institutions in Bahrain, Egypt, Jordan, Syria, and Yemen.<sup>26</sup>

The rapid expansion of microcredit in Morocco (2009) and Egypt (2011) resulted in a crisis of over-indebtedness and NPLs in the microfinance sector. Factors contributing to this crisis included lack of credit information sharing as well as poor governance structures. IFC along with credit bureaus played a vital role in addressing the problem by integrating microfinance institution data in the credit information sharing scheme in several countries.

Microfinance is one of the sectors that suffered the most from the uprisings in Egypt, Syria, Tunisia, and Yemen. It impacted microfinance institutions as some customers faced closure of their microenterprises due to loss of business activity and higher NPLs. Over the past year, Egypt witnessed the greatest decline in the actual number of borrowers compared to other markets in the region; Tunisia witnessed the highest increase in portfolios at risk.

Governments in these countries have taken various measures such as modifying credit policies, offering emergency loans, and rescheduling loans. Governments have supported the microfinance sector through the provision of legal measures and facilitating new credit information systems through credit bureaus.<sup>27</sup>

## Financial Leasing

The leasing industry has long existed in MENA. Leasing, as an alternative source of finance, has great potential because of its two main characteristics:

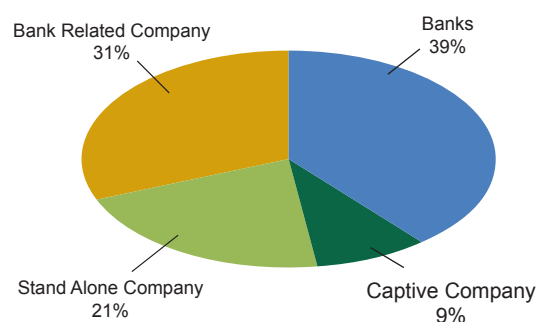
- Leasing can complement, and even replace, bank financing, especially for SMEs which frequently lack sufficient credit history and collateral;
- Leasing is fully compliant with Islamic Shariah law.

As shown in Figure 2.8, the dominant lessors in MENA are banks and bank-related institutions because of their relatively easy access to funding (and given the regulatory constraints of leasing companies). Banks and bank-related institutions constitute 70 percent of the total number of lessors (80 lessors), while 30 percent (34 lessors) are captive and standalone leasing companies. In some MENA countries, such as Lebanon and Tunisia, leasing is only allowed to banks and bank affiliates. In other countries, banks have begun to offer leasing activities as a result of fierce competition in conventional banking products.

The average size of the leasing market in MENA is small, but there is a significant differentiation across the countries. Both conventional and Islamic leasing is present in 13 out of 18 MENA countries. In five other MENA countries (Iraq, Syria, Libya, Yemen, and the West Bank and Gaza) leasing is still in a very early stage of development.

The top three leasing markets in the region are the UAE, Kuwait and Saudi Arabia. These three countries constitute more than 61 percent of the total leasing market in MENA.

**Figure 2.8: Leasing Activity – Lessor's Distribution by Type**



Source: Bilal Al-Sugheyer and Murat Sultanov. "Leasing in the Middle East and Northern Africa (MENA) Region: A Preliminary Assessment," MENA Financial Flagship, The World Bank, 2010.

Each of these markets has annual leasing volumes that exceed \$1 billion. Leasing markets are also growing fast in Egypt, Jordan, and Morocco, which suggests strong demand for the product and potential for further growth.

Leasing of movable assets is the most common in MENA. Leasing of immovable assets is very limited in Tunisia and Egypt, mainly due to legislative constraints. In some countries like Jordan and the UAE, however, real estate leasing is common and has replaced the mortgage business. Real estate leases, as a percentage of total leasing market, constitute 66 percent in Jordan and 80 percent in UAE.

Despite its long presence in MENA and potential advantages, the leasing industry remains generally underdeveloped. The policymakers in the MENA countries will have to address the regulatory and institutional constraints hindering the growth of this industry.<sup>28</sup>

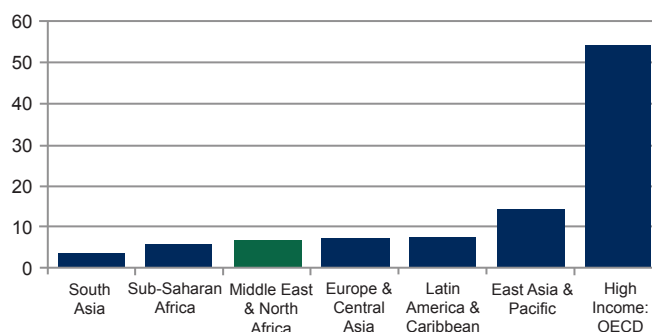
## Housing Finance

With a young and fast growing population both in GCC and non-GCC countries, the MENA region is becoming highly urbanized, with an urbanization rate of 80 percent or higher. Most MENA countries face large housing shortages because of dynamic demographics.<sup>29</sup> In GCC countries, the home ownership rates were low as a result of government restrictions on non-nationals' ownership of property. The dominance of expatriates as residents made housing ownership levels low. In the past few years, governments have relaxed such measures. A significant market segment in the housing sector has been created, which eventually opened up to housing finance as well.<sup>30</sup>

Demand for housing is far outstripping supply, and there is a combined shortage of more than 3.5 million affordable dwellings across the major markets, which means a significant market segment seeks finance for housing. The extent of this shortfall varies from more than 1.5 million units in MENA's most populous market (Egypt), to just 15,000 units in Oman.<sup>31</sup> Commercial real-estate financing is a significant banking sector activity in MENA. In Algeria, Lebanon, and Kuwait, commercial real estate finance represents a larger share of total bank lending than retail housing finance.

Despite the current and future need for affordable dwellings, housing finance is relatively new in MENA. Except for housing loans directly extended by government agencies, such lending in most countries remains nascent. As shown in Figure 2.9, regional averages for housing finance to GDP are lower than in all other regions except in Africa and South Asia. The region, however, is not homogenous as a few markets have been growing rapidly. Markets in Morocco, Tunisia, Kuwait, and the UAE (until the 2008 Dubai real estate crisis) have reached a noticeably higher degree of maturity than other markets in the region.<sup>32</sup>

Figure 2.9: Housing Loans/GDP—Regional



Source: Hassler, 2011.

## Structure of MENA's Housing Finance Market

Besides private lending, the government's role in providing housing finance is significant.

- Direct lending by governments using budgetary resources to fund housing loans.** This is mostly the case in GCC countries; the Real Estate Housing Fund in Saudi Arabia, for instance, extends about 80 percent of the housing loans originating in the country. The Public Authority for Housing Welfare in Kuwait takes on a similar role. Both provide interest free loans.
- Participation of governments through state controlled specialized banks.** This is particularly widespread in Algeria, Egypt, Iran, Lebanon, Morocco, Syria, and Tunisia.
- Private sector specialized entities.** This is the case in Egypt, (where legal reforms to the housing financial market created a framework for such institutions), Saudi Arabia, and Bahrain. In the UAE, as a result of the initial reluctance of the commercial banks to provide housing



finance, two housing finance companies were created by private developers in Dubai—Amlak by Emaar properties and Tamweel jointly by Nakheel and Dubai Islamic Bank

- **UAE, Kuwait and Saudi banks extend housing loans mostly through Islamic products**, but also offer conventional loans.

With increase in the property prices followed by the credit growth in MENA, housing finance loans in the UAE extended by commercial banks increased from 31 billion Emirati dirham at the end of 2006 to 141.7 billion dirham at the end of 2009. In other GCC countries, with the exception of Oman and Saudi Arabia, mortgage lending increased from 30 to 100 percent faster than overall credit from 2005 to 2007.<sup>33</sup>

In 2009, the global financial crisis coupled with increase in oil prices reversed the trend dramatically, as the investors lost confidence in real estate investments. Dubai was particularly vulnerable since the boom had largely involved foreign capital inflows. The result was a sharp decline in the real estate market and decelerated growth in housing finance. At the regional level, the impact was limited. Egypt and Jordan experienced a mild downturn in their real estate sectors in 2008–2009. The MENA mortgage industry has started picking up thereafter and has grown to approximately \$100 billion, as of 2011, and has huge potential for housing and housing finance.

For the past decade there has been an effort to develop market-based financial mechanisms to address growing housing needs in MENA. Governments have undertaken measures to create a supportive environment through the introduction of various schemes such as mortgage insurance, guarantee schemes, and subsidy schemes. Additionally, new public policies without state controlled mechanisms have been designed and implemented to help lower-income groups access housing finance.<sup>34</sup>

Recommendations for the viable development of the mortgage industry, including: a national housing policy; dedicated regulations for the mortgage industry; an increased role of public-private partnership for housing finance; efficient credit bureau systems; sound underwriting norms and lending regulations; the enhancement of

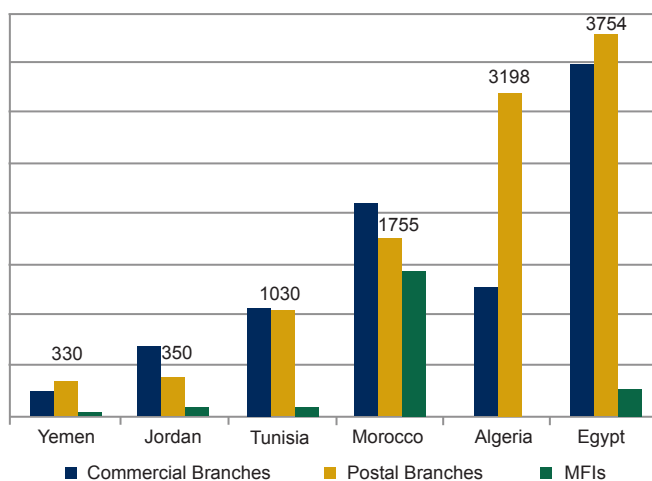
foreclosure laws to manage mortgage delinquencies; the availability of clear property rights and robustness of property titling system; and the growth of capital markets to enable funding options.<sup>35</sup>

## Postal Network

The contribution of postal networks in the Arab world is noteworthy for their unique outreach to the low-income population, particularly in rural areas through an extensive branch network, as shown in Figure 2.10. Arab postal networks provide financial services to 30 million clients, against 70 million for banks and 2.9 million for microfinance institutions.<sup>36</sup>

Today the financial services offered by banks, microfinance institutions, and postal networks to low-income populations in MENA look fragmented, as they operate in different regulatory spaces and offer distinct services to different market segments. However, this situation is beginning to change; as in many developing countries, policymakers are interested in leveraging postal networks to promote financial inclusion. Financial services are considered an important source of revenue to compensate for the decline in mail activity and preserve the sustainability of postal services. Several postal networks in the Arab world are scaling up their financial services through wider range of products and services, such as insurance and credit services.

**Figure 2.10: MFI, Postal, and Commercial Bank Branches in Select Arab Countries**



Source: "Can Postal Networks Advance Financial Inclusion in the Arab World?" Consultative Group to Assist the Poor, 2012.

Algeria, Jordan, Morocco, Tunisia, and Yemen have established postal networks as separate legal entities from their respective ministries. In particular, Morocco and Jordan have created dedicated subsidiaries to manage financial services. In Morocco, the postal network Poste Maroc (Barid Al Maghrib) has set up Al Barid Bank, which partners with experienced lending institutions to develop and underwrite their credit products (notably, consumer and housing loans). In 2011, the Algerian government announced the creation of a postal bank that would work as an agent and partner with an experienced lender based on commission fee for the distribution and collection services.

The most critical challenges for the transformation of postal financial services units into financial institutions concern governance and management, marketing and product development, and the efficient management human resource and information systems.<sup>37</sup>

### Credit Guarantee Schemes for Small and Medium Enterprises

Credit guarantee schemes are considered important tools to provide access to finance by creditworthy firms when such access is constrained by insufficient credit information and collateral.

Countries like Iraq, Jordan, Morocco, Saudi Arabia, Syria, and the UAE have established partial credit guarantee schemes to offer finance to SMEs. Kafalat, the main provider of credit guarantees in Lebanon, was initially started by the government and is now privately run.

All guarantee schemes cover start-ups, except for West Bank and Gaza. Eligibility criteria differs significantly across the region with respect to firm size, maximum loan size, and qualified sectors, although there is some uniformity regarding maximum loan maturity.<sup>38</sup>

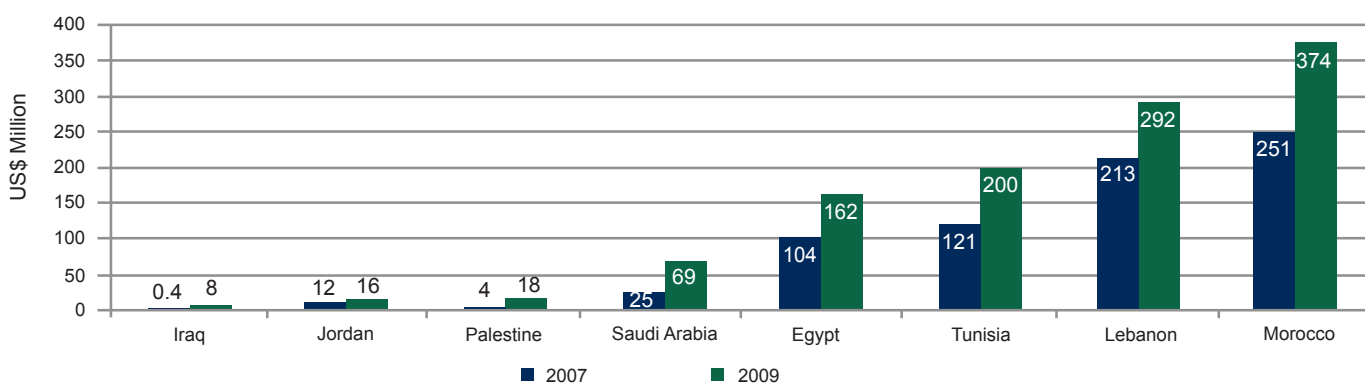
The average size of guarantee schemes in MENA is in line with the international average (outstanding guarantees amount to about 0.3 percent of GDP). However, as seen in Figure 2.11 there are wide differences across countries, and some schemes are too small to make any significant impact on SME lending. More importantly, the number of guarantees issued per year is very low by international comparison, while the average value of guarantees seems relatively large. This suggests that guarantees are still concentrated in a relatively limited segment of firms, and do not yet reach a significant number of smaller firms.

The outreach of MENA guarantees schemes, especially the smaller schemes, is expanding quickly, with annual growth rates ranging from 20 percent to more than 100 percent. This reflects the growing demand for SME finance as well as increasing government support for such activities.<sup>39</sup>

### CREDIT GROWTH IN THE MENA REGION

During the pre-crisis years, MENA countries experienced rapid credit growth, peaking at an annual rate of 40 percent. Eight MENA countries were in the midst of a credit boom around 2008, in the sense that the ratio of credit to GDP had surpassed the historical trend by an extraordinary margin. However, with the global chain of events unleashed by

Figure 2.11: Outstanding Guarantees (US\$ Million, 2009)

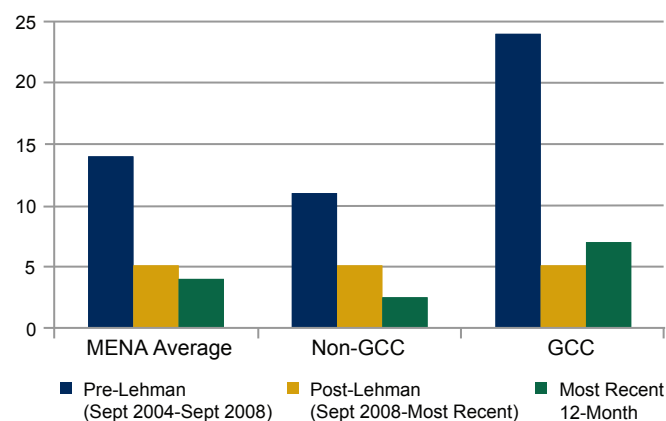


Source: Roberto Rocha et al. "A Review of Credit Guarantee Schemes in the Middle East and North Africa Region," The World Bank, 2010.

Note: Data on Credit Guarantee schemes for SMEs is as of 2009 unless mentioned otherwise

the Lehman Brothers failure in September 2008, the available funds dried up. Both domestic and foreign trends contributed to equally spectacular declines in the growth of credit, as seen in Figure 2.12. The average real credit growth in MENA declined by about 17 percent. The trend was more pronounced among oil exporters (20 percent) and in the high-income GCC countries in particular (22%). Four countries offered an exception—Djibouti, Iraq, Lebanon, and Libya—as credit actually accelerated significantly.<sup>40</sup>

**Figure 2.12: Credit Cliff**



Source: Adolfo Barajas and Ralph Chami, "As a Matter of Finance," Finance and Development, March 2013, Vol. 50, No. 1. <https://www.imf.org/external/pubs/ft/fandd/2013/03/barajas.htm>.

There was a marked slowdown of funding sources, particularly deposits, which severely constrained banks' ability to lend. For many MENA countries, the loan-to-deposit ratio also fell from mid-2008 to early 2010, with declines ranging from 2 to 13 percent. In addition to deteriorating macroeconomic conditions, declining domestic economic activity and falling oil prices also played a role in reducing demand for credit.<sup>41</sup>

More recently, credit growth has been picking up. Nonetheless, it would take at least three years to return to normal growth rates, in the range of 5 percent a year. Indeed, as of 2011 and early 2012, which is when the latest observations are available for various countries, average credit growth in the region had declined by some 10 percent compared with the four-year period before 2008. The latest observed 12-month growth rate is approaching 4 percent on an average. Partly owing to heightened uncertainty and disruptions in economic activity from the 2011 uprisings and subsequent political transitions, credit

is more subdued in non-GCC countries, growing by less than 3 percent annually.<sup>42</sup>

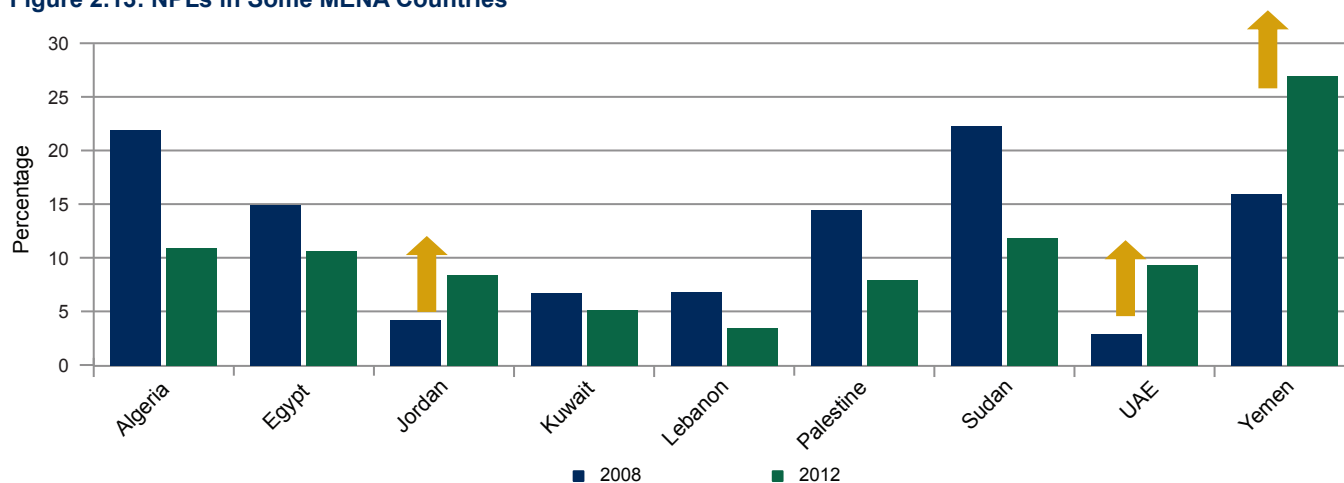
## 2.3 NONPERFORMING LOANS MANAGEMENT

MENA's banking systems are generally well capitalized, allowing them to weather the effects of global financial crisis. The recent political turmoil, however, is putting pressure on several non-GCC countries, especially those directly affected by political uprisings. The banking systems dominated by state banks were under greater pressure than other systems, given their larger volumes of nonperforming loans and weaker financial conditions.<sup>43</sup>

Some of the GCC countries that witnessed high growth prior to 2008 crisis were unable to escape the global downturn, which had a profound impact on local financial markets. The UAE was hit the hardest by the crisis, largely due to a severe property crash and debt restructurings in the commercial hub of Dubai. Saudi Arabian banks were shaken by the default of two major family-owned conglomerates and a rise in nonperforming loans.<sup>44</sup> As shown in Figure 2.13, the NPLs in MENA have since reduced except in Jordan, the UAE, and Yemen, where there is a steep rise between 2008 and 2012.<sup>45</sup>

In Egypt, the asset quality of some banks has deteriorated, and there may be further deterioration because of deferred installments and the Central Bank of Egypt's debt rescheduling to support key sectors of the economy. However, the overall structure of portfolios is well diversified without excessive concentration in specific sectors.<sup>46</sup> In other non-GCC countries like Algeria, Iraq, Libya, Tunisia, and Yemen, the NPL levels have been very high ranging from 10 to 27 percent, despite high rejection rates at preliminary scrutiny level. The NPL problem is concentrated in housing and commercial loan sectors. In Jordan, the NPL ratio moved up from 4.1 percent in 2007 to 6.7 percent in 2009 and 8.5 percent in 2011, as a result of the global financial crisis affecting the activity of most economic sectors and, consequently, borrowers' repayment performance. The downturn has affected small banks to a greater extent than large banks. Small and medium banks record NPLs above 10 percent, compared to NPL ratios between 6 percent and 9 percent among the top three banks.<sup>47</sup>

Figure 2.13: NPLs in Some MENA Countries



Source: "Credit Information Sharing Survey," Arab Credit Reporting Initiative, 2013.

There are pockets of weakness, such as the UAE, where NPLs are still high. In Bahrain, a number of Islamic banks have concentrated exposures to local and regional real estate markets.<sup>48</sup>

Regulators in most countries in the region have implemented diverse measures to support banks in difficult operating environments. In Lebanon, for instance, the central bank has urged banks to make adequate provisions for their risk exposure to Syria and to run regular stress tests. The Tunisian regulator implemented some measures concerning the classification of doubtful loans. The central bank introduced a moratorium on reclassification requirements for loans with late repayments by preventing banks from placing loans in the doubtful or nonperforming loan category even if repayments fell behind by more than three months. The main effects of this measure were the sector's artificially low NPL ratio, which resulted in lower provisioning and individual banks' ability to tap larger amounts of liquidity injections by the central bank, using the non-reclassified loans as collateral.<sup>49</sup>

## 2.4 COLLATERAL REQUIREMENTS

Credit information and collateral are critical elements of an effective credit system. Prevailing lending practices reveal that, while the primary focus is on the capacity to repay the loan, availability of collateral is also a crucial condition of lending. MENA follows the global trend in this case. Collateral is required not only for large corporate

borrowers but also for individual consumer loans and micro, small, and medium enterprises.

Insufficient suitable collateral is among the top reasons for difficulty in accessing finance. A common trend indicates that credit applications are mostly rejected due to insufficient collateral, either for being unacceptable or unsuitable collateral. As illustrated by Table 2.2 below, 100 percent of individual loans and 90 to 95 percent of SME loans granted in MENA by financial institutions require some type of collateral with 110 to 300 percent collateral value for individual loans.<sup>50</sup>

In MENA, collateral-based lending is more often based on the real estate than on movable collateral. The lending based on movable collateral is limited to a few financing mechanisms, such as vehicle finance, enterprise pledge, security interests in bank accounts and salaries, and, in some countries, company shares and natural resource

Table 2.2: Loans Requiring Collateral in MENA

| Country | Applicants for Which Collateral is Required (%) | Collateral/ Loan Value (%) |
|---------|---|----------------------------|
| Jordan  | 95 – 100  | 110 – 120                  |
| Morocco | 90 – 100  | 80 – 100                   |
| Libya   | 100   | 125                        |
| Oman    | 100   | 112                        |
| Qatar   | 100   | 250 to 300                 |
| Yemen   | -   | 130                        |

Source: "Credit Information Sharing Survey," Arab Credit Reporting Initiative, 2013.

extraction licenses. Vehicle financing is widely used in most MENA countries because, generally, vehicle registration is well developed. Pledges for an entire enterprise are also possible in many countries, including Algeria, Morocco, the UAE, and the West Bank and Gaza.

Most of the countries in MENA have not introduced secured transactions legal reforms and modern movable collateral registries. Egypt, Jordan, Lebanon, Morocco, and the West Bank and Gaza, among others, are in the process of such reforms. Many countries have obsolete and fragmented secured transactions provisions governed by different laws that have not been reformed in many years. Although the majority of the banks take movable property as collateral, loans secured only with movable collateral are not widely used because of the difficulty in enforcing security interests in movable property. Immovable property is therefore still used as the prevalent form of collateral, and movable property is usually accepted as a secondary type of collateral to complement the immovable assets.<sup>51</sup>

The ineffective collateral system thus prevents banks from lending to the SMEs that have major investments in movable assets. The microfinance sector faces similar constraints insofar as it often does not make sense economically to execute collateral on a very small outstanding amount, especially if the costs of doing so are relatively high. Microfinance providers are also forced to rely on the lending of solidarity groups against collaterals to individual borrowers; this is not feasible due to higher pricing, paperwork and delays.<sup>52</sup>

The problem of collateral based lending does not only lie in the inavailability of collateral, but it is also the inability to translate valuable assets into productive use. As a result, low income customers, SMEs, microenterprise clients, and many otherwise creditworthy individuals and entrepreneurs are excluded from access to finance.<sup>53</sup>

The World Bank's 2013 (and 2014) *Doing Business Report* illustrates that MENA lags behind the rest of the world in terms of firms' access to private credit and in the robustness of secured transactions systems. MENA scores lowest (3.1) as against the average score of other regions (6). One important criterion is the lack of borrowers and lenders'

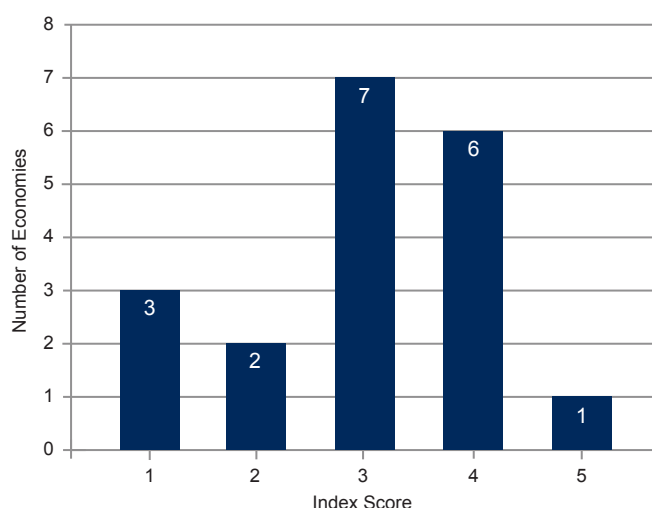
rights in collateral and bankruptcy laws.<sup>54</sup> Similarly, as shown in Figure 2.14, 18 out of 19 economies score low (4 or less, out of 10) on the Legal Rights Index. Saudi Arabia scores the highest; Libya, Syria, and the West Bank and Gaza have the lowest scores.

It is recommended that reforms be undertaken in MENA to improve the secured transactions system, including:

- Improving the legal and regulatory frameworks based on standard international accepted practices;
- Developing modern electronic collateral registries;
- Promoting awareness about the concept of modern secured transactions among the main public and private sector stakeholders.

A reform of secured transactions systems in the region would help SMEs to expand their options for accessing credit, using movable property as collateral. It would incentivize banks and nonbanking financial companies to provide additional lending to SMEs. Regulators and the governments would also see potential benefits in implementing reforms in this area, which would contribute to a more robust and transparent financial system.<sup>55</sup>

**Figure 2.14: Number of Economies in Region with Each Score on Strength of Legal Rights Index (0-10)**



Source: "Doing Business 2013: MENA Region," The World Bank, 2013.

## 2.5 OVER-INDEBTEDNESS

The problem of over-indebtedness in MENA is most apparent in the microfinance sector. During the years of rapid growth, from early 2000 to 2008, the microfinance sector enjoyed a reputation for strong asset quality and low delinquency rates. Over the past three to four years, however, the quality of microfinance portfolios deteriorated worldwide, with increasing portfolios at risk values. Several factors contributed to this deterioration, such as inadequate risk-management systems and controls, internal organization weaknesses, excessive growth in narrow geographies, and unhealthy lending practices that affected borrower repayment behavior. All these factors resulted in over-indebtedness, as witnessed in countries like Egypt and Morocco.

Morocco's microfinance sector was the regional leader with the total loan portfolio multiplying 11-fold between 2004 and 2007. However, in 2007, some signs of stress, such as clients' over-indebtedness and loan delinquency, started to emerge. As a result of the concentration of microcredit loans and multiple lending in urban areas, NPLs started to rise significantly from one of the lowest levels of the world, 0.42 percent in 2003 to 1.9 percent in 2007. The sharp rise in NPLs took place in 2008 and, in turn, affected all microfinance institutions. Portfolios at risk (for 30 days or more) increased significantly to 5 percent in December 2008 and reached an alarming level of 10 percent in June 2009. A study conducted by the central bank estimated that 40 percent of microcredit beneficiaries had more than one loan. The problem was particularly acute in urban areas.

The Egyptian microfinance market started facing a similar situation with rising portfolios. A cross tabulation analysis of portfolios of the three largest microfinance institutions, conducted by the IFC and the Egyptian credit bureau - I-Score revealed, that 14 percent (or nearly 50,000) microfinance institution clients were granted multiple loans by the banks; around 13,000 clients had opened multiple credit lines from different microfinance institutions. Thus, multiple lending to the same clients was an aggravating factor that led to a problem over-indebtedness in Egypt.

Various measures undertaken by regulatory authorities indicated steps forward that helped microcredit

associations and banks to address and control the problem of over-indebtedness. In Morocco, the setting up of the credit bureau Experian Maroc Services, in October 2009, integrated microfinance institution borrowers' information into the credit bureau; likewise the inclusion of MFI data by I-Score in Egypt suggested the benefits of information sharing.<sup>56</sup>

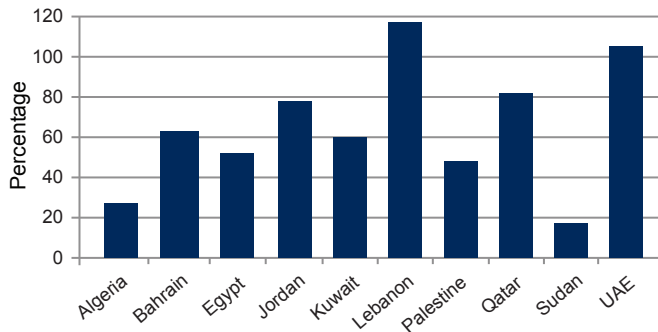
## 2.6 ACCESS TO FINANCE

Access to finance is an essential component to economic development and employment creation in any country. Despite tremendous needs, a large proportion of the world's population does not have access to finance. In developed economies, approximately 90 percent of adults have access to formal financial services, compared with 41 percent in emerging markets. Most people in emerging markets are employed in the informal sector. As a result, they do not have sufficient income documentation or acceptable collateral to secure credit. Access to finance is also hindered by the dearth of sufficient information to assess repayment capacity of potential borrowers or the lack of financial infrastructure that would make such information available. As of 2012, the total unmet need for credit globally by all formal and informal micro, small, and medium enterprises in emerging markets was \$2.1 trillion to \$2.5 trillion.<sup>57</sup>

Large segments of household and enterprise sectors remain deprived of credit because MENA's financial systems are not inclusive. Banking systems may be large and generally well capitalized, but the region also has the highest loan concentration ratios in the world, reflecting the focus of banks on large and well-connected enterprises. A large share of the population does not have access to financial services, especially in remote areas. Most of the people in the MENA region resort to informal sources of financing, such as family and friends. The small and medium enterprises sector also relies on internal resources or higher priced informal sources to finance their requirements; their growth has been affected by the lack of alternatives, such as equity, leasing, and factoring.<sup>58</sup>

As seen in Figure 2.15, outstanding loan as percentage of GDP is the highest in Lebanon and the lowest in Sudan.

**Figure 2.15: Outstanding Loans as % of GDP in Select MENA Countries**

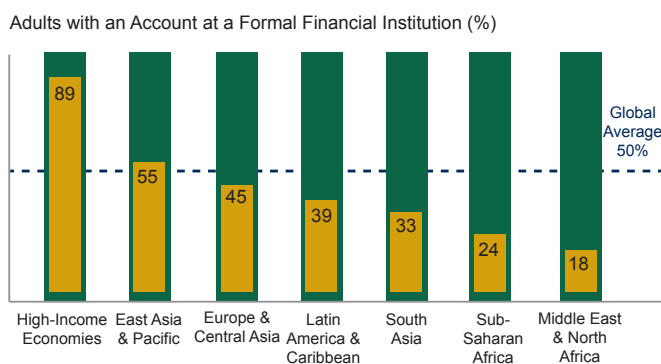


## BANKING SECTOR

The majority of external financing is provided by banks. While asset-to-GDP ratios are high, financial inclusion is still relatively low in MENA; only 18 percent of adults report having a formal account, as seen in Figure 2.16. The countries in the region have fairly good coverage of bank branches. Local populations in rural areas, however, still face problems with access to financial services as bank branches are mainly clustered in urban areas.<sup>59</sup>

The banking sector is highly concentrated geographically and competitively. A significant share of bank lending is used to finance public sector activity, limiting the availability of debt financing for private enterprises. Moreover, high collateral requirements are imposed on private sector bank loans and lines of credit, which, in turn, have a negative impact on enterprise development. As a result, the MENA region has the lowest percentage of firms using banks to finance their investments.<sup>60</sup>

**Figure 2.16: Account Penetration**



Source: Asli Demirguc-Kunt Leora Klapper. "Measuring Financial Inclusion". The Global Findex Database, 2012

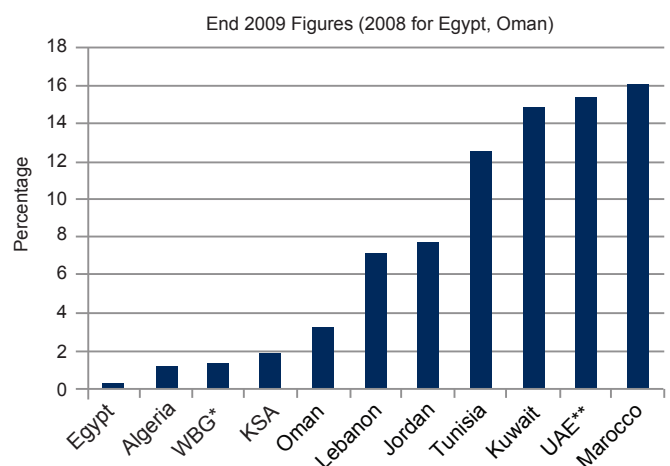
Globally the Islamic financial industry is growing rapidly because it caters to the financial needs of individuals who are not willing to use conventional banking services as they conflict with their religious values. Consequently, Islamic banking can contribute to increase banking penetration and intermediation to some extent. In addition, the development of Islamic banking can facilitate access to funding sources for corporates and sovereigns in the region, as it can help the local economies to mobilize long-term savings and investments from Islamic investors.<sup>61</sup>

## HOUSING FINANCE

MENA lags behind other regions in providing available market resources for housing. The lack of access to housing finance is reflected in the low share of mortgage loans (10 percent, as of 2010) in loan portfolios and shortage of dwelling units.<sup>62</sup>

Residential housing finance has started to develop only recently in MENA. As seen in Figure 2.17, Kuwait, Morocco, Tunisia, and the UAE have made progress; Lebanese and Jordanian markets have potential for growth. Several countries in the region are at an earlier stage of market development because of direct financing by the government and the industry's over reliance on non-residential real estate lending. GCC countries have met housing needs to a large extent through subsidized government loans to nationals. However, these programs frequently involve waiting lists or rationing and often

**Figure 2.17: Housing Loans as % GDP**



\*World Bank estimation for West Bank & Gaza

\*\*All mortgage lending

Source: Hassler, 2011.

poorly target those in need of housing. Non-residential real estate lending is significant in some countries, however, this mode of real estate lending meets the needs of only large enterprises and households. The affordable housing shortage in MENA affects the living conditions of a large portion of the lower- and middle-income population and, in turn, impacts access of this segment to housing finance. In Saudi Arabia, there is a shortage of about 150,000 units, and in Egypt approximately 280,000.

A well-functioning mortgage finance system would improve access and mitigate the risks associated with real estate lending. Weaknesses in the mortgage system have hindered housing finance growth in the region. With the exception of countries like Algeria, Egypt, and Saudi Arabia—which have designed strategies to establish secure mortgage systems and improve access for lower-income groups—reforming the mortgage finance system is a challenging task for other countries in the region.<sup>63</sup>

## MICROFINANCE

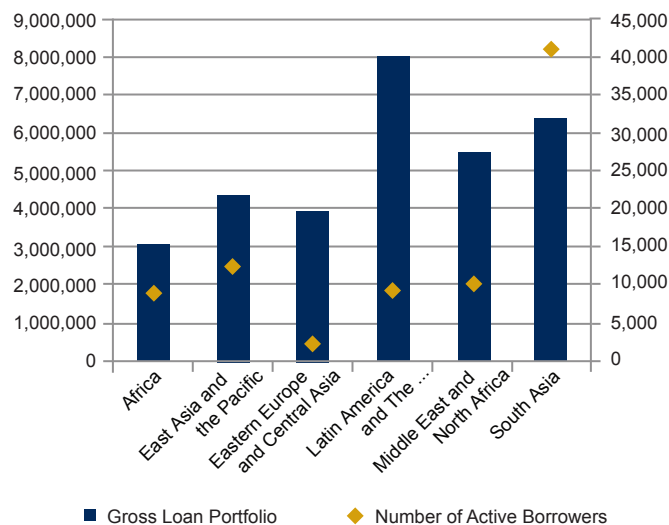
The microfinance landscape in MENA is changing with continued growth in outreach, portfolio, and product diversification. Penetration is quite low in most countries, however, and the region only meets a fraction of potential borrowers. As of 2009, the coverage ratio of specialized MENA microfinance providers was only 1.8 percent. In terms of median outreach and scale, the MENA region remains average compared to its global peers as seen in Figure 2.18. Measured by the ratios of microcredit loans to GDP and especially to total bank credit, microcredit in MENA is small and undeveloped compared with other regions.<sup>64</sup>

Most microfinance institutions in MENA are unable to leverage local debt due to the restrictive regulatory frameworks, as they are registered as nongovernmental organizations, reliant on grants for funding. The problem is more with tier two and three microfinance institutions. The lack of effective internal policies and weak governance are also responsible for the microfinance sector's arrested growth in MENA.<sup>65</sup>

## LEASING

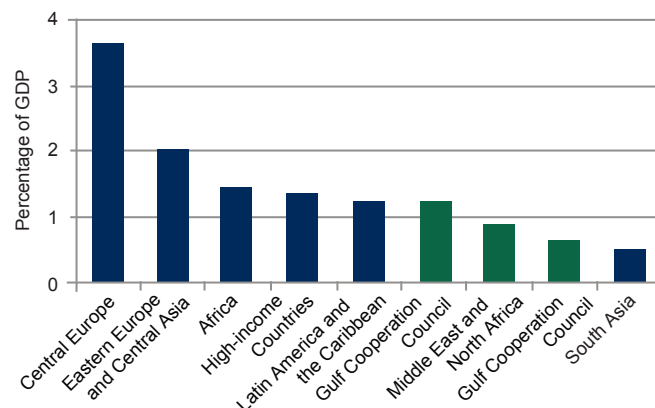
As seen in Figure 2.19, the percentage of financial leasing to total credit in MENA is very low in relation to other

**Figure 2.18: The Sate of Microfinance in the Arab Region—Outreach and Scale (2010)**



Source: Ranya Abdel-Baki, "Challenges to the Development of Microfinance in the Arab World," AGFUND/OFID Symposium, Vienna, Austria, June 2012.

**Figure 2.19: Leasing Volumes as a Percentage of GDP in Selected World Regions**



Note: Data are from 2008 or latest year available.

regions. Although the dominant lessors are banks and bank-related institutions, less than 30 percent of MENA banks offer leasing products to their clients. The leasing market penetration rates are low by international comparison. As of 2009, the average penetration rate of the MENA region was about 3.6 percent, while the equivalent ratio was about 12 percent in Central Europe, 6 percent in developed countries, and 5 percent in Latin America.<sup>66</sup>

The absence of specific leasing legislation frequently leads to ambiguous roles and responsibilities of the parties to a lease; many legal issues remain unaddressed. A sound legal framework for leasing requires a specialized leasing



law and appropriate provisions in other laws addressing a number of critical elements that would affect leasing activity in the region.<sup>67</sup>

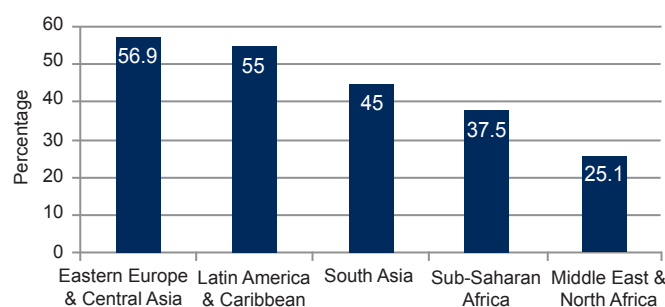
## LENDING TO SMALL AND MEDIUM ENTERPRISES

The role of small and medium enterprises is widely recognized as they account for large shares of total output and employment of a country; thus SMEs play a key role in a given country's economic development.

In the World Bank's 2011 Enterprise Surveys, the MENA region had the lowest percentage of firms with credit lines or loans from financial institutions (25.07 percent), compared to Eastern Europe and Central Asia (56.92 percent) and South Asia (45.02 percent), as shown in Figure 2.20. Based on the same study, only 16.4 percent of firms in MENA were using banks to finance investments, the lowest compared to other regions. About 34 percent of firms identified access to finance as a major constraint to economic activities.<sup>68</sup>

As of 2010, the majority of enterprises in MENA were micro, small, and medium enterprises, constituting 19 million to 23 million (formal and informal) enterprises and comprising 80 percent to 90 percent of total businesses in most countries. Access to finance was one of the greatest challenges of MSMEs across the globe, and particularly for the MENA region where nearly 63 percent of the MSMEs did not have access to finance. The total financing gap for MSMEs was estimated from \$210 billion to \$240 billion (of which formal MSME finance gap is estimated at \$160 billion to \$180 billion).<sup>69</sup>

**Figure 2.20: Access to a Line of Credit or Loans from Financial Institutions (% of Firms)**



Source: Hafid Oubrik, "Importance of Financial Infrastructure to Increase Access to Finance," Arab Monetary Fund, 2013.

MENA enterprises seem to face more restricted access to all external sources of finance. They generally make less use of banks or other formal sources of finance and rely more on internal sources, which account for 85 percent of investment finance among small and medium enterprises and 75 percent among large enterprises.<sup>70</sup>

The financial and economic crisis has reinforced the difficulties of supporting enterprise development through bank loans. A 2010 IMF study notes a credit deceleration in MENA by nearly 30 percentage points since mid-2008.<sup>71</sup>

Small and medium enterprises are often hit particularly hard by weak banking intermediation levels. This is because bank lending, by and large, is restricted to large corporate customers or government debts. In Egypt, Jordan, and Lebanon, the exposure of the local banking sectors to their respective governments is particularly high. According to the World Bank Enterprise Surveys, small firms consider access to finance a major obstacle in the business environment—25 percent in Jordan, more than 40 percent in Morocco and Egypt, and more than 50 percent in Algeria. The major constraining factors are less transparency on the part of SMEs, higher transaction costs for banks, and collateral requirements (see Table 2.3). Underdeveloped credit registries as well as the lack of well-functioning collateral registries aggravate the problem. In some countries, notably Tunisia, bank financing of the private sector is additionally constrained by caps on lending rates.<sup>72</sup>

Microfinancial institutions are not a strong enough option for small and medium enterprises to access finance. The microfinance sector in MENA is less developed, and its

**Table 2.3: Loans to Firms Requiring Collateral**

| Country        | Loans to Firms Requiring Collateral (%) |
|----------------|---|
| Algeria        | 79                                      |
| Egypt          | 84.4                                    |
| Jordan         | 97.6                                    |
| Lebanon        | 67.5                                    |
| Morocco        | 90                                      |
| Oman           | 73.8                                    |
| West Bank/Gaza | 84.5                                    |

Source: Hafid Oubrik, "Importance of Financial Infrastructure to Increase Access to Finance," Arab Monetary Fund, 2013.

lending is more conservative than in other areas of the world. As a consequence, the percentage of MFI-financed micro enterprises is 34.1 percent, compared to 56.5 percent in the rest of the world. Also considering the small amounts of MFI loans, SMEs may still need to look for additional financing elsewhere.<sup>73</sup>

Relative to other regions, the financial infrastructure and regulatory framework in the Arab countries is weak. As shown in Table 2.4 the MENA region scored lowest strength on the legal rights index, although the depth of credit information is ahead of other developing regions such as Sub-Saharan Africa or South Asia.

The following recommendations are made to enhance access to finance by small and medium enterprises:

- Develop country specific strategies;
- Develop a supporting legal and regulatory framework;
- Strengthen financial infrastructure;
- Advance effective government support mechanisms;
- Promote female entrepreneurship.<sup>74</sup>

## ACCESS TO FINANCE FOR WOMEN

More than one-third of small and medium enterprises in the developing world are owned or partly-owned by women; 40 percent of the global workforce is female. Access to finance can open up economic opportunities for women,

and bank accounts can be a gateway to the use of additional financial services. Women entrepreneurs and employers, however, face significantly greater challenges than men in gaining access to financial services.<sup>75</sup>

A World Bank survey in 2009 found that the gender barrier is not an obstacle for accessing in MENA countries, with the exception of Yemen. This is good news for well established firms. The situation is different in small or start-up firms where female entrepreneurs face gender-specific difficulties in seeking finance to start and expand their businesses.

A survey conducted by IFC in 2010 revealed that:

- Women entrepreneurs in the five MENA countries (Bahrain, Jordan, Lebanon, Tunisia, and the UAE) reported that access to finance is a major constraint;
- About 50 percent to 75 percent women surveyed had sought loans but did not receive them (Bahrain, 56 percent; Lebanon, 51 percent; Tunisia, 76 percent; the UAE, 62 percent);
- Significant number of women who did seek external financing over the past 12 months reported that they encountered difficulties (about 50 percent in Tunisia, Jordan and the UAE; 29 percent in Bahrain and Lebanon);
- Less than one-third of the women surveyed had bank credit; 44 percent of women are financing the growth

**Table 2.4: Regional Comparison for Getting Credit indicators, *Doing Business* — 2013**

| Region                          | Strength of Legal Rights Index (0-10) | Depth of Credit Information Index (0-6) | Public Registry Coverage (% of Adults) | Private Bureau Coverage (% of Adults) |
|---------------------------------|---------------------------------------|---|--|---------------------------------------|
| East Asia and the Pacific       | 7                                     | 2                                       | 9.1                                    | 19.2                                  |
| Eastern Europe and Central Asia | 7                                     | 5                                       | 17.3                                   | 29.8                                  |
| Latin America and the Caribbean | 6                                     | 3                                       | 11.1                                   | 33.8                                  |
| OECD High Income                | 7                                     | 5                                       | 10.2                                   | 67.4                                  |
| South Asia                      | 6                                     | 3                                       | 2.7                                    | 6.4                                   |
| Sub-Saharan Africa              | 6                                     | 2                                       | 4.2                                    | 5.6                                   |
| Middle East and North Africa    | 3                                     | 4                                       | 8.6                                    | 9.7                                   |

Source: Jose Antonio Pedrosa-Garcia, "Access to Finance by SMEs in Arab Region: Policy Considerations," Economic and Social Commission for Western Asia (ESCWA), E/ESCWA/EDGD/2013/WP.1, August 6, 2013.

of their businesses through personal savings, investment from private sources such as family and friends, and the retained earnings in business. The difficulties in seeking finance include high interest rates, insistence on collateral, lack of track record, and the lack of products or services tailored for women.<sup>76</sup>

As shown in Figure 2.21, the percentage of unserved women entrepreneurs in MENA is 18–35 percent.

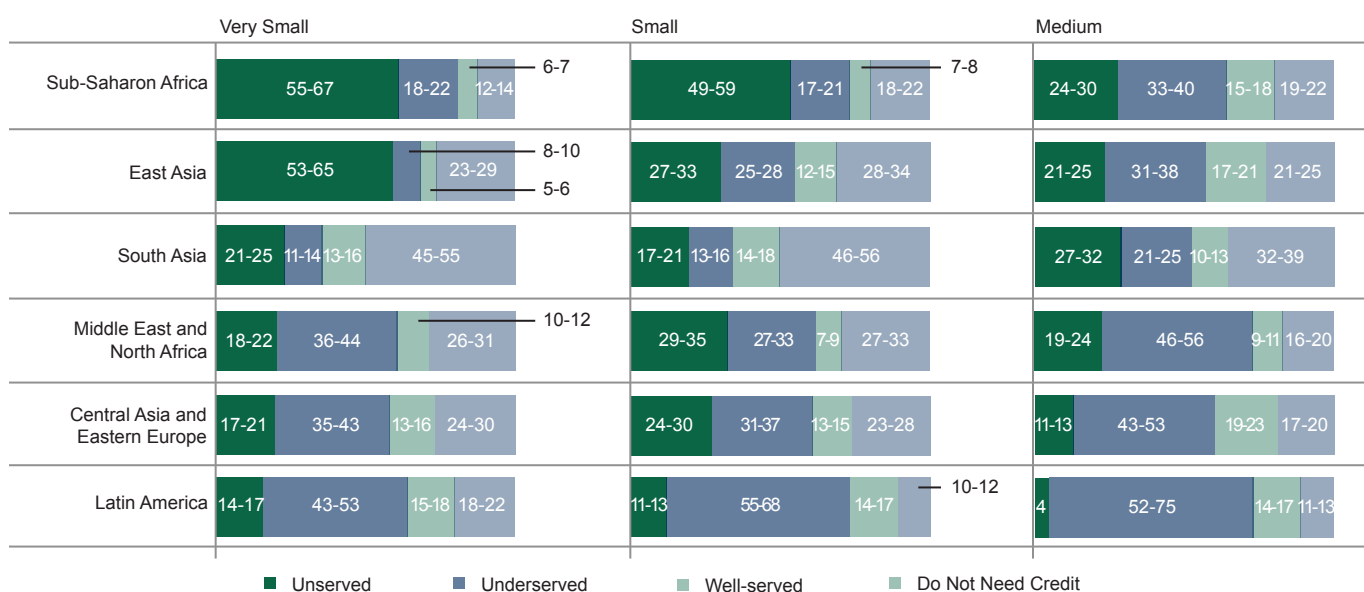
Microfinance has increased women's access to finance. The number of women reached by microfinance has grown exponentially from 10.3 million in 1999 to nearly 69 million in 2005, an increase of 520 percent. However, the problem of access to finance is particularly acute for women when the growth and start-up needs of business go beyond microloans—for those who want to start new micro, small, or medium enterprises.<sup>77</sup>

A targeted approach is needed to improve the financing for women entrepreneurs. Recommendations to increase women's access to finance include: the provision of tailored financial services and products by banks; the creation of credit guarantee schemes for target groups; and programs to improve women's financial and entrepreneurial literacy.<sup>78</sup>

## 2.7 CONCLUSIONS

- The process of political change and transition in MENA has continued into 2013 and 2014. The success of transitions will depend largely on the ability of new governments to deliver significant improvements in the lives of their citizens.
- Access to finance is limited as the banking sector accounts for the bulk share in the financial system. Financing is concentrated and lacks competition from capital markets and nonbanking finance companies.
- The lack of access to finance has been one of the reasons for the minor contribution of SMEs to the economy, including job creation, as such enterprises' growth has been hindered by dearth of alternatives, such as equity, leasing, and factoring institutions because of their slower growth and insignificant contributions.
- Effective use of credit information systems will help various players in the credit industry across the region to increase access to finance as well as reduce the problem of nonperforming loans.
- Among the major constraints preventing faster growth of financial markets in MENA are the absence or gaps in legislation along with weak supervision and enforcement.

**Figure 2.21: Credit Needs and Access for Formal SMEs with at Least One Female Owner by Region (Percent)**



Source: "Strengthening Access to Finance for Women-Owned SMEs in Developing Countries," IFC, 2011.



# RISK MANAGEMENT IN MENA

# 3



Well-functioning financial systems offer multiple products and services such as savings, credit, payment, and risk-management tools to people with a wide range of needs. They are important in achieving sustained economic growth and stability.

Financial infrastructure (including institutions, information, technologies, rules, laws, and standards) is the underlying foundation of a financial system, as it enables financial intermediation. With efficient and reliable financial infrastructure, the cost of intermediation falls, the financial products and services become accessible to a greater number of citizens and the lenders; investors have greater confidence in their ability to evaluate and guard against credit risk.<sup>79</sup>

One of the important criteria of a sound financial system is inclusion, which is becoming an important priority for governments around the world. Although most MENA countries have taken steps to improve financial inclusion in the past few years, inclusion is still weak due to the low level of commitments across the region. Expanding access to finance is still a costly and risky affair for the banks, as there are deficiencies in the financial infrastructure and regulatory frameworks. Lending is still based on physical collateral that is expensive to register and may not be readily enforceable (let alone readily available). As a result, financial institutions rely on outdated credit assessment and risk-management techniques.<sup>80</sup>

Prudent lending and effective credit risk management is essential to optimize the performance of financial

institutions. It is important for the financial institutions to manage their credit risks in different business cycles and environments, as it would help them to alleviate crisis and maintain sustainability and stability.

Risk-management tools are designed to improve the speed and efficiency of credit decision making. Such tools become extremely vital with growing business volumes. Raw information alone is insufficient unless backed up by other modular strategies and new tools, like the introduction of statistical models for consumer credit underwriting purposes, advanced techniques of portfolio monitoring, and collection strategies, in a fully automated environment.

Despite considerable progress, most banks in the region still lack the sophisticated risk-management functions that are appropriate for rapidly evolving risk profiles. Basic tools, such as application scoring, are almost absent in MENA; behavioral scoring, small business scoring, and portfolio monitoring have yet to be implemented. Although some countries such as Egypt, Oman, Qatar, Saudi Arabia, and West Bank and Gaza have introduced some forms of credit scoring, these are basic models, few in number, sporadically used.

Many regulators in the region have revised or introduced more rigorous management of risk and internal controls, partly as a consequence of the Basel II Framework. Several banks have recently established risk-management functions and are in the process of building systems and monitoring processes. But the degree of integration and pace of development varies considerably. Generally, larger

and privately-owned banks have progressed more than the smaller and publicly-owned banks, which remain at early stages of development. Through their know-how of advanced processing techniques and risk-management tools, foreign banks play an important role in upgrading MENA's credit industry.<sup>81</sup>

## SMALL AND MEDIUM ENTERPRISE LENDING

Considering the different types of banks in the region, the role of both state-owned and private banks is crucial. Importantly, state-owned banks in MENA provide finance to small and medium enterprises, with an average share of SME lending similar to that of private banks. Nevertheless, there are differences in state bank practices; in spite of less developed lending technologies and risk-management systems, state banks take greater risks than private banks in their SME lending business. They are less selective in their strategies; they have a lower ratio of collateralized loans and a higher share of investment lending to SMEs. Very few state banks have dedicated SME units that utilize credit scoring or conduct stress tests.<sup>82</sup> This, at times, has resulted in poor financial results, including higher nonperforming loans, higher levels of loan loss provisioning, and, ultimately, lower profitability.<sup>83</sup>

There is a need to build the capacity of financial intermediaries in MENA, especially banks, which are the dominant financial institutions. This will include developing market segmentation strategies and tailoring lending products. Equally important is marketing, screening SMEs, and developing growth strategies and portfolio risk management. The banks need help to turn around SME loans, develop risk-management tools, and improve governance and credit information systems.<sup>84</sup>

## INDIVIDUAL LENDING

Fully Automated Application Processing Systems, operating automated scorecards and online real-time inquiry to CBs or CRs, are generally not present or not fully implemented, even by major banks in the region. This situation, coupled with the sporadic presence of credit scoring models, limits the possibility of offering instant credit; it leads to increasing the load of manual work, the rising cost of credit transactions, and a slow

turnaround time. The decision-making process is generally long, manual, and subjective; it requires excessive participation of human resources, notably officers and credit committees.<sup>85</sup>

As part of the Arab Credit Reporting Initiative (ACRI), an assessment was done by ACRI team of selected MENA countries between 2009 and 2012 to promote the development of credit information systems in the MENA region. The key findings were:

- Credit underwriting procedures are generally marked by long decisional chains, centralized decision making, paper storages, high operational costs, inefficiencies, conventional credit-granting techniques, crowded credit decision committees, and lack of reliable credit information.
- Credit scoring is not systematically in use. Banks still do not have a thorough understanding of this tool and its benefits.
- Scoring models, when used, are mainly internally developed with the utilization of the lenders' own data; models by international scoring consultancy companies have not yet been systematically introduced. In the UAE, for example, application scoring is used by most of the financial institutions, though generally built internally and not by international specialists.
- Unexplored areas include portfolio monitoring, portfolio management strategies, and advanced collection strategies.
- All banks receive information from a CR but often through manually triggered inquiries. A fair, standard level of centralization and automation still needs to be achieved particularly forging the automated link with external databases.
- Interest rates are not personalized and not based on the risk profile of individuals; only large businesses or V.I.P. individual customers are able to negotiate rates.
- The credit system in all the MENA countries relies on collateral, which is considered an unfailing, general prerequisite for the disbursement of loans by all banks (and even microfinance institutions).
- Unsecured credit is rare, even in the case of personal and consumer loans. Underwriting processes seem to

focus more on the correct evaluation of collateral rather than of customers' risk. Countries that insist on heavy collaterals are Jordan, Libya, Morocco, Oman, Qatar, and Yemen (as shown in Table 2.2, Chapter 2).

- Behavioral scoring models and automated account management systems have yet to be introduced.
- In Morocco, small ticket lending is generally delegated to the nonbanking financial institutions, which belong to the same banking group, and seem better equipped to manage consumer credit risk. NBFIs also have better appreciation of scoring. In case of consumer finance, their approvals and rejections are generally faster than those of the banks. In Morocco, the lenders make an inquiry with the credit bureau for each new applicant or loan request. The number of credit reports sometimes reaches 120 percent over the received applications; credit reports are also requested for guarantors, line renewals, collections, etc.
- In countries like Algeria, Iraq, Libya, Mauritania, Morocco, Syria, Tunisia, the UAE, and Yemen, the overall rejection rate is likely much higher than officially registered. This is because many applicants do not reach the application stage, but are rejected by the branch before underwriting procedures even begin.<sup>86</sup>
- Credit underwriting is generally a long process, it can vary from two to thirty days, depending on the products, markets, and lenders. This lag time even occurs in leading banks. At times, there is an inordinate delay in loan processing, as the documentation required is very cumbersome, which puts a burden on the borrower. Similarly, in exceptional cases, lenders take much longer to approve or reject a loan, even after the applicant has

provided full documentation. In Yemen, for instance, lenders may take between one to one-hundred and eighty days to approve or reject a loan; in Lebanon, one to forty-five days; in Syria two to fifteen days; in Jordan, one to fifteen days; in Libya one to thirty days; in the West Bank and Gaza, one to twenty-one days. Instant credit is not available in any MENA country.<sup>87</sup>

In order to ensure effective credit risk management, MENA's financial institutions, especially banks, will have to undertake the following measures:

- Review underwriting procedures, strategies, and systems;
- Introduce more sophisticated risk-management techniques in all the phases of credit cycle, from pre-acquisition to collection;
- Revise strategies, procedures, credit policies, and commercial policies;
- Train staff and familiarize them with policy changes;
- Launch new products;
- Switch gradually from lending secured by immovable assets to lending secured by movable assets and to unsecured lending.

Regulators should ensure effective implementation of these measures in order to modernize the credit industry in MENA, and the lending industry should invest in internal training programs. The above issues can be addressed by the combined initiative of central banks, lenders associations (including banking associations and microfinance institutions), credit registries, and credit bureaus.





# INTRODUCTION TO CREDIT REPORTING

# 4



A strong and sustainable framework for risk management is vital because of the increasing complexities in financial infrastructure and dynamism of markets. The financial crisis in 2008, which had a direct impact on a large number of countries, has heightened the need for effective risk mitigation. This is especially the case for ever-expanding credit and lending markets that span across regions. Simple, objective, and effective risk assessment practices are needed. In developed countries, established and mature credit markets ensure stability and sustainability. The nascent and growing credit markets in developing countries must learn from past errors. Developing countries must incorporate best practices for lending by building into their systems effective tools and techniques for assessing borrowers' risk.

Credit reporting has developed worldwide because it is a necessary form of underwriting and risk assessment practice; it benefits both lenders and borrowers. Studies have shown that information sharing leads to efficient allocation of credit through better risk evaluation. Thus, the foundation of modern risk management is information sharing among lenders regarding borrowers' past credit experience.<sup>88</sup>

## 4.1 ACCESS TO INFORMATION AND CREDIT REPORTING

Only borrowers have complete information about credit facilities across institutions. Lenders, for the purpose of assessing credit applications, lack information about borrowers' outstanding debts. Therefore, lenders cannot

effectively judge borrowers' credit worthiness—the capacity or the probability of repaying loans. The problem can be described as asymmetric information insofar as borrowers know the odds of repaying debts much better than lenders.<sup>89</sup> Thus, lenders are unable to effectively assess the risk profile of potential borrowers; in many countries, this leads to high rejection rates, high interest rates, and requirements for collateral. Also, once a loan is obtained, borrowers have a greater incentive to default when the anticipated consequences are low.<sup>90</sup> This explains the high default rates, which result in risk-averse lenders and strict policy guidelines regarding the profile of borrowers. This hinders access to credit, as lenders only cater to a segment of the population.

By making available detailed information about the indebtedness of credit applicants and their payment history, a well established credit reporting system can address the aforementioned problems. This reduces information asymmetry, allowing banks to price risk properly and reward conscientious borrowers with cheaper credit.<sup>91</sup> Access to information is critical for financial markets to function smoothly, enabling lenders to evaluate risk and price financial products accordingly.<sup>92</sup>

## WHAT IS CREDIT REPORTING?<sup>93</sup>

The term credit reporting is defined as the process of gathering, sharing, and distributing information about the performance of financial relationships. These relationships are typically between lenders and customers; in the case of business finance, such relationships may also incorporate

the provision of trade credit. Credit reporting enables lenders to make informed decisions about potential borrowers based on their total outstanding debts in the credit market and their payment history.

Credit reporting systems (CRS) are a critical element of a country's financial infrastructure and are essential to facilitating access to financial services. CRS ensure financial stability by enabling responsible access to finance; they can also play an instrumental role in expanding access to credit to the underserved and unbanked.

CRS comprise of the institutions, individuals, procedures, rules, standards, and technologies that enable information flows relevant to credit and loan decision making. An effective system provides lenders with objective information that allows them to reduce portfolio risk, lower transaction costs, and expand lending portfolios. Consequently, CRS enable lenders to expand access to creditworthy borrowers, including individuals with thin credit files, microentrepreneurs, and small and medium enterprises.

The credit information cycle begins with collecting, storing, and processing data; then, the information is disseminated to support credit-granting decisions and financial supervision. This process involves a number of actors, including: individuals, micro, small and medium enterprises, credit reporting service providers, data providers, users, authorities, regulators, and overseers. Active participation by each of these stakeholders is critical to ensuring the effectiveness of the credit reporting system, especially the credit reporting service providers (CRSPs), which are the enabling mechanisms for credit information exchange.

Generally speaking CRSPs fall into three broad categories:

- Credit registries;
- Credit bureaus;
- Public-private credit reporting service providers.

Credit registries are usually public sector institutions, typically managed by central banks. Credit registries are usually created for supervisory purposes rather than for information sharing. The databases themselves consist

almost entirely of information provided by banks (agreed facility, current exposure, repayment status, etc.); access to this data is usually restricted. Some credit registries have evolved and now distribute information to banks via simple credit reports. The principal objective of most credit registries is to monitor and supervise the risk exposure of the lenders themselves (systemic risk). As a result, a credit registry tends to collect very detailed information on large corporate transactions, but less information (if any) on smaller corporate and consumer loans.

Credit bureaus are sometimes called credit reference agencies; they are either commercial businesses operating in the private sector or industry associations owned by members (for example banks, which collate and manage data about individuals and/or businesses). These databases are then accessed by subscribers to the credit bureau using a data sharing methodology called the principle of reciprocity.

Contributing information and accessing data from a credit bureau is normally conducted on a voluntary basis. Credit bureaus are typically administered by rules agreed upon by all members (documented as either a subscriber agreement and/or a code of conduct). Members pay an annual membership fee and then transaction fees as and when they use the various services provided.

Credit bureaus feature a mix of credit performance information (both positive and negative data) provided by the members, including banks, financial companies, and microfinance institutions, as well as retailers, utility companies, and other commercial credit providers. Data from other public sources, such as the courts, may also be collected and distributed.

Credit bureaus have the capacity and technical know-how to provide a range of value-added services, such as credit scores, portfolio monitoring services, systems for fraud alerts, and more. These are tools for advanced risk management that enable lenders to undertake objective and informed decisions about credit applicants.

Both credit registries and credit bureaus are important aspects of CRS. Since both CRs and CBs collect payment history data, sometimes they are viewed as substitutes for

one another. In fact, they play complementary roles in supporting the credit industry. Research has shown that there are important differences between the two, that CRs can supplement the role of CBs. Table 4.1 below gives an overview of the characteristics and functions of the two entities.<sup>94</sup>

The third category of CRSPs is the public-private credit reporting service provider, a hybrid model based on a partnership between the public and private sectors. The public sector plays a significant role in developing the infrastructure and process for credit information collection and sharing. Central banks, in their capacity as regulatory and monitoring bodies for financial institutions, are well placed to steer required legal reforms, building awareness about the benefits of information sharing among financial institutions.

## NEEDS, BENEFITS, AND QUALITY OF CREDIT REPORTING

Credit reporting, either in the form of CRs or CBs, has evolved worldwide in recent decades. The exchange of credit histories has been formalized, which reduces the cost of assessing borrower risk. Credit reporting systems generate benefits to lenders and consumers and increase economic activity. Broadly, the development of a credit reporting infrastructure is seen as an important means of:

- Decreasing information irregularities between borrowers and lenders;

- Improving access to credit for individuals and small businesses;
- Helping to quantify risk;
- Improving the quality and fairness of lending decisions;
- Improving the efficiency of decision-making processes;
- Encouraging competition in the marketplace;
- Preventing over-indebtedness;
- Preventing delinquencies and defaults.<sup>95</sup>

There is a variety of ways to build an appropriate credit-reporting infrastructure that is customized to local market conditions. The key question is whether this role should be undertaken within the public sector (CR) or within the private sector (CB).<sup>96</sup> In an ideal situation, both systems would be sufficiently developed and supported in order to function effectively. Finding the right balance and support infrastructure is key to ensuring the effectiveness and efficiency of credit markets systems.

To realize the benefits of a CRS, it is important to ensure that information shared is within a defined framework that ensures quality data and adequate protections. Full-file, comprehensive credit reporting significantly improves the effectiveness of risk evaluation in consumer lending. Fragmented information, on the other hand, can invalidate credit reporting; without a complete view of the risk and probability of default, lenders are not able to make informed decisions.

**Table 4.1: Key Characteristics and Functions**

|                              | Public Credit Registry                                  | Private Credit Bureau  |
|------------------------------|---|--|
| <b>Ownership</b>             | Central bank/supervisory authority                      | Private enterprises  |
| <b>Data Objective</b>        | System supervision, monetary policy                     | Pure information services  |
| <b>Type of Data</b>          | Commercial, corporate, SME loans                        | Consumer credit, SMF, microcredit  |
| <b>Contributors</b>          | Banks and other regulated credit and financial entities | Banks, retailers, credit cards, utilities, telcos, MFIs, regulated and not |
| <b>Contribution</b>          | Compulsory, regulated by bank's law                     | Voluntary (but can be mandatory)   |
| <b>Ticket Size</b>           | Large (thres holds on low amounts)                      | Micro, small, medium   |
| <b>Access</b>                | Restricted (aggregated data only)                       | Open on "reciprocity" principle  |
| <b>End Users</b>             | Regulated entities (no consumers)                       | All contributors (yes consumers)   |
| <b>Data Accuracy</b>         | Controlled by supervisor                                | Regulated by Code of conduct   |
| <b>Consumers' Protection</b> | Low-borrowers not always are granted rights on own data | High-borrowers have access/rights and may challenge own wrong data         |

Source: Madeddu, 2010.

A robust CRS has the following components:

- **An enabling legal and regulatory framework:** Most importantly it should allow for sharing of credit data between banks and nonbanks; give consumers the right to review their data; challenge erroneous entries; and settle complaints outside of the judicial system.
- **A properly structured information sharing system,** which strikes a balance between the functions of the central bank and private service providers. Other essential elements are a committed technical provider, the provision of positive and negative information, and an active expansionary vision.
- **Quality of data sharing:** Complete, full-file, and comprehensive sharing from traditional sources such as banks, nonbank institutions, microfinance institutions, and nontraditional sources, such as retailers, utilities, etc.
- **An informed public:** The relevant laws and regulations pertaining to the credit bureau's operation must be made available so that individuals can understand their rights and obligations.
- **An effective credit risk management:** Financial institutions should incorporate the use of credit information, as well as derived Value Added Services in their credit approval and risk-management processes; this ensures effective data gathering and maximizes the value-added from available information.<sup>97</sup>

To meet the above requirements, it is necessary for all stakeholders to play an active role in CRS:

- **Data Providers:** Report accurate, timely, and sufficient data to service providers on a periodic basis;
- **Other Data Sources:** Facilitate access to their databases to credit reporting service providers (e.g. public data);
- **CRSPs:** Provide high quality and efficient services;
- **Users:** Make proper use of the information available from credit reporting service providers;
- **Data Subjects:** Provide accurate and truthful information to data providers and other data sources;

- **Authorities:** Promote credit reporting systems that are efficient and effective by satisfying the needs of various participants, supporting consumer data rights, and developing fair and competitive credit markets.

## GENERAL PRINCIPLES OF CREDIT REPORTING

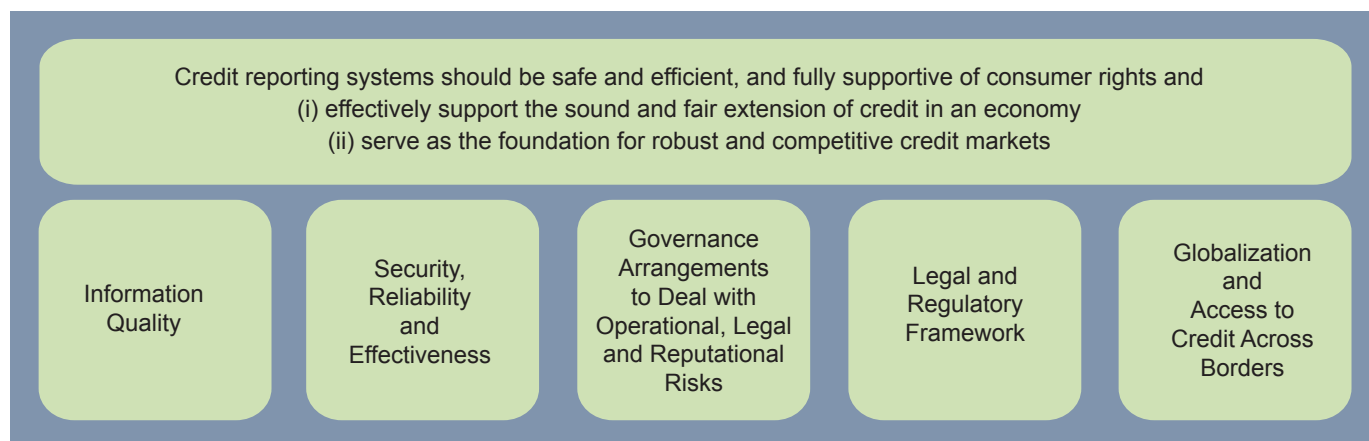
Given the importance and need for building credit reporting infrastructure, the World Bank has established *General Principles of Credit Reporting*, March 2011, to systematically guide various stakeholders in addressing the challenges associated with the development and day-to-day operation and improvement of these systems. To fill this critical gap, the World Bank launched the Credit Reporting Standards Setting Task Force with the support of the Bank for International Settlements, aiming to provide a core set of general principles to steer these efforts in any given jurisdiction.

The general principles are intended for credit reporting data providers, credit reporting service providers, financial supervisors, policymakers, regulators, and users of these services. Data subjects—individuals and businesses whose credit histories and identification data are stored in these systems—are also important audiences.

The principles cover credit reporting mechanisms that seek to improve the quality of data for creditors in making better informed decisions; the scope also includes those mechanisms intended to assist banking and overall financial supervision.

The policy objectives and key considerations of the general principles are shown in Figure 4.1 below.

Based on the objectives identified, a set of general principles was established regarding cross-border data flows, data processing, governance arrangements and risk management, legal and regulatory environment. These principles cover the most important requirements for an effective credit-reporting infrastructure. Table 4.2 gives information on the broad topics and their contents. Details are expounded upon in the report *General Principles of Credit Reporting* by the World Bank.

**Figure 4.1: Public Policy Objectives and Key Considerations**

Source: "Presentation on General Principles for Credit Reporting", World Bank, 2011.

**Table 4.2: General Principles of Credit Reporting**

|                                  |                                     |
|----------------------------------|-------------------------------------|
| Data                             | Accuracy and quality                |
|                                  | Timeliness                          |
|                                  | Sufficiency (including positive)    |
|                                  | Data collection                     |
|                                  | Data retention                      |
| Security and Efficiency          | Security measures                   |
|                                  | Reliability of data                 |
|                                  | Efficiency of data                  |
| Governance and Risk Management   | Accountability                      |
|                                  | Transparency                        |
|                                  | Effectiveness                       |
|                                  | Fair access                         |
| Legal and Regulatory Environment | Clarity and predictability          |
|                                  | Non-discrimination                  |
|                                  | Proportionality                     |
|                                  | Consumer rights and data protection |
|                                  | Dispute resolution                  |
| Cross-border Data Flows          | Pre-conditions                      |
|                                  | Requirements                        |

Source: *General Principles of Credit Reporting*, World Bank, 2011

## 4.2 GLOBAL TRENDS

Credit reporting has become commonplace worldwide, but much of the reporting infrastructure has been established in the past three decades. Although the first credit bureau can

be traced to the early 1800s in London, modern providers began developing rapidly in the 1950s given the expansion of credit. In the United States, the introduction of credit scoring in the 1950s played a key role in the rapid rise of consumer lending. The earliest record of a credit registry dates to 1934, when the German credit registry was established. Latin America has some of the oldest credit bureaus in the world.

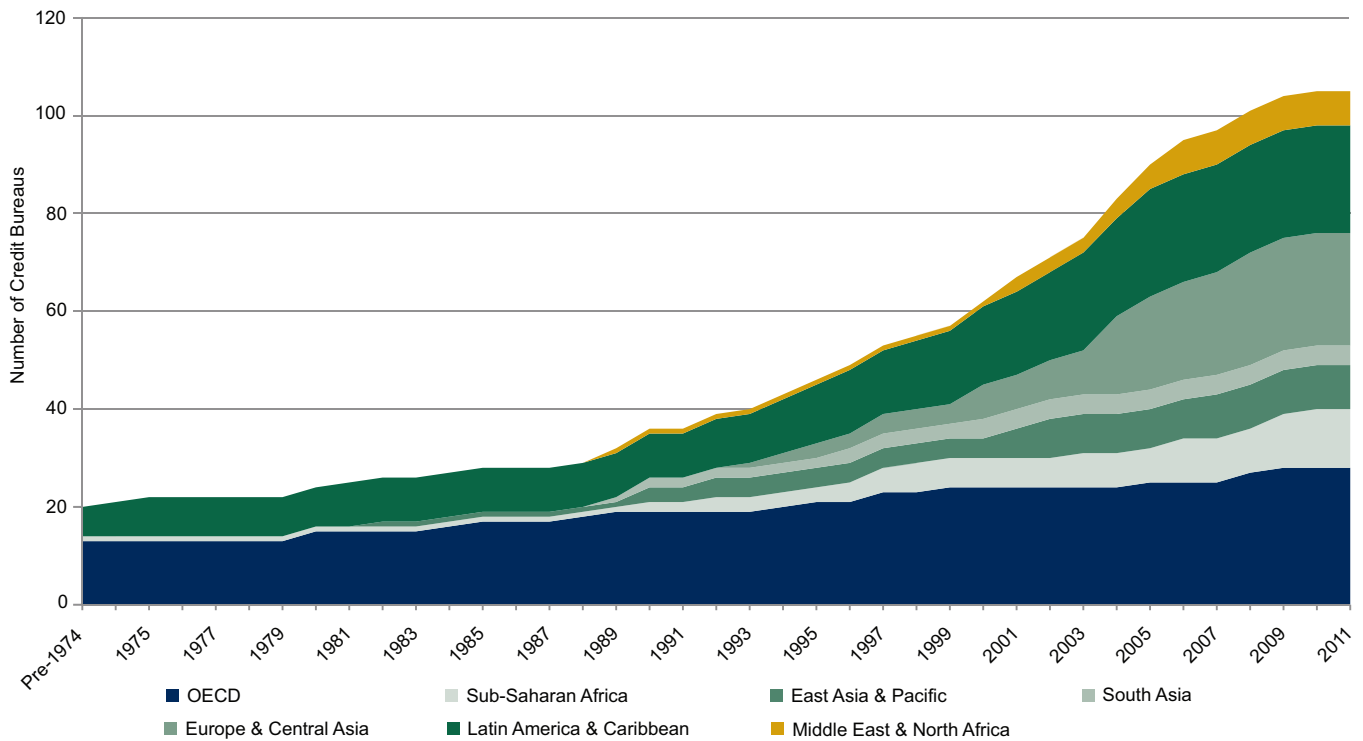
In the 1990s, the number of credit bureaus in the world almost tripled. In Asia, many markets turned toward private credit reporting after the financial crisis in the late 1990s. The credit bureau market in this region has grown rapidly. There are many examples of established bureaus in the East Asian and South Asia regions. According to the ranking of economies in *Doing Business 2014*, China, Hong Kong, Malaysia, and Singapore rank high in terms of the ease of receiving credit rankings because of their established credit information services. In South Asia, India and Sri Lanka are the two countries with established credit bureaus. A significant number of credit bureaus emerged in Eastern Europe from early 1990s to the late 2000s.<sup>98</sup>

In MENA, credit reporting remains at a nascent stage. Although Egypt, Morocco, Qatar, and Saudi Arabia offer examples of excellent credit reporting practices, most markets are in the development stage. Credit reporting in MENA is characterized by the existence of credit registries or government-owned bureaus.

Credit bureaus that serve banks and other financial intermediaries are the most prevalent and comprehensive sources of financial information. CBs have been established in more than 90 countries and their number is growing. Figure 4.2 shows the growth of this trend across regions.

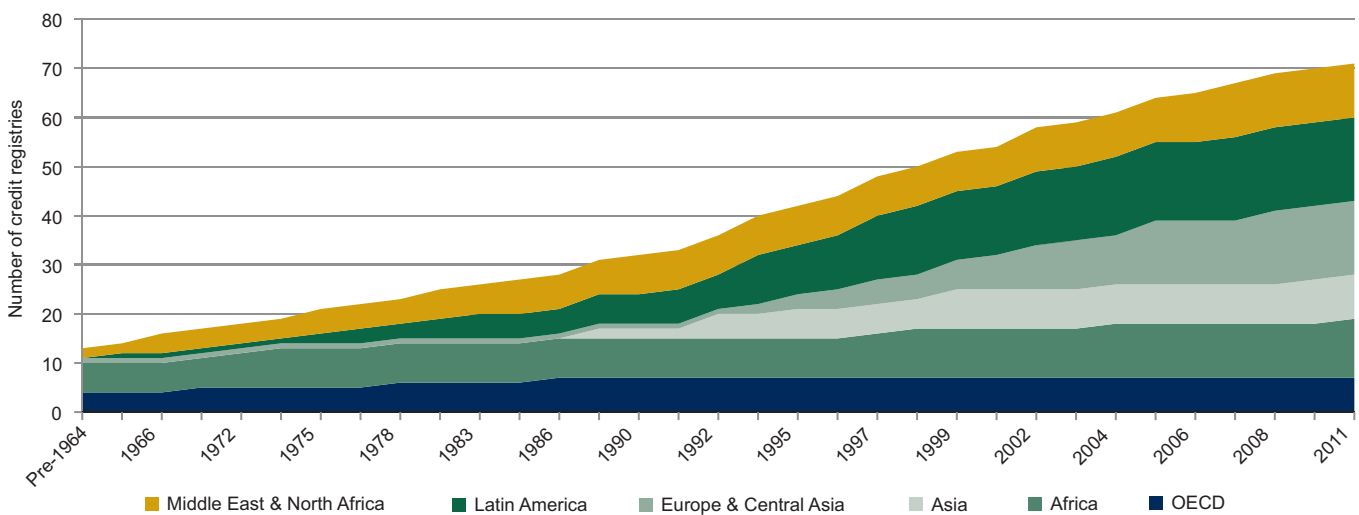
Credit registries have gained importance over the past 20 years in both developed and developing countries as a result of changes in banking systems and advances in technology.<sup>99</sup> The trend can be seen in Figure 4.3.

**Figure 4.2: Growth of Credit Bureaus**



Source: IFC calculations based on Doing Business Indicators (database) 2004-2011. "Credit Reporting Knowledge Guide", International Finance Corporation, 2012.

**Figure 4.3: Growth of Credit Registries**



Source: IFC calculations based on Doing Business Indicators (database) 2004-2011. "Credit Reporting Knowledge Guide", International Finance Corporation, 2012.

The establishment of infrastructure and framework for credit reporting has differed across regions and countries.

- Some countries (such as Canada, the United Kingdom, and the United States) have credit reporting systems characterized by comprehensive, full-file reporting that yields a credit report for each consumer; their reports contain both positive and negative information about a borrower's credit experience across all types of loan products.<sup>100</sup> In these developed credit-reporting markets, detailed information on credit facilities are available; payment performance histories or behavior patterns are recorded and accessed by stakeholders.
- Some credit reporting systems produce consumer credit files containing only negative information (delinquencies, charge-offs, bankruptcies, etc.). In such a system, a consumer's credit report comprises of damaging information or no information at all.<sup>101</sup>

Australia used a negative credit reporting system prior to 2012. By law, only negative information, such as defaults, bankruptcies and court judgments, would be held by the credit bureau. Credit providers used this information to deny borrowers access to finance. Banks lacked information on customers' other accounts or credit limits. This was a risk for lenders; they were unable to see the full picture, including whether customers were overcommitted.

The Australian credit reporting system embarked on a massive overhaul starting in March 2012. The reforms were a result of changes to the Privacy Act. The new and revised provisions in the Act have allowed credit providers to share a broader range of information about customers' credit history to credit reporting agencies, including details of repayment history, both negative and positive.

- In several Latin American countries (Argentina, Brazil, and Mexico) as well as Japan, banks historically shared information about their customer loan experience by creating databases that captured bank loan experience. Nonbank creditors, often prohibited from accessing this repository, pooled their own loan experience and formed a separate database.<sup>102</sup>

There has been an increase in alternative or nontraditional data inclusion, including information from utilities companies, telecommunications providers, retailers, etc.

- As mentioned above, CRs and CBs have separate but complementary roles. Thus, different ownership structures have evolved across regions. They can be broadly classified as:
  - Credit bureaus in which banks and/or other creditors are either majority or minority shareholders;
  - Credit bureaus owned and operated by a separate entity with no ownership by creditors;
  - Credit bureaus formed by an association or chamber of commerce, operating on the basis of membership fees;
  - Credit bureaus that are partially owned by government entities;
  - Credit bureaus that are wholly owned by government entities (these are rare, but an increasing trend in MENA).

Generally, credit bureaus that are independent of creditors are efficient structures; credit reporting is their core business, and the shareholders' main objective is to maximize business value by expanding operations and providing new and innovative products and services. Conflicts of interest are minimal because the bureau's relationships with members and users are driven by commercial interests. Examples of credit bureaus owned and operated by a separate entity include Kenya, New Zealand, and the United States.

In several countries, bureaus have included ownership by creditors (such as Argentina, Brazil, Croatia, Germany, Kazakhstan, Mexico, Romania, Turkey, the Russian Federation, and Ukraine). The advantage of this ownership structure is that it allows for a faster launch; there is agreement among the banks to become shareholders, which brings about a strong commitment to the principle of reciprocity in information sharing.<sup>103</sup> In India, the first credit bureau was established by two financial entities with majority shareholding and the technical partners holding minority shares. Over the years, other banks joined; the founding members reduced their shareholdings.

The development of credit bureaus entirely owned and established by the central bank or the government is a growing trend. Such entities are expected to perform the dual role of providing supervisory support to the central

bank while providing credit information services to users.

- In Sub-Saharan Africa, access to finance is extremely limited. To develop financial infrastructure, credit-reporting frameworks have been established in Kenya, Rwanda, and a project to establish a Private Credit Bureau in the countries of the Union Monétaire Ouest Africaine (UMOA) is underway. Some of the credit reporting trends in the SSA region include:
  - Increasing development of credit bureaus, rather than credit registries, as tools for information sharing;
  - The sharing of positive and negative data (for instance in Ghana, Rwanda, and Tanzania, as well as a pilot in Kenya);
  - Inclusion of data from small and medium enterprises and microfinance institutions;
  - Capacity building for the supervision of credit reporting.<sup>104</sup>

### 4.3 CREDIT REPORTING IN MENA

The credit information system in the MENA region has improved significantly in the past few years. Some MENA countries have been successful in bridging gaps with the rest of the world, as they have evolved robust information systems with noteworthy projects (for instance, credit registries in Libya, Oman, Qatar, and the West Bank and Gaza; credit bureaus in Egypt, Morocco, and Saudi Arabia). There are new credit reporting systems (both public and/or private) under way or just started in Algeria, Iraq, Jordan, UAE, and Yemen.<sup>105</sup>

The establishment of CBs is quite a recent phenomenon in the region. Thirteen MENA countries still rely entirely on CRs, a higher percentage than those in all other regions, except for Sub-Saharan Africa. As shown in Table 4.3, there are only six countries that have CBs operating alongside CRs. A new CB is under development in Jordan, and the first CB in Oman should soon be operational. In Morocco, the central bank is in the process of awarding a second CB license.

Looking at examples across the globe, the owners of CBs are usually leading international providers, local providers,

**Table 4.3: Credit Reporting System — MENA Region**

| Only Credit Registry | Credit Registry & Credit Bureau |
|----------------------|---------------------------------|
| Algeria              | Bahrain                         |
| Iraq                 | Egypt                           |
| Jordan*              | Kuwait                          |
| Lebanon              | Morocco                         |
| Libya                | Saudi Arabia                    |
| Mauritania           | UAE                             |
| Oman                 |                                 |
| West Bank and Gaza   |                                 |
| Qatar                |                                 |
| Sudan                |                                 |
| Syria                |                                 |
| Tunisia              |                                 |
| Yemen                |                                 |

Source: ACRI Credit Information Sharing Survey 2013

\*Credit Bureau is under development

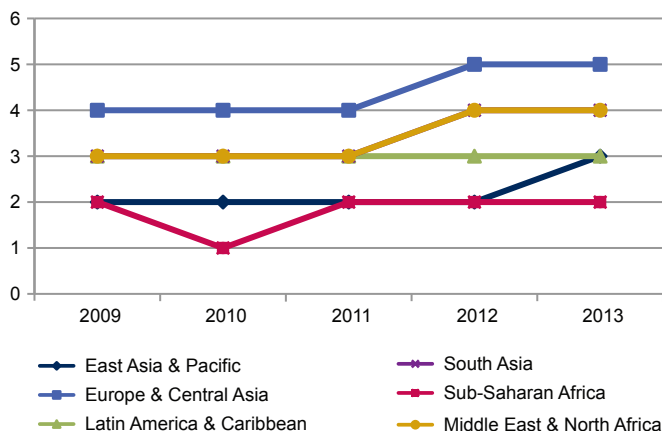
or formed in partnership with financial institutions. In MENA, five out of six CBs are fully or partially owned by the banking sector, generally with a majority participation in the capital. In Morocco the international provider (Experian) has the majority stake, and the banks have a minority share.

The growing volume of data collected, especially by CBs, suggests that the depth of information is improving in MENA. The region has experienced the highest growth in the credit information index, increasing from 1.8 in 2005, to 3 in 2009, and then to 4 in 2013, as shown in Figure 4.4. This increase is largely due to the introduction of new CBs in Bahrain, Egypt, Morocco, and the UAE during this period. In addition, the improvement of the CRs in 2009 in Libya, Oman, Qatar, Tunisia, and the West Bank and Gaza has also contributed to the increase in the index.<sup>106</sup>

As shown in Figures 4.5 and 4.6, the range of institutions providing information to CRs and CBs has also increased since 2005. There remains room for improvement. In case of CRs, there is no change in the coverage of non-regulated entities such as retailers; but since 2010, credit corporations, credit card issuers, nonbanking financial companies, leasing and mortgage companies can be added.<sup>107</sup> For CBs, data providers such as microfinance institutions, retailers, and



Figure 4.4: Depth of Credit Information Sharing



Source: <http://www.doingbusiness.org/data>

utility providers have significantly increased, in addition to the regulated, traditional data providers. These changes are noteworthy considering the crisis faced by some of the countries in the region.<sup>108</sup>

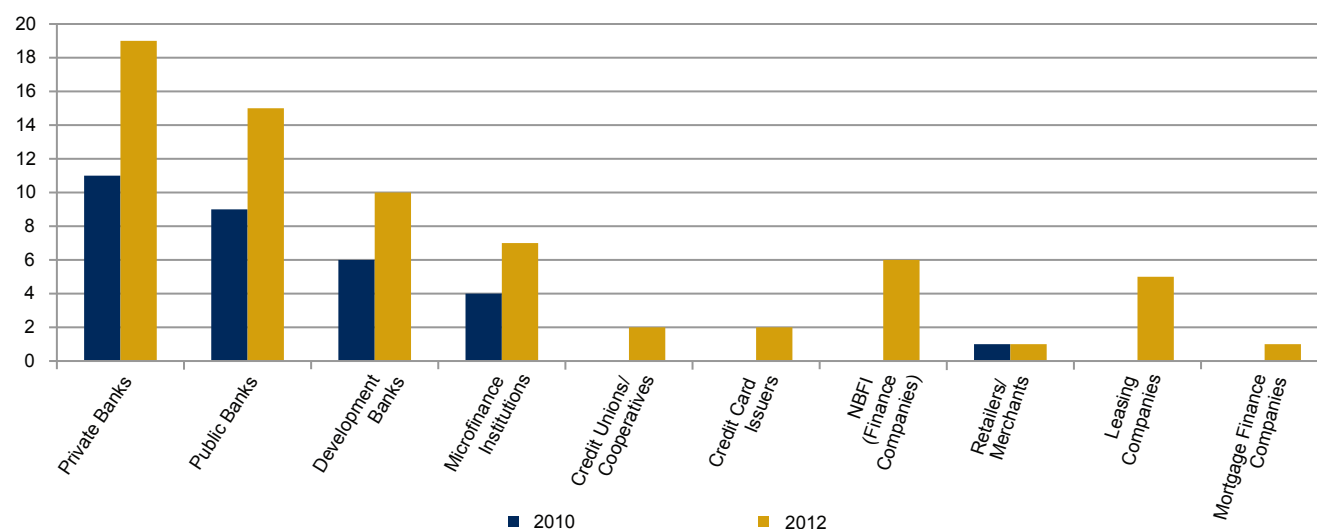
In MENA, the share of data providers to CBs is in line with (or better than) others across the world, with regard to the percentage of banks, microfinance institutions, finance corporations, retailers, and credit card issuers participating, as shown in Figure 4.7. There are only six CBs in the region, however, and actual participation levels differ significantly.

The coverage of adult population by CRs and CBs in MENA remains weak. The population coverage ratio of CRs was a low 7.9 percent in 2013 as most of the data is still contributed by a limited number of regulated entities.<sup>109</sup> According to the 2014 *Doing Business Report*, this ratio has marginally increased to 8.3 percent. The CBs in the respective countries are broadening their coverage of the population by increasing the number of participating institutions. There has only been a marginal increase from 9.3 percent to 9.9 percent, given the very few number of operating CBs, in just six out of nineteen countries.

As seen in Figure 4.8, these CB coverage ratios are very low when compared to other regions, such as the OECD (66.7 percent), Latin America and the Caribbean (37.5 percent), and Europe & Central Asia (33.4 percent).

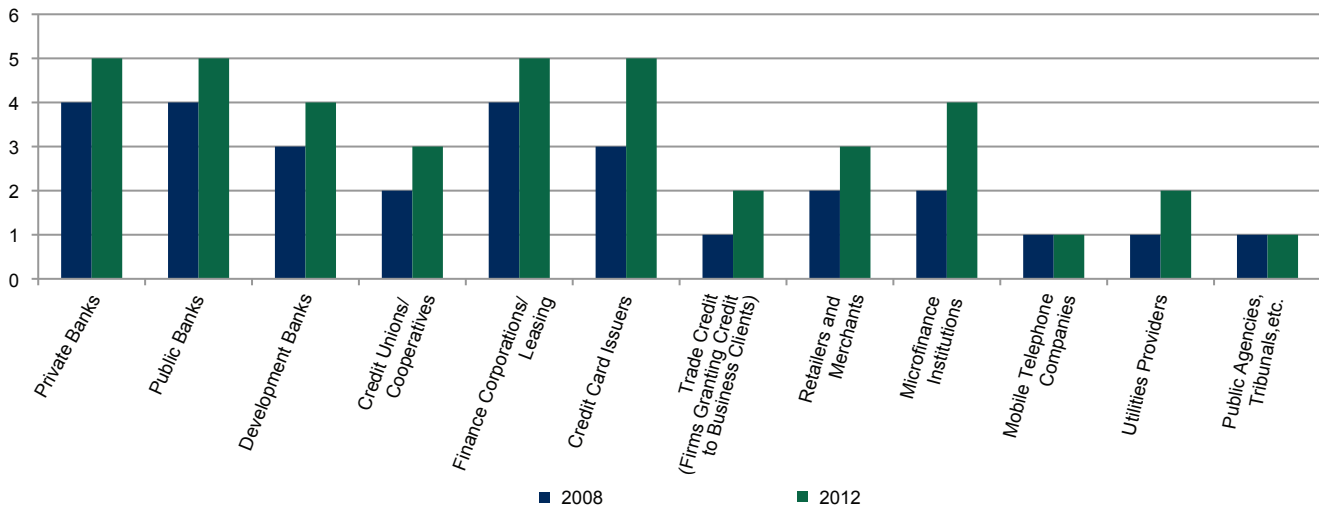
As indicated by the 2014 *Doing Business Report*, the number of borrowers listed in six credit bureaus in MENA was 25.8 million, increasing from 21.5 million in 2013; 96 percent were individual borrowers and the remainder were business firms. With the participation of utility providers and microfinance institutions, the number of records is expected to multiply in the next few years.<sup>110</sup> Table 4.4 shows the coverage ratio of adults in MENA countries as of 2013.<sup>111</sup>

Figure 4.5: Data Providers to PCRs



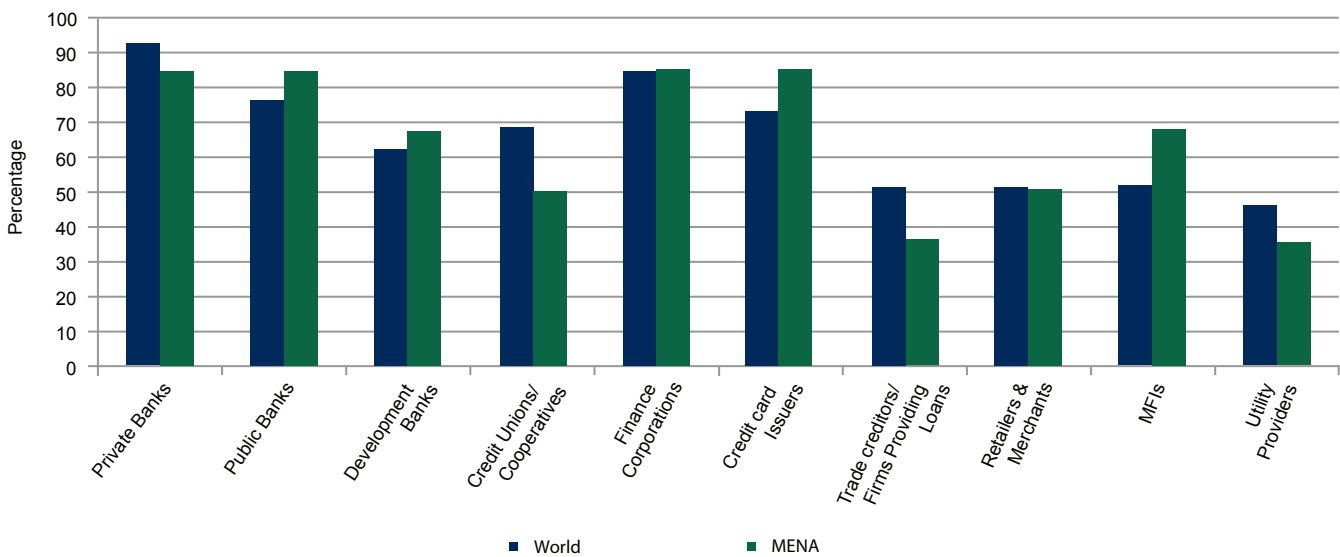
Source: Madeddu, 2010. "ACRI Credit Information Sharing Survey," 2013.

Figure 4.6: Data Providers to PCBs



Source: "ACRI Credit Information Sharing Survey," 2013.

Figure 4.7: Data Providers to PCBs – World vs MENA



Source: Moyo Violet Ndonde et al, 2013. "ACRI Credit Information Sharing Survey," 2013.

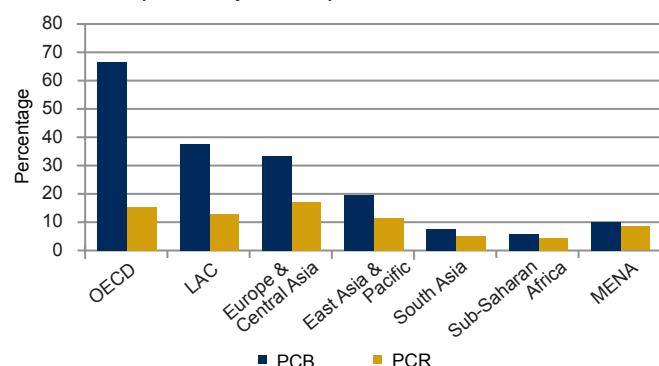
### Key features of credit information system in the MENA region

- Central banks serve a supervisory role for both lenders and CBs across the region. Central banks have undertaken a new, vital responsibility of overseeing the whole credit system, including both financial institutions and information providers for CBs. They are recognized as the neutral, independent authority for protecting consumers and individual privacy rights.

- Central banks may also play a major role in facilitating data collection from the lenders. In Morocco, this occurs in a “delegation model”, as data from lenders is provided to the CB through the CR.
- In other countries, central banks are playing the role of a CB by enabling a credit information-sharing environment where private credit reporting systems have not yet been established.



**Figure 4.8: Credit Reporting System Coverage (% of Population)**



Source: IFC calculation based on Doing Business Indicators (database) 2014.

**Table 4.4: Adult Population Coverage Ratio — MENA**

| Credit Registry    | Ratio % | Credit Bureau | Ratio % |
|--------------------|---------|---------------|---------|
| Egypt              | 4.3     | Egypt         | 16.4    |
| Jordan             | 1.9     | Bahrain       | 23.5    |
| Lebanon            | 18.6    | Kuwait        | 31      |
| Oman               | 37.3    | Morocco       | 17.2    |
| West Bank and Gaza | 5.6     | Saudi Arabia  | 33.3    |
| Qatar              | 25.2    | UAE           | 31.7    |
| Syria              | 4.9     |               |         |
| Tunisia            | 27.8    |               |         |
| UAE                | 5.9     |               |         |
| Yemen              | 0.9     |               |         |

Source: Access to Finance by SMEs in Arab region: Policy Considerations – Jose Antonio Pedrosa-Garcia – 2013, Doing Business Country Reports 2013

- A best practice in most of the CRs and CBs is the right to check or challenge the information contained in credit reports, though it is not necessarily a legislative requirement. The CRs tend to grant consumers a comparatively lower level of protection than CBs. New regulations approved, planned, or under discussion, in many MENA countries do consider ad-hoc provisions to protect consumers' privacy (examples include Egypt, Jordan, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the UAE).
- The mandatory data sharing and inquiries with CBs, as well as CRs, enables regulators to more effectively monitor systemic credit risk and prevent financial crises. Regulators in MENA countries (such as Egypt, Jordan, Kuwait, Morocco, Saudi Arabia, and the UAE) have therefore mandated their use by lenders.

- The data collected by CBs and CRs generally includes demographic, loan account, and payment performance data.
- Most of the registries and bureaus have positive data sharing system, which has improved the quality of loan portfolios in the region.

In terms of technology and functionality, the services offered by CRs vary across the region. The Palestine Monetary Authority has pioneered modern credit reporting by establishing one of the first effective CRs in the region. It was fully designed, developed and implemented internally with modern technology, including detailed credit reports and web-based functionality; it features the first experiment with credit bureau scores in the region. Subsequently, countries such as Libya, Oman, Qatar, and the UAE have established or undertaken projects to establish more sophisticated CRs.

The Moroccan CR has delegated its services to the private sector, pioneering a model quite popular in Latin America. Central banks in the African and Arab countries are now studying this approach and reiterating it (e.g. UEMOA, CEMAC, Tanzania).

CRs in Algeria, Iraq, Tunisia, the UAE, and Yemen are in the process of upgrading. Syria's CR seeks to implement paperless online technology. Lebanon has started a fully online system in 2009 and is undergoing improvements. However, not all the CRs in MENA show the same level of sophistication. Some of them still feature an old technological infrastructure and offer conventional services with limitations, such as:

- Data collection is limited to regulated entities or larger loans;
- At times, inaccurate or incomplete data for risk assessment;
- Lack of historical information related to the payment performance;
- Data obsolescence (60 to 90 days before the whole data consolidation process is ended and data is available for inquiries);
- Automated checks and controls on data quality are often insufficient or absent;

- Online inquiry facilities are often unavailable;
- Credit reports are basic with aggregated data only;
- Historical payment performance pattern is unreported;
- Penalties for violation on quality or quantity of data are rarely imposed;
- Consumers' rights are not enforced;
- High turnaround time and low hit ratio;
- Lack of Value Added Services offer.

A variety of challenges prevent the fast development of credit reporting systems, including:

- Nonspecific or absent legal frameworks;
- Limited availability of positive credit data from non-regulated entities;
- Reluctance of lenders to share data as a result of the low awareness about information sharing benefits;
- Technological divide among different lending sectors (for instance banks and microfinance institutions);
- Limitations concerning data quality/quantity (such as thresholds) in many of the CRs;
- Limited availability of public data and national identification numbers;
- Limited presence of CBs, often as a result of the lack of support from regulators in eradicating obstacles to the establishment of CBs.

Regulators in MENA seem to be more focused on refurbishing the old CR system, and broadening the service range with more sophisticated offers and value-added services. Lenders are starting to see the value of better risk management and credit information sharing methodologies, as these systems help to reduce lenders' uncertainty about borrowers' exposure, increase lending volumes over time (due to automation of credit granting decisions), and promote responsible borrower behavior.<sup>112</sup> Advanced risk management, however, has yet to become popular in MENA. The region lacks many of these practices, which, in turn, offers great opportunity.

## VALUE-ADDED SERVICES

Value-Added Services (VAS) are being offered by sophisticated credit bureaus worldwide. Such services include the processing and analysis of credit and financial data to develop advanced risk management tools. The range of potential VAS is extensive and includes, but is not limited to:

- Credit scoring, including application or behavioral scoring;
- Automated application processing;
- Portfolio monitoring;
- Fraud detection;
- Debt collection, tracing, and alerts;
- Marketing services, such as profiling and lists.<sup>113</sup>

Raw credit data can be useful in each of these areas. However, significant amounts of expertise, resources, and time are required for proper analysis and interpretation. A variety of techniques, ranging from simple data aggregation and cross-referencing to complex statistical algorithms, can be employed to provide the lender with a simple interpretation of information. These services (such as credit bureau scores) strongly enhance lenders capacity to make more reliable decisions concerning new credit applicants, and also expand the lenders' domains where information can play a determinant role in decreasing the risk of existing customers (such as an anti fraud system).<sup>114</sup>

Credit scoring and bureau scores appear to be the most prevalent ancillary service, distributed by over 40 percent of CBs worldwide. Scoring is an effective technique to reliably predict credit risk and can be used during the life cycle of a loan for:

- Making automated, non-subjective decisions;
- Granting instant credit;
- Setting individual interest rates (risk based);
- Changing credit limits based on risk quality (credit card authorizations, floor limits);
- Applying different collections actions and strategies based on individual risk;
- Determining risk and revenue opportunities;

- Decreasing attrition;
- Supporting marketing campaigns, etc.<sup>115</sup>

In MENA, VAS are provided in some countries by CBs or CRs, as shown in Table 4.5. However, they are not as common and popular as in other countries or regions. There are plans for expansion, but there is still a long way to go; it is up to the lenders to push the industry to develop, implement, and promote more sophisticated services.

## 4.4 CONCLUSIONS

- An efficient and comprehensive credit reporting system is an integral part of sound lending practices and an effective risk-management system. The benefits of a non-fragmented, full-file credit reporting system are supported by an abundance of empirical evidence, such as the mitigation of moral hazard and adverse selection of borrowers, reduction in the number of NPLs, and, in particular, increased access to credit. Full credit reporting can reduce collateral needs by providing reputational collateral and interest rates can be tailored to individual risk profiles. Overall, the results can be beneficial for borrowers, credit markets, and supervisory bodies.
- Regulators in the MENA region see value in credit reporting systems, which help to reduce lenders' uncertainty about borrowers' exposure and promote responsible borrower behavior. MENA countries have come a long way in developing these systems.
- Nevertheless, the number of CBs in the region is still very low: only six CBs in the region and one under development.
- Modern credit risk-management tools are extremely critical to handling the rise in business volumes and complexity. MENA countries are still not primed to effectively use these tools; they mostly continue to use traditional lending methods.
- There is very low utilization of sophisticated risk management tools in parallel to information inside the banks. Though recently increasing, the introduction of advanced risk management methodologies in the credit industry remains either rare or sporadic in most countries.
- In most countries, credit reporting services are still basic and mostly limited to credit reports. Developing VAS can benefit both the bureaus and their customers; it will ultimately improve access to finance for all borrowers.

**Table 4.5: Initiatives and Value-Added Services in MENA**

| Country            | CB/CR                                | Services offered  | Future plans  |
|--------------------|--------------------------------------|---|---|
| Bahrain            | CR                                   | Identify the exposures that exceeded the limit and send a report to the banks.                  | Corporate bureau  |
| Egypt              | CB                                   | Credit score based on the bureau's data. Debt collection, tracing, alert, portfolio monitoring. | Fraud detections, SME rating, application scoring, inquiry through tablets and telecommunications |
| Kuwait             | CB                                   |   | Credit bureau score   |
| Morocco            | CB                                   | Companies' group reports  |   |
| MFI reports        | Credit bureau score, debt collection |   |   |
| Oman               | CR                                   | Rating and bureau score   |   |
| West Bank and Gaza | CR                                   | Rating and bureau score   |   |
| Qatar              | CR                                   | Credit score, portfolio monitoring reports, account follow-up service                           |   |
| UAE                | CR                                   | Rating  |   |
| Saudi Arabia       | CB                                   | Commercial credit reports, SME scoring, solutions for credit operation management               | Fraud detection services/bouncing check system  |

Source: "ACRI Credit Information Sharing Survey, 2013." Saudi Arabia: SIMAH website; Qatar: Qatar Credit bureau website.



# ARAB CREDIT REPORTING INITIATIVE

# 5



The Arab Credit Reporting Initiative (ACRI) is a joint project of the Arab Monetary Fund (AMF) and the International Finance Corporation (IFC). ACRI aims to foster the development and improvement of the informational, technical and legal credit reporting infrastructure as well as the overall status of the industry in the Middle East and North Africa region.

Through this initiative, AMF and IFC engage regional and international authorities and experts to adapt international best practices in credit reporting to the needs of MENA with the intention of achieving a set of common objectives.

The major elements of this initiative are:

- Assessing, through a common methodology, the credit reporting systems of AMF member countries;
- Developing consistent strategies, policies, and action plans for improving credit reporting in the region, primarily aimed at supporting and encouraging the development of CRs and CBs;
- Fostering sub-regional integration of credit reporting systems and specific legal and regulatory framework standardization in MENA;
- Raising awareness about the importance of credit information sharing among all stakeholders in the credit industry;
- Building on the success of this initiative's first phase, IFC and AMF anticipate a second component of the ACRI project, following up on country assessments and recommendations.

## THE NEED FOR A REGIONAL APPROACH

A regional approach offers many advantages. Building on legal, social, cultural, and structural commonalities results in the sharing of best practices to the benefit of all stakeholders. In MENA, populations cross borders for economic and financial opportunities, which makes a regional initiative more relevant.

Additional benefits of a regional approach for MENA, which prompted the establishment of ACRI were:

- Many MENA countries faced similar difficulties with respect to credit reporting;
- Knowledge sharing and application of best practice;
- The possibility of a regional approach for data sharing, legal and regulatory requirements, economies of scale, and cost benefits, etc.;
- Regional continuity beyond ACRI;
- Success of peer countries will create healthy pressure to accelerate credit reporting.

ACRI's support and focus on credit reporting systems will, in turn, support the development agenda of MENA countries, including:

- Expanding access to credit and enhancing financial inclusion;
- Supporting the growth and increased availability of credit to the micro, small, and medium enterprise sector;

- Decreasing nonperforming loans and overall credit risk;
- Reducing over-indebtedness;
- Reducing the need for collateral, especially for small loans;
- Mitigating reckless lending practices;
- Improving lending behavior;
- Reducing the cost of credit and encouraging risk-based pricing;
- Assisting regulators (notably, central banks) in being more effective supervisors through the availability of data;
- Contributing to the compliance with Basel standards.

ACRI's organizational structure includes a core team, a project coordination team, and a field team, each with clear roles and responsibilities. Additionally, AMF is in charge of the secretariat for the project, which is the focal point for all ACRI-related activities.

The target beneficiaries of the project are:

- Credit bureaus in MENA countries;
- Central banks;
- Creditors, such as commercial banks, leasing companies, microfinance institutions, telecommunications operators, and mortgage lenders;
- Small and medium enterprises, which will have more opportunities to secure financing for projects; when banks have access to detailed credit histories, they will assume less risk in lending to SMEs;
- Members of the public, whose detailed credit histories in the credit bureau will substitute for physical collateral, and will a) enable consumers with limited collateral to obtain credit, b) ease the process of obtaining credit, and c) enable reliable borrowers with limited or no credit histories to start building a credit reputation and, thus, access more credit;

The major benefits that ACRI brings to MENA are:

- Increased awareness of credit reporting issues, which will create momentum for reforming the credit industry;
- Diagnostic tools and cost-effective access to international expertise through workshops, etc.;
- Country reports, which develop specific action plans for each country;
- A more informed debate on regional cooperation, leading to deeper integration of the region's financial sector;
- Coordinated legal and other reporting frameworks across the region;
- Increased supervision capabilities for regulators;
- Developing a framework to extend regional cooperation beyond ACRI;
- Overall improvement of the credit reporting system in the region.

Over the past six years, ACRI has significantly influenced and supported the development of the credit information system in the region. To date, ACRI conducted 13 country assessments and developed country reports that identified areas of improvements in national credit reporting systems in MENA, which were shared with countries' authorities and were disseminated to the public. A number of credit reporting awareness raising and capacity building events were organized in many countries in MENA with over 1000 participants attending. ACRI also was a catalyst in several countries adopting its detailed recommendations to reform their credit reporting systems.

Stakeholders appreciate the need to develop a comprehensive credit reporting system. Regional actors increasingly recognize the important role that such a system plays in the development of the financial infrastructure of any country.



# ARAB CREDIT REPORTING INFORMATION SHARING INDEX

# 6



## 6.1 BACKGROUND

As a part of the initiative to produce this guide, the Arab Credit Reporting Information Sharing Index (ACRISI) has been developed. The index is a quantitative product derived from a set of defined parameters. These parameters are assigned a number (score), which enables the reader assess the quantification. It was important to create this measure in a transparent and objective manner; therefore, data provided by a trustworthy source that would lend credibility to the exercise. In January 2013, the ACRI team circulated the *Credit Information Sharing Survey* to the region's central banks, and to CBs. There are six CBs in the region: The Benefit Company (Bahrain), Ci-Net (Kuwait), Em-credit (UAE), Experian Services Morocco (Morocco), Simah (Saudi Arabia) and I-Score (Egypt).

Credit information in the MENA region is heterogeneous. The team has recognized the characteristics of the environment specific to the region and the need for a standardized measure. Therefore, the index has been developed based on a detailed study that encompasses all aspects of a sound credit information system. ACRISI is comprehensive, taking into consideration best practices and effectively indicating the level of efficiency of credit information sharing in the region.

## 6.2 PURPOSE AND INTENT

The credit information reporting industry in MENA is evolving. There have been developments in the past decade; there is still, however, a long path ahead.

In addition, MENA countries exhibit significant diversity in the development of this industry. Legal and regulatory frameworks range across countries, from complete absence to fairly advanced laws. Consumer rights and privacy, data protection, and dispute resolution rights are often absent; and data quality is also a concern.

IFC and AMF are making significant efforts to develop comprehensive credit information sharing systems. The goals include: wider financial inclusion; greater awareness; a better framework for consumer rights, privacy and data protection; and other necessary components of a robust credit information sharing system. Over the past six years, the two organizations under the ACRI umbrella have jointly and independently spearheaded this effort.

As MENA countries and their financial systems merge with global markets, it was decided that developing an index would be the best way to measure progress (or lack thereof). The ACRI team identified objective parameters and developed an index that quantifies the current status of credit information sharing in each country.

Broadly, the purposes of developing the index are:

- To measure the status of credit information industry across various parameters in each MENA country;

- To measure the possibility and ease of access to credit through the credit information system in each country, including the legal and regulatory frameworks, participation, data sharing frameworks, consumer rights, privacy and protection of data, etc.;
- To track progress on the various parameters from 2008 and 2012;
- To develop plans to advance information sharing in each country based on its current status;
- To track the progress of initiatives taken across countries through a maintenance model;
- To provide action plans or course corrections, as needed and based on the progress over time.

## 6.3 PARAMETERS AND METHODOLOGY

The selection of the parameters and the defining of the methodology were critical. The team considered all aspects of a sound credit information system's development. A final set of 10 parameters was defined, taking into consideration the entire framework of a credit reporting system. Some of these parameters have been divided into sub-parameters resulting in a total of 21 indicators scored for the index.

The index, through these parameters, measures rules and practices affecting the accessibility, coverage, legal environment, and scope of credit information available through either a CR or a CB in each country. A score is assigned for each of the parameters based on the responses received (for each of them, the score zero indicates a negative reply; the score one indicates a positive reply). This was done for each country for 2008 as well as 2012. When information was not available for a particular parameter, that parameter was not scored.

Based on the 21 parameters, the index ranges from a lowest value of zero (0) to a highest value of twenty-one (21). Within this range, higher scores signify countries with more comprehensive and advanced credit information sharing systems. In the interest of simplicity, we did not assign weightages to the parameters.

It was difficult to obtain definitive answers in many cases. In some cases 2008 data was not available; in others, no public or private registry existed at that time. When data was incomplete, we did not determine an index for a country for a particular year.

An important criterion was the trustworthiness of the information. Each country's central bank (and CBs, when relevant) responded to the ACRI *Credit Information Sharing Survey* questionnaire in January 2013. The index's parameters are further complemented by ACRI assessments conducted across the region and, in certain cases, by the 2013 *Doing Business Report*.

Since ACRI was launched in 2008, it was thought best to develop the index for each country for 2008 and repeat it in 2012, in order to evaluate developments over time.

### 1 & 2. Does the country have a CR? Does the country have a CB?

The core criteria for the index had to be the existence or absence of CRs and CBs. As both CRs and CBs have singular roles in credit information sharing systems, the presence of each entity represents a separate parameter and scores an individual point.

### 3. Legal environment in the country for credit information systems (CIS)

A robust and comprehensive regulatory framework is the key to a complete credit information sharing industry. The legal framework must address several issues that include, but are not limited to, regulation and supervision, participation (data providers and users), and data sharing (collection and dissemination, usage, confidentiality, privacy and protection of data and consumer rights). These aspects may be addressed by way of a specific law, regulation or even a code of conduct, which is recognized by the central bank for credit information sharing in the country. Also, the legal framework should include the establishment of private information sharing, such as CBs to enable an effective and comprehensive credit reporting system.

## 4 & 5. Information on consumers and firms

In order to create a database of complete and comprehensive information, it is important for CRs or CBs to collect and share information on consumers as well as firms—to efficiently perform their function of providing information services to lending institutions for risk assessment. In developing markets, information about consumers and firms, especially small and medium enterprises plays an important role in supporting access to finance.

## 6. Consumer rights environment in the country

A sensitive and yet often ignored component of a credit information system is the framework for consumer rights. A good credit information system provides individuals access to one's own report, consent for sharing, data inquiry, dispute resolution processes, and limitations on using such information. These can be incorporated in the system by way of laws or regulations, or by establishing procedures and practices that ensure necessary rights.

## 7. Entities in the country participating in CIS

Comprehensive and complete information from all constituents of the credit-granting community ensures that information is shared and used for credit decisions by the grantors of credit—and is not based on limited data. Either by law or through voluntary participation, all credit grantors (regulated or otherwise) should be able to use the system for their own benefit, the benefit of the economy, and, importantly, the benefit of the individual.

## 8. Depth of data sharing and reporting in the country

When not all available information is shared with the registry or bureau, it is key to ensure maximum participation (see 5 above) while also ensuring that both positive and negative data is shared. All loans should be reported irrespective of size or type in order for credit grantors to use the information effectively.

## 9. Credit scores provided to users

Value-added services provided to users of CRs or CBs are an additional indicator of the sophistication of systems in providing modern tools for risk management. Credit

| ACRISI Parameters  |
|--|
| 1. Does the country have a CR?   |
| 2. Does the country have a CB?   |
| 3. Legal environment in the country for credit information systems (CIS)       |
| - Is there a specific law or regulation governing the credit reporting system? |
| - Is there a legal framework for privacy and protection of data?               |
| 4. Is information on consumers included?                                       |
| 5. Is information on firms included?   |
| 6. Consumer rights environment in the country                                  |
| - Are consumers allowed to access their reports?                               |
| - Do consumers have access to at least one free report in a year?              |
| - Are consumers allowed to raise disputes?                                     |
| - Do entities collect consumer consent before making inquiries?                |
| 7. Entities in the country participating in CIS                                |
| - Are regulated entities participating?  |
| - Are nonregulated entities participating?                                     |
| - Are utility entities participating?  |
| - Are MFIs participating?  |
| 8. Depth of data sharing and reporting in the country                          |
| - Are entities mandated to share data?   |
| - Are entities mandated to make inquiries?                                     |
| - Are both positive and negative information reported?                         |
| - Are all loans reported without any limits?                                   |
| - Does the principle of reciprocity apply?                                     |
| 9. Are credit bureau scores provided to the users?                             |
| 10. Is cross border data sharing allowed?                                      |

bureau scores, the most common typology of such services, are one of the most effective tools for risk assessment of borrowers.

### 10. Cross-border data sharing

The world has become a global village. MENA, as a result of many environmental, political and economic factors, has a large transitory population, with high mobility that brings together people from countries in the region and across the globe for work and business. Economic stability, can be increased if credit behavior information is available across political borders, and data shared across the region. This is a serious challenge. The first step toward achieving it is to enable regulatory environments in each country.

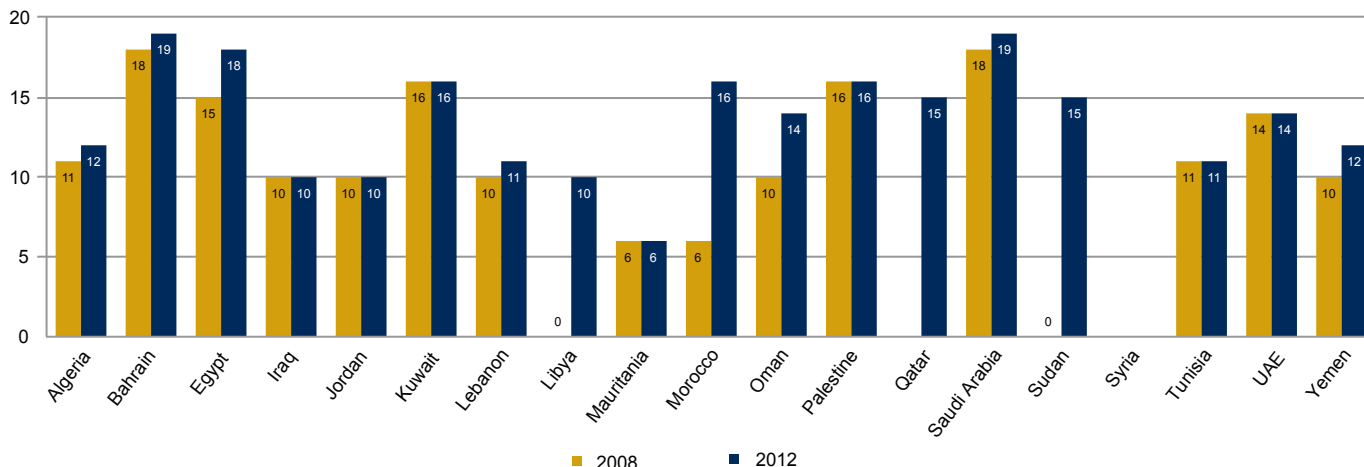
These 21 parameters were identified to create a meaningful index, representing key elements of a credit reporting system and mirroring the World Bank’s *General Principles of Credit Reporting*.

- Given Syria’s current situation, we were unable to get any response to the ACRI questionnaire 2013; therefore it was not possible to create an index for the country for either 2008 or 2012;
- For Libya and Sudan, there are no indices for 2008; at that time, neither country had a CR nor a CB;
- For Qatar, no data or incomplete data was available for 2008. Therefore we have not developed an index for that year;
- The highest score is 21; most countries are clustering around 10 or 11, a score that seem to be static even after the passage of four years, between 2008 and 2012;
- There is a strong need to focus on specific areas in each of the countries to progress further;
- The six countries in the region with an operational CB (namely Bahrain, Egypt, Kuwait, Morocco, Saudi Arabia and the UAE) have the highest scores in the region.
- Additionally, the relatively new or revised CRs in the region (Oman, Qatar, Sudan, and the West Bank and Gaza) show ACRISI scores in the same range;
- A country might score high on data sharing and reporting and low on consumer rights; another country may be exactly the opposite, yet both might have the same score;

## 6.4 RESULTS

As said, information provided to the questionnaire was not always complete; sometimes contradictions in the responses were present. In such cases, the ACRI team used studies and assessments conducted in the region to arrive at an answer. In addition, the following observations, should be considered:

Figure 6.1: ACRISI Score



Source: "ACRI Credit Information Sharing Survey," 2013.

- Each individual country index has been analyzed in dedicated sections in Chapter 8, and recommendations based on lessons emerging from this exercise are included in Chapter 9;
- While each country index by itself seems fairly high, much work is required to maintain and improve upon the index.

## 6.5 RECOMMENDATIONS ON MAINTENANCE

The development of this index is a major initiative undertaken by IFC and AMF, under the ACRI umbrella. It has a significant role to play in the development of credit information sharing systems in the region. It is important to recognize that this is not a one-time exercise.

The index intends to:

- Measure the credit information sharing industry development in the MENA countries;
- Focus on those parameters (for each country) that require attention and effort to progressing toward a more efficient credit information sharing system.

Thus, it is extremely important that this index be maintained on a regular and ongoing basis. Suggestions to maintain the index are:

1. Work with each country to improve the overall index and also specific areas (as detailed in Chapter 8, under each country's subsection);
2. Reevaluate the index every couple of years, to get an objective reading of progress in improving the credit information sharing industry for each country;
3. IFC and AMF are best positioned to monitor and maintain the index;
4. Over the next two years, before the next review of the index is due (2016), IFC and AMF should continue the efforts launched in 2008, which will probably move country indices to higher levels;
5. There is a need to improve and refine the process of collecting information for the index;

6. The questionnaire, which is the core of the information used to develop the index, needs to be redeveloped to streamline responses;
7. The quality of responses will improve over time, as these efforts bring in results; central banks and others (CBs) will participate more pro-actively in this process. In fact, the index might offer more granular information as weightings are assigned to more important parameters of the index.

The following sections (7.1 to 7.19) give an overview of the 19 countries in MENA separately, discuss the status of credit reporting in these countries and elaborate on the countries' individual ACRISI index as per the methodology described above.



# CREDIT REPORTING IN MENA – DETAILED OVERVIEW

# 7



## ALGERIA



**Capital** Algiers

**Currency** Algerian Dinar (DZD)

**USD/DZD** 78.79

Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41502, March 2015.

## 7.1 ALGERIA

### 7.1.1 ECONOMIC OVERVIEW

The Algerian economy is heavily reliant on petroleum and natural gas. Algeria is the second largest natural gas exporter in the world and has the fifth largest reserves of gas worldwide. It also has the fourteenth largest reserves of oil in the world. The European Union is the largest market for Algerian natural gas.<sup>116</sup>

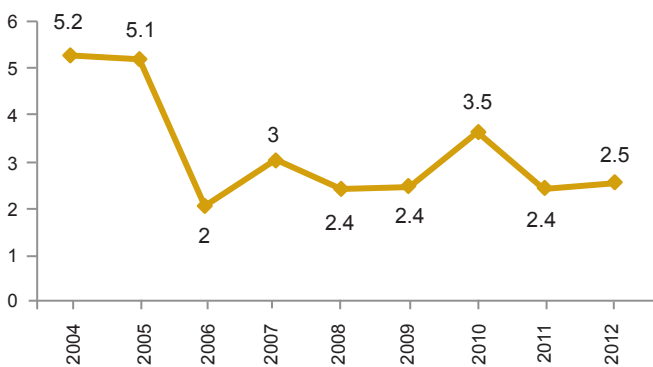
The hydrocarbon industry has been the backbone of the Algerian economy for the past 20 years; it roughly accounts for 60 percent of revenue, 95 percent of export revenues, and contributes to 30 percent of GDP. Algeria has struggled to diversify its economy and develop the non-hydrocarbon industries due to high regulations. The strength of the hydrocarbon industry has resulted in Algeria having \$190.7 billion in foreign currency reserves by the end of December 2012 and a large hydrocarbon stabilization fund.<sup>117</sup>

Algeria is one of wealthier countries on the African continent with a GDP per capita of \$7,541 in 2012.

The collapse of oil prices in 2008, following the onset of the global economic and financial crisis and general instability in the region, resulted in a decline of GDP growth by 2.4 percent in 2011; from 2002 to 2005, GDP growth averaged 5.5 percent.<sup>118</sup>

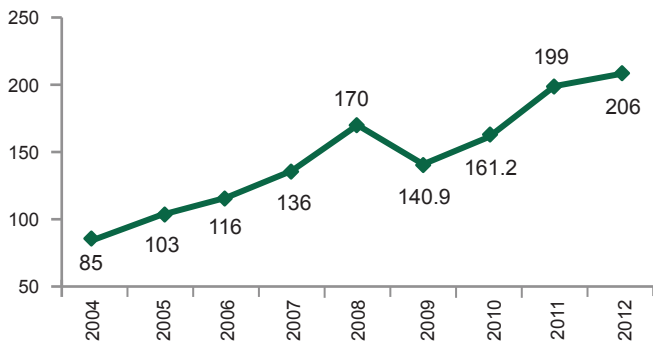
Since 2006, growth has slowed to an average of 3.1 percent a year over the period of 2006 to 2011. With real GDP growth of 2.5 percent for 2012, Algeria's economy continues to perform well. Since the financial crisis, the hydrocarbon industry has registered a growth of 5.8 percent over the previous year. Figure 7.1.1 and 7.1.2 show the GDP growth trends and the real GDP, respectively, from 2004 to 2012.

**Figure 7.1.1: GDP Growth Rate (%) at Current Prices**



Source: Bank of Algeria

**Figure 7.1.2: GDP (Current USD in Billion)**

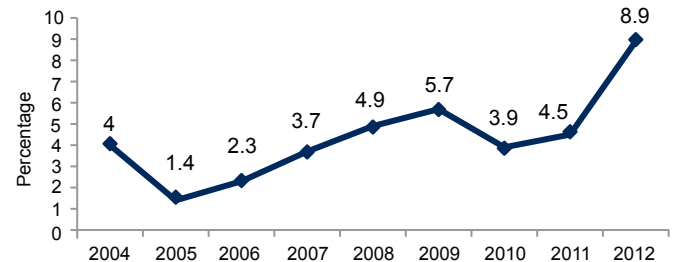


Source: data.worldbank.org

From 2004 to 2010, inflation (at consumer prices) was approximately 3.6 percent annually. As a result of the pressure exerted by rising food prices, the rate reached 4.9 percent in 2008 and 5.7 percent in 2009, before declining to 3.9 percent in 2010. In 2012, inflation rose and peaked at 8.9 percent, up from 4.5 percent in 2011, as shown in Figure 7.1.3.<sup>119</sup>

As of 2012, Algeria's total population was 38.48 million. Women accounted for over 49 percent of the population. Figure 7.1.4 below shows the bifurcation of the total population from 2009 to 2012.

**Figure 7.1.3: Inflation**



Source: "Inflation, consumer prices (annual %)," The World Bank, accessed September 14, 2014. <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG/countries/DZ?display=graph>.

**Figure 7.1.4: Population (Million)**



Source: data.worldbank.org

## 7.1.2 CREDIT MARKET

### OVERVIEW

Banque d'Algérie (BA), the central bank of Algeria, acts as the government's agent in the financial system, regulating the money supply, directing the distribution of credit, supervising the management of financial commitments with regard to foreign countries; it also regulates the



foreign exchange market and creates conditions conducive to orderly development of the economy. BA sets the terms under which banks and financial institutions in Algeria are allowed to operate both in Algeria and internationally. It also establishes the norms to which banks must conform.

## Banking

As of 2012, Algeria's banking system comprised 20 licensed commercial banks, six of which are publicly-owned; the remaining 14 private banks are foreign banks.<sup>120</sup> The banking sector is dominated by the six state-owned banks. Total assets of the banking sector account for about 62 percent of GDP. The state-owned banks account for 88 percent of total assets of the banking sector.<sup>121</sup>

The sector's exposure to global financial markets has been rather limited as Algerian banks receive relatively little external financing and rely heavily on domestically mobilized assets. Commercial banks in Algeria, both domestic and foreign-owned, fund themselves mainly through domestic deposits. Privately-owned banks have seen more sustained deposit growth than public banks; in 2011, private bank deposits grew by 29 percent as compared to 15 percent growth in public bank deposits. On the loans side, private banks' share of total loans increased from 12 percent in 2009 to 14.5 percent in 2012. Overall, loans account for a mere 41 percent of total assets in the banking sector.<sup>122</sup>

Private sector credit remains limited, underlining the difficulties in accessing finance for both businesses and households. In particular, credit to households was low and accounted for only 8 percent of credit to the economy, hindered by the 2009 ban on consumer credit.

Through the midterm contemporary finance law for 2009, government has enforced a ban on consumer credit. This put a sudden halt to the consumer credit market at a time when this market was beginning to emerge. Banks were barred from issuing new consumer loans. Only mortgage lending was allowed, while consumer and auto credit practices were virtually prohibited. The rule did not apply to existing consumer loans.<sup>123</sup>

## Microfinance

Microfinance and microcredit sectors are not developed and only finance very small enterprises, but may also include housing loans, consumer loans, and insurance. Government-sponsored programs are currently available, administered through public institutions such as the Social Development Agency, Agence Nationale de Soutien de l'Emploi des Jeunes, and Fonds National de Régulation et de Développement Agricole. These programs differ from typical microfinance models in a number of ways; for instance, the government subsidizes interest rates. Consequently these programs have enjoyed limited success, and they have significantly lower rates of repayment (about 56 percent), much higher rejection rates (nearly 96 percent of all applications), and much longer approval periods (one to three months).

## Nonbanking Financial Institutions

Apart from banks, there are other financial institutions in leasing, mortgage finance, and consumer credit. These include the Arab Leasing Corporation and the Maghreb Leasing Algeria (MLA), which are the market leaders.<sup>124</sup> They offer medium-term lease financing mainly to small and medium enterprises in various sectors, including construction and transport. The customers are mostly private firms involved in public works. MLA has expanded into sectors like medical equipment and real estate as well.

One of the most useful tools to promote mortgage lending was the development of a mortgage security facility, the Société de Refinancement Hypothécaire, or the Mortgage Refinancing Company, in 1997, to improve banking intermediation for housing finance. In 2011, the SRH facility received approval to operate directly in real estate. Two other financial institutions specialized in leasing services, including real estate, were authorized in 2012: Ijar Leasing Algérie and El Djazaïr Ijar.<sup>125</sup>

## Nonperforming Loans

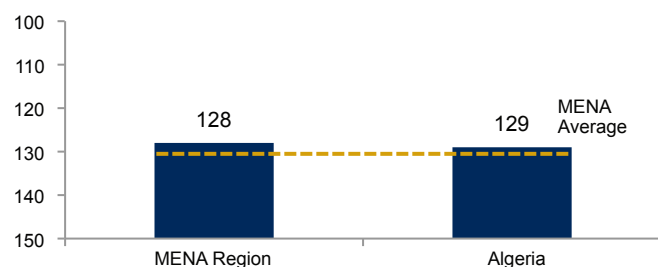
Banks are burdened by sizable nonperforming loans to public enterprises. The level of NPLs continues to decline, reflecting better management of new risk and the increase in outstanding credit. The level of NPLs remained high at more than 14 percent in 2011, but a clear improvement can

be observed as NPLs stood at more than 20 percent two years before.<sup>126</sup> The level of NPLs is much higher in the country's publicly-owned banks, with a NPL ratio barely exceeding 4 percent in the privately held banks.

## CREDIT PENETRATION AND ACCESS

The World Bank's *Doing Business Report 2013*—which measures the ease of getting credit and indicates how well the credit information system and legal framework provide access to credit—ranked Algeria 129 out of 185 countries, which is just below the regional average, as shown in Figure 7.1.5.<sup>127</sup> (*DB14, ranked148*)

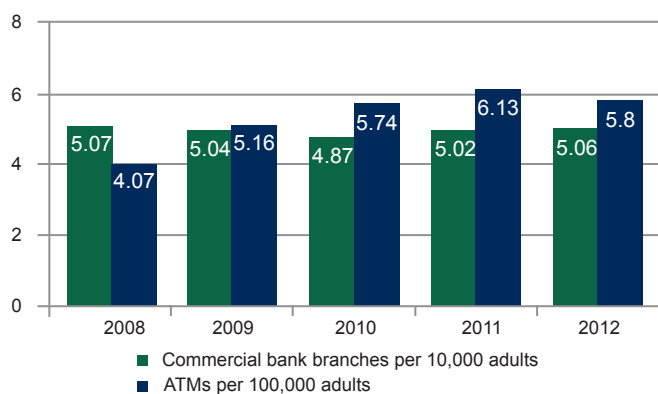
**Figure 7.1.5: Getting Credit Rank – 2013**



Source: Doing Business Report 2013

Access to financial services remains an issue. By 2012, only 383 out of every 1,000 adults were depositors in commercial banks; banking networks offered of 5.06 commercial bank branches and 5.8 ATMs for every 100,000 adults. As seen in Figure 7.1.6, there has not been a significant change since 2008.

**Figure 7.1.6: Commercial Bank Network per 100,000 Adults**

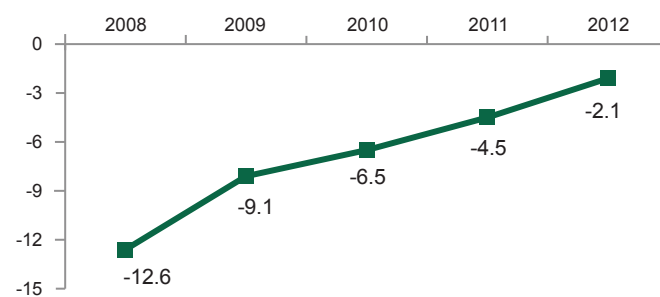


Source: IMF Financial Access Survey

According to the World Bank data of 2012, domestic credit provided by the financial sector as a percentage of GDP in Algeria was measured at -2.11 percent, as shown in Figure 7.1.7. Private markets are the engine of productivity growth, creating productive jobs and higher incomes. Credit to the private sector finances production, consumption, and capital formation, which in turn affects economic activity. However, as seen in Figure 7.1.8, credit to the private sector in Algeria has been the lowest as compared to the many other countries in MENA.

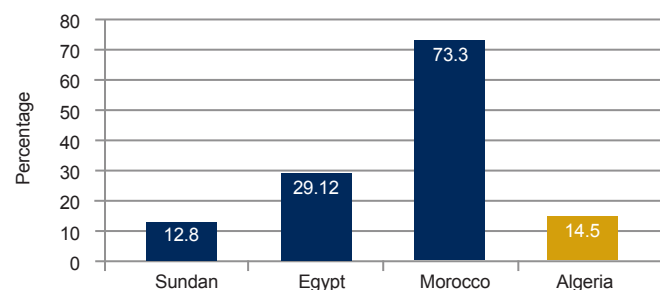
Table 7.1.1 shows the financial access indicators in terms of formal financial institutions' accounts and loans. The percentage of adults with an account was 33 percent in 2011, which is relatively low in the region. Twenty percent of women have an account with a formal financial institution. However, the percentage of adults who have taken a loan in 2011 was only 1.5 percent. This percentage for women corresponds to 24 percent.

**Figure 7.1.7: Domestic Credit by Financial Sector (% of GDP)**



Source: data.worldbank.org

**Figure 7.1.8: Domestic Credit to Private Sector (% of GDP) for Selected MENA Countries – 2012**



Source: data.worldbank.org

**Table 7.1.1: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |            |
|-------------------------------|------------|
| <b>Accounts</b>               | <b>33</b>  |
| Men                           | 46         |
| Women                         | 20         |
| <b>Loans in the past year</b> | <b>1.5</b> |
| Men                           | 3          |
| Women                         | 1          |

Source: <http://datatopics.worldbank.org/financialinclusion/country/algeria>

## 7.1.3 STATUS OF CREDIT REPORTING

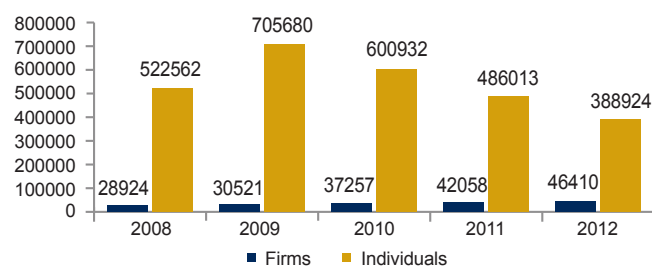
### OVERVIEW

The Centrale des Risques (CdR) of BA is the only source of credit information available to the lenders in Algeria. The CdR, is a credit registry, originally set up in 1964 by BA to supervise all institutions that are part of the financial system, by overseeing the risk exposure of the large credit contracts between consumers and financial institutions.<sup>128</sup> To support the banking system, the banks were subsequently allowed to consult and request information, including borrowers' credit records, contained in the CdR. In 1992, an electronic form of the CR was launched, a major milestone for the country's credit information infrastructure.

The upgrade of the CR system, however, has not resulted in a significant increase in participation, coverage, or depth of data sharing. The coverage had only reached 2.4 percent of the adult population based on *Doing Business Report 2013 (same results for DB14)*. In 2012, 388,924 individuals and 46,410 firms were listed in the CdR.

The number of individuals listed has decreased since 2009, as seen in Figure 7.1.9. This could be a result of that year's ban on consumer credit. Since 2009, only mortgage lending has been allowed, thereby significantly reducing the data on individuals' credit facilities shared by banks. Also, Regulation No. 12-01 (February 20, 2012) stipulates the period of retention for data in the CdR as five years after the elimination of debt for positive data and five years from the date of payment incident for negative data.

Thus, the limited data being shared combined with data deletion after five years has reduced the size of individuals'

**Figure 7.1.9: Number of Firms and Consumers Listed in the CdR**

Source: "ACRI Credit Information Sharing Survey," 2013.

database in the CdR. The total number of about 433,000 loans listed in CdR, as of 2012, and total value of these loans is 4.29 trillion Algerian dinars.

The CR electronic system does not indicate the number of inquiries received annually. The number of online consultations by banks and other financial institutions is not indicated yearly.

### PARTICIPATION AND DATA SHARING

Private and public banks, nonbanking financial institutions (such as finance companies), and leasing companies provide data to the CR and also request information from it. All these financial institutions are regulated by the central bank. Currently, financial institutions are mandated to supply credit information to the CdR bimonthly. The frequency for sharing data is expected to be made monthly.

CR data includes demographic information, inquiries by other lenders, loan account data, and payment performance data for individuals and firms. Positive and negative credit information is available for distribution to the financial institutions. The positive records are retained for five years in the CdR database once the account is closed. Negative data is also retained for five years from the date of payment.

### LEGAL FRAMEWORK AND CONSUMER RIGHTS

The existing legislation Loi 90-10/1990, Décrets Pres.1504/90 and 14/05/90, 01/07/1991, Ordinance 2003-11/2003, empowers BA to create an internal *Centrale des Risque*. This law also entitles BA to define and implement monetary and credit policies to support a the economy's

development. BA is the supervisory entity of the credit system and establishes the regulations that must be followed by the banking system and by the other financial intermediaries.

New regulations or directives can be issued through the Conseil de la Monnaie to monitor functions and operations of the CdR, and to lay out the responsibilities and duties of the regulated entities. On March 9, 2008, Instruction No. 01-08/2008 was issued to the lenders to share full consumer credit data to the new CdR. Article 5 (Règlement 92-01/1992) establishes that BA can communicate the total risk exposure.<sup>129</sup>

The order No. 10-90 (April 14, 1990) on money and credit is the legislation that established a CR for firms. Provision No. 98 of the Order No. 10-04 (August 26, 2010) amends and supplements Order No. 03-11 (August 26, 2003) on money and credit, which allows the Bank of Algeria to establish and operate a CR for firms and households.

The council of the money and credit (monetary authority) has issued new regulation No. 12-01 (February 20, 2012) on the organization and operation of the CR of firms and of households. This regulation replaces regulation No. 92-01 (March 22, 1992) on the organization and functioning of the CR that existed in electronic form since 1992.

The new regulation stipulates that banks and financial institutions (only organizations defined in the banking act as a part of the banking sector) must report monthly to the CR all the data on loans they provide to their customers. This regulation cancels the reporting threshold in previous regulations. In addition, this regulation stipulates the right for borrowers to access, free of charge, their own data.

Before 2012, only outstanding loans concerning customers with exposures higher than 2 million Algerian dinars were included in CdR. The 2012 regulation removed the minimum threshold for loans to be reported. Regulated financial entities are required by law to inquire the CR before granting a loan. Consumer consent is collected for sharing data with the CR, but consent is not required for inquiry.

The regulatory framework of BA allows borrowers to inspect their own data contained in the CR through their bank. They can check the data on their credit information free of charge; if the borrower believes that his or her data is inaccurate, one can send a letter of dispute to the CR. On receiving the letter of dispute, the CR then contacts the bank in question. The bank checks the data and corrects it, as appropriate.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Algeria, as shown in Table 7.1.2. The index provides a snapshot and quantification of the assessment of the credit information sharing system in the country.

## CONCLUSIONS

- The credit penetration ratio in Algeria scores far below the regional average on each of the parameters indicated by the World Bank *Doing Business Report* for getting credit; these marks unmistakably show that credit information sharing still has a long way to go. Results of credit information absence, coupled by outdated risk-management practice for credit, are quite apparent;
- The new initiative undertaken by BA to refurbish its CR represents the first step toward the creation of a full-file information sharing system in the country, an essential tool for in-depth and reliable supervision of the credit system;
- Based on responses to the survey, there is no specific law or regulation governing the credit reporting system. However, the existing laws and the regulations by the central bank provide for the establishment and operation of the CR;
- Despite the absence of a specific legal framework, the central bank has ensured that consumer rights are protected through its regulations;
- However, collecting consumer consent before contacting the CR is not a prevalent practice/obligation;

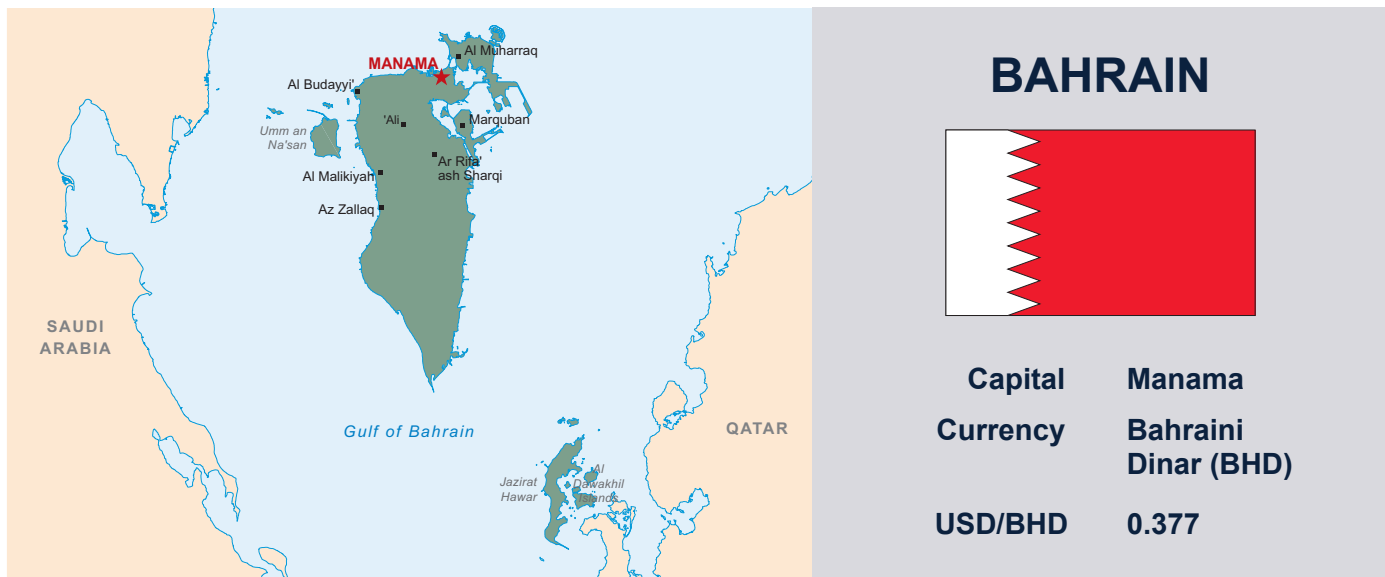
- Information on both consumers and firms is shared. The minimum threshold limit of 2 million Algerian dinars for reporting data was removed in 2012, which allows for sharing information on all loans with the CR. This has led to the increase in the ACRISI score;
- Currently, only regulated entities are participating in the CR. These institutions are mandated by the regulations to share and inquire with the CR.

## RECOMMENDATIONS

- For an effective credit reporting system that enables information sharing across sectors, the central bank should move toward setting up the framework for private bureaus in the country.
- The first step in this process would be the creation of a specific legal and regulatory framework. CBs play an essential role in facilitating credit information sharing across regulated as well as non-regulated entities and are proven to increase access to credit;
- New norms regulating data privacy may be necessary in the future as a consequence of the evolution of credit and privacy in Algeria;
- BA should also consider that nonfinancial and commercial lenders (such as retailers, supermarkets, mobile telephone companies, etc.) are important players in consumer credit lending. Therefore, in the medium to long term, the establishment of a CB would be the perfect solution for information sharing across regulated and nonregulated entities.
- The CR and CB can then complement each other with the respective objectives of supervision and credit information sharing for risk assessment;
- Diminishing dominance of collateral for retail loans is paramount. New credit products and small ticket portfolios cannot be managed with the conventional approach—hence the need for different, technological and informational infrastructure as well as for state-of-the-art risk-management techniques and skills not commonly employed by the Algerian banking system. The introduction of credit scoring and related technologies (monitoring, account management, collection strategies, etc.) should become paramount for managing the risk of retail and small and medium enterprises' portfolios.

Table 7.1.2: Arab Credit Reporting Information Sharing Index — Algeria

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | NO        | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | NO        | NO        |
| Is there a legal framework for privacy and protection of data?               | NO        | NO        |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | YES       | YES       |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | NO        | NO        |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are non-regulated entities participating?                                    | NO        | NO        |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | NO        | NO        |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | YES       | YES       |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | NO        | YES       |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | NO        | NO        |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>11</b> | <b>12</b> |



Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41503, March 2015.

## 7.2 BAHRAIN

### 7.2.1 ECONOMIC OVERVIEW

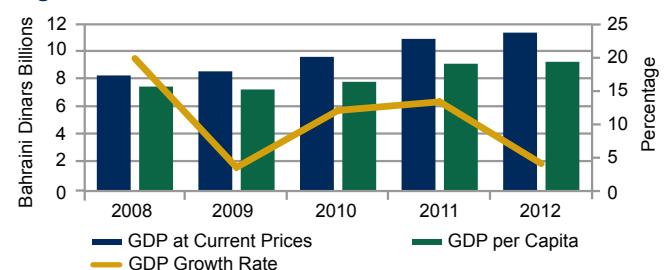
Bahrain is one of the most diversified economies in the Persian Gulf. With highly-developed communication and transport facilities, Bahrain is home to numerous multinational firms that conduct business in the Gulf. Bahrain's economy, however, continues to depend heavily on oil. Petroleum production and refining account for more than 60 percent of Bahrain's export receipts, 70 percent of government revenues, and 11 percent of GDP (exclusive of allied industries). Other major economic activities include the production of aluminium – (Bahrain's second biggest export after oil), finance, and construction. Despite the uncertain global economic situation, the Bahraini economy remained stable due to steady progress across the non-oil sectors of the economy.<sup>130</sup>

In 2012, Bahrain's GDP stood at 11.41 billion Bahraini dinars, increasing 4.11 percent from 10.96 billion Bahraini dinars in 2011. However, the rate of growth has declined over the past few years, as seen in Figure 7.2.1.

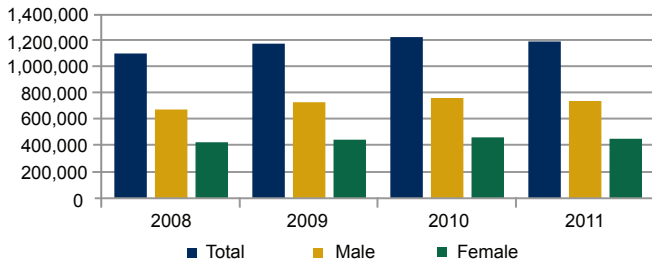
The population of the country was 1.19 million in 2011. The number of expatriates in the country was over 0.6 million in 2011, comprising 51 percent of the total population. Women accounted for about 38 percent of the total population. Figure 7.2.2 indicates the male and female population from 2008 to 2011. GDP per capita in 2011 was 9,174 Bahraini dinars. This has increased at an average of 7 percent annually from 2008 to 2012—from 7,527 Bahraini dinars in 2008 to 9,311 Bahraini dinars in 2012.

Inflation rates for consumer prices have decreased from 7 percent in 2008 and have remained low in the past few

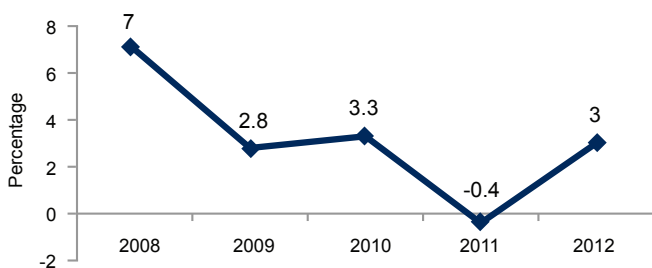
Figure 7.2.1: GDP Performance



Source: Central Bank of Bahrain Economic Indicators - March 2013 and December 2011

**Figure 7.2.2: Population**

Source: Central Bank of Bahrain Economic Indicators, June 2013.  
<http://www.indexmundi.com/g/g.aspx?c=ba&v=71>.

**Figure 7.2.3: Inflation (CPI)**

Source: Central Bank of Bahrain Economic Indicators, June 2013.  
<http://www.indexmundi.com/g/g.aspx?c=ba&v=71>.

years. As per the Bahrain Economic Quarterly bulletin, consumer price index (CPI) inflation was estimated at 3 percent in 2012. Figure 7.2.3 shows the CPI trend from 2008 to 2012.

## 7.2.2 CREDIT MARKET

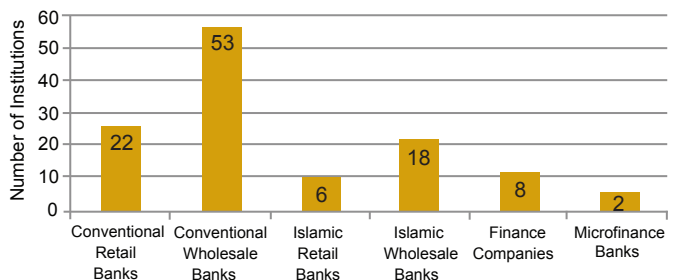
### OVERVIEW

Bahrain's financial sector is developed and diversified, and therefore well-positioned to offer a wide range of financial products and services.

This sector consists of a wide range of conventional and Islamic financial institutions and markets, including retail and wholesale banks, specialized banks, insurance companies, finance companies, investment advisers, money changers, insurance brokers, securities brokers, and mutual funds. There are also two licensed exchanges, a licensed clearing, settlement and central depository, four stock brokers, a licensed securities dealer, fifteen licensed securities broker dealers, and six licensed securities clearing members. The Central Bank of Bahrain is the single integrated regulator of the financial system, responsible

for maintaining monetary and financial stability in the country.<sup>131</sup> Figure 7.2.4 below gives an overview of the country's credit market.

In recent years, Bahrain has rapidly become a global leader in Islamic finance, hosting the largest concentration of Islamic financial institutions in the Middle East. There are seven Islamic insurance companies (*takaful*) and two reinsurance (*re-takaful*) companies operating in the kingdom. In addition, Bahrain is at the forefront of the market for Islamic securities (*sukuk*), including short-term government *sukuk* well as leasing securities. The central bank has played a leading role in the introduction of these innovative products.<sup>132</sup>

**Figure 7.2.4: Credit Market**

Source: CBB Register, Central Bank of Bahrain, October 31, 2013.

### Banking

Bahrain's banking system, the largest component of the country's financial system, consists of both conventional and Islamic banks. With assets worth \$193.5 billion, this sector accounts for over 85 percent of total financial assets.<sup>133</sup> Retail banks have strongly supported the rebound in economic activity with a significant increase in lending. In general, these banks are in healthy shape; after a period of elevated risk aversion, they have remobilized their liquidity. Although the year-on-year increase in bank lending has slowed, it remains comfortable.<sup>134</sup>

Islamic finance activities has gained popularity in Bahrain. In particular, the growth of Islamic banking has been remarkable, with total assets jumping from \$1.9 billion in 2000 to \$25.4 billion in August 2012, an increase of more than 12-fold. The market share of Islamic banks correspondingly increased from 1.8 percent of total banking assets in 2000 to 13.3 percent in August 2012. Islamic

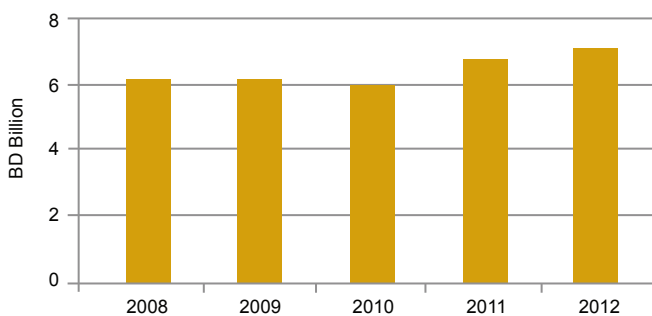


banks provide a variety of products, including *murabaha*, *ijara*, *mudaraba*, *musharaka*, *al-salam* and *istitsna'a*, as well as restricted and unrestricted investment accounts, syndications, and other structures used in conventional finance, which have been appropriately modified to comply with Shariah principles.<sup>135</sup>

The banking sector comprises 22 conventional retail banks that operate through a network of 102 branches and 53 conventional wholesale banks. These include domestic and foreign banks. Six retail banks, operating through a network of 44 branches and 18 wholesale banks, follow Islamic principles.

At the end of 2012, retail banks' outstanding loans to residents totalled 6.84 billion Bahraini dinars, marking a growth of 6.27 percent, from 6.44 billion Bahraini dinars in 2011 (as shown in Figure 7.2.5). Lending to the business sector constituted 62.53 percent of total bank lending in 2012, with an exposure of 4.28 billion Bahraini dinars.<sup>136</sup> Personal credit, including loans to individuals, averaged 34.57 percent of total bank lending in 2012, as shown in Figure 7.2.6; this is the single largest sector for bank loans. In 2012, bank exposure to this sector was 2.36 billion Bahraini dinars.

**Figure 7.2.5: Outstanding Loans and Credit Facilities**

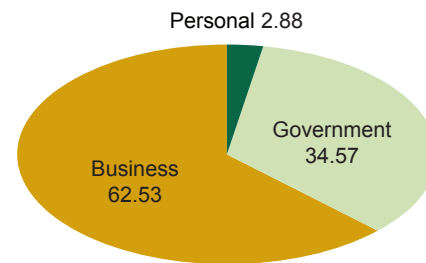


Source: Annual Reports, Central Bank of Bahrain, 2008–2012.

### Specialized Institutions

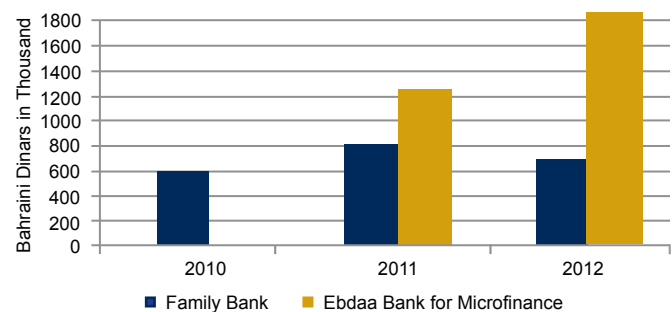
There are two specialized banks catering to the needs of the microfinance sector, Family Bank and Al Ebdaa Bank for Microfinance. They granted 2.36 million Bahraini dinars of credit facilities to borrowers in 2012, an increase of 26.88 percent from 2011's level of 1.86 million Bahraini dinars, as seen in Figure 7.2.7.<sup>137</sup> Through its various products,

**Figure 7.2.6: Bank Lending by Sector (%) – 2012**



Source: Annual Reports, Central Bank of Bahrain, 2008–2012.

**Figure 7.2.7: Microfinance Lending**



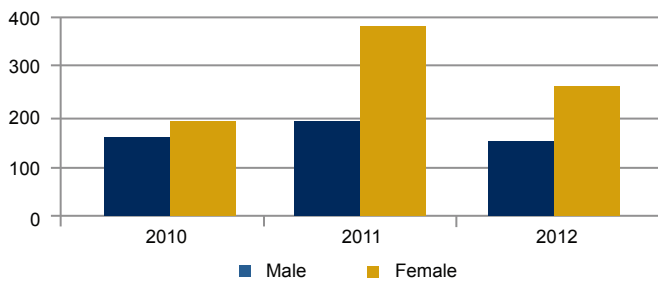
Source: Annual Reports, Al Ebdaa Bank, 2008–2012. Annual reports, Family Bank, 2010–2012.

the Al Ebdaa Bank has served about 3,150 clients with 4.87 million Bahraini dinars; from its managed portfolio, it served about 1,900 clients with 6.4 million Bahraini dinars.<sup>138</sup>

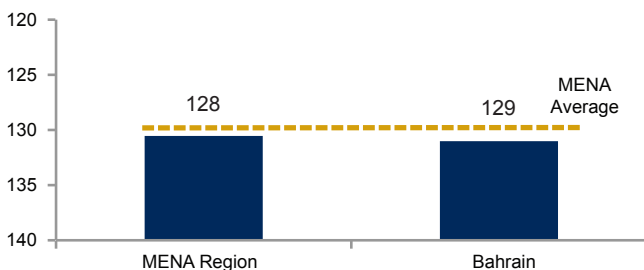
The Family Bank provides support to microentrepreneurs through two programs; in the past three years, it has reached more than 1,100 customers. The bank has played a significant role in providing women entrepreneurs with access to finance. From 2010 to 2012, the number of women borrowers has been higher than men, representing almost 64 percent of the total borrowers in that period, as seen in the Figure 7.2.8.<sup>139</sup>

### CREDIT PENETRATION AND ACCESS

The World Bank's 2013 *Doing Business Report*, which measures the ease of getting credit as well as the credit information system and legal framework, ranked Bahrain 129 out of 185 countries. Bahrain falls just below the regional average of 128, as shown in Figure 7.2.9. (*DB14, ranked 130*)

**Figure 7.2.8: Family Bank – Borrower Portfolio**

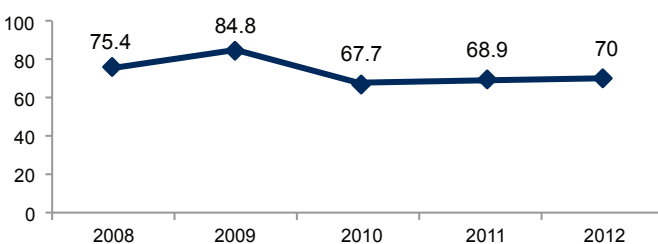
Source: Annual Reports, Al Ebdaa Bank, 2008–2012. Annual reports, Family Bank, 2010–2012.

**Figure 7.2.9: Getting Credit Rank – 2013**

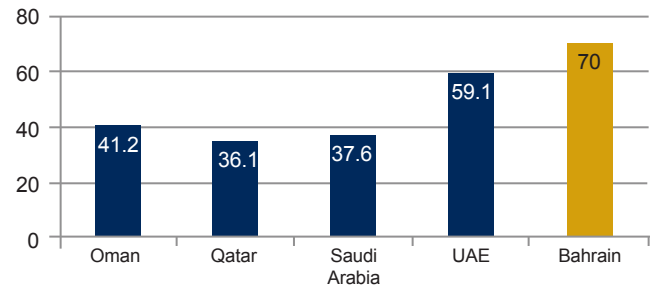
Source: *Doing Business Report*, The World Bank, 2013.

Domestic credit to the private indicates that access to credit was 70 percent, sector as a percentage of GDP, in 2012. As seen in Figure 7.2.10, this ratio decreased from a high 84.8 percent in 2009 to 67.7 percent in 2010; the trend has slowly increased since. In terms of access to credit, these ratios suggest that Bahrain is one of the better performing countries in MENA. Figure 7.2.11 shows a comparative chart for selected MENA countries.

Table 7.2.1 shows the financial access indicators in terms of formal financial institutions' accounts and loans. The percentage of adults with an account was 65 percent in 2011, which is relatively high in the region. Forty-nine

**Figure 7.2.10: Domestic Credit to Private Sector (% of GDP)**

Source: data.worldbank.org

**Figure 7.2.11: Domestic Credit to Private Sector (% of GDP) for Selected MENA Countries – 2012**

Source: data.worldbank.org. "Financial Inclusion: Bahrain," The World Bank, accessed September 14, 2014. <http://datatopics.worldbank.org/financialinclusion/country/bahrain>.

**Table 7.2.1: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>65</b> |
| Men                           | 79        |
| Women                         | 49        |
| <b>Loans in the past year</b> | <b>22</b> |
| Men                           | 36        |
| Women                         | 6         |

Source: data.worldbank.org. "Financial Inclusion: Bahrain," The World Bank, accessed September 14, 2014. <http://datatopics.worldbank.org/financialinclusion/country/bahrain>.

percent of women have an account with a formal financial institution. The percentage of adults that took a loan in 2011, however, was only 22 percent; just six percent of women took a loan.

## 7.2.3 CREDIT REPORTING SYSTEM

### OVERVIEW

Bahrain's credit reporting system relies entirely on the presence of a CB, according to the World Bank report, *The Status of Information Sharing and Credit Reporting Infrastructure in the MENA Region*.<sup>140</sup> However, the Central Bank of Bahrain maintains a repository of credit information supplied by regulated financial and other entities. Thus, the CR is mainly used for supervisory purposes.

The Benefit Company is the first and only Bahraini company to undertake credit bureau operations in the country. Established in 1997 as the National ATM and Point of Sale switch of Bahrain, the Benefit Company provides a range of services for the banking and financial system.<sup>141</sup> In 2004, the company established a credit bureau service, or the

Credit Reference Bureau (CRB), which started operations in 2005. It is licensed and supervised by the Central Bank of Bahrain. It was intended to ease consumer lending by gathering relevant information from records submitted by lenders and standardizing the data, thus making the process more efficient.<sup>142</sup>

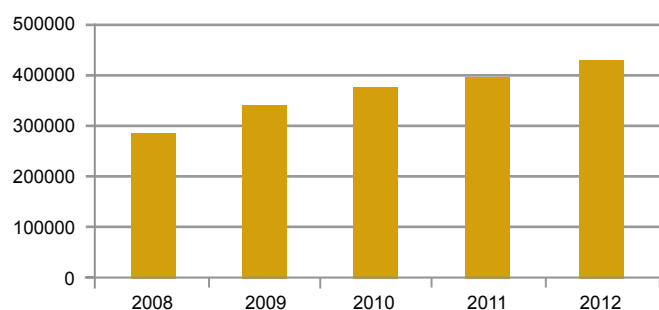
The bureau initially started its operations with individuals' credit information. In March 2013, The Benefit Company began working with the Central Bank of Bahrain to launch a corporate credit reference bureau. This is a major step toward enhancing bank's efficiency and decision-making capabilities by drastically reducing the risk of corporations' unknown credit history. The CRB now has complete information on individuals and corporates in its database.

With the increase in operations of the bureau and expansion in data size, the company has also upgraded its CRB hardware infrastructure and platform. With new hardware technology, the platform has enabled CRB to increase its performance and capacity, which serve as the basis for upgrading CRB application and adding new services and features.<sup>143</sup>

The bureau has made progress in achieving stability and proficiency in its operations and services. Over the past five years, the number of individuals in the CB increased 39 percent, from 296,339 in 2008 to 411,965 in 2012, as shown in Figure 7.2.12.

The CB also offers value-added services for its members. Credit bureau scores are derived from available data for each consumer. It also provides portfolio monitoring services.

**Figure 7.2.12: Number of Individuals in the PCB**



Source: ACRI Credit Information Sharing Survey, January 2013.

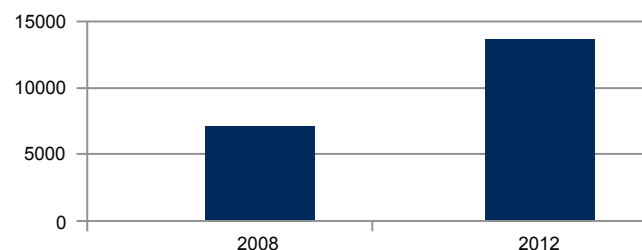
## PARTICIPATION AND DATA SHARING<sup>144</sup>

The credit reporting system in Bahrain mandates financial institutions' sharing and inquiry of credit information to the CR, as instructed by the central bank and to the CB, as per the Code of Conduct.

The institutions that provide data to the central bank's CR include regulated entities, such as the private, public, and specialized banks as well as credit unions. Data on individuals and firms is shared. All loans (irrespective of amount) and all information (negative and positive) are included in the CR.

The aforementioned financial institutions can access data from the CR. In addition to these institutions, the CB can also access the CR database. In 2012, the number of inquiries received by the CR increased 50 percent, from 7,200 in 2008 to 14,400 in 2012, as shown in Figure 7.2.13.

**Figure 7.2.13: Number of Inquiries to the PCR**



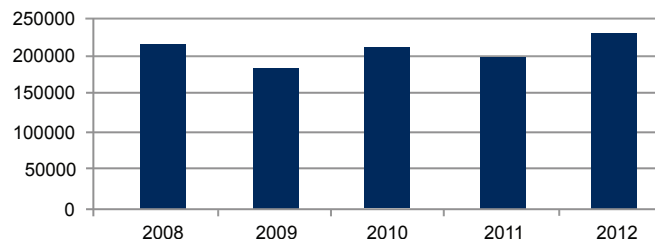
Source: ACRI Credit Information Sharing Survey, January 2013.

Traditional data providers also share information with the CB, including commercial banks, development banks, finance and leasing corporations, credit card issuers, and microfinance institutions. Loan repayment details are also shared by retailers to the CB.

As mentioned in the previous section, only data on individuals is currently shared. The corporate credit bureau was not yet operational in 2012. Data on individuals includes information on demographics, loans, and payment performance. Detailed monthly payment histories are also collected for up to 60 months. There is no minimum loan amount requirement for sharing data; negative and positive data is shared.

The CB issues credit reports to participating members. The number of reports increased from 199,785 in 2011 to 217,935 in 2012; Figure 7.2.14 shows the numbers from 2008 to 2012.

**Figure 7.2.14: Number of Credit Reports by the PCB**



Source: ACRI Credit Information Sharing Survey, January 2013.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

There is no specific law or regulation for credit information sharing. The Benefit Company, which is supervised by the central bank, established a code of practice for all participants to the Bahrain Credit Reference Bureau. The Central Bank of Bahrain recognizes this code, which can be considered to be the official guidelines for information sharing with the CB. The code details the objectives and guidelines for the bureau's operations and ensures that all contributing members are treated fairly and identically; and that all information is secure and accurate. The code describes permissible usage of consumer data, rules for access, type of data to be reported, etc. It also notes consumer's rights with respect to the bureau.

*“The information to be provided to authorised Users is for reference only and should only be used as part of the credit decision process and does not constitute a decision.”*

The credit reporting framework provides essential consumer rights. Bahrain scores high in the consumer rights section of ACRISI. The code of practice clearly defines a consumer's right to obtain his or her credit report, and raise disputes with the bureau to correct information. Borrowers can also inspect their own data in the CR and also raise disputes if such data is incorrect (according to ACRI Credit Information Sharing Survey, January 2013).

Access to data from the CR is free of cost. The CR is mainly for supervisory purposes, however, and consumers primarily use the CB for access to credit reports.

For inquiring about a consumer from the CB, the lending institution must obtain written consent from the borrower. The code clearly states:

*“Only after the customer has given an approval for the information to be shared with a Contributing Member can the release of such information be given.”*

Consumers can also raise disputes to correct data. The CB has established a procedure for raising disputes and information, which is easily available to consumers.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Bahrain, as shown in Table 7.2.2. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- Bahrain has a strong financial system and high access to banking and credit. This is supported by a comprehensive and developed credit reporting framework, indicated by a high ACRISI score;
- Although no specific credit information law has been enacted in Bahrain, a detailed code of practice encompasses all requirements for a good regulatory framework.
- Consumer rights are protected and ensured through the code of conduct. Consumer consent is collected before the first inquiry by the CB;
- Usage of the credit information system has been increasing. The corporate bureau will lead to a complete and comprehensive database for credit information regarding individuals and firms. It will strengthen the credit reporting framework and the banking system;

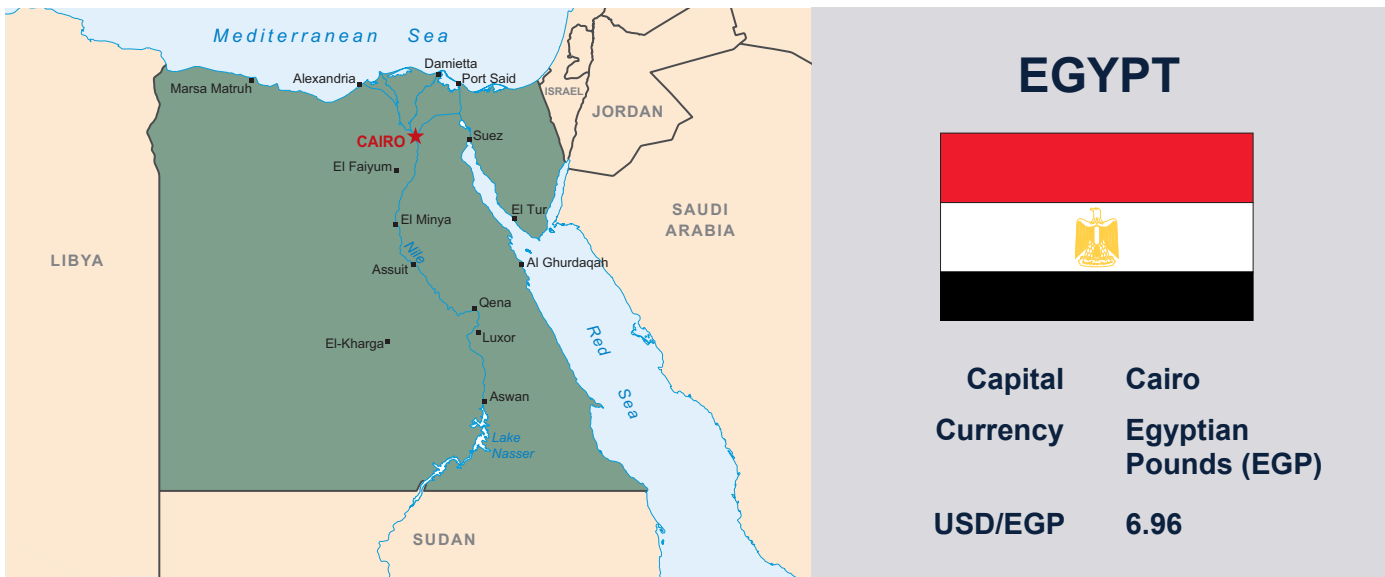
- All institutions, except for utility companies, share data with the CR or CB;
- All parameters are satisfied under depth of data sharing and reporting, indicating a comprehensive database;
- The CB has started providing a credit score to users since 2008.

## RECOMMENDATIONS

- The CB should include data from utility service providers to complete its database;
- A specific, modern credit reporting law would further strengthen the credit reporting system and enable the establishment of other CBs;
- The central bank and the CB should undertake awareness and education drives for lenders and borrowers on all aspects of information sharing, such as purpose, benefits, usage, rights, obligations, etc.

Table 7.2.2: Arab Credit Reporting Information Sharing Index — Bahrain

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | YES       | YES       |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | YES       | YES       |
| Is there a legal framework for privacy and protection of data?               | YES       | YES       |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | YES       | YES       |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | YES       | YES       |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | YES       | YES       |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | YES       | YES       |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | YES       | YES       |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | YES       | YES       |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | NO        | YES       |
| Is cross border data sharing allowed?  | YES       | YES       |
| <b>ACRISI score</b>  | <b>18</b> | <b>19</b> |



Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.  
 Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41504, March 2015.

## 7.3 EGYPT

### 7.3.1 ECONOMIC OVERVIEW

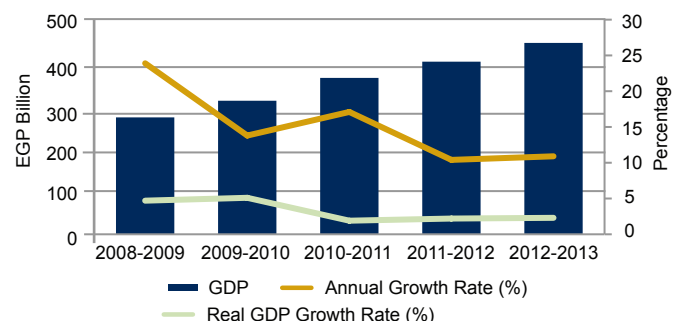
The Egyptian economy was one of the Middle East’s most versatile economies. The economy depends primarily on agriculture, Suez Canal revenues, tourism, and remittances from more than 3 million Egyptians abroad (mostly in Australia, Europe, the Gulf States, and the United States).

Egypt’s economy was adversely affected by the global financial crisis of 2008 and soaring food prices, especially of grain. Egypt’s gains from economic growth benefited the rich and increased the poverty level to approximately 50 percent in 2011, leading to socioeconomic and political instability, culminating in the popular uprising of January 2011.<sup>145</sup>

Revenues from tourism and foreign investments—the major sources of foreign exchange—reduced due to domestic instability and continued political uncertainty. Despite efforts to make the economy more market-oriented, the socialist policies still continue; the government heavily subsidizes food, energy, and other key commodities.<sup>146</sup>

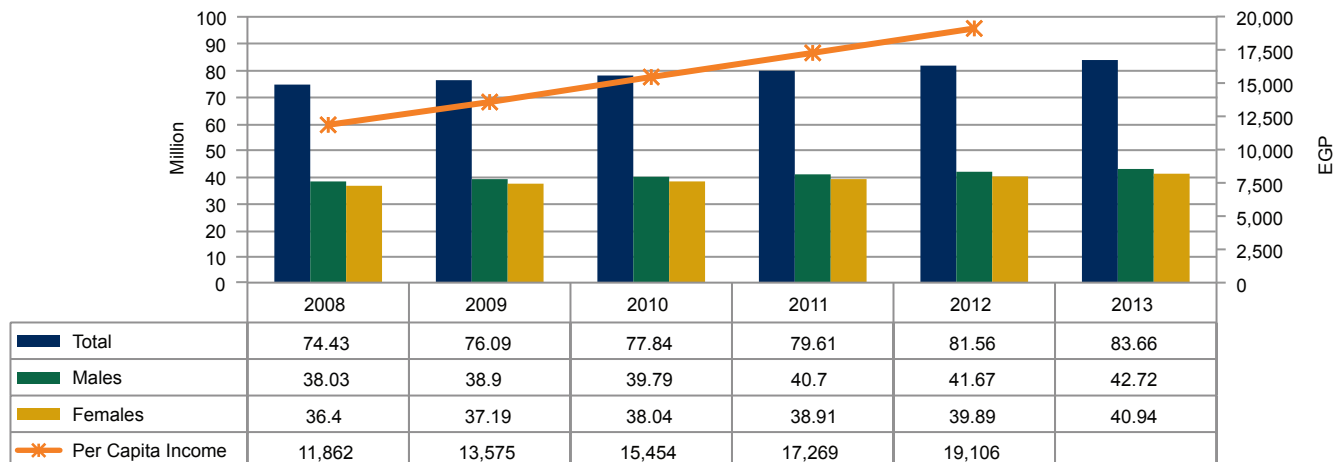
In fiscal year 2008–2009, the Egyptian economy was affected by the global financial crisis. As a result, the real GDP growth rate declined to 4.7 percent, from 7.2 percent during the previous year. In FY10-11, the rate declined further to 1.8 percent, as a result of the weak performance of all economic sectors in the wake of the January 2011 uprising, as shown in Figure 7.3.1. In FY11-12, there was a relative recovery as the real GDP rate marginally increased to 2.2 percent; it remained at that level in FY12-13.<sup>147</sup>

Figure 7.3.1: GDP Performance



Source: Annual Reports, Central Bank of Egypt 2008–2012. Economic Review, Central Bank of Egypt, Vol. 53 No. 3, 2012–2013.

Figure 7.3.2: Population and Per Capita Income



Source: Central Agency for Public Mobilization and Statistic, Egypt. data.worldbank.org. \*Population data is as of January 1 for each year.

As of 2013 the population of the country was over 83.66 million, growing from 81.56 million in 2013. As shown in Figure 7.3.2, the female and male population was 40.94 million and 42.72 million, respectively, in 2013. The GDP per capita was \$3187 or 19,281 Egyptian pounds in 2012.<sup>148</sup>

## 7.3.2 CREDIT MARKET

### OVERVIEW

The Central Bank of Egypt (CBE) is the overseeing bank governed by the Banking Law 88 of 2003. It was established to supervise the banking system, undertaking any measures required for implementing monetary, credit, and banking policies.

The Egyptian banking sector comprises three state-owned commercial banks, two specialized public sector banks, and one bank owned by the CBE. It also includes 32 banks comprising of private banks, joint venture banks, and branches of foreign banks, in addition to 21 representative offices of foreign banks operating in the country.<sup>149</sup> The financial sector also features microfinance institutions, mortgage finance companies, and financial leasing companies.

In order to provide a more conducive regulatory framework to oversee financial services, the Egyptian Financial Supervisory Authority (EFSA) was established in 2009; it replaced the Egyptian Insurance Supervisory Authority,

the Capital Market Authority, and the Mortgage Finance Authority. EFSA is responsible for the supervision of nonbank financial markets and instruments; it is tasked with ensuring market stability, regulating activities, and maximizing competitiveness to attract more local and foreign investments.<sup>150</sup>

The financial sector in Egypt suffered over the years from public sector dominance. Public banks did not adhere to international best practice and accumulated nonperforming loans. Private banks also operated in a non-competitive environment that led to inefficient banking practices and limited access to financial services. Nonbanking institutions lacked a regulatory environment and effective monitoring of the financial market.<sup>151</sup>

In order to overcome these challenges, the Egyptian government launched a financial sector reform program in two phases (phase I, 2004–2008; phase II, 2009–2011), which aimed to:

- Reform the banking sector through consolidation, divestment, privatization, and restructure of state-owned banks;
- Restructure and redevelop the nonbanking sector, notably the capital market and the mortgage and insurance sector;
- Implement Basel II accord;
- Strengthen governance of the Central Bank of Egypt and commercial banks.<sup>152</sup>



The Egyptian financial sector could withstand the global financial crisis due to low level of financial integration with the international financial system. Also the financial reforms that were undertaken over the past few years enabled it to absorb the shock of the revolution and political instability in 2011.<sup>153</sup>

With a major thrust on the privatization program, banks have started exploring new investment areas to diversify their portfolios and lower their financial risks. Most banks have expanded by providing non traditional services such as brokerage, investment consultations, asset valuation and sales and mutual fund operations which also helped improve capital market services.<sup>154</sup>

The country's three largest banks are state-owned, commercial banks (National Bank of Egypt, Banque Misr, and Banque du Caire), accounting for more than half of bank assets.<sup>155</sup>

Credit to the private sector averaged at 93 percent of the total credit during FY10-11 and FY11-12. As shown in Table 7.3.1, the total credit facilities to the private sector grew 36 percent, increasing from 336.4 billion Egyptian pounds in 2008 to 459 billion Egyptian pounds in 2013. As of June 2012, the loan-to-deposit ratio stood at 49.5 percent.<sup>156</sup>

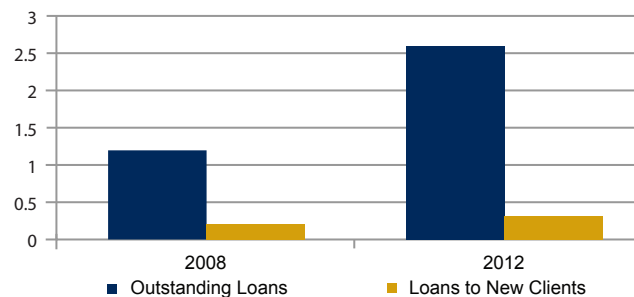
As seen in Figures 7.3.3 and 7.3.4, the number of outstanding loans increased significantly, from 1.38 million in 2008 to 2.52 million in 2012; their value increased from 605 billion to 806 billion Egyptian pounds, or 83 percent and 30 percent respectively. Similarly, there has been a 54 percent increase in the number of loans granted to new clients. The value of outstanding loans in the same category, however, has reduced by 17 percent. As a percentage of GDP, outstanding loans have fallen from 69.2 percent in 2008 to 52.2 percent in 2012.<sup>157</sup>

**Table 7.3.1: Credit Industry Performance and Access to Credit**

| (In EGP Millions)                          | Jun-08  | Jun-09  | Jun-10  | Jun-11  | Jun-12  | Jun-13  |
|--|---------|---------|---------|---------|---------|---------|
| Lending and discount to private businesses | 258,086 | 267,885 | 287,148 | 284,755 | 304,386 | 331,153 |
| Household sector                           | 78,332  | 84,588  | 92,792  | 99,207  | 112,427 | 127,968 |
| Total credit to private sector             | 336,418 | 352,473 | 379,940 | 383,962 | 416,813 | 459,121 |

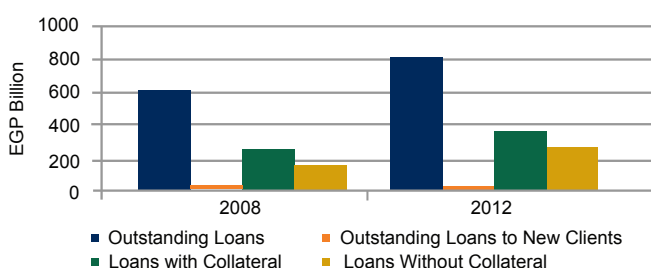
Source: ACRI Credit Information Sharing Survey, 2013.

**Figure 7.3.3: Number of Loans (Million)**



Source: ACRI Credit Information Sharing Survey, 2013.

**Figure 7.3.4: Value of Loans**



Source: Central Bank of Egypt. ACRI Credit Information Sharing Survey, 2013.

## Islamic Finance

Egypt has 39 banks operating in the country. Fourteen banks have Islamic banking licences, but only three are full-developed Islamic banks. The central bank has not granted new Islamic banking licences to banks or new entrants.<sup>158</sup> However, there could be a new trend toward more Islamic and Shariah-compliant financial products.<sup>159</sup>

## Microfinance Institutions

The microfinance industry is a key player in the credit market, providing credit services to the poor as well as small and medium enterprises unable to access to formal credit institutions. There are two types of lending: individual and group lending. In addition to credit services, saving and deposit services are also offered by National Postal

Authority. State-owned insurance companies are the main providers of insurance to cover microfinance institutions' risk of default in the case of a borrower's death, but not as stand-alone products.<sup>160</sup>

Presently, there are two microfinance institutions, four banks, and the Egyptian Microfinance Network (including 23 NGOs that are the primary microfinance providers in the country, contributing to approximately 70 percent of businesses). In addition, there are number of NGOs or community development associations that are not members in the microfinance institution network but offer microfinance programs.<sup>161</sup>

Prior to 2008, Egypt progressed significantly in the area of microfinance; it was ranked first among Arab countries in terms of the number of microfinance clients. By end of 2008, microlending portfolios reached 2.2 billion Egyptian pounds, second only to Morocco among Arab countries.<sup>162</sup> As seen in Table 7.3.2, the numbers continued to grow until 2010, but then showed a decline in 2011 because of the uprising's influence on microfinance sector. The loan portfolio, however, remained the same.

**Table 7.3.2: Microfinance Lending**

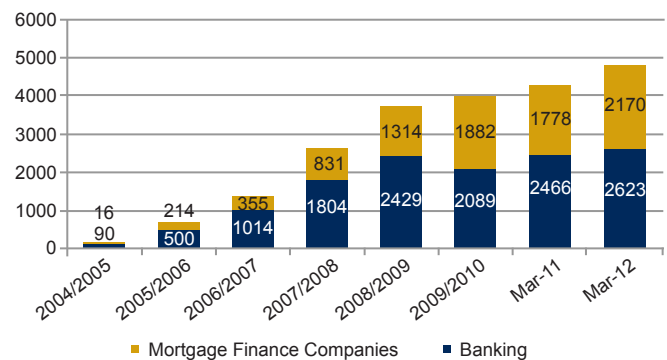
| Year | Number of borrowers | Gross loan portfolio (EGP Billion) | % of women |
|------|---------------------|------------------------------------|------------|
| 2008 | 1,148,621           | 2.2                                | 66         |
| 2009 | 1,422,409           | 2.6                                | 58         |
| 2010 | 1,493,371           | 2.6                                | 48         |
| 2011 | 1,389,139           | 2.6                                | 48         |

Source: Sanabel, The Microfinance Network of Arab Countries, 2008-2011.

### Mortgage Finance Companies

There are 13 mortgage finance companies in addition to the Egyptian Mortgage Refinance Company (EMRC) and 19 banks that offer mortgage finance. In 2012, the mortgage finance provided by companies grew about 24 percent to 2.1 billion Egyptian pounds, compared to 1.7 billion Egyptian pounds during 2011, as shown in Figure 7.3.5. In 2012, the total value of mortgage loans extended by banks and mortgage finance companies was about 4.7 billion Egyptian pounds, compared to 4.2 billion Egyptian pounds in 2011.<sup>163</sup>

**Figure 7.3.5: Value of Mortgage Finance Loans (EGP Million)**



Source: <http://www.investment.gov.eg/en/Investment/Documents/Financial.pdf>

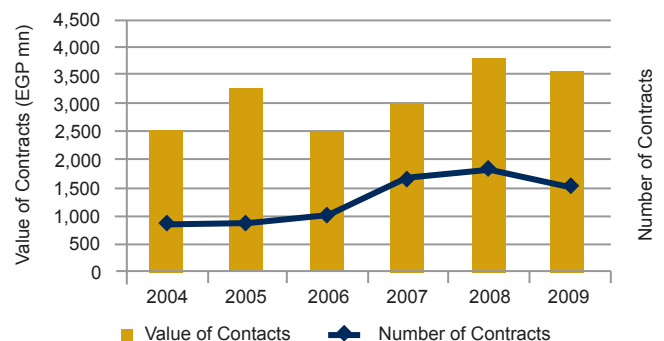
### Financial Leasing Companies

Bank subsidiaries and specialized companies lease real estate, equipment, production lines, aircrafts, and more. As of 2009, there were 10 major market players, accounting for more than 90 percent of the newly booked contracts in the market. Financial leasing in Egypt has made a great leap forward, with a growth rate of 44 percent, from 2.5 billion Egyptian pounds in 2004 to 3.6 EGP billion in 2009, as shown in Figure 7.3.6. There was volatility in the following years until the 2009 financial crisis hit. Since 2010, major investment has been in the real estate sector.<sup>164</sup>

### Nonperforming loans

As a result of skewed lending practices and insufficient loan screening procedures, nonperforming loans were a major concern for the banking sector. In its first phase of financial reforms (2004–2008), the central bank attempted to address this issue. The central bank and Egypt's credit

**Figure 7.3.6: Development of Leasing Market**

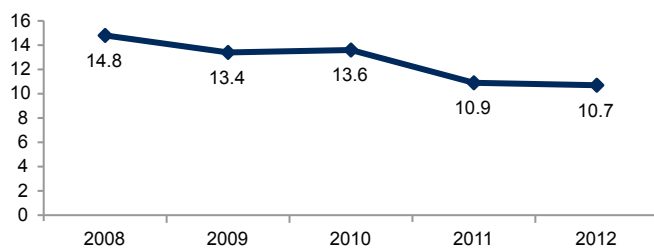


Source: "Market Review," Egyptian Leasing Association, accessed September 14, 2014. <http://ela-egypt.com/publications.html>.

bureau I-Score created an effective credit information system, which reduced NPLs to a large extent. As a result, the NPL ratio which was at peak of over 25 percent in 2004, dropped to 14.8 percent in 2008 and 10.7 percent in 2012, as shown in Figure 7.3.7.<sup>165</sup>

After the uprising of 2011, economic activities slowed down. Key sectors such as tourism, construction, mining, and manufacturing have suffered greatly. Takeovers of assets, transfers of properties, and falling value of collaterals are expected to lead to higher levels of NPLs.<sup>166</sup>

**Figure 7.3.7: Bank Nonperforming Loans to Total Gross Loans (%)**



Source: data.worldbank.org

### Nonperforming Loans in the Microfinance sector

Over the past three to four years, the quality of microfinance portfolios has deteriorated significantly. Several factors contributed to this deterioration, such as inadequate risk-management systems and internal organization weaknesses, combined with unhealthy lending practices by microfinance institutions. This has led to multilending or cross-lending (lending by other sectors, such as banks), which has caused over-indebtedness and high NPLs.

Microfinance is one of the sectors that suffered most as a result of 2011 uprising. Handicrafts, manufacturing activities, and tourism have been adversely affected, which has resulted in the loss of business activity and higher NPLs.

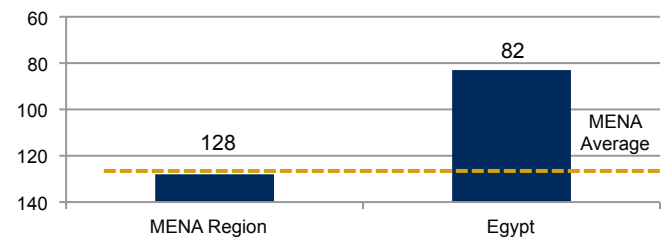
The 2012 initiative undertaken by I-Score and the Egyptian Microfinance Network to integrate microfinance institutions data into the I-Score database will likely reduce over-indebtedness. Similarly, the measures undertaken by the microfinance institutions (such as deferring or rescheduling loan repayments, complete or partial loan

write-offs, and offering emergency loans) will likely address rising NPLs.<sup>167</sup>

### CREDIT PENETRATION AND ACCESS

The 2013 *Doing Business Report* by the World Bank ranked Egypt 82 out of 185 countries in the Getting Credit Indicator, as shown in Figure 7.3.8. This is higher than the regional average of 128. (*DB14*, ranked 86)

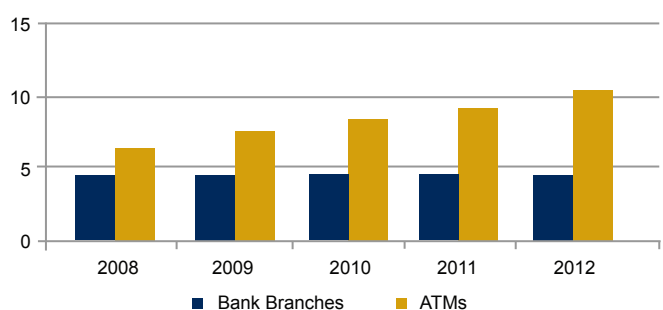
**Figure 7.3.8: Getting Credit Rank – 2013**



Source: *Doing Business Report*, Egypt 2013.

As a result of reforms, banking moved from a state-dominated sector to a more effective, private banking system. These reforms strengthened the banking sector and increased access to finance substantially in terms of lending, deposit-taking, and physical access through banks and ATMs. From 2006 to 2012, the number of branches increased from 1,795 to 2,626, growing by 46 percent, and the number of ATMs increased from 1,288 to 6,115, growing by 375 percent.<sup>168</sup> Thus, the amount of commercial bank branches per 100,000 adults increased from 4.48 in 2008 to 4.69 in 2012, according to the IMF Financial Access Survey. Likewise, ATMs increased from 6.51 per 100,000 adults in 2008 to 10.58 in 2012, as shown in Figure 7.3.9.

**Figure 7.3.9: Commercial Bank Network per 100,000 Adults**



Source: Financial Access Survey, IMF.

Table 7.3.3 shows the financial access indicators in terms of formal financial institutions' accounts and loans. In 2011, only 10 percent of adults had an account, which is relatively low for the region. The percentage of adults who have taken a loan in the last year was lower, at 4 percent. Egypt has a long way to go to in increasing access to finance; measures need to be undertaken at various levels to reach new customers.

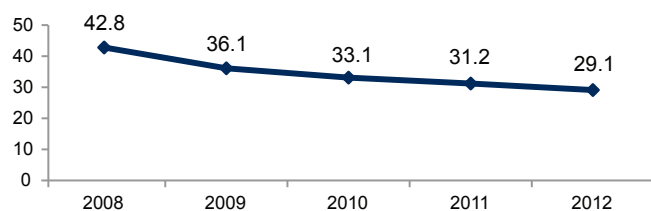
**Table 7.3.3: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>10</b> |
| Men                           | 13        |
| Women                         | 7         |
| <b>Loans in the past year</b> | <b>4</b>  |
| Men                           | 5         |
| Women                         | 3         |

Source: <http://datatopics.worldbank.org/financialinclusion/Country/Egypt>

With a loan-to-deposit ratio of 47.5 percent in December 2012, the banking sector is enjoying ample liquidity. Major banks prefer to offer credit to bigger companies and the government rather than to small and medium enterprises. Access to finance remains a problem for small and microenterprises, which account for about 90 percent of businesses. Credit to the private sector is rising, but it is showing a declining trend as a percentage of GDP (see Figure 7.3.10). Penetration of bank credit has decreased to low levels.

**Figure 7.3.10: Domestic Credit to Private Sector (% of GDP)**



Source: [data.worldbank.org](http://data.worldbank.org)

The financial system, and especially the banking sector, needs to be more inclusive and continue to strengthen regulatory and supervisory frameworks.<sup>169</sup>

Microfinance is mainly provided by non government organizations, which are solely funded by grants. Large NGOs have major market shares as they are dependent

on commercial banks for funding. Banks are not keen on extending microfinance due to limited branch networks, lack of infrastructure, and the perceived risk in lending. The penetration rate was about 33 percent, leaving a potential client base of about 4.8 billion customers, according to Sanabel's 2009 country report.<sup>170</sup>

Major factors for the microfinance institutions' restricted access to finance are the lack of a uniform regulatory authority, competition among microfinance entities, limited access to funding, constraints that limit products, and nonperforming loans.<sup>171</sup> To increase the financial inclusion, Egypt needs a conducive regulatory environment, institutional and operational linkages between banks, formal financial services providers, informal microfinance institutions, and greater participation by the credit bureau.<sup>172</sup>

Although financial leasing has been undertaken since 1995, there has not been much success due to legislative and logistic obstacles along with limited awareness. It does not significantly contribute to the GDP, as bank loans are still considered the most attractive funding tool. Given the change in regulation (notably, the launch of EFSA) and increasing demand for credit, this market may rebound.<sup>173</sup>

## 7.3.3 STATUS OF CREDIT REPORTING

### OVERVIEW

The Central Bank's Credit Registry (CR) was established in 1957 to assist public and private banks. Banks were required to report borrowers' negative data related to credit facilities provided, with a threshold of over 40,000 Egyptian pounds. In 2002, the registry was automated but had limited use as combined exposures, multiple lending, and loans below the threshold were not reported. Nonbanking institutions lacked access to the CR.

In 2004, the Central Bank of Egypt considered two options:

- Upgrade operations of CR;
- Encourage the establishment of a private credit bureau.

As a first step, CBE expanded credit data by reducing the threshold limit, sharing positive data as well as delinquent

credit card data, and including leasing and mortgage companies.

However, in 2005, law 93 of 2005 authorized CBE to issue the license for a credit bureau.<sup>174</sup> The first credit bureau was established in 2005 as the Egyptian Credit Bureau I-Score (formerly Estealam) and became fully operational in 2008. The founders and shareholders consist of 25 banks and the Social Fund for Development.

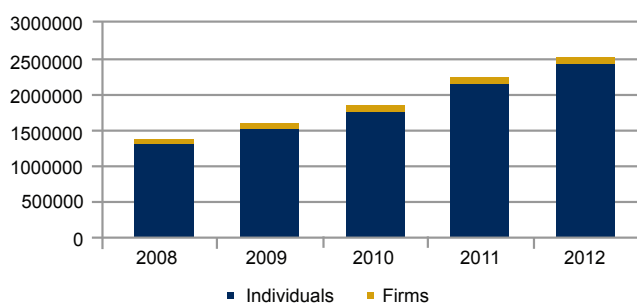
I-Score successfully established a transparent and advanced credit reporting service that offers services in both Arabic and English by working closely with the Central Bank of Egypt, IFC, the financial community, and an experienced technical partner, Dun & Bradstreet South Asia Middle East Limited. Since its inception, I-Score's data center has vastly expanded to include 8.8 million data records, nearly a tenfold increase from its baseline of 0.9 million borrower records initially held by the Central Bank of Egypt's credit registry.<sup>175</sup>

I-Score listed about 10 million borrowers as of December 2012, as seen in Table 7.3.4. Individuals constituted 99 percent of customers, an increase of 156 percent as compared to 2008. The CR had 2,524,927 borrowers listed as of 2012, an increase of 82.6 percent as compared to 2008 (see Figure 7.3.11).<sup>176</sup>

### Value-Added Services

I-Score provides accurate information to finance providers that is relevant to the history and payment habits of existing and prospective clients, enabling finance providers to assess the creditworthiness of clients. Besides basic credit reports and scores, I-Score provides risk-management tools to lenders such as management information system reports, account-monitoring alerts, portfolio reviews, bank-authorized signature verifications, fraud suspect reports,

**Figure 7.3.11: Individuals and Firms in the PCR**



Source: Credit Information Sharing Survey, ACRI, 2013.

national identification checks, bankruptcy inquiry through peer-to-peer systems, bulk inquiries, etc.

I-Score seeks to introduce the following new products to its members in 2013 to 2014:

- Link between Egyptian Civil Authority and banks through I-Score, which is currently operational with 10 Banks;
- Application scoring for new credit customers, which is currently operational with one bank;
- Self inquiry via web, using digital signature;
- Self inquiry via bank portals;
- Self inquiry via ATM machines;
- Negative list development;
- Basel II compliance;
- Collateral registry, which will require new legislation.

I-Score is also in the process of establishing the first small and medium enterprise rating company, Nile Rating Company, in which I-Score will have 74.8 percent stake; the remaining holding will be by 22 Egyptian banks.

**Table 7.3.4: I-Score Database**

|                                  | 2008      | 2009      | 2010      | 2011      | 2012      |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Consumers                        | 3,853,643 | 5,735,771 | 7,254,378 | 8,621,686 | 9,893,264 |
| SMEs                             | 40,678    | 57,294    | 78,583    | 91,991    | 103,534   |
| Total Number of Credit Customers | 3,894,321 | 5,793,065 | 7,332,961 | 8,713,677 | 9,996,798 |

Source: Credit Information Sharing Survey, ACRI, 2013.

## Challenges Faced by the Credit Information System

I-Score's is playing a vital role in advancing Egypt's credit information system. However, there are few loopholes that need to be addressed to increase effectiveness.<sup>177</sup>

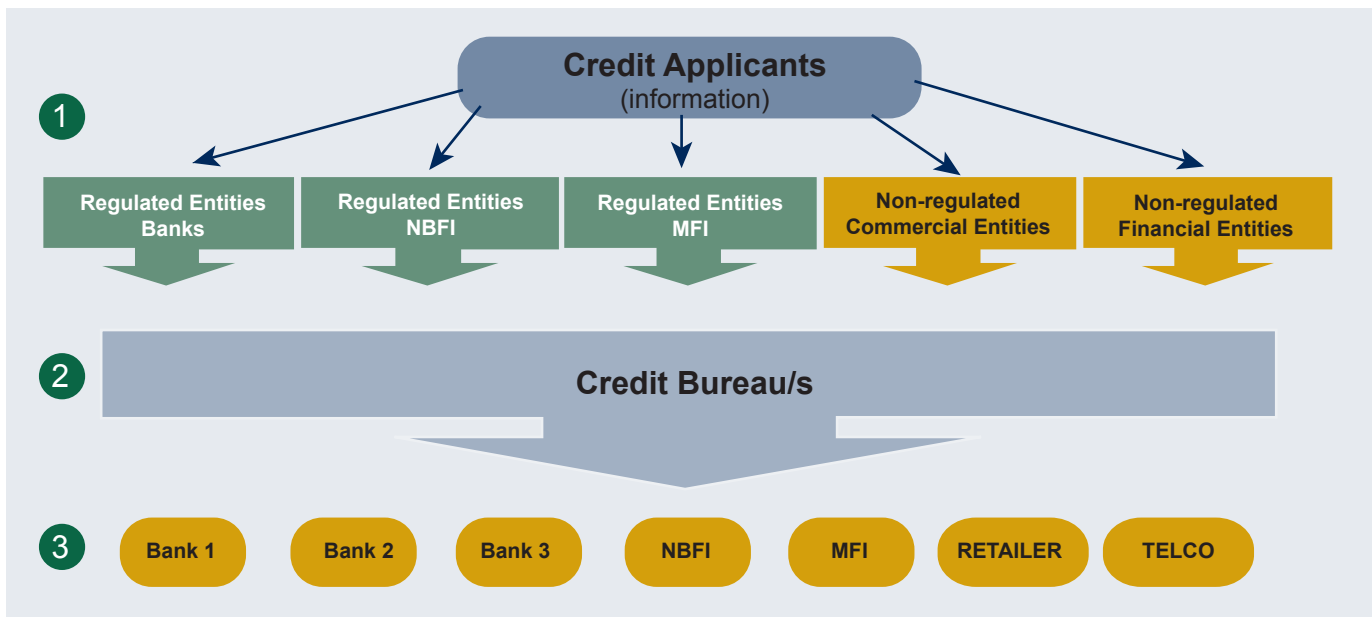
- Telecommunications data is not yet integrated into I-Score; including such data is essential for a more comprehensive view of data subjects;
- Full integration of the microfinance sector in I-Score proved challenging. Further work must be done, including reforms on legal and regulatory levels;
- The credit market is very thin, as credit is mainly provided by banks. There is huge opportunity for growth;<sup>178</sup>
- Egypt has a single credit bureau. Although it operates well, a second credit bureau may prove useful in order to increase competition for the benefit of credit bureau users;
- The number of inquiries remain low compared to the adult population in Egypt.

## PARTICIPATION AND DATA SHARING

Egypt's credit reporting system is based on a direct sharing model, as shown in Figure 7.3.12. The CIS does not require the involvement of the central bank since information is deliberately and directly exchanged between data providers, lenders, users, and the CB.<sup>179</sup> Since 2008, CBE and I-Score collect data for individuals; it is distributed only via I-Score, whereas data for small and medium enterprises is collected and distributed by both. Both systems are currently operational but CBE primarily plays a supervisory role. There is no threshold for data submitted to I-Score. However, the central bank has a minimum threshold of 30,000 Egyptian pounds for the inclusion of loans.

I-Score collects data from 41 public and private commercial banks, nine mortgage companies, 10 financial leasing companies, two microfinance companies, four microfinance institutions, and 19 retailers. The bureau has also started collecting data on utility service providers, although currently only from gas connection providers that are routed through the central bank. CBE has banks,

Figure 7.3.12: Data Sharing Model



Source: Madeddu, 2010.

leasing, and mortgage companies sharing their data with minimum loan threshold of 30,000 Egyptian pounds.<sup>180</sup>

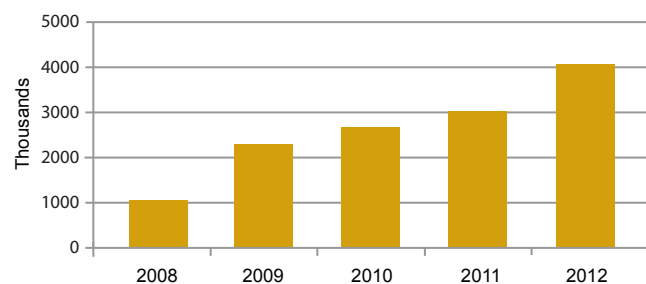
According to CBE regulation, it is mandatory for banks, mortgage finance companies, and leasing finance companies to share data; all these institutions must receive updated credit reports for customers before approval, review, renewal, or reschedule of any line of credit. In the case of CBE, banking supervisors and public and private institutions that share data are allowed to access and make inquiries to credit registry data. Access is permitted for all borrowers irrespective of whether they are customers of a financial institution.

The data shared is negative and positive. Individual and firm data includes full-file information, such as demographic data, loan account data, and payment performance data. In case of I-Score, details of each credit facility are given individually; in case of CBE, loans are consolidated across the financial system, presenting one figure for total debt per consumer or firm.<sup>181</sup>

As seen in Figure 7.3.13, the number of credit reports transmitted by I-Score to lenders significantly increased from 1,008,000 in 2008 to 4,132,000 in 2012. There is still potential to increase this number further.

As shown in Table 7.3.5, positive information sharing by I-Score has enabled lenders to maintain the ratio of performing loans and reduce the percentage of substandard and doubtful accounts over time. Numbers fell marginally in 2012 due to the slowing down of Egyptian economy as a whole.

**Figure 7.3.13: Credit Reports by I-Score**



Source: Credit Information Sharing Survey, ACRI, January 2013.

**Table 7.3.5: Asset Performance (I-Score Database)**

|                          | 2009 | 2010  | 2011  | 2012  |
|--------------------------|------|-------|-------|-------|
| Asset Classification     | %    | %     | %     | %     |
| Performing               | 91   | 92.23 | 92.21 | 91.41 |
| Sub Standard (30-90 DPD) | 3.6  | 2.72  | 2.66  | 2.91  |
| Doubtful (90+ DPD)       | 1.2  | 0.89  | 0.75  | 0.76  |
| BAD **                   | 4.2  | 4.17  | 4.38  | 4.92  |

Source: ACRI Credit Information Sharing Survey 2013 \*\* Bad represent 150+ DPD (Days Past Due) for loans and 180+ for Credit Cards

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

As a regulator, the Central Bank of Egypt has played important role in encouraging the development of a legal and regulatory framework that mandates information sharing with a privately-operated credit bureau which CBE licenses and supervises. The regulator maintains an internal database from regulated lenders for prudential supervision and risk-monitoring purposes, but it is not involved in the activities of the credit bureau. In this model, the role of the regulator in the actual process of credit information generation is limited. Instead, the regulator focuses its efforts on core functions, such as supervision, licensing, and regulation.<sup>182</sup>

Banking Law 88 of 2003 was amended and replaced by Law No. 93 of 2005, enabling the central bank:

- To license, regulate, and oversee the operations of private sector credit bureaus and issue directives to organize the exchange of information;
- To exchange information among CBE, banks, mortgage and leasing companies, and credit bureaus.

Article 67 enables the CBE to prepare an aggregate position of finance and credit facilities extended by banks, which banks then review before offering any further credit facilities to their clients. Article 67-bis authorizes the central bank to license companies to provide inquiry and credit scoring services related to the debts of clients of banks, mortgage companies, and financial companies.

Information related to debt and credit facilities of borrowers can be exchanged with banks, mortgage and leasing companies without the consent of their borrowers, according to Article 99 in Section 4 (with exception to Secrecy Article 97 of the banking law). Other members must obtain consent to access the data or make inquiries on customers requesting loans.

Article 99 “The Central Bank will exchange with other banks information and data on customer debts and their credit facilities. They will also exchange these information and data with real estate finance companies, funding lease companies and credit information and scoring bureaus. The Board of Directors of the Central bank will set the rules of this exchange guaranteeing their confidentiality and ensuring the availability of the data required for sound bank lending”.

The central bank, in line with international practices, supports the protection of consumer rights.<sup>183</sup> Consumers can inspect their own data and raise disputes regarding wrong information. There is no restriction on the number of inquiries. Access, however, is not free. There is also a penalty for reporting inaccurate data to the CR.<sup>184</sup>

In August 2005, CBE issued regulations for the licensing of credit bureaus in Egypt and consequently licensed I-Score, the first credit bureau in Egypt. In January 2006, CBE issued regulations to organize the operations of credit bureaus in Egypt. The regulations tackled several topics including membership in the bureau, mandatory submission of data and inquiring for regulated entities, consumers right to view their own report, supervision of the credit bureau by CBE and penalties in case of breach, among others.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and sub-parameters discussed in Chapter 6, the ACRISI score has been determined for Egypt as shown in Table 7.3.6. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- The credit reporting system in Egypt is comprehensive and operates through the CR and the CB;
- The Central Bank of Egypt was instrumental in creating a legislative framework that established a functioning credit reporting system in the country, laying the foundation for the success of the credit bureau, I-Score;
- Although there is no specific law for credit reporting, the banking law was amended; related regulations were developed to enable the central bank to oversee credit reporting activities and also the establishment of the CB, allowing data sharing among lending institutions and providing basic consumer rights;
- I-Score has played an important role in changing the behavior and culture of borrowers in the Egyptian credit market. It has undertaken initiatives that create awareness across the lending community to improve data quality, internal lending policies, and use advanced skill sets. I-Score has been the catalyst for active credit growth by providing a robust database of borrowers;
- The ACRISI score increased by 3 points, from 15 in 2008 to 18 in 2012; this is because of the I-Score’s inclusion of microfinance institutions and utility services data as well as the launch of credit scoring services;
- The inclusion of microfinance institutions and utility data has led to increased participation in the information sharing system. Although only gas data is collected, other utilities are expected to participate in the near future;
- All entities are required to share data and inquire before granting credit. All loans are reported to the CB without any threshold limits. Positive and negative information is collected and distributed. This indicates a repository of complete credit information;
- I-Score provides a credit bureau score to users based on the details of a consumer’s credit report.



## RECOMMENDATIONS

- Access to finance is a major area of concern for the Egyptian credit market. A strong supervisory and regulatory framework is required to enhance the financial inclusion;
- I-Score, in order to increase its effectiveness, should expedite facilitating borrowers' self-inquiry through web or bank portals as well as ATMs;
- The Egyptian model would be effective if more than one private bureau were licensed, which would trigger healthy competition based on pricing, quality of service, and value-added services—resulting in advantages to lenders and consumers;
- To increase data coverage, I-Score should integrate group loans from the microfinance sector;
- The central bank and I-Score should undertake financial literacy campaigns to increase financial awareness and understanding of credit reporting system.

Table 7.3.6: Arab Credit Reporting Information Sharing Index — Egypt

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | YES       | YES       |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | YES       | YES       |
| Is there a legal framework for privacy and protection of data?               | YES       | YES       |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | NO        | NO        |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | NO        | NO        |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | YES       | YES       |
| Are utility entities participating?  | NO        | YES       |
| Are MFIs participating?  | NO        | YES       |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | YES       | YES       |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | YES       | YES       |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | NO        | YES       |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>15</b> | <b>18</b> |



Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.  
 Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41505, March 2015.

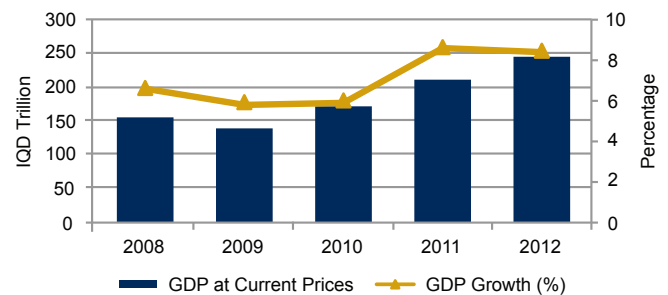
## 7.4 IRAQ

### 7.4.1 ECONOMIC OVERVIEW

Despite decades of war and instability, Iraq’s abundant natural resources, strategic geographic location, and cultural history endow the country with tremendous potential for growth and economic development. Driven by windfall oil revenues in recent years, the government of Iraq has invested heavily in rebuilding the infrastructure of the country, and its rich oil reserves ensure that progress can continue steadily.<sup>185</sup>

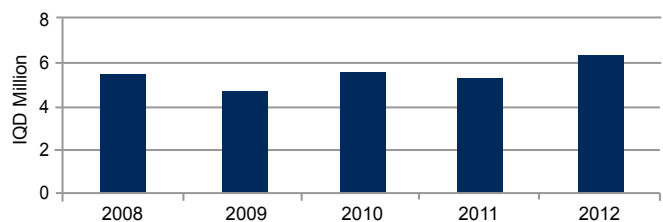
The performance of the economy is largely dependent on the oil sector, which accounts for two-thirds of Iraq’s GDP and almost all export and fiscal revenues. In 2012, the GDP was 245.2 trillion Iraqi dinars as compared to 211.3 trillion Iraqi dinars in 2011. With 8.4 percent GDP growth in 2012, the annual GDP growth rate, on an average, was around 7 percent from 2008 to 2012. This GDP and growth rate trend is shown in Figure 7.4.1. In 2012, the average per capita GDP was 7.16 million Iraqi dinars, increasing from 6.35 million Iraqi dinars in 2011. Figure 7.4.2 shows the average per capita GDP over the past five years.

Figure 7.4.1: GDP Performance



Source: Economic Reports and Annual Statistical Bulletin, Central Bank of Iraq Annual, 2008–2012

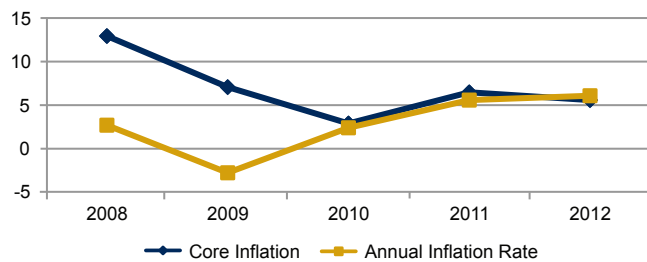
Figure 7.4.2: Average per Capita GDP



Source: Economic Reports and Annual Statistical Bulletin, Central Bank of Iraq Annual, 2008–2012

Inflation rates have fluctuated over the past few years, as shown in Figure 7.4.3. In 2010, core inflation was stabilized to 2.9 percent, from 13 percent in 2008; it has increased to 5.6 percent in 2012. Annual inflation rates had also stabilized from 2008 to 2010, but showed an increasing trend in 2011 and 2012.<sup>186</sup>

**Figure 7.4.3: Inflation (%)**



Source: Annual Bulletin, Central Bank of Iraq, 2009–2012.

The population in Iraq has been growing at a rate of about 2.5 percent. In 2012, the total population stood at 32.57 million, increasing from 29.42 million in 2008, as shown in Table 7.4.1. Women constitute nearly half the population, with an average 49.41 percent of the total population from 2008 to 2012.<sup>187</sup> As of 2012, there were 16.1 million women.

**Table 7.4.1 Population**

| Year | Total Population | Women      | Men        |
|------|------------------|------------|------------|
| 2008 | 29,429,829       | 14,532,450 | 14,897,379 |
| 2009 | 30,163,199       | 14,900,620 | 15,262,579 |
| 2010 | 30,962,380       | 15,298,512 | 15,663,868 |
| 2011 | 31,760,020       | 15,695,802 | 16,064,218 |
| 2012 | 32,578,209       | 16,106,667 | 16,471,542 |

Source: data.worldbank.org

## 7.4.2 CREDIT MARKET

### OVERVIEW

The Iraqi financial system is dominated by public banks with portfolios that constitute the majority of financial assets. There are 54 banks currently operating in Iraq.<sup>188</sup> The other dominant players in the financial system are stock markets and the insurance sector, but the size of these sectors is very small compared to the banking sector.

In addition, other companies form the financial sector, including exchange companies, financial transfer companies, financial investment companies, the Postal Saving Fund, and companies providing small and medium loans.<sup>189</sup> Also, a number of microfinance institutions are forming an increasingly important role in informal lending.

The Central Bank of Iraq (CBI) is the banking supervisory authority that has been granted powers to regulate and supervise lending companies, microfinance companies, and any other nonbanking financial institutions otherwise unregulated by Iraqi law.<sup>190</sup>

The credit industry is still small and dominated by banks, which primarily compete for scores of small depositors. Banks selectively grant credit to an exclusive, restricted number of borrowers, typically medium and large firms.

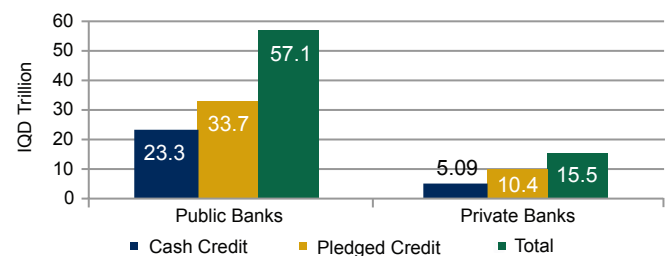
### Banking

The banking system comprises seven state-owned banks; the three largest banks (Rafidain Bank, Rasheed Bank and Trade Bank of Iraq) represent the bulk of the industry. There are 47 private banks that comprise nine Islamic banks, 15 foreign banks, and 23 private commercial banks.

Despite the large number of private banks, public banks grant the bulk of loans. Out of the total 72.6 trillion Iraqi dinars of cash credit and pledged credit facilities, 78.64 percent has been granted by the public sector, as seen in Figure 7.4.4. In both private and public sectors, pledged facilities have precedence over cash credit or unsecured facilities.

The banking sector in Iraq imposes limitations on private banks in acquiring clients among public enterprises. The

**Figure 7.4.4: Bank Credit – 2012**



Source: Annual Statistical Bulletin, Central Bank of Iraq, 2012.

list of restrictions is long; it is a serious deterrent to the expansion of the private banking sector and to the creation of a free, competitive market. Private banks must succumb to an excruciating bureaucracy and a rather unfriendly legal framework, which limits business opportunities and patently favors public banks' unfair advantage.<sup>191</sup>

## Microfinance

The other key players in the credit market are the 12 microfinance institutions that have become the point of reference for the vast number of nonbankable, underserved micro, small, and medium entrepreneurs, most of whom belong to the informal sector. These microfinanciers operate in the most opaque area of the economy, a vast sector of the nonbankable population. This informal economy constitutes the largest segment of Iraq's socioeconomic fabric. Microfinanciers represent an undeniable success in the Iraqi credit panorama despite the still unregulated environment, infrastructural weakness overheads, and operational taxing conditions.<sup>192</sup>

The gross loan portfolio of the microfinance institutions stood at \$130.4 million in 2011, according to the Sanabel Microfinance Network. The number of borrowers was 90,475, of which 21 percent (about 19,000) were women.

## Others

There are five financial institutions, 10 financial investment companies, and 33 financial companies licensed by the Central Bank of Iraq. In 2009, CBI issued an ordinance to support the financing of small and medium enterprises, mandating that these companies be licensed by CBI in order to perform financing activities. Solid, structured nonbanking financial institutions specialized and fully focused on consumer credit remain absent.

Informal lending has played a big role in the life of the Iraqi people. Traditional lending channels have never represented the most accessible source of access to finance for the Iraqi population.<sup>193</sup>

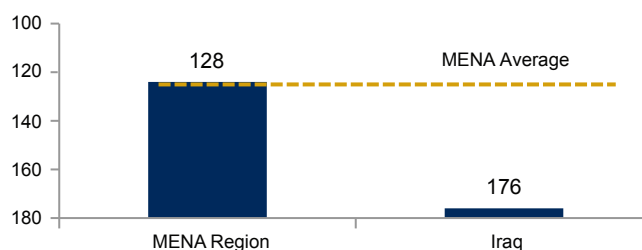
## Nonperforming Loans

Reliable, exhaustive, official statistics and figures concerning the quality of banks' portfolios are not available. However, and in spite of the extremely high selectivity that characterizes bank underwriting, nonperforming loan ratios can be extremely high, in the range of 10 percent to 15 percent among private banks.<sup>194</sup> In 2012, overdue debts for cash credit extended by commercial banks were 497 billion Iraqi dinars, which represents 1.75 percent of the total cash credit extended.<sup>195</sup>

## CREDIT PENETRATION AND ACCESS

The World Bank's *Doing Business Report 2013* ranks Iraq a low 176 of 185 countries. It is much lower than the regional rank of 128, as seen in Figure 7.4.5. (*DB14, ranked 180*)

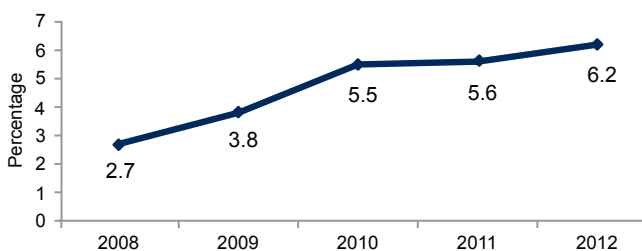
Figure 7.4.5: Getting Credit Rank – 2013



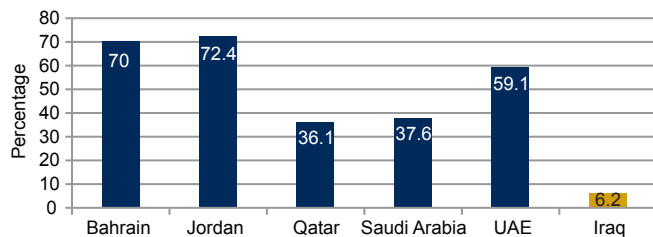
Source: *Doing Business Report*, The World Bank, 2013.

Domestic credit in the private sector was just 6.2 percent of GDP in 2012. This is an increase, however, from an extremely low 2.7 percent in 2008, as seen in Figure 7.4.6. This percentage is very low as compared to some other countries in MENA, as seen in Figure 7.4.7.

Figure 7.4.6: Domestic Credit to Private Sector (% of GDP)

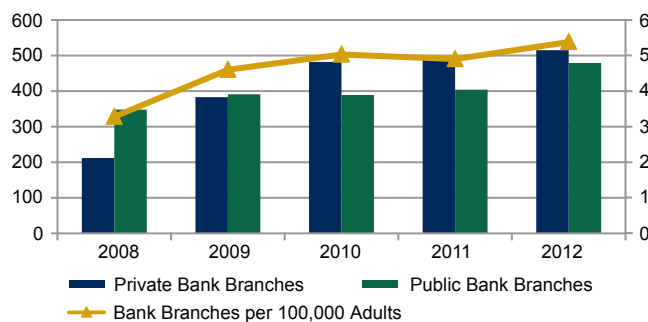


Source: data.worldbank.org

**Figure 7.4.7: Domestic Credit to Private Sector (as % of GDP) for Some MENA Countries**

Source: data.worldbank.org

The banking sector operated through a network of 994 branches in 2012. Private sector banks have a wider reach through 515 branches. There has been a considerable increase in bank branches, especially by the private banks. As seen in Figure 7.4.8, the number has more than doubled, from 212 branches in 2008. Public bank branches have increased from 348 in 2008 to 479 in 2012. Even with the increasing number, the reach in terms of commercial bank branches per 100,000 adults was only 5.38, as of 2012.<sup>196</sup>

**Figure 7.4.8: Commercial Bank Network**

Source: Annual Statistical Bulletin, CBI, 2008–2012. Financial Access Survey, IMF

Credit penetration is scarce in Iraq. In 2011, the percentage of adults with an account from a formal financial institution was only 11 percent, as shown in Table 7.4.2. Only 8 percent of women had a bank account. The percentage of loan account holders in the last year was only 8 percent and a mere 5 percent for women.

In Iraq, loans are habitually and customarily granted only to corporate, business firms, “A” segment, or VIP individual customers. Moreover, loans appear to be concentrated in a few borrowing hands, often directly financing companies belonging to the same banking group in the case of some private banks. State bank loans are mostly granted to public

**Table 7.4.2: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>11</b> |
| Men                           | 13        |
| Women                         | 8         |
| <b>Loans in the past year</b> | <b>8</b>  |
| Men                           | 11        |
| Women                         | 5         |

Source: Iraq: Financial Inclusion. The World Bank, accessed September 14, 2014. <http://datatopics.worldbank.org/financialinclusion/country/iraq>

companies. Underwriting credit policies rely on client relationships rather than credit risk criteria.<sup>197</sup>

The penetration of microfinance institutions is still very low, even though they operate in all of Iraq’s 18 provinces. Less than 1 percent of the population accesses microfinance. As mentioned in the previous section, these institutions reached out to 90,475 borrowers. Access to finance for women is low, however, and is probably the most important area of improvement for microfinance institutions in Iraq.<sup>198</sup>

Outdated, traditional appraisal techniques are an obstacle to increasing access to credit. Credit application procedures are cumbersome, long, and manual; hence, the costs are high for customers and lenders. Credit decision and underwriting processes take from 30 to 60 days, or more, due to the outdated techniques and the bureaucratic procedures. This is further exacerbated by the lack of automated processing or complete, reliable information. Credit decisions are always subjective; they involve more than one department, including crowded credit committees even for small loans. Also, risk-control techniques and strategies employed by Iraqi lenders tend to be underdeveloped and characterized by high transaction costs. They are based on the existence of asset-based collateral (mainly real estate).<sup>199</sup>

### 7.4.3 STATUS OF CREDIT REPORTING

#### OVERVIEW

The credit system in Iraq uses traditional risk-management tools, based on a client’s collateral, guarantees, levels of trust, and reputation. Though not a new concept in Iraq,

credit information sharing and the usage of positive and full credit information remains at a nascent stage. CBI has begun preparatory work in developing and operating the Iraqi CR, which is the only source of credit information in the country. The CBI established the CR with two fundamental goals:

- a. Collecting information from regulated entities to support CBI's supervision of credit systems;
- b. Supplying lenders with consolidated information for credit underwriting purposes.<sup>200</sup>

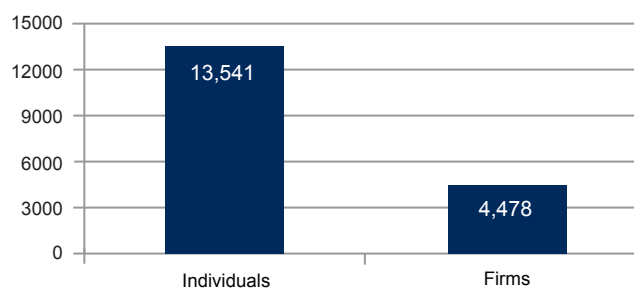
The CR was first established in 1994 and then revamped in 2010; the Central Bank is currently working on implementing a new CR system. Although in 2010 there were no infrastructural changes, the database system was upgraded, resulting in the availability of more information. Currently, it is being used by the CBI as well as regulated public and private banks.

Credit reporting in Iraq is in its early stages. There are a number of outstanding issues and limitations. The data—which banks manually share with the CBI monthly on an aggregated basis—is insufficient for supervisory purposes, let alone credit risk assessment. Data from institutions is incomplete or not provided at all. The CBI and the Iraqi Private Banks League rightly consider the lack of credit information for existing and potential borrowers a major worry; it is one of the primary impediments to the expansion of a broader and healthier credit industry.<sup>201</sup>

As of February 2013, the number of individuals listed in the CR was 13,541, with 881 women borrowers and 4,478 firms, as shown in Figure 7.4.9.<sup>202</sup> Given the issues in data sharing and limited participation of institutions, this does not indicate the depth or volume of the credit industry, which is also characterized by microfinanciers and informal sources of lending.

From 2008 to 2012, Iraq's overall ACRISI score remains unchanged. Changes are expected to be implemented in phases over the next few years, based on an ACRI's 2012 study and subsequent recommendations.

**Figure 7.4.9: PCR Database – February 2013**



Source: Credit Information Sharing Survey, ACRI, January 2013

## PARTICIPATION AND DATA SHARING

The public and private banks regulated by the central bank and are the sole providers of data to the CR. Basic demographic and loan data on individuals and firms is collected by the central bank for supervising the credit market and supplying lenders with consolidated information for credit underwriting purposes. All loan information is collected, without any threshold limit, including negative and positive data.

This limited data from the public and private banks is shared by way of inquiries made to the CR. In 2012, the CR received 11,000 inquiries.<sup>203</sup>

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

There is no specific law or regulation that governs credit reporting in Iraq. However, the banking law issued in 2003 and the Central Bank of Iraq law issued in 2004 give CBI and other banks the right to share credit borrowers' information.

The Central Bank of Iraq law gives the CBI powers to supervise and regulate the financial system. Therefore, it has sufficient and independent powers to collect information for supervisory and statistical purposes as well as to disseminate information to lenders for risk-underwriting purposes.<sup>204</sup>

### Banking Law

The banking law is explicit about the CBI's power to create a credit registry (without borrowers' consent) and banks's

capacity to establish a credit bureau.<sup>205</sup> Article 41 of the law gives powers to the CBI to collect information, as required and necessary, including information about banking facilities, credit plans, or credit and contingent liabilities granted to borrowers.

Article 27 of this law clearly specifies that licensed banks are permitted to provide financial information and credit reference services. This lays down the foundation of credit information sharing in the banking system. For supporting this framework, Article 39 specifically states the following:

Article 39 *“Banks may establish credit reporting agencies or credit bureaus to collect and to disseminate to other banks such information concerning the financial affairs of existing and prospective customers as the banks may need in order to make prudent banking decisions...”*

It also states that information shared in this system will only be provided to banks that have an actual or prospective banking relationship with the person in question—rules and restrictions to protect the confidentiality and unauthorized use of such information. These provisions are stated in Article 49 and 50 of the law and restrict disclosure of information without a customer’s written approval.

Article 51 states the exception to disclosure of information with written approval if the information is on:

*“(i) customers’ indebtedness to provide the necessary data for determining the soundness of granting credit;*

*(ii) bad checks; or*

*(iii) any other transaction deemed necessary by the CBI because of its pertinence to the soundness of the banking sector to banks, the CBI or any other agencies approved by the CBI to facilitate the exchange of such information pursuant to rules and procedures specified in regulation of the CBI;”*

The banking law, thus, provides for the establishment of credit reporting agencies and bureaus along with the sharing of credit information about borrowers in a regulated environment. The purpose for disclosure of such information, without the need for borrowers consent, is also provided in its articles.

There are no explicit rules on the borrowers’ access to data that is shared among banks. Thus a framework for borrowers to directly see their own credit reports is not prevalent. In the case of incorrect data, however, they are allowed to raise disputes and ask that information be corrected.

Data confidentiality procedures are not in place, even though there is a broad framework for credit information sharing and clearly defined rules and regulations with respect to the CR’s operations. As mentioned above, consumer rights are not explicitly mentioned in the laws. Iraq does not have a score in the legal framework section of ACRISI because there is no specific law on credit information or on data privacy.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Iraq, as shown in Table 7.4.3. The Index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- Iraq has a selective, expensive, traditional banking industry with extremely low credit penetration. Limitations apply not only to retail credit customers but also to the informal sector and to the innumerable micro, small and medium enterprises;
- The only source of credit information to lenders is the CR, but banks manually share this data with the CBI, monthly, on an aggregated basis. This is insufficient for supervisory purposes, let alone credit risk assessment;



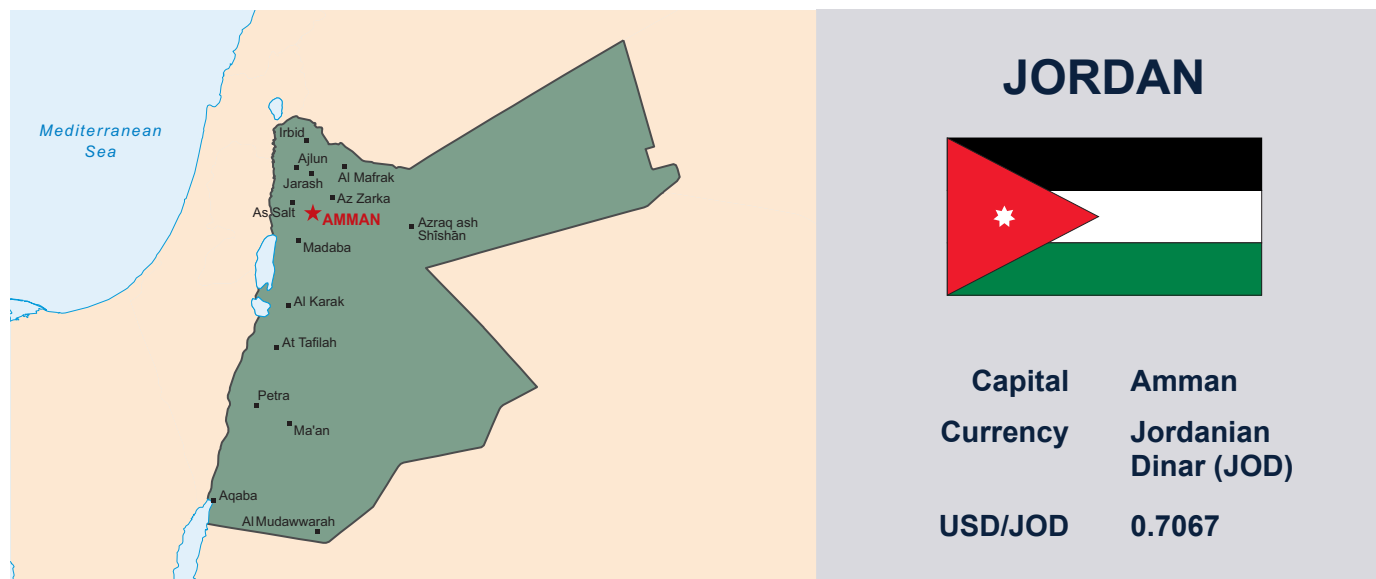
- The credit reporting system in Iraq is in its early stages. The CBI established a very basic framework with tremendous scope for improvement. The low ACRISI score of 10 indicates its issues and limitations;<sup>206</sup>
- Initiatives need to be taken to strengthen the system in terms of infrastructure, technology, specific regulations, participation from financial institutions, and consumer access and rights;
- Although the basic legal framework is in place, allowing for credit information sharing, a specific, full-fledged credit information law is absent;
- Consumer rights are not clearly or legally defined; however consumers can raise disputes regarding incorrect data and have access to free reports;  
Sharing of data is limited to the regulated banks. No other entities are currently participating in the system;
- Lenders are not mandated to inquire before granting a loan, which indicates that appraisal processes are still very traditional. All other parameters in ACRISI's depth of data sharing and reporting are satisfied, but given the low participation, this may not indicate the completeness or the depth of the database.

## RECOMMENDATIONS

- Since the CR is the only source of credit information sharing, the CBI should move towards introducing a fully-automated system with higher capacities, instead of the current manual and paper based system;<sup>207</sup>
- Participation is very limited and should be extended to other credit granting institutions, such as microfinance institutions, which form an integral part of the lending system in Iraq;
- Consumer rights need to be strengthened by allowing access to consumers' own reports and allowing them to raise disputes. This can be achieved through a full-fledged, specific credit reporting law or regulation in the country which would cover credit reporting aspects in a comprehensive manner.

Table 7.4.3: Arab Credit Reporting Information Sharing Index — Iraq

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | NO        | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | NO        | NO        |
| Is there a legal framework for privacy and protection of data?               | NO        | NO        |
| <b>Is information on consumers included?</b>                                 | YES       | YES       |
| <b>Is information on firms included?</b>                                     | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | NO        | NO        |
| Do consumers have access to at least one free report in a year?              | YES       | YES       |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | NO        | NO        |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | NO        | NO        |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | NO        | NO        |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | NO        | NO        |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | YES       | YES       |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | NO        | NO        |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>10</b> | <b>10</b> |



Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41506, March 2015.

## 7.5 JORDAN

### 7.5.1 ECONOMIC OVERVIEW<sup>208</sup>

The Hashemite Kingdom of Jordan, which emerged out of the post-World War I division of the Middle East by Britain and France, is located northwest of Saudi Arabia and south of Syria. It is a small Arab country, with inadequate supplies of water and other natural resources. Jordan has played a pivotal role in the struggle for power in the Middle East. Jordan's significance results partly from its strategic location, at the crossroads of what Christians, Jews, and Muslims call the Holy Land. It is a key ally of the U.S. and, together with Egypt, one of only two Arab nations to have a peace treaty with Israel.

Unlike Arab states to its south and east, Jordan has no oil of its own. Its resources are limited to phosphates and agricultural produce. The economy depends largely on services, tourism and foreign aid, of which the U.S. is the main provider. Jordan prides itself on its health services, which are among the region's best.

Jordan faces a number of challenges, which include: vulnerability to fluctuations in the oil market because of its energy-import dependency and the disruption of gas supplies from Egypt; high unemployment and a dependency on remittances from Gulf economies; increasing pressure on natural resources, especially water; and escalating spillover from the Syrian conflict. Other economic challenges for the government include chronically high rates of poverty, inflation, and a large budget deficit.

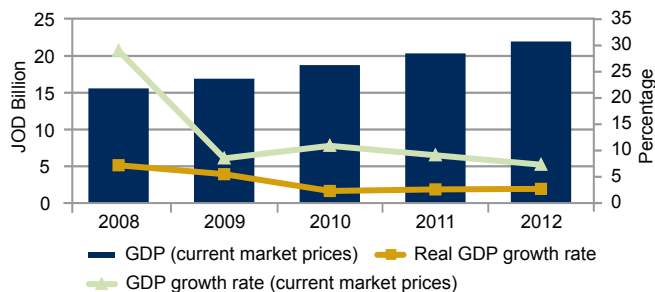
Over the past 10 years, significant economic reforms have been implemented, such as a new trade regime, privatization of state-owned companies, and the elimination of some fuel subsidies, which in the last decade spurred economic growth by attracting foreign investment and job creation.

Many features of Jordan's economy are unexpected and remarkable. Jordan has achieved some of the highest educational levels in the region and has leveraged this human capital in sectors such as pharmaceuticals and business-process outsourcing. Other economic activity ranges from phosphate mining to tourism and textiles. The

state has managed its international relationships shrewdly, securing substantial grant assistance and developing a strong network of free trade agreements. The global economic slowdown and regional turmoil, however, had depressed Jordan's GDP growth, impacting export-oriented sectors, construction, and tourism.

The diversified, open, and service-oriented economy, which had moved in line with global trends, is now slowly recovering from the negative impacts of the global and regional crisis. The economic performance is yet to reach the precrisis levels. In 2012, the economy registered a real GDP growth of 2.7 percent corresponding to a GDP of 21.97 billion Jordanian dinars. As seen in Figure 7.5.1, the growth rate has increased since 2010, but has reduced significantly from the 7.2 percent real GDP growth rate in 2008.

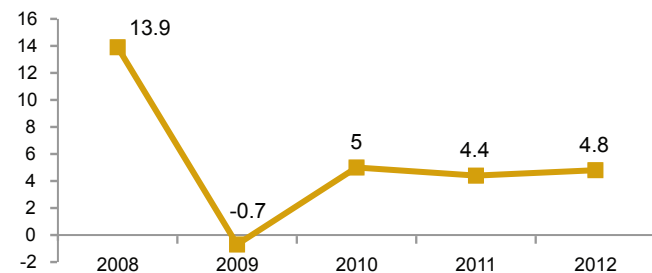
**Figure 7.5.1: GDP Performance**



Source: Annual Report, Central Bank of Jordan, 2012.

Inflation rates (percentage changes in CPI) have experienced volatility over the past few years, as seen in Figure 7.5.2. CPI increased from 4.4 percent in 2011 to 4.8 percent in 2012. This slight rise is attributed to the hike in the international oil prices and the rise of imported commodities prices, along with the liberalization of domestic prices of oil derivatives.<sup>209</sup>

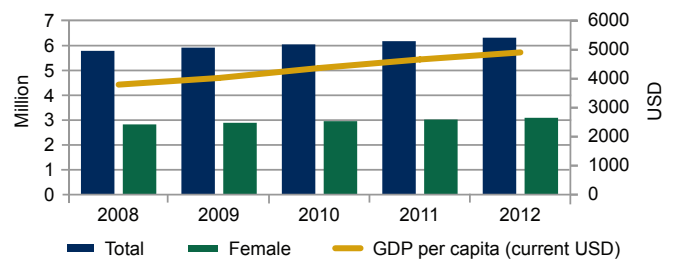
**Figure 7.5.2: Inflation (CPI)**



Source: Annual Report, Central Bank of Jordan, 2012.

The population of the country as of 2012 was 6.32 million. Women constitute nearly half the total population. The GDP per capita has been rising over the past few years, as seen in Figure 7.5.3; it was \$4,909 as of 2012, or about 6,913 Jordanian dinars.<sup>210, 211</sup>

**Figure 7.5.3: Population and GDP per Capita**



Source: data.worldbank.org

## 7.5.2 CREDIT MARKET

### OVERVIEW

The Jordanian financial system comprises the banking system (commercial banks, Islamic banks, and specialized credit institutions), money changers, insurance companies, the Amman stock exchange, and other financial institutions that carry out nonbanking financial activities, such as deposit insurance, extending loan guarantees, export credit, and refinance of mortgage loans. The financial system also includes other lending entities, such as leasing companies and microfinance institutions.<sup>212</sup>

The Central Bank of Jordan (CBJ) is the regulatory and supervisory authority of the banking system and money changers. It was established with the objectives of maintaining monetary stability in the kingdom, ensuring the convertibility of the Jordanian dinar, and promoting the sustained growth of the country's economy in accordance with the government's economic policy.<sup>213</sup>

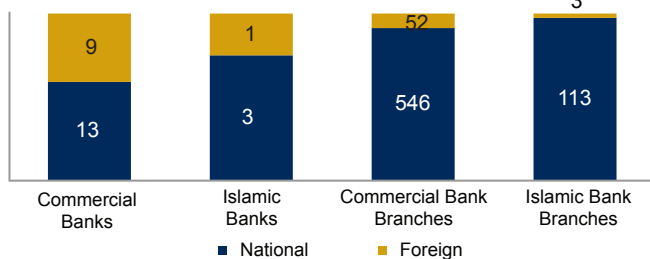
The credit market comprises the banking sector, which is the dominant player, the expanding microfinance sector, and leasing companies. Microfinance institutions are not regulated by CBJ. Other lending companies are not supervised by any authority but the Ministry of Industry and Trade, which is responsible for registering such companies.<sup>214</sup>

## Commercial and Islamic banks<sup>215</sup>

The banking sector in Jordan, as in many countries, is considered a main pillar of the economy. In spite of the events that have followed the 2011 uprisings, the well-capitalized and highly regulated banking sector proved resilient, maintaining its expansion and growth.<sup>216</sup>

As of 2012, the banking system comprised 26 licensed banks, as shown in Figure 7.5.4. There were 16 national banks, of which 13 were commercial banks and three were Islamic banks. The remaining 10 banks were foreign (nine commercial and one Islamic bank). The commercial banks and Islamic banks are referred to as the licensed banks.

**Figure 7.5.4: Number of Banks and Branches in the Banking System**



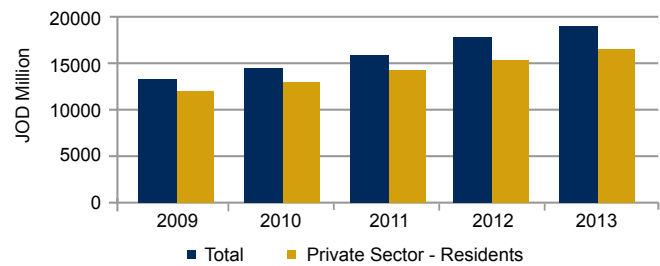
Source: "Jordan Banking System," Annual Report, Central Bank of Jordan, 2012.

The commercial banks operated through a network of 598 branches (546 national and 52 foreign) and also had 69 minibranches within Jordan. Islamic banks had a network of 116 branches (113 national and three foreign). The Jordan Islamic Bank also had 15 minibranches.

Domestic credit provided by these banks has been increasing over the past few years. Total credit facilities provided to the five broad categories of borrowers (central government, public entities, financial institutions, private sector, and residents and non-residents) has been increasing annually, as seen in Figure 7.5.5. It increased 42 percent, from 13.3 billion Jordanian dinars in 2009 to 18.9 billion Jordanian dinars in 2013.

Credit facilities by banks are spread across various segments and economic activities, as shown in Figure 7.5.6. The "others" segment primarily represents loans and advances extended to individuals for consumption purposes, which has been the driver in the expansion of credit facilities. Along with public services and utilities,

**Figure 7.5.5: Credit Facilities by Banks**



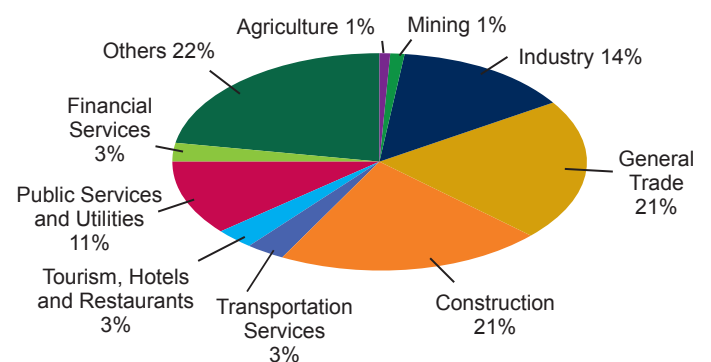
Source: Annual Report, Central Bank of Jordan, 2012.

this has constituted the largest portion of bank credit, increasing from 3.83 billion Jordanian dinars in 2012 to 4.14 billion Jordanian dinars in 2013.

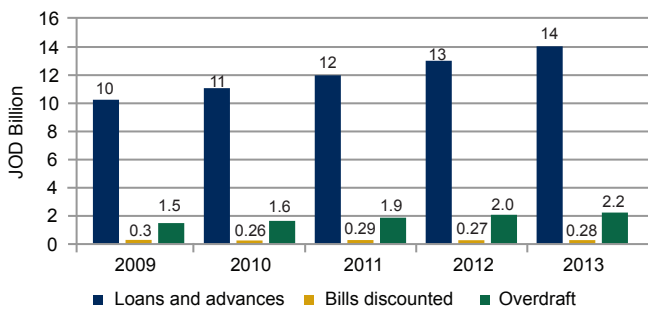
Private sector credit, as shown in Figure 7.5.5, constituted nearly 88 percent of total credit facilities in 2013, following the similar pattern over the past few years. This mainly comprises loans and advances, forming the major share, as seen in Figure 7.5.7, as well as overdraft facilities and bills discounted. Loans and advances have increased from 10.2 billion Jordanian dinars in 2009 to over 14 billion Jordanian dinars in 2013. These mostly include retail and small-ticket credit.

Lending to (medium and large) business firms has been the banks' favorite customer target. More recently, individual salaried consumers have become an interesting segment to prospect, increasingly targeted by the banks. The lending market, however, has remained virtually unaltered for years. But recent transformations are contributing to the reshaping of lenders' activities. Nonsalaried applicants

**Figure 7.5.6: Credit Facilities by Economic Activity**



Source: Annual Report, Central Bank of Jordan, 2012.

**Figure 7.5.7: Private Sector Credit**

Source: Annual Report, Central Bank of Jordan, 2012

and the informal economy are broadly excluded from traditional lending channels.<sup>217</sup>

Risk-management techniques adopted by the banks, particularly for granting small-ticket loans, are still traditional. Credit underwriting is generally marked by subjective manual decisions, low decentralization, high utilization of paper and supporting documents, lack of full automation, conventional appraising techniques, and lack of risk-management tools. There is a heavy reliance on collateral, which is considered a general prerequisite for the disbursement of loans by all banks. Unsecured credit is rare, even in the case of personal and consumer loans.<sup>218</sup>

### Specialized Credit Institutions<sup>219</sup>

Three specialized banks (Agricultural Credit Corporation, Housing and Urban Development Corporation, and Cities and Villages Development Bank) all publicly-owned; they cater to the financial needs of their respective sectors. As of 2012, the specialized banks operated through a network of 36 branches. Credit facilities granted by the Agricultural Credit Corporation and Cities and Villages Development Bank stood at 114 million Jordanian dinars and 83.2 million Jordanian dinars respectively.

### Leasing Companies<sup>220</sup>

There are 11 operational leasing companies, mainly owned by banks. Individuals and firms are served. Though the main lines of business are represented by cars and real estate, these lenders reach other sectors, including equipment, earth-moving vehicles, medical and manufacturing tools, office automation, and trucks. Leasing is one of the primary

sectors of intervention for Islamic finance, and all types of Islamic products are available.

For leasing companies, credit underwriting is very subjective and manual; it must be backed up by collateral and extensive documentation. Generally, unsecured credit is not allowed. Postdated checks and irrevocable direct debit of monthly installments serve as the basic guarantees for every transaction or loan. Higher down payment is another variable considered during the risk evaluation process.

### Microfinance Institutions<sup>221</sup>

The microfinance industry in Jordan is developed, highly competitive, and profitable. It is the fourth largest MFI market in MENA.<sup>222</sup> There are five registered not-for-profit institutions and three commercial companies microfinance institutions that solely offer microcredit. In addition, one commercial bank, one donor agency, and one governmental agency disburse micro and small loans. Several smaller NGOs and informal institutions grant microloans.

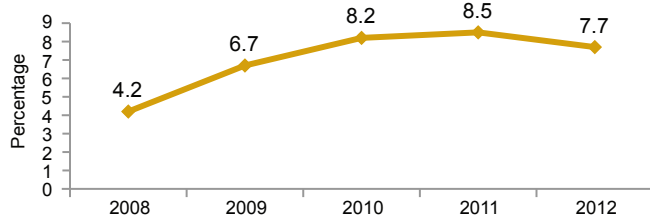
Microfinance institutions are organized at a national level in a microfinance association called Tanmeyah, which has an official legal arrangement, employees, and offices. Its objective is advocacy, collaboration, and sharing of experience and data, in order to provide a more convenient environment for the development of new microfinance products.

Average annual growth rate in outreach was 28 percent from 2006 to 2010, translating into an increase in active borrowers from 76,830 to 203,579 and a total gross loan portfolio of 111.6 million Jordanian dinars.

### Nonperforming Loans

Nonperforming loans were a concern for the banking sector. NPLs had increased sharply during the recent years of weaker economic growth, rising from up from 4.2 percent of total loans in 2008 to 8.5 percent in June 2011. However, NPLs reduced to 7.7 percent in 2012, as shown in Figure 7.5.8. This trend is expected to continue.<sup>223</sup>

**Figure 7.5.8: NPLs in the Banking Sector**

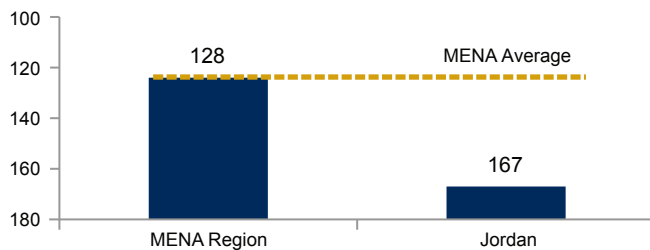


Source: "Jordan Economic Insight," QNB, 2014.

## CREDIT PENETRATION AND ACCESS

The World Bank's *Doing Business Report* ranked Jordan 167 out of 185 countries in the Getting Credit Indicator, in 2013. As seen in Figure 7.5.9, this is lower than the regional average of 128. (DB14, ranked 170)

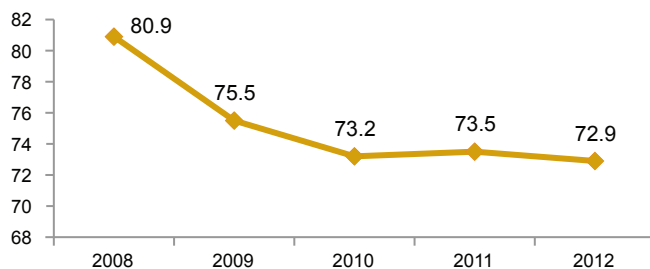
**Figure 7.5.9: Getting Credit Rank, 2013**



Source: *Doing Business Report*, The World Bank, 2013.

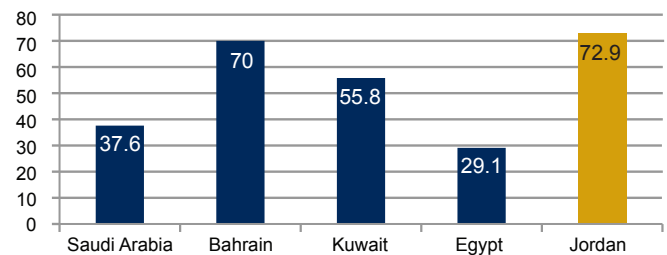
For a country the size of Jordan, the number of players in the credit market is relatively large. Credit penetration (indicated by domestic credit to private sector as a percentage of GDP) is still relatively higher than most countries in the region, as shown in Figure 7.5.10. Nevertheless, it has declined from 80.9 percent in 2008 to 72.9 percent in 2012; this can be seen in Figure 7.5.11.

**Figure 7.5.10: Domestic Credit to Private Sector (% of GDP)**



Source: data.worldbank.org

**Figure 7.5.11: Domestic Credit to Private Sector (% of GDP) in Some MENA Countries – 2012**

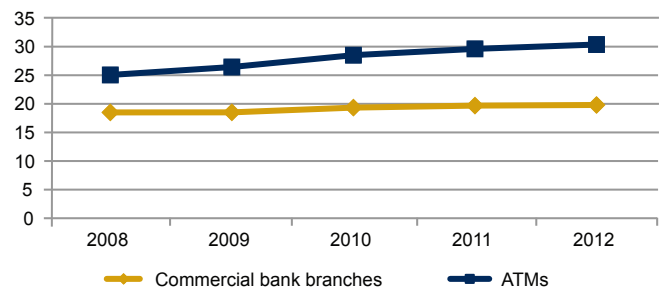


Source: data.worldbank.org

As per the IMF Financial Access Survey, the commercial bank branch network is 19.8 branches per 100,000 adults, as of 2012. As seen in Figure 7.5.12, there has been an increasing trend. The ATM network has also expanded, resulting in an outreach of 30.37 ATMs per 100,000 adults, in 2012.

Table 7.5.1 shows the financial access indicators in terms formal financial institutions' accounts and loans. The percentage of adults with an account was only 25 percent in 2011. Only 17 percent of women have an account with a formal financial institution. The percentage of adults who have taken a loan in 2011 was a low 4 percent. This percentage for women corresponds to nearly 4 percent.

**Figure 7.5.12: Commercial Bank Network per 100,000 Adults**



Source: Financial Access Survey, IMF, 2012

**Table 7.5.1: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>25</b> |
| Men                           | 34        |
| Women                         | 17        |
| <b>Loans in the past year</b> | <b>4</b>  |
| Men                           | 5         |
| Women                         | 4         |

Source: <http://datatopics.worldbank.org/financialinclusion/topic/gender#divMap>

## 7.5.3 STATUS OF CREDIT REPORTING

### OVERVIEW<sup>224</sup>

The sharing and usage of positive and full credit information in Jordan is an established concept. The CBJ deserves credit for its preparatory work in developing and operating the Jordan Credit Registry. With the CR, the CBJ has pioneered credit reporting and started educating lenders on the necessity of sharing credit information. The original, paper-based CR was established in 1965 with two fundamental goals:

- i) To collect information from regulated entities to support CBJ's supervision of credit systems;
- ii) To supply lenders with consolidated information for credit underwriting purposes.

In 1995, the CBJ revamped the CR. The system was internally redeveloped, and the CR is now a fully online registry—the only operational source of information available to regulated lenders in Jordan. Although partly automated, the system is now paperless. The CBJ has plans to further develop the system to collect and distribute data that was not previously available, like maturities, credit facilities, interest rates, etc.

Regulated entities are the primary data providers and users of the CR. No other financial entities are providing data or

inquiring to the CR, unless they are part of a banking group (and therefore providing consolidated data with the bank itself). A threshold limit is applied: only those loans above the limit are regularly updated in the CR.

Table 7.5.2 indicates that, as of 2012, over 83 percent of outstanding loans data (direct facilities) was submitted to the CR, which has since increased.

Detailed credit information and full-file payment histories on borrowers were not available in Jordan. This led to a consensus from lenders that a credit bureau should be established. Prepared with the support of IFC, the Credit Information Law (No.15 of the year 2010) has given way to the establishment of credit information companies in the country. The bylaws have also been established, along with all the necessary basic regulations and requirements. The first credit bureau received a provisional license in November 2014. Once licensed, the bureau will begin system development and is expected to commence operations in 2015. The bureau will collect, store, and disseminate information within a wide-ranging, centralized data bank structure, which will serve as a record of business dealings and verification of creditworthiness.<sup>225</sup>

The CB will significantly improve the credit reporting system in Jordan with a full-fledged, comprehensive credit bureau, providing information services to regulated entities as well as other data sources.

**Table 7.5.2: Outstanding Balances of Direct Facilities in the System**

| Year | Total Value of Outstanding Balance of Direct Facilities 1 | Total Value of Outstanding Balance of Declared in PCR 2 | 1/2   |
|------|---|---|-------|
| 2002 | 5,130,000,000   | 3,921,200,000   | 76.4% |
| 2003 | 5,262,400,000   | 4,006,100,000   | 76.1% |
| 2004 | 6,189,200,000   | 4,773,700,000   | 77.1% |
| 2005 | 7,744,300,000   | 5,923,600,000   | 76.5% |
| 2006 | 9,761,900,000   | 7,669,700,000   | 78.6% |
| 2007 | 11,295,600,000  | 9,080,040,000   | 80.4% |
| 2008 | 13,044,100,000  | 10,733,700,000  | 82.3% |
| 2009 | 13,316,200,000  | 10,847,800,000  | 81.5% |
| 2010 | 14,451,400,000  | 11,688,500,000  | 80.9% |
| 2011 | 15,851,200,000  | 13,052,400,000  | 82.3% |
| 2012 | 17,817,002,000  | 14,899,869,600  | 83.6% |



## The Microfinance Institution Database<sup>226</sup>

The Jordanian microcredit network had been discussing the establishment of a proper information sharing system. It is likely to be limited to the microfinance sector—mainly to the major, private MFIs for the immediate future. In 2007, six private MFIs joined efforts to share information and set up the first shared database and registry for microfinance institutions. This was Jordan’s first private information provider and the only alternative to the CBJ’s existing CR.

The sharing scheme is simple, cheap, and limited to the microfinance institutions, but it is efficient. As of 2011, 11 MFIs were providing data and searching the database. It is necessary for the MFIs to collect borrowers’ consent for sharing data. Loan inquiry is mandatory as per the agreement among MFIs before providing a credit facility. Based on ACRI’s assessment, it is noteworthy that, in 2010, inquiries to the MFI database were three times higher than banks’ inquiries to the CR.

The system is tailored for a basic sharing of data among MFIs, and it serves the purpose, particularly in the absence of any other provider or information repository. Given that the participation is limited to MFIs, complete profiles of borrowers that have also taken loans from banks are not available within the database.

## PARTICIPATION AND DATA SHARING

All licensed and regulated banks are required to provide the CR with credit information on both individuals and firms; updates are sent to the CR system on a monthly basis. Negative and positive information is shared. There is a threshold limit of 20,000 Jordanian dinars for reporting loans to the CR. However, the CR system also stores information on loans that are lower than the threshold, but these are not updated by the banks and are not part of the information disseminated.<sup>227</sup>

Apart from licensed banks, other institutions that are subsidiaries of banks are required to provide data to the CR. Currently, there is one microfinance institution, a bank subsidiary, that provides data to the CR. The same goes for leasing companies: if they are a bank subsidiary (which is the case for some), they are required to share data. Apart

from these institutions, two governmental institutions (the Postal Saving Fund and the Orphans Fund) are allowed to inquire data from the CR. These institutions, however, do not share data.<sup>228</sup>

From 2008 to 2012, the total number of individuals and firms listed in the CR doubled to 79,916, as seen in Table 7.5.3. As per the *Doing Business Report 2013*, this corresponds to merely 1.9 percent of the adult population.

**Table 7.5.3: Number of Individuals and Firms**

| Year | Number of Individuals and Firms Listed in the Registry’s Database During the Year |
|------|---|
| 2002 | 16,136  |
| 2003 | 16,784  |
| 2004 | 18,862  |
| 2005 | 22,506  |
| 2006 | 28,775  |
| 2007 | 35,044  |
| 2008 | 39,571  |
| 2010 | 62,116  |
| 2011 | 68,618  |
| 2012 | 79,916  |

Source: Presentation on the Credit Registry of the Central Bank of Jordan

Lenders are not mandated to inquire with the CR before granting credit facilities. However, the number of inquiries made to the CR has been increasing over the years. As of 2012, this number stood at 95,480, increasing 72 percent, from 54,026 in 2008, as shown in Table 7.5.4.

**Table 7.5.4: Number of Inquiries made by Bank to PCR**

| Year | Number of Inquiries made by Banks to PCR |
|------|--|
| 2006 | 28,300                                   |
| 2007 | 42,883                                   |
| 2008 | 54,026                                   |
| 2009 | 69,134                                   |
| 2010 | 80,396                                   |
| 2011 | 92,401                                   |
| 2012 | 95,480                                   |

Source: Presentation on the Credit Registry of the Central Bank of Jordan

Not all information collected by the CR is disseminated to banks. Loans are consolidated across the financial system so that only one figure for total debt per individual or firm is presented.<sup>229</sup> Also, the threshold limit has resulted in data disseminated to banks being limited to mainly business loans. Though consumer loans data is provided, the information on these lines of credit is neither part of the information returned to the banks in the credit reports nor updated monthly.

The start of operations of the new CB will result in information sharing by regulated as well as nonregulated entities. Full-file payment histories and detailed information on credit facilities will be available to lenders and borrowers.

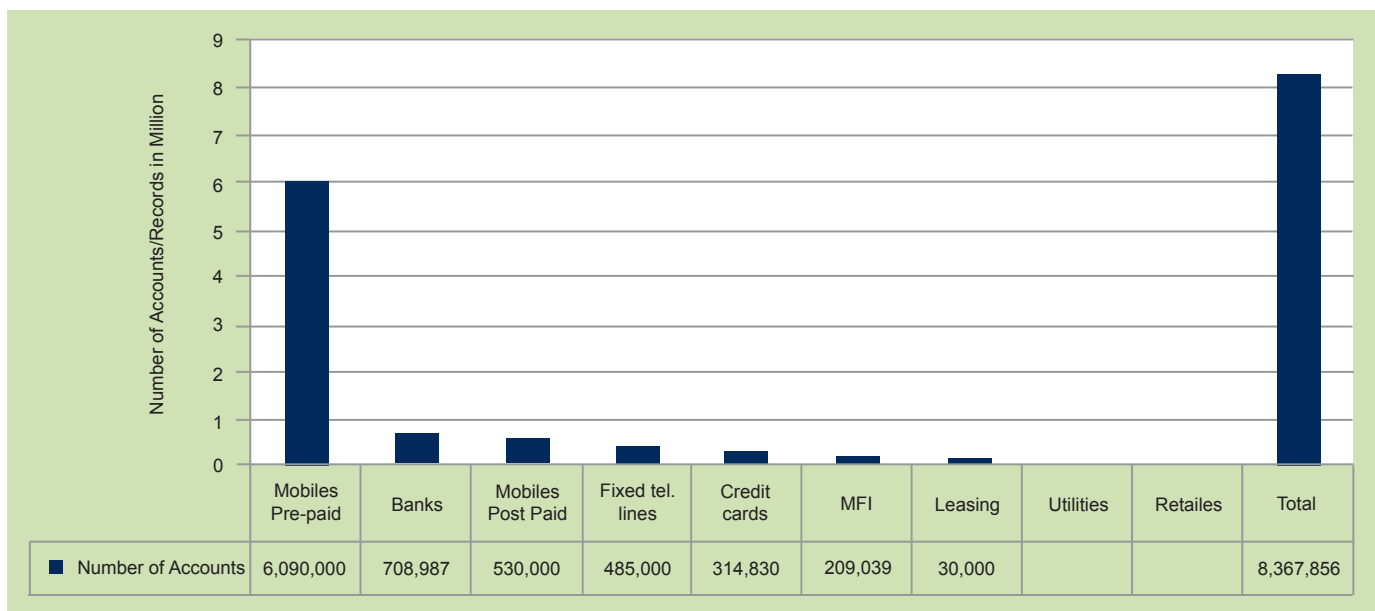
Through ACRI's 2011 assessment, the team undertook a study that estimated the CB's initial, theoretical database size at the start of its operations, if all lenders (including banks, credit card companies, leasing companies, microfinance institutions and telecommunications companies) were to contribute to the database. The study concluded that if all these sectors were to contribute information on all borrowers, the CB can start operations with a database of over 8.3 million records, as shown in Figure 7.5.13.

However, the number of individual customers represented would be lower, as an individual could be registered with more than one lender. Also, of the 8.3 million records, 1.9 million would contain full credit histories, while the remaining 6.4 million would only show demographic records and prepaid contracts. If public information and utilities data were also included, the database would be further enriched. In the assessment, however, it was clearly stated that no records would be contributed and no historical data will be part of the initial database unless consumer consent was collected immediately and homogeneously by the entire gamut of potential users and data providers. Unless this is systematically conducted, there would be no historical information available, and the database would have to be created slowly and gradually.<sup>230</sup>

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

The CR is governed according to the provisions of Banking Law No. 28 of 2000. There was no other relevant law for credit information sharing until the Provisional Credit Information Law No. 82 of 2003. This was the first law for the establishment of credit information companies in Jordan.

**Figure 7.5.13: Theoretical Number of Accounts/Records to Form the PCB Initial Database (all mobiles post and pre-paid are considered)**



Source: "Assessment and Observations on the Credit Reporting System of the Hashemite Kingdom of Jordan.", 2011

In 2010, Credit Information Law No. 15 was passed, which replaced the provisional law and allows the licensing of CBs in the country. According to the law, the CBJ will be the regulatory authority for CBs.

The law details the establishment and operation of CBs. Articles 9 and 11 of the law state the possible information providers and the activities of the CB respectively.

Article 9 *“The Company may obtain credit information mainly from: any other credit bureau company, Banks and financial leasing companies, any company that sells on credit, financial institutions.”*

Article 11:

- a. *Collection, storing, and handling the credit information in accordance with the provisions of this law*
- b. *Preparing a database regarding customers*
- c. *Preparing credit reports according to forms approved by CBJ*
- d. *Identify customer’s credit status according to the approved credit point program*

The law also states that all data providers should provide credit information on any customer or any changes that may occur throughout the duration of the agreement. The law also requires that all lenders must collect borrowers’ consent (referred to as access authorization) in writing before providing data or inquiring the CB. Consumers also have the right to obtain their own credit reports, free of charge, once a year.

Also, Article 19 of the Law states the following:

- A. *Credit provider who wishes to obtain service from the company should inform the customer with the following:*
  1. *The purpose of obtaining credit information*
  2. *The right to access his own credit information, to correct any error, and to object on that information*

*B. Credit provider should keep the access authorization throughout credit period*

*C. When Credit provider rejects the client’s credit request because of the negative points in his credit report; the provider should provide the client with a copy of his credit report*

The bylaws of the credit information law (or the credit bureau regulations) were also issued in 2011, and discussed the specifics on licensing process for credit bureaus.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Jordan, as shown in Table 7.5.5. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- The credit reporting system is limited to information sharing with the CR by the regulated entities and the microfinance institutions’ database.
- The two databases are separate, and there is no sharing between them. Their respective limitations in information sharing have resulted in a low ACRISI score of 10;
- A new credit information law, passed in 2010, has strengthened the credit reporting system and allows for the establishment of private credit information providers. Prior to this law, the Temporary Credit Information Law No. 82 of 2003 was applicable;
- The introduction of specific and tailored legislation on CBs represents the most appropriate approach to establish a solid information sharing system, enhancing consumer rights as well as the private credit reporting system;<sup>231</sup>
- Consumer rights within the CR are limited. Although consumers can raise disputes through lenders and their consent is collected before inquiry, they do not have

access to their own reports. However, a new law allows for complete access, including one free report a year, and dispute resolution, which will be applicable once the CB is established;

- Only the regulated institutions share and inquire data with the CR. Thus, participation is limited, and no complete risk profile is available. Microfinance institutions and leasing companies that are subsidiaries of a bank can also share/inquire from the CR;
- Depth of data sharing, as indicated by ACRISI, is low: there is no mandate for inquiry to the CR, threshold limits are applicable, and the principle of reciprocity does not always apply;
- The new CB, once operational, will be a modern credit information company, which will allow information sharing across sectors and play an effective role in the development of the credit market; it will improve risk-assessment methods in the country.

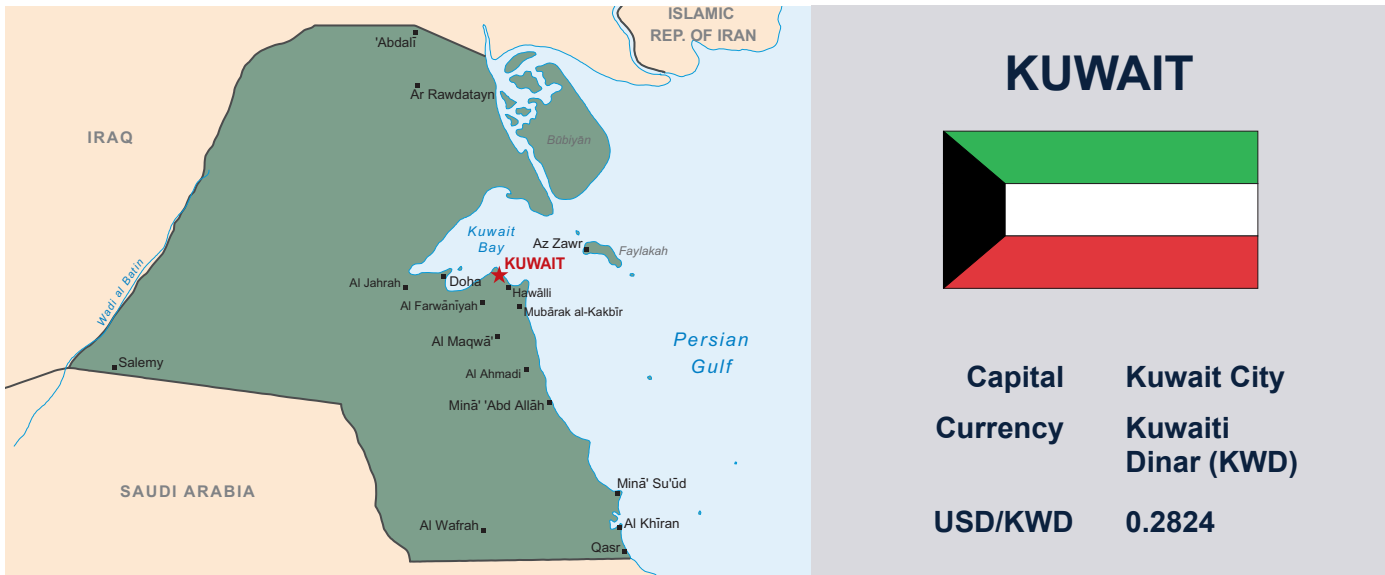
## RECOMMENDATIONS

- The new CB should collect detailed credit information from regulated and non-regulated entities concerning individuals and firms. All users of the database should also be data providers (the principle of reciprocity should apply);
- To avoid fragmentation in the case of the microfinance institutions' database, all information should be collected by a single system; possibly MFIs should be mandated to share data with the CR and the CB. A legal framework that allows the CBJ to regulate MFIs might be considered, in order to avoid the creation of vertical information silos that do not communicate with one other and fragment borrowers' credit histories;
- The CB should, as quickly as possible, provide credit scoring and other value-added services to its users;
- The CBJ can allow for more than one CB license to ensure a healthy, competitive market subject to sufficient business volumes that might justify an industry-driven structure;
- The central bank and the new CB should undertake awareness and education campaigns for lenders and borrowers on all aspects of information sharing such as benefits, purpose, obligations, rights, usage, etc.

Table 7.5.5: Arab Credit Reporting Information Sharing Index — Jordan

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | NO        | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | YES       | YES       |
| Is there a legal framework for privacy and protection of data?               | NO        | NO        |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | NO        | NO        |
| Do consumers have access to at least one free report in a year?              | NO        | NO        |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | YES       | YES       |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | NO        | NO        |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | YES       | YES       |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | NO        | NO        |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | NO        | NO        |
| Does the principle of reciprocity apply?                                     | NO        | NO        |
| Are credit scores provided to the users?                                     | NO        | NO        |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>10</b> | <b>10</b> |





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.  
 Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41507, March 2015.

## 7.6 KUWAIT

### 7.6.1 ECONOMIC OVERVIEW

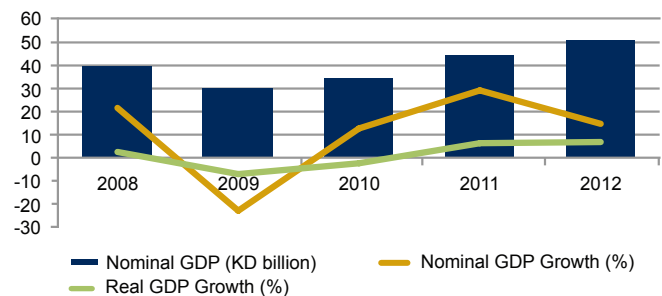
Kuwait is a small country nestled at the top of the Gulf, flanked by large neighbors: Saudi Arabia to the south, Iraq to the north, and Iran to the east.<sup>232</sup> Kuwait has substantial oil resources (about 102 billion barrels), which represent 7 percent of the world's oil supply. This accounts for nearly half of its GDP and 95 percent of exports. Despite large oil revenues, the economy has been affected by the global financial crisis.<sup>233</sup>

Over the past few years, Kuwait has had strong GDP growth boosted by oil sector revenues and investments in the nonoil sector of the economy. The nominal GDP of the economy increased 14.7 percent, from 44.4 billion Kuwaiti dinars in 2011 to 50.9 billion Kuwaiti dinars in 2012.<sup>234</sup> The real GDP growth rate also increased from 6.3 percent in 2011 to 6.8 percent in 2012. The GDP performance and growth rates from 2008 to 2012 are shown in Figure 7.6.1.

Kuwait is highly dependent on expatriates, which account for over 68 percent of population. The total population, as of 2012, was 3.8 million. Women accounted for nearly 40 percent.<sup>235</sup> Figure 7.6.2, below, shows the bifurcation of the Kuwaiti and non-Kuwaiti population, as of 2012.

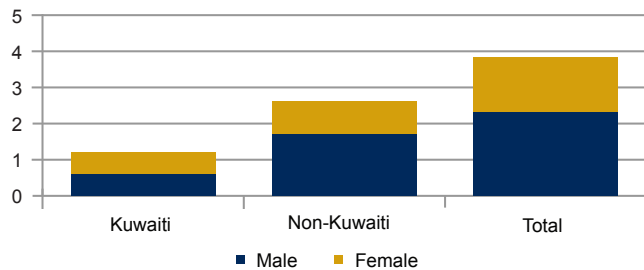
Kuwait is a high-income economy and the second wealthiest economy in the GCC, with a per capita GDP of approximately \$47,600, as of 2012.<sup>236</sup> Figure 7.6.3 below shows the GDP trend from 2008 to 2012.

Figure 7.6.1: GDP Performance



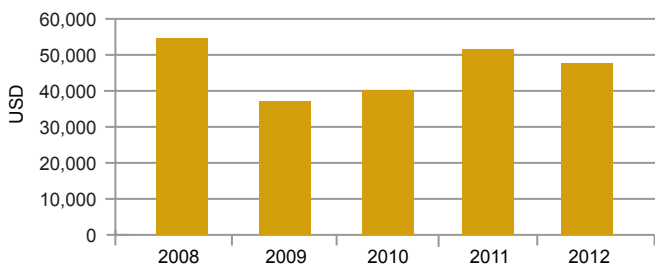
Source: "Kuwait Economic Insight," QNB, 2013.

Figure 7.6.2: Population – 2012 (Million)



Source: The Public Authority for Civil Information, Kuwait.

Figure 7.6.3: GDP per Capita (USD)



Source: data.worldbank.org. "Kuwait Economic Insight."

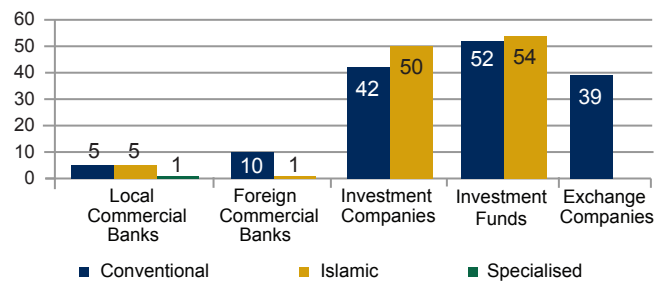
## 7.6.2 CREDIT MARKET

### OVERVIEW

The financial system of Kuwait consists of the banking system (conventional commercial banks, Islamic banks, and specialized banks) investment funds (Islamic and conventional), exchange companies, and investment companies (Islamic and conventional). The Central Bank of Kuwait (CBK) leads the banking and financial system and is the supervisory authority. From September 2011, the Capital Markets Authority was given responsibility for regulating the investment companies and funds.

There are a total of 22 commercial banks in the country (10 local, 11 foreign, and one specialized bank). There are five local commercial banks that operate according to Islamic law. Islamic banks, along with Islamic finance companies, are popular and a growing source of finance. As shown in Figure 7.6.4, they constitute a large portion of the financial system in Kuwait. The specialized bank, the Industrial Bank of Kuwait, is dedicated to industrial development and also provides industrial Islamic finance. Some investment companies are also engaged in providing consumer finance facilities for personal and business purposes. Figure 7.6.4 gives an overview of the financial system of Kuwait.

Figure 7.6.4: Financial System of Kuwait



Source: "Banking and Financial System Structure," Central Bank of Kuwait, June 2013.

### Banking

The banking sector is dominant, with a network of 364 local bank branches; it accounts for about 96 percent of the total credit granted by the system. The National Bank of Kuwait and Kuwait Finance House, the largest conventional and Islamic banks respectively, have the most expansive network of branches in the country; the two account for 55 percent of total banking assets.<sup>237</sup>

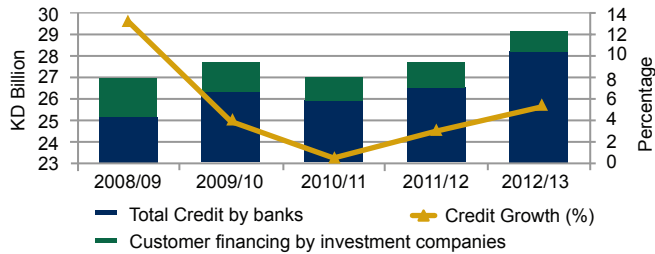
As of December 2012, outstanding loans, as a percentage of GDP, were 59.9 percent. The number of outstanding loans among individuals and firms was 162,517 and 7,296 respectively. This corresponded to a value of 10.82 billion Kuwaiti dinars for individuals and 18.69 billion Kuwaiti dinars for firms.<sup>238</sup>

The growth of total credit granted by local banks to residents in Kuwait peaked in fiscal year 2009 at a rate of 13.2 percent; it fell to a low of 0.5 percent in FY11 and then a gradually increased to 5.2 percent in FY13. The total value of credit (utilized cash portion of credit facilities) increased from 24.18 billion Kuwaiti dinars in FY09 to 27.33 billion Kuwaiti dinars in FY13.

The share of credit by local banks to non-resident accounts for 4.2 percent of the total credit granted by the banking system and 3.05 percent of overall credit. Customer financing by investment companies was 9.52 billion Kuwaiti dinars in FY12 to FY13. This accounts for 3.26 percent of the total credit granted by the financial system. Figure 7.6.5 shows the trend of credit facilities in the economy and the credit growth from FY09 to FY13.<sup>239</sup>



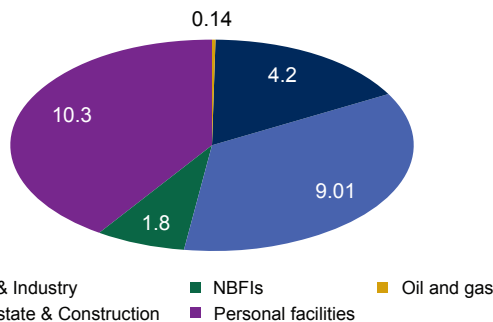
**Figure 7.6.5: Total Credit (KD Billion)**



Source: Annual Reports, Central Bank of Kuwait, 2009–2013.

The personal facilities sector showed the highest increase—12.4 percent — over the previous fiscal year; it also accounted for the largest share of bank credit in 2012, as shown in Figure 7.6.6, with credit facilities worth 10.3 billion Kuwaiti dinars. Real estate and construction held the second largest share, accounting for 9.01 billion Kuwaiti dinars in credit facilities, followed by trade and industry.<sup>240</sup>

**Figure 7.6.6: Bank Credit by Sector – FY 2012/13 (KD Billion)**



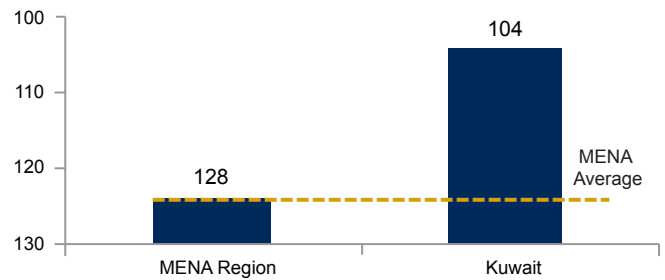
Source: Annual Reports, Central Bank of Kuwait, 2009–2013

A part of a development plan, the CBK has undertaken several measures to strengthen the banking sector. CBK and local banks made persistent efforts to accurately analyze and evaluate the quality of loan portfolios. This has led to a significant improvement in the quality of credit by the banking system. Nonperforming loans have decreased from 7.06 percent in December 2011 to 4.95 percent in December 2012.<sup>241</sup>

### CREDIT PENETRATION AND ACCESS

The World Bank’s 2013 *Doing Business Report* ranked Kuwait 104 out of 185 countries in the Getting Credit Indicator. As seen in Figure 7.6.7, it is higher than the regional average of 128. (*DB14, ranked 130*)

**Figure 7.6.7: Getting Credit Rank – 2013**

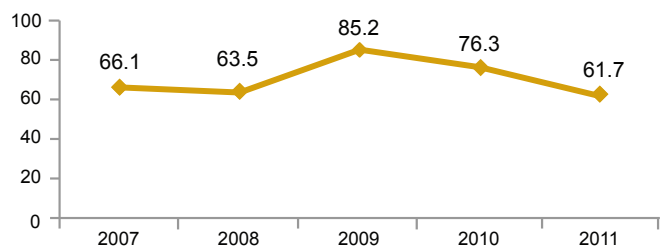


Source: *Doing Business Report*, The World Bank, 2013. data.worldbank.org.

Total credit volumes granted by the financial system and more specifically, the banking sector, have steadily increased since FY09. An indicator of credit penetration, domestic credit to private sector as a percentage of GDP, has declined since 2009, as seen in Figure 7.6.8.

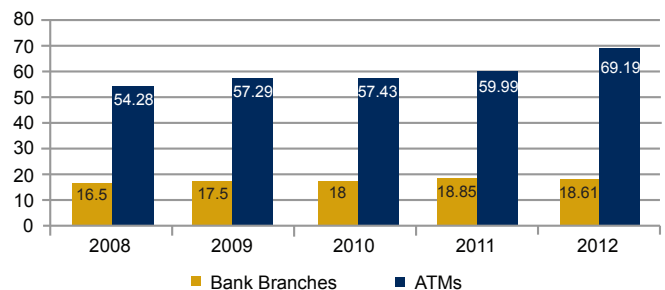
The banking sector operates through a network of 364 branches. In addition, there are 11 foreign bank branches operating in the country. This translated to 18.61 commercial bank branches per 100,000 adults in 2012. The ATM network has been increasing over the past five years, as seen in Figure 7.6.9; there were 69.19 ATMs per 100,000 adults in 2012.<sup>242</sup>

**Figure 7.6.8: Domestic Credit to Private Sector (% of GDP)**



Source: *Doing Business Report*, The World Bank, 2013. data.worldbank.org.

**Figure 7.6.9: Commercial Bank Network per 100,000 Adults**



Source: Financial Access Survey, IMF, 2012

Table 7.6.1 shows the financial access indicators in terms of formal financial institutions' accounts and loans. The percentage of adults with an account was 87 percent in 2011, which is relatively high for the region. Eighty percent of women have an account with a formal financial institution. However, the percentage of adults who have taken a loan in 2011 was only 21 percent. This percentage for women corresponds to 17 percent.

**Table 7.6.1: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>87</b> |
| Men                           | 92        |
| Women                         | 80        |
| <b>Loans in the past year</b> | <b>21</b> |
| Men                           | 24        |
| Women                         | 17        |

Source: <http://datatopics.worldbank.org/financialinclusion/country/kuwait>

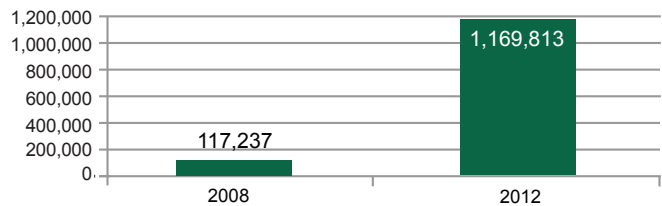
## 7.6.3 STATUS OF CREDIT REPORTING

### OVERVIEW

Kuwait was the first MENA country to establish a CB in 2002. (It is one of the six MENA countries with a CB, the others being Bahrain, Egypt, Morocco, Saudi Arabia, and the UAE). Although a credit registry has been set up by the CBK in the form of a centralized risk system, the country is primarily dependent on the CB for its credit information sharing.

**The CR or the Centre of Risk Information** was set up in 1982 as per the provisions of the CBK Law 32/1968. It is a centralized risk system for collecting information on bank credit on a periodic basis. The purpose was also to assist banks in evaluating the creditworthiness of customers, applying for loans, and enabling the CBK to be constantly aware of banking credit trends.<sup>243</sup> The CR collects information on loans, including demographic data and details on loans granted by banks to individual borrowers and business firms.

**Figure 7.6.10: PCR Coverage – Number of Loans Registered**



Source: ACRI Credit Information Sharing Survey – January 2013

As of December 2012, 1.16 million loan records were registered in the CR, increasing from 0.12 million in 2008, as shown in Figure 7.6.10.

**The Credit Information Network (Ci-Net)**, the credit bureau of Kuwait, established by Law No. 2 of 2001, started its operations in October 2002. Sixteen banks and finance companies own the network. This is the primary source of credit information sharing in Kuwait and was established to assist lenders in their credit granting process and borrowers risk assessment.

Ci-Net uses an advanced system to provide information to members that offer credit facilities to their customers. The bureau uses data provided by the Public Authority for Civil Information; the civil ID is used as the key search criteria.<sup>244</sup>

As per the *Doing Business Report 2013*, the CB's coverage in terms of percentage of adults is 31 percent, increasing from 29 percent in the previous year. According to the report, 617,539 individuals and 73 firms were listed in the CB.

Currently, there are no value-added services, such as bureau scores, provided by the private bureau. However, plans for introducing risk-management solutions—such as scorecards, application processing, warnings of account, etc.—are under review. Also, Ci-Net started a consultation process to appoint an international credit bureau service provider to develop and implement a new credit bureau system based on international standards.<sup>245</sup>

## PARTICIPATION AND DATA SHARING

All banks are mandated by law to provide data on loans to the CR. However, the required minimum loan size for reporting is 15,000 Kuwaiti dinars. Banks are also mandated to inquire with the center before granting a loan.

All banks, investment companies, and commercial establishments that offer credit facilities are mandated to provide data to Ci-Net. In addition to traditional participants, commercial banks, credit card issuers, finance corporations, and retailers provide data to the bureau. The principle of reciprocity is applicable: only institutions that provide data can access the bureau.

Full data on credit facilities granted to individuals are reported to Ci-Net, including demographics, loan data and payment performance history (whether payments are on time), defaults or debts on the credit facility; this information is distributed through credit reports. Detailed monthly payment histories are not collected or reported. All loans (irrespective of amount) and negative and positive data are shared through the system.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

The CBK Law 32/1968 introduced the system of credit information sharing in the country. Through Article 82 of the Law, the central bank was given the authority to collect information as required from banks. It clearly states the authority of the central bank to collect statistics on banking credit and the requirement for banks to submit data as requested.

Article 82 *“The Central Bank may ask the banks to submit such statements, information and statistical data as the Bank considers necessary to carry out its functions. The Central Bank may also establish a system for the collection of statistics on banking credit on periodic basis.”*

Article 83 lays down the provision for the central bank to establish a Centralised Risk System to share information and evaluate borrowers’ credit worthiness. Through this article, there is a clear provision that allows for sharing of credit information from all banks.

The law also takes into consideration the confidentiality of information shared with the CBK and the Centralised Risk System. Confidentiality of information has been specifically addressed in Articles 82 and 83. Article 82 states, “All these information shall remain confidential, except statistical data in an aggregate form, data and information exchanged between the Central Bank of Kuwait and other central banks and other banking supervisory authorities...” “This refers to all data, information, and statistics requested by the CBK.

Article 83 *“Data and information acquired through the Centralized Risks System shall only be disclosed to persons who should be advised thereof under the rules laid down for the implementation of the System.”*

In 2001, the National Assembly passed Law No. 2 of 2001, which established a system to collect information and data on consumer credit loans associated with the installment sales. This law provided for the establishment of CBs in the country, under the purview of the CBK and the Ministry of Commerce and Industry.

This law applies to all banks and finance institutions that offer credit facilities. These regulations govern the sharing of information between the bureau and financial institutions. All institutions are mandated to provide full data on loans granted, which ensures complete credit information in the system. The law also states that the information shared through this system will not be disclosed except as permitted by the relevant laws.

Consumers and their data are well protected in the credit information system. Consumer consent is necessary for a CB inquiry. Although not guaranteed by law, consumers are allowed to access their own credit reports from the CB at a cost. They can also raise disputes on incorrect data and request corrections.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Kuwait, as shown in Table 7.6.2. The index provides a snapshot of the assessment of the credit information sharing system in the country.

### CONCLUSIONS

- Kuwait has a strong financial and banking system supported by a relatively robust credit reporting framework; it is the first country in the region to set up a CB;
- The presence of the CB has led to a relatively high ACRISI score of 16 for Kuwait; this indicates the establishment of a basic framework for credit reporting, but there is room for improvement;
- The reporting framework addresses all basic requirements in terms of legal framework, consumer rights, and data sharing;
- There is a legal framework in place that establishes the essential regulations for credit information sharing and also for the privacy and protection of such data;
- Consumer rights have been established; entities are required to collect consent before inquiry. The CR offers free reports, but the CB does not;
- Regulated entities share data with the CR and CB. The CB also collects information from retailers;
- All parameters in the depth of data sharing and reporting of ACRISI have been fulfilled, indicating a comprehensive database of all loans in the reporting system;
- There is no system in place for providing credit scores to the users, but the bureau has plans to introduce a scoring system and other value-added services;
- Cross-border data sharing is not allowed in the country.

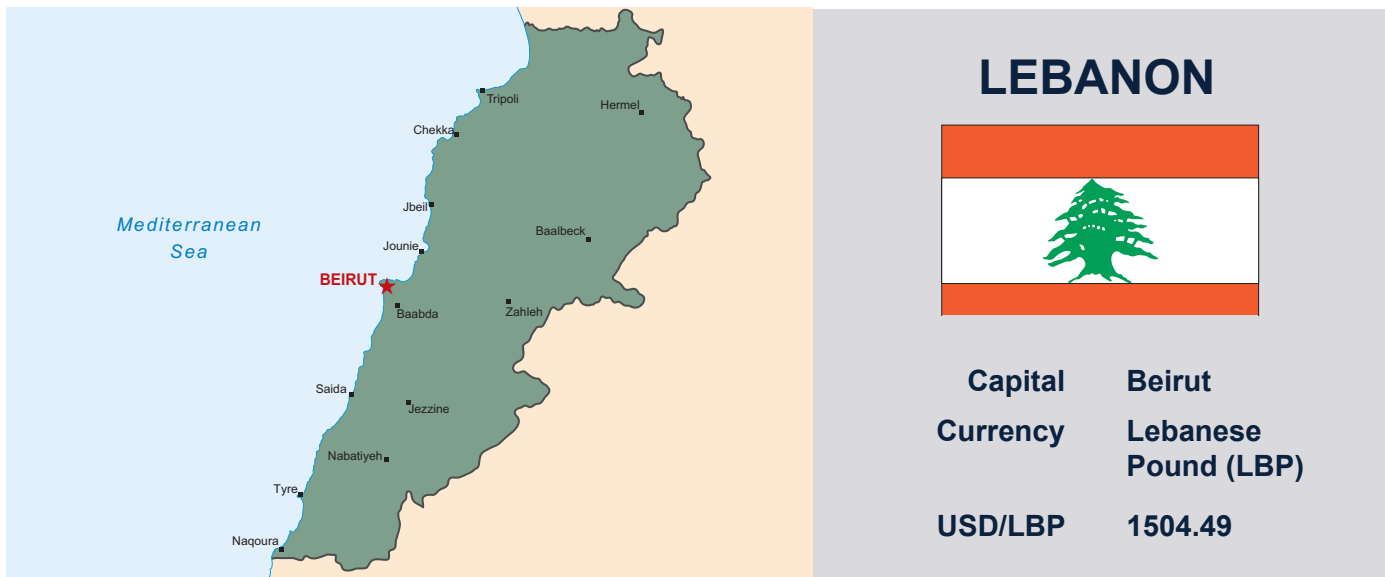
### RECOMMENDATIONS

- The CB should implement a system for sharing data with other nonregulated entities, such as utility providers; it should also provide value-added services, including credit scores;
- Since its passing in 2001, the law has not been amended. Given the recent changes in the credit-reporting framework of other MENA countries (for example, Saudi Arabia and the UAE have implemented more advanced credit information laws), the Central Bank of Kuwait can upgrade the law according best practice. Reforms might include indicating specific definitions for relevant terms, clear provisions for data sharing and formats, further defining the role of the supervisory authority, impact of violations and penalties, etc.
- The Central Bank of Kuwait and Ci-Net should undertake a common program of awareness and education drives for lenders and borrowers on all aspects of information sharing such as benefits, purpose, obligations, rights, usage, etc.

Table 7.6.2: Arab Credit Reporting Information Sharing Index — Kuwait

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | YES       | YES       |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | YES       | YES       |
| Is there a legal framework for privacy and protection of data?               | YES       | YES       |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | NO        | NO        |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | YES       | YES       |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | YES       | YES       |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | NO        | NO        |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | YES       | YES       |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | YES       | YES       |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | NO        | NO        |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>16</b> | <b>16</b> |





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41508, March 2015.

## 7.7 LEBANON

### 7.7.1 ECONOMIC OVERVIEW

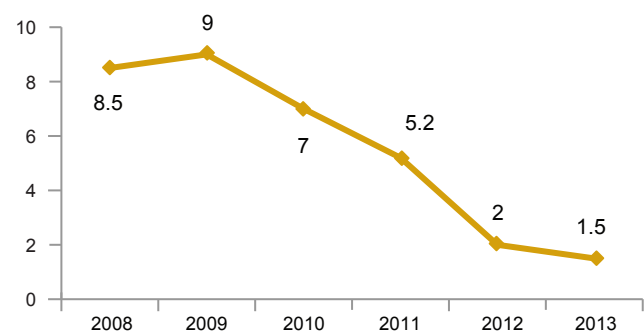
The Lebanese economy follows a laissez-faire model, providing an economic environment where government restrictions do not apply to transactions between private parties. Following a free-market regime, there is practically no government intervention on foreign exchange or capital movement. The economy is service-oriented, and 65 percent of the Lebanese workforce attains employment in this sector. Banking and tourism have been the main growth sectors in the past years, contributing roughly 67.3 percent to GDP annually.<sup>246</sup> Lebanese banks have high liquidity and are reputed for their security. In 2008, the value of Lebanon's stock market increased, one of the only seven countries in the world to experience growth amid that year's crisis.

Since the beginning of 2013, the Lebanese economy has been characterized by slowness during political bickering and regional turmoil. Major investment decisions continue to be delayed due to investors' wait-and-see attitude. Such a situation is a result of regional spillover effects in the

realms of investment, trade, and tourism. There are few factors that continue to support the economy, including: the Central Bank of Lebanon's stimulus package and subsidies of loan interest in vital economic sectors.

Despite the global recession, the Lebanese economy grew 9.3 percent in 2008 and 8.5 percent in 2009. Real GDP growth slowed from 7.0 percent in 2010 to 2 percent in 2012.<sup>247</sup> The IMF forecasted a positive though relatively low real GDP growth of 1.5 percent for 2013. Figure 7.7.1 shows the trend from 2008 to 2012, including 2013

Figure 7.7.1: Real GDP Growth (%)



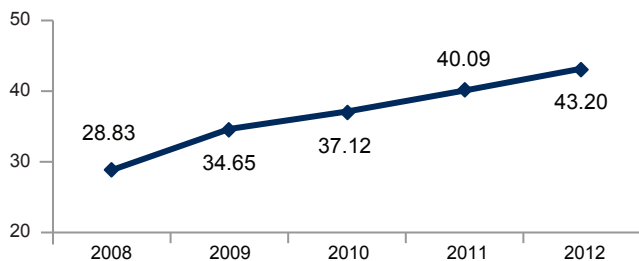
Source: Annual Reports, Bank Audi Sal

estimates. GDP has grown from \$28.83 billion in 2008 to \$43.20 billion in 2012, as shown in Figure 7.7.2.<sup>248</sup>

In 2012, the inflation rate was 6.5 percent, as compared to 5 percent in 2011. Figure 7.7.3 shows the trend from 2009 to 2012. The price increases from 2010 and 2012 mainly affected basic needs, such as food, fuel, and shelter.

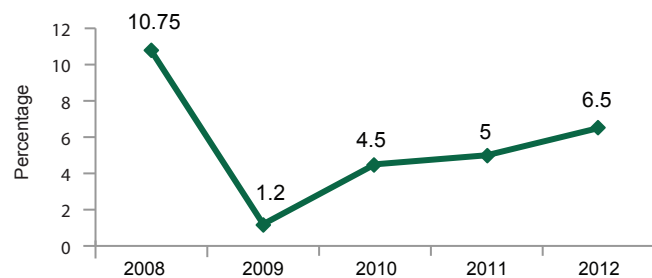
Lebanon is one of the most densely populated countries in the world, with an average of over 400 people per square kilometer. The total population, as of 2012, was 4.42 million. Women accounted for nearly 49.1 percent of the total population. Figure 7.7.4 shows the bifurcation of the total population from 2009 to 2012.

**Figure 7.7.2: GDP (Current U.S. Dollars, in Billions)**



Source: data.worldbank.org

**Figure 7.7.3: CPI Inflation**



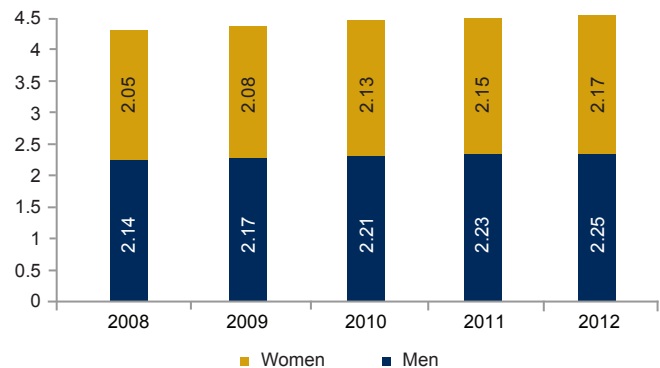
Source: IMF, 2013. data.worldbank.org

## 7.7.2 CREDIT MARKET

### OVERVIEW

The Banque Du Liban is tasked with safeguarding the national currency as the basis for sustained social and economic growth.<sup>249</sup> BDL grants licenses for the establishment of banks and financial institutions in Lebanon. It can use all measures deemed appropriate to ensure exchange rate stability, and specifically intervenes

**Figure 7.7.4: Population (Million)**

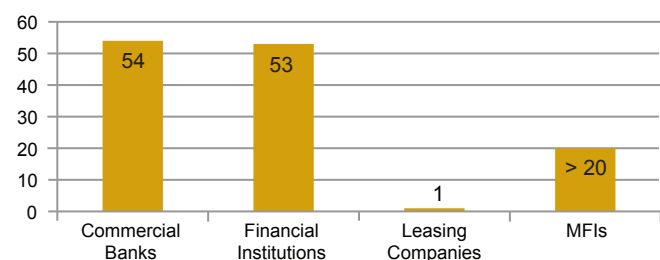


Source: data.worldbank.org

in the foreign exchange market by buying and selling foreign currencies.

The Lebanese financial system comprises the banking sector, exchange institutions, financial institutions, and leasing companies supervised by BDL. Apart from these supervised entities, the microfinance sector has been a growing source of finance. At the end of 2012, the credit market consisted of 54 commercial banks (of which 11 were foreign banks), 53 financial institutions, one leasing company<sup>250</sup> and over 20 microfinance institutions (of which four were financial institutions). The credit market structure is shown in Figure 7.7.5.<sup>251</sup>

**Figure 7.7.5: Credit Market**



Source: "Banking and Financing," Banque du Liban, accessed September 15, 2014. <http://www.bdl.gov.lb/downloads/index/4/248/Banks.html>.

In 2012, the total volume of credit granted by the lending system reached 73,506.51 billion Lebanese pounds, which is 74.64 percent higher than 2008. Outstanding loans contribute 117.24 percent of the total GDP. The nonperforming loans ratio has gone down to 3.50 percent, from 6.85 percent in 2008.<sup>252</sup>



Loan assessment procedures continue to be conventional and not fully automated; decisions are manual and subjective. Collateral is a requirement, especially for larger loan amounts. In 2012, the total number of loans with collateral, in the case of individuals, was larger than loans without collateral (despite the value of those loans being lower), as seen in Table 7.7.1.

## Banking

The banking sector is the dominant player in the credit market. The total assets and liabilities of commercial banks operating in Lebanon was the equivalent of \$151.9 billion, as of December 2012. Lebanese banks managed to pull off an 8.0 percent year-on-year growth of total assets and liabilities throughout 2012, compared to an increase of 9 percent in 2011.<sup>253</sup>

Deposits with commercial banks, a traditional driver of growth for the sector, increased 8.5 percent in 2012 as compared to 12.2 percent in 2011. The total value of

deposits in the public sector increased from \$115.7 billion in December 2011 to a new high of \$127.7 billion in December 2012.<sup>254</sup>

The resident private sector alone contributes to 65 percent of the total increase in the deposits, constituting 79 percent of the total value of deposits. Of the remaining share, 18.9 percent is from the non-resident private sector and 2.1 percent is from the public sector.<sup>255</sup> With regard to currency, foreign currencies represent 63.5 percent and remaining 36.5 percent of deposits are in Lebanese pounds. The majority of bank deposits are saving accounts (over 80 percent) and short-term accounts (less than 90 days). The bifurcation of commercial banks' deposits by sector is given in Figure 7.7.6 below.

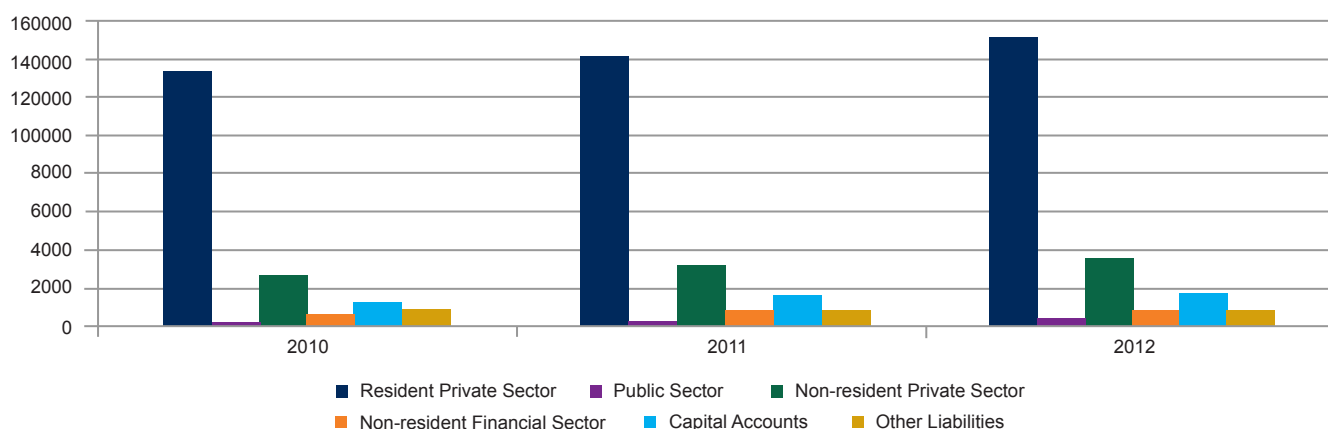
Lebanese banks saw a 10.9 percent increase in lending activity in 2013, after 13.5 percent growth in 2011. Total credit increased from 66.2 trillion Lebanese pounds in December 2011 to 73.5 trillion Lebanese pounds in December 2012. The largest concentration of credit is in

**Table 7.7.1: Collateral Environment**

|                          |             | 2008            |                              | 2012            |                              |
|--------------------------|-------------|-----------------|------------------------------|-----------------|------------------------------|
|                          |             | Number of loans | Value of loans (LBP million) | Number of loans | Value of loans (LBP million) |
| Loans with collateral    | Individuals | 132,248         | 10,104,004                   | 230,354         | 20,234,128                   |
|                          | Firms       | 21,481          | 6,289,275                    | 30,428          | 19,493,707                   |
| Loans without collateral | Individuals | 131,989         | 10,817,458                   | 328,824         | 10,694,200                   |
|                          | Firms       | 16,449          | 14,881,665                   | 23,130          | 23,084,476                   |

Source: Credit Information Sharing Survey, ACRI, January 2013.

**Figure 7.7.6: Commercial Banks Deposits (Billion LBP) by Sector**

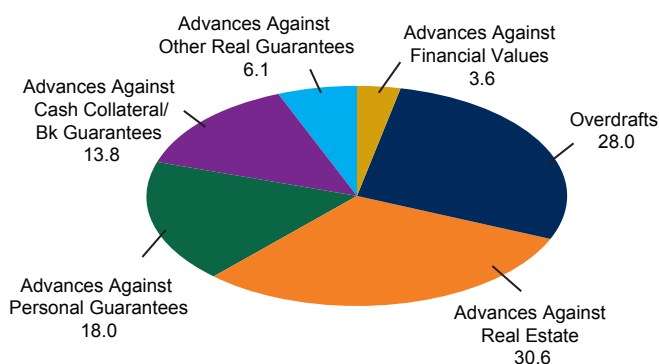


Source: Banque du Liban.

the trade and services sector, as seen in Table 7.7.2, which shows sectoral distribution. Despite a decreasing trend in its share since 2010, this sector constituted over 34 percent of total credit as of December 2012. The share of personal loans has increased and constitutes the second largest share of total credit facilities—26 percent, as of December 2012. Personal loans total 19.4 trillion Lebanese pounds, of which housing loans constitute over 56 percent or 10.96 trillion.

The majority of bank loans, or 72 percent, consists of limited-term loans; the remainder (28 percent) is in the form of overdrafts. It is noteworthy that the overdrafts are usually granted to major clients or to clients with high credit worthiness, where most loans are concentrated. At the end of 2012, as seen in Figure 7.7.7, the share of advances against real estate reached 30.6 percent; the share of advances against personal guarantees reached 18.0

**Figure 7.7.7: Utilized Loans by Type – End of 2012 (%)**



Source: Ibid.

percent; and the share of advances against cash collateral or bank guarantees that reached 13.8 percent.

### Financial Institutions

There are 71 finance and investment companies, including one leasing company and four microfinance institutions. With total assets worth 1.89 trillion Lebanese pounds as of December 2012, the financial sector has grown significantly in the last 10 years, as seen in Figure 7.7.8. From 2009 to 2012, total assets increased by 30 percent, from 1.45 trillion Lebanese pounds in 2009. The largest five institutions constitute nearly half of total assets and 77 percent of total credit by the financial sector.

The sector's total credit has increased from 530.4 billion Lebanese pounds in 2008 to 844.9 billion Lebanese pounds in 2012. From 2008, however, there was a declining trend in the growth rate; it increased in 2012, with a growth of 14.65 percent, as seen in Figure 7.7.9. Credit to individuals constitutes the single major component with 39 percent directed towards this sector. As shown in Figure 7.7.10, the services and commerce, and industry sector constitute the second and third largest components, with 25 percent and 14 percent respectively.

### Microfinance

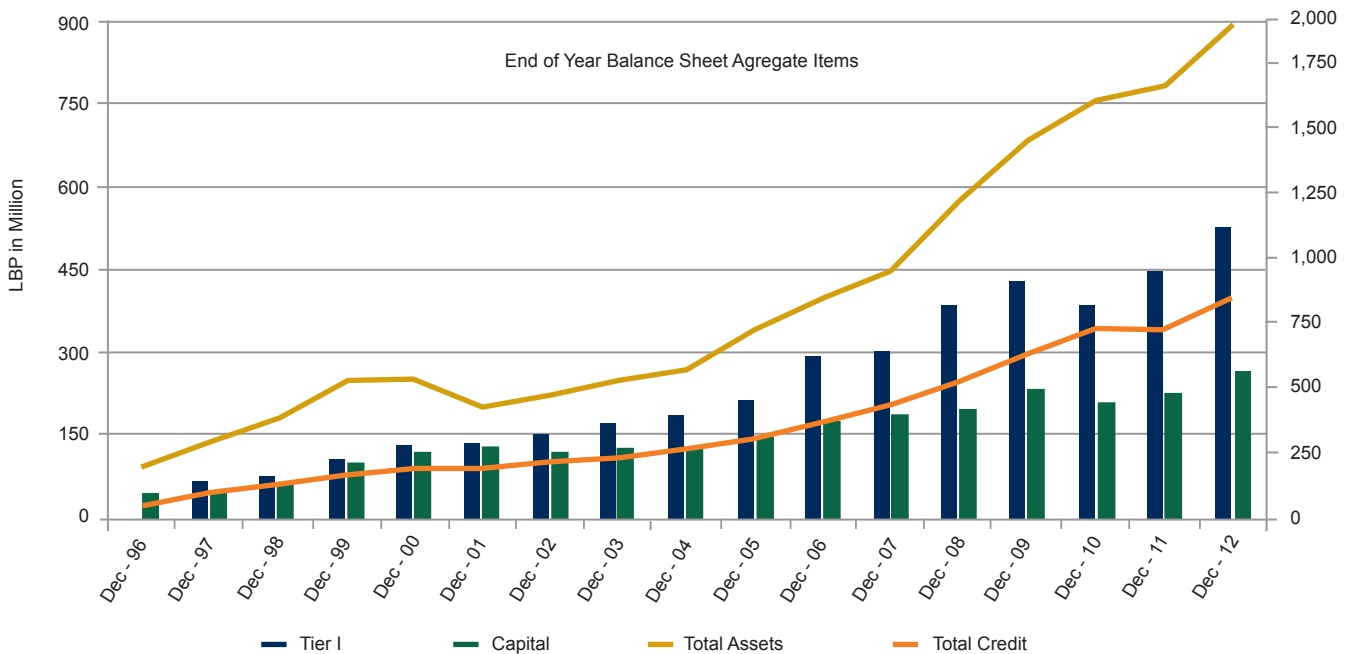
Microfinance institutions in Lebanon are primarily registered as non governmental organizations, financial institutions, or commercial companies.<sup>256</sup> Currently, over 20 microcredit providers operate in the country; the publicly-

**Table 7.7.2: Sectoral Distribution of Utilised Credit**

|                          | December 2010       |              | December 2011       |              | December 2012       |              |
|--------------------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|
|                          | Value (billion LBP) | Share (%)    | Value (billion LBP) | Share (%)    | Value (billion LBP) | Share (%)    |
| Trade & Services         | 21046               | 36.07        | 23257               | 35.11        | 25414               | 34.57        |
| Construction & Building  | 9494                | 16.27        | 10751               | 16.23        | 12267               | 16.69        |
| Industry                 | 6564                | 11.25        | 7445                | 11.24        | 8439                | 11.48        |
| Personal Loans           | 13723               | 23.52        | 1688                | 25.46        | 19368               | 26.35        |
| o/w: Housing Loans       | 6800                | 11.66        | 9018                | 13.60        | 10957               | 14.91        |
| Financial Intermediation | 4927                | 8.45         | 5226                | 7.89         | 5127                | 6.97         |
| Agriculture              | 554                 | 0.95         | 644                 | 0.97         | 683                 | 0.93         |
| Other Sectors            | 2036                | 3.49         | 2055                | 3.10         | 2209                | 3.01         |
| <b>Total</b>             | <b>58344</b>        | <b>100.0</b> | <b>66246</b>        | <b>100.0</b> | <b>73507</b>        | <b>100.0</b> |

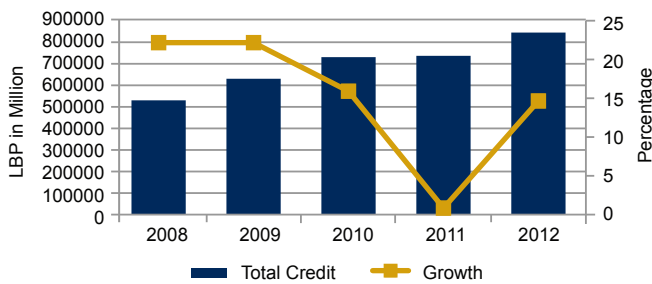
Source: Banque du Liban.

Figure 7.7.8: Financial Institutions Performance



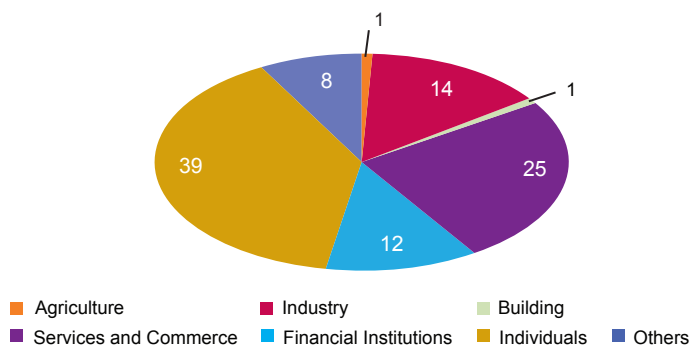
Source: Financial Markets Handbook, Lebanese Financial Institutions, Central Bank of Lebanon, December 2012.

Figure 7.7.9: Total Credit by Financial Institutions



Source: Ibid.

Figure 7.7.10: Sectoral Distribution of Credit (%) – 2012



Source: Ibid.

available audited loan portfolios of the top five MFIs have a combined worth of \$62 million. The cumulative portfolio of all providers is estimated at between \$120 million and \$150 million.<sup>257</sup> The market is primarily served by three large microfinance programs: Al Majmoua, Access to Microfinance and Enhanced Enterprise Niches (Ameen), and Al Qard Al Hassan. Ameen was the first program to be regulated as a financial institution by the Central Bank in September 2007. Microcredit, in the form of business loans, has dominated the landscape in Lebanon. Individual and group lending are offered to both men and women.<sup>258</sup>

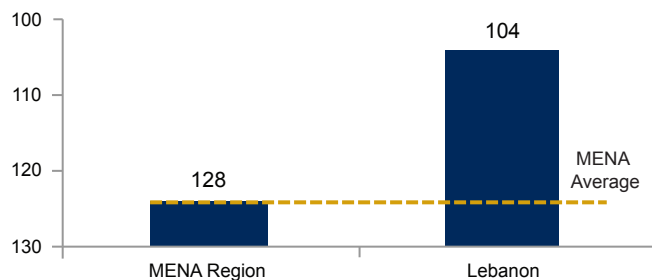
### Retailers

Together with microfinance institutions, retailers are the other source of credit available to the lower end of the population. Generally, commercial agreements are signed between retailers and banks, with the former selling the loan at the point of sale or retail outlet; the bank is directly responsible for underwriting, financing, and taking the credit risk. It is a win-win situation: the bank acquires new customers at a lower cost, and the retailer increases its sales as a consequence of the loans granted. By extending credit to the unbanked population, such retailers improve access to finance.<sup>259</sup>

## CREDIT PENETRATION AND ACCESS

The World Bank's *Doing Business Report 2013* ranked Lebanon 104 out of 185 countries. As seen in Figure 7.7.11, it is higher than the regional average of 128. (*DB14, ranked 109*)

**Figure 7.7.11: Getting Credit Rank – 2013**

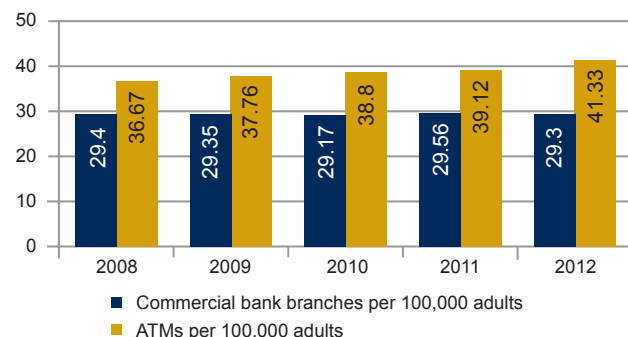


Source: *Doing Business Report*, The World Bank, 2013. data.worldbank.org.

In 2012, the country's 71 banks had 984 branches— 962 commercial bank branches, and 22 investment bank branches and mid to long-term credit bank branches. According to the IMF Financial Access Survey, there were, on average, 29.30 commercial bank branches per 100,000 adults, from 2008 to 2012. With the expansion of branch networks, Lebanese banks continued to develop their systems and means of payment.

Banks have extended the use of ATMs, and the number of machines in service amounted to 1,433 at the end of 2012.<sup>260</sup> With an average number of 382 ATMs for every one million person in 2012, Lebanese banks' outreach is close to the level of major emerging countries. The outreach of ATMs has been growing steadily in from 2008 to 2012, but the number of commercial bank branches has remained constant, with minor variations, as seen in Figure 7.7.12.

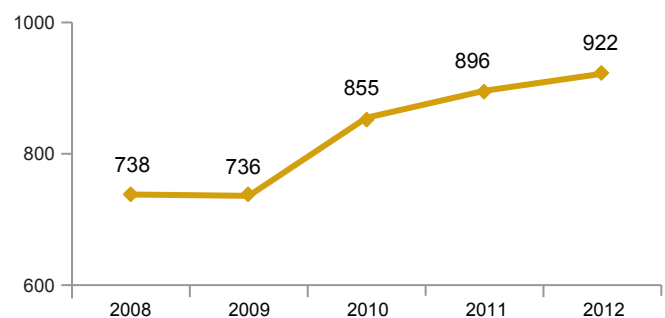
**Figure 7.7.12: Commercial Bank Network**



Source: Financial Access Survey, IMF, 2012.

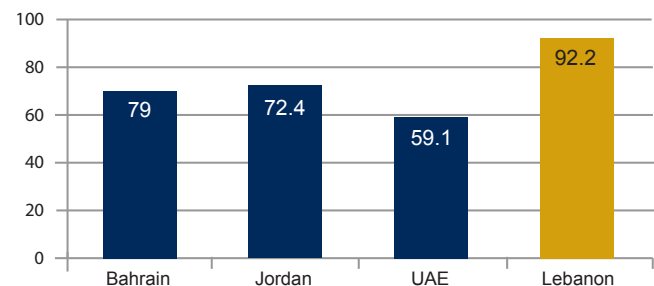
In 2012, banks continued to launch new cards for customers; a total of 1.9 million banks cards were in circulation. Fifty-one percent were debit cards, lower than the previous year. Twenty-four percent were credit cards. Other cards, such as prepaid cards and term payment cards make up the remaining 25 percent.<sup>261</sup> In the past four years, total credit provided by the banking sector has increased by 10 percent, and credit to the private sector increased by 20 percent, as seen in Figure 7.7.13. At 92.2 percent of GDP (as of 2012), the penetration of credit is high in Lebanon as compared to many emerging countries in MENA, as shown in Figure 7.7.14.

**Figure 7.7.13: Domestic Credit to Private Sector (% of GDP)**



Source: data.worldbank.org

**Figure 7.7.14: Domestic Credit to Private Sector (as % of GDP) for Selected MENA Countries – 2012**



Source: data.worldbank.org

Table 7.7.3 shows the financial access indicators in terms of formal financial institutions' accounts and loans. The percentage of adults with an account was 37 percent in 2011. Twenty-six percent of women have an account with a formal financial institution. However, the percentage of adults who took out a loan in 2011 was only 11 percent; this percentage corresponds to 8 percent for women.

**Table 7.7.3: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>37</b> |
| Men                           | 49        |
| Women                         | 26        |
| <b>Loans in the past year</b> | <b>11</b> |
| Men                           | 14        |
| Women                         | 8         |

Source: Financial Inclusion Data: Lebanon, The World Bank, 2012.  
<http://datatopics.worldbank.org/financialinclusion/country/lebanon>.  
<http://datatopics.worldbank.org/financialinclusion/topic/gender#divMap>.

## 7.7.3 STATUS OF CREDIT REPORTING

### OVERVIEW

A 2008 study undertaken by IFC, *Building Private Credit Reporting Infrastructure in Lebanon*, indicated that consumers' complete credit information and payment histories for underwriting purposes were not yet available in Lebanon. Positive credit information was not shared among lenders, and only timid experiments that provided negative information were in place. Thus, information for credit assessment was scarce and often informal, such as the verbal references exchanged among different banks.

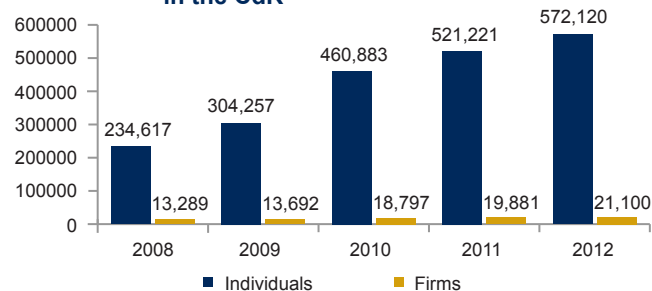
For lenders, the only official sources of credit assessment were:

- *Centrale des Risques*, the central bank's CR, which was limited to large accounts and contained data on outstanding debt;
- *Centrale des Impayées*, a black list containing all unpaid checks.

The CR is the only available source of credit information for lenders. The CR is operated by the central bank and was established in 1962. It was originally launched to supervise the banking sector and monitor the risk exposure of large credit. In 1986, the CR was revamped and partially automated. The system was brought online in 2009, a major milestone.

CR's coverage reached 19.2 percent of adult population in 2013, based on *Doing Business Report*, up from 6.8 percent during the previous year. In 2012, 572,120

individuals and 21,100 firms were listed in the CdR. The number of individuals listed has almost doubled since 2008 and increased significantly since the system went online, as shown in Figure 7.7.15.

**Figure 7.7.15: Number of Individuals and Firms Listed in the CdR**

Source: Credit Information Sharing Survey, ACRI, 2013

The total value of loans registered in the CR increased about of 139.30 percent, 247,906 million Lebanese pounds in 2008 to 593,220 million Lebanese pounds in 2012. To be included in the CR, the minimum loan size is 7 million Lebanese pounds. Since its establishment, the registry has been expanding its footprint; there were 249,012 inquiries by end of 2012, with an estimated hit rate of 58.47 percent.

*Centrale des Impayées* is a separate module within the CdR system, which contains only negative information regarding bounced cheques. Lenders always consult this database before granting credit or opening a new account.

### Other information providers<sup>262</sup>

Credit bureaus and positive information sharing are still absent in Lebanon. The mobile telephone companies' black list is the only other example of electronic data sharing; it is a limited experiment restricted to negative information. Nonetheless, there are a few private firms that function as credit information providers. Two of them, Masri and Paragon, are frequently utilized by lenders. Both firms' only offer partial data coverage, and their services are quite basic. As a result of the lack of historical payment performance data contributed by lenders, the information provided by both entities, with some service differentiations, is limited to:

- Public information;
- Court judgments;

- Other negative information;
- Demographic information;
- Immovable property;
- Data contained in the internal existing databases.

In recent years, both firms have widened their focus, resulting in significant coverage overlaps. Still, the services are based on the same negative, public data.

## PARTICIPATION AND DATA SHARING

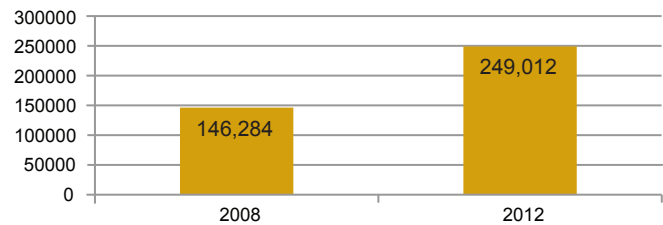
All banks, financial institutions, and leasing companies provide data to the CR, but only banks and financial institutions are allowed to retrieve data from the registry.

There are two types of microfinance institutions in the country. On the one hand, there are microfinance institutions regulated by the central bank; these institutions provide data to the CR and can inquire and retrieve data from the registry. Microfinance institutions that are not regulated by the Central Bank, on the other hand, can neither provide data nor inquire from the CR. If unregulated MFIs have credit facilities from banks, which are exempted from legal reserve requirement, they can, through the banks, send data to CR as well as access data from the registry.

Leasing companies can only provide data to the CR; they cannot retrieve information because they are not subject to the Bank Secrecy Law. All finance and microfinance institutions report data to the CR on a monthly basis. The database maintains positive and negative data pertaining to individuals and firms. There is no time limit for the preservation of data, which is never erased from the CR. The registry's data includes demographic information, inquiries by other lenders, loan account data, and payment performance data (for loans to individuals and firms). However, monthly payment histories are still not available to lenders for assessment purposes.

Figure 7.7.16 shows the number of inquiries made to the CR in 2008 and 2012. There has been a 70 percent increase in number of inquiries to the CR over the four-year period.

**Figure 7.7.16: Number of inquiries**



Source: Credit Information Sharing Survey, ACRI, January 2013.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

On August 1, 1963, the Code of Money and Credit established the BDL through Decree No. 1351.<sup>263</sup> The BDL is a legal public entity with financial and administrative autonomy. It is not subject to the public sector's administrative and management rules.

The Banking Secrecy Law of September 3, 1956 is a major law that forms the regulatory framework for governing the CR's operations. The Lebanese Secrecy Law permits the creation of a credit information database and the sharing of credit information with borrower consent.

Article 1 establishes that: “...Banks established in Lebanon and foreign banks that are branches of foreign companies are subjected to professional secrecy...” Albeit the entities regulated by BDL are all those belonging to the financial sector, except insurance companies, not all of them are bound by the Bank Secrecy Law, since only the financial institutions (as defined in Article 178 of the Law of Money and Credit) and banks are subject to the Bank Secrecy law.

Article 2 establishes that “...Employees and managers of the banks... may not disclose any information known to them about the clients' names, funds, or personal matters to any party, be it an individual or a public authority, whether administrative, military or judicial...”.

Article 6 restricts sharing of positive data amongst lenders *“In order to safeguard their invested funds, banks mentioned in Article 1 may exchange confidentially, and only between themselves, any information related to their clients’ debit accounts.”*

Banks and financial institutions must inquire with the CR before granting loans to customers. The Leasing Operations and Financial Intermediaries Law exempts leasing companies and other financial groups from the Bank Secrecy Law, allowing them to share client information without consent.

Amendment 7705, from October 26, 2000, entitled Structure of Centrale des Risques, which regulates banks and financial institutions’ access to the online credit registry.

Individuals are allowed to access their own data. Borrowers can inspect their own data in the online CR as many times as they want, but must pay for each request. If consumers inquire the CR through the bank, the cost is \$.20; if they request the report directly from CR, the cost is \$12.

Borrowers can dispute data in their credit reports with their banks or financial institutions, which in turn must send corrected data back to the CR. In some cases, the client can submit a letter of protest to the BDL, objecting erroneous data in the credit report; the central bank then contacts the source of the information to validate or correct the information as necessary.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Lebanon, as shown in Table 7.7.4. The index provides a snapshot of the assessment of the credit information sharing system in the country.

## CONCLUSIONS

- Lebanon’s consistent economic performance highlights the strengths of its credit system, including: durable economic growth averaging more than 5 percent over the last decade, despite a range of political and economic

shock; a near doubling of per capita GDP in the last decade; and a highly resilient balance of payments position, as reserve accumulation remarkably averages high over one year of import cover;

- Credit information sharing system is basic, comprising a CR; there is significant room for improvement.
- The ACRISI score is low, but has increased by one point from 2008 to 2012;
- Lebanon improved its credit information system by allowing banks online access to CR reports;
- Participation is limited to regulated entities, this is a hindrance to effective credit-reporting practices;
- There is no specific law on credit information, but relevant laws and other regulations adequately provide for the structure and operations of the CR. Basic consumer rights have also been established by the Central Bank;
- There is a minimum threshold for reporting loans to the CR; only banks and financial institutions are allowed access to the CR data. The CR has moved from collecting only negative data to also collecting positive data, which has resulted in the increase of the country’s ACRISI score;
- Other value-added services, such as credit scores, are not provided to lenders for risk assessment purposes, or to the borrowers.

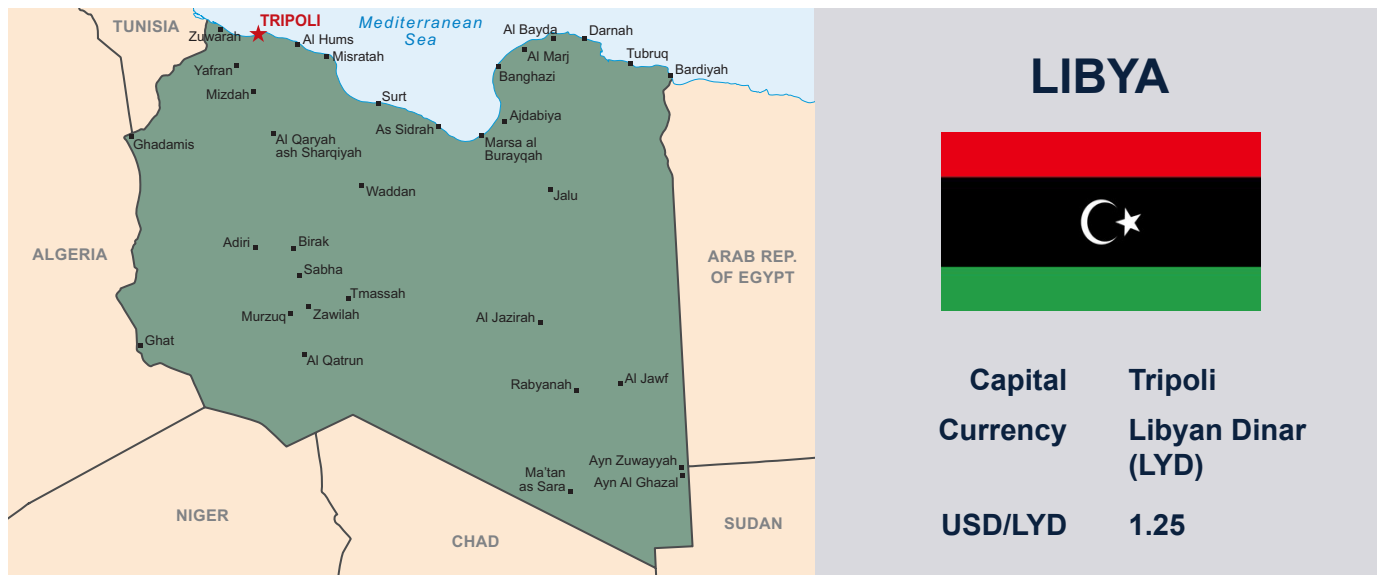
## RECOMMENDATIONS

- The establishment of a credit bureau could advance the credit industry as well as broaden and expand the access to credit in Lebanon. The central bank should create a new framework and remove all obstacles impeding the development of credit bureaus;
- Credit information from all creditors should be taken into account—not just the banks and financial institutions;
- All credit facilities provided by lenders should be included;
- Online collateral registry for movable assets integrated with other asset registries should be established;
- The central bank should undertake a common program of awareness and education drives for lenders and borrowers on all aspects of information sharing such as benefits, purpose, obligations, rights, usage, etc.

Table 7.7.4: Arab Credit Reporting Information Sharing Index — Lebanon

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | NO        | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | NO        | NO        |
| Is there a legal framework for privacy and protection of data?               | YES       | YES       |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | NO        | NO        |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | YES       | YES       |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are non-regulated entities participating?                                    | NO        | NO        |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | NO        | NO        |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | YES       | YES       |
| Are both positive and negative information reported?                         | NO        | YES       |
| Are all loans reported without any limits?                                   | NO        | NO        |
| Does the principle of reciprocity apply?                                     | NO        | NO        |
| Are credit scores provided to the users?                                     | NO        | NO        |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>10</b> | <b>11</b> |





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.  
 Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41509, March 2015.

## 7.8 LIBYA

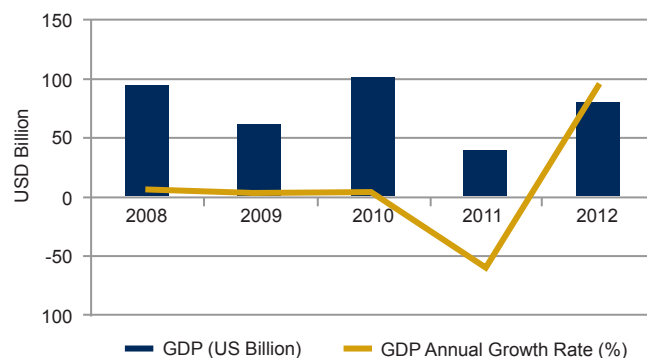
### 7.8.1 ECONOMIC OVERVIEW

The economy of Libya depends primarily upon revenues from the petroleum sector, which accounts for approximately 95 percent of export earnings, 80 percent of government receipts, and 65 percent of gross domestic product.<sup>264</sup> Libya holds the largest proven oil reserves in Africa and accounts for 3.2 percent of total world reserves.

In 2011, due to civil war, the country’s economy experienced a severe contraction, a plunge of 60% percent. Libya’s economic activity began to recover in 2012 as a result of the rapid resumption of hydrocarbon production and exports; real GDP grew by 95.5 percent.<sup>265</sup>

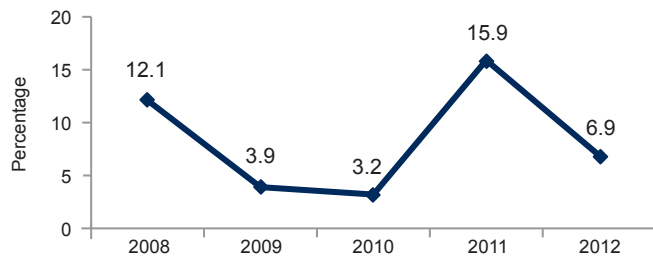
The 344 percent increase in hydrocarbon production was the main driver of the high GDP growth in 2012. Although non-hydrocarbon economic activity was growing quickly before the conflict, it still accounts for no more than 22 percent of GDP and a negligible part of total exports.<sup>2</sup> Figure 7.8.1 shows the performance of the economy with respect to GDP at current market prices, from 2008 to 2012.

Figure 7.8.1: GDP Performance



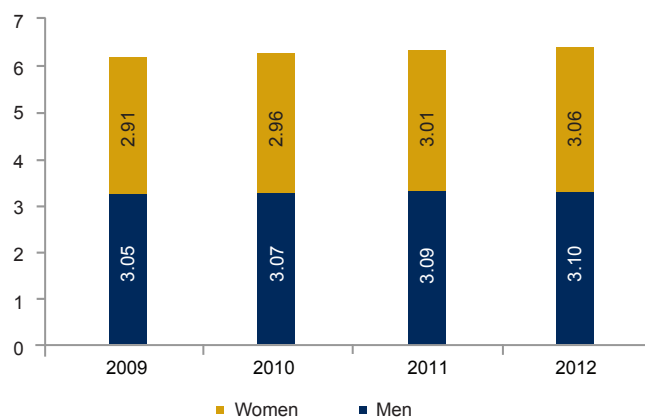
Source: data.worldbank.org

Libya has one of the highest per capita GDPs in Africa because of high oil revenues and a small population. The previous government’s handling of the economy, however, led to high inflation and increasing import prices. As the GDP has stabilized, inflation decelerated from 15.9 percent 2011 to 6.9 percent in 2012; it was expected to decline further, to 4.7 percent in 2013 and 3.4 percent in 2014.<sup>266</sup> Figure 7.8.2 shows the trend from 2008 to 2012.

**Figure 7.8.2: CPI Inflation**

Source: data.worldbank.org

The total population of Libya, as of 2012, was 6.15 million. Women accounted for 49.6 percent of the total population. Figure 7.8.3 below shows the bifurcation of the total population for 2008 to 2012.

**Figure 7.8.3: Population (Million)**

Source: data.worldbank.org

## 7.8.2 CREDIT MARKET

### OVERVIEW

The Central Bank of Libya, an independent and autonomous body, is the country's monetary authority. The Central Bank has broad control over the banking sector with an ownership stake in a large number of the state-owned banks, which make up to 90 percent of Libya's banking assets. These banks have capital of at least 10 million Libyan dinar.

### Banking

Libya's financial system comprises: a network of 16 commercial banks, the majority of which are state- or

partially state-owned; five insurance companies; and a recently established stock market. There are five privately owned banks in Libya, and they account for about 15 percent of the banking assets.

The availability of financing in the local market is limited. Few financial products are offered by Libyan banks. When it comes to granting loans, the approach to risk assessment is often lenient and inadequate. Lack of financing has stifled Libya's development, hampering the completion of existing projects and the start of new ones.

The Libyan Foreign Bank (LFB) was established in 1972 as the country's first offshore banking institution licensed to operate internationally.<sup>267</sup> The LFB is fully-owned by the central bank and is its subsidiary. LFB is not subject to the central bank's legislation, regulations, or exchange control. It is the only Libyan bank with offshore status; LFB engages in financial and banking operations outside the country and acts as the government's agent. Its main mandate is to encourage regional development, particularly in countries which are friendly to Libya, to become active in international financial markets, and to serve as a vehicle for Libyan aid to other countries.

### Specialized Banks

In addition to the state-owned commercial banks, there are four specialized banks owned by the General People's Committee for Finance: The National Agricultural Bank (NAB), Savings and Real Estate Bank of Libya, Development Bank and Reefi Bank.<sup>268</sup> The NAB was originally established in 1957 to support the agricultural sector by providing interest-free production loans to farmers. Additionally, it made medium-term loans (up to five years) for machinery and materials acquisitions, and long-term loans (up to 15 years) for agricultural construction, irrigation, and land reclamation projects. NAB purchased produce from farmers at a guaranteed profit and sold the supplies at subsidized prizes. The Real Estate Bank of Libya makes loans for home purchases.

Banks continue to face competition from specialized credit institutions (SCIs) with lending rising in a state-directed attempt to address socioeconomic pressures.<sup>269</sup> The SCIs are development banks focused on providing subsidized credit to agriculture, residential real estate, and small

enterprises. Their share in total outstanding credit has been growing substantially, and they have been crowding out commercial banks' credit.

## Islamic Banking

Libya will transform its banking and economic system to comply fully with Islamic law that bans interest payments. Libya is joining a growing international trend, as more and more states turn to Islamic law following the banking crises in the United States and Europe.<sup>270</sup>

## Nonperforming Loans

Banks have been unwilling to lend because of high nonperforming loans on their books. The bad debt ratio accumulated by the Libyan credit industry remains the highest in MENA. Data provided by ACRI's survey shows that the nonperforming loans ratio was 22.8 percent in 2008 and 21 percent in 2010, remaining at an average of 20 percent,<sup>271</sup> while provisions remain among the lowest in the region.

## CREDIT PENETRATION AND ACCESS

The World Bank's *Doing Business Report* ranked Libya 182 out of 185 countries in 2013. As seen in Figure 7.8.4, it is much lower than the regional average of 128. (*DB14, ranked 186*)

As per the IMF Financial Access Survey, there were 11.7 bank branches per 100,000 adults in 2012, as shown in Figure 7.8.5; there were 3.96 ATMs per 100,000 adults.

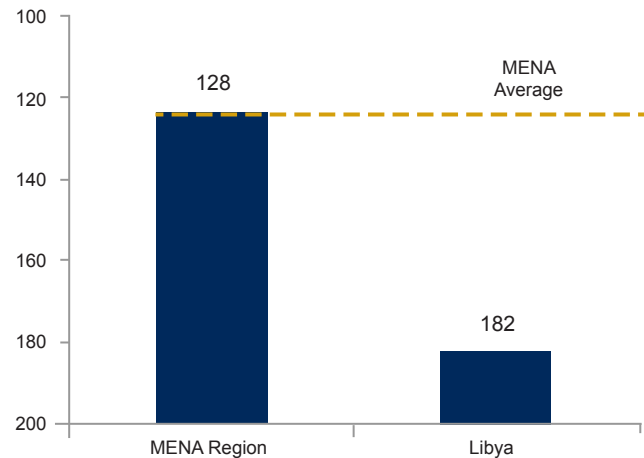
## 7.8.3 STATUS OF CREDIT REPORTING

### OVERVIEW

The Libyan Credit Information Center (LCIC) is the country's first credit registry. The governor of the Central Bank of Libya established LCIC with Decision Number 48 on March 23, 2009.<sup>272</sup>

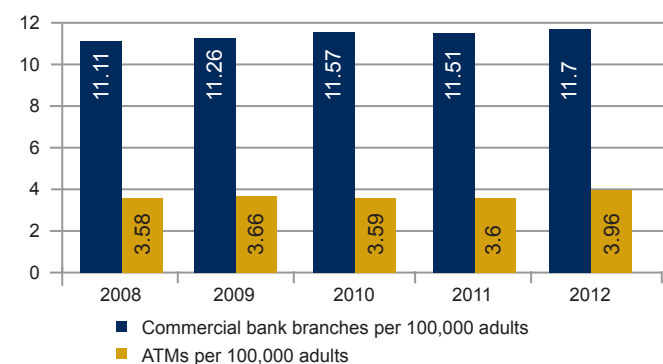
LCIC's objective is to ensure a responsible increase in lending. At the same time, the center seeks to reduce credit losses by providing timely and accurate credit-related

Figure 7.8.4: Getting Credit Rank, 2013



Source: *Doing Business Report*, The World Bank, 2013.

Figure 7.8.5: Commercial Bank Network



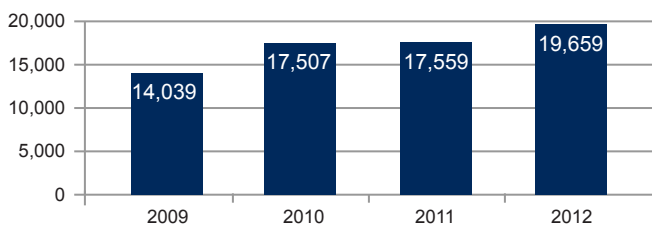
Source: Financial Access Survey, IMF, 2012

information on current and prospective borrowers that inform credit-granting decisions.

*It is interesting to note that the LCIC has commenced operations with only commercial credit information. This is common in transitional markets, where credit to individuals and consumers is rare; thus, information sharing usually starts with firms. Otherwise, credit information sharing is more focused on consumer information, which has a visible impact on credit assessment. LCIC's development of consumer credit operations is underway.*

The LCIC only collects information on firms and has not started collecting data for individuals, according to the ACRI Credit Information Sharing Survey of January 2013. As seen in Figure 7.8.6, only 19,659 firms are listed in the LCIC, as of 2012, resulting in a low population coverage of 0.5 percent by the CR. From 2009, however, there is a growing trend in the number of firms under the CR. Lenders only provide data on business customers, so the LCIC can only offer its members commercial credit information reports. The LCIC does not collect or maintain credit information related to individuals.

**Figure 7.8.6: Number of Firms Listed in the LCIC**



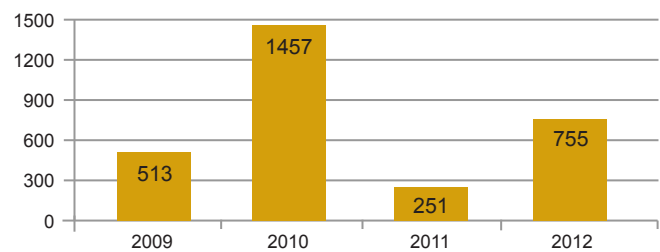
Source: Credit Information Sharing Survey, ACRI, 2013.

Libya's credit system relies on collateral evaluation rather than on a borrower's individual risk. Collateral guarantees and/or guarantors are a pre-requisite by all the banks in Libya for the disbursement of loans.<sup>273</sup> Collateral averages to 125 percent of the loan value. This limits potential credit clients, such as micro and small business owners that cannot provide collateral or financial returns, even though they are likely to repay the loan. The LCIC, if provided with complete and qualitative information by all banks, can foster progress among the credit industry by calculating individual risk through the analysis of past credit information. The credit center can play a major role in creating reputational collateral for small and medium enterprises and individuals, decreasing the necessity of collateral.

All loans, regardless of size, are included in the LCIC. The total number of loans listed with LCIC has grown 46 percent, from 24,927 loans listed in 2009 to 36,468 loans in 2012. The number of inquiries received by the CR has only increased marginally, from 1,557 in 2009 to 1,561 in 2012, despite being active for three years. The total number of credit reports transmitted to the lenders shows a fluctuating

trend, from a high of 1,457 in 2010 to a low of 251 in 2011, as shown in Figure 7.8.7. In 2012, 755 credit reports were issued to lenders, which accounts for 65 percent of inquiries received. This drastic change in 2011 may be a consequence of the revolution, which affected the economy as a whole, thereby significantly limiting the banking and financial sectors' growth and participation.

**Figure 7.8.7: Number of Credit Reports Issued by LCIC**



Source: Credit Information Sharing Survey, ACRI, 2013.

## PARTICIPATION AND DATA SHARING

The LCIC collects and distributes both positive and negative information pertaining to firms. The positive information is erased from the database after two years, and negative information is retained for up to five years. Public and private banks are required to report the credit information to the LCIC monthly, according to the law.

Regulated financial institutions are required to inquire with the LCIC prior to lending. As of the publication of this guide, borrowers' written consent is not necessary for their information to be shared through the CR, but the central bank has requested that banks receive consumers' consent to share data. The borrowers' consent contains a clause that limits sharing and inquiry to the LCIC.

The LCIC's credit reports for corporate entities contain information about commercial borrowers or potential clients, which helps banks to gauge and manage credit risk. The report is generated from the information submitted by members; it summarizes a borrower's outstanding credit in a given credit reporting period. The LCIC's credit reports comprise a given firm's geographical data, details of related parties, clients' current liabilities, and details of the liabilities (amount granted, outstanding balance, and history of payment).

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

The laws and regulations that affect credit reporting in Libya are the following:

- *Banking Law N. (1) of 1373 P.D. 2005 (BL)*
- *Resolution No. 48 issued by the Governor of the Central Bank of Libya on 29/03/1377 A.P. 2009 establishing and organizing the Libyan Credit Information Center and the approval of the duties and responsibilities of the Center divisions and units (hereinafter CBLR).<sup>274</sup>*

The banking law establishes the central bank's authority to request credit information from members, who are required to contribute data monthly. The law also outlines the duties and key tasks of the CBL as well as the supervised participants in the CR. CBLR is the founding regulation for LCIC operation. Similar to the banking law, the CBLR establishes duties and responsibilities for the divisions and units of the LCIC.

Member banks are obligated to share data with the CBL. Article 80 of the BL and Article 8 of the CBLR require member banks to provide statements for each client that obtains loans; banks must update the CBL on changes that occur on such loans within the period, as determined by the LCIC.

BL Article 80 recites “Each bank must establish a system for the immediate, ongoing recording of the positions of its customers who obtain from it loans and credit facilities. This system must be linked to the consolidated database in the Central Bank of Libya. Each bank must convey to the CBL within ten days of the end of each month a statement of the position of each customer who obtains loans or credit facilities and of any changes that occur regarding such loans and facilities”.

Banking Law Article 94 deals with the confidentiality and secrecy aspects of credit information sharing, setting limits while allowing data to flow freely. Banks are required to maintain the confidentiality of clients' account details, such as balances and transaction history. With a client's consent, these limits can be exempted, which then allows the bank to fully share complete data (positive and negative).

BL Article 94 recites “Banks must maintain the confidentiality of their customers' accounts and balances and all of their banking transactions. Banks may not permit the examination, disclosure, or provision of information on such accounts balances, and transactions, to a third party without the written permission of the account holder...”

Article 95 of the Banking Law further strengthens the protection of client information, holding bank staff responsible for any leaks. The staff is prohibited from providing or disclosing data; outside entities cannot examine any data pertaining to clients. This is applicable to anyone that directly or indirectly has access to such information by virtue of his/her job function or role. Article 110 further strengthens Article 95 by enforcing a penalty of up to 10,000 Libyan dinars for violations.

Article 113 of the Banking Law also ensures discipline on the client end by punishing customers and applicants that provide false or forged documents; the fine is 10,000 Libyan dinars. According to the Banking Law, there is penalty of 10,000 Libyan dinars for banks that report inaccurate data to the CR.

The LCIC is legally equipped to protect borrowers' rights; consumers have the right to see their own information, challenge it, and have it corrected. However, since consumer credit information is not being collected, this only applies to firms in practice. Once consumer credit operations commence, all borrowers will have the rights mentioned above. Further relevant articles are, as follows:

- Article 8 of CBLR ensures that banks keep credit information confidential and do not publish information; banks must also comply with dispute-resolving procedures;

- Article 9 of CBLR states that clients may obtain a copy of their own credit report. Clients can object to any erroneous information in the report; that will, in turn, be submitted to the member bank responsible for the information;
- Objections raised by the client need to be resolved within the period stipulated under Article 10 of CBLR.

CBLR encompasses the necessary norms, mentioned below, for a smooth and regulated functioning of the LCIC:

- Article 11: The Use of the LCIC Services;
- Article 12: Data, Information Management and Security;
- Article 13: Technical Procedures;
- Article 14: The Authority of Central Bank of Libya in Auditing and Inspection;
- Article 15: Violations and Penalties.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Libya, as shown in Table 7.8.1. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- The Libyan banking system developed from an Islamic banking system to a national banking system. To some extent, private banking exists, though it is still highly regulated. Such changes in policies have had a dramatic impact on the functions of finance;
- LCIC was developed to improve the Libyan credit environment by helping lenders to assess credit risk by providing information on customers' credit exposure and payment performance with other institutions. This has reduced credit risk and expanded access to credit for low-risk clients and various small and medium segments of the market. Established in 2009, LCIC is the only source of credit information in the country;

- The LCIC's database is limited to information on firms; no consumers' information is yet included in the database
- Although the framework is solid, the low ACRISI score is due to the absence of consumer information in the CR; therefore, consumer rights and participation are limited to regulated entities credit activity;
- Resolutions passed by the central bank as well as the Banking Law regulate the environment
- Currently, only firms' data is shared with the CR and only regulated entities participate in the CR;
- The ACRISI is influenced by the scarce depth of data sharing and by the thinness of the database, given that, as of 2012, the CR database did not include individuals' data.

## RECOMMENDATIONS

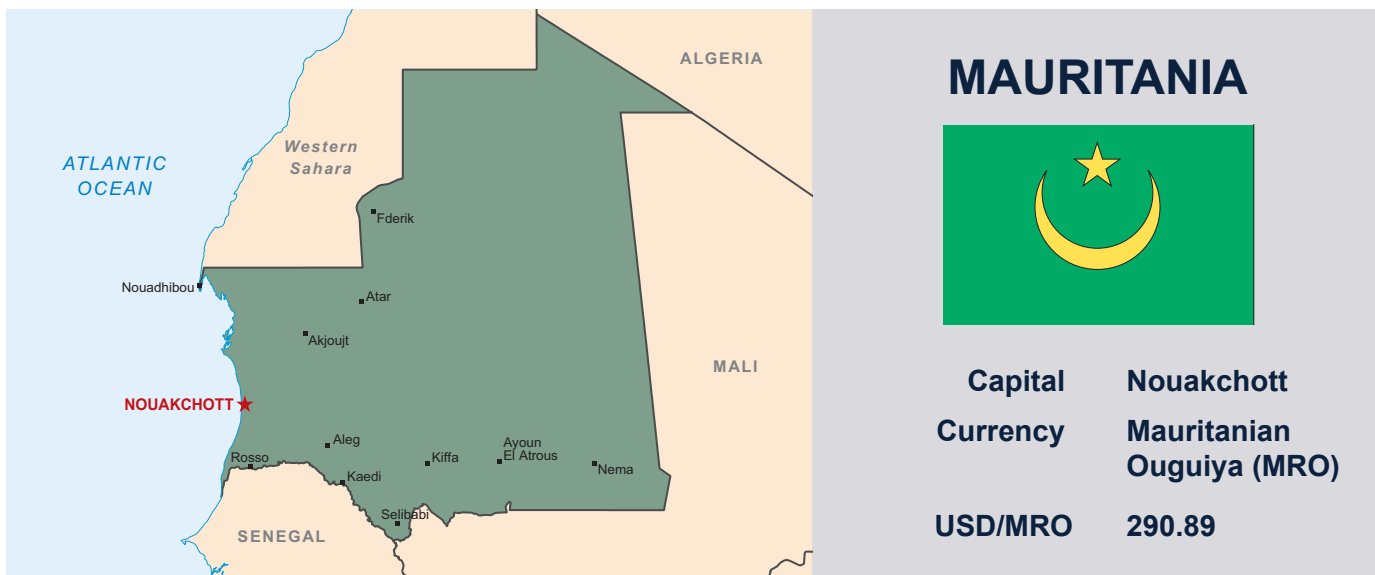
- The LCIC should move quickly toward implementing a system to enable the sharing of consumers' credit information;
- Product line extensions should include individual credit information reports as well as advanced products, like credit scoring, which will significantly improve credit coverage and quality;
- The credit information pertaining to borrowers of the four development banks is not yet included in the CR's database. The contribution of this data will further improve the credit system risk assessment capacity; underwriting credit would be more reliable and the Central Bank of Libya's supervisory capacity would be greatly improved;
- The period of data deletion should be reviewed; there should be longer positive histories in the database along with shorter durations for negative data;
- Training and awareness raising within the credit industry will prove to be a critical element; such outreach would bring positive results and support the expansion of access to finance for new clients.

Table 7.8.1: Arab Credit Reporting Information Sharing Index — Libya

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |          |           |
|--|----------|-----------|
| Parameters   | 2008     | 2012      |
| Does the country have a CR?  | NO       | YES       |
| Does the country have a CB?  | NO       | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |          |           |
| Is there a specific law or regulation governing the credit reporting system? | –        | NO        |
| Is there a legal framework for privacy and protection of data?               | –        | YES       |
| Is information on consumers included?  | –        | NO        |
| Is information on firms included?  | –        | YES       |
| <b>Consumer rights environment in the country</b>                            |          |           |
| Are consumers allowed to access their reports?                               | –        | NO        |
| Do consumers have access to at least one free report in a year?              | –        | NO        |
| Are consumers allowed to raise disputes?                                     | –        | NO        |
| Do entities collect consumer consent before making inquiries?                | –        | NO        |
| <b>Entities in the country participating in CIS</b>                          |          |           |
| Are regulated entities participating?  | –        | YES       |
| Are nonregulated entities participating?                                     | –        | NO        |
| Are utility entities participating?  | –        | NO        |
| Are MFIs participating?  | –        | NO        |
| <b>Depth of data sharing and reporting in the country</b>                    |          |           |
| Are entities mandated to share data?   | –        | YES       |
| Are entities mandated to make inquiries?                                     | –        | YES       |
| Are both positive and negative information reported?                         | –        | YES       |
| Are all loans reported without any limits?                                   | –        | YES       |
| Does the principle of reciprocity apply?                                     | –        | YES       |
| Are credit scores provided to the users?                                     | –        | NO        |
| Is cross border data sharing allowed?  | –        | NO        |
| <b>ACRISI score</b>  | <b>0</b> | <b>10</b> |







Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.  
 Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41510, March 2015.

## 7.9 MAURITANIA

### 7.9.1 ECONOMIC OVERVIEW

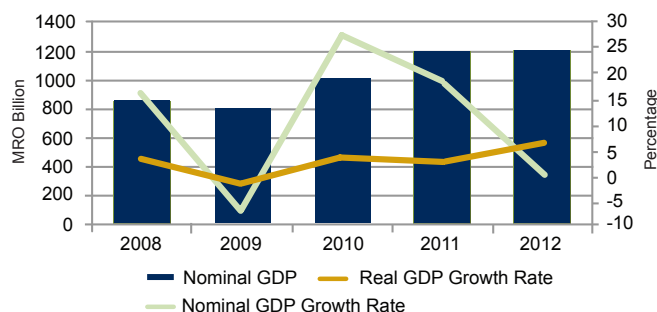
Mauritania is a small, lower-middle income economy of 3.7 million people, situated in sub-Saharan Africa with three quarters of territory covered by desert or semi-desert areas. It has a dual economy: on the one side, the modern economy is based on mining, extractive industries, and industrial fishing—an engine of growth heavily dependent on exports; on the other side is a subsistence economy based mainly on rain-fed agriculture, livestock, and small-scale fishing, where the informal sector plays a major role.<sup>275</sup>

The Mauritanian economy was hit hard by international financial crisis and economic recession in 2008 along with a domestic political crisis. But the economy bounced back and has shown considerable growth since 2010. This has been brought about by strong fiscal management and prudent monetary policy. However, a productive and inclusive economy is a concern that is yet to be addressed; social indicators are still weak and the economy has yet to be diversified.<sup>276</sup>

With a GDP of 1.2 trillion Mauritanian ouguiyas, the real GDP growth rate increased from 3.6 percent in 2011 to 6.9 percent in 2012, as indicated in the Figure 7.9.1. The main drivers of growth in the economy are the agriculture sector (with real growth rate of 53.3 percent over the previous year) and the construction and public works sector (with a real growth of 15.6 percent).

The year-on-year inflation rate decreased from 5.5 percent in 2011 to 3.4 percent in 2012; the annual average

Figure 7.9.1: GDP Performance

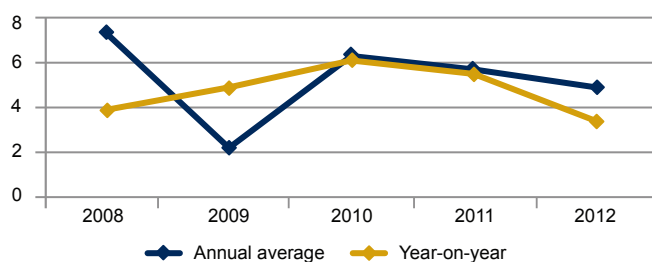


Source: Annual Report, Central Bank of Mauritania, 2012.

inflation rate over the last five years, however, has varied from 7.3 percent in 2008 to 4.9 percent in 2012. The government has taken initiatives to mitigate the effects of rising prices by following a prudent monetary policy and implementing the Emel (or “hope” in Arabic) emergency program. Figure 7.9.2 shows the year-on-year and the annual average inflation trends from 2008 to 2012.

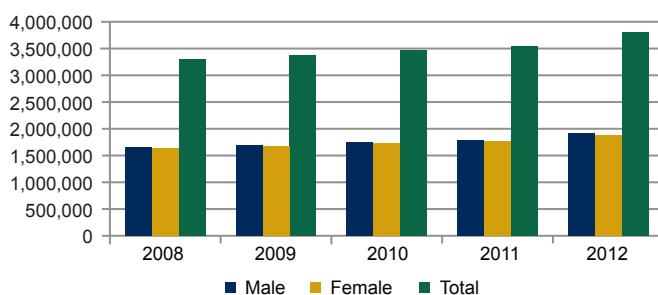
As of 2012, the total population of the country was 3.79 million, with an increase of 2.5 percent annually. Women constituted 49.64 percent of the population in 2012, or 1.88 million, a general trend over the past few years. Figure 7.9.3 shows population evolution from 2008 to 2012.

**Figure 7.9.2: Inflation (%)**



Source: Annual Report, Central Bank of Mauritania, 2012. Mauritania: Population, [countryeconomy.com](http://countryeconomy.com), accessed September 15, 2014. <http://countryeconomy.com/demography/population/mauritania>

**Figure 7.9.3: Population**



Source: Annual Report, Central Bank of Mauritania, 2012. Mauritania: Population, [countryeconomy.com](http://countryeconomy.com), accessed September 15, 2014. <http://countryeconomy.com/demography/population/mauritania>

## 7.9.2 CREDIT MARKET

### OVERVIEW

As of 2012, the financial system of Mauritania consisted of 12 commercial banks, 99 microfinance institutions (which operate through MFI networks), a financial institution, a leasing company, eight insurance companies, two social

security organizations, and 31 foreign exchange offices.<sup>277</sup> The Central Bank of Mauritania, or Banque Centrale de Mauritanie (BCM), is the supervisory authority with ample regulatory and oversight powers over the system.<sup>278</sup>

The financial system is still cash-oriented and focused on traditional payments systems and financial services. The banks, microfinance institutions, and financial institutions represent the only channels of credit. Although the credit market is highly liquid, financial and credit penetration is a concern. Borrowing can be an extremely challenging task for potential consumers.

Loans are mainly granted to corporate, business firms or “A” segment/VIP individual customers. This results in the concentration of credit in a few borrowing hands, notably finance companies that belong to the same group or industrial conglomerate. Collateral guarantees are a key precondition to obtain credit, though collateral enforceability, registration, and reliability are extremely weak; the legal framework protecting creditors’ rights is inadequate. Thus, the size of the credit market remains relatively tiny. Consumer credit is still in its infancy, and credit to individuals on a large scale is not yet popular.<sup>279</sup>

To improving access to financial services and credit, preserve stability and strengthen the domestic financial sector, the central bank has undertaken a financial sector development strategy for 2012–2017. This strategy primarily aims at: i) increasing the sector’s stability and transparency; ii) expanding access to financial services at a reasonable cost for all stakeholders; iii) improving the legal and judicial framework; and iv) developing a credit and savings culture.<sup>280</sup>

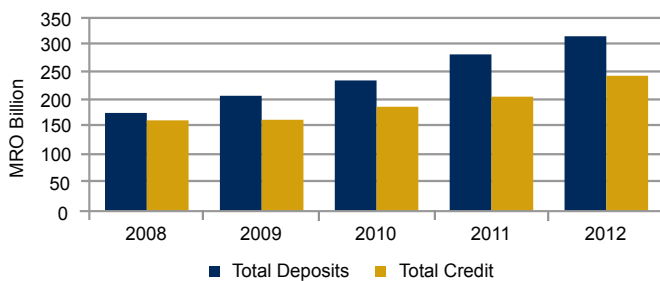
### Banking

The banking sector dominates the country’s financial system. Commercial banks include five private foreign banks. As of December 2012, there was a network of 98 branches across the country; the 12 banks had assets totalling 487 billion Mauritanian ouguiyas, deposits of 315 billion Mauritanian ouguiyas, and loan portfolios of 244 billion Mauritanian ouguiyas. The three largest banks account for 50 percent of the total assets and 50 percent of outstanding loans.

As shown in Figure 7.9.4, bank deposits and credit increased from 2008 to 2012. However, the ratio of credit to deposits decreased from 92 percent in 2008 to 77 percent in 2012. Also, banks' portfolios are highly concentrated: twenty customers account for 80 percent of deposits.

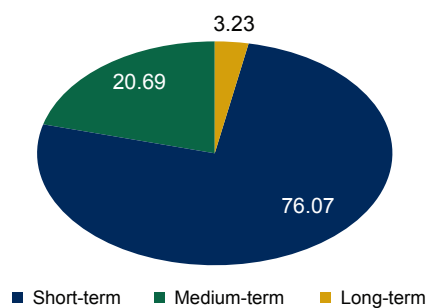
In 2012, Banks granted 244 billion Mauritanian ouguiyas of credit, an increase of 18 percent from 206 billion Mauritanian ouguiyas in 2011. This trend can be seen over the past few years, as shown in Figure 7.9.4. The system, as shown in Figure 7.9.5, is dominated by short-term loans, which account for 76 percent banks' total credit; long-term credit accounts are a meagre 3 percent of the total. As for sectoral distribution, credit to consumer services (primarily general trade) accounted for 79 percent of the total credit in 2012.<sup>281</sup>

**Figure 7.9.4: Bank Deposits and Credit**



Source: Annual Report, Central Bank of Mauritania, 2012

**Figure 7.9.5: Credit by Type (% of Total) – 2012**



Source: Annual Report, Central Bank of Mauritania, 2012

The banking sector also includes one Islamic bank, which has operated since 2011. A few other banks offer Islamic products; some have branches dedicated to these products. However, it should be noted that Islamic finance accounts for a very small proportion of products offered.<sup>282</sup>

## Microfinance

The microfinance sector in Mauritania plays an important role in the credit market. Even though the sectors' outstanding lending is only 6.1 percent of the net credit of the banking system, this industry plays an important role for customers that have limited access to banking services, especially in rural areas.

Nearly 100 microfinanciers operate in the most opaque area of the economy, catering to a vast sector of the nonbankable active population. This informal economy constitutes a large segment of Mauritania's economic social fabric.<sup>283</sup>

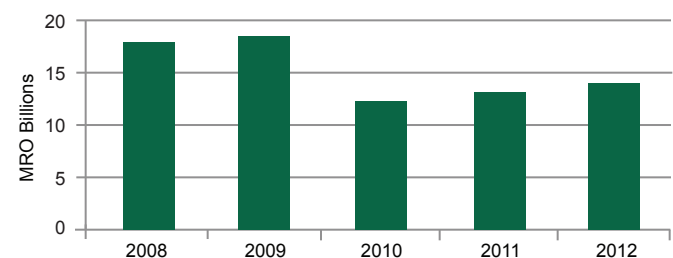
Microfinance institutions mostly operate through central associations and networks regulated by the BCM. There are other institutions operating as public companies or not-for-profit organizations or nongovernmental organizations. The three main networks are:

- CAPEC (Savings and Loans Association);
- UNCACEM (National Union of Agricultural Savings and Loan Associations);
- UNCECEL (National Union of Livestock Savings and Loan Associations).

The CAPEC and UNCACEM are the largest in terms of the number of clients, and the volume of loans disbursed and deposits collected. UNCECEL is more specialized and composed of rural savings cooperatives of farmers and breeders.

In 2012, net loans disbursed by the sector was 14.8 billion Mauritanian ouguiyas, a 5.3 percent increase from 14.08 billion Mauritanian ouguiyas in 2011, as seen in Figure 7.9.6.<sup>284</sup> With an 89 percent share, UNCACEM

**Figure 7.9.6: Net Loans by the MFI Sector**



Source: Annual Report, Central Bank of Mauritania, 2012.

has the largest microfinance loan portfolio. Beit El Maal (or “Money House” in Arabic) is the leading microfinance institution in the country with regard to the number of active borrowers, with 23,000 out of a total of about 40,000.<sup>285</sup>

The range of loan products offered mainly includes individual, Islamic and *Murabaha* lending. Solidarity-group loans are less popular. As for deposits, there has been a slight decrease year on year from 5.2 billion Mauritanian ouguiyas in 2010 to 5 billion Mauritanian ouguiyas in 2011. Interestingly, microfinance institutions contribute only to 2 percent of the total volumes of deposits in Mauritania; banks contribute the remaining 98 percent.<sup>286</sup>

### Other institutions

There is one leasing company, Mauritania Leasing, and one Investment Fund, Finance Conseil Investissement, both which grant credit (roughly 7 billion Mauritanian ouguiyas, together in 2011).<sup>287</sup> The only other financial institution in operation is International Finance Corporation, with a total volume of credits at the end of December 2012 of 525 million Mauritanian ouguiyas, an increase of 98 percent compared to the previous year.<sup>288</sup>

### Nonperforming loans

Despite the extremely high selectivity of banking underwriting and the omnipresent collateral requested to borrowers, nonperforming loans are extremely severe. The level is among one of the highest in the region (16 percent of NPLs of 180+ days, as of June 2013).<sup>289</sup> As per the 2012 Annual Report of the central bank, the volume of NPLs in 2012 was 79 billion Mauritanian ouguiyas, a slight decrease from 80 billion Mauritanian ouguiyas in the previous year.

## CREDIT PENETRATION AND ACCESS

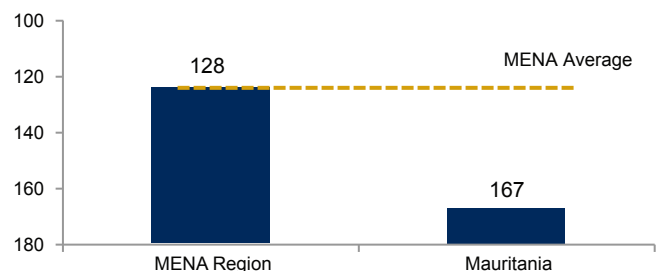
Access to financial services in Mauritania is extremely low. For the banking sector, only 4 percent of the population has access. At 10 percent, the microfinance sector’s penetration rate is comparatively better.<sup>290</sup>

The World Bank’s 2013 *Doing Business Report* ranked Mauritania 167 out of 185 countries. It is significantly

below the regional average of 128, as seen in Figure 7.9.7. (*DB14*, ranked 170) The low ranking indicates a weak framework for credit access.

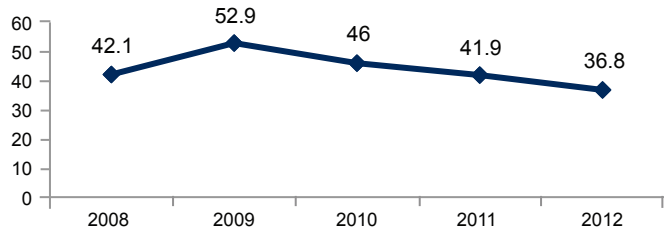
Domestic credit to the private sector was 36.8 percent of the GDP in 2012; the decreasing trend, since 2009, is displayed in Figure 7.9.8. Penetration of bank credit in the economy was low. Although the situation is better than Algeria’s, Mauritania is far behind other neighboring and MENA countries, such as Morocco (115.4 percent) and Tunisia (82.2 percent), as shown in Figure 7.9.9.

**Figure 7.9.7: Getting Credit Rank – 2013**



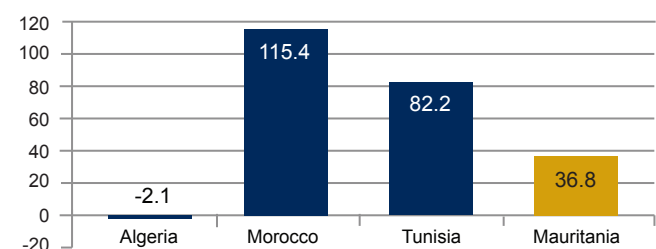
Source: *Doing Business Report*, The World Bank, 2013.

**Figure 7.9.8: Domestic Credit to Private Sector (% of GDP)**



Source: data.worldbank.org

**Figure 7.9.9: Domestic Credit to Private Sector (% of GDP) for Some MENA Countries – 2012**



Source: data.worldbank.org

Source: Financial Inclusion: Mauritania, The World Bank, accessed September 14, 2014. <http://datatopics.worldbank.org/financialinclusion/country/mauritania>

According to the IMF's financial access survey, there were 4.87 commercial bank branches per 100,000 adults in 2012, a marginal increase from previous years. The network is concentrated in two main cities, Nouakchott and Nouadhibou, where 48 percent of the total branches are located.<sup>291</sup>

Table 7.9.1 shows financial access indicators in terms of formal financial institutions' accounts and loans. The percentage of adults with an account was only 17 percent in 2011. Twelve percent of women hold an account with a formal financial institution. The percentage of adults who took out a loan in 2011 was about 8 percent; for women, this percentage corresponds to 7 percent.

**Table 7.9.1: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>17</b> |
| Men                           | 23        |
| Women                         | 12        |
| <b>Loans in the past year</b> | <b>8</b>  |
| Men                           | 8         |
| Women                         | 7         |

Source: data.worldbank.org

Source: Financial Inclusion: Mauritania, The World Bank, accessed September 14, 2014. <http://datatopics.worldbank.org/financialinclusion/country/mauritania>

## 7.9.3 CREDIT REPORTING SYSTEM

### OVERVIEW

Sharing and using credit information is not a new concept in Mauritania. The CR was established under the supervision of the BCM in 1974. The central bank has pioneered credit reporting and started educating lenders on the necessity of sharing credit information. The credit reporting system was set up by the BCM with two fundamental goals:

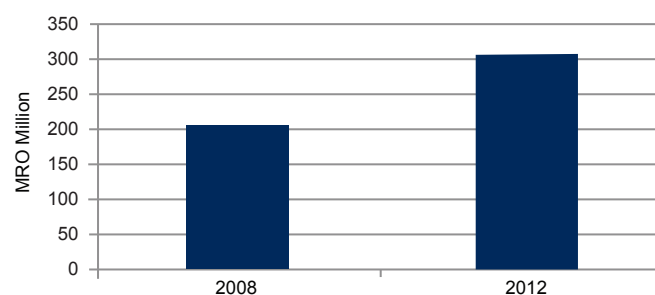
- To collect information from regulated entities to support BCM's responsibility (such as supervising the credit system);
- To supply lenders with consolidated information for credit underwriting purposes.<sup>292</sup>

The CR system underwent a slight upgrade in 2004, and it is the only source of information available to regulated

lenders in the country. However, the system is still not automated and is manually updated by participants on Microsoft Excel files. Full-file credit account information on borrowers and detailed payments histories are still not available, and data quality is a major concern. Thus, usage of the system for risk assessment purposes and participation levels remains limited. No other institutions, such as private or other public providers, offer credit information services.

As of 2012, 317.78 million Mauritanian ouguiyas of credit were registered in the CR, as compared to 210.67 million Mauritanian ouguiyas in 2008, according to the ACRI Credit Information Sharing Survey of January 2013, as shown in Figure 7.9.10.

**Figure 7.9.10: Credit Volumes in the PCR**



Source: Credit Information Sharing Survey, ACRI, January 2013.

The central bank has recently undertaken a project to revamp the CR, which has been sponsored by the World Bank. This revamp is mainly focused on automating functions that are currently performed manually. It will result in automated, online data upload as well as online inquiries.

The services offered and data distributed to lenders will remain the same with no additions. Based on ACRI's assessment of the credit reporting system, in June 2013, this new system could be further improved with important features, such as:

- Detailed credit histories on borrowers;
- Historical data, borrowers payment performance, arrears, and unpaid checks;
- Elimination of the existing thresholds adopted by the CR which limit the possibility to assess the risk and underwrite small-ticket loans or clients;

- Inclusion of microfinance institutions in the CR mandating them to share data or inquire the CR;
- Demographic data available through national identification numbers to be used for searching, matching, or normalization purposes.

## PARTICIPATION AND DATA SHARING<sup>293</sup>

Although all supervised entities (including banks and microfinance institutions) are mandated to supply the CR with loan information, MFIs are still not equipped to comply with the regulation. In practice, only banks are providing periodic data updates to the CR. Apart from these institutions, no other regulated or nonregulated lenders share data.

As of June 2013, the CR database stored about 29,700 names of clients. This figure appears extraordinarily low, even in a very selective credit environment like Mauritania. There are issues regarding the incompleteness of the data provided to the CR by the lenders (and vice versa). Furthermore, some of the banks may not be providing full data or do not provide data on some clients.

The system is not fully and regularly updated, though complete information should be provided by all entities in a consistent, timely fashion. The current system cannot apply logic checks to determine the quality and the quantity of information provided. Thus the CR cannot determine if banks are providing all of their clients' information.

Data on both individuals and firms are shared with the CR. As per the *Doing Business Report 2013*, only negative information is shared among participants. There is a minimum threshold for sharing data based on the type of loans and loans exposures. Below the following thresholds and loans that are not included in the database:

- Short-term loans (less than 24 months), 1,000,000 Mauritanian ouguiyas and above;
- Medium-term and long-term loans (more than 24 months), from 500,000 Mauritanian ouguiyas and above;
- Guarantees, from 500,000 Mauritanian ouguiyas and above.

Lenders are not mandated to inquire with the CR before granting a credit but this is customarily done since the CR is the only information available on borrowers. The CR does not generate credit reports, but rather a simple list of the credit lines and financial exposures that a borrower (individual or company) holds toward the credit system. Credit exposures are classified in five categories: i) short term; ii) medium term; iii) long term; iv) direct credits; and v) collateral/guarantees. Thus, the information displayed, as the result of an inquiry, consists of only one aggregated figure, by category and in total.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS<sup>294</sup>

Although there is no specific law for the establishment or the operations of the CR, the current regulatory framework gives the BCM sufficient and independent powers to collect information for supervisory, statistical and risk-control purposes, as well as for the dissemination of information to lenders for risk-underwriting purposes. However, there is no law or regulation in place that allows for private credit reporting.

There are five legislations that have a direct or indirect impact on information sharing, as follows:

1. **Ordonnance 004/2007 (Portant Statut de la Banque Centrale de Mauritanie)**—This regulation is explicitly clear about BCM's powers to create a credit registry with contributions by any regulated entity (without borrowers' consent).
2. **Ordonnance 020/2007 (Portant Réglementations des Établissements de Crédit)**—This regulation unambiguously corroborates BCM's powers and functions:

*Art. 47: reiterating BCM's power to: "... ask any person for any data that BCM requires... to fulfill its responsibility of banking Supervisor...and the person has the obligation to satisfy such requests..."*

*Art. 74: for establishing confidentiality of information: "...a bank and its personnel shall maintain confidentiality regarding all accounts/data they came into possession of... and sanctions can be applied in case of violations..."*

**3. Instruction 004/GR/98 (Déclarations des crédits à la Centrale des Risques)**—This regulates the periodic sharing of loan data between banks and BCM; this piece of legislation has the strongest impact on credit reporting. In fact, it establishes the following essential principles:

- Monthly updates transmitted by the banks (déclarations) must include all loans;
- Updates must be transmitted to the BCM by lenders within the twentieth day of each month;
- Credit is split into four categories: i) short term; ii) medium term; iii) long term; and iv) signature credit (including guarantees and collateral);
- Thresholds are set for data sharing depending on types of loans (tenure as indicated above);
- Every month BCM must send, to each lender, a consolidated, updated situation of all credit lines that have been shared and updated;
- Reports do not include the names of the lenders;
- When a new applicant, unknown to the bank, files a loan application, lenders are enabled to inquire the CR.

**4. Instruction 005/GR/98 (unpaid checks)**—This is the final component of the legislation regulating information sharing, focusing on all types of unpaid financial instruments (checks, credit, receivables, bills, etc.). This creates a black list of bad payers. This data:

- Must be provided every six months (by January 20 and July 20);
- BCM provides the lenders with a complete report of the information contained in the database;
- Confidentiality is established;
- Banks must always check the database before a new account is opened and a new client registered;
- Thresholds are applied (from 0.5 million Mauritanian ouguiyas to 1 million Mauritanian ouguiyas, depending on loan typology).

**5. Instruction 009/GR/07 (Portant Normes de Transparence Financière applicable aux IMF)**—Among the numerous pieces of legislation passed with the aim of regulating the microfinance sector, this regulation notes the responsibilities of both the BCM and MFIs with respect to credit reporting. This legislation establishes:

*Art 27: “... BCM’s permanent Supervision of MFIs...” and “...in the framework of Supervision, MFIs are mandated to transmit any documents or any data that BCM may require...”*

The legal framework, however, does not provide sufficient rights to borrowers to access their own data; it does not protect data privacy. However, a new law on data privacy, as part of a framework concerning information flows, is under preparation and will have a significant impact on credit information sharing.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Mauritania, as shown in Table 7.9.2. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- The credit market in Mauritania is selective and traditional; credit penetration is low. Thus, credit information sharing is at a very nascent stage. A basic framework has been established, but there is a long way to go in terms of the development of a complete and effective credit information sharing system. This is indicated by a low ACRISI score of 6;
- The existing legal framework provides for sharing information among supervised entities through the central bank. However, there is no framework that allows for the establishment of best practice information sharing;

- Participation is extremely limited, and there are threshold limits on loans.
- Only banks share data with the CR, in a limited aggregated format.
- Neither detailed full-file credit accounts information nor payments histories (positive and negative) are shared;
- There is no mandate to inquire with the CR before granting a loan. Thus, the information sharing system is not fully utilized for risk-assessment purposes;
- No specific regulations or rules have been laid down for credit reporting or data confidentiality. However, a draft law for data privacy is under way as part of a new framework concerning information flows; this will have an impact on credit information sharing;
- Basic consumer rights, such as access to one's own report and consent for inquiry, are absent.

## RECOMMENDATIONS

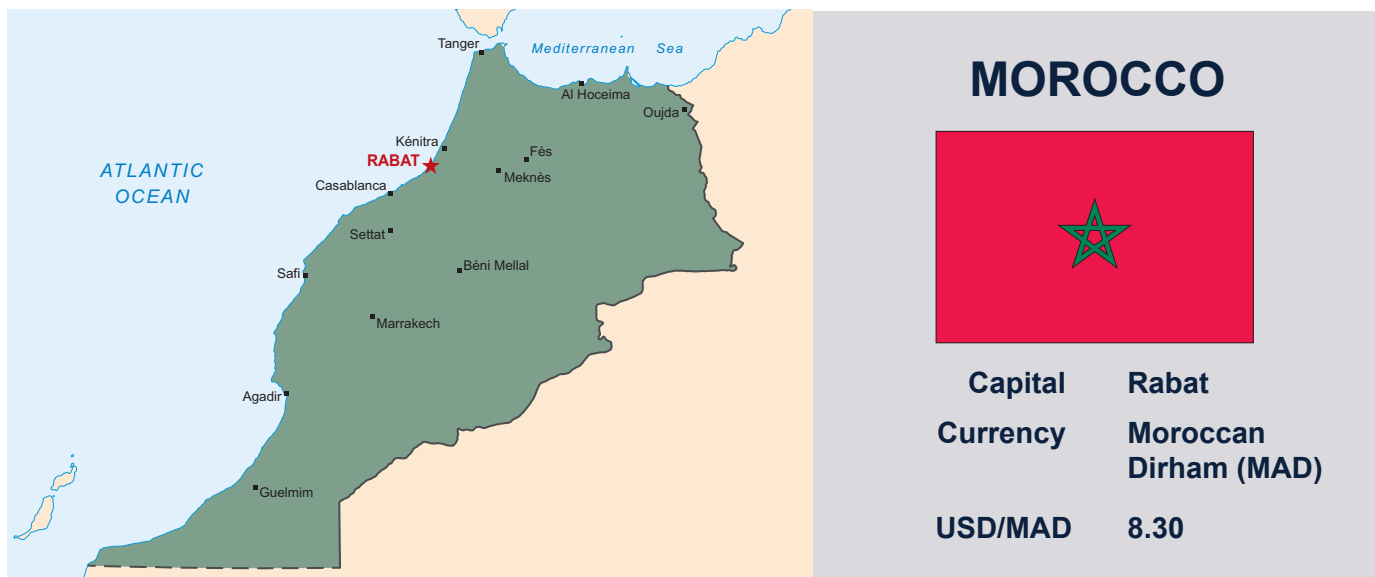
- The central bank should work toward developing an effective framework for credit information sharing, including the establishment of laws and regulations to enable effective credit reporting.
- Also, all obstacles for the development of a private credit reporting environment should be removed;
- In its subsequent upgrades, the CR should consider the inclusion of all loans, all microfinance institutions, removing thresholds, collecting positive and negative data and all detailed information on credit facilities and payment histories;
- Lenders should be required to inquire with the CR before extending any credit facility.
- The central bank should undertake a common program of awareness and education drives for lenders and borrowers on all aspects of information sharing such as benefits, purpose, obligations, rights, usage, etc.



Table 7.9.2: Arab Credit Reporting Information Sharing Index — Mauritania

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |          |          |
|--|----------|----------|
| Parameters   | 2008     | 2012     |
| Does the country have a CR?  | YES      | YES      |
| Does the country have a CB?  | NO       | NO       |
| <b>Legal environment in the country for credit information systems (CIS)</b> |          |          |
| Is there a specific law or regulation governing the credit reporting system? | NO       | NO       |
| Is there a legal framework for privacy and protection of data?               | NO       | NO       |
| Is information on consumers included?  | YES      | YES      |
| Is information on firms included?  | YES      | YES      |
| <b>Consumer rights environment in the country</b>                            |          |          |
| Are consumers allowed to access their reports?                               | NO       | NO       |
| Do consumers have access to at least one free report in a year?              | NO       | NO       |
| Are consumers allowed to raise disputes?                                     | YES      | NO       |
| Do entities collect consumer consent before making inquiries?                | NO       | NO       |
| <b>Entities in the country participating in CIS</b>                          |          |          |
| Are regulated entities participating?  | YES      | YES      |
| Are nonregulated entities participating?                                     | NO       | NO       |
| Are utility entities participating?  | NO       | NO       |
| Are MFIs participating?  | NO       | NO       |
| <b>Depth of data sharing and reporting in the country</b>                    |          |          |
| Are entities mandated to share data?   | YES      | YES      |
| Are entities mandated to make inquiries?                                     | NO       | NO       |
| Are both positive and negative information reported?                         | NO       | NO       |
| Are all loans reported without any limits?                                   | NO       | NO       |
| Does the principle of reciprocity apply?                                     | NO       | NO       |
| Are credit scores provided to the users?                                     | NO       | NO       |
| Is cross border data sharing allowed?  | NO       | NO       |
| <b>ACRISI score</b>  | <b>6</b> | <b>6</b> |





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41511, March 2015.

## 7.10 MOROCCO

### 7.10.1 ECONOMIC OVERVIEW

Given its proximity to Europe, Morocco has been able to build a diverse, open and market-oriented economy. Morocco has a large tourism industry and a growing manufacturing sector. The agricultural sector, which accounts for about 20 percent of GDP and employs roughly 40 percent of the labor force, continues to drive economic performance. Other key sectors of the economy include phosphates mining and textiles. As the world's biggest producer and exporter of phosphates, the industry plays a key role as a source of growth for other sectors of the economy.

In response to popular demands for more democratic governance amid protests against corruption, the Moroccan government initiated important political and social changes in 2011. King Mohamed VI spearheaded the drafting of a new constitution and reforms. Under the new constitution, a coalition government formed in January 2012 began to address governance, economic and social reforms to move the country forward. Efforts to transform the political and

social landscape have coincided with the Eurozone crisis and instability in MENA, creating new challenges and opportunities for Morocco.<sup>295</sup>

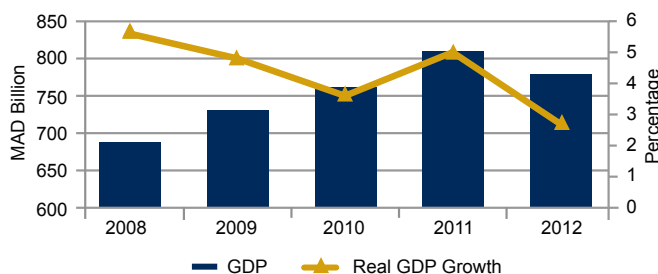
With an economic development model which combines liberalization, openness, and structural reform, Morocco has shown resilience in difficult national and international contexts. Some industries have been given a boost by the implementation of the 2009-2015 National Pact for Industrial Emergence (PNEI), which was planned in 2000 to encourage the emergence of new growth centers, competitiveness, and job creation. Morocco has focused on encouraging niche industries for export that contribute to growth; the kingdom has also emphasized the promotion of emerging services to international businesses.

The country suffers from high unemployment at around 9 percent, with urban youth unemployment at 35.4 percent. In addition to poverty, illiteracy is a major problem, particularly in rural areas. Key economic challenges for Morocco include: fighting corruption; reforming the education system; the judiciary; and, most importantly, the government's costly subsidy program.<sup>296</sup>

As seen in Figure 7.10.1, the Moroccan economy witnessed a lot of volatility in GDP growth rates between 2008 and 2012. With the instability of international financial markets, coupled with the slowdown in the Eurozone, the Moroccan economy was affected—especially in terms of exports, foreign direct investment, and tourist revenues. The real GDP growth rate declined to 4.9 percent in 2009 and to 3.7 percent in 2010. The year 2011 witnessed higher GDP growth, reaching 4.3 percent, as the industrial sector rebounded. A distinct slowdown in economic growth in 2012, was spurred low agricultural production in the country and the slowdown of economic activity in Europe.<sup>297</sup>

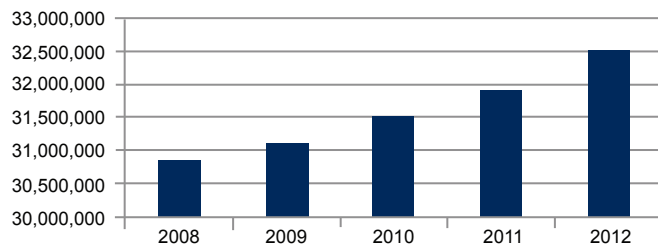
As seen in Figures 7.10.2 and 7.10.3, the population of the country, as of 2012, was over 32.52 million, with female to male ratio of approximately 50.7 percent.<sup>298</sup> The GDP per capita was \$2956. This equals 24,357 Moroccan dirham at the 2014 rate.<sup>299</sup>

**Figure 7.10.1: GDP Performance**



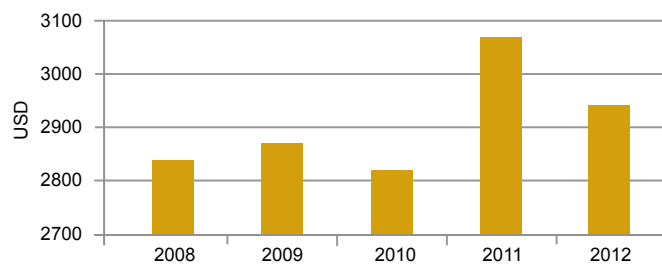
Source: <http://www.africaneconomicoutlook.org/en/statistics/>  
<http://www.indexmundi.com/facts/morocco/gdp>, data.worldbank.org

**Figure 7.10.2: Population**



Source: data.worldbank.org. "Morocco Economic Indicators," Quandl, accessed September 15, 2014. <http://www.quandl.com/economics/morocco-all-economic-indicators>.

**Figure 7.10.3: GDP per Capita**



Source: data.worldbank.org. "Morocco Economic Indicators," Quandl, accessed September 15, 2014. <http://www.quandl.com/economics/morocco-all-economic-indicators>.

## 7.10.2 CREDIT MARKET

### OVERVIEW

Bank Al-Maghrib (BAM), the Central Bank of Morocco, was set up with the objective of supervising the banking system, running the money market, and implementing monetary policies. The new Banking Act of 2006 made the central bank financially autonomous and strengthened its role with respect to banking supervision, exchange policy, and monetary policy.<sup>300</sup>

The 1993 Banking Act introduced the generic concept of the "credit institution," which is defined as either credit institutions approved as banks or those approved as financing companies. The act also created a unified legal framework for governing the activities of all credit institutions.<sup>301</sup>

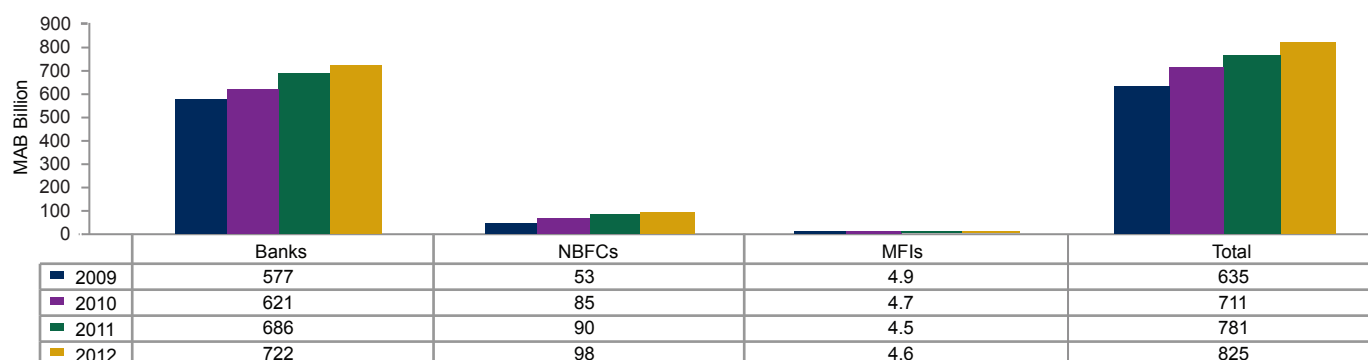
The banking system comprises 19 banks and six offshore banks. The 36 nonbanking finance companies include 18 consumer credit companies, two mortgage companies, six leasing finance companies, and 10 other companies. Furthermore, there are 13 microfinance institutions, 10 fund transfer companies, and two other institutions operating in Morocco.<sup>302</sup>

Over the years, the financial sector witnessed important reforms that brought about more effective regulations and financial management. Along with increased transparency, these reforms created a more efficient financial infrastructure. Initiatives encouraged banks' investment and fostered the growth of the lending industry. Among the steps taken were:

- The establishment of the first Credit Bureau of Morocco, Experian Services Maroc (ESM), in 2009 and the delegation of the credit registry services;
- The revision of the legal and regulatory framework (such as the revision of the banking law as well as the data privacy law and the consumer protection law);
- The launch of the Postal Bank (Al-Barid Bank), the most important vehicle to increase financial inclusion among the underserved and the informal segment of the economy;
- Stricter credit lending regulations and more rigorous prudential norms, with more punctual and efficient supervision.

In 2012, the banks contributed with 87 percent of credit volumes, followed by nonbanking finance companies (12 percent) and microfinance institutions (1 percent), as shown in Figure 7.10.4. The increase in credit is mainly because of housing loans by banks, and personal and car loans by nonbanking finance companies. The leasing industry also represents an important lending sector among nonbanking finance companies in Morocco.<sup>303</sup>

**Figure 7.10.4: Total Credit Volumes by Sector**



Source: Assessment of the Credit Reporting System in Morocco, ACRI, 2012.

**Table 7.10.1: Loans Granted with and without Collaterals — 2012**

| Category    | Numbers   |                  |                     | Value (In MAD millions) |                  |                     |
|-------------|-----------|------------------|---------------------|-------------------------|------------------|---------------------|
|             | Total     | With Collaterals | Without Collaterals | Total                   | With Collaterals | Without Collaterals |
| Individuals | 4,226,829 | 1,225,924        | 3,000,905           | 206,980                 | 71,030           | 135,950             |
| Firms       | 353,094   | 137,245          | 215,849             | 522,416                 | 180,956          | 341,460             |
| Total       | 4,579,923 | 1,363,169        | 3,216,754           | 729,396                 | 251,986          | 477,410             |

Source: Credit Information Sharing Survey, ACRI, January 2013.

Table 7.10.1 breaks down loans taken by individuals and firms with and without collaterals. The percentage of loans (in numbers) with collaterals is 29 percent for individuals and 39 percent for firms; the value of both categories is about 35 percent.

## Banking

The banking sector in Morocco is one of the largest banking sectors in MENA and represents 87 percent of GDP. The banking sector is stable and profitable because of financial sector liberalization and reform programs undertaken since 1990 aimed at being in line with international standards. It has great resilience to external shocks due to its solidity and limited exposure to external financial markets. Banks are now able to offer, execute, and sell a complete range of financial products and services.<sup>304</sup>

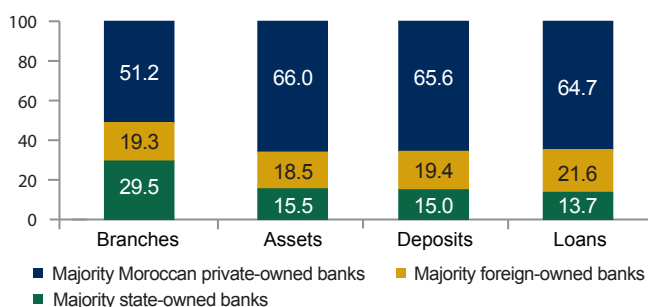
As a result of consolidation, the bulk of assets, deposits, and loans are concentrated in the balance sheets of three to five banks. The top three banks held 64.5 percent of loans; the top five banks held an 80.7 percent share of outstanding loans. Loan-to-deposit ratio was 104 percent as of 2012.

As seen in Figure 7.10.5, the majority of the credit market is held by the local Moroccan private banks as of 2012: 51 percent of the branch network; 66 percent of deposits; 65 percent of loans.

However, foreign banks have historically played a key role despite their lower share of deposits, loans, and assets.<sup>305</sup> They are instrumental in introducing advanced credit processes, new techniques, know-how, and risk-management tools.<sup>306</sup>

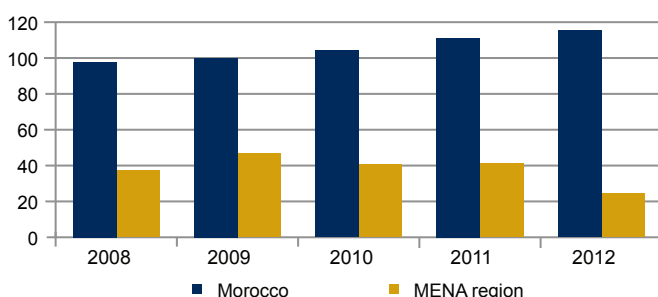
The banking sector's domestic credit has steadily increased, from 97.9 percent of GDP in 2008 to 115.4 percent in 2012, as shown in Figure 7.10.6. This is much higher than the average credit of 38.8 percent provided by the entire MENA region, where the trend is declining and is as low as 24.5 percent in 2012.

**Figure 7.10.5: Ownership Concentration (in %)**



Source: Annual Report on the Control, Activity and Results of Credit Institutions, Bank Al-Maghrib, 2012.

**Figure 7.10.6: Domestic Credit by Banking Sector (% of GDP)**



Source: data.worldbank.org

## Nonbanking Financial Companies

There are 36 nonbanking financial companies in the market, and most of them belong to banks. BAM regulates these financial companies, which are engaged in consumer

financing, leasing and mortgage finance, and providing small loans to small and medium enterprises. NBFCs are normally considered as the consumer-financing arms of banks; though not exclusively, banks' lending is mainly targeted to corporate and commercial businesses. The market is heavily concentrated with five major NBFCs holding 73 percent of total assets. In the case of leasing companies, this proportion soars to 97 percent.<sup>307</sup>

The credit extended by NBFCs has increased at a faster pace, from 53 billion Moroccan dirham in 2009 to 98 billion Moroccan dirham in 2012, reflecting growth of 85 percent. Consumer credit, however, has accounted for 41 billion Moroccan dirham, with a negligible increase of 1.2 percent year on year. The most popular products are personal loans which represent two-thirds of consumer credit; the remainder is mainly car loans. Leasing companies represent the other important lending sector among the 36 supervised NBFCs.

## Microfinance

With more than 800,000 active clients and a volume of outstanding loans of 4.6 billion Moroccan dirham in 2012, the Moroccan microfinance sector is the largest in the region. Like banks and NBFCs, the microcredit market is overly concentrated, with the top four microfinance institutions accounting for more than 95 percent of the total gross portfolio, less than half of which (44 percent) is in rural areas.<sup>308</sup>

After the crisis of over-indebtedness, the microfinance sector has been in an upgrading phase. It has started to tighten credit by adopting prudent policies in granting loans and is refocusing on income-generating activities. As a result, lending activity has remained stagnant in terms of outstanding loans since the past two years.<sup>309</sup>

## The Specialized Al Barid Bank

Al Barid Bank (ABB), a subsidiary of Post Morocco, is fully owned by the government. ABB was launched in June 2010 with the goal of increasing inclusion and access to financial services, notably through small and medium loans. The sheer size of the postal network (1,800 postal branches of which 943 were already operating as bank branches, as of 2012) will allow ABB to penetrate

geographies and segments of rural populations that were generally untouched by the commercial banks.<sup>310</sup>

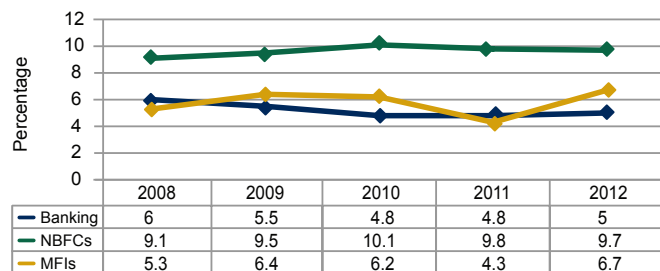
### Nonperforming Loans

Over the past few years, improved risk controls and effective credit information sharing through BAM and ESM have helped to improve nonperforming loan levels. As a result, banks' average nonperforming loan ratio reduced from 6 percent in 2008 to 4.8 percent in 2011, as shown in Figure 7.10.7. There was a slight increase (5 percent) in 2012 because of difficulties faced by companies operating in the sectors most exposed to international competition as well as the impacts of lower external demand. The quality of exposure to households, however, has improved.<sup>311</sup>

Unlike banks, nonbanking financial companies (NBFCs) have higher nonperforming loan ratios; they had also registered a slight increase of bad debt in 2010 (10 percent compared to 9.5 percent in 2009), as seen in Figure 7.10.7. The quality of the loan portfolio has shown a mixed trend in 2011 and 2012, as there is a decline in the NPLs of consumer loans; the quality of loans by leasing companies has deteriorated, reflecting a higher NPL rate.

In the microfinance sector, as shown in Figure 7.10.7, the percentage of nonperforming loans slipped in 2009 as a result of the deteriorating quality of risk. This was because of the weaknesses observed in internal controls, information and collection systems along with the impact of cross-indebtedness in the sector.

**Figure 7.10.7: NPLs by Sector**



Source: "Annual Report on the Control, Activity and Results of Credit Institutions."

Although microfinance institutions had started sharing data with ESM, they only started making inquiries prior to loan granting in 2012. A largest microfinance institution's test batch of inquiries to ESM revealed that the problem of

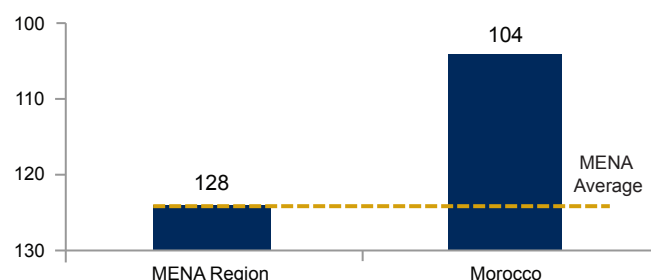
cross-lending and over-indebtedness still persists, causing higher nonperforming loans.

Drawing lessons from the past, microfinance institutions have continued to upgrade their structures and credit policies, with a view to strengthen microcredit associations' systems of governance. MFIs have focused on portfolio quality and bad debt reduction, bringing a tangible improvement of their portfolios.<sup>312</sup>

### CREDIT PENETRATION AND ACCESS

As shown in Figure 7.10.8, the World Bank's *Doing Business Report 2013* ranked Morocco 104 out of 185 countries. It is higher than the regional average of 128. (*DB14, ranked 109*)

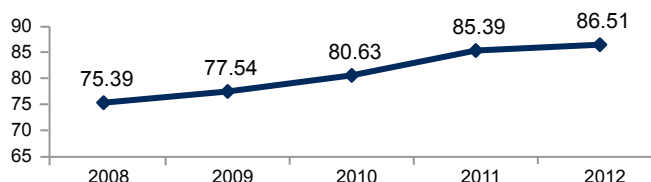
**Figure 7.10.8: Getting Credit Rank – 2013**



Source: *Doing Business Report*, The World Bank, 2013. data.worldbank.org.

In terms of the number of deposits, access to finance in Morocco has grown in recent years. Deposit accounts with commercial banks per 1,000 adults increased, from 320 in 2004 to 786 in 2012. Mobile phone subscriptions dramatically increased from 30 (per 100 people) in 2004 to 100 in 2011, suggesting possibilities to further increase access to finance through mobile-banking solutions.<sup>313</sup> Outstanding loans from commercial banks increased from 75.39 percent of GDP in 2008 to 86.51 percent in 2012, as shown in Figure 7.10.9.<sup>314</sup>

**Figure 7.10.9: Outstanding Loans from Commercial Banks (% of GDP)**

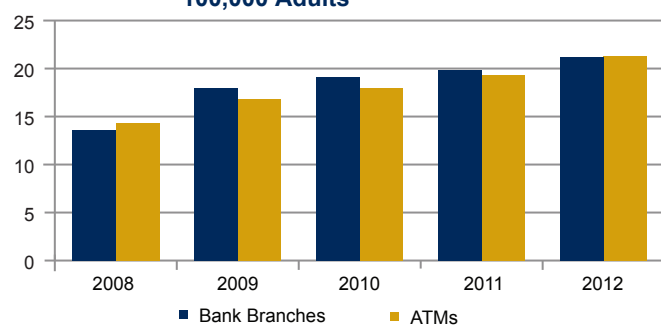


Source: Financial Access Survey, IMF, 2012.

Since 2008, 370 bank branches have been added to the network on average. The total number of branches reached 5,447 as of 2012.<sup>315</sup> As shown in Figure 7.10.10, the outreach of commercial bank branches per 100,000 adults increased from 14 in 2008 to 23 in 2012; the same goes for ATMs, which increased from 18 in 2008 to 23 in 2012.<sup>316</sup>

Table 7.10.2 shows financial access indicators in terms of formal financial institutions' accounts and loans. The percentage of adults with an account was relatively high in the country, at 39 percent in 2011. Twenty-seven percent of women have an account with a formal financial institution. However, the percentage of adults who took a loan in 2011 was a negligible 4 percent, which shows potential for growth of credit market.

**Figure 7.10.10: Commercial Bank Branches and ATMs per 100,000 Adults**



Source: Financial Access Survey, IMF, 2012.

**Table 7.10.2: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>39</b> |
| Men                           | 52        |
| Women                         | 27        |
| <b>Loans in the past year</b> | <b>4</b>  |
| Men                           | 5         |
| Women                         | 4         |

Source: Financial Access Survey, IMF, 2012.

In addition to banking, there are a number of relatively developed sectors that ensure access to credit by a wider pool of market participants; among these sectors are asset management, consumer finance, leasing, factoring, and mutual funds. There are a few constraints, however, in accessing finance, such as:

- Limited finance available through the banking sector for micro, small and medium enterprises, particularly for smaller and informal firms;
- Low penetration of nonbanking financial services, especially insurance;
- Difficulty for women to obtain credit from commercial banks; still Morocco remains one of the MENA countries with the highest ratio of credit granted to women (31 percent, with 1.49 million women borrowers out of 4.89 million total borrowers), as shown in Table 7.10.3.
- Over-reliance of lenders on collateral, even for personal loans. Moroccan collateral requirements are about 150 percent to 200 percent of the loan value, one of the levels in the region.

Moroccan authorities are actively undertaking reforms to further modernize public finance and increase access to financial services, particularly for small and medium enterprises. Efforts to restructure the microfinance sector and rationalize the national system of guarantees are also underway.<sup>317</sup>

**Table 7.10.3: Bifurcation of Credit Facilities**

|              | Number           | Percentage |
|--------------|------------------|------------|
| Men          | 3,398,741        | 69         |
| Women        | 1,492,289        | 31         |
| <b>Total</b> | <b>4,891,047</b> | <b>100</b> |

Source: Bank Al-Maghrib.

## 7.10.3 STATUS OF CREDIT REPORTING

### OVERVIEW

At the onset of 2005, Morocco was characterized by unfavorable credit market conditions, such as high collateral lending, multiple lending, and wrong selections of borrowers. This was an outcome of an inadequate credit reporting system that led to rising nonperforming loans and weakening the credit market. The country lacked a stable regulatory framework for credit reporting, and there was no cross sector information sharing by key lenders such as banks, nonbanking financial companies, and microfinance



institutions. In response to these shortcomings, lenders had planned to create a separate informational database for their own sectors. This would have led to a fragmented, partial credit reporting system, not allowing lenders to check the complete financial profile of potential and current borrowers.

Initially Bank Al-Maghrib (BAM) decided to upgrade Morocco’s existing CR. However, it also considered other viable credit reporting models, including the participation of private sector partners. Given the limited capabilities of the existing credit reporting system and results of market assessment study, IFC suggested to BAM a public-private partnership. In September 2007, the central bank issued the first credit bureau (CB) license to Experian Morocco.<sup>318</sup> With the participation and investment of the world’s largest credit bureau provider, Experian Plc, the Moroccan bureau Experian Services Maroc (ESM) became operational in October 2009.

ESM is owned by Experian, in joint venture with seven Moroccan financial institutions (six banks and one insurance company); Experian holds 78.67 percent shares, banks hold 17.33 percent, and insurance company hold 4 percent.<sup>319</sup>

As shown in Table 7.10.4, the total number of individuals and firms listed in the CB has increased by 16 percent in a year, with individuals constituting 96 percent of the total database. The data shared is negative and positive. The data on individuals and firms includes demographic data, loan account data, and payment performance data.

**Table 7.10.4: Experian Services Morocco Database**

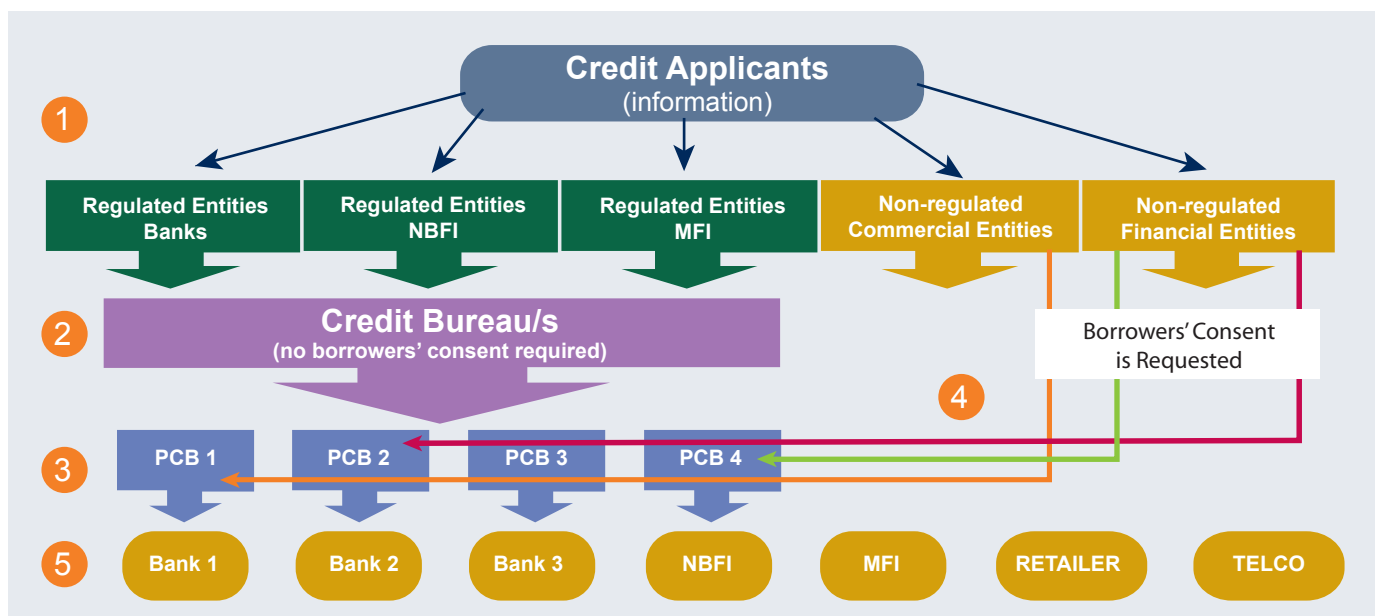
|                                  | 2011      | 2012      | % change |
|----------------------------------|-----------|-----------|----------|
| Consumers                        | 3,582,496 | 4,148,066 | 16       |
| SMEs                             | 122,709   | 151,665   | 24       |
| Total Number of Credit Customers | 3,705,205 | 4,299,731 | 16       |

Source: Credit Information Sharing Survey, ACRI, 2013.

## PARTICIPATION AND DATA SHARING

As shown in Figure 7.10.11, Morocco uses a mandatory credit sharing model. Through the CB, BAM has delegated to the private sector all credit information services that generally are performed by the CR; the central bank has closed the CR to further inquiries from the lenders. BAM plays a key role, not limiting itself to licensing and supervising CBs, but taking a proactive and intermediary

**Figure 7.10.11: Morocco Sharing Model**



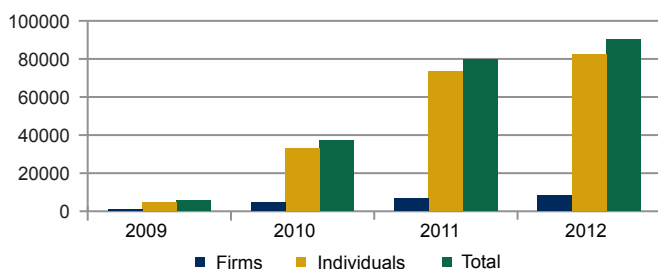
Source: Madeddu, 2012.

function between the CBs and the lending industry users and data providers.

The regulation mandates that regulated lenders (microfinance institutions, banks, and nonbanking financial companies) periodically provide BAM with all credit information, which BAM then transmits to all CBs operating in the market. Nonregulated entities can also provide data directly to the CBs with consumer's consent; they can consult the bureau as well. Lenders are required to consult at least one bureau before making a credit decision on the loan.<sup>320</sup>

As shown in Figure 7.10.12, the total number of monthly credit reports distributed by ESM has increased significantly since it became operational, from 5,376 in 2009 to 90,166 in 2012.

**Figure 7.10.12: Credit Reports Issued by the PCB**



Source: Credit Information Sharing Survey, ACRI, 2013

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

The legal framework of credit reporting in Morocco is based on the powers bestowed on BAM by the Banking Law (No. 34-03 of February 14, 2006), and on the subsequent regulations issued by BAM in 2007 (2/G, 27/G, 28/G).

The banking law clearly establishes the authority of BAM to request credit information and reports from the supervised entities. The latter must periodically contribute data to BAM's credit registry. It also allows for BAM to delegate CR services to external private information service providers. Based on this provision, BAM has given the license to ESM to operate the management of the CR on BAM's behalf. BAM is also entitled to extend the

delegation of the service to one or more additional credit bureau providers.

Article 40: "Banks, financial and microfinance institutions are required to supply BAM with all the documents and information that are necessary to effectively manage the credit registry mentioned in the article 120 below, in accordance with the conditions of the circular released by BAM".

Article 120: "BAM is responsible for the management of a credit registry. BAM can delegate the management of this registry under specific self-defined conditions. The Governor of BAM determines, through circulars, the conditions and procedures to access the information held by this credit registry".

BAM issued in 2007 and reviewed in 2010 (1G/2010 and 2G/2010, respectively) a series of circulars to define the procedures and rules under which the sharing and inquiring of the CB take place.<sup>321</sup>

- Circular 27/G/2007—Determines the information that banks, nonbanking financial institutions, and microfinance institutions are required to provide to BAM.
- Circular 28/G/2007—Elaborates on the basic contents of the code of conduct, particularly mandating users to inquire ESM before a loan is granted. It also defines the procedures and responsibilities for disputing wrong data and amending errors contained in the borrowers' credit histories.
- Circular 2/G/2007—Determines penalties to be applied to regulated entities in case of proven violation of the law and circulars.

The delegation agreement signed between ESM and BAM contain provisions related to establishing and operating credit bureaus, including:

- **Public service continuity**—Guaranteed by the credit bureau, which is also obliged to respect the principle of users' equal treatment;
- **Good governance obligation**—The credit bureau is required to observe good governance rules, develop and improve the quality of its services in accordance with international best practice in this field;
- **Confidentiality**—The credit bureau is obliged to strictly observe professional secrecy and confidentiality of data;
- **Security**—The credit bureau establishes procedures and control measures that ensure the availability, confidentiality, integrity, and security of information;
- **Consumers' rights**—Borrowers have the right to obtain their own credit report and dispute the veracity of information. The CB must examine consumers' complaints within a predefined timeline and provide a satisfactory reply.

The Data Privacy Law 09-08 (DPL -0908) was enacted in 2008 but is no longer relevant, as nonregulated entities are not participating in data sharing. However, the impact will be significant once nonregulated entities become data providers.

Article 4 is one of the pillars of the legislation and unambiguously establishes two fundamental principles:

- No legitimate processing or exchange of personal data can occur without the consent of the subject of information, and only for the justifiable permissible purpose (such as credit granting);
- Consent is not necessary if the processing and exchange is the consequence of a legal obligation (such as the banking law obligation for regulated lenders to share data with BAM and BAM/ESM's delegation model).

With the circulars and the code of conduct, a sound legal and regulatory framework was created to govern the credit information sharing system in Morocco.<sup>322</sup>

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Morocco, as shown in Table 7.10.5. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- The establishment of the CB in Morocco has significantly improved the credit reporting system and is on par with international best practice. This can be seen from the jump in the ACRISI score from six in 2008 to 16 in 2012. Within a span of three years, ESM has already made its mark by increasing its credit information sharing index from two to five on the ease of getting credit parameters, in the Doing Business survey. This success is the result of the creation of Morocco's first credit bureau, a state-of-the-art system;
- Changes were made to existing laws and new specific regulations issued for credit reporting leading to the establishment of ESM. These regulations and circulars enable the central bank to oversee credit-reporting activities and the sharing of data among lending institutions, while providing basic consumer rights;
- BAM's innovative model of delegation introduced offers significant advantages:
  - It has built a robust and complete national credit reporting system that has established grounds for a competitive, dynamic information-sharing market in a short span of time;
  - It supplies the central bank with a wealth of information for credit supervision;
  - It has been successful in creating win-win situation for all: lenders, borrowers, and the financial sector as a whole.
- The credit information database and depth of data sharing has significantly improved with information on all loans and detailed payment histories (negative and positive) being collected and distributed;

- As of 2012, only the regulated entities and microfinance institutions participated in the credit information sharing system;
- No value-added services of any type have been introduced by ESM in the market.

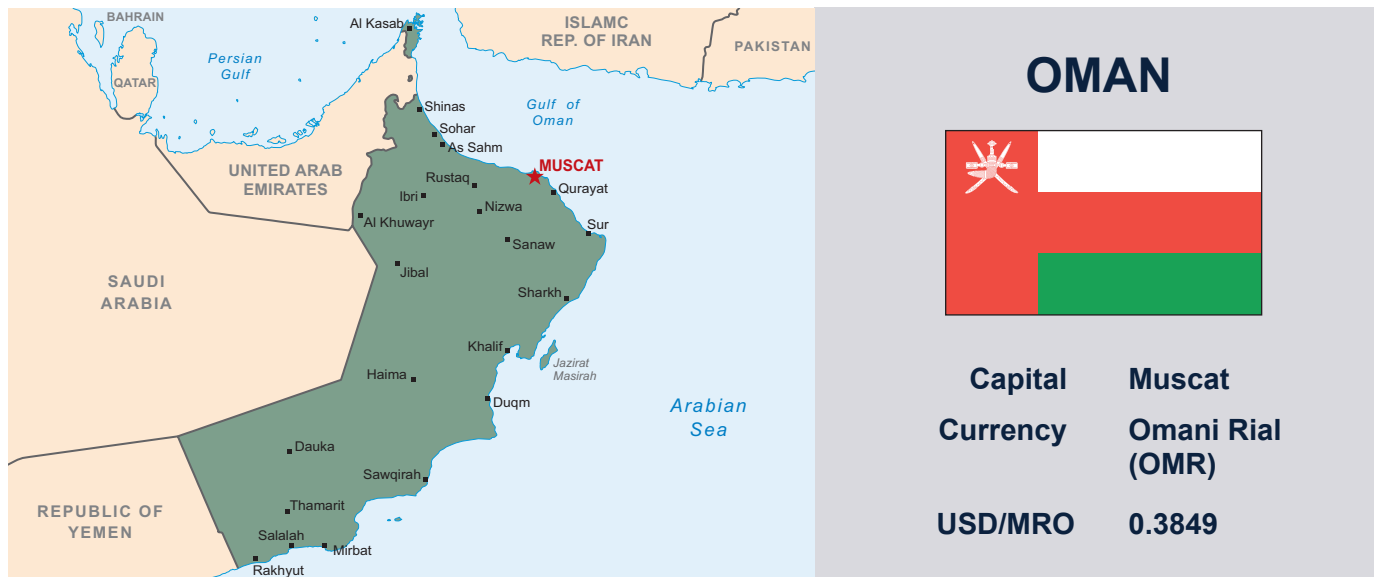
## RECOMMENDATIONS

- Credit penetration remains insufficient in the Moroccan market. Besides reviewing and changing credit assessment policies, lending institutions should make effective use of services offered by the CB to increase access to credit;
- The National Credit Information System should be upgraded to:
  - Increase data coverage with information from nonregulated entities and utility service providers;
  - Offer of value-added services and sophisticated techniques,
  - Open the credit information industry to competition<sup>323</sup>
- Since credit reporting has reached a mature stage in Morocco, BAM might consider a revision of the delegation model. One option would be the introduction of a direct-sharing model, with lenders and CB's sharing data directly. This would free BAM from the technical burden of collecting data from lenders and distributing it to the CB.

Table 7.10.5: Arab Credit Reporting Information Sharing Index — Morocco

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |          |           |
|--|----------|-----------|
| Parameters   | 2008     | 2012      |
| Does the country have a CR?  | YES      | YES       |
| Does the country have a CB?  | NO       | YES       |
| <b>Legal environment in the country for credit information systems (CIS)</b> |          |           |
| Is there a specific law or regulation governing the credit reporting system? | NO       | YES       |
| Is there a legal framework for privacy and protection of data?               | NO       | YES       |
| Is information on consumers included?  | YES      | YES       |
| Is information on firms included?  | YES      | YES       |
| <b>Consumer rights environment in the country</b>                            |          |           |
| Are consumers allowed to access their reports?                               | NO       | YES       |
| Do consumers have access to at least one free report in a year?              | NO       | YES       |
| Are consumers allowed to raise disputes?                                     | NO       | YES       |
| Do entities collect consumer consent before making inquiries?                | NO       | NO        |
| <b>Entities in the country participating in CIS</b>                          |          |           |
| Are regulated entities participating?  | YES      | YES       |
| Are nonregulated entities participating?                                     | NO       | NO        |
| Are utility entities participating?  | NO       | NO        |
| Are MFIs participating?  | NO       | YES       |
| <b>Depth of data sharing and reporting in the country</b>                    |          |           |
| Are entities mandated to share data?   | YES      | YES       |
| Are entities mandated to make inquiries?                                     | NO       | YES       |
| Are both positive and negative information reported?                         | YES      | YES       |
| Are all loans reported without any limits?                                   | NO       | YES       |
| Does the principle of reciprocity apply?                                     | NO       | YES       |
| Are credit scores provided to the users?                                     | NO       | NO        |
| Is cross border data sharing allowed?  | NO       | NO        |
| <b>ACRISI score</b>  | <b>6</b> | <b>16</b> |





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41512, March 2015.

## 7.11 OMAN

### 7.11.1 ECONOMIC OVERVIEW

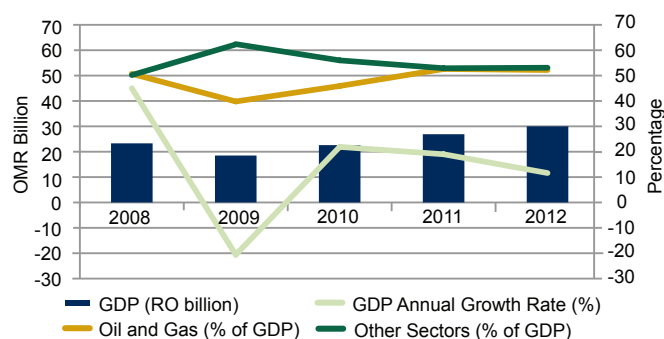
Oman is a small, open economy that has been growing at a steady, impressive pace over the past three years. With a population of 3.6 million (including 1.5 million expatriates), GDP growth was 11.6 percent in 2012. Primarily dominated by petroleum activities, oil and natural gas accounted for 52.2 percent of GDP in 2012. Efforts are being made to diversify the economy by promoting and expanding other industries and service sectors. The contribution of other sectors—notably, agriculture and fishing, and industry and services—was 53.1 percent of GDP in 2012. Figure 7.11.1 shows the performance of the economy with respect to GDP (at current market prices) from 2008 to 2012. The GDP in 2012 stood at 30.03 billion Omani rials, increasing from 26.9 billion Omani rials in 2011.

To some extent, Oman has been successful in diversifying its economy through the sultanate's long-term strategy, Vision for Oman 2020, which includes: increasing the role of private sector through investments; the development of small and medium enterprises; developing the financial

sector; developing infrastructure; and improving the investment climate.<sup>324</sup>

Despite the global economic slowdown, the average GDP growth rate from 2008 to 2012 was 15.4 percent. There was a negative growth of 20.6 percent in 2009, but Oman has been able to improve its economic conditions and achieve a stable growth rate since. The major driver of growth has been the recovery in the prices of crude oil in the international markets. Other drivers are sustained domestic demand, mainly supported by large public expenditures,

Figure 7.11.1: GDP Performance

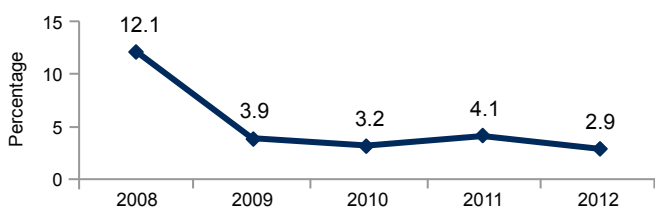


Source: Annual Report, Central Bank of Oman, 2012.

and an accommodative monetary policy pursued by the Central Bank of Oman (CBO).<sup>325</sup> The inflation of consumer prices has stabilized and remained low over the past few years; this trend is expected to continue. The CPI rate has decreased from 12.1 percent in 2008 to a low 2.9 percent in 2012. Figure 7.11.2 shows the trend from 2008 to 2012.

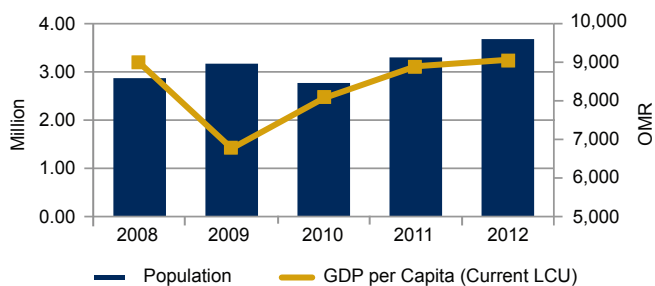
GDP per capita has been growing at a steady pace since 2010, after a significant decline in 2009 due to that year's negative growth rate. Per capita income has increased from 8,068 Omani rials in 2010 to 9,063 Omani rials in 2012. Figure 7.11.3 shows the population and GDP per capita from 2008 to 2012. The Omani economy follows a fixed exchange rate system and the Omani rial is pegged at a rate of \$2.60.<sup>326</sup>

**Figure 7.11.2: CPI Inflation**



Source: Annual Report, Central Bank of Oman, 2012. data.worldbank.org

**Figure 7.11.3: Population and GDP per Capita**



Source: Annual Report, Central Bank of Oman, 2012. data.worldbank.org

## 7.11.2. CREDIT MARKET

### OVERVIEW

The financial system in Oman comprises the central bank, the banking sector (commercial banks, specialized banks, and Islamic banks/windows) and finance and leasing companies. The system features other institutions, such as the money exchange establishments, pension funds,

insurance firms, brokerage firms, and the Muscat securities market.

The Central Bank of Oman is responsible for maintaining the stability of the national currency and ensuring monetary and financial stability in a deregulated and open financial system. There are 16 commercial banks (local and foreign) operating in Oman. In December 2012, the regulatory framework for Islamic Banking was also set up. In addition, there are two specialized banks, the Oman Housing Bank and the Oman Development Bank. These provide soft financing mainly to low and middle-income Omanis to build or purchase residential property and to private sector investors to finance small projects.<sup>327</sup>

### Commercial Banks

The 16 commercial banks (seven local banks and nine branches of foreign banks) dominate the Omani financial system. Local banks lead the banking sector, accounting for 79 percent of banking sector assets in 2012. Also, the three largest commercial banks account for 62 percent of the total assets, 60 percent of total deposits, and 61.7 percent of total credit.

As of December 2012, commercial banks operated through a network of 479 branches. They have been reasonably profitable on a continuous basis. The size of the banking system, in terms of branches and ATMs, has expanded in recent years. The most significant achievement has been the increase in assets of these banks on a continuous basis. Also the financial health of banks has improved in terms of asset quality, provision coverage, capital adequacy, and profitability.<sup>328</sup>

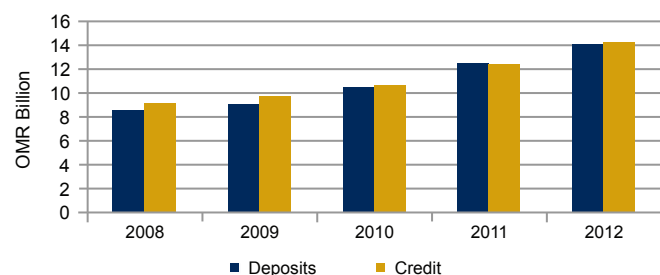
Total deposits with commercial banks increased 12.71 percent, from 12.57 billion Omani rials in 2011 to 14.17 billion Omani rials in 2012. There has been continuous credit growth over the last few years. Bank credit increased 14.42 percent, from 12.51 billion Omani rials in 2011 to 14.32 billion Omani rials in 2012. The major factors that have contributed to this growth were rising economic growth, improvement in banks' asset quality, moderation in inflation, decline in real interest rates, rising income of households, and increased competition with the entry of new banks.



On average, credit extended to the economy, in the past five years, has been over 100 percent of deposits held by commercial banks. Figure 7.11.4 shows this trend from 2008 to 2012.

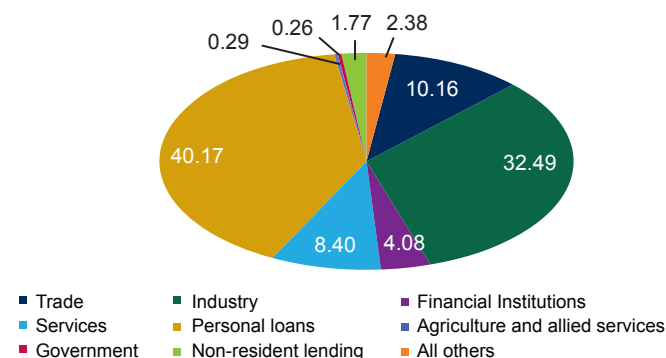
Credit to private sector was 12.41 billion Omani rials in 2012. This constitutes over 86 percent of total bank credit. Also, as shown in Figure 7.11.5, personal loans constitute the single largest component of bank credit. With 5.02 billion Omani rials disbursed to this sector, it accounts for over 40 percent of total bank credit.

**Figure 7.11.4: Bank Deposits and Credit**



Source: Annual Report, Central Bank of Oman, 2012.

**Figure 7.11.5: Sectoral Distribution of Bank Credit (%)**



Source: Annual Report, Central Bank of Oman, 2012.

## Islamic banks

With the introduction of the Islamic banking regulatory framework, two banks (Bank Nizwa and Alizz Islamic Bank) have been granted licences. Two conventional banks (Bank Muscat and National Bank of Oman) have opened Islamic windows. Other local commercial banks have also expressed interest in setting up Islamic banking operations. Islamic banking in Oman is expected to mobilize \$2.5 billion in terms of deposits and capture a market share of about 6.5 percent by the end of 2013.<sup>329</sup>

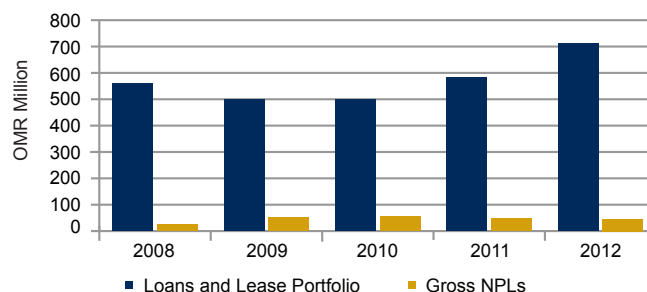
## Specialized Banks

The two specialized banks, the Oman Housing Bank and the Oman Development Bank, also provide credit facilities to individuals and corporations. The Oman Housing Bank provides finance by way of long-term soft housing loans. In 2012, mortgage loans increased 14.9 percent to 247.8 million Omani rials, from 215.6 million Omani rials in 2011. The other specialized bank, the Oman Development Bank, mainly provides loans for development projects, including activities related to agriculture and fisheries, health, tourism, professional activities, and traditional craftsmanship. In 2012, its total loans and advances amounted to 102 million Omani rials.

## Finance and Leasing Companies

In addition to commercial banks and Islamic banks, there are six finance and leasing companies that provide retail credit facilities, and small and medium enterprise financing. In 2012, they operated through a network of 37 branches. Their loan and lease portfolio stood at 711.7 million Omani rials at the end of 2012. This is an increase of 22 percent, from 582.2 million Omani rials in 2011.<sup>330</sup> The loan portfolio from 2008 to 2012 is shown in Figure 7.11.6.

**Figure 7.11.6: Credit Performance of FLCs**



Source: Annual Report, Central Bank of Oman, 2012.

## Nonperforming Loans

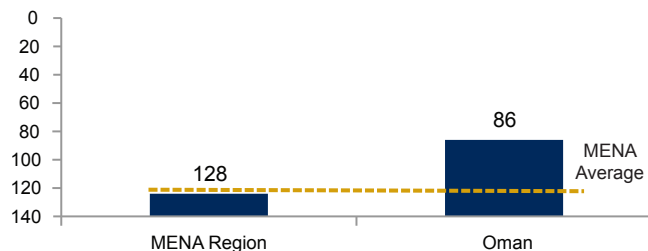
The gross nonperforming loans of commercial banks increased 4.2 percent, from 428 million Omani rials in 2011 to 446 million Omani rials in 2012. However, the gross nonperforming loans ratio as a proportion to total loans and advances declined to 2.2 percent at the end of December 2012, compared to 2.5 percent the previous year.

For financing and leasing companies, gross nonperforming loans of 45.6 million Omani rials constituted 6.4 percent of net outstanding loans in 2012. The ratio of gross NPLs to net outstanding loans and lease portfolios has been fluctuating in the past five years, with the highest being 10.9 percent and the lowest 4.3 percent. Figure 7.11.6 illustrates the gross NPL levels against the loan and lease portfolio of the six FLCs.<sup>331</sup>

## CREDIT PENETRATION AND ACCESS

The World Bank *Doing Business Report* ranked Oman 86 out of 185 countries in 2013. As seen in Figure 7.11.7, it is higher than the regional rank of 128. (*DB14, ranked 86*)

**Figure 7.11.7: Getting Credit Rank – 2013**



Source: *Doing Business Report*, The World Bank, 2013.

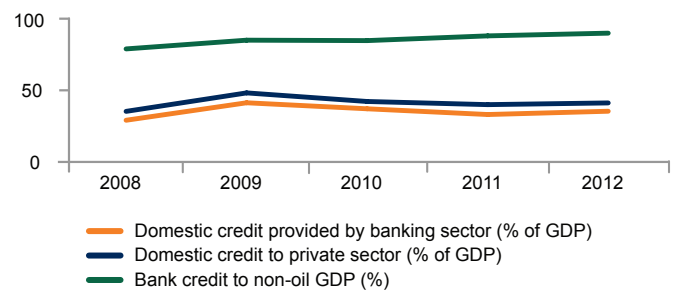
The credit market is dominated by commercial banks. Total credit by the banking sector has been increasing over the past five years, as shown in Figure 7.11.4. However, when the banking sector's domestic credit is measured as a percentage of GDP, there seems to be a declining trend—except for the increase from 33.1 percent in 2011 to 35.4 percent in 2012.<sup>332</sup> Credit penetration, which can be measured by the ratio of domestic credit to private sector as a percentage of GDP, also follows a similar trend, as shown in Figure 7.11.8. There was an increase from 40 percent in 2011 to 41.2 percent in 2012.<sup>333</sup> Bank credit to non-oil GDP was a high 89.9 percent in 2012.<sup>334</sup>

Figure 7.11.9 shows a comparison of domestic credit to the private sector, as a percentage of GDP, to selected countries in the MENA region in 2012. Some of Oman's neighboring countries have high ratios such as the UAE (59.1 percent) and Bahrain (70 percent).

As of December 2012, Oman's commercial bank network consisted of 479 branches and 1024 ATMs. Bank Nizwa

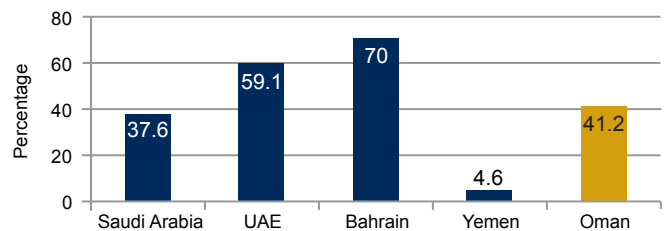
SAOG commenced operations in January 2013 with two branches. Four local banks set up Islamic banking windows with nine branches in the first quarter of 2013. The specialized banks operate with a network of 22 branches. The branch network is shown in Figure 7.11.10.

**Figure 7.11.8: Domestic Credit (% of GDP)**



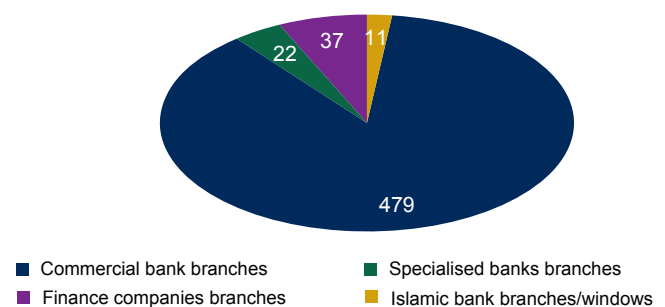
Source: data.worldbank.org

**Figure 7.11.9: Domestic Credit to Private Sector (% of GDP) for Some MENA Countries in 2012**



Source: data.worldbank.org

**Figure 7.11.10: Credit Market Branch Network**



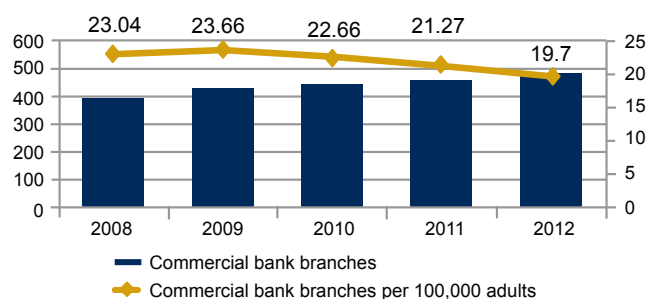
Source: Annual Report, Central Bank of Oman, 2012.

As per the IMF Financial Access Survey, the branch network for commercial banks offered an outreach of 19.70 bank branches per 100,000 adults in 2012. The trend, as seen in Figure 7.11.11, shows that access to banking for the adult population in Oman has declined since 2008.

Nevertheless, the number of commercial banks branches has been increasing, which may indicate the concentration of branches in certain areas. The outreach can be expected to increase with the introduction of Islamic banks and local banks opening Islamic windows.

Table 7.11.1 shows the financial access indicators in terms of formal financial institutions' accounts and loans. Compared to most countries in the region, the percentage of adults with an account was a high 74 percent in 2011. Sixty-four percent of women have an account with a formal financial institution, which is also relatively high. The percentage of adults who have taken a loan in 2011 was only 9 percent. This percentage for women corresponds to 6 percent.

**Figure 7.11.11: Commercial Banks Outreach**



Source: Financial Access Survey, IMF, 2012. Annual Report, Central Bank of Oman, 2012.

**Table 7.11.1: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>74</b> |
| Men                           | 84        |
| Women                         | 64        |
| <b>Loans in the past year</b> | <b>9</b>  |
| Men                           | 12        |
| Women                         | 6         |

Source: Financial Inclusion Data, The World Bank, accessed September 15, 2014. <http://datatopics.worldbank.org/financialinclusion/country/oman>. <http://datatopics.worldbank.org/financialinclusion/topic/gender#divMap>.

## 7.11.3 STATUS OF CREDIT REPORTING

### OVERVIEW

The concept of credit information sharing in Oman has been in place since the establishment of the first CR in 1978. CBO has, at different stages, undertaken various initiatives

to continuously develop and upgrade the CR and create a more enabling environment for sharing information among lenders. The first CR aimed at achieving two fundamental goals:

- Collecting credit information from financial institutions to support the CBO's responsibility of supervising the credit business;
- Supplying lenders with consolidated information for credit underwriting purposes.

To achieve these objectives, the CBO set up the Bank Credit and Statistical Bureau (BCSB) system to undertake the functions of a CR. In 1996, the CBO, always keen in maintaining high standards in its operations and systems, proceeded with a major revamp; the objective was to automate the CR's processes.<sup>335</sup>

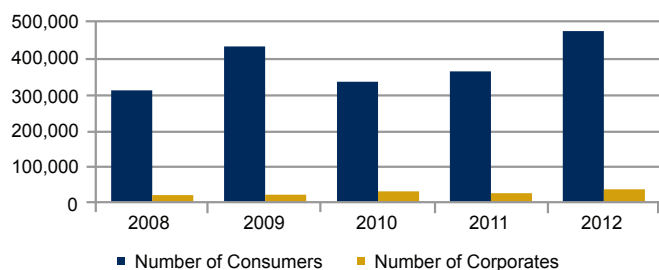
Since then, the CBO has upgraded the registry in terms of infrastructure and technology; it has also revised the legal framework. In 2007, a contract was signed with an international service provider to build a new state-of-the-art reporting system.<sup>336</sup> Thus, in 2010, the Oman credit registry has evolved from being a credit registry with monthly data update of classified and consolidated loans, to a full-fledged, state-of-the-art credit reporting system. The system is fully online and updates daily. It is also equipped with an internal scoring and rating mechanisms only used by the CBO for monitoring purposes; this data is not disclosed to lenders.<sup>337</sup> The legal framework has been improved with a comprehensive regulations in place for credit-information sharing.

The CBO's efforts are clearly reflected in the ACRISI score. The overall scoring has increased from 10 in 2008 to 14 in 2012. Although these changes are primarily in the legal and consumer rights section, the score indicates a move towards a stronger, more effective, and more transparent credit reporting system.

The recent changes have significantly increased the activities and participation of the registry in the credit system. As per the 2013 *Doing Business Report*, coverage of the CR has increased from 12.4 percent of adults in 2008 to 18.9 percent in 2012. Coverage of 37.3 percent in 2013 marks a significant increase.

In 2012, 507,854 individuals and firms were listed in the CR. This is an increase of 55 percent, from a total of 328,255 in 2008. Figure 7.11.12 indicates the increasing trend of these numbers in the period of 2008 to 2012. The number of individuals registered in the CR database was 308,680 in 2008. Although the number decreased from 429,859 in 2009 to 332,411 in 2010, there were 472,241 individuals registered as of 2012. The number of firms registered has increased from 19,575 in 2008 to 35,613 in 2012.<sup>338</sup>

**Figure 7.11.12: Number of Individuals and Firms in the PCR**



Source: Central Bank of Oman

In 2009, a credit bureau, National Bureau of Commercial Information (NBCI), was set up by local entrepreneurs with the participation of banks. According to the 2010 ACRI report, *Credit Reporting Infrastructure in Oman*, NBCI was granted a license to operate by the Capital Markets Authority but as a result of the misinterpretation of the bank secrecy law impact, and other additional issues, NBCI has not yet been able to start operations; it is still unable to collect data and disseminate information services. Local entrepreneurs have again taken up the project in partnership with one of the major international providers and are currently discussing the revitalization of NBCI.

## PARTICIPATION AND DATA SHARING<sup>339</sup>

Currently, all regulated financial institutions (16 commercial banks, two specialized banks, and the six nonbanking finance companies) provide data to the CR. Before granting a loan, these institutions are mandated to share data and make inquiries on borrowers or potential borrowers. There is no minimum threshold for reporting a credit facility. All information (positive and negative) must be reported to the CR.

All records are maintained in the database for a period of 10 years, after which they are deleted. Only records on credit facilities that are not repaid are retained beyond this period.

Information is collected on individuals and firms. Based on the response to the ACRI's 2013 Credit Information Sharing Survey, all information is collected by the CR, including demographics. Loan data and payment performance data is distributed in the Credit Information Report or the Self Inquiry Credit Information Report. Each loan/credit is described individually and full-file information is provided for both consumers and firms; the exception is the name of the credit granting institution in the case of individual loans (which is distributed only in case of nonperforming loans) and the business activity code.

A total of 736,999 loan accounts were shared and registered with the CR in 2012, with a value of 18.98 billion Omani rials. Individual loan accounts constituted 634,219 of these accounts, a value of 7.15 billion Omani rials. The number of these loan accounts has more than doubled since 2008, growing from 376,441 accounts with a value of 4.93 billion Omani rials. The number of loans to individuals and firms is shown in Figure 7.11.13; the value of these loans is shown in Figure 7.11.14.

**Figure 7.11.13: Number of Loans in the PCR**



Source: Central Bank of Oman.

**Figure 7.11.14: Volume of Loans in the PCR**

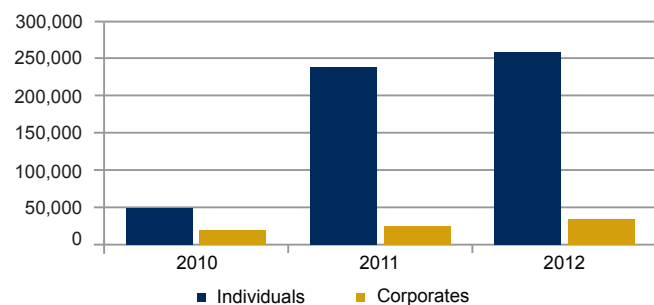


Source: Central Bank of Oman.

Corporate loans in the CR have significantly increased in number. With a value of 11.81 billion Omani rials, 102,780 corporate loan accounts correspond to the 35,613 corporations mentioned in the previous section, as of 2012. In 2008 the number of these loans was only 29,014, with a value of 8.03 billion Omani rials.

The number of individual credit reports accessed has increased significantly, especially in 2010 and 2011. New regulation requires banks to obtain a credit report before granting a loan. As seen in Figure 7.11.15, the number of credit reports increased from 72,199 in 2010 to 279,990 in 2012. In the case of corporations, the number of reports has increased more than doubled from 2010 and 2011, from 26,894 in 2010 to 48,696 in 2012.<sup>340</sup>

**Figure 7.11.15: Number of Credit Reports**



Source: Based on response from Central Bank of Oman.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

In 2007, the CBO passed the regulation BM/REG/52/11/2007 to update the framework for the BCSB System, which covered the basic aspects of credit reporting. The regulation currently in place, BM/REG/53/9/2011, issued in December 2011, is more comprehensive as it details the functions and operations of the BCSB system.

This regulation provides the framework for credit information sharing with the CR. Article 2 clearly defines the functions of the BCSB system. These include maintaining a repository based on the collection and collation of credit information on borrowers, guarantors, related parties, counterparties, and licensed banks' current account holders. The BCSB also provides credit reports, prepares borrowers' credit ratings and grades, and provides information to the Central Bank, as required.

*Article 2 “iii) Provide credit information reports to licensed banks, on need to know basis, in the formats prescribed by Central Bank;*

*iv) Provide credit information to any person to whom such information relates in the formats and manner prescribed by Central Bank.”*

Through Article 4 and 5, CBO mandates that licensed banks obtain a credit information report prior to sanctioning a loan. It is the responsibility of licensed banks to provide complete and accurate credit and financial information. The use of such information has also been clearly stated in Article 7 of the regulation.

*Article 4 “Any licensed bank shall obtain a credit information report from the BCSB system prior to:*

- a. sanctioning any loan or credit facility to any prospective borrower;*
- b. sanctioning/topping-up/reviewing/ any loan or credit facility to any existing borrower;*
- c. opening a current account for any existing or prospective current account holder.”*

Through the new regulation, the CBO has also strengthened consumer rights. Consumers are allowed to access their data and raise disputes to resolve errors. Confidentiality and the protection of borrowers' credit information has also been reaffirmed.

As mentioned above, Article 2 of BM/REG/53/9/2011 allows consumers to access their credit reports. A borrower can obtain a copy from a bank or financial institution free of charge, any time. He or she can make a complaint to the BCSB system by using the online complaint management system.

Consumer consent is not required to share data with the system or make inquiries. Article 70 (c) of the Banking Law states, “Except as provided by Article 70 (a) of this Law, disclosure of information relating to any customer of

a licensed bank shall be made only with the consent of such person...” Article 70 (b) states, “No licensed bank, nor any director, officer, manager or employee of such bank, shall disclose any information relating to any customer of the bank except when such disclosure is required under the laws of the Sultanate and as instructed by the Central Bank...” As per the new regulation, licensed banks are required to share and inquire data from BCSB as instructed by the central bank; consumer consent is not explicitly required. However, banks are required to inform customers of any such disclosures.

Also, Article 6 of the new regulation requires licensed banks to maintain strict secrecy on credit and financial information provided to or by the BCSB system and follow the disclosure norms, as stipulated in Article 70 of the Banking Act.

### Capital Markets Authority Regulation on Credit Rating Companies and Credit Bureaus<sup>341</sup>

The other relevant regulation pertaining to credit information was issued by the Capital Markets Authority (CMA) which permits the establishment and operation of credit bureaus. The National Bureau of Commercial Information was licensed under this regulation. However, CMA regulation is quite lean: it does not indicate procedures; processes deadlines (such as consumer’s rights); requirements (such as licensing); supervisory powers and the processes to carry them out; duties and responsibilities of the users and lenders (such as consent acquisition, validity and storage, or data quality). It does not address the security or integrity of data; it does not mandate that users share data. The CMA cannot mandate regulated lenders to provide data to CBs, which would be a sound measure. The regulation does not address reciprocity principles or other important topics, like duration and deletion of historical data in the database, database location, development of value-added services (such as bureau scores), or detailed sanctions and violations. Most importantly, bank secrecy does not apply to data collected and disseminated, which private credit reporting laws usually establish.

Thus, issues regarding borrowers’ consent have been the major impediment for NBCI operations. Regulated lenders have not shared information with the CB, claiming

a discrepancy between the NBCI’s and the CBO legal department’s bank secrecy norms, notably concerning consent wording and frequency. As mentioned previously, discussions on the NBCI’s revitalization are currently in progress.

### ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Oman, as shown in Table 7.11.2. The index provides a snapshot and quantification of the credit information sharing system in the country.

### CONCLUSIONS

- CBO’s continuous efforts to enhance the framework for credit reporting is evident from the recent changes, including: technological and infrastructural improvements to a state-of-the-art registry; use of an international service provider; the new online system for sharing of information between lending institutions and the registry; and the implementation of a comprehensive credit information and reporting regulation. These positive changes in various aspects of the credit reporting system are reflected in the increase of the ACRISI score from 10 in 2008 to 14 in 2012;
- Many of these changes have been brought about with the passing of a more comprehensive regulation on credit information sharing. The regulation has addressed consumer rights, allowing consumers to access their reports free of cost and raise disputes on incorrect data;
- Thus, the BCSB system appears to be gaining more relevance and importance given that lenders, (licensed banks and FLCs) are increasingly participating in the system and using it for risk assessment of borrowers;
- The new regulation is comprehensive and includes almost all necessary sections required in a credit reporting law. This regulation has strengthened the legal and regulatory framework for credit information sharing as well as consumer rights.
- The new regulation has also mandated entities to inquire to the CR for the assessment of every application for a credit facility;

- As of 2012, Oman has fulfilled all ACRISI parameters for the “depth of data sharing and reporting in the country.” However, data is limited to regulated entities; data from other sources is not being collected.

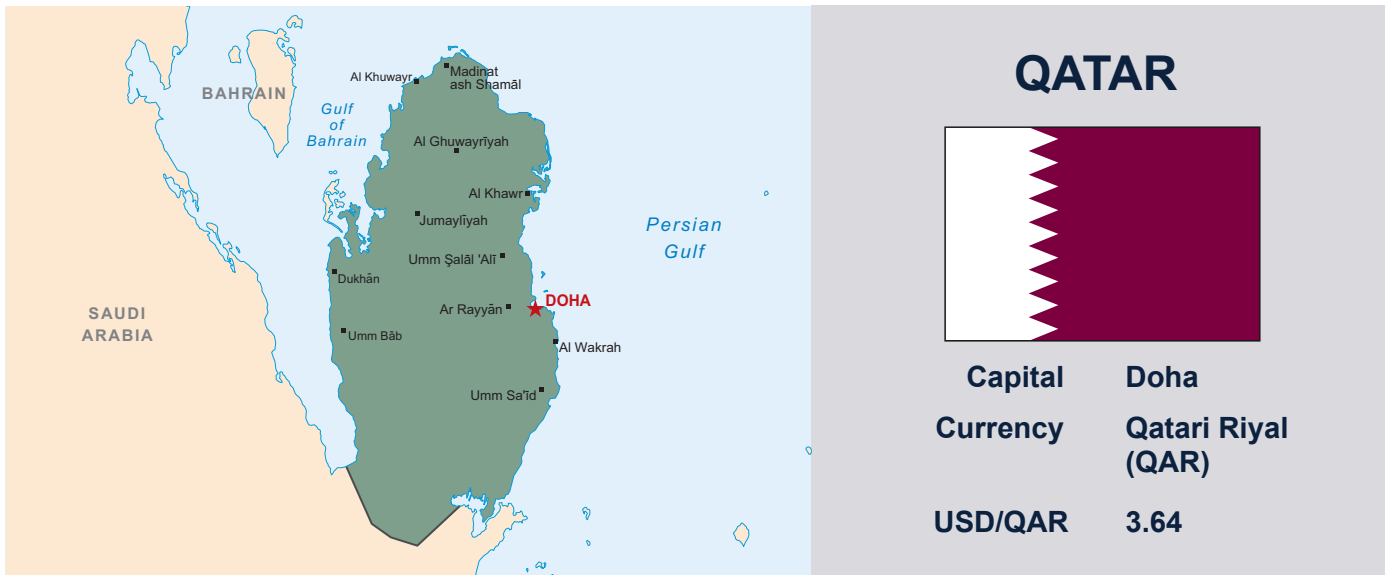
## RECOMMENDATIONS

- The CBO should continuously upgrade the system to accommodate increasing volumes and participation. It should also ensure that data is always shared in full. New financial entities/sectors should also be required to adhere to these requirements and develop necessary systems;
- The credit score and rating, which has been developed for internal purposes, should also be developed and made available for lenders to enable better risk assessment; borrowers should also have access to this information;
- Obstacles to the establishment of CBs should be removed.
- Any regulatory hurdles, such as those faced by the NBCI, should be addressed; the development of a complete credit reporting system will enable credit information sharing across all sectors;
- The central bank and CB (when established) should undertake a common program of awareness and education drives for lenders and borrowers on all aspects of information sharing such as benefits, purpose, obligations, rights, usage, etc.

Table 7.11.2: Arab Credit Reporting Information Sharing Index — Oman

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | NO        | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | YES       | YES       |
| Is there a legal framework for privacy and protection of data?               | YES       | YES       |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | NO        | YES       |
| Do consumers have access to at least one free report in a year?              | NO        | YES       |
| Are consumers allowed to raise disputes?                                     | NO        | YES       |
| Do entities collect consumer consent before making inquiries?                | NO        | NO        |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | NO        | NO        |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | NO        | NO        |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | NO        | YES       |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | YES       | YES       |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | NO        | NO        |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>10</b> | <b>14</b> |





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.  
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## 7.12 QATAR

### 7.12.1 ECONOMIC OVERVIEW

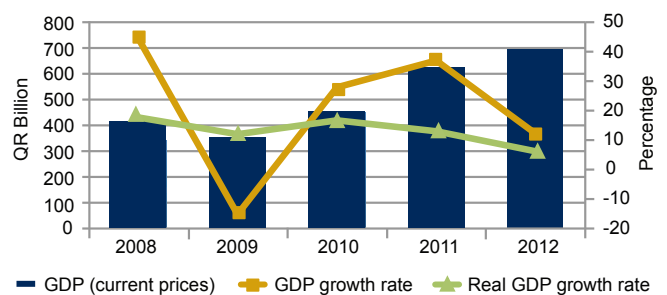
Qatar is endowed with 25 billion barrels of proven oil reserves and the world's third-largest natural gas reserves. Oil and gas account for about 85 percent of export revenues and more than half of GDP. Qatar has permitted extensive foreign investment in its natural gas industry; in 2007, it became the world's largest exporter of liquefied natural gas. With one of the world's highest per capita incomes and virtually no poverty, the country has largely avoided the political instability that other Middle Eastern countries suffered as a result of the 2011 uprisings.<sup>342</sup>

As per the Central Bank of Qatar's 2012 Annual Report, the country has had a strong increase in its GDP (at current prices), except in the year 2009 when it fell to -15.2 percent. GDP in 2012 stood at 700 billion Qatari riyal, with a growth rate of 12.2 percent. This is a decrease from the 37 percent growth witnessed in the year 2011. Figure 7.12.1 shows the trend from 2008 to 2012.

As of 2012, the population of the country was over 1.8 million, increasing from over 1.7 million in 2011. Women constituted about 26 percent of the population in 2012. Table 7.12.1 shows the bifurcation of the population in from 2008 to 2012.

Qatar is a high-income economy, with a GDP per capita of \$93,825 in 2012.<sup>343</sup> At a fixed exchange rate of 3.64 Qatari riyals per U.S. dollar, this equals about equals 341,523 Qatari riyals, in 2011. As seen in Figure 7.12.2, per capita income has shown an increasing trend after a declining trend 26 percent in 2009.

Figure 7.12.1: GDP Performance

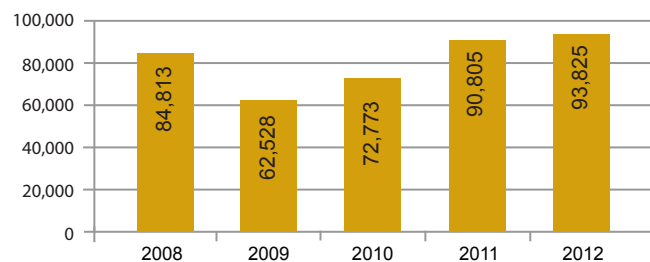


Source: Annual Reports, Qatar Central Bank, 2011–2012.

**Table 7.12.1: Population**

| Year | Total     | Women   | Men       |
|------|-----------|---------|-----------|
| 2008 | 1,553,729 | 350,348 | 1,203,381 |
| 2009 | 2,631,728 | 377,636 | 1,254,092 |
| 2010 | 1,637,443 | 408,808 | 1,228,635 |
| 2011 | 1,707,756 | 436,562 | 1,271,194 |
| 2012 | 1,836,676 | 472,613 | 1,364,063 |

Source: Qatar Statistics Authority.

**Figure 7.12.2: GDP per Capita (Current USD)**

Source: data.worldbank.org.

## 7.12.2 CREDIT MARKET

### OVERVIEW

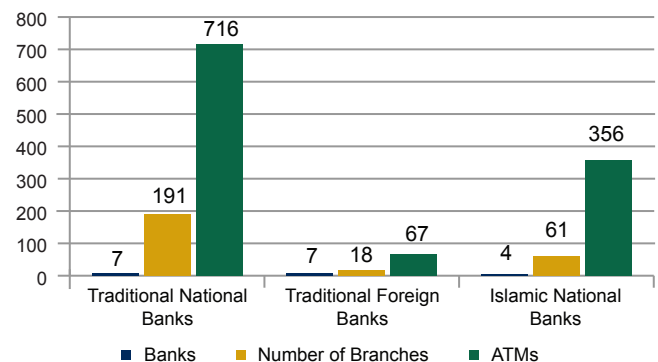
The Qatari financial system mainly consists of institutions regulated and supervised by the Central Bank of Qatar (CBQ). It is dominated by the banking sector, which comprises 18 national and foreign banks. In addition, the financial system includes three nonbanking financial institutions, three investment companies, 20 exchange houses, 12 investment funds, and nine insurance companies.<sup>344</sup>

In 2005, the government of Qatar set up the Qatar Financial Centre (QFC) to attract international banking, insurance business, and other financial services—in order to grow and develop the financial services sector in Qatar and the region. The QFC provides a favorable business environment for domestic and international firms to establish a broad range of banking, asset management, and insurance businesses under a legal and regulatory regime that meets international best practice. The QFC Regulatory Authority was established to independently regulate and supervise the QFC. There are approximately 150 financial services companies in the QFC.<sup>345</sup>

The primary sources for credit in Qatar are the regulated institutions—banks in particular. The three nonbanking financial companies are focused on Islamic banking; they also provide credit facilities in the consumer financing segment (such as personal loans for cars, education, housing, and travel) along with small and medium enterprise loans.

### Banking

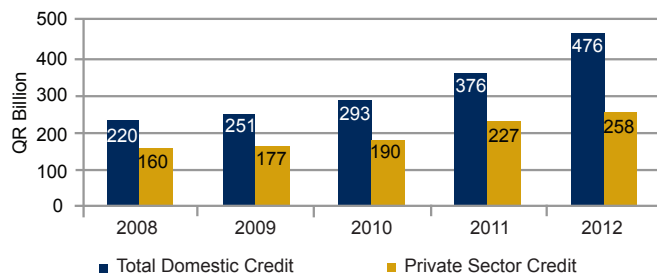
Qatar's banking sector is the fastest growing in the GCC, with robust and rapid asset growth of 18.4 percent as of June 2013. The banking sector comprises seven traditional national banks, seven traditional foreign banks, and four Islamic banks. They operate through a network of 270 branches and 1,139 ATMs, as shown in Figure 7.12.3.<sup>346</sup>

**Figure 7.12.3: Banking Network**

Source: Central Bank of Qatar (data as of September 2013).

The banking sector is highly concentrated, with the top five banks accounting for 77.8 percent of total assets. The Qatar National Bank is the largest bank in MENA, with total assets of \$118.5 billion, as of June 2013. QNB accounts for 45.2 percent of total banking assets in Qatar.<sup>347</sup> Foreign banks have played a key role in credit and financial markets, and their numbers has been increasing. This phenomenon must not be underestimated and remains of key importance. Lending processes in Qatar, though technologically savvy, remain quite traditional in terms of credit policies, procedures, and risk-management tools.<sup>348</sup>

Total credit facilities granted by the sector in 2012 amount to over 508 billion Qatari riyals. Of this, domestic credit accounted for 476 billion Qatari riyals in 2012, increasing from 376 billion Qatari riyals in 2011, as shown in Figure 7.12.4. There has been an increase of about 116 percent in the credit provided to domestic sector from 2008 to 2012.

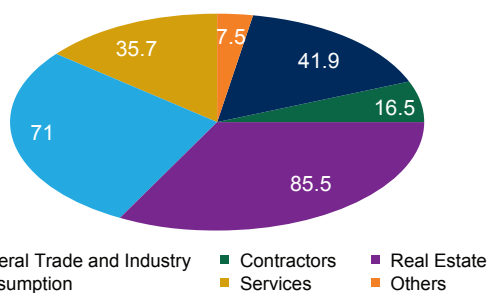
**Figure 7.12.4: Total Credit by the Banking Sector**

Source: Annual Reports, Central Bank of Qatar, 2010–2012

Total credit to the private sector increased 13.66 percent, from 227 billion Qatari riyals in 2011 to 258 billion Qatari riyals in 2012. As a percentage of total domestic credit, there has been a decrease in private sector credit, from 72.7 percent in 2008 to 54.2 percent in 2012.

As shown in Figure 7.12.5, the real estate sector constitutes 33 percent of the private sector, with a volume of 85.5 billion Qatari riyals. The consumption sector—loans granted to finance individuals' purchase of consumer goods and services—has the second largest share, constituting of 28 percent and a volume of 71 billion Qatari riyals.<sup>349</sup>

The ratio of nonperforming loans in the banking sector has been low, with only 1.7 percent in the year 2012. This is a decrease from 2 percent in 2010.

**Figure 7.12.5: Private Sector Credit by Sector – 2012 (QR Billion)**

Source: Annual Reports, Central Bank of Qatar, 2010–2012.

### Qatar Development Bank

The Qatar Development Bank (renamed from the Qatar Industrial Development Bank in 2007) was established by the government of Qatar in association with national banks for financing and developing small and medium industrial projects, by encouraging capital intensive projects and

helping them benefit from the availability of raw materials in GCC countries.

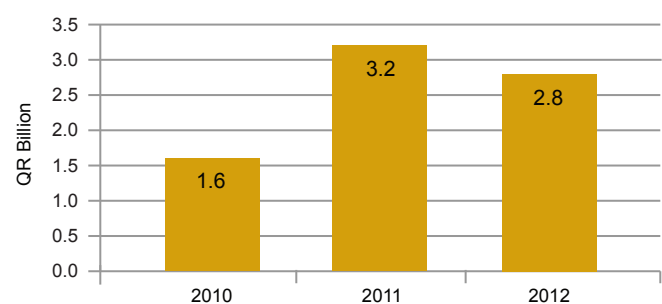
Currently, the bank's business activities include other sectors that are supportive of the development process, such as education, industry, agriculture, tourism, and housing, among others. Total credit facilities granted by QDB reached 1.4 billion Qatari riyals in 2012, increasing from 1.2 billion Qatari riyals in 2011. This is an increase of 17.2 percent.<sup>350</sup>

### Finance Companies

There are three finance companies operating in Qatar: Al Jazeera Finance, First Finance, and Qatar Finance House. They operate according to the principles of Islamic financing and provide a range of Shariah-complaint products. They focus mainly on granting loans to customers for financing vehicles, mortgages, household/electronic equipment, and other consumer goods. They also have products specifically catering to small and medium enterprises as well as corporations.

Islamic financing activities have decreased by 11.9 percent, from 3.27 billion Qatari riyals in 2011 to 2.88 billion Qatari riyals in 2012, as shown in Figure 7.12.6. This decline is mainly attributed to the drop-off in the majority of assets components, especially Islamic finance, in addition to the decline of cash and balances with banks, financial investments, and other assets.<sup>351</sup>

As a percentage of private sector credit by banks, the volume of Islamic financing activities was only 1 percent of the total; as a percentage of consumption sector credit, the volume was 3.9 percent of the total.

**Figure 7.12.6: Islamic Financing Activities**

Source: Annual Report, QCB, 2012.

## Other Institutions

Nonregulated lenders (such as retailers that finance customers directly and avoid banking intermediation) are not yet operational in Qatar. However, the retailing sector is well populated by relevant players with an international reputation for consumer lending. In the medium term, they may represent a massive new channel of credit for consumers and nonsalaried people.

As for other lending sectors, nonregulated microcredit and microfinance institutions are not especially developed in Qatar. Larger car dealer groups are granting credit directly to buyers, though the largest share of car financing is still mediated by banks.<sup>352</sup>

## Collateral Environment

The credit system in the country is strongly collateralized. Unsecured portfolios are rare, even when personal and consumer loans are considered; typically guarantees and/or guarantors are requested by the banks.<sup>353</sup> This can be especially seen in the loans given to firms (see Table 7.12.2). As for consumers, although the number of loans without collateral is significantly higher than those with collateral, the size of the loans is much smaller.

**Table 7.12.2: Collateral Environment — 2012**

|           | Number of Loans | Value of Loans (QR Billion) |                    |
|-----------|-----------------|-----------------------------|--------------------|
|           |                 | With Collateral             | Without Collateral |
| Firms     | 51,115          | 37,396                      | 132                |
| Consumers | 54,460          | 63                          | 59                 |

Source: Credit Information Sharing Survey, ACRI, January 2013.

Banks' risk-management techniques, particularly regarding retail credit, are still quite traditional. Credit underwriting is generally marked by subjective manual decisions, low decentralization, intensive use of paper and supporting documents, lack of full automation, conventional risk-underwriting techniques, excessive reliance on collateral, and lack of advanced risk-management tools (such as scoring). Unsecured portfolios mainly constitute very small loans, as seen in the table above. Otherwise, retail credit requires a guarantee to be processed and granted.

In addition to the collateral requirements, lending processes include cumbersome policies and documentation. The credit culture is traditional and lacks advanced risk-management tools; it is predominantly manual and subjective decisions are taken by lenders. In case of non banking institutions, underwriting procedures can be even more cumbersome and taxing, requiring many additional documents.<sup>354</sup>

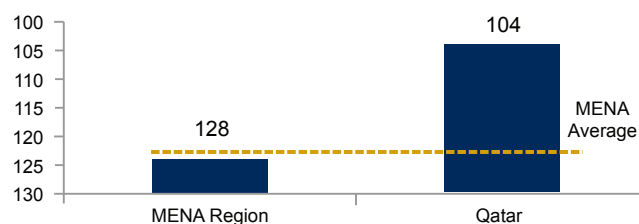
## Nonperforming Loans

The asset quality of Qatar's banking sector is strong. As seen in Figure 7.12.4, there has been an increasing trend in credit facilities. Yet, nonperforming loan levels have remained low over the past few years, ranging from 1.2 percent in 2008 to 2 percent in 2010, then declining to 1.7 percent in 2012.<sup>355</sup> However, in case of the QDB, nonperforming loans to total loans remain high, even with the decrease from 12.3 percent in 2011 to 9.5 percent in 2012.<sup>356</sup>

## CREDIT PENETRATION AND ACCESS

The World Bank's 2013 *Doing Business Report* ranked Qatar 104 out of 185 countries. It is higher than the regional average of 128, as shown in Figure 7.12.7. (*DB14, ranked 130*)

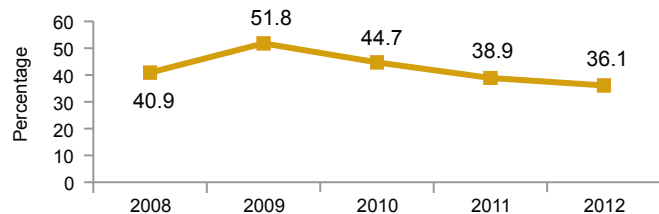
**Figure 7.12.7: Getting Credit Rank – 2013**



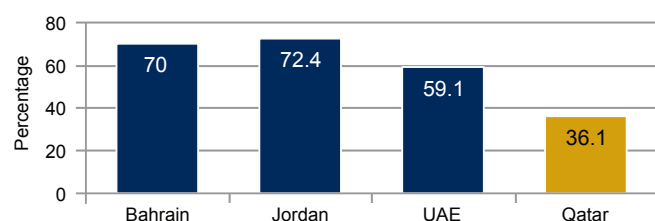
Source: *Doing Business Report*, The World Bank, 2013

In spite of the increase in credit to the private sector from 2008 to 2012, its ratio as a percentage of GDP has been declining, as seen in Figure 7.12.8. This indicates that bank credit penetration has been decreasing in the country, as seen in Figure 7.12.9; the ratio is low when compared to neighboring MENA countries, such as Bahrain (70 percent), Jordan (72.4 percent), and the UAE (50.1 percent).

With a network of 254 bank branches, the country has an outreach of 13.22 per 100,000 adults in 2012. The average

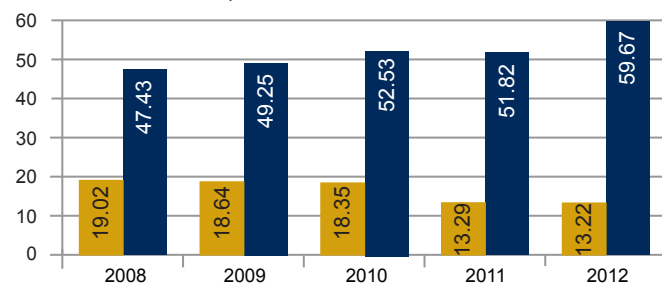
**Figure 7.12.8: Domestic Credit to Private Sector (% of GDP)**

Source: data.worldbank.org

**Figure 7.12.9: Domestic Credit to Private Sector (as % of GDP) for Some MENA Countries in 2012**

Source: data.worldbank.org

number banks per 100,000 adults was 16.5, from 2008 to 2012. The ATM network has grown over this period, with about 59 machines per 100,000 adults in 2012. This indicates the increasing penetration of advanced banking facilities. Figure 7.12.10 shows the bank and ATM network outreach per 100,000 adults from 2008 to 2012.

**Figure 7.12.10: Commercial Bank Network per 100,000 Adults**

Source: Financial Access Survey, IMF, 2012.

Table 7.12.3 shows financial access indicators in terms of formal financial institutions' accounts and loans. In 2011, 66 percent of adults had an account; 62 percent of women held an account. However, in 2011, only 13 percent of adults had taken a loan. This percentage for women corresponds to 10 percent.

**Table 7.12.3: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>66</b> |
| Men                           | 69        |
| Women                         | 62        |
| <b>Loans in the past year</b> | <b>13</b> |
| Men                           | 14        |
| Women                         | 10        |

Source: Financial Inclusion Data, The World Bank, 2012. <http://datatopics.worldbank.org/financialinclusion/country/qatar>.

## 7.12.3 STATUS OF CREDIT REPORTING

### OVERVIEW

The credit information sharing system in Qatar comprises a centralized credit reporting system, operating within the Supervision Department of the CBQ and its new, modern CR, which was established in 2010.

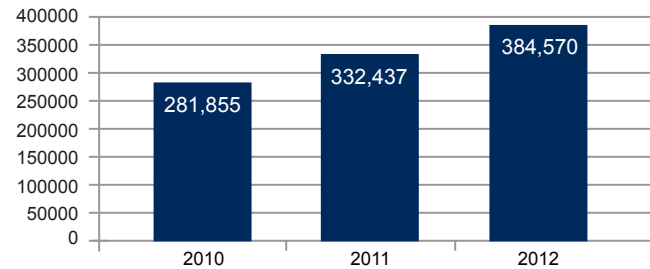
The centralized credit-risk system was set up to support the supervisory requirements of the central bank, with respect to compliance of ceilings and limits on large credit exposures. This system was also intended to aid banks in having quantitative information on the total exposure of a borrower in the banking system—not just the exposure of an individual bank.

In 2010, the Central Bank of Qatar also established the Qatar Credit Bureau (QCB), a state-of-the-art system developed by a reputed international provider. There are no links between the centralized credit-risk system and the QCB. Supervised by the central bank, both of these systems are used by lenders.

The new QCB system started operations during the spring of 2011, after almost two years of development. The QCB is equipped with the sophisticated functionality of a credit bureau; it offers very advanced credit reporting services to the lending community. The system is automated, online, and paperless. The QCB is the main source of credit information services for Qatari lenders, though the old system is still systematically searched by lenders before granting credit.<sup>357</sup>

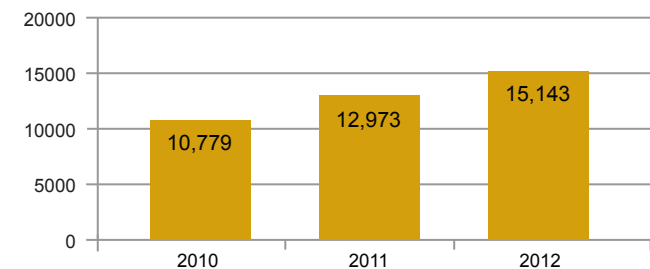
By 2012, 399,713 borrowers were listed in the CBQ; individuals constituted 96.2 percent of the total. There were 384,570 individuals and 15,143 firms listed, as shown in Figure 7.12.11 and 7.12.12 respectively, with a total of 1,589,245 loans. According to *Doing Business Report 2013*, 25.2 percent of adults were covered in the credit reporting system.

**Figure 7.12.11: Number of Individuals Listed in the CBQ**



Source: Credit Information Sharing Survey, ACRI, January 2013.

**Figure 7.12.12: Number of Firms Listed in the CBQ**



Source: Credit Information Sharing Survey, ACRI, January 2013.

### Value-Added Services

The QCB provides additional products and services to members and borrowers. The bureau has started providing a credit bureau score to all borrowers. This plays an important role in assessing the creditworthiness of a borrower. Other services such as account follow-up service and portfolio monitoring reports, are provided to member institutions.

The QCB's services for consumers are noteworthy. The bureau dedicated a large area for consumers, which no other MENA Central Bank has done yet, providing excellent customer service. A special department has been set up, which is open to the public and ensures easy access to borrowers for requesting information or obtaining credit reports. An advanced call center has also been established and is available to all individuals or business firms. The

system is efficient and ensures that all requests are satisfied and all queries are addressed.<sup>358</sup>

To promote the benefits of credit reporting for good payers, and to foster social responsibility on loans repayments among the population, QCB had launched a unique campaign for raising awareness among consumers. This financial education program is unusual among central banks and public registries; more frequently credit bureaus take on this role. The program shows Qatari regulators' extreme care of consumers rights.<sup>359</sup>

### PARTICIPATION AND DATA SHARING

Under the centralized credit-risk system, banks are required to report all direct and indirect credit facilities granted to customers, as well as overdrawn accounts, irrespective of the credit value. On a monthly basis, banks are required to update information on credit facilities granted and utilized.

In order to monitor balances internally and externally, banks can make inquiries to the system and utilize reports on the balance of credit facilities granted to a customer. This also includes credit facilities to the group of companies, if any, and credit concentration for all the members of the board (as well as their families, relatives and related accounts), concentration of the main shareholders and related accounts, concentration of bank employees, and main customers of a bank. This system is mainly for supervisory purposes. Borrowers do not have access to this information system.

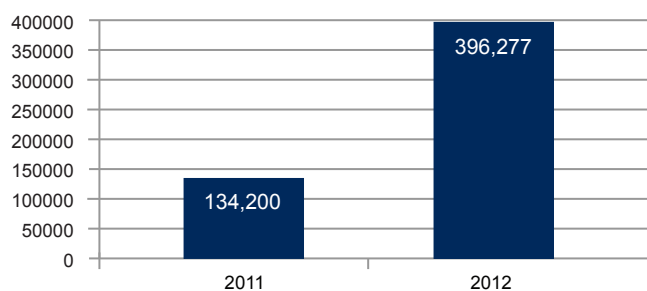
In case of the QCB, data is provided by regulated institutions, including public and private banks, and financial institutions. All 18 banks operating in Qatar are members of the QCB. The three financial institutions (Al Jazeera Finance, First Finance, and Qatar Finance House) are also members of the QCB. Currently there are no microfinance institutions or utilities providing data to the QCB. The bureau has plans to include nonregulated entities as members; but this will require amendments to the legal framework for collecting and sharing information with unsupervised institutions.

Data is shared only among the members of the QCB. The regulated entities mentioned above are mandated, by law, to share data on all credit facilities with the bureau,

irrespective of the amount. Positive and negative data are included in the database. Entities report data to the QCB on a daily and monthly basis. Individual and firm data is reported, which includes demographic information, inquiries by other lenders, loan account data, and payment performance data. This data is distributed and available to members through a comprehensive credit report, a thorough format that details each loan individually. Also included in the report are historical payment performances, defaults and arrears, and payment history from the past 24 months.

The members' use of the QCB has significantly increased, by 195 percent, from 134,200 credit reports in 2011 to 396,277 credit reports in 2012, as shown in Figure 7.12.13. The depth of credit information sharing is high, as indicated in the country's ACRISI score.

**Figure 7.12.13: Number of Credit Reports**



Source: Credit Information Sharing Survey, ACRI, 2013.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

The credit information was first referenced in the Qatar Central Bank law No. 33 of 2006. Even though this law did not specifically mention the framework for credit information sharing, certain articles can be interpreted for credit information. Articles 5 and 79 empower the Qatar Central Bank to grant licenses for financial institutions and representation bureaus; establish, administer, and develop central banking services; and acquire information or statements on a customer's liabilities.

Article 84 allows for the exchange of supervisory information with foreign central banks and official institutions, based on the principle of reciprocity.

In 2012, the Qatar Central Bank introduced Law No. 13 of 2012, which replaced Law No. 33 of 2006. The new law requires a license from the Central Bank for the provision of credit information services. A code of conduct is the process of finalization; it will detail the bureau's operations and practices undertaken.

Consumer rights pertaining to credit reporting in the country are strong, despite the absence of a specific law. The Law No.33 of 2006 clearly states that consumers' information cannot be disclosed unless approval has been given in writing. Thus, sharing and accessing consumer data is only granted with the borrower's consent.

The QCB is also finalizing the bureau's code of conduct, which will grant important privacy rights to all borrowers (like the possibility of reviewing, disputing and correcting data).

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and sub-parameters discussed in Chapter 6, the ACRISI score has been determined for Qatar, as shown in Table 7.12.4. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- The credit reporting system of Qatar includes a centralized credit risk system and a CR (CBQ);
- The CR, set up in 2010, was developed and equipped to function as a credit bureau. The central bank's establishment of a full-fledged credit bureau system has significantly improved the credit reporting system in Qatar and has resulted in an ACRISI score of 15.
- Since data for 2008 was unavailable, a comparison with the old reporting system cannot be drawn;
- Although there is no specific law regarding consumer rights, basic provisions have been spelled out in the Qatar Central Bank Law, which also deals with privacy and confidentiality of data. The QCB is also finalizing a code of conduct for the bureau;

- The QCB has done excellent work with respect to consumer rights and information. All parameters in the ACRISI consumer rights section have been complied with, including the right to give consent before inquiry;
- The CBQ has certainly set standard as for consumer rights protection in MENA;
- Currently all regulated institutions are sharing full data on loans with the QCB;
- All parameters in the ACRISI depth of data sharing and reporting have been complied with, indicating a comprehensive database, though it is limited to regulated entities;
- As of 2012, credit scores were not provided to lenders or consumers; however QCB has introduced scoring subsequently;
- Qatar is one of the few countries in the region with a provision for cross-border data sharing.

## RECOMMENDATIONS

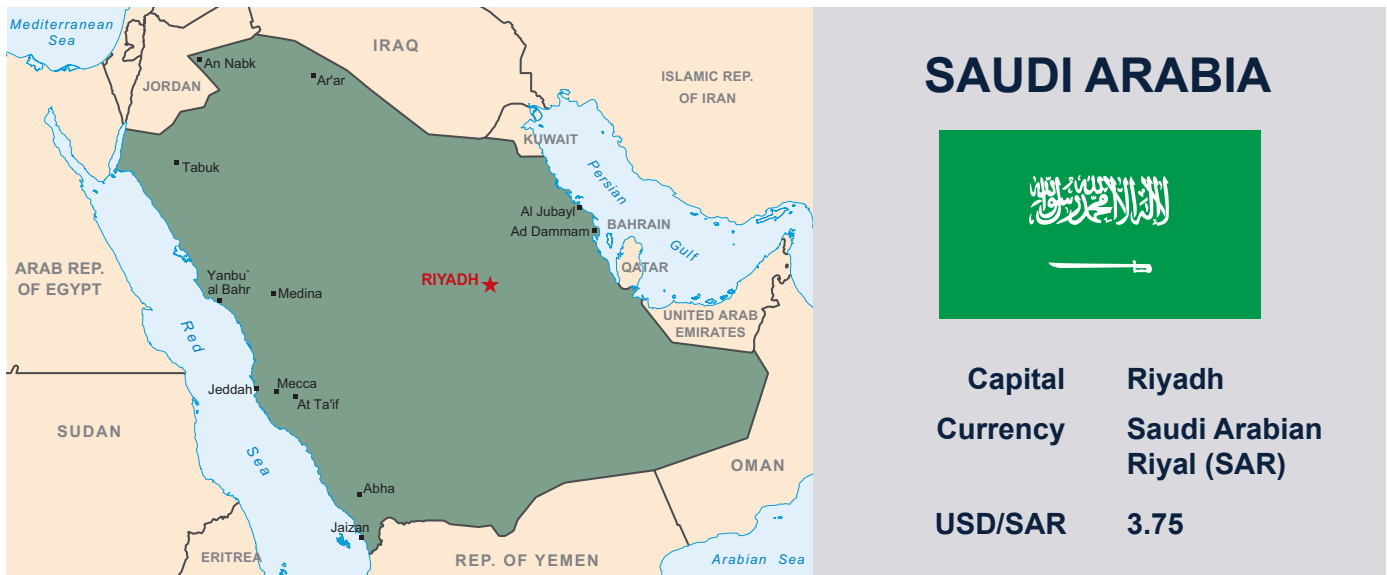
- The role and structure of the CR and the CBQ should be clearly defined;
- Lenders should exclusively use the new bureau for assessment purposes;
- Central Bank internal functions (banking supervision, statistics, monetary policy, etc) should start to rely on CB's data for absolving their internal institutional responsibilities;
- Going forward, data should be collected and reported from nontraditional sources, such as retailers, which form an important component of the credit market.
- Necessary legal and regulatory amendments will have to be made for this purpose. This can also be extended to public data.



Table 7.12.4: Arab Credit Reporting Information Sharing Index — Qatar

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |      |           |
|--|------|-----------|
| Parameters   | 2008 | 2012      |
| Does the country have a CR?  |      | YES       |
| Does the country have a CB?  |      | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |      |           |
| Is there a specific law or regulation governing the credit reporting system? |      | NO        |
| Is there a legal framework for privacy and protection of data?               |      | YES       |
| Is information on consumers included?  |      | YES       |
| Is information on firms included?  |      | YES       |
| <b>Consumer rights environment in the country</b>                            |      |           |
| Are consumers allowed to access their reports?                               |      | YES       |
| Do consumers have access to at least one free report in a year?              |      | YES       |
| Are consumers allowed to raise disputes?                                     |      | YES       |
| Do entities collect consumer consent before making inquiries?                |      | YES       |
| <b>Entities in the country participating in CIS</b>                          |      |           |
| Are regulated entities participating?  |      | YES       |
| Are nonregulated entities participating?                                     |      | NO        |
| Are utility entities participating?  |      | NO        |
| Are MFIs participating?  |      | NO        |
| <b>Depth of data sharing and reporting in the country</b>                    |      |           |
| Are entities mandated to share data?   |      | YES       |
| Are entities mandated to make inquiries?                                     |      | YES       |
| Are both positive and negative information reported?                         |      | YES       |
| Are all loans reported without any limits?                                   |      | YES       |
| Does the principle of reciprocity apply?                                     |      | YES       |
| Are credit scores provided to the users?                                     |      | NO        |
| Is cross border data sharing allowed?  |      | YES       |
| <b>ACRISI score</b>  |      | <b>15</b> |





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41513, March 2015.

## 7.13 SAUDI ARABIA

### 7.13.1 ECONOMIC OVERVIEW

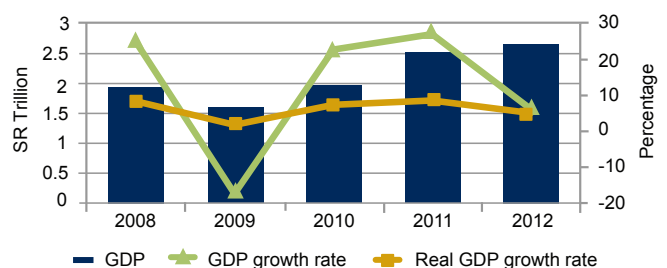
The Kingdom of Saudi Arabia is one of the most important and powerful countries in the Middle East, and one of the wealthiest nations in the region because of its vast oil resources. It has the world's largest oil reserves and is the largest exporter of petroleum. The petroleum sector accounts for roughly 80 percent of budget revenues, 45 percent of GDP, and 90% percent of export earnings. Saudi Arabia is encouraging the growth of the private sector in order to diversify its economy and to employ more Saudi nationals. Diversification efforts focus on power generation, telecommunications, natural gas exploration, and petrochemical sectors. The government has begun establishing six economic cities in different regions of the country, to promote foreign investments. From 2010 to 2014, the government plans to spend \$373 billion on social development and infrastructure projects to advance the country's economic development.<sup>360</sup>

With a population of 29.2 million people, Saudi Arabia is a high-income, medium-sized economy. The nominal GDP

growth rate was 6.2 percent in 2012, as compared to 27.1 percent in 2011. The GDP value was 2.66 trillion Saudi Arabian riyals in 2012. As seen in Figure 7.13.1, there have been major fluctuations in the growth rate over the past five years. As an oil-based export economy, the country is affected by global economic conditions. With continuous support from the government and increasing participation from the non-oil sectors, the economy has had a healthy economic growth.<sup>361</sup>

Saudi nationals constitute almost 68 percent of the total population (29.2 million). Of 19.84 million people, as of 2012, women represented nearly half of this population.

Figure 7.13.1: GDP Performance

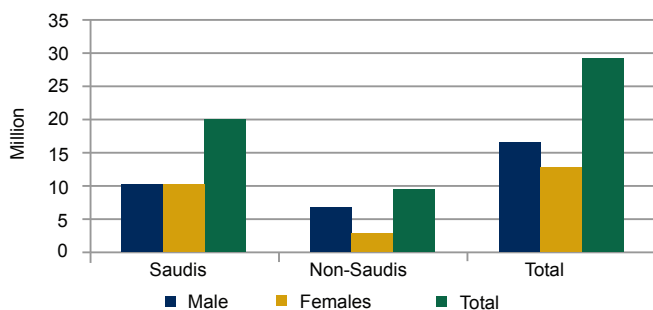


Source: "KSA Economy in Figures," Ministry of Planning and Economy, 2013.

As seen in Figure 7.13.2, non-Saudi women constitute less than half of the expatriate population. Thus, as a whole, the percentage of women drops to 43 percent of the total.

The GDP per capita has also seen an increasing trend from 2008 to 2012. Although there was a decrease in the years 2009 and 2010, GDP per capita has increased from 75,590 Saudi Arabian riyals in 2008 to 94,274 Saudi Arabian riyals in 2012.<sup>362</sup>

**Figure 7.13.2: Population – 2012**



Source: "KSA Economy in Figures," Ministry of Planning and Economy, 2013.

## 7.13.2 CREDIT MARKET

### OVERVIEW

The Saudi Arabian Monetary Agency (SAMA) is the country's central bank. Established in 1952, it is the supervisory authority of the financial system. It oversees commercial banks and exchange dealers, the insurance sector, finance companies, and credit information companies.<sup>363</sup> The banking sector dominates the financial system, with assets worth over half of the financial system's total and the equivalent to 85 percent of GDP.<sup>364</sup>

In addition to these institutions, there are five specialized credit institutions established and owned by the Ministry of Finance. They account for 14 percent of the financial sector assets. Loans issued by these institutions amount to the equivalent of 24 percent of normal bank lending to the private sector.<sup>365</sup>

In 2012, new laws were passed to reform the country's financial sector. These laws, listed below, strengthen the financial system framework, in the respective areas, and increase financing:

- **The Real Estate Finance Law**—provides for the authorization and licensing of banks and finance companies to enter the real estate finance market;
- **The Finance Companies Control Law**—provides a framework for Shariah-compliant finance companies to enter the market alongside banks as providers of finance for real estate and other assets, including alternative forms of finance like lease finance and microfinance;
- **The Registered Real Estate Mortgage Law**—provides a new framework for security over real estate, including, for the first time, provision for second-ranking mortgages;
- **The Finance Lease Law**—codifies the rules surrounding finance leasing (including real estate) as an alternative product to secured debt.<sup>366</sup>

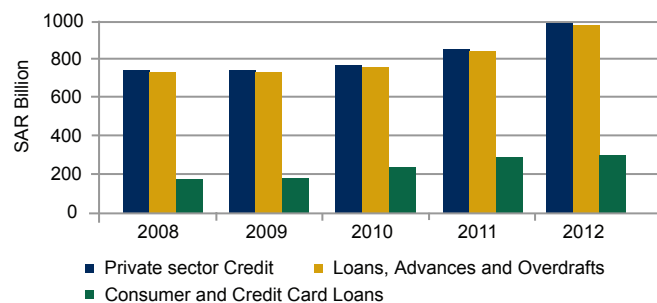
Changes in the framework will further strengthen the credit market. Outstanding loans increased significantly from 9.5 percent of GDP in 2008 to 43.3 percent in 2012. The number of outstanding loans in the credit market stood at 3.05 million, as of 2012, with a total value of 1.18 trillion Saudi Arabian riyals. The split between individuals and firms is given in Table 7.13.1. Additionally, the number of

**Table 7.13.1: Credit Market, Outstanding Loans**

|  | Individuals |           | Firms   |
|--|-------------|-----------|---------|
|  | 2008        | 2012      | 2012    |
| Number of outstanding loans                                      | 1,969,234   | 2,884,262 | 173,749 |
| Value of outstanding loans (SAR millions)                        | 169,534     | 316,102   | 865,102 |
| Number of loans granted to new clients                           | 667,986     | 1,323,757 | 120,029 |
| Value of outstanding loans granted to new clients (SAR millions) | 54,310      | 159,178   | 306,674 |

Source: Credit Information Sharing Survey, ACRI, January 2013.

Figure 7.13.3: Bank Credit



Source: Monthly Statistical Bulletin.

loans granted to individuals that were new clients doubled, from 0.66 million in 2008 to 1.32 million in 2012.<sup>367</sup>

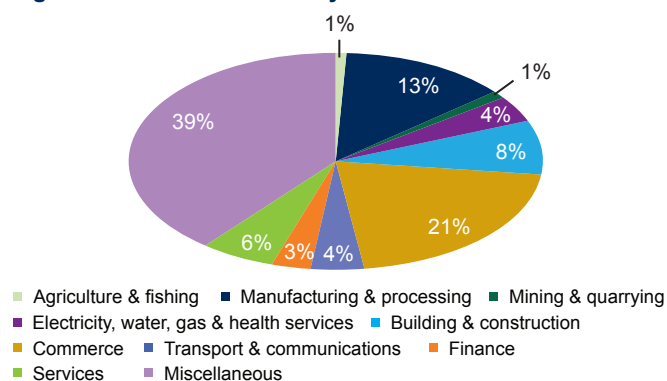
## Banking

The banking sector comprises a total of 23 commercial banks, including national and foreign banks. As of 2012, they operated through a vast network of 1,696 branches across the country.

The total credit provided by the commercial banks to the private sector increased from 824.7 billion Saudi Arabian riyals in 2011 to 960.4 billion Saudi Arabian riyals in 2012. From 2008 to 2012, there has been an overall growth of about 35 percent in private sector bank credit, with an increasing trend during the period, as shown in the Figure 7.13.3. Loans, advances, and overdrafts totalled 951 billion Saudi Arabian riyals in 2012, representing an average of over 98 percent of private sector credit throughout the period.

The allocation of private sector credit showed a mixed trend of expansion and contraction. Bank credit for mining and quarrying, electricity, services and finance showed

Figure 7.13.4: Bank Credit by Sector



Source: Monthly Statistical Bulletin.

the highest growth.<sup>368</sup> As shown in Figure 7.13.4, the miscellaneous segment constitutes the largest share of bank credit, followed by the commerce sector.

The consumer loans achieved continuous growth over the past few years, increasing from 173.9 billion Saudi Arabian riyals in 2008 to 292 billion Saudi Arabian riyals in 2012, as shown in Table 7.13.2. Consumer loans comprise real estate finance, cars and equipment, and other loans. The other loans segment constitutes the major portion, 67 percent of total consumer loans. Cars and equipment and real estate finance constitute about 20 percent and 13 percent respectively. There has been a decline in credit card loans since 2008, from 9.4 billion Saudi Arabian riyals to 7.9 billion Saudi Arabian riyals in 2012. However, the 2012 figure is a slight increase of 2.6 percent from 7.7 billion Saudi Arabian riyals in 2011.<sup>369</sup>

The growing consumer loans segment indicates the presence of a market for individuals that are increasingly undertaking credit facilities for financing personal and consumer needs, or for other general purposes.

Table 7.13.2: Consumer and Credit Card Loans (SAR million)

| Year | Real Estate Finance | Cars and Equipment | Others  | Total Consumer Loans | Credit Card Loans | Total   |
|------|---------------------|--------------------|---------|----------------------|-------------------|---------|
| 2008 | 14,906              | 37,261             | 121,817 | 173,985              | 9,452             | 183,436 |
| 2009 | 17,860              | 38,134             | 123,924 | 179,918              | 8,621             | 188,539 |
| 2010 | 23,088              | 42,209             | 133,538 | 198,835              | 8,400             | 207,234 |
| 2011 | 29,301              | 49,444             | 163,501 | 242,246              | 7,783             | 250,029 |
| 2012 | 37,952              | 57,422             | 196,640 | 292,014              | 7,983             | 299,997 |

Source: National Account Annual Statistics, SAMA.

## Specialized Credit Institutions

The five specialized institutions and funds, owned by the Ministry of Finance, were set up to cater to specific needs of the economy:

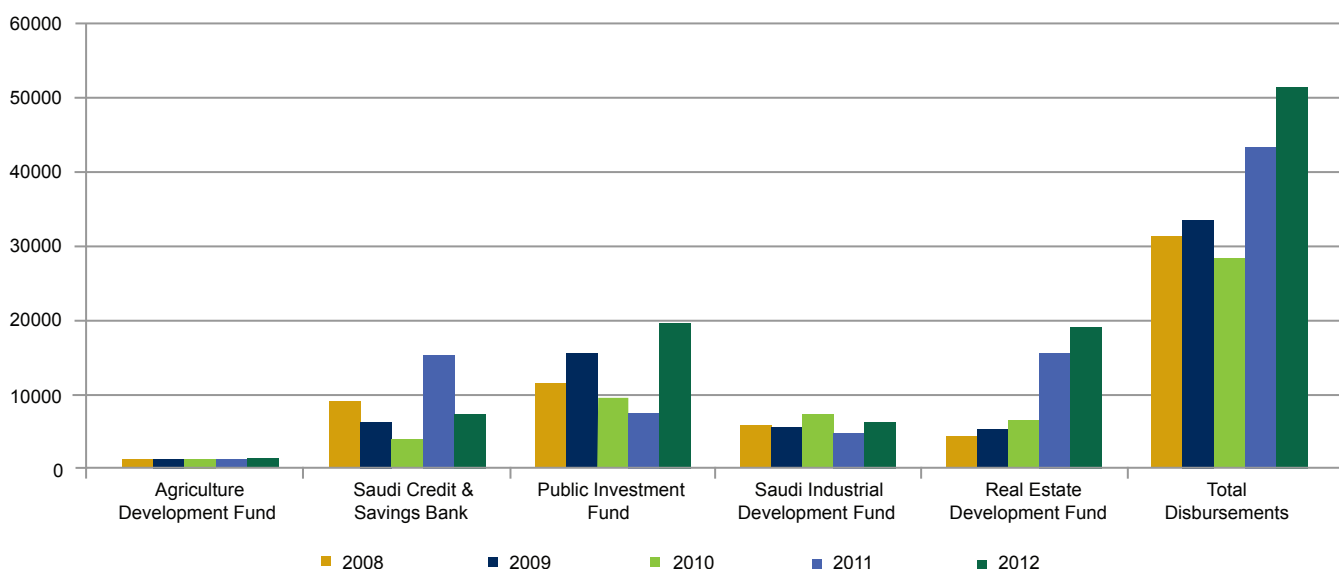
- (i) **The Agricultural Development Fund or the Saudi Arabian Agricultural Bank (SAAB)** was established as a public credit institution to provide finance for various agricultural activities in all regions, with a mission of supporting the agricultural sector and enhancing production.<sup>370</sup>
- (ii) **Saudi Credit and Savings Bank (SCB)** is considered one of the cornerstones of the Saudi government. The bank was established to cater to micro, small, and medium enterprises, and the social sector by providing interest-free loans to small enterprises, employers, and emerging trades as well as social loans for citizens with limited incomes. The bank also encourages savings for individuals and institutions.<sup>371</sup>
- (iii) **The Public Investment Fund (PIF)** was established to provide financial support to projects of a commercial nature that are strategically significant for the development of the national economy; it focuses on projects that cannot be implemented by the private sector alone, either because of insufficient experience or inadequate capital resources.<sup>372</sup>

(iv) **The Saudi Industrial Development Fund (SIDF)** was established as a funding agency to grant medium- and long-term soft loans for private industrial projects as well as administrative, financial, technical, and marketing consultancy services to develop and enlarge the country's industrial base.<sup>373</sup>

(v) **Real Estate Development Fund (REDF)** was set up to meet the needs and aspirations of citizens, by raising the quality of life in society through the development of high-quality housing.<sup>374</sup>

These five institutions collectively disbursed loans of 50.9 billion Saudi Arabian riyals in 2012, increasing from 42.5 billion Saudi Arabian riyals in 2011. Disbursements by all institutions have increased—except for SCB, which decreased from 15.4 billion Saudi Arabian riyals in 2011 to 6.6 billion Saudi Arabian riyals in 2012. As of 2012, disbursements by ADF stood at 674 million Saudi Arabian riyals, PIF at 19.4 billion Saudi Arabian riyals, SIDF at 5.2 billion Saudi Arabian riyals, and REDF at 18.8 billion Saudi Arabian riyals.<sup>375</sup> The total disbursements and break down among these institutions, for 2008 to 2012, is shown in Figure 7.13.5.

**Figure 7.13.5: Disbursements by Specialized Credit Institutions**



Source: SAMA - Quarterly Statistical Bulletin.

### Other Institutions

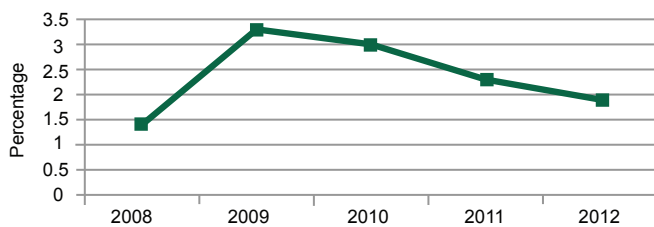
The new laws described in the previous section have given way for the establishment of new financial institutions, such as finance companies providing products and services according to Islamic principles. Two such companies were previously registered, but the new law defines the regulatory framework under the aegis of SAMA.<sup>376</sup>

The mortgage law will overhaul the home finance market in the country. It is expected to transform the market to property-secured lending, from the current practice of extending loans based on salary assignment or banks' automatic deductions from borrowers' salaries to repay home loans. The law lays down rules for the creation of licensed private mortgage providers as well as a state-run company for refinancing mortgages backed by real estate.<sup>377</sup>

### Nonperforming Loans

Led by a financially sound and well-capitalized banking sector, the country's credit market is developed. Even with increasing bank credit, nonperforming loan levels have been fairly stable and within acceptable limits from 2008 to 2012. As seen in Figure 7.13.6, there has been a downward trend, following an increase from 1.4 percent in 2008 to 3.3 percent in 2009. In 2012, the nonperforming loan ratio reached a low of 1.9 percent of the banking sector.<sup>378</sup>

Figure 7.13.6: Non-Performing Loans



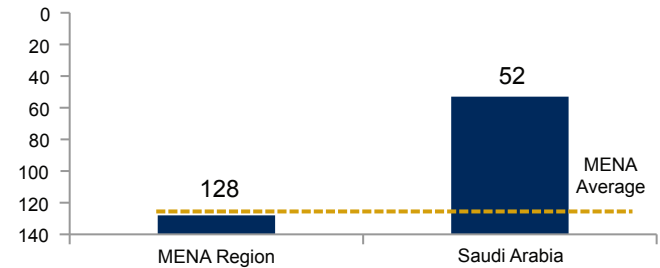
Source: "Kingdom of Saudi Arabia Economic Insight," QNB, 2013.

### CREDIT PENETRATION AND ACCESS

The World Bank's *Doing Business Report 2013* ranks Saudi Arabia a high 52 out of 185 countries. As seen in Figure 7.13.7, it is much higher than average MENA rank of 128. In this context, Saudi Arabia performs far better than all the other MENA countries. These rankings indicate a strong and established credit system.<sup>379</sup> (DB14, ranked 55)

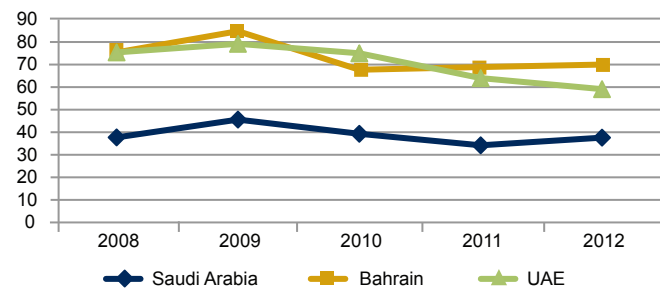
However, access to credit is low compared to Bahrain and the UAE. In 2012, Saudi domestic credit to the private sector was 37.6 percent of GDP, increasing from 34.2 percent in 2011.<sup>380</sup> The comparative trends are shown in Figure 7.13.8.

Figure 7.13.7: Getting Credit Rank, 2013



Source: *Doing Business Report*, The World Bank, 2013.

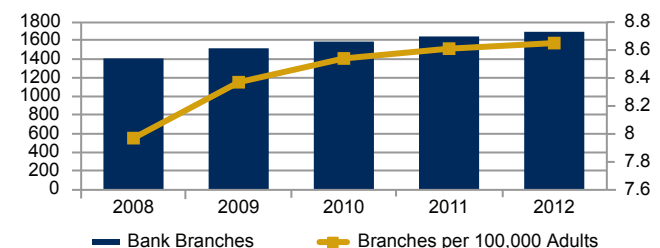
Figure 7.13.8: Domestic Credit as % of GDP



Source: data.worldbank.org

As of 2012, the 23 commercial banks operated through a network of 1,696 branches across the country. The Al-Rajhi Bank has the largest network (467 branches) followed by the National Commercial Bank (299 branches) and Riyadh Bank (252 branches). However, as per the IMF Financial Access Survey, this translates to a low outreach of 8.65 commercial bank branches per 100,000 adults. The number of bank branches with their corresponding outreach, from 2008 to 2012, is shown in Figure 7.13.9.

Figure 7.13.9: Commercial Bank Outreach



Source: Financial Access Survey, IMF, 2012

Table 7.13.3 shows the financial access indicators in terms of formal financial institutions' accounts and loans. The percentage of adults with an account was only 46 percent in 2011. Only 15 percent of women have an account with a formal financial institution. The percentage of adults that took a loan in 2011 was only 2 percent. This percentage for women corresponds to 1% percent. The low figures may be a result of the concentration of loans within a selected population.

Access to credit facilities for women, overall, has significantly increased since 2008. The number of women holding credit facilities increased 194 percent, from 286,156 borrowers in 2008 to 842,032 in 2012.<sup>381</sup>

**Table 7.13.3: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>46</b> |
| Men                           | 73        |
| Women                         | 15        |
| <b>Loans in the past year</b> | <b>2</b>  |
| Men                           | 3         |
| Women                         | 1         |

Source: Financial Inclusion Data, The World Bank, accessed September 15, 2014. <http://datatopics.worldbank.org/financialinclusion/topic/gender#divMap>

## 7.13.3 STATUS OF CREDIT REPORTING

### OVERVIEW

Saudi Arabia is one of the six countries in the region with a CR and an operational CB. The CB plays a significant role in the credit-reporting system and is the primary source for credit information. The CR exists in the form of a B-list by SAMA, which collected and shared credit information from regulated financial institutions on credit facilities above 500,000 Saudi Arabian riyals. The B-list contained positive and negative information in a paper-based system.<sup>382</sup>

**Table 7.13.4: Collateral requirements for Individual loans**

|                    | 2008      |                  | 2012      |                  |
|--------------------|-----------|------------------|-----------|------------------|
|                    | Number    | Value (millions) | Number    | Value (millions) |
| With collateral    | 691,247   | 61,162.62        | 460,703   | 77,504.27        |
| Without collateral | 1,277,987 | 108,371.55       | 2,423,559 | 239,052.94       |

Source: Credit Information Sharing Survey, ACRI, January 2013.

The establishment of the Saudi Credit Bureau (SIMAH) significantly changed the credit reporting system. It has played an active role in the credit market, by providing institutions with information and services to undertake accurate risk analysis. It is one of the region's pioneering credit information companies, diversifying its finance and credit information services.<sup>383</sup> The strengthening of the credit and risk processes can be seen in the decreased requirement for collateral. The number of loans to individuals with collateral decreased from 691,247 in 2008 to 460,703 in 2012; those without collateral increased from 1.27 million in 2008 to 2.42 million in 2012. These numbers, and their corresponding values, are shown in Table 7.13.4.<sup>384</sup>

### The Credit Bureau

The Saudi Credit Bureau is the first and sole licensed national credit bureau offering consumer and commercial credit information services to members in the country. Established in 2002, SIMAH began operating in 2004.<sup>385</sup> Although it currently operates within a specific legal and regulatory framework, the bureau was initially established by banks—with the encouragement of SAMA—simply on the basis of self-regulation (consumer consent and a code of conduct).<sup>386</sup>

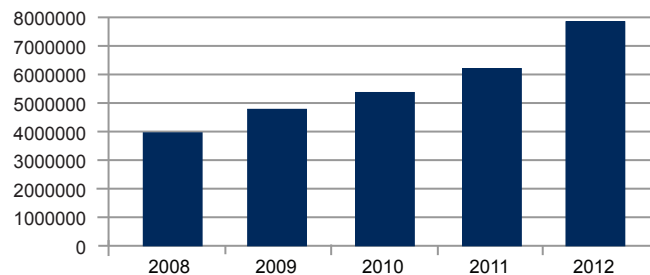
SIMAH is a state-of-the-art credit bureau with a vision to provide products and services according to international standards. It currently operates within the framework of a modern credit information law, regulated and supervised by SAMA. The bureau has gained acceptance among financial institutions in the country and has considerably increased its operations over the past few years.

The bureau started operations with information sharing on individuals and subsequently on commercial entities in 2009. The number of individuals listed in the bureau increased from 3.9 million in 2008 to 7.8 million in 2012. This growth (over 98 percent) indicates an increasing trend in participation and data sharing, as shown in Figure 7.13.10.



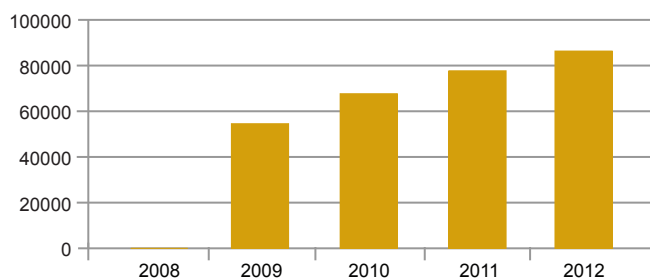
Commercial operations have increased by 58 percent since 2009. The number of firms listed in 2009 was 54,532, and it increased to 86,323 in 2012, as shown in Figure 7.13.11.<sup>387</sup>

**Figure 7.13.10: PCB Database – Number of Individuals**



Source: Credit Information Sharing Survey, ACRI, January 2013.

**Figure 7.13.11: PCB Database – Number of Firms**



Source: Credit Information Sharing Survey, ACRI, January 2013.

## Value-Added Services

In addition to providing credit reports for individuals and commercial entities, SIMAH also provides a range of value-added services. These include scoring for small and medium enterprises, ratings for corporations in coordination with international companies, credit training sessions, risk-management solutions, systems that prevent fraud and money laundering, credit and solvency indices, and a credit bureau establishment consultancy. They also provide technical solutions for credit

operations management, including customer management applications, debt management applications, and collection process applications.

## PARTICIPATION AND DATA SHARING

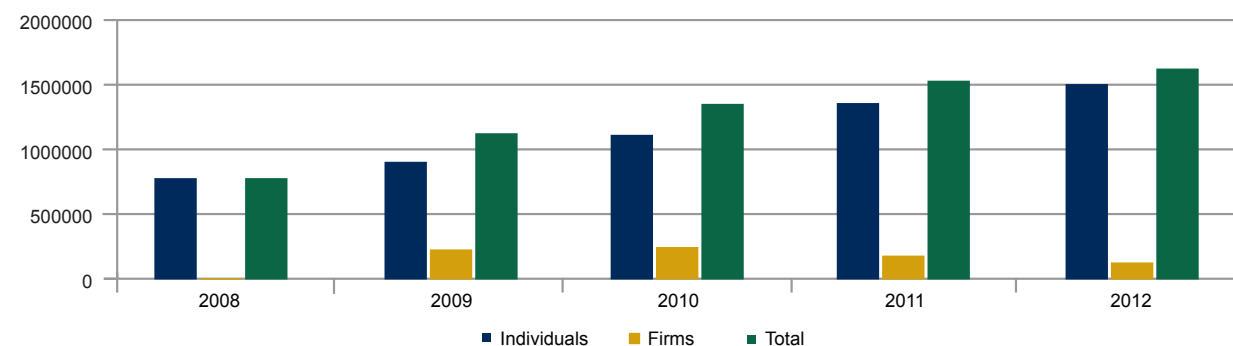
As mentioned in the previous section, the CR shares credit information from regulated financial institutions. The participation was limited to certain institutions, with a minimum threshold for reporting loans.<sup>388</sup>

The CB has a much larger and comprehensive participation from financial entities as well as others. Apart from banks (public, private and development/specialised), other financial institutions participate. These include microfinance institutions, finance corporations and leasing companies, credit card issuers, and trade credit companies. The database also includes credit information shared by retailers and merchants, mobile telephone companies, and utility providers.

All lenders are mandated to share data with the CB and inquire before granting credit. Information on borrowers includes demographics, details of the loan accounts, and payment performance data. The CB has a minimum threshold of 500 Saudi Arabian riyals. Positive as well as negative information is shared.

The significant increase in the number of credit reports issued by the CB, from 2008 to 2012, indicates an increase in participation—not only by the institutions, but also by borrowers that request their own credit reports. As shown in Figure 7.13.12, the number of individual credit reports issued increased over 94 percent, from 0.77 million in 2008 to 1.4 million in 2012. However, credit reports on firms decreased from 220,809 in 2009 to 120,029 in 2012.

**Figure 7.13.12: Credit Reports Issued by the PCB**



Source: Credit Information Sharing Survey.

Borrowers also actively participate. In 2008, 11,112 borrowers requested their own credit reports. This increased to 114,458 in 2012.<sup>389</sup>

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

The Credit Information Law (Royal Decree No. M/37), passed by SAMA in 2008, governs the country's credit reporting system. This law establishes general principles and controls necessary for collection, exchange, and protection of consumer credit information. It is applicable to companies, members, government agencies, and private entities that maintain credit information.

The law is comprehensive and has incorporated international best practice. It establishes SAMA as the supervisory authority for credit information companies, tasking it with the following:

- Drafting and implementing regulations;
- Determining conditions for credit information bureaus seeking to provide services as well as controls and procedures for licensing;
- Issuing, renewing, and amending licenses for credit information bureaus;
- Establishing mechanisms for oversight and monitoring credit information bureaus;
- Approving work procedures for members and credit information bureaus in the maintenance of credit records;
- Detecting and investigating violations; prosecuting violators;
- Determining measures with respect to credit information in the case of license revocation of a credit information bureau, including dissolution, liquidation, or bankruptcy.<sup>390</sup>

Article 4 of the law requires credit bureaus to collect, provide, exchange, and protect credit information; they have to prepare and exchange credit records with members, upon request, for a fee. The article also requires that government entities maintain credit information to provide to licensed bureaus.

The law also specifies acceptable use of the credit information shared among members; it guards confidentiality. As per Article 7, this information may be used for statistical figures, provided that consumer identities are not revealed.

Article 6 *“Members, companies and their staff shall maintain the confidentiality of consumer credit information, and they may not publish or use such information for any purpose other than those provided for in this Law or its Implementing Regulations, or in accordance with laws and instructions regulating the confidentiality of information in the Kingdom.”*

Article 9 specifically establishes consumer rights in the credit reporting system. It allows consumers to obtain their own credit reports at any point of time after payment of requisite fees. Consumers may also obtain one free copy of their credit record upon the establishment of the record, or when a credit application is rejected. If rejected, the consumer can request the institution's grounds for decline.

Written consent of the consumer has to be obtained before establishing the consumer's credit record for the first time; consent is also required for each inquiry before granting credit.

Article 5 *“A member may obtain a copy of the consumer credit record from companies subject to the written consent of the consumer.”*

Article 9 *“A consumer credit record may not be established with companies for the first time except with the written consent of the consumer.”*

Consumers, by submitting the required documents, have the right to raise disputes with the bureau in case of an error in their credit report. They also have the right to file a complaint with the relevant committee if such an error is not corrected or if their credit record is requested for an unlawful reason.

In 2012, 114,458 borrowers requested their credit reports, and 5,723 of these reports contained incorrect information.

Borrowers disputed 5,052 reports. In 2008, 4,234 reports that contained incorrect information were disputed by borrowers.<sup>391</sup>

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Saudi Arabia, as shown in Table 7.13.5. The index provides a snapshot and quantification of the credit information sharing system in the country.

### CONCLUSIONS

- The credit market is well-developed and strong; the CB has significantly contributed to the strengthening of the market;
- SIMAH has laid the foundation for a well-developed and sound credit reporting system. The high ACRISI score of 19 can be attributed to the bureau. It is a modern credit bureau with state-of-art infrastructure, operating according to international standards and within a well-defined legal and regulatory framework;
- Although an operational CR is also present in the country, lending institutions are entirely dependent on SIMAH for information sharing;
- A specific credit information law was passed in 2008. This law, along with relevant regulations, provides for the establishment of all operational aspects as well as the privacy and confidentiality of data sharing.

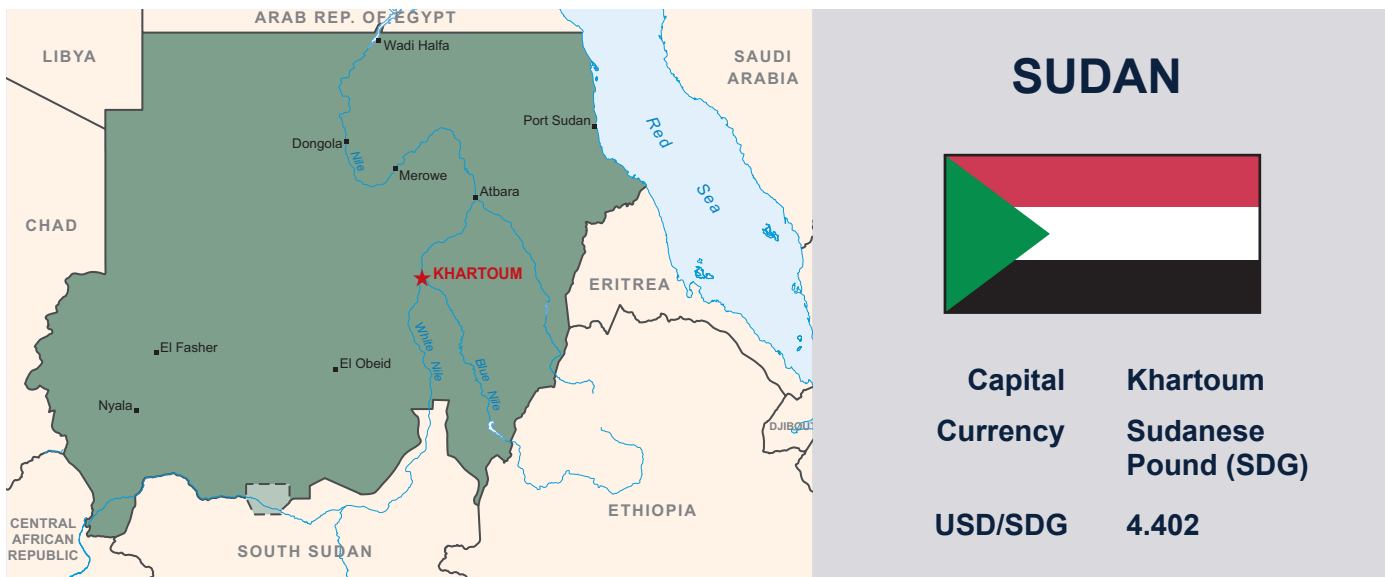
- The legal framework provides for basic consumer rights as well;
- SIMAH is the only CB in the region that has a database collecting information from regulated as well as nonregulated entities, as indicated in the ACRISI table;
- The bureau provides a wide range of services to members; these cover various stages of the lending process, including custom scoring, portfolio monitoring, alerts, and more. The result is stronger credit appraisal and management for lenders.

### RECOMMENDATIONS

- The minimum threshold limit of 500 Saudi Arabian riyals for reporting loans to the CB should be removed in order to include all loans. This will ensure a complete and comprehensive database;
- SIMAH currently scores the credit of SMEs. The next step would be to develop a scoring model for individuals' data;
- Going forward, SAMA could consider issuing additional private bureau licenses in order to further strengthen the credit reporting system and ensure healthy competition within the industry;
- SIMAH is one of the more sophisticated bureaus in the region, with an established legal and regulatory framework. One aspect that could be addressed is cross-border data sharing. SAMA and SIMAH together can initiate the framework, including changes in the law.

**Table 7.13.5: Arab Credit Reporting Information Sharing Index — Saudi Arabia**

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | YES       | YES       |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | YES       | YES       |
| Is there a legal framework for privacy and protection of data?               | YES       | YES       |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | YES       | YES       |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | YES       | YES       |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | YES       | YES       |
| Are utility entities participating?  | YES       | YES       |
| Are MFIs participating?  | YES       | YES       |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | YES       | YES       |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | NO        | NO        |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | NO        | YES       |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>18</b> | <b>19</b> |



Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41515, March 2015.

## 7.14 SUDAN

### 7.14.1 ECONOMIC OVERVIEW

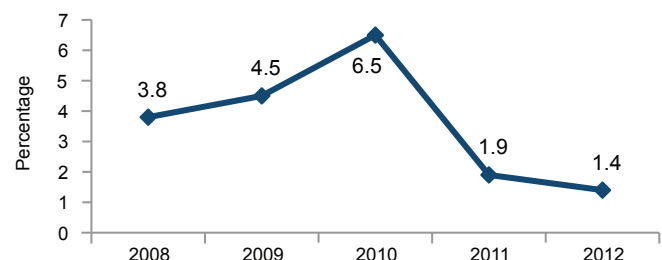
In 2010, Sudan was considered the seventeenth fastest growing economy in the world. The rapid development of the country was largely from oil profits. With rising oil revenues, the Sudanese economy was booming; GDP growth registered more than 10 percent per year in 2006 and 2007.<sup>392</sup> Historically, agriculture was the main source of income, employing 80 percent of the work force and contributing a third of the economy. Oil production, however, drove most of Sudan's growth since 2000, accounting for over half of government revenues and 95 percent of exports.<sup>393</sup>

The secession of the Republic of South Sudan induced multiple economic shocks; the most important and immediate was the loss of oil revenue. Even with oil profits before secession, Sudan still faced serious economic problems. Overall, this has left huge macroeconomic and fiscal challenges, with economic growth rates plummeting and consumer price inflation rising, exacerbated by increasing fuel prices.

Since secession, Sudan's economy has yet to demonstrate resilience. After 2012, the government had to adjust to the new economic reality and the loss of about 75 percent of the country's oil revenues.<sup>394</sup> The real GDP growth rate dropped to 1.4 percent in 2012, down from 1.9 percent in 2011.<sup>395</sup> Figure 7.14.1 shows the GDP performance from 2008 to 2013.

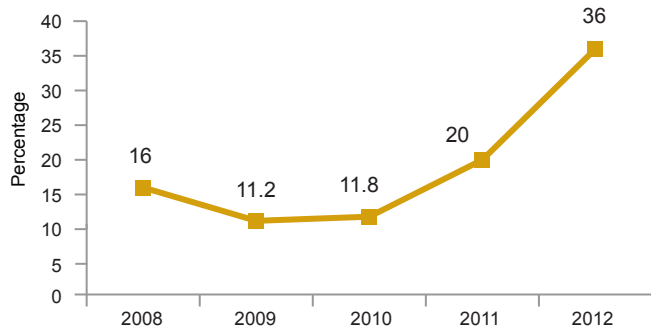
CPI inflation was 36 percent in 2012, up from 20 percent in 2011, largely driven by the monetization of the fiscal deficit and a weakening exchange rate.<sup>396</sup> Figure 7.14.2 shows the trend from 2008 to 2012. The inflation rate increased from 36 percent in December 2012 to 47.9 percent in March 2013.

Figure 7.14.1: GDP Performance



Source: Statistics, African Economic Outlook. (Real GDP growth rates)

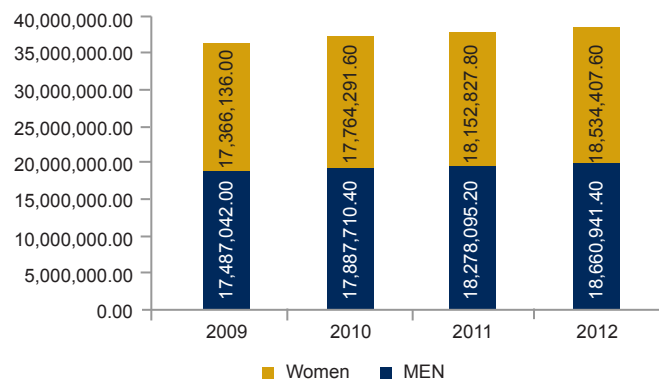
Figure 7.14.2: CPI Inflation



Source: IMF 2013 and data.worldbank.org

The total population, as of 2012, was 37.2 million. Women accounted for nearly 49.8 percent of the total population. Figure 8.15.3 shows the bifurcation of the total population from 2008 to 2012.

Figure 7.14.3: Population



Source: data.worldbank.org

## 7.14.2 CREDIT MARKET

### OVERVIEW

The Central Bank of Sudan (CBOS) is the supervisory authority of the banking sector, *ijara* (leasing) corporations, and microfinance institutions. CBOS's objectives include: issue of currency; issue of monetary and financing policies; organization, monitoring and supervision of banking business. The bank strives to promote efficiency, economic and social development, and stability of the economy and currency. The financial sector in Sudan can be categorized into the banking and the nonbanking sectors.

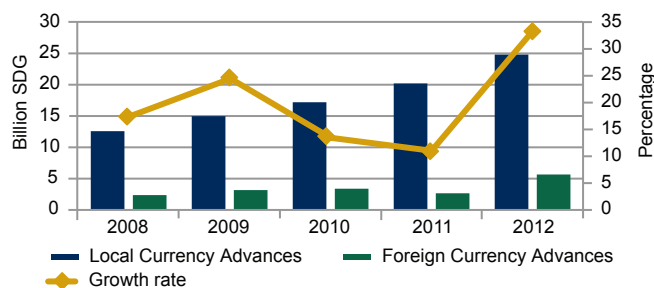
### Banking sector

The banking sector comprises of the Central Bank of Sudan, 33 commercial banks (including five foreign banks), and four specialized state-owned banks, which provide funds to specific sectors of the economy. CBOS adheres to Islamic banking principles and employs Islamic banking instruments in conducting its monetary policy operations.<sup>397</sup> CBOS is the government's bank, its advisor, and its agent. CBOS is considered a market organizer and a supporter of the banking system. Thus, the Sudanese banking sector comprises a dual banking system of Islamic and conventional banking.

Total deposits held by commercial banks increased 5.5 percent, from 39.54 billion Sudanese pounds in the fourth quarter of 2012, to 41.71 billion Sudanese pounds in the first quarter of 2013.<sup>398</sup>

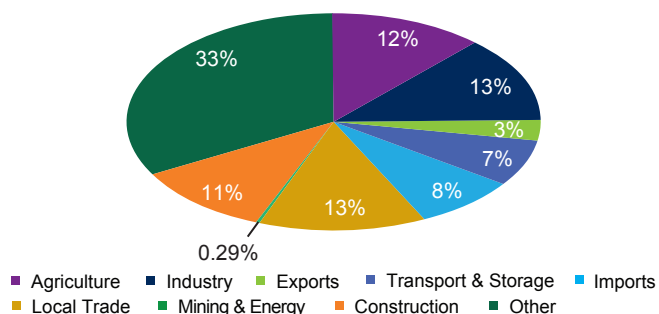
Advances by banks increased significantly in 2012 over the previous year. As seen in Figure 7.14.4, the growth rate declined after 2009 to a low of 11 percent in 2011; it increased to 33 percent in 2012. The total value of local and foreign bank advances increased from 22.86 billion Sudanese pounds in 2011 to 30.47 Sudanese pounds in 2012. Despite volatile movement, the average growth, from 2008 to 2012 period, is over 18 percent.

Figure 7.14.4: Banks' Advances



Source: Economic & Financial Statistic Review, Central Bank of Sudan, First Quarter 2013.

Figure 7.14.5 shows the distribution of bank advances by sector. Others constitute the single largest component of advances, followed by local trade and industry.

**Figure 7.14.5: Sectoral Distribution of Advances – 2012**

Source: Economic & Financial Statistic Review, Central Bank of Sudan, First Quarter 2013.

## Nonbanking Sector

The nonbanking sector comprises the stock exchange, bank deposit security funds, and 15 insurance companies.<sup>399</sup> The insurance companies invest their funds in securities, Islamic *sukuk* bonds, real estate, and deposits. The most known social funds are the National Pension Fund, the National Social Insurance Fund, and the Deposits Security Fund.

The insurance sector in Sudan, regulated by the Insurance Supervisory Authority, remains small with limited penetration. Factors contributing to low levels of penetration include low per capita income, a missing middle class, political instability, and the prevailing rate of financial illiteracy. In addition, there is still a debate in the Islamic world about whether conventional insurance is acceptable under Shariah principles.

## Microfinance

Since the mid-1990s, Sudan has attempted to use microfinance as a mean of reducing poverty. However, decades of civil war and political instability have prevented Sudanese stakeholders' efforts from having any noticeable impact; the microfinance industry only covers 1 to 3 percent of the potential market.<sup>400</sup>

In 2006 the CBOS signed an agreement with the World Bank to launch a \$50 million microfinance fund. The purpose of the fund was to support existing microfinance activity and establish a microfinance department within the CBOS, called the Sudan Microfinance Development Facility (SMDF).

In 2009 the CBOS issued a circular describing the SMDF and detailing the role of banks in developing the microfinance sector. One major directive called for all banks to allocate a minimum of 12 percent of their portfolios to microfinance and to develop departments dedicated to these operations.<sup>401</sup>

These developments are the result of a plan aimed at positioning the microfinance sector within a wider framework for poverty alleviation, and economic and financial development. To date, the results of this push have been impressive. The number of microfinance borrowers increased from 49,000 at the end of 2007 to 494,000 in 2012. The growth has occurred in bank portfolios (increasing from 49,000 to 300,00) and in dedicated microfinance institutions (increasing from 0 to 194,000).

Sudan is also one of the top markets for Islamic microfinance. Nonetheless, it is still a very small market—about \$1 billion according to Al-Huda Centre of Islamic Banking and Economics. As in other Islamic microfinance markets, *murabaha* (cost plus mark up) funding is the vehicle of choice in Sudan.<sup>402</sup>

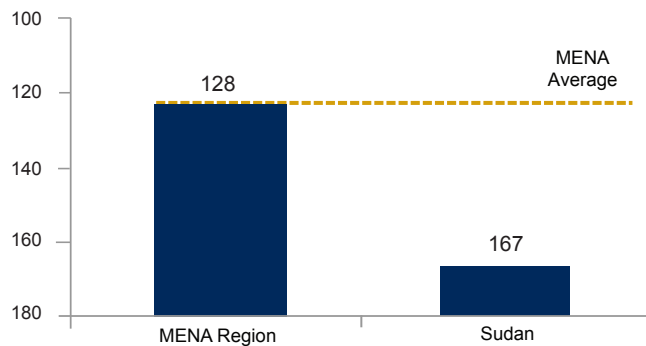
## Nonperforming Loans<sup>403</sup>

Although gross nonperforming loans remain high in the banking sector, there has been a downward trend over the years. NPLs decreased from 22.4 percent in 2008 to 11.8 percent in 2012. However, the banking sector still remains weak compared to its counterparts in the region. The percentage of loan provisions to NPLs has increased, from 20 percent in 2008 to 36.5 percent in 2012.

NPLs in the microfinance sector are much lower than those of the commercial banking sector. NPLs on microfinance funding transactions average about 4 percent. Microinsurance, paid for by the borrower, plays a role in keeping these rates low. Typical microinsurance policies add about 1 to 3 percent to the annual cost, and cover 75 percent of losses.

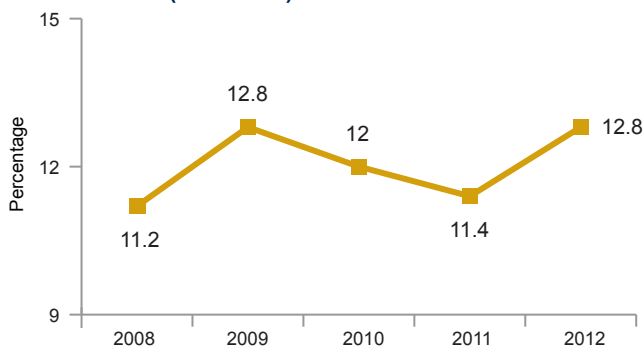
## CREDIT PENETRATION AND ACCESS

The World Bank's 2013 *Doing Business Report* ranked Sudan 167 out of 185 countries in the Getting Credit Indicator. As seen in Figure 7.14.6, Sudan's ranking is much lower than the MENA average. (*DB14*, ranked 170)

**Figure 7.14.6: Getting Credit Rank – 2013**

Source: *Doing Business Report*, The World Bank, 2013

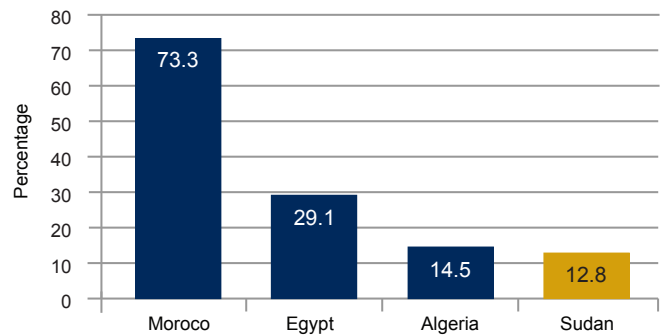
Domestic credit provided by the financial sector as a share of GDP—a measure of banking sector depth and financial sector development, in terms of size—shows a decreasing trend since 2009. It reached a low of 11.4 percent in 2011 and then increased to 12.8 percent in 2012, as seen in Figure 7.14.7. This trend maps the growth of bank advances, which had declined from 2009 to 2011, and increased thereafter.

**Figure 7.14.7: Domestic Credit to Private Sector (% of GDP)**

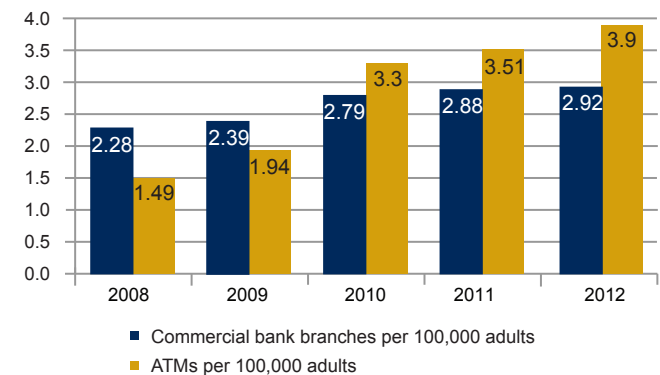
Source: data.worldbank.org

Measured by private sector credit as a percentage of GDP, credit penetration in Sudan has been the lowest in the MENA region, as seen in Figure 7.14.8.

Four publicly owned banks continue to dominate the financial landscape; together with 29 other banks they own 589 branches countrywide. Forty-one percent of these branches are concentrated in Khartoum. This has resulted in a low outreach of 2.92 bank branches per 100,000 adults in 2012, as shown in Figure 7.14.9.

**Figure 7.14.8: Domestic Credit to Private Sector (as % of GDP) for Selected MENA Countries – 2012**

Source: data.worldbank.org

**Figure 7.14.9: Commercial Bank Network**

Source: Financial Access Survey, IMF, 2012.

Table 7.14.1 shows the financial access indicators in terms of formal financial institutions' accounts and loans. Seven percent of adults held an account in 2011, which is very low for the region. Four percent of women have an account with a formal financial institution. The percentage of adults took a loan in 2011 was only 2 percent. This percentage for women corresponds to less than 2 percent.

**Table 7.14.1: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |          |
|-------------------------------|----------|
| <b>Accounts</b>               | <b>7</b> |
| Men                           | 9        |
| Women                         | 4        |
| <b>Loans in the past year</b> | <b>2</b> |
| Men                           | 2        |
| Women                         | <2       |

Source: Financial Inclusion Data, World Bank, accessed September 16, 2014.  
<http://datatopics.worldbank.org/financialinclusion/country/sudan>



### 7.14.3 STATUS OF CREDIT REPORTING

#### OVERVIEW

Sudan established a CR with the enactment of the Credit Inquiry and Classification Act of 2011, entitled Credit Information and Scoring Agency (CIASA). The CBOS supervises the agency. This is the first and only source of credit information available to lenders and borrowers in the country. The CR has been established on the principles of best practice; detailed information on credit facilities (negative and positive) and payment histories are made available to lenders for credit assessment purposes.

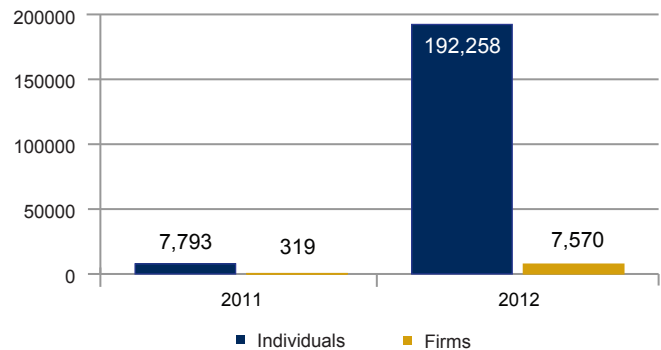
#### Key milestones

- Establishment of borrower code project in September 2008
- Issue of the borrower code in January 2009
- Approval of the Credit Information and Scoring Agency (CIASA) Law in August 2011
- Upgrade of the Credit Reporting System, implemented in October 2011

Figure 7.14.10 shows the number of firms and individuals listed in the CR in 2011 and 2012. In one year, there has been a significant increase, especially in case of individuals. However, there were challenges faced in data collection, primarily related to banks' readiness in terms of data and technology, as well as data quality improvement. According to ACRI's 2013 Credit Information Sharing Survey, 20 percent of data received by the CIASA was rejected due to quality problems. However, over time, with upgrades to the CR and bank systems, this percentage will decrease.

There is no minimum threshold for a loan to be listed in the CR. The total number of loans registered in the CR, in 2012, was 305,804, which is significantly higher than the 13,328 loans registered in 2011. The total value of loans registered in the CR, at the end of 2012, was 41,359 million Sudanese pounds.

Figure 7.14.10: Number of Individuals and Firms Listed in the PCR



Source: Credit Information Sharing Survey.

Total number of inquiries received by the CR, as of 2012, was 112,389; the same number of credit reports were transmitted to the lenders. The total number of inquiries can be further broken down into 102,376 inquiries for individuals and 10,013 for firms.

#### PARTICIPATION AND DATA SHARING

Data at the CIASA includes demographic information, inquiries by other lenders, loan account data, and the payment performance data for both individuals and firms. Public and private banks, development banks, microfinance institutions, and nonbanking financial institutions are all regulated by the CBOS; they provide credit information to the CR monthly. Financial institutions and microfinance institutions report data to the CR monthly as well.

Regulated microfinance institutions (including the two microfinance banks) are obliged to provide data and inquire for their operations; non-regulated microfinance institutions voluntarily provide data and inquire the registry.

For individuals and firms, credit reports contain current client data, historical data, current negative statuses, historical negative statuses, number of inquiries, black-list borrowers, summary information about all types of contracts (whether the client is acting as main debtor or co-debtor, or guarantor), and details about existing contracts. For firms, credit reports also show the firm's related parties.

Positive as well as negative credit information is maintained by the CR and distributed to the financial institutions. The positive records pertaining to credit are retained by the CR

for only two years, whereas negative information is kept for five years if all the payments have been made; if not repaid, records will be maintained in the CR for five years until the payment is made. The lenders are charged 2.00 Sudanese pounds to 5.00 Sudanese pounds for a single credit report.

Individuals cannot access their credit reports directly from the system or online; they can only receive them from the CIASA. Consumers can dispute erroneous entries on their credit reports and have them corrected. The CR takes maximum of 7 days to examine consumer complaints and, if necessary, correct the information. Regulated financial institutions are required to ask for consumer consent before sharing data with the CR or inquiring the CR.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

The Credit Inquiry and Classification Act of 2011 established the framework for credit information sharing in Sudan. It also constitutes the basis for the establishment of CIASA. The act clearly lays down definitions and defines the main objectives of CIASA—to offer credit services, provide and prepare credit information, and carry out credit classification. The agency has the power to exchange of information and data with similar foreign agencies.

Objectives of the Agency: The Agency shall have the following roles, namely to:

- (a) Offer credit inquiry service;
- (b) Provide and prepare information;
- (c) Exchange information and data with similar foreign agencies;
- (d) Carry out credit classification.

The law outlines the agency's functions and powers. Under this section, the agency is required to collect and process credit information, prepare credit files on borrowers, issue reports without making recommendations as to granting or not granting credit, and ensure confidentiality of information. It is also required to establish a separate unit to deal with borrowers.

The act also outlines the obligations of the information provider and the information inquirer. It clearly defines the institutions that are required to provide data to the agency. It also details the protocol of maintaining relations between the agency and borrowers.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Sudan, as shown in Table 7.14.2. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- Despite recent growth in the banking sector, Sudan continues to be underbanked; most banking and financial institutions are concentrated in the Khartoum area. Only a small share of the population has access to bank services. Enterprises often face difficulties in obtaining funding from banks or capital markets;
- A sound and effective credit information sharing system will facilitate improvement in access to credit, especially for individual borrowers and small and medium enterprises;
- The central bank has taken the first step by establishing a regulatory framework for credit information sharing and establishing the CR.
- The ACRISI score of 15 indicates a well-established framework, even though the country lacks a full-fledged, comprehensive registry with information on all loans (only regulated entities and microfinance institutions are participating in the system);
- A specific law for credit information sharing was passed in 2011, which gave way to the CR's establishment. Data shared with the CR is also protected under this law;
- Basic consumer rights have been granted: consumers can inspect data and raise disputes for incorrect data; their consent is required before inquiring the CR. However, consumers lack access to free reports;
- Lenders have started sharing data on all loans, with positive and negative information being reported.

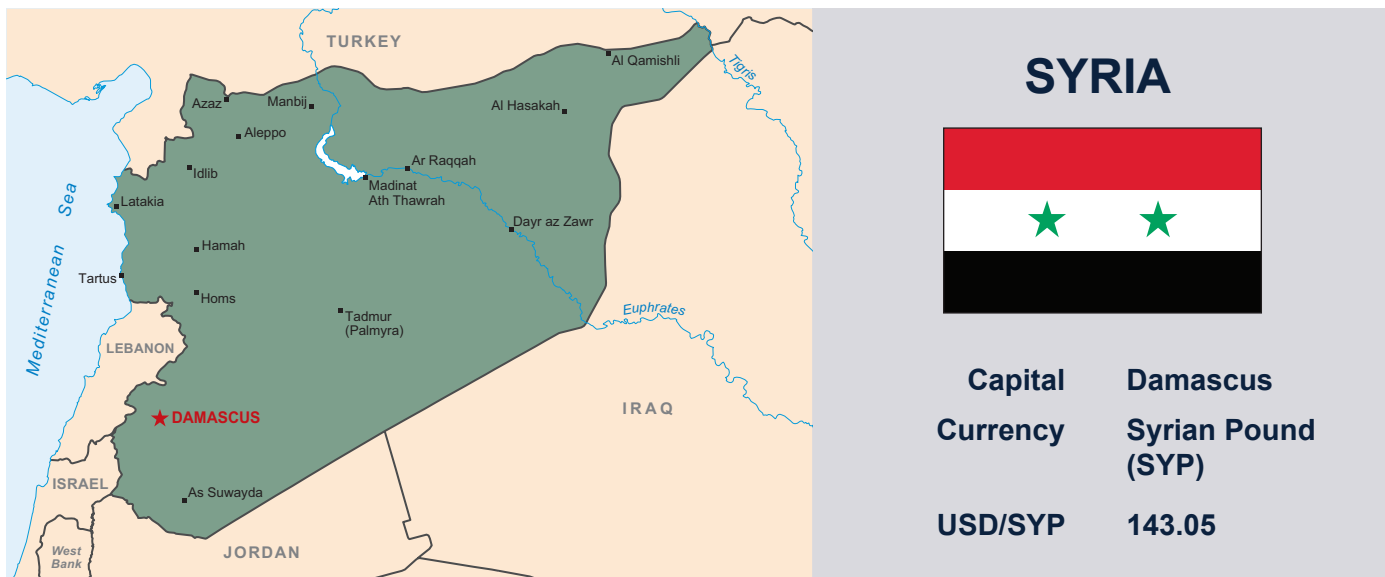
- Lenders are mandated to share data and make inquiries before granting a credit facility. However, some nonregulated entities only voluntarily share or inquire data.

## RECOMMENDATIONS

- Access to credit reports should be made for free for consumers, at least once a year;
- Establish, under the guidance of the CIASA, a private, complete and un-fragmented credit information sharing system, such as a credit bureau.
- The central bank should remove any obstacles that prevent a CB's establishment.
- The central bank should undertake a common program of awareness and financial education for lenders and borrowers on all aspects of information sharing, such as purpose, benefits, usage, rights and obligations, etc.
- Additional Value Added Services offer should be considered the next phase of risk management improvement for the lenders.
- Data obsolescence of negative data is too long (5 years). It should be reviewed and shorten.

Table 7.14.2: Arab Credit Reporting Information Sharing Index — Sudan

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |          |           |
|--|----------|-----------|
| Parameters   | 2008     | 2012      |
| Does the country have a CR?  | NO       | YES       |
| Does the country have a CB?  | NO       | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |          |           |
| Is there a specific law or regulation governing the credit reporting system? | -        | YES       |
| Is there a legal framework for privacy and protection of data?               | -        | YES       |
| Is information on consumers included?  | -        | YES       |
| Is information on firms included?  | -        | YES       |
| <b>Consumer rights environment in the country</b>                            |          |           |
| Are consumers allowed to access their reports?                               | -        | YES       |
| Do consumers have access to at least one free report in a year?              | -        | NO        |
| Are consumers allowed to raise disputes?                                     | -        | YES       |
| Do entities collect consumer consent before making inquiries?                | -        | YES       |
| <b>Entities in the country participating in CIS</b>                          |          |           |
| Are regulated entities participating?  | -        | YES       |
| Are nonregulated entities participating?                                     | -        | NO        |
| Are utility entities participating?  | -        | NO        |
| Are MFIs participating?  | -        | YES       |
| <b>Depth of data sharing and reporting in the country</b>                    |          |           |
| Are entities mandated to share data?   | -        | YES       |
| Are entities mandated to make inquiries?                                     | -        | YES       |
| Are both positive and negative information reported?                         | -        | YES       |
| Are all loans reported without any limits?                                   | -        | YES       |
| Does the principle of reciprocity apply?                                     | -        | NO        |
| Are credit scores provided to the users?                                     | -        | NO        |
| Is cross border data sharing allowed?  | -        | YES       |
| <b>ACRISI score</b>  | <b>0</b> | <b>15</b> |



Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41516, March 2015.

## 7.15 SYRIA

### 7.15.1 ECONOMIC OVERVIEW

The Syrian Arab Republic has been in a state of crisis since the outbreak of unrest in March 2011. The economy continues to suffer the effects of conflict. The impact on the economy is significant. According to unconfirmed estimates, the economy contracted about 4 percent in 2011, about 30 percent in 2012, and a further 7 percent in the first quarter of 2013.<sup>404</sup>

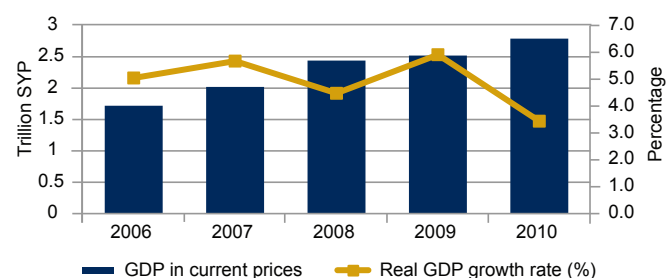
Prior to the crisis, Syria's economic reform efforts had helped strengthen growth, even though external and domestic shocks, particularly the global financial crisis and prolonged droughts, had adversely affected the country's macroeconomic performance.

Economic growth had not been inclusive even as it accelerated over the past decade. It had not led to significant job creation or to poverty reduction. The rural society is increasingly marginalized and suffered from severe shocks related to both economic transition and drought. Its impact had been particularly acute in the country's east, spurring internal migration to larger regional cities and Damascus suburbs, fuelling social and political discontent.<sup>405</sup>

Syria's GDP had remained dependent on the oil and agriculture sectors, which are subject to fluctuating oil prices and rainfall. The main sources of foreign earnings were oil exports, exports of services, and foreign transfers of income and remittances; these sources have now been seriously curtailed by the crisis. Over the short and medium term, Syria's recovery will depend on the ongoing conflict's end-game and the scope of political and economic reform that follows.<sup>406</sup>

At the time of writing this chapter, the latest official GDP statistics for 2011 and 2012 were not available. The average real GDP growth rate from 2006 to 2010 was a modest 4.9 percent. The growth trend during the same period can be seen in Figure 7.15.1. GDP per capita increased from \$1,645.5 in 2006 to \$2,834.7 in 2010.

Figure 7.15.1: GDP Performance



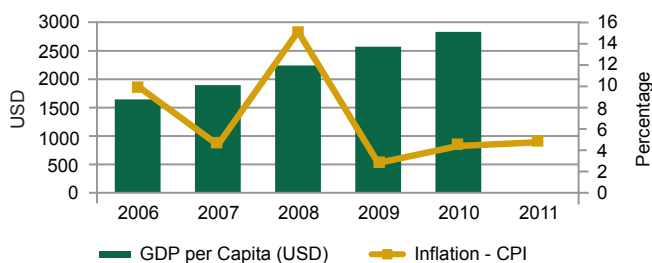
Source: Monetary Statistics, Central Bank of Syria, 2011.

\* Data for GDP per capita 2011 is not available

The inflation rate had decreased from a high 15.2 percent in 2008 to 4.8 percent in early 2011, as seen in Figure 7.15.2. Since the beginning of the crisis, inflation rates have soared. In December 2012, it was as high as 49.5 percent<sup>407</sup> and the Central Bureau of Statistics announced that the annual inflation rate hit 68 percent in May 2013.<sup>408</sup>

The Syrian pound also has depreciated considerably against the U.S. dollar in the past two years. In 2010, the official exchange rate was 46.5 Syrian pounds per U.S. dollar; it fell to 130.8 Syrian pounds in July 2013, while the unofficial rate reached 222.6 Syrian pounds.<sup>409</sup>

**Figure 7.15.2: Per Capita Income and Inflation**



Source: Monetary Statistics, Central Bank of Syria, 2011.  
\* Data for GDP per capita 2011 is not available

## 7.15.2 CREDIT MARKET

### OVERVIEW

The Syrian financial system consists of banking institutions, microfinance institutions, exchange companies, insurance companies, and securities markets. The Central Bank of Syria (CBS) is the regulatory and supervisory authority for the system.

Current events have had a significant impact on the financial and credit activities in the country. Due to tightening credit, cash is playing a much greater role in the economy than before. Banking activity is at a minimum, as banks run down existing credit facilities while continuing to fund basic imports, such as food and medicine. Banks say that they are able to get U.S. dollars as well as local currency to stock ATMs (in areas under government control). Money exchangers are playing an increasingly important role in the distribution of cash.<sup>410</sup> The exchange rate has dropped significantly against the U.S. dollar, as mentioned above.

### Banking

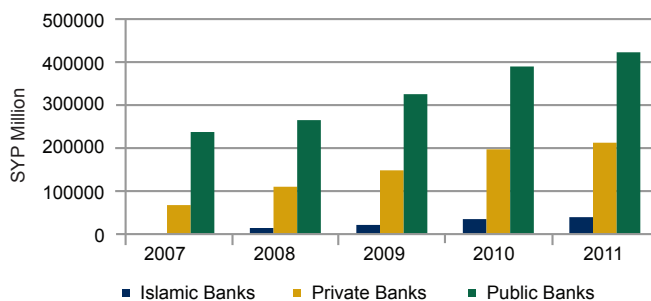
Currently there are 20 commercial banks in the country, which include domestic and foreign banks: six state-owned or public banks, 11 conventional private banks, and three private banks operating according to Islamic principles. Public banks dominate the banking system. With assets worth 1.4 trillion Syrian pounds, they accounted for 72 percent of total banking system assets.

The Syrian credit industry had made undeniable progress in the years before the crisis, as a result of government reforms and the CBS's efforts. Syria had taken a major step towards promoting a healthy banking sector through a series of banking laws passed since 2000, creating a framework for far-reaching economic reform measures.<sup>411</sup>

Since 2004, 10 private banks, both conventional and Islamic, have been established, breaking the monopoly of state banks. New products, particularly in the consumer segment, have started to appear in the market. Some are in higher demand among the public (such as car loans); others still in their early infancy (such as ATMs and credit cards).<sup>412</sup>

During the period of 2006 to 2011, the ratio of total credit to deposits showed continuous growth; it was a little over 101.9 in 2011. In the same year, total credit granted by the banking system was 1.87 trillion Syrian pounds. Credit granted to the private sector was 674.69 billion Syrian pounds. Figure 7.15.3 shows the bifurcation of credit granted to private sector, by bank category, from 2007 to 2011. Here as well, public banks played a dominant role, with a share of 62.66 percent of total credit to private sector.<sup>413</sup>

**Figure 7.15.3: Private Sector Credit**



Source: Monetary Statistics, Central Bank of Syria, 2011. \*Islamic banks' data were included from December 2007

Current consolidated data for the banking system is unavailable. However, from the 12 banks that have posted their financial statement disclosures to the Damascus Securities Exchange, it appears that there was an aggregate 28 percent decline in loans extended from 2010 to 2012, and a 29 percent decline in customers' deposits. The political turmoil has resulted in a significant decline of bank operations in the country.

## Microfinance

In addition to the banks, there are three microfinance institutions that provide loans to individuals: First Microfinance Institute—Syria, Jabal Al Hoss, and the United Nations Relief and Works Agency—Syria. The three institutions had 33,014 active borrowers, as of 2012, and a loan portfolio of \$15.9 million.<sup>414</sup>

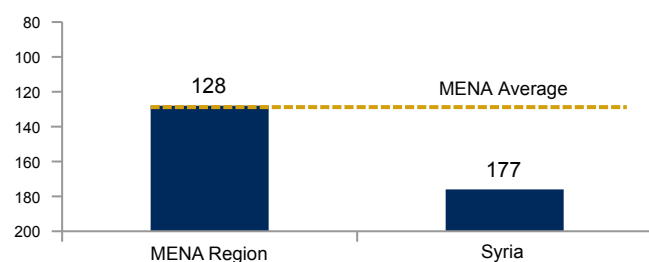
## CREDIT PENETRATION AND ACCESS

The World Bank's 2013 *Doing Business Report* ranked Syria 177 out of 185 countries in the Getting Credit Indicator. As seen in Figure 7.15.4, it is much lower than the regional rank of 128. The ranking indicates the tremendous scope for strengthening the above framework and improving access to credit. (*DB14, ranked 180*)

Domestic credit to private sector was 22.5 percent of GDP in 2010. Although this percentage is low, it is an increase from 14.9 percent in 2006.

As of June 2013, the country's 20 banks operated through a network of 538 branches, with the largest concentration in Damascus (120 branches), followed by Aleppo (80 branches). The Agricultural Cooperative Bank and the Commercial Bank of Syria have the largest network, with

**Figure 7.15.4: Getting Credit Rank – 2013**

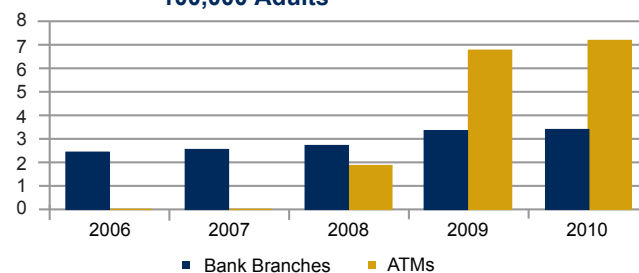


Source: *Doing Business Report*, The World Bank, 2013.

106 and 71 branches respectively.<sup>415</sup> While the outreach in terms of number of commercial bank branches per 100,000 adults is low, it was showing an upward trend until 2010. This number increased from 2.74 branches in 2006 to 3.73 branches in 2010.<sup>416</sup>

As per the IMF Financial Access Survey, the outreach of the ATM network was negligible prior to 2008. However, in 2010, the number of ATMs per 100,000 adults was 7.28. Figure 7.15.5 shows the outreach of the commercial bank network from 2006 to 2010. Data for 2011 and 2012 is not available for either indicator.

**Figure 7.15.5: Commercial Bank Network per 100,000 Adults**



Source: Financial Access Survey, IMF, 2010.

## 7.15.3 STATUS OF CREDIT REPORTING

### OVERVIEW

Based on the information given in the April 2009 ACRI report, *Assessment and Observations on the Credit Reporting System in the Arab Republic of Syria*, the CBS had launched a project to establish an internal credit registry system in 2007. The CR became operational in 2008 but was still undergoing an enhancement phase. This was the first experiment on credit information sharing in the country, which could help achieve the supervisory objective of the CBS and also provide support to lending institutions increasing credit penetration.

As of 2009, the CR was receiving and disseminating information from regulated financial institutions (mainly banks) and was becoming an important tool for the evaluation and management of credit risks in regulated financial institutions. In an initial phase, only public banks were contributing; then private banks joined the scheme.

However, there were issues with data quality and quantity, since information was not being provided by all institutions.

In addition, there were significant discrepancies in the systems, methodologies, and telecommunications devices through which lenders provided information to the CR. Not all of the regulated entities were able to respect the technical procedures, layouts, and deadlines established by the CBS. Other issues were prevalent in the system, including: threshold limits for sharing loan data; cumbersome and manual sharing procedures; paper-based inquiries; the system's technological limits; obsolescence of data; and delay in obtaining reports.

The most recent information on the reporting system is not available. However, the World Bank's *Doing Business reports* have indicated certain improvements in the systems, which are discussed in the following sections.

## PARTICIPATION AND DATA SHARING

As mentioned above, in 2009, only regulated financial entities were sharing data with the CR. These entities are mandated to share information on a monthly basis. However, there was a low level of awareness; several financial institutions, mainly state banks, were not ready to provide data in a systematic and efficient manner to the CR. There was no system for credit reporting among microfinance institutions.

In 2009, data was shared among the banks and the CBS in the form of a CD-ROM. Negative as well as positive information was shared with the CR. There was a minimum threshold limit of 300,000 Syrian pounds for loans to be included in the database. In the reforms measured by the 2011 *Doing Business Report*, Syria enhanced access to credit by eliminating the minimum threshold for loans included in the database, which expanded coverage of individuals and firms to 2.8 percent of the adult population.

As per the 2013 *Doing Business Report*, improvements were made with the establishment of an online system for data exchange among banks, microfinance institutions, and the central bank's credit registry.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

There is no specific law or regulation for the sharing of credit information in the country. However, the Bank Secrecy Law (No.29/2001) clearly establishes limits and boundaries for communicating credit information among and with third parties, though the provision is only limited to the banking sector.

Article 3 of the law clearly states: “...All workers in the banks...and every person... authorized to look into the books and records and formality procedures and investment bonds are bound to keep the secrets of those records at all times... They may not in any case whatsoever give information about what they know concerning the names of clients or their assets or whatever relates to their deposits or their banking matters to any party whatsoever... except in cases mentioned in Article 2 of this law above...”.

Article 2 makes a reference to information being declared and shared only by the written permit by a depositor.

The CR does not have a system for consumers to access their own credit reports or dispute the data contained in their reports.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Due to the unavailability of complete and updated information on the credit reporting system, the index for Syria has not been developed.<sup>417</sup>

## CONCLUSIONS

- The political turmoil in the country has affected the entire financial system. Only thin information on recent reforms is available. The government did not respond to ACRI's MENA Credit Information Sharing Survey from January 2013, so this report cannot comment on the CR's current status. However, it can be expected that there has been decline in the coverage of data and activities

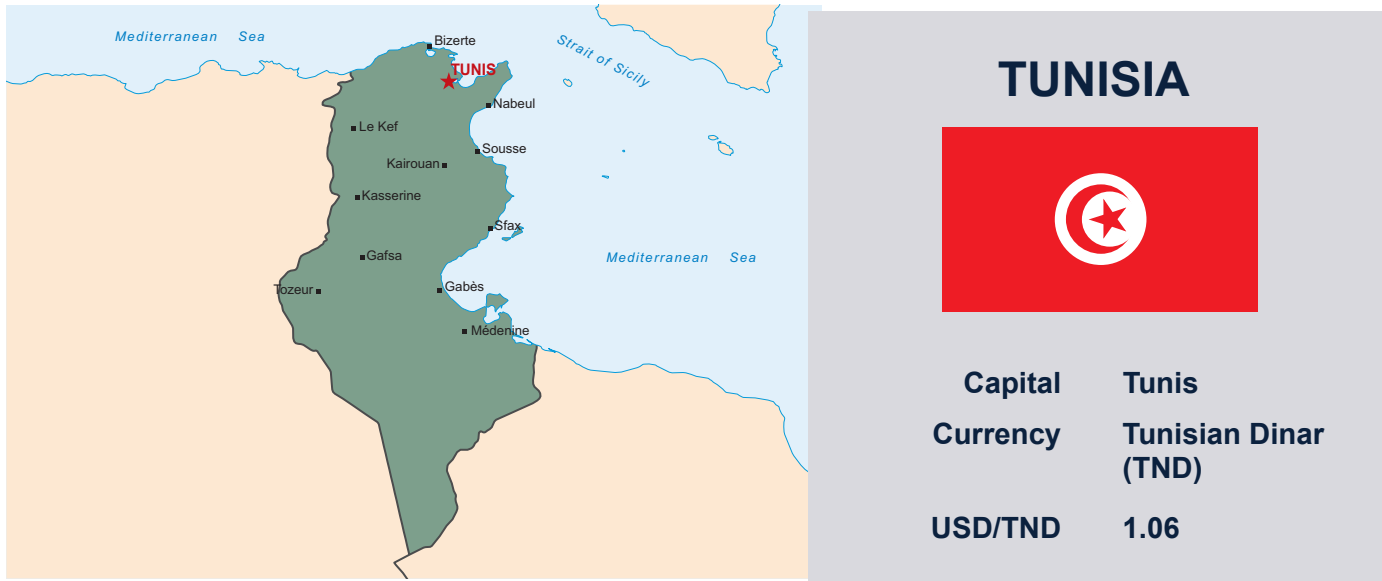


- Going forward, minor, basic improvements, such as the implementation of an online system and removal of the threshold limit, could play an important role for the CR in moving towards a complete database for collecting and disseminating credit information from all lending entities in the country.

## RECOMMENDATIONS

- For an effective credit information sharing system, which includes a CR and CB and which will facilitate and improve access to credit, the central bank needs to establish a framework, starting with a legal and regulatory framework
- Ensuring the collection and distribution of complete and full-file information is necessary to enable lenders to make better credit assessments. For this, adequate systems must be in place, with defined rules for the central bank and lenders
- The central bank should undertake a common program of awareness and financial education for lenders and borrowers on all aspects of information sharing such as purpose, benefits, usage, rights and obligations, etc.





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41540, March 2015.

## 7.16 TUNISIA

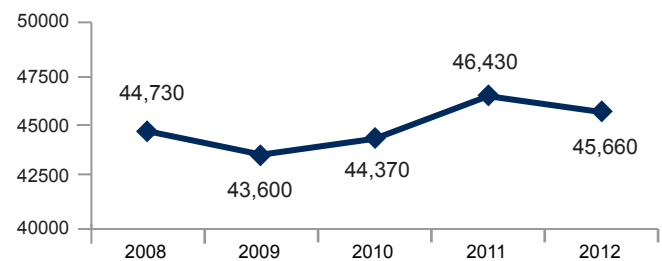
### 7.16.1 ECONOMIC OVERVIEW

Tunisia has a diverse economy that includes agriculture, manufacturing, mining, petroleum products, and tourism. Prudent economic and fiscal planning has resulted in moderate but sustained growth for over a decade. Tunisia is an export-oriented country in the process of liberalizing and privatizing. In 2009, the World Economic Forum ranked Tunisia as the most competitive economy in Africa and the fortieth in the world.<sup>418</sup> The country has attracted many international companies, such as Airbus and Hewlett-Packard. Tunisia's main natural resource, phosphate, remained vital to an economic recovery in 2013.

Following the January 2011 revolution and the ensuing sharp decline in economic activity, the Tunisian economy embarked on a moderate recovery in 2012; GDP grew at a rate of 3.3 percent after a contraction of almost 2 percent in 2011.<sup>419</sup> A good agricultural season and the relative recovery in tourism, as well as hydrocarbon and phosphate production, contributed to the economic growth. Figures 7.16.1 shows the real GDP in billions of U.S. dollars, from 2008 to 2012; Figure 7.16.2 shows the GDP performance trend from 2008 to 2013, based on the African Economic Outlook.

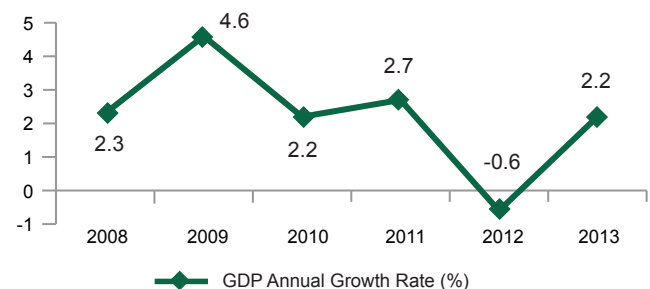
Political uncertainty is slowing down economic decisions and weakening the recovery that had begun in 2012. This political transition is taking too long and affecting the

Figure 7.16.1: GDP (Current USD in Billion)



Source: Banque Centrale de Tunisie, BCT

Figure 7.16.2: GDP Performance

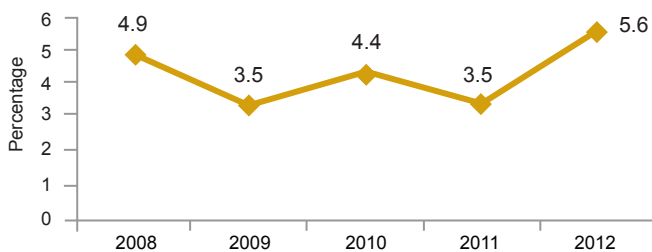


Source: Banque Centrale de Tunisie, BCT

economy as a whole, which is not improving as fast as was expected. There is growth, but it is not enough to respond to the country's main challenges, which are unemployment and regional development disparities. Growth is not creating enough jobs or improving the quality of jobs.

Inflation averaged 5.6 percent in December 2012, up from 3.5 percent in 2011.<sup>420</sup> Inflation was driven up by higher international market prices for certain imported goods, a depreciated dinar, a bigger payroll, weaker price control, distribution network problems, and the illegal movement of certain goods to neighboring countries. Figure 7.16.3 shows the trend from 2008 to 2012.

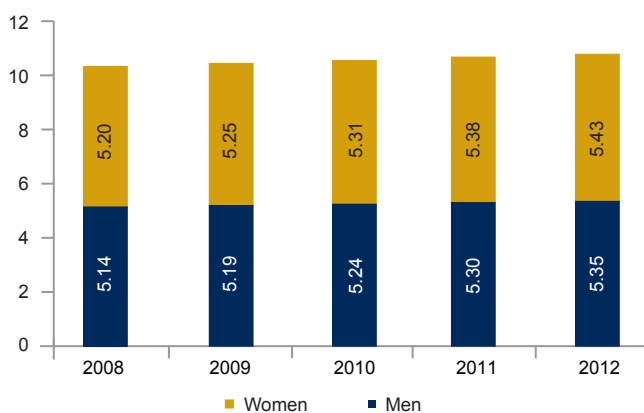
**Figure 7.16.3: CPI Inflation**



Source: IMF 2013 and data.worldbank.org

The total population as of 2012 was 10.78 million. Women accounted for nearly 50.4 percent of the total population. Figure 7.16.4 below shows the bifurcation of the total population from 2008 to 2012.

**Figure 7.16.4: Population (Million)**



Source: data.worldbank.org

## 7.16.2 CREDIT MARKET

### OVERVIEW

The Tunisian banking sector is one of the smallest in the region, with commercial banks's total assets representing 97 percent of GDP. Banks had already been struggling with structural problems before the uprising, and the difficult economic situation resulting from the political transformation has accentuated those vulnerabilities.

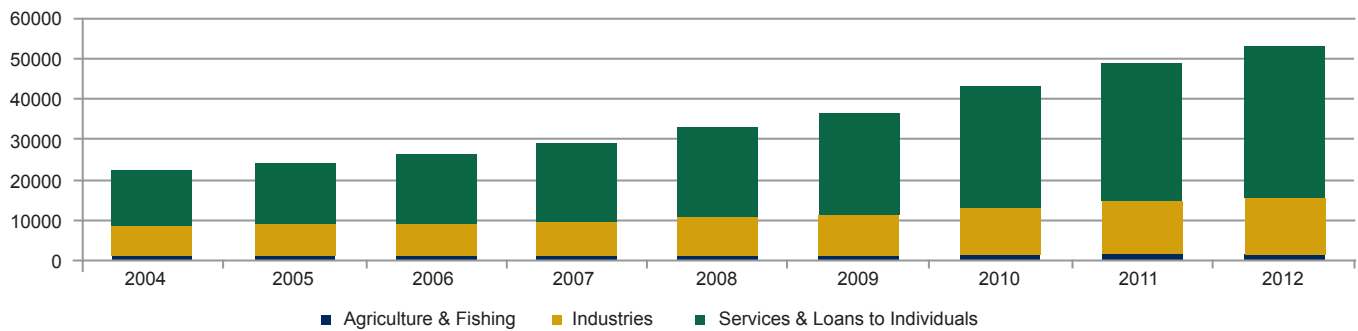
The Central Bank of Tunisia, or Banque Centrale de Tunisie (BCT), has a general mission of preserving the dinar's value and maintaining its stability. The central bank oversees monetary policy and controls the money in circulation. It supervises lending institutions and preserves the stability and security of the Tunisian financial system.<sup>421</sup> The banking sector of Tunisia has evolved over the past few years, with a number of private international banks acquiring local banks.

### Banking

With 21 commercial banks, the largest player barely reaches 15 percent of the market; the largest three banks account for about 41 percent of the market in terms of assets. Of the largest five banks, three are publicly-owned and control 38 percent of total assets.<sup>422</sup> Of the four largest foreign banks present in the country, two are French, one is Moroccan and one is Jordanian, accounting for about 24 percent of total assets.

In 2011, the growth rate of deposits reached only 5 percent. This compares to a relatively strong loan growth of almost 14 percent; banks are left in a challenging position, and need to attract enough resources to support the increase in lending. The loan-to-deposit ratio, which was already high in comparison with the rest of the region, consequently increased, reaching 113 percent at the end of 2011.<sup>423</sup> Figure 7.16.5 shows loan distribution sector-wise, from 2004 to 2013. Loans to the services sector and individuals comprise the largest component of total loans.

**Figure 7.16.5: Loans by Sector of Activity (In TND Million)**



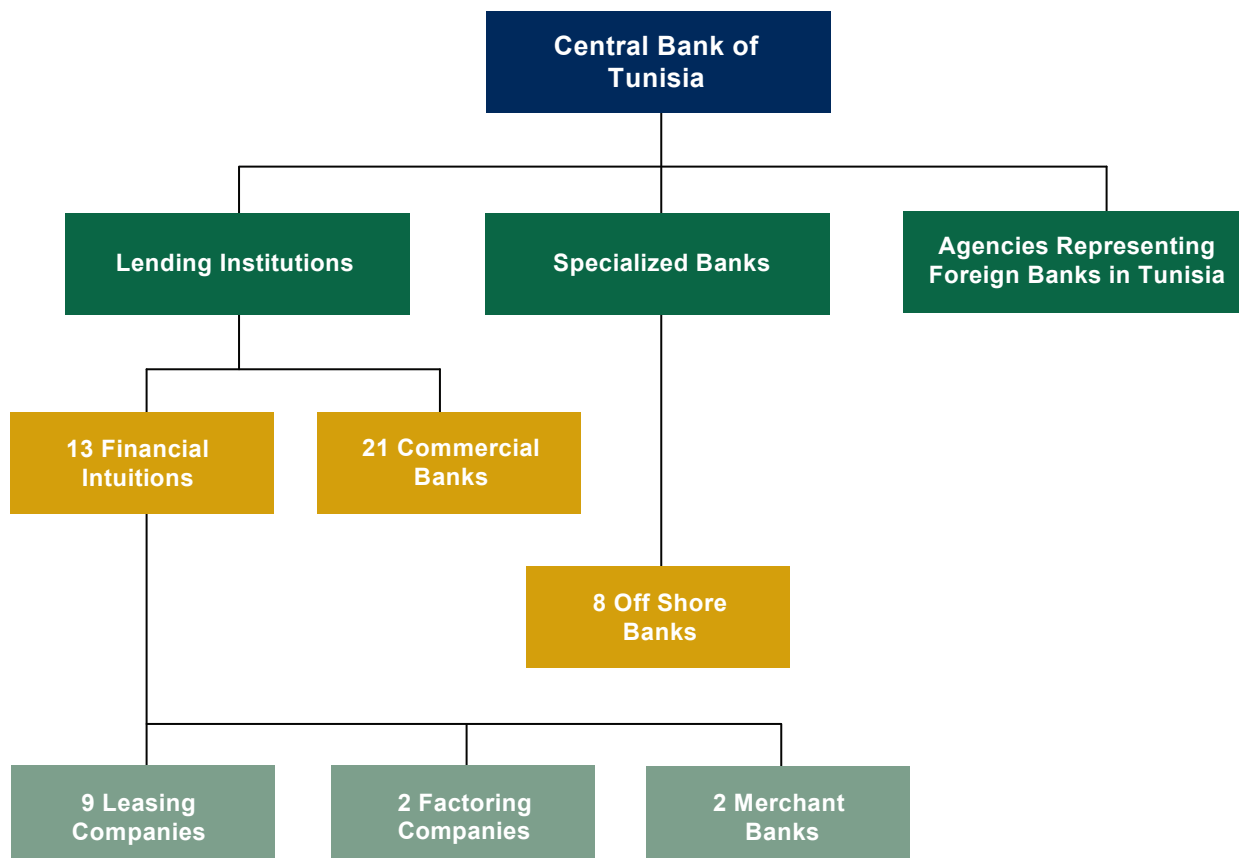
Source: Banque Centrale de Tunisie, BCT

### Microfinance

The Tunisian Solidarity Bank (BTS), a government bank, was established in 1997 to promote microenterprise; it sponsors microfinance associations throughout the country.<sup>424</sup> The bank aims to help all segments of society to seize the opportunities created by the country’s economic and social development efforts. Through a network of smaller associates institutions, the bank finances microprojects for people that would not normally qualify for a loan from

commercial banks because of a lack of collateral. Men and women, in both urban and rural areas, are eligible to apply for a loan of up to \$9,500, with a maximum annual interest rate of 5 percent. As of November 2008, BTS had granted 340,625 loans to 277 associations.<sup>425</sup>

The largest private provider of microfinance in Tunisia is a nongovernmental organization, ENDA Inter-Arabe. ENDA is the only microfinance institution in Tunisia,



with over 170,000 active clients. Its loan portfolio is over \$28.8 million, and women account for 80 percent. The sector has more than 280 other NGOs providing loans, though their client numbers are unknown. Loan size is restricted at 5,000 Tunisian dinars (\$3,625). Other microfinance providers include foreign governments and international organizations, such as the Agence Francaise de development (AFD), the World Bank, and the African development Bank.

### Leasing Companies

Leasing companies ensure the financing of movable and immovable equipment acquisitions. These companies purchase modern agricultural, industrial, and administrative equipment, and then hire them out to those in need. These companies are committed to submit, at end of every month, all their account positions to the central bank.

Activity of the leasing sector recovered in 2012 to 21.3 percent—a 251 million Tunisian dinar increase in disbursements—coming to 1.43 billion Tunisian dinars (In 2011, the sector was at a 15.5 percent level, a drop of 216 million Tunisian dinars). The leasing sector's outstanding balance increased by 10.1 percent, to reach 2.54 million Tunisian dinars, financed by borrowing resources at 78.1 percent (bank borrowing was 45.7 percent; debenture loans were 40.9 percent).<sup>426</sup>

### Nonperforming Loans

At the end of 2011, the official level of nonperforming loans was 13 percent, down from over 19 percent in 2006. The total nonperforming loan flow is estimated at 2.6 billion Tunisian dinars. Total reported collateral values represent about half the value of NPLs, even though a large share of this collateral is more than five years old. State initiatives to support small and medium enterprise finance have resulted in growing NPLs at a rapid pace (19 percent in 2011). Developers loans are quickly deteriorating and require close monitoring. In 2011, NPLs stood at 13.1 percent of this portfolio.<sup>427</sup>

In addition to banks, there are various other sources of credit. Informal money lending is fairly common but poorly documented. Various parties are believed to grant loans to individuals at interest rates as high as 7.5 percent monthly. Figure 7.16.6 shows the breakdown for loans by the various financial sources.

### CREDIT PENETRATION AND ACCESS

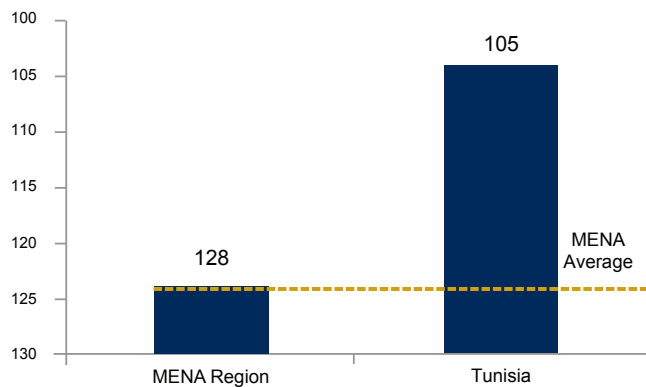
The World Bank's 2013 *Doing Business Report* ranked Tunisia 105 out of 185 countries in the Getting Credit Indicator. It is much lower than the regional rank of 128, as seen in Figure 7.16.7. (*DB14, ranked 109*)

**Figure 7.16.6: Loans in Economy by Various Financial Sources (in TND Million)**



Source: Banque Centrale de Tunisie.

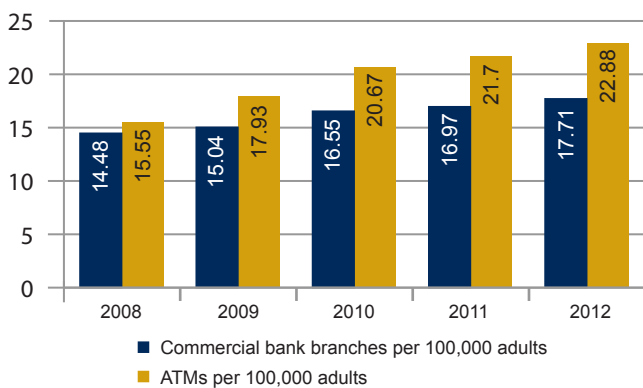
**Figure 7.16.7: Getting Credit Rank – 2013**



Source: Doing Business Report, The World Bank, 2013.

The Tunisian banking network has 42 financial institutions and 1,400 branches altogether. Tunisia has about 1,660 ATMs and 12,000 point-of-sale terminals (POS). Figure 7.16.8 below shows the physical outreach of banks in Tunisia in form of branches and ATM per 100,000 adults. ENDA has 63 branches and 170,000 active microfinance clients. Due to regulatory constraints, it does not have ATMs, POS terminals, or card services for customers.

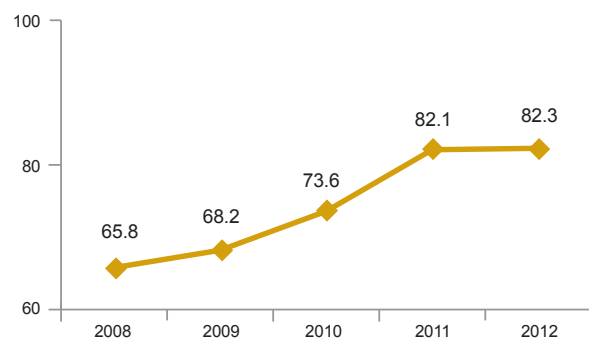
**Figure 7.16.8: Commercial Bank Network**



Source: Financial Access Survey, IMF, 2012.

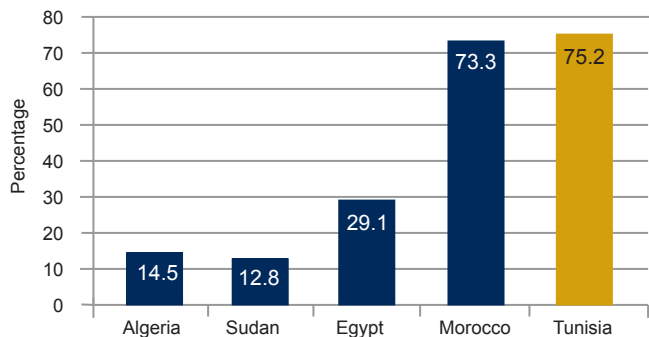
Figure 7.16.8 shows the strength of the Tunisia banking sector through the banking sector’s provision of domestic credit as percentage of GDP, a measure of banking sector depth and financial sector development in terms of size. The credit penetration in Tunisia when measured by private sector credit as a percentage of GDP has been the highest in North Africa, as seen in Figure 7.16.10.

**Figure 7.16.9: Domestic Credit by Financial Sector (% of GDP)**



Source: data.worldbank.org

**Figure 7.16.10: Domestic Credit to Private Sector (% of GDP) for Selected MENA Countries, 2012**



Source: data.worldbank.org

Table 7.16.1 shows the financial access indicators in terms of formal financial institutions’ accounts and loans. In 2011, 32 percent of adults held an account, which is relatively very low for the region; 32 percent of women have an account with a formal financial institution. The percentage of adults that took a loan in 2011 was only 26 percent. This percentage for women corresponds to 25 percent.

**Table 7.16.1: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>32</b> |
| Men                           | 39        |
| Women                         | 32        |
| <b>Loans in the past year</b> | <b>3</b>  |
| Men                           | 4         |
| Women                         | 3         |

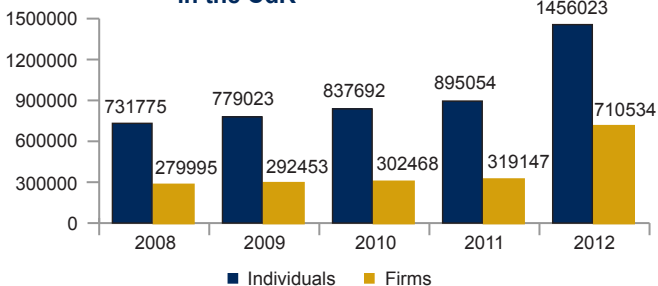
Source: Financial Inclusion Data, The World Bank, accessed September 16 2014.  
<http://datatopics.worldbank.org/financialinclusion/country/tunisia>.  
<http://datatopics.worldbank.org/financialinclusion/topic/gender#divMap>.

## 7.16.3 STATUS OF CREDIT REPORTING

### OVERVIEW

The only source of credit information is the CR of the BCT, though it is still limited to regulated entities. The registry is known as CIBCT, which stands for Centrale d'Informations de la Banque Centrale de Tunisie. CIBCT's coverage had reached 28.8 percent of adult population based on the 2013 Doing Business Report. In 2012 about 1,456,000 individuals and about 710,500 firms were listed in the CIBCT, an increasing trend, as seen in Figure 7.16.11 below.<sup>428</sup>

**Figure 7.16.11: No. of Individuals and Firms Listed in the CdR**



Source: Credit Information Sharing Survey.

The central bank has undertaken various initiatives internally to improve the CR. Since 1997, it specifically decided to establish a new credit registry based on an architecture that would allow:

- Integration of the separate existing files (balance sheets, commercial and economic data) as well as the creation of new files (classifies assets, nonperforming loans sold to collections agencies);
- Adoption of a unique ID for all databases (national ID is managed by the National Institute of Statistics);
- Implementation of a new data sharing system;
- Right of borrowers to check their data (both businesses and private individuals);
- Collections agencies to share information; since 2009, data concerning nonperforming loans was sold them by the banks.

The CR's technology is based on three layers architecture: presentation, processing, and data. Future planned improvements include the calculation of statistical data covering all flows (incoming and outgoing) for the total portfolios and for NPLs as well as the calculation of credit transition matrixes.<sup>429</sup> BCT uses data from the CR (classified assets, unpaid checks, credit histories, etc.) to mitigate operational risk. Some banks have developed their own assessment tools like rating or scoring.

A recent law mandates that the Authority of Microfinance Institutions Supervision establish an information sharing tool—a CR for the microfinance industry. This will result in the creation of a second CR, one that is fully dedicated to MFIs. It should be noted that two separate CRs will result in fragmented information; especially in case of cross lending, it will not provide comprehensive and complete information on borrowers' outstanding debts. Therefore, a technical solution should be identified to allow banking and MFIs data to be hosted in a common database, which is shared by both sectors for the benefit of the credit industry and good borrowers.

### PARTICIPATION AND DATA SHARING

CIBCT is a system that integrates eight different sources of information—including unpaid checks, credit data such as demographic information, inquiries by other lenders, balance sheet data, loan account data, and payment performance data for both firms and individuals. However, files are separate and not integrated in a single database. CIBCT only collects and disseminates information from regulated financial institutions.<sup>430</sup>

A circular issued in 2012 also mandates retailers to share data with the CIBCT. This does not include credit card issuers, telecommunications or utility companies; retailers are not yet participating in the sharing scheme with the CR.

### LEGAL FRAMEWORK AND CONSUMER RIGHTS

CIBCT was established more than 50 years ago by Article No. 34 Law No 58-90 of September 19, 1958, which was the founding regulation for the creation and organization of the central bank. The law was then amended in 2000



(Law 2000-37) to enhance the CIBCT's existing credit information infrastructure and was further amended by BCT circular of No. 2008-06<sup>431</sup>.

The Tunisian financial system is supervised by five different authorities:

- The BCT, the supervisor of credit lenders;
- The Financial Markets Council, the authority protecting depositors and public savings in general. The FMC also supervises financial and securities markets and the stock exchange;
- The Insurance General Committee, overseeing insurance and re-insurance companies as well as all activities linked to this sector;
- Data Privacy Authority (established under the Data Privacy Law 2004-63);
- The Supervision Authority for Microfinance, which was created in 2013.

*Law 2000-37, coupled by Circular 73-50/1973 and Circular 2002-10, unmistakably establishes clear legal parameters, duties, and responsibilities of both lenders and BCT in the operation of the CIBCT. Law 2004/63 (Data Protection Law) regulates private credit reporting, including all information flows in Tunisia.*

Circular 2002-12 mandates nonregulated entities to provide monthly information to the CIBCT regarding every credit consumer loan. Relating to loan establishments, Article 49 of Law No. 2001-65 of July 10, 2001 ensures the accuracy of data reported to the CR. A fine of 100 Tunisian dinars per day is imposed on a bank as penalty for reporting inaccurate information to CIBCT.<sup>432</sup>

CBT regulations also mandate retailers to participate to the CR, share data monthly, and make inquiries to the CR as needed. However, technological limits have impeded this participation. The participation of nonregulated entities to the CR is quite infrequent.

The Data Privacy Law (2004/63 of July 27, 2004) is the legislation that allowed CBs to be established and provides regulations for the bureaus.

The decree n° 2012-2128 of September 2012 established the new Microfinance Supervision Authority as well as the obligation of the same to establish a CR for MFIs.

The other regulations that safeguard the credit information sharing are:<sup>433</sup>

- BCT Law No. 58-90;
- Banking Law No. 2001- 65;
- Credit Registry Circular No. 2008-06;
- Circular No. 91-24, concerning bank provisions;
- Circular No. 87-47, for banks, related to the modalities of granting, monitoring, and refinancing credit.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Tunisia, as shown in Table 7.16.2. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- Access to credit in Tunisia remains limited, particularly for the low-income workers and for consumers, while NPLs are on the north trend. Banks generally neglect micro, small, and medium enterprises, which mainly are part of the informal economy. A robust credit reporting system, integrating information from regulated and nonregulated institutions, can support the development of a stronger financial system;
- CIBCT is standard system in terms of its technical operations, but consists of an old design. A framework for effective participation and usage needs to be developed; BCT will have to educate financial institutions about using the system to ensure quality data is provided. This will maximize the benefits of full information sharing;

- There is no specific law governing credit information sharing. However, the central bank has issued circulars for regulating the CR operations, which include the mandated sharing of information, reporting on all loans, and borrower rights.
- A data privacy law is also in place that protects consumers and ensures the confidentiality of information. It also protects borrower rights with regard to access and dispute incorrect data;
- In the banking and nonbanking financial community, there is still a low level of appreciation of the full power of positive information sharing, as well as of its beneficial impact on the credit environment;
- Level of participation is limited to only regulated entities. In practice, no other entities are sharing or making data inquiries from the CR, despite a regulation imposing data sharing on retailers;
- Entities are not mandated to make inquiries to the CR before granting a loan; hence usage of the CR for credit assessment remains limited;
- Assessment tools, such as credit scores, are currently not provided to lenders or borrowers;
- The financial institutions seek to synchronize their operating systems and procedures with the credit registry; automation will eventually reduce operational costs and time.
- Establish, under the guidance of the BCT, a private, complete and unfragmented credit information sharing system, such as a credit bureau. Such a credit reporting system would provide complete credit history for firms—and SMEs in particular—and would supply information to all participants in the system. It would also allow the universal representation of all lending sectors (supervised and non-supervised);
- Improve current guarantee mechanisms. Current collateral mechanisms are a hindrance to the long-term development of SME financing systems. It is necessary to improve collateral mechanisms and reduce the time required to register collateral in land registries;
- Encourage the development and use of value-added services, such as credit scoring, by implementing incentives (or regulatory changes) and by raising banks' awareness;
- The central bank should undertake a common program of awareness and financial education for lenders and borrowers on all aspects of information sharing such as purpose, benefits, usage, rights, and obligations, etc.;
- Emphasize and promote borrowers' rights to view, dispute, and correct their own information;
- Strengthen information sharing collaboration between different supervisory authorities (banking and microfinance) to produce common reports and services;
- Establish an effective communication system between the new microfinance CR and the central bank's CR to avoid fragmented information on borrowers;
- More thoroughly exploit data for the central bank's institutional purposes, which is possible and advisable.

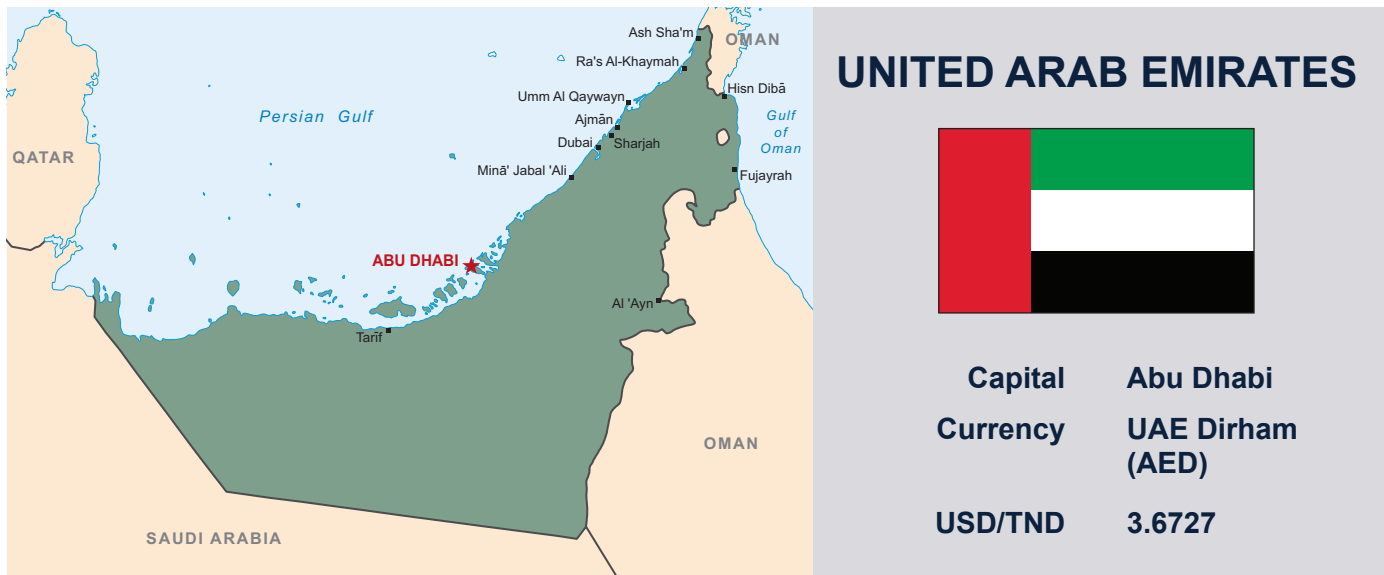
## RECOMMENDATIONS

- Regulators should eradicate all obstacles to the establishment of credit bureaus and proactively support attempts to create a modern, advanced information sharing system;

Table 7.16.2: Arab Credit Reporting Information Sharing Index — Tunisia

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | NO        | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | NO        | NO        |
| Is there a legal framework for privacy and protection of data?               | YES       | YES       |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | YES       | YES       |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | NO        | NO        |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | NO        | NO        |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | NO        | NO        |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | NO        | NO        |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | YES       | YES       |
| Does the principle of reciprocity apply?                                     | NO        | NO        |
| Are credit scores provided to the users?                                     | NO        | NO        |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>11</b> | <b>11</b> |





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41517, March 2015.

## 7.17 UNITED ARAB EMIRATES

### 7.17.1 ECONOMIC OVERVIEW

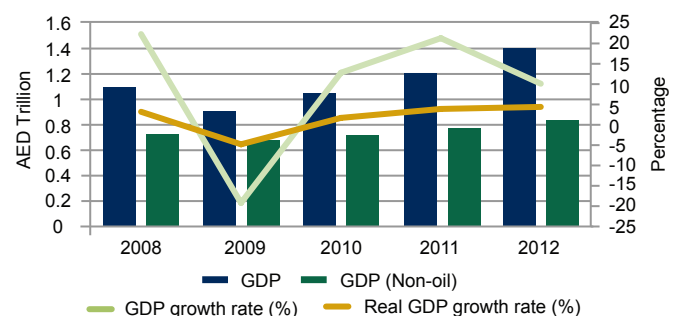
The United Arab Emirates (UAE) is a federation of seven emirates—Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Quwain, Fujairah, and Ras Al Khaimah. The UAE is the Middle East's second largest economy and one of the wealthiest countries in the region on a per capita basis. It is the eighth largest producer of crude oil and the eighteenth largest producer of natural gas in the world. Reserves, as of January 2012, were estimated at 97.8 billion barrels and 6.09 trillion cubic metres (ranking eighth in the world for both commodities).<sup>434</sup>

The economy is dependent mainly on oil and natural gas, which accounted for 40.2 percent<sup>435</sup> of GDP in 2012. But the UAE has been successful in reducing its dependency on oil exports by diversifying the economy; it has created booming business, tourism, and construction sectors. Abu Dhabi plays a dominant role in the economy with over 90 percent of the country's oil and gas reserves. But Dubai has emerged as a regional hub for commercial and financial services, tourism, logistics, and trading.<sup>436</sup>

According to the National Bureau of Statistics, the economy's GDP stood at 1.4 trillion Emirati dirhams in 2012, with a growth rate of 10.1 percent. Due to the global recession, GDP was affected in 2009, but since then has seen an average growth rate of over 14 percent. Figure 7.17.1 shows GDP performance from 2008 to 2012. The economy has been diversified, and the non-oil sector contributes significantly to the GDP.

As of 2012, the population of the country was 9.2 million. Women constitute approximately 30 percent of the total population. The UAE has one of the highest expatriate population in the region, nearly 84 percent.<sup>437</sup>

Figure 7.17.1: GDP Performance



Source: Annual Accounts, National Bureau of Statistics National, 2012. "Economic Insight."

The economy has a high per capita income of \$41,692 as of 2012.<sup>438</sup> This is about 153,134 Emirati dirhams per capita.<sup>439</sup> However, there are significant differences in per capita income among the seven emirates. In 2012, Abu Dhabi's per capita income stood at \$82,000; Dubai at \$30,000; and the five northern emirates at \$12,000.<sup>440</sup>

## 7.17.2 CREDIT MARKET

### OVERVIEW

Since the mid-2000's, the UAE—and Dubai in particular—has established itself as the regional financial center and the Middle East's banking hub. The UAE Central Bank is the regulatory authority of banks and other financial institutions in the country. The financial system comprises 51 commercial banks, six investment and wholesale banks, 25 finance companies, and 23 investment companies and other financial intermediaries.

To encourage economic growth and development, the government of Dubai established the Dubai International Financial Centre (DIFC). It has given the emirate the status of an international financial center because of its state-of-the-art infrastructure, extremely good financial and communications infrastructure, and world-class business environment. It is the financial and business hub connecting MENA with emerging markets as well as the developed markets of the Americas, Asia, and Europe. It has been committed to encouraging economic growth and development, which makes it the destination of choice for financial services firms establishing a presence in the region. It has also established an on-shore finance-free zone, focusing on several sectors of financial activities.<sup>441</sup>

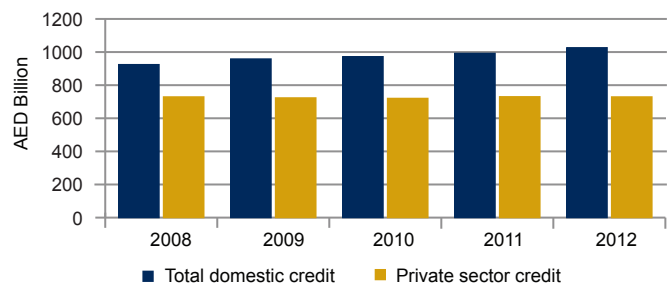
### Commercial Banks

Commercial banks in the UAE are divided into two main categories, locally incorporated banks (or national banks) and branches of foreign banks; the central bank licenses and regulates both. As of 2012, there were 23 national banks operating through a network of 805 branches. The 28 foreign banks operate through a network of 85 branches. Apart from these, there are four wholesale banking companies.<sup>442</sup>

The UAE banking sector has grown 30 percent year on year for the past five years, making it one of the fastest growing economies worldwide.<sup>443</sup> As of December 2012, total assets of the banking sector stood at 1.79 trillion Emirati dirhams, increasing from 1.66 trillion Emirati dirhams in 2011.<sup>444</sup>

Total domestic credit by the banking sector crossed the 1 trillion mark in 2012, with total credit of 1.02 trillion Emirati dirhams. As seen in Figure 7.17.2, bank credit has steadily increased from 2008 to 2012 period. Credit to the private sector—which includes loans, advances and overdrafts, real estate mortgage loans and commercial bills—constituted an average of 74.6 percent of the total credit during that period. However, the volume of private sector credit remained the same at 729 billion Emirati dirhams as compared to 2008; it decreased from 730 billion Emirati dirhams in 2011.

**Figure 7.17.2: Bank Credit**



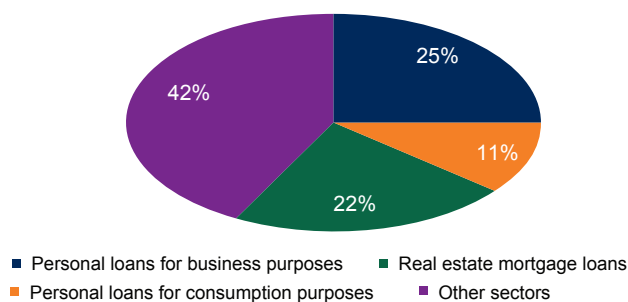
Source: Monthly Statistical Bulletin: Banking & Monetary Statistics, Central Bank of UAE, June 2013.

Personal loans for business purposes totalled 179.65 billion Emirati dirhams in 2012, decreasing from 182.95 billion Emirati dirhams in 2011. Real estate mortgage loans also decreased from 161.53 billion Emirati dirhams in 2011 to 159.82 billion Emirati dirhams in 2012. Personal loans for consumption purposes increased from 69.14 billion Emirati dirhams in 2011 to 81.19 billion Emirati dirhams in 2012. The three sectors constitute 25 percent, 22 percent, and 11 percent of private sector credit respectively. The distribution of private sector credit is shown in Figure 7.17.3.<sup>445</sup>

### Islamic Banks

The Islamic banking sector has a bright future in the UAE and has been playing a major role in financing infrastructure projects, residential properties, and corporate expansion.<sup>446</sup>

Figure 7.17.3: Distribution of Private Sector Credit – 2012



Source: Monthly Statistical Bulletin: Banking & Monetary Statistics, Central Bank of UAE, June 2013.

The Islamic banking window is becoming an important part of the UAE's conventional banking landscape, with lenders expanding their existing offerings, thereby contributing to an increased share of this sector.<sup>447</sup> In addition to Islamic banks, many conventional banks and finance companies have also opened Islamic banking windows offering Shariah-compliant products.<sup>448</sup>

### Finance Companies

There are 25 finance companies in the UAE, operating through a network of 22 branches. These include companies that conduct their business according to conventional banking methods as well as Shariah principles. They extend advances and/or personal loans for various consumption purposes. These companies also provide services for financing trade and business, opening credit, and issuing guarantees in favor of customers.<sup>449</sup>

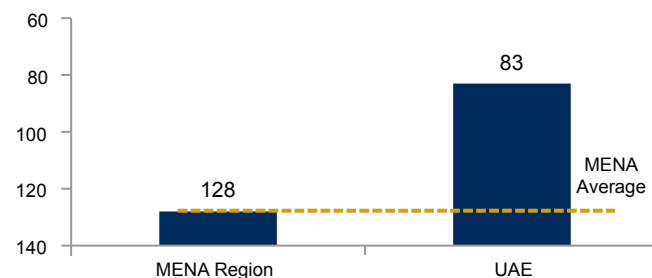
### Nonperforming Loans

As of 2012, the UAE has one of the highest nonperforming loans levels in the region. It has increased from 2.9 percent in 2008 to 9.4 percent in 2012.<sup>450</sup> According to World Bank data, the ratio of banks' NPLs to total gross loans has been on the rise, increasing from 2.3 percent in 2008 to 8.4 percent in 2012. This indicates the need for more effective risk controls and assessment.

## CREDIT PENETRATION AND ACCESS

The World Bank's 2013 Doing Business Report ranks UAE 83 of 185 countries in 2013. As seen in Figure 7.17.4, it is much higher than the regional rank of 128 and indicates the country's relatively strong and established credit system.

Figure 7.17.4: Getting Credit Rank – 2013



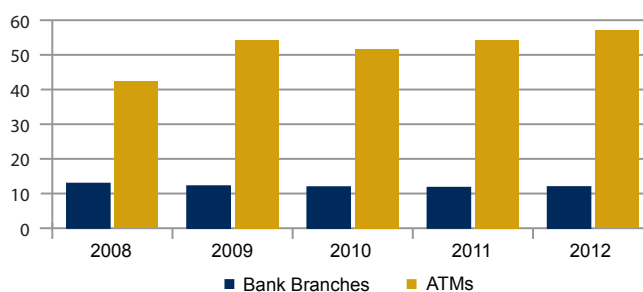
Source: Doing Business Report, The World Bank, 2013.

As seen in the previous section, private sector credit has not increased over the past few years. Domestic credit to the private sector increased through the year 2009 to 79.2 percent of GDP, after which it declined to 59.1 percent in 2012.

Both national and foreign commercial banks operated through a total network of 890 branches in 2012. This translates into an outreach of 11.94 commercial bank branches per 100,000 adults, as shown in Figure 7.17.5.<sup>451</sup> Dubai has the largest network of branches (336 national bank branches and 47 foreign bank branches), followed by Sharjah (122 national bank branches and 15 foreign bank branches).<sup>452</sup>

The ATM network is strong, with a total of 4,492 ATMs for commercial banks, as of 2012.<sup>453</sup> This translates into an outreach of 57.01 ATMs per 100,000 adults, which has increased from 42.39 in 2008.

Figure 7.17.5: Commercial Bank Network per 100,000 Adults



Source: Financial Access Survey, IMF, 2012.

Table 7.17.1 shows the financial access indicators in terms of formal financial institutions' accounts and loans. The percentage of adults with an account was 60 percent in 2011; 47 percent of women have an account with a formal financial institution. The percentage of adults who took a loan in 2011 was only 11 percent. This percentage, for women, corresponds to 8 percent.

**Table 7.17.1: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>60</b> |
| Men                           | 69        |
| Women                         | 47        |
| <b>Loans in the past year</b> | <b>11</b> |
| Men                           | 13        |
| Women                         | 8         |

Source: Financial Inclusion Data, The World Bank, accessed September 16, 2014. <http://datatopics.worldbank.org/financialinclusion/country/united-arab-emirates>

## 7.17.2 STATUS OF CREDIT REPORTING

### OVERVIEW

The credit reporting system implemented in the UAE is an example of good financial infrastructure coordination. It is one of the six MENA countries with an operational CB. The CB, established in 2006, is restricted to Dubai. Given this limitation and the need for an effective national credit reporting system, the federal government has established a new credit registry, Al Etihad Credit Bureau (AECB), also referred to as the Federal Credit Bureau, which, though a public credit registry, will have CB functionality and will provide credit information services across the seven Emirates.<sup>454</sup>

The old CR was established by the central bank of the UAE in 1982 to:

- Support the central bank's supervisory responsibilities;
- Provide lenders with credit data to assess large business firms (loans of greater than 250,000 Emirati dirhams).

The CR provides lenders with information on the total debt undertaken by an individual or firm. However, the minimum threshold for inclusion of loans in the registry

restricts coverage. The coverage, in terms of the percentage of adults, decreased from 9 percent in 2012 to 5.9 percent in 2013.

**The Emirates Credit Information Company (Emcredit)** is the first and only CB, established by the government of Dubai in 2006. It is a modern credit bureau with state-of-the-art infrastructure, located in the DIFC zone. Given its location, the bureau supplies credit information services mainly to the credit community of the DIFC and Dubai.<sup>455</sup>

The bureau provides a range of services, such as factual records of a company's or individual's credit history and an enterprise information report, as well as solutions to clients for portfolio and debt management. Emcredit is also connected with the Dubai police, providing comprehensive and up-to-date records on defaulted checks.<sup>456</sup>

Although Emcredit is the official provider of credit information services in Dubai, its location has proven to be a challenge, limiting the expansion and outreach to other Emirates.<sup>457</sup> **Al Etihad Credit Bureau (AECB)** was established by the federal government as a public central repository for credit information in the UAE. The bureau will offer credit information services to all lending institutions in the country; in the first phase, it will collect consumer credit information, including individuals' credit applications, payment behaviors and debt records as well as information from lenders, telecommunications companies, and other financial services providers.

AECB is expected to provide full information on borrowers' credit histories, which will enable lenders to effectively analyze risk profiles and make informed lending decisions. This will help to reduce and control the high nonperforming loan levels.

The second phase will see the launch of a commercial bureau, as well as the bounced check reporting. Phase three will include the introduction of value-added services for lenders, and individual credit scores based on historical data will make up phase four.<sup>458</sup>

Based on the ACRI team's April 2011 assessment mission, risk-management techniques adopted by the majority of the banks, particularly for retail credit, are still quite traditional. Credit underwriting is generally marked by subjective



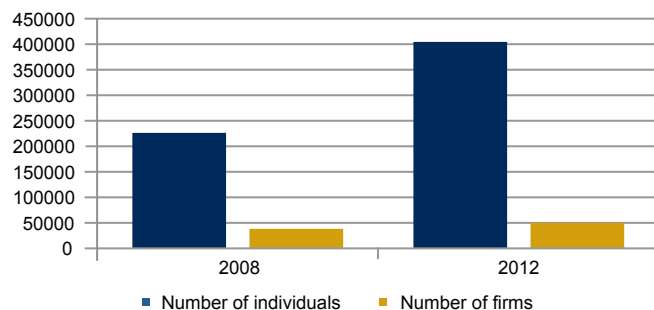
manual decisions, low decentralization, significant use of paper/supporting documents, lack of fully automated decisions, conventional risk-underwriting techniques, excessive reliance on collateral, and lack of detailed and reliable information.<sup>459</sup>

## PARTICIPATION AND DATA SHARING

Within Dubai, Emcredit shares with the lending community complete credit information and nonfragmented payment histories on consumers for underwriting purposes.<sup>460</sup> The old CR collects positive as well as negative information on loans above 250,000 Emirati dirhams from public and private banks, development banks, and microfinance institutions. These institutions report data to the CR monthly. Data is collected on individuals and firms and includes basic demographic data, loan account information, and payment performance data—such as the current payments and arrears.

The number of individuals listed in the CR, as of 2012, was 404,529, increasing from 226,277 in 2008, as shown in Figure 7.17.6. The number of firms listed increased from 38,302 in 2008 to 50,062 in 2012.<sup>461</sup>

**Figure 7.17.6: PCR Database**



Source: Credit Information Sharing Survey

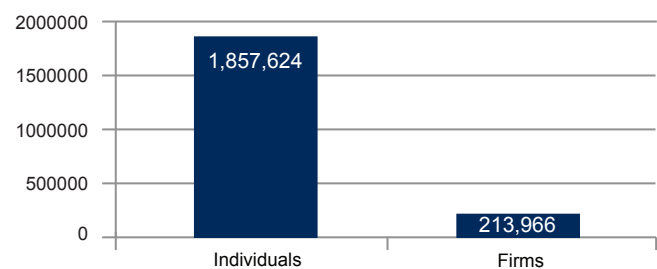
Although lending institutions are mandated to share data with the CR, there is no such mandate for making inquiries on a borrower. Lending institutions made a total of 1,036,987 inquiries to the CR in 2012.<sup>462</sup>

Decree No. 8 of 2010, issued by the prime minister of the UAE, mandates that Dubai credit institutions provide Emcredit with credit information records, to render its credit information services.<sup>463</sup> The bureau collects

information on loans (positive and negative) without any minimum threshold. As mentioned previously, the bureau also collects information on check bounces from the Dubai police.

As per the 2013 Doing Business Report, a total of 213,966 firms and 1,857,624 individuals were listed in the CB database, as shown in Figure 7.17.7.

**Figure 7.17.7: PCB Database**



Source: Doing Business Report, The World Bank, 2013.

As mentioned in the previous section, Al Etihad Credit Bureau will collect all credit information from not only lenders but also telecommunications companies and other financial services providers across the country.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

The first framework for sharing credit information was established in the Union Law No. 10 of 1980, concerning the central bank, monetary system, and Organization of Banking. Through Article 105 of the law, commercial banks are required to provide the central bank with statements, information, statistical data, and other documents deemed necessary for the performance of the bank's tasks. Central bank has authority to set rules specifically for the compilation of bank credit statistics on a periodic basis.

The 1982 Risk Bureau Regulation is directed at the commercial banks, investment banks, and financial institutions operating in the UAE. The regulation requires these institutions submit details of customers whose credit is greater than 500,000 Emirati dirhams. The purpose was to ascertain such borrowers' risk. The regulation also laid down the need for confidentiality of such information.

In May 2010, Decree No. 8 was issued, establishing Emcredit as the official provider for credit information services in Dubai. This decree mandated that, when processing credit information, the bureau must comply with criteria and instructions stipulated by the Department of Economic Development along with guidelines issued by the central bank.<sup>464</sup>

The current legal framework for credit reporting in the UAE has been laid down by the Federal Law No. 6 of 2010. This law gave way to the establishment of Al Etihad Credit Bureau. It is a modern, innovative law based on international best practice, one of the first of its kind worldwide. Despite being quite lean, the law includes the most important basic concepts of advanced credit reporting with an ample and flexible gamut of functions and activities.<sup>465</sup>

Article 4 of the law establishes the central bank as the overseeing authority for credit reporting and credit information sharing activities.

*Article 4: “The request, gathering, preservation, analysis, categorization, use, circulation, and protection of credit information and the preparation of credit records and credit information reports and the organization of such operations shall be subject to restrictions set by the Central Bank, and such subject to the provisions of the present Law and the implementing regulation thereof.”*

Article 7 clearly establishes how the credit reporting system can be used. The necessity for confidentiality is also clearly spelled out in Article 8. The law strikes a good balance between the use and confidentiality of data.<sup>466</sup>

*Article 7 “The credit information, credit record and credit information report, gathered and kept, may neither be used nor be circulated unless for purposes agreed upon or for the purposes for which such information were provided as per the provisions of the present Law and the implementing regulation thereof.”*

*Article 8 “Credit information, credit record and credit information report shall be deemed confidential by nature, and shall be used for the activities of the company only, and among parties set forth in the present Law and as per the provisions hereof. They may not be disclosed or divulged in a direct or indirect manner unless by virtue of a written approval of the person, the heirs, legal representative or proxy thereof, or upon the request of pertinent judicial authorities, and within the extent required for the investigations and actions examined thereby.”*

Article 14 includes all types of lenders in the new reporting system; by the implementing regulation to provide credit information, it mandates that commercial and investment banks, financial institutions, and other entities be added to the system. It also establishes violations, penalties, and sanctions, including prison for deliberate mishandling and unlawful use of information, through Articles 17–20.

Although consumer rights, in terms of mechanisms and procedures, have not been clearly defined in the new law, the basic framework has been established. Article 6 states that written approval from the consumer is required prior to inquiry. However, consent is not required to share data with a credit bureau. The same applies to data sharing with the CR.

*Article 6: “(1) Prior to the issuance of credit information report, the prior written approval of the person must be obtained.*

*(2) The company may contact the person directly to receive said approval whenever it receives the request to issue a credit information report that is not accompanied by said approval.*

*(3) The company may request that it be provided with credit information to prepare and develop a credit database without the need to obtain the approval of the person thereon.”*

Consumers have access to their own data and the right to dispute incorrect data. For the CR, access is free, and there are no restrictions on the number of general inquiries.<sup>467</sup>

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for the UAE, as shown in Table 7.17.2. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

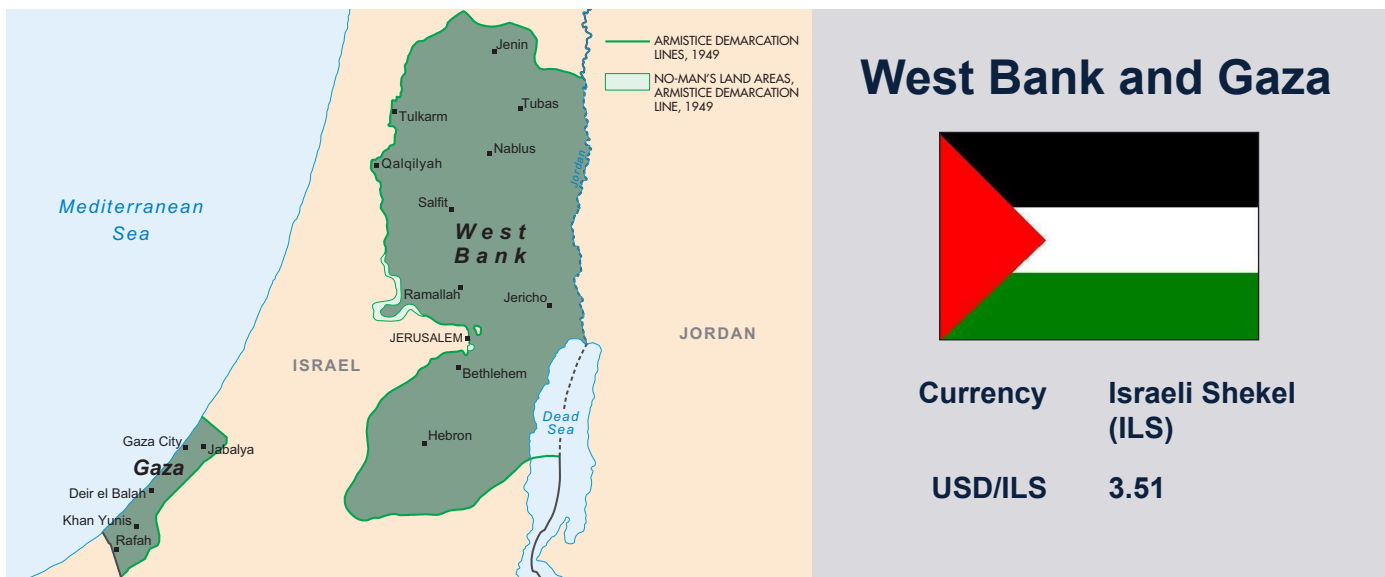
- The sharing and use of complete credit information is not a new concept in UAE. Emcredit is a modern credit bureau, however its operations are limited to Dubai only;
- The establishment of the new CR, which will provide credit information services across the seven Emirates, will lead to necessary updates given the location limits of Emcredit;<sup>468</sup>
- The Federal Law No. 6 of 2010 specifically addresses credit information and establishes a sound legal framework on par with international best practice and applicable to all seven Emirates. It is a modern law and provides for rules and regulations to effectively support bureau operations;
- As of 2012, participation was limited to traditional data-sharing entities; Emcredit was limited to the Dubai. However, the AECB is expected to expand the scope of participation to wide range of financial service providers across all Emirates;
- The depth of data sharing was low: only loans above the threshold of 250,000 Emirati dirhams were reported to the CR. There was no mandate to make inquiries to the CR before granting a credit facility and risk-assessment tools, such as credit scores, were not provided;
- The AECB started operations in 2014, and the registry has a fairly well designed strategy to increase participation; it will roll out new products and services in phases. The new federal law and the AECB together address most of the old credit reporting system's limitations.

## RECOMMENDATIONS

- Participation of all lending entities is necessary for a credit reporting system to be successful. The federal bureau should take necessary steps in this direction to ensure participation and sharing of complete credit information;
- The establishment of the AECB (which will perform functions of a CR and CB) should not be a hindrance to the establishment of new CBs or create a monopoly that would not be healthy for the improvement of the credit reporting industry;
- The government and the central bank should take the necessary steps to create a favorable credit-reporting environment by permitting the establishment of private bureaus as well;
- Particularly the AECB shall not cannibalize the existing Emcredit systems, and infrastructure, which are an important experience and asset for the country;
- AECB should undertake a common program of awareness and financial education for lenders as well as borrowers on all aspects of information sharing such as purpose, benefits, usage, rights, and obligations etc.

Table 7.17.2: Arab Credit Reporting Information Sharing Index — United Arab Emirates

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | YES       | YES       |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | YES       | YES       |
| Is there a legal framework for privacy and protection of data?               | YES       | YES       |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | YES       | YES       |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | NO        | NO        |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | NO        | NO        |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | YES       | YES       |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | NO        | NO        |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | NO        | NO        |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | NO        | NO        |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>14</b> | <b>14</b> |



Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.  
 Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41518, March 2015.

## 7.18 West Bank and Gaza

### 7.18.1 ECONOMIC OVERVIEW

Due to occupation, production capacity and access to natural resources in the West Bank and Gaza has been significantly reduced. Services are by far the most important sector of the economy (nearly 83 percent of GDP). The West Bank and Gaza remains heavily dependent on foreign aid to support the government’s budget and fund infrastructure development.<sup>469</sup>

The one area where progress has been made is the banking sector. A number of new banks have been established and are operating according to international standards. This has made it much easier for Palestinians to borrow money and found small businesses. Nevertheless, the economy is almost completely dependent on foreign aid. This is likely to continue for a long time, as it will take years to build up the economy.<sup>470</sup>

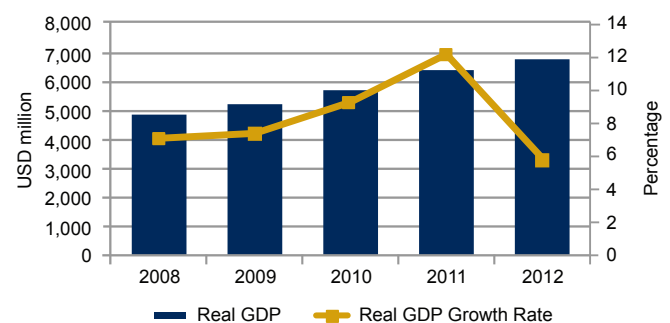
Despite these limitations, the economy witnessed an average real GDP growth rate of over 8 percent from 2008 to 2012. However, the rate declined to 5.9 percent in 2012, after reaching a high of 12.2 percent in 2011. Growth rates continued to decline in the early part of 2013 as well.

Figure 7.18.1 shows GDP performance from 2008 to 2012. In 2012, real GDP was \$6.79 billion.

In October 2013, the West Bank and Gaza’s inflation rate was 1.86 percent. Inflation was at an all-time high of 15.08 percent in July 2008.<sup>471</sup> Overall, yearly inflation rates have decreased, from a high rate of 9.9 percent in 2008 to 2.8 percent in 2012. This trend can be seen in Figure 7.18.2.

In 2013, the population was 4.4 million. In 2012, the population was estimated to be 4.35 million—2.21 million males and 2.14 million females. Males comprise 50.8

Figure 7.18.1: GDP Performance



Source: Annual Report, Palestine Monetary Authority, 2012.

Figure 7.18.2: Inflation



Source: www.tradingeconomics.com

percent of the population compared to 49.2 percent for females. Nearly half of the total population of the West Bank and Gaza are refugees (1.9 million).<sup>472</sup>

## 7.18.2 CREDIT MARKET

### OVERVIEW

Despite the generally unstable political and economic situation in the West Bank and Gaza, Palestinians have established a relatively stable and growing financial sector. The Palestinian Authority (PA) has established two main institutions to regulate and supervise the financial sector:

- The Palestine Monetary Authority (PMA), supervising the banking sector, the payments system, microfinance institutions, and money changers;
- The Palestine Capital Market Authority (PCMA), overseeing the nonbanking sector, including the securities market, financial leasing, mortgage finance companies, pension funds, and insurance companies.<sup>473</sup>

As in most developing economies, the credit market in the West Bank and Gaza is far from complete or perfect. The lending-to-deposits ratio is at a relatively low level; most small and medium enterprises (constituting the vast majority of establishments there) are not connected to the existing formal credit channels. More needs to be done to enhance the credit market and, thus, empower economic growth and development opportunities.<sup>474</sup>

The credit market primarily comprises the banking sector, which is the dominant player, the MFIs and mortgage and leasing companies.

### Banking<sup>475</sup>

At the end of 2012, the banking sector is composed of 17 banks: seven were locally-incorporated banks, and 10 were foreign banks. Foreign banks comprise eight Jordanian banks, an Egyptian bank, and a British bank. As seen in Table 7.18.1, the total number of banks has decreased, from 21 in 2008, on account of mergers and restructuring within the sector.

Table 7.18.1: Banking Network

| Items                                       | 2008       | 2009       | 2010       | 2011       | 2012       |
|---|------------|------------|------------|------------|------------|
| Number of Banks                             |            |            |            |            |            |
| Local Banks                                 | 10         | 10         | 8          | 8          | 7          |
| Foreign Banks                               | 11         | 10         | 10         | 10         | 10         |
| Jordanian Banks                             | 8          | 8          | 8          | 8          | 8          |
| Egyptian Banks                              | 2          | 2          | 1          | 1          | 1          |
| British Banks                               | 1          | 1          | 1          | 1          | 1          |
| <b>Total</b>                                | <b>21</b>  | <b>20</b>  | <b>18</b>  | <b>18</b>  | <b>17</b>  |
| Number of Branches & Representative Offices |            |            |            |            |            |
| Local Banks                                 | 89         | 104        | 110        | 118        | 121        |
| Foreign Banks                               | 101        | 105        | 102        | 108        | 111        |
| Jordanian Banks                             | 93         | 98         | 95         | 101        | 104        |
| Egyptian Banks                              | 7          | 6          | 6          | 6          | 6          |
| British Banks                               | 1          | 1          | 1          | 1          | 1          |
| <b>Total</b>                                | <b>190</b> | <b>209</b> | <b>212</b> | <b>226</b> | <b>232</b> |

Source: Annual Report, PMA, 2012.

The banking sector has evolved into a vital player and value-adding sector in the Palestinian economy. Through financial intermediation, banks contribute directly and indirectly to GDP, while promoting economic growth. The PMA ensures the management of banks according to international best practice, including a full commitment to the principles of banking governance, addressing weak banks, strengthening banks' capital, developing financial infrastructure, and maintaining customer confidence in the banking system. This is reflected positively in the financial indicators of the West Bank and Gaza's banking system. For over a decade, the size of bank operations has been growing significantly. The banking sector's total assets increased 31 percent, from \$7.64 billion in 2008 to \$10.04 billion in 2012.

In line with this trend, the sector witnessed remarkable developments in 2012. Despite the considerably risky environment; PMA undertook measures for promoting growth and effective performance within the banking system.

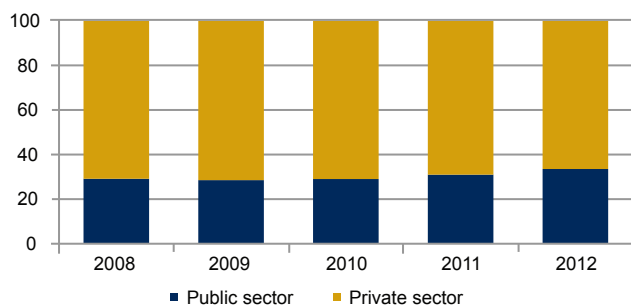
The overall credit portfolio of banks has also increased over the last few years, from \$1.82 billion in 2008 to \$4.19 billion in 2012. On average, private sector credit accounts for nearly 70 percent of total credit, from 2008 to 2012; but its share of the total has slightly declined, as seen in Figure 7.18.3. The share of credit facilities to the public sector increased by 2.5 percent from 2011, at the expense of the private sector. As of 2012, nearly 90 percent of total loans to the public and private sector is directed toward the West Bank, as shown in Figure 7.18.4. Gaza accounts for only 10 percent of total credit facilities.

As of 2012, credit facilities to the private sector were valued at \$2.79 billion, increasing from \$1.29 billion in 2008. Personal loans constitute the majority of private sector, with a share of 58 percent, as of 2012. This represents a decrease from 2008, when personal loans accounted for a

71 percent share. The high share of personal loans indicates that PMA and banks have taken significant measures to ensure access to banking and credit for individuals. The value of credit facilities has increased from \$930.2 million in 2008 to \$1.62 billion in 2012. These include consumer loans, educational loans, car loans, credit card lending, mortgage loans, and other loans.

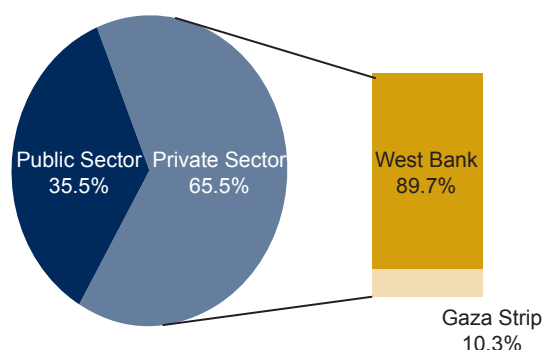
On the other hand, credit facilities to the corporate sector have increased from \$365.3 million in 2008 to \$1.16 billion in 2012. Its share of the total has increased from 28 percent in 2008 to 41 percent in 2012. Figure 7.18.5 shows the bifurcation of private sector credit between personal and corporate sectors.

**Figure 7.18.3: Distribution of Total Credit Facilities**



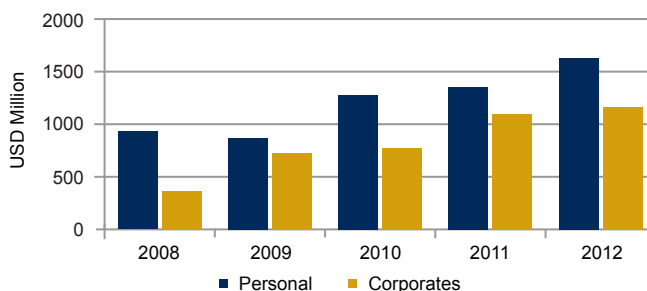
Source: Annual Report, PMA, 2012.

**Figure 7.18.4: Credit Facilities by Region**



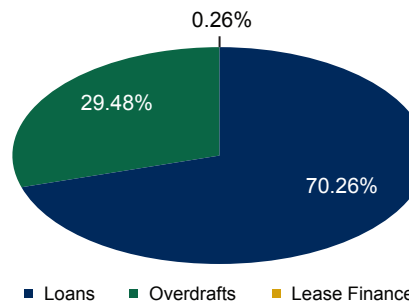
Source: Annual Report, PMA, 2012.

**Figure 7.18.5: Private Sector Credit**



Banks grant credit facilities by way of loans, overdrafts, and lease financing. Loans form the largest portion of total credit, with a value of \$2.95 billion, as of 2012. Figure 7.18.6 shows the bifurcation of credit facilities in 2012. Overdrafts account for over 29 percent, with a total of \$1.23 billion. Rarely offered by banks, lease financing is at a nascent stage in the West Bank and Gaza; it accounted for only 0.26 percent, with a value of \$10.9 million.

**Figure 7.18.6: Types of Credit Facilities**



Source: Annual Report, PMA, 2012.

## Specialized Lending Institutions and Microfinance<sup>476</sup>

Specialized lending institutions mostly operate as nonprofit organizations, with a focus on economic development and the alleviation of poverty and unemployment. Basic financial services are provided to a broad segment of society; easy credit terms and guarantees address limited capabilities of target segments.

Since 2011, these institutions have been under the purview of the PMA, the regulatory and supervisory authority for the sector. Previously, there was no specific legal context for the sector; each institution operated within a different legal framework. In order to maintain financial stability and effective performance, the PMA issued guidelines and instructions, in 2012, to regulate this sector. The PMA laid ground for licensing mechanisms and permits.

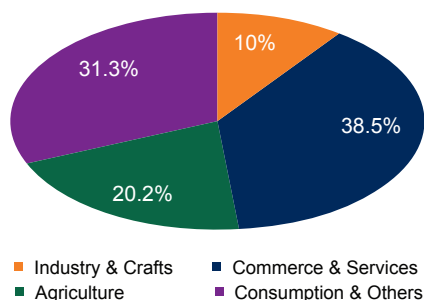
As of 2012, there were eight specialized lending institutions that were members of the Palestinian Network for Small and Microfinance, Sharakeh. Their net credit portfolio was \$84.2 million, distributed among various sectors, including agriculture, commerce and services, consumption and others, and industry and crafts, as shown in Figure 7.18.7.

The credit portfolio has increased by 78 percent, from a portfolio value of \$47.2 million in 2008 to \$75.7 million in 2011. The number of loans, however, have decreased from 43,409 in 2011 to 32,562 in 2012.

### Mortgage and Leasing companies<sup>477</sup>

These sectors are newly introduced to the West Bank and Gaza. Proper organizational and legislative frameworks

**Figure 7.18.7: Sectoral Distribution of Credit by Specialized Lending Institutions**



Source: Annual Report, PMA, 2012.

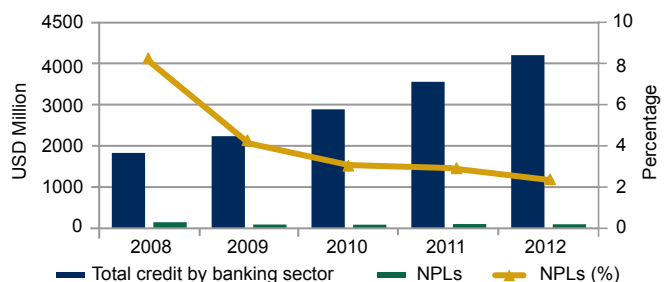
have yet to be established. The PCMA is in process of developing a framework for these sectors in line with international standards.

As of 2012, there were eight leasing companies operating in the area of car leasing. There were two mortgage finance companies—Palestine Mortgage and Housing Corporation and its subsidiary Palestine Housing Finance Corporation. The total assets of the two sectors reached \$37.5 million, achieving a growth rate of 1.1 percent, as compared to 2011.

## Nonperforming Loans

The ratio of nonperforming loans in the credit market has decreased from a high of 14.5 percent in 2008 to 8 percent in 2012.<sup>478</sup> For the banking sector specifically, as per the PMA 2012 Annual Report, NPLs have decreased from 8 percent of total credit facilities in 2008 to 2.3 percent in 2012. Figure 7.18.8 shows the value of NPLs of the banking sector, with respect to the total credit facilities from 2008 to 2012.

**Figure 7.18.8: NPLs in the Banking Sector**



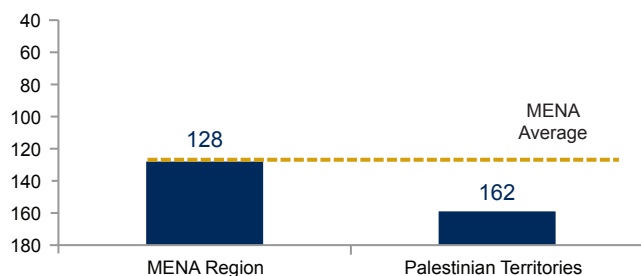
Source: Annual Report, PMA, 2012.

## CREDIT PENETRATION AND ACCESS

The World Bank's *Doing Business Report* ranked the West Bank and Gaza 162 out of 185 countries in 2013. As seen in Figure 7.18.9; it is lower than the regional average of 128. (*DB14, ranked 165*)

The PMA has been undertaking various measures to facilitate better access to banking services. Through its 2007 branching policy, the authority has licensed several new branches and offices with an aim of improving penetration and outreach to all cities and rural areas. The total number of bank branches and representative offices has increased from 190 in 2008 to 232 in 2012, as seen in Table 7.18.1. In rural areas, it has increased from 17 branches in 2007 to 39 branches in 2012.

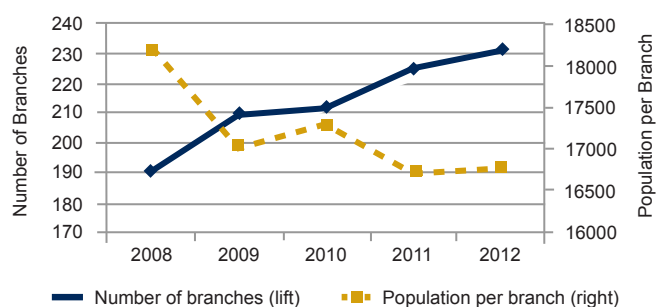


**Figure 7.18.9: Getting Credit Rank, 2013**

Source: *Doing Business Report*, The World Bank, 2013.

This initiative for improving access to banking has resulted in a decrease in the ratio of persons per branch, from over 18,000 in 2008 to 16,800 in 2012, as shown in Figure 7.18.10. This will result in better and more efficient banking services to clients. The PMA is undertaking measures to advance financial inclusion and banking awareness, enabling the poor and limited-income families to benefit from financial services.

Table 7.18.2 shows the financial access indicators in terms of formal financial institutions' accounts and loans. In 2011, 19 percent of adults held an account; 10 percent of women had an account with a formal financial institution. However, that year, the percentage of adults who took a loan was

**Figure 7.18.10: Banking Sector Outreach**

Source: Annual Report, PMA, 2012.

**Table 7.18.2: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |           |
|-------------------------------|-----------|
| <b>Accounts</b>               | <b>19</b> |
| Men                           | 29        |
| Women                         | 10        |
| <b>Loans in the past year</b> | <b>4</b>  |
| Men                           | 6         |
| Women                         | 2         |

Source: Financial Inclusion Data, The World Bank, accessed September 15, 2014. <http://datatopics.worldbank.org/financialinclusion/topic/gender#divMap>.

only 6 percent. This percentage for women corresponds to a mere 2 percent. However, as per the ACRI's 2013 Credit Information Sharing Survey, the number of women holding credit facilities has increased significantly, from 16,532 in 2008 to 60,899 in 2012.

## 7.18.3 STATUS OF CREDIT REPORTING

### OVERVIEW

The credit reporting system in the West Bank and Gaza consists of the Palestine Monetary Authority Credit Registry (PMACR), established in 2008. It is the first credit information sharing system in the territories. The PMACR is operated and controlled by the PMA, with assistance from the Middle East Regional Technical Assistance Centre (METAC).

PMACR is a very effective CR. This is a testament to PMA's hard work, strong commitment, and responsiveness to the technical assistance provided since its founding.

The work on the PMACR was completed in three phases. The first phase involved the accumulation of comprehensive and detailed information on borrowers, to empower users of the system to make informed credit decisions. The second phase consisted of automating the registry to create a more efficient and responsive registry. The third phase witnessed two important achievements:

- Microfinance institutions' credit information was entered in the PMACR database, and MFIs gained access to the registry to inquire about credit applicants;
- An internal credit-scoring model was developed.

METAC started providing technical assistance to the PMA in 2006, and the new credit reporting system was launched in 2007. Online services began in 2008, and the microfinance institutions were connected to the system a year later. In 2010, a bounced check system and credit scoring system were launched.<sup>479</sup> METAC's assistance to the PMA in the area of banking supervision is part of comprehensive IMF support to restructure the PMA. METAC has helped PMA to develop a credit registry system operating in line with international best practice; it is considered among the best credit registries in the region.<sup>480</sup>

The efficiency of lenders' underwriting processes has improved with the introduction of automated decision-making processes, fairer credit decisions, and quicker turnaround. The system is quite advanced, with 25 regulated entities (17 banks and eight microfinance institutions); it provides the CR with all credit information on all borrowers. In addition, the bounced check system is now automated; this information is included in credit reports.<sup>481</sup>

The total number of loans registered in the CR increased by over 131 percent, from 141,024 in 2008 to 326,004 in 2012. The volume of credit granted by lending institutions, as registered in the CR, has also increased from \$1.85 billion in 2008 to \$4.90 billion in 2012.<sup>482</sup>

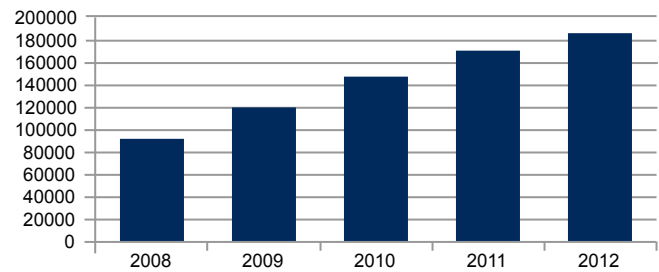
## PARTICIPATION AND DATA SHARING

Private banks and the microfinance institutions (that are regulated by the central bank) share data and access the PMACR. All these regulated financial institutions are required by law to share data as well as inquire with the CR before granting any credit facility.

Data on individuals and firms is shared. The number of individuals and firms listed in the CR is shown in Figures 7.18.11 and 7.18.12 respectively. As of December 2012, 186,718 individuals and 3,462 firms were listed. Full-file information on these borrowers is shared, which includes demographic details, information on the credit facilities availed, a list of lenders' inquiry in the past three years, and payment performance data (including a monthly payment history of the last three years). Negative and positive information, without any threshold limit, is shared. All information is shared on a monthly basis and on a daily basis for new credit facilities. All such information is distributed on inquiry by lenders or borrowers, through credit reports which describe each credit facility individually and provide full-file information on the borrower.

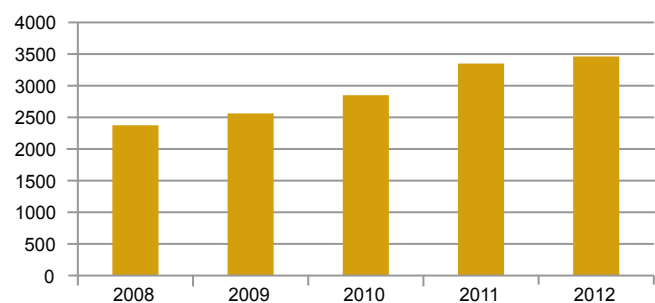
Since it started operations, the PMACR is increasingly being used for inquiries by lenders in the underwriting process. The credit-scoring model has proved to be an effective and important tool for risk assessment, predicting borrower's probability of default. The number of credit reports transmitted to lenders has increased considerably, from 69,693 in 2008 to 308,951 in 2012.

**Figure 7.18.11: Number of Individuals in the PCR**



Source: Credit Information Sharing Survey, ACRI, January 2013.

**Figure 7.18.12: Number of Firms in the PCR**



Source: Credit Information Sharing Survey, ACRI, January 2013.

Total number of inquiries received by PMACR has also jumped from 80,423 in 2008 to 415,107 in 2012, indicating that borrowers are also increasingly obtaining their own credit reports. Although free reports can be obtained once a year, individuals have to pay \$1.30 and firms \$2.70 for subsequent reports.<sup>483</sup>

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

There has been no specific law or regulation issued for the regulation and supervision of credit information in the West Bank and Gaza. The PMACR is under the direct supervision of the PMA, but there is no legal framework for the establishment of private credit information companies in the country.

The Banking Law of 2010 enables the PMA to undertake activities with regard to the collection of sharing and usage of credit information. However, this matter is only a reference in the law; detailed guidelines and provisions have not been explicitly mentioned.

Article 43, *Other requirements “Organize and use credit information for database managed by the Office of credit information”*

Article 49 *“All banks must submit reports and financial data to the PMA, and other information of its activities in regular bases according to instructions set by the PMA”*

However, the PMA law grants the monetary authority and its board the power to establish rules and regulations with respect to sharing of information among banks.

Article 41 *“The Board shall develop regulations and instructions governing the secrecy of bank accounts and the exchange by banks of information and data relative to the indebtedness of their clients and the facilities to be granted to them as determined by the Monetary Authority and the Board, in accordance with the provisions of the Banking Law”*

Confidentiality, with respect to data required to be shared, has been addressed in this law. Article 32 requires the PMA to establish rules and guidelines on bank account confidentiality, exchange information regarding indebtedness of bank clients and lending agencies, and assure the confidentiality and availability of information to manage credit and risk. All stakeholders in banks and lending institutions are required to protect the confidentiality of client information. Such information can be revealed to a third party only with written approval from the client, or based on a judgement by a Palestinian court.

Consumer rights have been fairly defined according to international standards. Borrower’s written consent is required not only to share data, but also for inquiring data from the PMACR. Borrowers can access their own credit reports either from banks or the PMACR. They have the right to dispute erroneous data in their reports by submitting a request to the authority, which will take the necessary action to correct the data and inform the borrower accordingly. Lenders also provide borrowers with a credit report in the case of an adverse decision, such as the rejection of a loan application.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for the West Bank and Gaza, as shown in Table 7.18.3. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSIONS

- The establishment of the PMA CR in 2008 is the first initiative undertaken for credit information sharing in the West Bank and Gaza. PMA’s formation of a credit registry, according to international standards, is noteworthy.
- No CB or any other private information sharing system are operating;
- No specific law or regulation addresses credit sharing; the PMACR is directly under the supervision of the PMA and rules and guidelines have been issued to banks. However, there is a data privacy law in place, which protects the privacy and confidentiality of data;
- Consumer rights are well defined;
- Information on both consumers and firms and full-file information (negative and positive), without any threshold limits, is shared with the PMACR.
- Currently, only regulated entities and the microfinance institutions are sharing and inquiring data. However, the PMACR is working on including utilities payment data (telephone, electricity, water) as well as lease-financing companies and court judgments information. This will lead to a more comprehensive database;
- A credit scoring system, built by an international service provider, has been developed for internal and lenders’ use. PMACR has been the first CR in the region to adopt such a system and remains one of the few Central Bank to have adopted such methodology.
- The model provides a statistical score based on a borrower’s credit details and payment performance history, and the reason for the score; it also calculates the probability of default. This model forms the basis for an interesting case study for other countries in the region, further detailed in Chapter 10.3;

- The participation and use of the PMACR by lenders and borrowers has been increasing over the years. This has improved underwriting and risk assessment of borrowers, indicated by a decrease in nonperforming assets over the years.

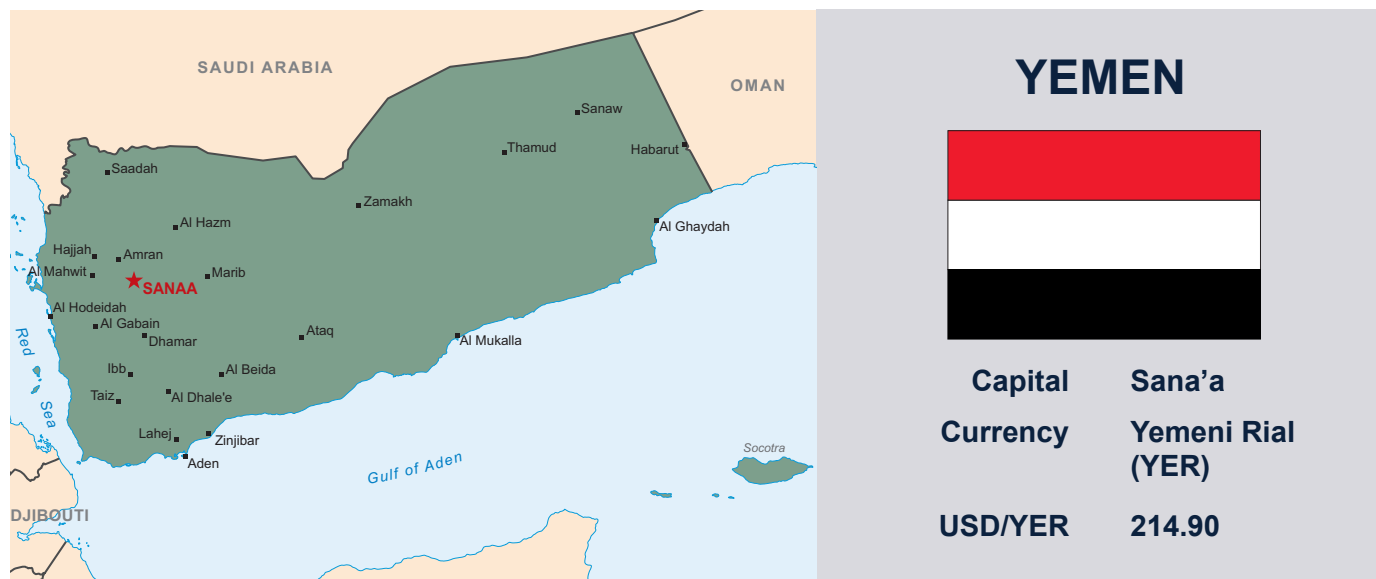
## RECOMMENDATIONS

- Mandate sharing of all information on borrowers, and collect consumer consent on inquiries. Efforts should be undertaken to create awareness on the need and benefits of sharing data with the PMACR;
- In absence of a CB, efforts should be made by regulators to include as many lending sectors as possible, if necessary through a new legal framework, in order to give the most reliable and complete borrower risk profile.

Table 7.18.3: Arab Credit Reporting Information Sharing Index — West Bank and Gaza

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | NO        | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | NO        | NO        |
| Is there a legal framework for privacy and protection of data?               | YES       | YES       |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | YES       | YES       |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | YES       | YES       |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | NO        | NO        |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | YES       | YES       |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | YES       | YES       |
| Are both positive and negative information reported?                         | YES       | YES       |
| Are all loans reported without any limits?                                   | YES       | YES       |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | YES       | YES       |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>16</b> | <b>16</b> |





Note: "Current and Historical Rate Tables," Xe, exchange rate as of January 31, 2014. <http://www.xe.com/currencytables/?from=IQD&date=2014-01-31>.

Source: This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries. IBRD 41519, March 2015.

## 7.19 YEMEN

### 7.19.1 ECONOMIC OVERVIEW

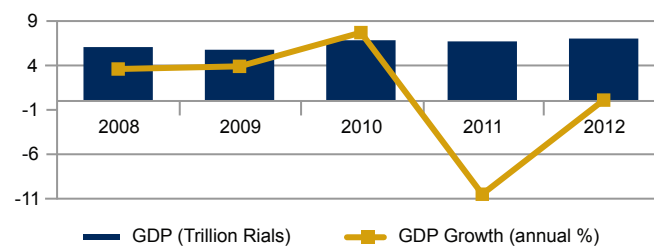
Yemen is a low income country and is highly dependent on its declining oil resources for revenue. Petroleum accounts for roughly 25 percent of GDP and 70 percent of government revenue.

Yemen has tried to counter the effects of its declining oil resources by diversifying its economy through an economic reform program initiated in 2006, designed to bolster non-oil sectors of the economy along with foreign investment. In October 2009, Yemen exported liquefied natural gas for the first time as part of its diversification efforts. In January 2010, the international community established the Friends of Yemen group, which aims to support Yemen's efforts toward economic and political reform. In 2012, the group pledged over \$7 billion in assistance to Yemen. Availability of basic services—including electricity, water, and fuel—has improved since the transition, but progress toward achieving a more sustainable economic stability has been slow and uneven. Yemen continues to face difficult long-

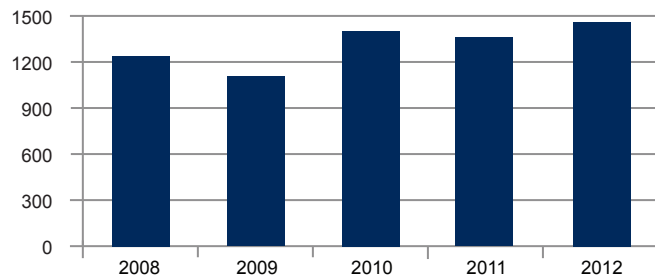
term challenges, including declining water resources, high unemployment, and a high rate of population growth.<sup>484</sup>

The regional crisis that began in early 2011 caused GDP growth rate to plunge to -10.5 percent, as shown in Figure 7.19.1.<sup>485</sup> In 2012, GDP stood at 7.03 trillion Yemeni rials as compared to 6.71 trillion Yemeni rials in 2011.<sup>486</sup> The annual growth rate was a marginal 0.1 percent. In 2012, GDP per capita was \$1,494, increasing from \$1,361 in 2011, as shown in Figure 7.19.2. In 2012, the population of the country stood at 25.06 million. Women constitute nearly half the population.<sup>487</sup> Figure 7.19.3 shows the population trend from 2008 to 2012.

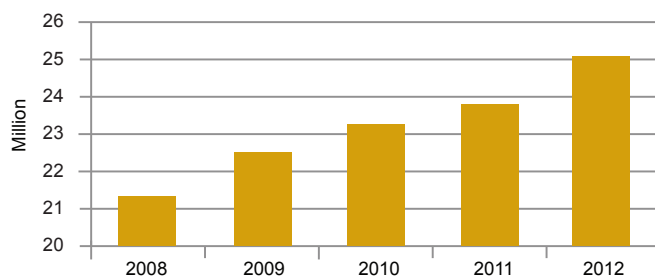
Figure 7.19.1: GDP Performance



Source: Monetary and Banking Developments, Central Bank of Yemen, September 2013. [data.worldbank.org](http://data.worldbank.org)

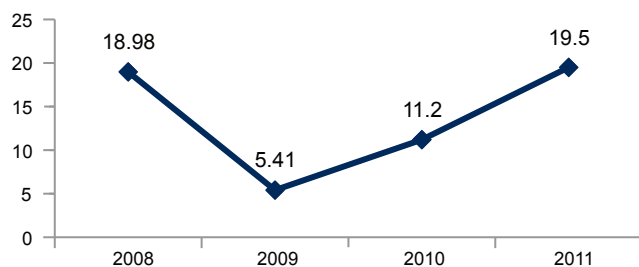
**Figure 7.19.2: GDP per Capita (USD)**

Source: Monetary and Banking Developments, Central Bank of Yemen, September 2013. data.worldbank.org

**Figure 7.19.3: Population**

Source: Central Bank of Yemen Annual Reports data.worldbank.org

After a decline in 2009, consumer prices have shown an increasing trend, with CPI increasing from 11.2 percent in 2010 to 19.5 percent in 2011. Figure 7.19.4 shows the inflation trend from 2008 from 2011.

**Figure 7.19.4: Inflation**

Source: Central Bank of Yemen Annual Reports.

## 7.19.2 CREDIT MARKET

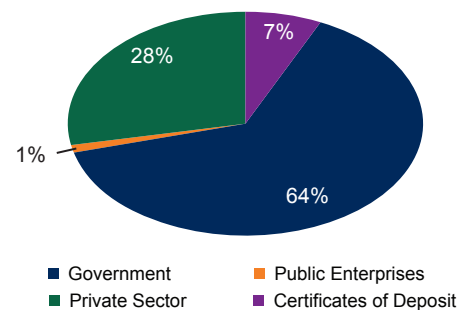
### OVERVIEW

The financial system of Yemen consists of banks, microfinance institutions, and other nonbanking financial institutions. There are a total of 18 banks, including 11 commercial banks (national and foreign), four Islamic

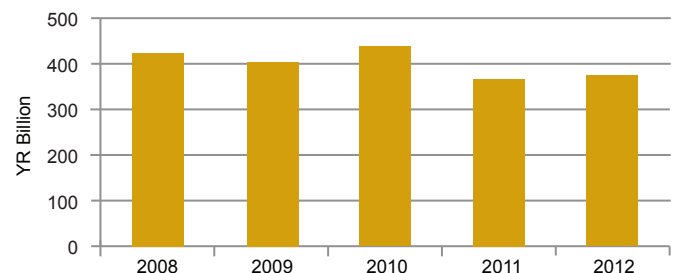
banks, and three specialized banks catering to the micro, small and medium enterprises. The Central Bank of Yemen (CBY) regulates these institutions as well as exchange companies, insurance corporations, and pension funds.<sup>488</sup> Apart from regulated institutions, there are a number of microfinance institutions and funds prevalent in Yemen.

### Banking

The banking system dominates the credit market. Credit granted by banks includes loans and advances to the private sector, public enterprises, the government, and certificates of deposit. Total loans and advances granted in 2012 was 1.33 trillion Yemeni rials, of which the government constitutes the largest portion (64 percent), followed by the private sector (28 percent), as shown in Figure 7.19.5. Loans and advances granted to the private sector was 373.76 billion Yemeni rials in 2012, increasing marginally from 366 billion Yemeni rials in 2011. As shown in Figure 7.19.6, there has been a decline of 11.8 percent in credit to the private sector, from 423.81 billion Yemeni rials in 2008. In 2010, that number peaked to 438 billion Yemeni rials and has decreased significantly since.<sup>489</sup>

**Figure 7.19.5: Share of Total Credit by Banks – 2012**

Source: Finance Banking Statistical Yearbook, Central Statistics Organisation, 2012.

**Figure 7.19.6: Loans and Advances to Private Sector**

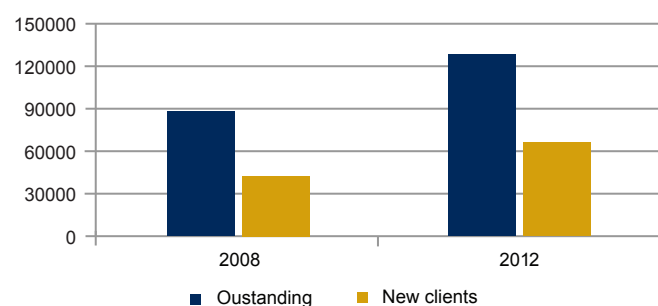
Source: Finance Banking Statistical Yearbook, Central Statistics Organisation, 2012.



Of the total loans and advances to the private sector, advances constitute over 68 percent with a value of 256.32 billion Yemeni rials as of 2012. This includes advances to individuals (86.1 billion Yemeni rials), local companies (145.61 billion Yemeni rials), organizations and associations (16.59 billion Yemeni rials), and foreign companies (8.02 billion Yemeni rials).

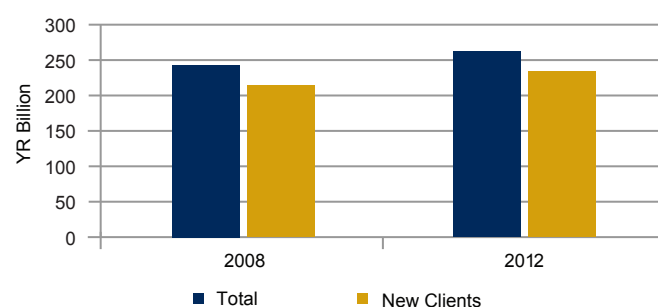
As of December 2012, the total number of outstanding loans was 128,257, a value of 376.66 billion Yemeni rials; in December 2008 there were 87,894 loans, a value of 418.41 billion Yemeni rials.<sup>490</sup> The cause may be commercial banks' increased focus on small-ticket loans.<sup>491</sup> The number of outstanding loans to individuals increased 47 percent, from 82,878 in December 2008 to 121,941 in December 2012.<sup>492</sup> The number of loans and the value of outstanding loans in the system are shown in Figures 7.19.7 and 7.19.8.

**Figure 7.19.7: Number of Loans**



Source: Credit Information Sharing Survey.

**Figure 7.19.8: Value of Outstanding Loans**



Source: Credit Information Sharing Survey.

In 2012, 66,019 loans were granted to new clients, an outstanding value of 233.78 billion Yemeni rials; in 2008, there were 42,449 loans, an outstanding value of 213.91

billion Yemeni rials. The number of women holding credit facilities has shown an increase of nearly four-fold from 2008 to 2012 period, increasing from 5,844 to 21,833.<sup>493</sup>

In 2012, outstanding loans from commercial banks accounted for 5.11 percent of GDP, a decrease from 7.96 percent in 2008.<sup>494</sup>

## Microfinance

Apart from the regulated microfinance banks in the country, a number of developmental funds and programs—starting with the Social Fund for Development in 1997—have been set up to cater to the financial needs of the microfinance sector.

With a view to promote, develop, and provide technical assistance to the microfinance sector, the Yemen Microfinance Network (YMN) was set up in 2009. Its members constitute 90 percent of the microfinance industry. The three microfinance banks, three foundations, one company, and five programs are members of this network.<sup>495</sup>

As of April 2013, statistics from the YMN show that 563,420 loans were disbursed by these institutions; their total outstanding loan portfolio was 7.02 billion Yemeni rials.

## Collateral Environment

In Yemen, collateral is a general prerequisite for the disbursement of loans in the banking system. Unusually, it is also part of microcredit institutions' policies, although not all microcredit loans are backed up by collateral. It is common for banks to request an amount of collateral up to 130 percent of the loan value from potential borrowers.<sup>496</sup> Table 7.19.1 gives the number and value of loans with and without collateral, in 2008 and 2012.

**Table 7.19.1: Loans with and without Collateral**

| Type of loan       | Year | Number of loans | Value of loans (YR billion) |
|--------------------|------|-----------------|-----------------------------|
| With collateral    | 2008 | 50,372          | NA                          |
|                    | 2012 | 83,519          | 252.26                      |
| Without collateral | 2008 | 11,375          | NA                          |
|                    | 2012 | 11,830          | 124.4                       |

Source: Credit Information Sharing Survey.

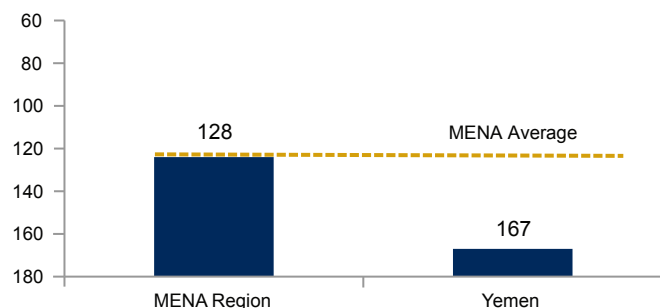
## Nonperforming Loans

Nonperforming loan levels in Yemen are extremely high—16 percent in 2008, with 14.1 percent of loans defaulting for over 90 days. This increased to 27 percent in 2012, with 25.5 percent loans with a default of over 90 days. These increasing NPL levels could be a factor in the country's extremely high lending rates, with the average being 25 percent in 2012. In 2008, they were comparatively lower at 17 percent.

## CREDIT PENETRATION AND ACCESS

The World Bank's Doing Business Report by the World Bank ranked the Yemen 167 out of 185 countries in 2013. As seen in Figure 7.19.9, it is much lower than the regional average. (DB14, ranked 170)

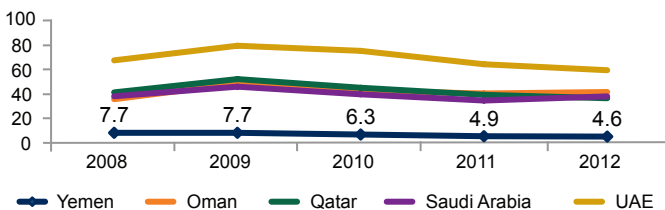
**Figure 7.19.9: Getting Credit Rank, 2013**



Source: *Doing Business Report*, The World Bank, 2013.

Domestic credit to private sector has been decreasing as shown in Figure 7.19.10. Credit decreased from 7.7 percent of GDP in 2008 to 4.6 percent in 2012. The figure compares this trend in Yemen with selected MENA countries. As seen in the figure, the level of credit penetration in Yemen is extremely low as compared to the other countries. In 2012, Oman and the UAE, for instance, compare at 41.2 percent and 59.1 percent respectively.

**Figure 7.19.10: Domestic Credit to Private Sector (% of GDP)**

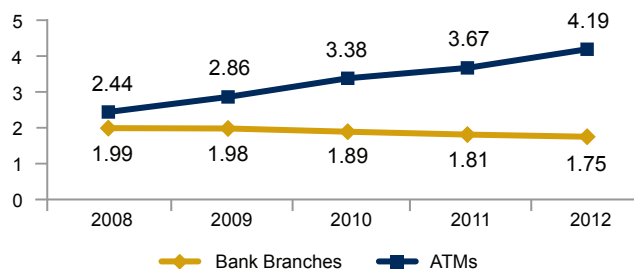


Source: data.worldbank.org

The size of the credit market is still very small and traditional. The use of banking services is limited. Access to credit is difficult due to impediments, such as a generalized requirement for collateral as well as the lack of advanced risk-management tools and credit information.<sup>497</sup>

Despite the increase in number of branches, Yemen remains under-branched. The low outreach of the commercial bank network has resulted in limited access and penetration of banking services. As per the IMF Financial Access Survey, the number of commercial bank branches per 100,000 adults in 2012 was only 1.75. This indicator has shown a declining trend since 2008, with the rate remaining at less than two bank branches per 100,000, as shown in Figure 8.19.11.

**Figure 7.19.11: Commercial Bank Network per 100,000 Adults**



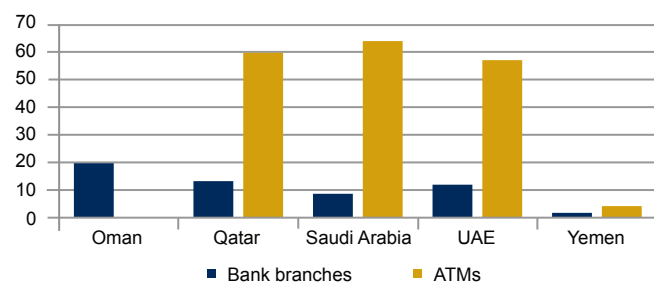
Source: Financial Access Survey, IMF, 2012.  
\*Data on ATM network for Oman is not available.

The ATM network is also comparatively small, but has been increasing during this period with a reach of 4.19 ATMs per 100,000 adults in 2012. By 2011, a total of 502 ATMs were installed in the country.

Figure 7.19.12 shows a comparative chart of the commercial bank network in some of the neighboring countries. Access to the banking network in Yemen is low, and initiatives need to be taken to increase the outreach of banking facilities in the country.

Table 7.19.2 shows the financial access indicators in terms of formal financial institutions' accounts and loans. Only 4 percent adults held an account in 2011. Only 1 percent of women held an account with a formal financial institution. The percentage of adults who took a loan in 2011 was a low 1 percent. This percentage for women is less than 1 percent.

**Figure 7.19.12: Commercial Bank Network per 100,000 Adults for Some MENA Countries – 2012**



Source: Financial Access Survey, IMF, 2012.  
\*Data on ATM network for Oman is not available.

**Table 7.19.2: Penetration in Formal Financial Institutions (% of Adults) — 2011**

|                               |          |
|-------------------------------|----------|
| <b>Accounts</b>               | <b>4</b> |
| Men                           | 6        |
| Women                         | 1        |
| <b>Loans in the past year</b> | <b>1</b> |
| Men                           | 1        |
| Women                         | 0.7      |

Source: Financial Inclusion Data, The World Bank, Accessed September 16, 2104.  
<http://datatopics.worldbank.org/financialinclusion/topic/gender#divMap>

As of April 2013, the microfinance institutions under the YMN have reached out to 82,171 active borrowers in the country, as compared to 76,469 in 2011. This has resulted in over 3.6 million direct and indirect beneficiaries. In 2011, 69 percent of YMN borrowers were women.<sup>498</sup>

## STATUS OF CREDIT REPORTING<sup>499</sup>

### OVERVIEW

The current credit reporting environment in the country only comprises the CR established by the CBY in 1975. It was a paper based credit registry. The first system revision occurred in 1998, which allowed for automated functionalities. In April 2009, a thorough revamp of the system was undertaken, with the adoption of a new off-the-shelf software from the Central Bank of the United Arab Emirates. The current registry is a paperless, automated, and web-based system allowing for online updates and inquiries.

The 2009 revamp sought to achieve two objectives:

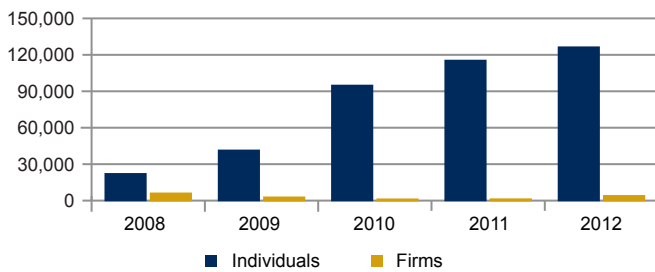
- Providing CBY with appropriate and effective supervisory data and tools to monitor the expected growth and evolution of credit portfolios in the country;
- Initially support the lending industry in the effort to supply more credit, in a more responsible manner, to the Yemeni consumers.

The ACRI team's 2009 assessment of the credit reporting system detected improvements, notably:

- The elimination of the historical 500,000 Yemeni rials (or \$2,470) threshold;
- The automation of the sharing and inquiring processes, now fully online via the Internet;
- The improved system for collection and storage of data on consumer credit information and of other small-ticket loans (notably to small business).

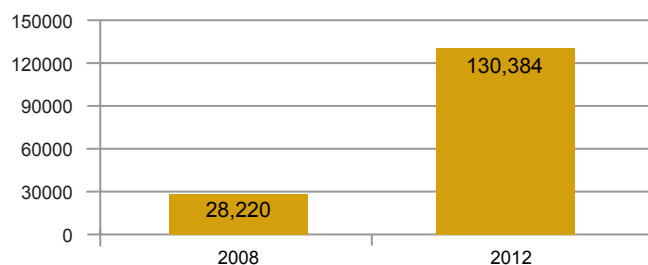
Typically, lenders use traditional risk-management tools when granting credit facilities. These include financial analysis of the client, guarantees, client reputation, and periodic follow up. However, data shows that the credit information system (the CR) is increasingly being used as an assessment tool by regulated institutions. The CBY has issued circulars to strengthen the credit reporting system. Moreover, the revamping of the CR in 2009—especially the installation of an online system, coupled with the removal of thresholds—has launched the country's first experiment in full sharing of positive credit information.

These changes have led to a significant increase in the data shared and information available within the CR. Although this does not directly indicate that access to finance has improved, it shows that banks are increasingly sharing data with the CR and using it as part of their lending processes. The number of individuals listed in the CR increased over five-fold, from 22,125 individuals in 2008 to 126,375 in 2012, as shown in Figure 7.19.13. However, the number of firms listed in the CR has decreased, from 6,095 in 2008 to 4,009 in 2012.

**Figure 7.19.13: Individuals and Firms Listed in the PCR**

Source: Credit Information Sharing Survey.

With the increase in the number of individuals, the total number of loans registered in the CR also increased significantly—362.03 percent—from 28,220 in 2008 to 130,384 in 2012, as shown in Figure 7.19.14.

**Figure 7.19.14: Total Loans Listed in the PCR**

Source: Credit Information Sharing Survey.

Despite the improvements, the CR framework remains quite basic. There are several issues that must be addressed, such as the absence of automated logic controls and validations, lack of historical records, limited data sharing and data quality, partial data returned to lenders, and absence of detailed monthly payment histories.

### Other databases

The ACRI team's 2009 assessment noted two recent initiatives undertaken for credit information sharing by commercial banks and microfinance institutions.

The Yemen Bankers Association had initiated a project for establishing a CB limited to the banking sector. The CBY authorized the bureau, only to later put it on hold. The bank first wanted to determine whether the revamped CR system will fulfill the informational needs of the lending industry.

The second initiative was a limited and basic experiment of negative information sharing started by the microfinance institutions, under the Social Fund for Development, collecting information sourced from associated institutions. The data supplied, however, is essentially composed by demographic information (name, ID, address); the data returned consists of a black list containing only the names of defaulters. Neither positive information nor any type of loan data is disseminated. Though some cross-lending has already been detected, the limited technology available to microfinance institutions makes this mechanism insufficient, particularly in the offing of a significant development of microcredit. Still at an experimental stage, the sharing scheme is quite elementary and banks do not participate.

Apart from the CR and the two vertical private information sharing initiatives, there is no established institution for comprehensive, full-file credit information sharing and payment histories (for either positive or negative data). The CR itself is a basic system that shows only aggregate information. In order to improve access to credit and the supervisory abilities of CBY, it is imperative to further upgrade the system that will enable efficient and complete information sharing, including detailed information on borrowers' credit facilities and payment histories.

In this regard, CBY is currently undertaking a project to improve the country's financial infrastructure in collaboration with the World Bank Group, namely through the Financial Infrastructure Development Project (FIDP). This includes the implementation of a state-of-the-art credit registry and the revamping of the credit reporting legal framework.

## PARTICIPATION AND DATA SHARING

Presently, regulated institutions (such as banks, including the three microfinance banks) are mandated to share information with the CR. With the removal of thresholds, negative and positive data on loans is being shared. These institutions are required to submit data daily.

Basic information is collected about individuals and firms with respect to demographics, loan account data (type of loan and collateral), and payment performance data; almost

all of this data is distributed to the banks upon inquiry. With respect to payment performance data, only information on the current payments (on time) with balances and the arrears are shared and distributed. Monthly payment histories are not reported.

However, historical data is not stored in the CR database. Records are deleted once the loan account has been updated or if the account is closed.

As per the circular issued in 2000, regulated banks were mandated to make inquiries to the CR before granting a credit facility. As mentioned in previous sections, participation has increased. The number of inquiries made by the banks increased from 23,599 in 2008 to 112,977 in 2012.

## LEGAL FRAMEWORK AND CONSUMER RIGHTS

The legal framework for credit reporting in Yemen has been defined by the Banking Law No. 38 of 1998, the Law of the Central Bank of Yemen (No. 14 of 2000), and regulations passed by the CBY by way of circulars on credit reporting. The current legislation is sufficiently clear about the duties, responsibilities, and roles of the CBY as well as banks in the establishment of a credit registry. The circulars have laid down the basic and rational norms to facilitate the deployment of an effective credit reporting system. However, there is no specific law on credit reporting and information sharing.

Article 28 of the Banking Law gives clear authority to the CBY to request credit information from supervised entities (banks) that must contribute data to the CR periodically. The law also mandates that recognized banks and financial institutions submit monthly reports to the central bank. Furthermore the central bank is mandated to compile information in the form of aggregated data and disseminate the compiled information to supervised financial institutions.

The Law of the Central Bank of Yemen (No. 14 of 2000) reinforces the contents of the banking law with respect to banks' sharing of information with the CBY, information to be published, and violations and penalties.

The CBY has issued circulars and reminders (including revisions) to supervised entities instructing banks to do the following:

- Provide data on borrowers (as mentioned previously, the threshold limit and sharing of only negative data was removed);
- Consult the CR before granting a loan (mandatory inquiry);
- Request consumer consent;
- Provide access to customers to see their credit reports;
- Introduction of the new system in 2009;
- Provide daily updates on customers' positions.

As mentioned above, the regulations provide for borrowers' access to their own data in the CR. There is also a procedure in place for borrowers to dispute data and ask for it to be corrected. Also, borrowers' access is free of cost.

The banking law and CBY circulars clearly establish consumer rights. Banks are required to include a consent clause, which needs to be signed by the customer to allow the bank to share data with the CR. However, banks do not require consumer consent to make inquiries to the CR.

## ARAB CREDIT REPORTING INFORMATION SHARING INDEX

Based on the parameters and subparameters discussed in Chapter 6, the ACRISI score has been determined for Yemen, as given below. The index provides a snapshot and quantification of the credit information sharing system in the country.

## CONCLUSION

- The CBY has established a basic framework in terms of regulations, infrastructure, systems, and participation. The CBY's efforts are visible in the improvement of the ACRISI score. However, continuous efforts need to be taken for further improvements to the basic framework in order to advance to a sound credit information sharing system;

- Although there is no full-fledged credit information law, the central bank has issued specific circulars to the regulated entities; these have established basic consumer rights for access to reports without a cost and disputing incorrect data. However, the absence of a full-fledged law can prove to be a hindrance to the further development of the system;
- Information on both individuals and firms is shared with the CR; currently, only regulated entities are participating in the system;
- Sharing of positive data and the removal of a minimum threshold limit for reporting loans has contributed to the increase in the ACRISI score. Thus, in 2012, Yemen meets all the criteria for depth of data sharing in the ACRISI;
- Although there is a significant increase in data sharing, as per the 2013 Doing Business Report, a mere 0.9 percent of adults are covered in the CR. It is necessary to ensure that all banks are sharing full information on all borrowers and loans;
- Also, adequate systems with higher capacities and performance need to be in place to improve coverage and also store historical data.

## RECOMMENDATIONS

- The CR needs to be modernized through developing a new system that would include data from the banking and microfinance sector as well as functionalities and services that would benefit the country's market;
- For a sound and complete credit reporting system, the central bank should establish a regulatory and operational framework for CBs. A specific credit information law should address all aspects of credit reporting, including the licensing process, general operations, regulation, data sharing, and oversight of the private credit reporting sector;
- A credit bureau could be established in the longer term as the market develops and is ready for a private credit reporting model;
- The central bank should undertake awareness and education drives for lenders and borrowers on all aspects of information sharing such as purpose, benefits, usage, rights, and obligations, etc.

Table 7.19.3: Arab Credit Reporting Information Sharing Index — Yemen

| ARAB CREDIT REPORTING INFORMATION SHARING INDEX                              |           |           |
|--|-----------|-----------|
| Parameters   | 2008      | 2012      |
| Does the country have a CR?  | YES       | YES       |
| Does the country have a CB?  | NO        | NO        |
| <b>Legal environment in the country for credit information systems (CIS)</b> |           |           |
| Is there a specific law or regulation governing the credit reporting system? | NO        | NO        |
| Is there a legal framework for privacy and protection of data?               | NO        | NO        |
| Is information on consumers included?  | YES       | YES       |
| Is information on firms included?  | YES       | YES       |
| <b>Consumer rights environment in the country</b>                            |           |           |
| Are consumers allowed to access their reports?                               | YES       | YES       |
| Do consumers have access to at least one free report in a year?              | YES       | YES       |
| Are consumers allowed to raise disputes?                                     | YES       | YES       |
| Do entities collect consumer consent before making inquiries?                | NO        | NO        |
| <b>Entities in the country participating in CIS</b>                          |           |           |
| Are regulated entities participating?  | YES       | YES       |
| Are nonregulated entities participating?                                     | NO        | NO        |
| Are utility entities participating?  | NO        | NO        |
| Are MFIs participating?  | NO        | NO        |
| <b>Depth of data sharing and reporting in the country</b>                    |           |           |
| Are entities mandated to share data?   | YES       | YES       |
| Are entities mandated to make inquiries?                                     | YES       | YES       |
| Are both positive and negative information reported?                         | NO        | YES       |
| Are all loans reported without any limits?                                   | NO        | YES       |
| Does the principle of reciprocity apply?                                     | YES       | YES       |
| Are credit scores provided to the users?                                     | NO        | NO        |
| Is cross border data sharing allowed?  | NO        | NO        |
| <b>ACRISI score</b>  | <b>10</b> | <b>12</b> |





# CONCLUSIONS, LESSONS LEARNED, AND RECOMMENDATIONS

# 8



## 8.1 CONCLUSIONS

ACRI, a regional initiative, has clearly established that a holistic approach goes a long way in collectively addressing the needs, problems, and issues in MENA countries, thereby providing new solutions. This guide captures the collective experience and current status of the region with regard to credit information experience; it shows unique legal and regulatory characteristics along with the different stages of the industry in each country. Lessons and possible ways forward are summarized in this chapter, with recommendations for the future of the credit information industry in the region.

Chapter 6 provides details of work done and successes achieved as a result of these initiatives. This guide also highlights the challenges faced in the region and tasks that need to be achieved. The end of this chapter lists recommendations and a possible road map for the next two to four years. Regular monitoring and periodic assessment of the efficiency of the initiative will enhance the prospects for a more successful ACRI initiative.

Before analyzing lessons learned and considering recommendations for the way forward, table 8.1 provides interesting insights into the region.

**Table 8.1: Summary of *Doing Business*, Getting Credit Rank, and ACRISI Scores**

| Country            | <i>Doing Business</i> Getting Credit Rank |      | ACRISI Score |      |
|--------------------|---|------|--------------|------|
|                    | 2013                                      | 2008 | 2008         | 2012 |
| Algeria            | 129                                       | 11   | 11           | 12   |
| Bahrain            | 129                                       | 18   | 18           | 19   |
| Egypt              | 83  | 15   | 15           | 18   |
| Iraq               | 176                                       | 10   | 10           | 10   |
| Jordan             | 167                                       | 10   | 10           | 10   |
| Kuwait             | 104                                       | 16   | 16           | 16   |
| Lebanon            | 104                                       | 10   | 10           | 11   |
| Libya              | 182                                       | 0    | 0            | 10   |
| Mauritania         | 167                                       | 6    | 6            | 6    |
| Morocco            | 104                                       | 6    | 6            | 16   |
| Oman               | 83  | 10   | 10           | 14   |
| Qatar              | 104                                       | N/A  | N/A          | 15   |
| Saudi Arabia       | 53  | 18   | 18           | 19   |
| Sudan              | 167                                       | 0    | 0            | 15   |
| Syria              | 176                                       | N/A  | N/A          | N/A  |
| Tunisia            | 104                                       | 11   | 11           | 11   |
| UAE                | 83  | 14   | 14           | 14   |
| West Bank and Gaza | 159                                       | 16   | 16           | 16   |
| Yemen              | 167                                       | 10   | 10           | 12   |

Note 1: Data for Qatar (2008) and for Syria (2008 and 2012) were not available. Hence, ACRISI scores could not be developed for the two countries during those years.

Key findings, based on Table 8.1:

- From a total of 185 countries that have been ranked by the World Bank's 2013 *Doing Business Report*, the average rank for MENA countries is 128. This is a fairly low rank. Comparatively, getting credit is more difficult in MENA than most other regions.
- The average ACRISI score for 2008 is 10.65 (out of 21). Putting aside Libya and Sudan (neither of which had a CR or a CB in 2008), the average score rises marginally to 12.07.
- The average ACRISI score for 2012 is 13.55, an increase from 2008. However, there is much room for improvement. Some fundamental changes and upgrades are underway so that the region will have a more complete credit reporting system. For example, in some countries data is being shared, yet the extent of coverage or quality of data raises a cause for concern (such as Iraq, Mauritania, and Yemen). In several countries, credit reports are being provided, yet the extent of information and completeness of data leaves much to be desired (e.g. Tunisia, Algeria, Syria); the absence of tools to efficiently evaluate credit decisions, such as payment performance histories, is especially of concern.
- The average scores for 2008 and 2012 are above the 50 percent mark. It is important to note that the ACRISI score is an objective analysis of the situation in each country. To a significant extent, the score represents the

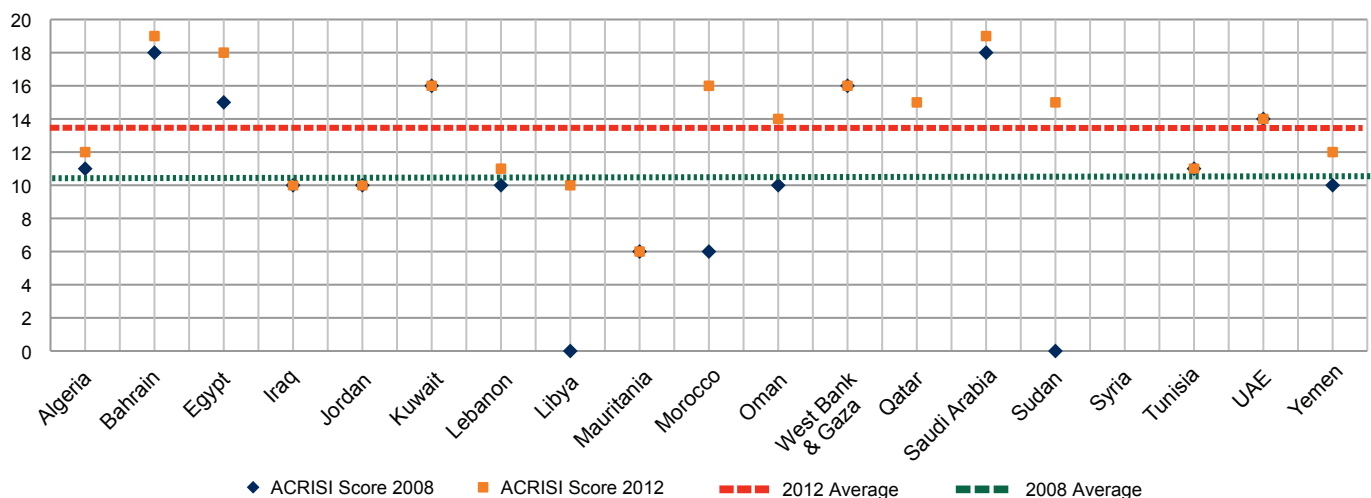
situation in the country, on-the-ground implementation may not be so clear in some cases.

- For seven countries, the ACRISI score did not change from 2008 to 2012. Of the countries with a change in score, the ACRISI for Algeria, Bahrain, Kuwait and Saudi Arabia increased by one point; Yemen increased by two points, and Egypt increased by three. Morocco's score increased significantly—by 10 points. With the establishment of CRs in Libya and Sudan, their scores have increased from zero to 10 and 15, respectively.
- When the two countries that scored zero in 2008 (Libya and Sudan) are not considered, then the gap between 2008 average and 2012 average drops further to about two points.

Figure 8.1 gives a graphical representation of our earlier conclusions. It shows the average, rounded-off ACRISI score for 2008 and 2012, which are 11 and 14 respectively. The Figure also shows the movement in the score for each country over the two time frames. If the five countries that had a score of zero in 2008 (Libya, Morocco, Qatar, Sudan and Syria, each for different reasons) are not considered, then the other countries have had marginal changes in their scores.

Apart from some excellent individual situations (such as Egypt, Morocco, and Saudi Arabia), most countries have to undertake more initiatives to improve their score and thus

**Figure 8.1: ACRISI Scores 2008 and 2012**



Source: Based on scores derived from ACRISI.

make the national credit reporting system more complete and comprehensive.

Figure 8.2 plots the ACRISI score for 2012 against the *Doing Business* ease of getting credit rank for 2013 for each country. The *Doing Business* rank is a more general rank which puts into consideration other areas besides credit reporting whereas the ACRISI score is more specific and dives deeper into the credit reporting system and its various components. The two figures, although correlated to some extent, are not entirely comparable. However, it can be observed that the graphs have a strong correlation and move in tandem to some extent, with a few significant variations (e.g. West Bank and Gaza, Bahrain).

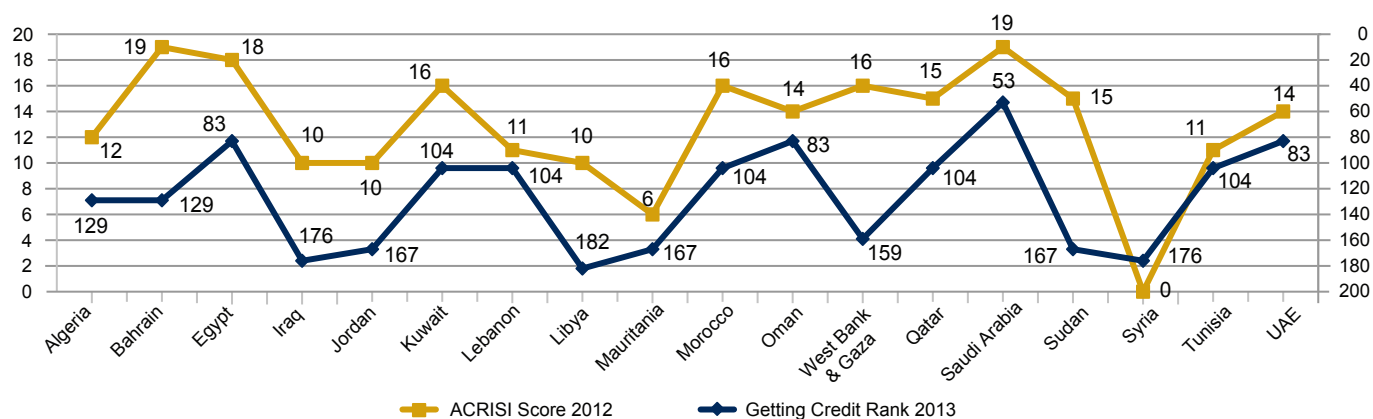
Table 8.2 and Figure 8.3 represent the same data and information in tabular and graphical formats. Conclusions are, as follows:

- While every country in the region now has a credit registry, there are only six countries with credit bureaus (Bahrain, Egypt, Kuwait, Morocco, Saudi Arabia, UAE); a seventh is currently being established in Jordan. Thus, credit reporting in MENA is driven by CRs
- In the absence of CBs, institution participation is generally limited to regulated entities; the availability of quality data and full-file information is often questionable, even though over 72 percent of countries report on all loans.
- Though consumer rights may be present in theory; often, in practice rights are rather restricted, as access

to the central bank's CR is indirect, typically through the lending institution. Hence, the process is lengthy. This suggests the need for collective efforts, within countries and throughout the region, to move toward comprehensive and sophisticated credit reporting systems, consisting of CRs and CBs.

- Basic laws and regulations allowing for credit reporting exist in several countries; yet nearly 45 percent of countries do not have specific laws or regulations in this regard. This percentage, however, has improved, from 59 percent in 2008.
- All countries have data on firms, either with a CR or a CB; all but one capture individual consumer data.
- Consumers in 14 countries have access to their own reports. All countries, except Libya, have mechanisms in place for consumers to raise disputes on erroneous data. Only 11 countries give consumers free access to reports. Consumer consent before inquiry is collected in less than half, or 44 percent, of the countries. While basic frameworks for consumer rights exist in many countries, they may not be widely practiced and, hence, are ineffective.
- Entities regulated by the central bank of each country are required to share data. However, with regard to nonregulated entities, such as utilities and microfinance institutions, the number of countries that require sharing is very low.
- In 13 countries, inquiries are compulsory before making a credit decision.

**Figure 8.2: Rank Vs Score**



Source: Getting Credit Rank, *Doing Business* Report, The World Bank, 2013. ACRISI 2012. ACRISI score for Syria is not available.

**Table 8.2: Parameters Comparison across MENA**

| Parameters   | 2008                |            | 2012                |            |
|--|---------------------|------------|---------------------|------------|
|  | Number of Countries | Percentage | Number of Countries | Percentage |
| Credit Registries  | 15                  | 88.24      | 18                  | 100        |
| Credit Bureaus   | 5                   | 29.41      | 6                   | 33.33      |
| Credit Information and reporting laws or regulations           | 7                   | 41.18      | 10                  | 55.56      |
| Legal framework for privacy and protection of data             | 9                   | 52.94      | 13                  | 72.22      |
| Information on consumers is collected                          | 15                  | 88.24      | 16                  | 88.89      |
| Information on firms is collected                              | 15                  | 88.24      | 18                  | 100        |
| Consumers' access to their own reports                         | 10                  | 58.82      | 14                  | 77.78      |
| Consumers access to at least one free report in a year         | 8                   | 47.06      | 11                  | 61.11      |
| Right to raise disputes and correct data                       | 13                  | 76.47      | 17                  | 94.44      |
| Need for consumer consent before making inquires               | 6                   | 35.29      | 8                   | 44.44      |
| Participation of regulated entities                            | 15                  | 88.24      | 18                  | 100        |
| Participation of nonregulated entities                         | 4                   | 23.53      | 4                   | 22.22      |
| Participation of utility entities                              | 1                   | 5.88       | 2                   | 11.11      |
| Participation of MFIs  | 5                   | 29.41      | 8                   | 44.44      |
| Entities mandated to share data                                | 15                  | 88.24      | 18                  | 100        |
| Entities mandated to make inquiries                            | 8                   | 47.06      | 13                  | 72.22      |
| Reporting and sharing of positive and negative information     | 12                  | 70.59      | 17                  | 94.44      |
| Reporting and sharing of all loans reported without any limits | 7                   | 41.18      | 13                  | 72.22      |
| Principle of reciprocity                                       | 10                  | 58.82      | 13                  | 72.22      |
| Credit scores provided to the users                            | 1                   | 5.88       | 4                   | 22.22      |
| Framework for cross border data sharing                        | 0                   | 0          | 2                   | 11.11      |

\*For percentage calculations and analysis, in 2008 – 17 countries and 2012 – 18 countries have been considered

- In 17 countries, sharing full data (positive and negative) is required; 13 countries have no threshold limits.
- The principle of reciprocity is applied in 13 countries. However, in its truest sense, reciprocity is only present in countries with a CB. In case of countries with only a CR, regulated entities are required to share data with the central bank; hence these are the only entities that can access CR data.
- Only four countries provide scores as a value-added service.
- Only two countries have provisions in the laws for cross-border data sharing; in actuality, sharing across borders does not occur.
- There has been an increase in the number of countries with respect to addressing ACRISI parameters, except

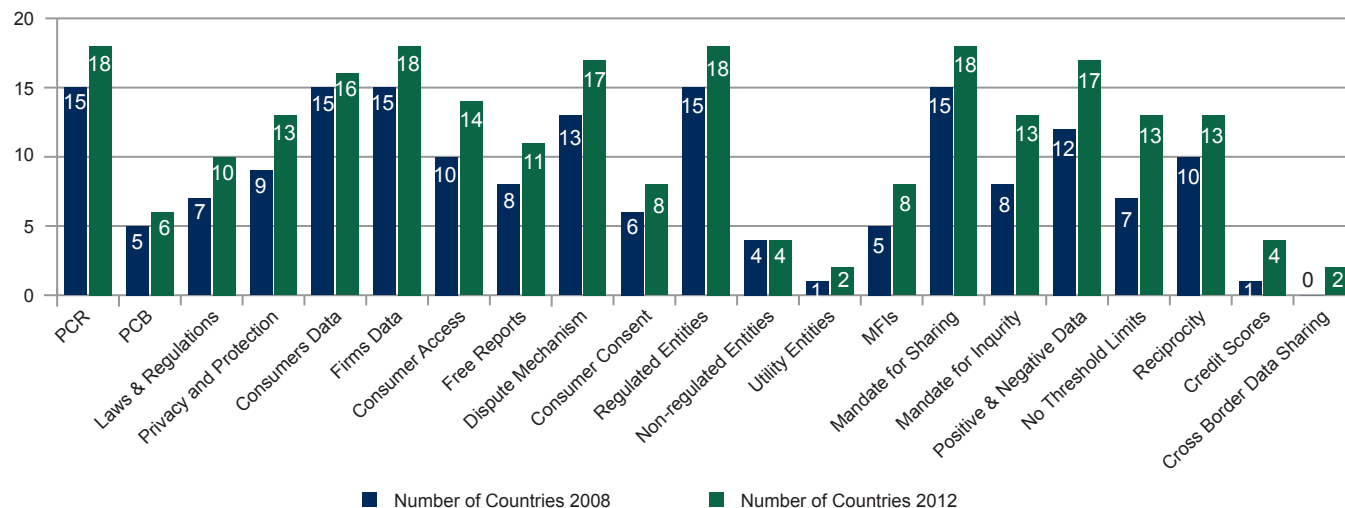
in the case of nonregulated entities, as shown in Figure 8.3. Again, this is a factor of a region dominated by CRs. A complete credit reporting system is still frequently lacking, however, and significant efforts are required in this regard.

## 8.2 LESSONS LEARNED AND RECOMMENDATIONS

Since the launch of ACRI, the key considerations for stakeholders are the lessons learned from the past six years. These must translate into a more meaningful and focused way forward, with specific action plans and timelines.

The process of developing a comprehensive credit information system in a country is a medium- to long-term exercise. Several key stakeholders are involved, such

Figure 8.3: Parameters Comparison Across MENA



Source: Based on ACRISI.

as the central bank, other regulators, credit and lending institutions, credit bureaus, consumers associations, and the consumers. Regional similarities have to be balanced with country specific issues; cultural and economic commonalities, and differences, need to be considered. A comprehensive view that takes into account each country's particular challenges must be considered.

MENA has two additional characteristics that differentiate it from other regions: the high level of expatriates working in the region; and the migratory populations among MENA countries. As a consequence of these two situations, credit risk travels across borders. In the expectation of a regional credit information bureau, or at least of agreements between regulators on free flows of data, the curtain that hides credit history, which may have been built in another country, can dangerously impact credit decisions taken by lenders. This results in a need for cross-border credit information sharing. The access to information across countries would of course need to be supported by a solid legal and regulation framework, which would ensure data security and usage (e.g. like in the West Africa region).<sup>500</sup>

Based on ACRISI scores, MENA countries can be divided into two categories:

- Well developed credit information systems—with robust regulatory frameworks, complete data sharing, and data protection laws, signified by ACRISIs score of 13 or more.

- Reasonable levels of progress in the credit information systems—more work must be done, signified by ACRISI scores of less than 13.

While each country has specific situations that need to be addressed (as specifically described in Chapter 6's country by country recommendations), the aforementioned classifications create two buckets, enabling focused attention for each country depending on which bucket it falls into.

After classifying the countries, as suggested, and based on the recommendations made in Chapter 6 for each country, the stakeholders in each country should be encouraged and assisted in addressing these requirements in a time-bound calendar.

Following are the key lessons learned and the recommendations for the way forward:

- **Developing national credit reporting systems with an emphasis on the establishment of CBs**

One key lesson is that the region needs to increase the number of countries that have a CB. Currently, only seven of the 19 countries have CBs. The absence of a CB results in the increased cost of funds, high collateral requirements, lower access to funding, higher levels of nonperforming loans, and restricted access to credit. For a comprehensive credit reporting system, the national

credit reporting infrastructure must comprise a CR and at least one CB: the former is dedicated to supervision, statistics, and monetary policy; the latter to providing sophisticated information services to the lending industry.

Central Banks should undertake greater efforts to upgrade and strengthen CRs, enabling the registries to assume the supervision of regulated lending institutions more effectively.

Countries that do not have CBs should strive to establish bureaus as soon as possible. The ownership structure of CBs can be composed of leading credit bureau providers, with or without local partners; the combination of technical partner plus a minority of financial institutions may result in the ideal structure of a new bureau. Chapter 4 provides the differences between CRs and CBs. Central banks must immediately commence the process of establishing CBs, by creating the supporting legal environments, floating requests for proposals for technical service providers, and beginning conversations with various stakeholders in the country. The establishment of CBs requires full, proactive support of regulators. In countries where CBs cannot be established even with the support of authorities, the CR should remove all threshold limits and try to include all financial entities to the extent possible.

#### ■ Formalize the informals

Access to finance is a major concern in MENA, especially through the formal sector. There is a growing credit market not regulated by the central banks; the instance of informal lending as well as the number of micro, small and medium enterprises is huge.

The establishment of CBs can be a shortcut to increasing financial access to these sectors, as they can provide information services to the nonregulated entities such as telecommunication companies, utilities and microfinance institutions; CRs are mainly a database of the “bankables” of enterprises and large borrowers.

#### ■ Legal and regulatory requirements

As seen in various cases, a specific law is not absolutely essential to establish CBs. However, it is good practice, especially in countries that are beginning to establish

CBs; a regulatory nudge will accelerate the process. The absence of such appropriate laws can result in ambiguity, uncertainty, legal issues, and a general slowdown in the process of establishing a well-functioning credit bureau.

Central Banks, governments, and other stakeholders should be made aware of the benefits of having focused laws and regulations; such authorities should remove all obstacles to the establishment of a credit reporting infrastructure by enabling a friendly and modern legal framework. Laws or regulations should address licensing, supervision, and the establishment of credit bureaus that strike the right balance between caution and practicality—so that the industry achieves the purpose, and the bureau can function to the benefit of the lenders, consumers, the banking system, and the economy.

The laws and regulations should also address in detail areas such as data protection, privacy principles, consumer rights, access to data and information, and the need for consent to share and access individual data. Current laws must be studied before initiating necessary reforms.

#### ■ Completeness of data and related issues

Despite intent and an enabling legal environments, at the ground level, full data sharing is not happening in reality. Coverage has been limited in terms the type of institutions sharing data. Even when data is shared, the quality, completeness, and accuracy of the data leaves much to be desired. This results in incomplete data and, therefore, incomplete credit reports and incorrect credit decisions. The result is increasing NPLs.

The other lesson is that, in most countries, nonregulated entities, microfinance institutions, and utility companies were not providing data. This is driven by the fact that the registries are owned by the central banks. The outcome is incomplete profiles of individuals with crucial credit inputs missing. In some countries, threshold limits were prescribed. In the early days when technology was a challenge and the domain was establishing itself, these thresholds were defensible, but now they must be lifted.

Technology is no longer a constraint from the perspectives of both the bureaus and the data providers. All data (positive and negative), without threshold limits, from all lending sectors, must be populated into the CB and the CR.

All credit providers, regulated and nonregulated, must be encouraged to provide full data. This can be achieved through a combination of a regulatory nudge (mandating the sharing and inquiry of data) or placing higher provisioning rules on loans granted without making an inquiry to the CB, along with education and awareness creation on the benefits of a credit information system that is complete and accurate.

### ■ Consumer rights and protection

As seen from the conclusions in the previous section, consumer rights are theoretically present, but the extent of participation remains limited. In countries with only a CR, access and transparency of information shared remains restricted in most cases (Qatar and the West Bank and Gaza are exceptions). However, even in the case of countries with CBs, awareness on the rights and obligations of consumers is low, often absent.

Authorities should create a sound framework for consumer rights and also ensure that rights and data are protected. Authorities and CBs should undertake a strong campaign for educating the users (institutions and individuals) on the importance of information sharing, their rights within the system, and their obligations as participants.

### ■ Business environment

A friendly legal and regulatory framework is essential to a credit reporting infrastructure. Without a good framework, the credit bureau industry can face various obstacles to sharing borrower information, data security, usage, etc.

The legal framework must strike the correct balance between consumer rights and the need to establish a modern information-sharing environment capable to attract the best leading providers, especially in those countries where the market size is small.

### ■ Technology

The use and need for technology in the development of a credit information system is clear. Several CRs that were established many years ago were based on now obsolete technology with limitations, or paper-based manual systems. This has led to severe inadequacies

in the ability of the CR to provide robust solutions and modern risk-management tools, which bureaus in other parts of the world are able to provide.

In order to modernize the entire credit information system, most countries will have to invest in technology in a significant manner. The stakeholders should evaluate the current status, current and future needs, debate the options of customization through a global or regional service provider, and then migrate to a new platform. The more modern system must have technology that is robust, flexible, and able to support the demands of a new order. The Palestine Monetary Authority Credit Registry and the Qatari Central Bank are examples of excellent technology upgrades, which now provide modern credit information services based on best practice.

Regulators should consider whether it is worthwhile to invest taxpayer money in building a best practice public information sharing system, or to delegate the task and the onerous investment to the private sector. Seven MENA countries have already opted for the latter. Regulators need to choose whether to maintain control and oversight of the CB's, limiting the CR's objectives to institutional tasks (such as special purpose vehicles, statistics, etc.).

### ■ Scoring and value-added products and services

In a region that is increasingly recognizing the added value of a credit information system in the risk mitigating processes, the next step is to provide scoring and other value-added services to lenders, to further ease the lending process. Scores are a natural first step in that direction. In order to do that, data must be complete and accurate; technology must be capable of calculating scores. Users (notably, lenders) must recognize the value of such products in their decision-making processes.

In countries with CBs, these bureaus must strongly invest in technology that allows them to offer value-added products to clients. CBs must then take the initiative to demonstrate and train lenders in the various methods that they can use these services.

### ■ Cross-border data

Although there is significant cross-border demographic and economic movement, only two countries have a

provision for permitting data to be exported outside the country. Allowing data to be stored at a central location in a particular country—that then services regional stakeholders across multiple countries—can be very useful from a cost perspective, because of economies of scale.

The main requirement to allow for the cross-border export of data is to have enabling legislation in the country sending the data and the one that receives it. This requires significant efforts that take into account the laws in both countries (including data protection and data privacy laws). When there are more than two countries involved, the complexities increase exponentially, displaying the need for multidimensional views of laws and regulations.

The lawmakers of all countries will need to work in close cooperation, with the help of external consultants, to enable cross-border sharing. A first important step would be a regional collaboration among central banks, to start sharing data, at least, about the major borrowers in each country.

#### ■ **Creating awareness and education**

Perhaps the most important lesson that emerges from the experiences of ACRI to date is the need to raise the level of awareness across the entire spectrum of stakeholders—central banks, lenders, other credit providers, utilities, microfinance institutions, nonregulated credit providers, credit registries, and credit bureaus, and most importantly, the borrowers. The value to each of them will have to be explained, depending on the stage at which the country is with respect to the credit information system. Ultimately the success of the system will depend on education, leading to demands for efficient and value-added credit information systems.

All stakeholders, especially the CR and CB, central banks, and lenders will have to make serious efforts to raise public awareness. Lenders must be informed that such a system could positively affect growth, profitability, reduction in NPLs, and efficiency. A series of education initiatives, training programs, and mass publicity efforts will be required; all stakeholders must participate in order to educate the public about the value of good credit behavior and, thus, a good credit history.

Lenders must be educated about international experiences where the existence of bureaus has improved the efficiency of the system as a whole.

#### ■ **Role of regulators**

In a credit reporting system, the role of regulators should be clearly defined, and they should create a supportive environment for facilitating the growth of the industry. The regulators' role is not to substitute for the private sector, but rather to facilitate the establishment of modern financial infrastructure while improving the function of supervision, know-how and profile. Becoming global supervisors (of lenders and CBs), regulators should focus on CBs and users' consumer protection and law compliance—and less on technology and establishment.

Finally, credit reform demands a concerted, regional effort requiring patience and perseverance. MENA will continue to be a crucial region in the global economy. The impact and use of credit will exponentially increase; the value of a country-specific credit information system and a region-wide embrace of common issues will play an important role in advancing a healthy credit environment.





## 9.1 CASE STUDY: LEGAL & REGULATORY FRAMEWORK, SAUDI ARABIA AND JORDAN

### 9.1.1 BACKGROUND<sup>501</sup>

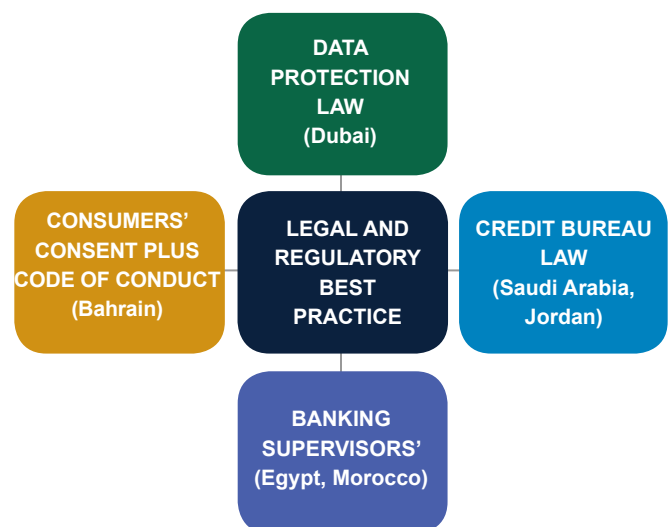
Information sharing is a business based on trust and transparency. Thus, a sound legal and regulatory framework is a critical element to give both lender and consumer confidence about data processing, privacy and confidentiality, and correct and permitted use. If users are concerned with their legal liability in sharing information, it can slow or even stop the development of credit information systems. A monitored and regulated exchange of credit and other relevant data, for permissible and limited use (such as risk prediction and credit granting) can strengthen the confidence of lenders and borrowers in the system, thereby stimulating the participation of all parties. A friendly and equitable legal framework can boost confidence about data privacy, data processing, risk assessment, decision making, data use, and credit granting.

The approach and the legal and regulatory framework adopted for information sharing varies from country to country. In some cases, laws governing credit reporting are part of a broader financial services or banking law. In other countries, a separate law on credit reporting has been enacted; in some, a comprehensive data protection law exists. In several cases, regulations issued by the banking supervisory authority suffice in establishing a credit reporting system. In others, sharing of information is

not regulated but simply based on the borrower consent to exchange and process data, supported by a code of conduct signed by the lenders and the credit bureau.

Any of these regulatory environments can provide the necessary legal framework and support for credit reporting, though the introduction of specific and tailored legislation for regulating CBs still represents the most appropriate approach to establish a solid information sharing system. Figure 9.1.1 summarizes the different approaches and the accepted legal best practice. These have also been separately discussed in the Legal Best Practice section.

**Figure 9.1.1: Legal and Regulatory Best Practice**



*Source:* "Assessment and observations on the credit reporting system of Jordan."

Whatever approach is taken, a clearly defined framework is needed to enable information sharing with defined purpose. The rights of all stakeholders cannot be compromised. In this regard, the World Bank has published the General Principles for Credit Reporting, which are considered as standards for global best practice. The fourth principle specifically addresses the necessary requirements and sets guidelines for an effective legal and regulatory environment.

*General Principle 4: The overall legal and regulatory framework for credit reporting should be clear, predictable, non-discriminatory, proportionate and supportive of data subject/consumer rights. The legal and regulatory framework should include effective judicial or extrajudicial dispute resolution mechanisms.*

*Sets guidelines on:*

- *Clarity and predictability*
- *Non-discrimination*
- *Proportionality*
- *Consumers rights and data protection*
- *Dispute resolution*

The credit reporting industry in the MENA region is at a very nascent stage. Although there are examples of excellent credit reporting practices undertaken in some countries (such as Bahrain, Morocco, Qatar, and Saudi Arabia) and the projects under development (Jordan and the UAE), most countries have yet to set up a framework to enable effective credit-reporting practices. There are only six CBs in the region and one under development. The remaining countries rely on CRs, most of which cannot perform the activities for an effective sharing system for all users involved.

In some MENA countries, the regulatory framework for information sharing systems remains quite fragile, old, and generally not fully tailored to the needs of a modern credit reporting industry. Also, no regional standards have been set; each country approaches credit reporting

regulation and legislation differently and independently from neighboring markets. The information-sharing legal framework requires regional coordination.

In the absence of a specific legal and regulatory framework, MENA countries are facing challenges, such as information privacy, data security, data off-shoring, technology threats, mobility between countries, and cross-border lending, which could be better resolved with coordinated and shared solutions. Specific laws and regulations have been established in recent years that address these issues—such as the credit information laws in Jordan, Saudi Arabia, and the UAE, and the central bank regulations in Morocco.

## LEGAL BEST PRACTICE

### Consumers' Consent Plus Code of Conduct

The consumer's consent plus code of conduct model has been adopted in countries where neither the banking authorities were empowered to enact a specific credit reporting regulation nor a specific law was present. Credit information is shared among lenders based on consumer authorization and within the framework of the code. This was the model adopted by Saudi Arabia (SIMAH), before a specific law was passed and is a model currently in place in Bahrain (The Benefit Company).

### Banking Supervisor's Regulations

In some countries a very solid credit-reporting model has been introduced with simple central bank enactments. This approach consists of regulations, not laws, approved by the banking supervisor, which set an information-sharing legal framework, clarifying consumers' rights as well as lender and CB responsibilities. Recent examples are the regulations passed by the central banks of Egypt and Morocco that enable effective private credit reporting, with different information-sharing models—voluntary and mandatory sharing models, respectively.

### Data Privacy Law

A different regulatory approach, the data privacy law, is found in many developed and developing countries. Normally, this legislation enforces confidentiality provisions on all personal data flows and, by default, regulates CBs activities. Data privacy laws have been pioneered in

countries where solid experience of information sharing exists and consumer rights are stronger. The establishment of the CB in Dubai, for instance, was based on the data protection law, which contains the following basic provisions: fair processing of personal data; notification regime; security measures to be applied by data controllers; consumer protection (for such rights for owners of information and sanctions for violations of the data protection law).

## Credit Reporting Law

The introduction of a specific and tailored legislation on credit reporting still represents the most appropriate approach to establish a solid credit reporting system, enhancing consumer rights and fostering private-credit reporting systems. This has been the avenue chosen by Jordan, Saudi Arabia, and the UAE, as specific credit information laws have been passed.

Typical issues that should be covered include:

- Licensing criteria for investors and operators;
- Limits on data retention duration;
- Limits on data access;
- Consumer rights to be informed, access data, and correct or delete when applicable, and procedures for enforcement;
- Responsibilities of various stakeholders and participants in the system;
- Provisions to ensure security and integrity of data;
- Violations and penalties in case of noncompliance;
- The credit reporting systems' oversight function should be part of the legal framework ensuring smooth and efficient functioning of the systems.

### 9.1.2 SAUDI ARABIA

#### ESTABLISHMENT OF SIMAH

The credit bureau of Saudi Arabia, SIMAH, pioneered private credit reporting in MENA. Although it was not the first CB to be set up in the region, the country's state-of-the-art credit bureau is now a benchmark for other CBs to be established in the region. SIMAH is currently the only

source for full-file and comprehensive credit information from all sources in the country.

As mentioned in Chapter 6.14, SIMAH was established in 2002 and started operations in 2004. There was no law or regulation that specifically provided for credit information sharing in the country. The only source for such information at the time was SAMA's B-List, which contained information shared by regulated financial institutions.

The idea for establishing a credit bureau goes back to 1998, when 10 national commercial banks and SAMA discussed establishing a credit bureau offering consumer and commercial information. Meetings were held for this purpose, and officials were assigned to coordinate with the World Bank to consider existing international experience to establish a credit bureau based on methodological and knowledge approaches, to contribute to the Saudi national economy.

Based on SAMA's initiative and encouragement, SIMAH was established by 10 Saudi banks to operate within the context of the prevalent banking act and regulations issued by SAMA. SAMA had put its full moral suasion over the lenders, encouraging the banks to start a CB, even without an ad-hoc legal framework. The bureau was initially started simply on the basis of a code of conduct and consumer consent. SIMAH operated for years without any tailored legislation or regulation. It was only recently that Saudi authorities considered a credit information law; the law was passed in July 2008 by Royal Decree No. M/37.

#### THE CREDIT INFORMATION LAW

The code of conduct, which was established and approved by SAMA to regulate the credit information sharing system, covered most data-sharing and privacy issues. The code even laid out specific definitions and their applicability. It also established that lenders need to be members of the bureau in order to share and inquire data. Membership agreements had to be signed in accordance with the code to incorporate legal rights and obligations. The clauses of the code are given in Table 9.1.1 below.

The sharing of credit information based on this model's consumer consent and code of conduct—is considered to be a good start for CBs when a specific law or regulation

**Table 9.1.1: SIMAH's Code of Conduct**

|           |   |
|-----------|---|
| Clause 1  | Definitions   |
| Clause 2  | Application of the Code   |
| Clause 3  | Member's Supply of Received Information to the Bureau                 |
| Clause 4  | Bureau's Obligations with Respect to Information                      |
| Clause 5  | Member's Obligations with respect to Information Obtained from Bureau |
| Clause 6  | Individual(s) Access to Own Information                               |
| Clause 7  | Investigation into Disputed Information                               |
| Clause 8  | Rectification and Updating of Information by the Bureau               |
| Clause 9  | Complaints as to Breach of this Code                                  |
| Clause 10 | Compliance Committee  |
| Clause 11 | Miscellaneous   |

does not exist. However, an appropriate legal, regulatory framework is advisable to give a solid ground for credit reporting, and tackle the issues of privacy, confidentiality and protection of data, purpose and use of data, borrower rights, governance, security rules, etc.

To facilitate good credit-reporting practices and create an environment to enable information sharing as per best practice, a specific credit information law was passed on July 8, 2008 by the Council of Ministers. The purpose of the law was to establish the general principles and controls necessary for collection, exchange, and protection of consumer credit information. It applies to credit bureaus, members, government agencies, and private entities maintaining credit information.

Apart from the requirements addressed by the code, the credit information law specifies all other structural, managerial, financial and breaching issues with regard to consumer and commercial rights along with the obligations and responsibilities of credit bureaus and their members.

The law by itself is quite slim; but together with regulations, it effectively governs the credit information sharing system in Saudi Arabia. It addresses all the necessary aspects for credit reporting as per best practice, and establishes SAMA as the overseeing and monitoring authority for credit information companies. Table 9.1.2 below gives a snapshot of the articles in the law.

The credit information law (CIL) represented a significant step in fostering a conducive environment for data sharing. CIL brought greater confidence to all stakeholders of the credit reporting industry, enhanced the privacy of data for individuals and companies, and facilitated the sharing of credit information to support credit decisions. Furthermore, CIL sets a framework of rights and obligations for data providers, information users and, most importantly, the public at large. It strengthened the Saudi economic and regulatory framework and led to greater transparency in the banking and financial sectors. Continuous efforts have been taken to create a robust credit culture for both consumers and commercial entities. On August 22, 2011, SAMA also issued and applied the implementing regulations, as provided in the CIL.

**Table 9.1.2: Contents of the Credit Information Law of 2008**

|            |  |
|------------|--|
| Article 1  | Definitions  |
| Article 2  | Objective  |
| Article 3  | Entities Covered under the Law                       |
| Article 4  | Sharing of Credit Information by Government Entities |
|            | Role of Companies                                    |
|            | Credit Records                                       |
|            | Charge of Fees                                       |
| Article 5  | Mandate to Exchange Information, Accuracy and Update |
|            | Written Consumer Consent                             |
| Article 6  | Confidentiality and Purpose                          |
| Article 7  | Other Use  |
| Article 8  | Information to Consumers                             |
|            | Establishing Consumer Consent Procedures             |
| Article 9  | Consumer Rights                                      |
| Article 10 | Rules for Credit Information Companies               |
| Article 11 | Tasks for the Supervisory Authority                  |
| Article 12 | Acts Deemed to be in Violation of the Law            |
| Article 13 | Sanction and Punishments                             |
| Article 14 | Formation of Committees                              |
| Article 15 | Recourse for Violation                               |
| Article 16 | Issue of Implementing Regulations                    |
| Article 17 | Publication in the Official Gazette                  |

### 9.1.3 JORDAN

#### THE CREDIT BUREAU PROJECT

Until recently, and even at present, the only source for credit information is the Central Bank of Jordan's CR. The establishment of Jordan's new CB is still underway. The CR collects data from the regulated entities and the microfinance institutions' databases, as discussed in Chapter 6.5. Both of these databases, effective in their own ways, were limited by information only pertaining to specific sectors, low coverage ratios, thresholds in the case of the CR, and the absence of detailed payment histories.

In September 1999, there was a consensus by banks and the informal lenders that a CB should be established which will collect and share credit information, and check payment histories across sectors on individuals and firms. In October 1999, a roundtable presentation to banks and other credit grantors was held to gain support for providing key credit information to a credit bureau as a necessity for success.<sup>502</sup>

#### Credit Reporting in Jordan at the Outset of the Project<sup>503</sup>

- The Central Bank of Jordan's CR began in 1966 and required that banks under its supervision report all active credits with balances above a specific threshold amount along with details of loan loss provisions;
- Banks voluntarily reported to the bankers association on details regarding returned checks; the association would add the names of issuers to a list of returned check issuers;
- The association would periodically provide banks with names added to the list. In 2000, the Central Bank of Jordan assumed the bankers association's role;
- Detailed payment histories were not available;
- Limited use of CR information for the purposes of risk assessment, high collateral requirements, and high NPL levels.<sup>504</sup>
- There was no other database alternative to the CR. It was only in 2007 that six private microfinance institutions partnered with a local software house to share information among and restricted to MFIs in Jordan.<sup>505</sup>

- There was no private information service provider and no credit reporting law.

#### LEGAL FRAMEWORK

Following the consensus of credit providers across sectors, in December 1999, a thorough review of the existing Jordanian laws was undertaken by local attorneys. The relevant laws that could provide for sharing of credit information were the Central Bank of Jordan Law and the Banking Law. The excerpts of the provisions of these laws are given below.

#### Central Bank of Jordan Law No. 23 of 1971

Article 37 (b) *“The Central Bank shall provide the licensed banks with services for inter-bank clearings and for exchange of credit information relating to their clients and these banks shall participate in such arrangements as the Central Bank may prescribe for these purposes after consultation with them;”*

Article 45 (a) *“Licensed banks and specialized credit institutions shall furnish the Central Bank, at such times and in such manner as it may prescribe, with any information and statistics which it may require;”*

Article 45 (c) *“All disaggregate data and statements presented to the Central Bank are considered confidential and may not be revealed to any individual or institution except in the form of aggregate statistical statements that the Central Bank publishes from time to time;”*

Article 52 (a) *“Government departments shall furnish the Central Bank with all such available information as the Central Bank may deem necessary to obtain.”*

### Banking Law No.28 of 2000

Article 26 (c) *“Providing the Central Bank with information and data required by the provisions of this law and the regulations and orders issued pursuant thereto;”*

Article 74 *“The exchange of information pertaining to clients on their debit balances in order to provide necessary data to ensure safety of credit granting, checks retained unpaid or any other act deemed necessary by the Central Bank due to its relevance to the safety of banking. It is provided that the exchange of information is between banks, the Central Bank or any other companies or entities approved by the Central Bank for the purpose of facilitating the exchange of such information.”*

These Laws provide for the sharing of credit information among entities regulated by the central bank, which primarily include banks. The confidentiality aspects related to borrowers have also been addressed. These laws, however, did not provide for the establishment of private credit information companies, their regulation and supervision, operations, and other related aspects necessary for a sound framework for credit information sharing. It was concluded that a new and enabling legislation was necessary to allow for private credit information companies to operate in the country.

### THE CREDIT INFORMATION LAW NO. 15 OF 2010

The first step for the establishment of the CB in Jordan was to create an enabling legal and regulatory environment for the operation of private credit information companies. In early 2000, the drafting of a new legislation began with the legal support of International Business Legal Associates.

Until 2007, the appropriate regulatory framework for a CB underwent many rounds of discussions, which created a bottleneck—preventing quick decisions about

the framework required. Amid that process, in 2003, the Provisional Credit Information Law No. 82 was published in the official gazette.

In 2008, Jordanian authorities consulted with IFC to undertake a project for the establishment of a credit bureau and enforcing the legislation.

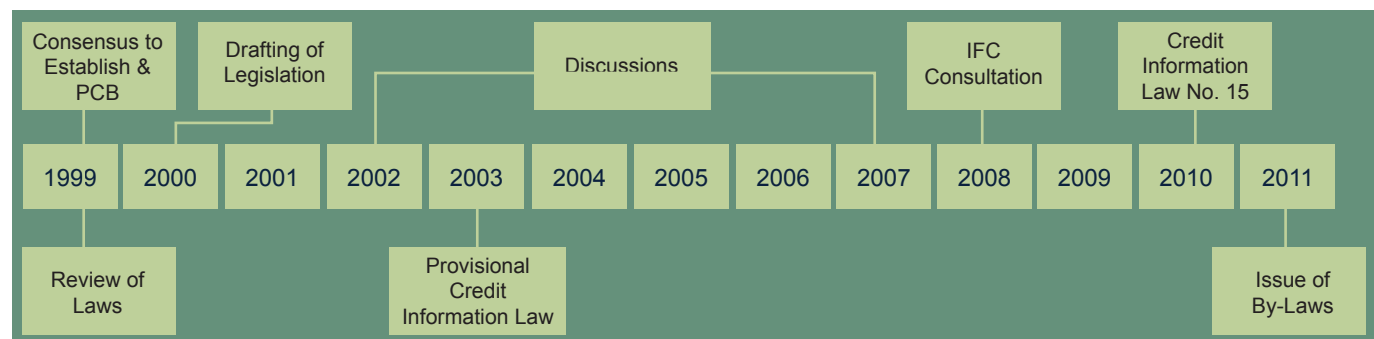
A new law was drafted by IFC, of which almost all provisions were accepted and approved by Jordanian authorities. In June 2010, the Credit Information Law No.15 was passed, which repealed the provisional law and gave way to the establishment of the first CB in the country, under the regulatory and supervisory authority of the central bank. Table 9.1.3 below gives a snapshot of the contents of the law.

The establishment of the specific legal and regulatory framework was a long process of 10 years, as shown in Figure 9.1.2. A sound framework has now been established through this modern law, which incorporates legal best practice for effective credit reporting. Subsequent to the issuance of the law, the central bank also issued the relevant bylaws in July 2011 in accordance with the provisions of the law.

**Table 9.1.3: Contents of the Credit Information Law No. 15 of 2010**

|                 |  |
|-----------------|--|
| Article 2       | Definitions  |
| Article 3, 4, 5 | Provisions Relating to Licensing   |
| Article 6       | Clearly Defines the Role of the Central Bank in the Regulation and Supervision of Credit Information Companies |
| Article 7       | Issue of Credit Reports  |
| Article 8       | Consent Clause or “Viewing permit”   |
| Article 9       | Data Providers   |
| Article 11      | Activities of Credit Information Companies   |
| Article 14      | Provisions for Data Providers  |
| Article 19      | Obligations of a Credit Provider to a Client   |
| Articles 20, 21 | Client Rights  |
| Articles 23, 24 | Confidentiality and Protection of Data   |

Figure 9.1.2: CIL Timeline



Source: "Presentation on developing Credit Reporting in Jordan: Licensing and Supervision Project," The World Bank, Oscar Madeddu, 2013.

### 9.1.3 CONCLUSIONS

- The establishment of specific credit information laws or regulations in the region indicates the growing support from central banks for a sound regulatory framework for information sharing;
- The Saudi Arabian credit information law was one of the first modern and comprehensive laws in the region; it established a solid and effective framework for information sharing under the supervision of SAMA;
- For Jordan, the CIL has led to the establishment of the first CB in the country. It was a long process, but it provides a strong framework for information sharing among lending institutions, which will ultimately facilitate greater access to credit.

## 9.2 CASE STUDY: CREDIT BUREAU DEVELOPMENT, MOROCCO

Over the past few years, the Middle East and North African region has seen a growing interest in credit reporting. There have been encouraging trends in the establishment of credit bureaus. Since 2005, MENA demonstrated significant leaps in improving the credit bureau coverage and as a result, six out of 19 countries had established credit bureaus. Morocco was one of them.

### 9.2.1 FORMER CREDIT REPORTING SYSTEM

In 1978, the central bank, Bank Al-Maghrib (BAM), set up its credit registry to monitor the risk exposure of large credit contracts approved by individual banks. This step was taken with a view to check solvency and ensure smooth functioning of the banking sector.

In the mean time, business practices began to shift to retail lending in the consumer finance, credit cards, mortgage lending, leasing, factoring, and lending for micro, small, medium enterprises. In response, BAM considered widening the scope of the CR to cover the credit domain of the entire regulated financial sector. As a result, the CR started maintaining records on lending operations of regulated entities such as banks, nonbanking financial institutions, and microfinance institutions. The objective was to manage risks through centrally available information on loans taken by customers. These institutions used to report, on a monthly basis, on outstanding credit greater than 100,000 Moroccan dirhams along with information such as the total authorized and utilized exposure of borrowers by credit type. The CR used to make this information available to regulated entities on a monthly basis and on demand.

Apart from this, to mitigate the risk in lending, three separate initiatives were undertaken by the bankers association of Morocco, the association of nonbanking financial entities, and the federation of microfinance institutions.

## ISSUES AND CONCERNS

With the growth in the credit market, the CR struggled to meet the requirements of mass-market (consumer and commercial) credit bureau, as it had serious information flaws in its database.

The major limitations were:

- Highly biased information due to large exposure lending. The credit registry's data contained only 20 percent of the total credit volumes, as data regarding credit card facilities, microlending, mortgage and automotive lending was not recorded in the CR database. Information about rejected credit applications—critical due to high application rejection rate in the country—was also absent;
- The CR was unable to link information between commercial and individual entities, and contained potentially inaccurate identity data;
- Insufficient technical infrastructure. Data uploads by banks and financial institutions, and transmission of credit reports by CR to institutions was partially manual. As a result, the entire reporting process was time consuming;
- No facility to record credit inquiry data or historical data in the database. Historical data was stored in the CR database, but not used for reporting purposes. The credit report contained only the latest information on the borrower, obscuring credit decisions;
- The key account variables to check borrower's performance, such as debt arrears (past due) and credit charge-offs, were not stored on the credit registry's database;
- Banks were required to supply information to the CR as a total authorized and utilized exposure by credit type, but not by each account;
- Lack of on-site spot checks and system reporting resulted into high data rejection rate (70 percent) for the data submitted by banks to CR.<sup>506</sup>

In order to address these issues and improve information availability, BAM decided to upgrade its CR. The Banking Law of 1993 was also amended to give BAM the right to decide whether to handle credit reporting in house or delegate it to the private sector.

In 2005, at BAM's request, IFC experts conducted a technical and market survey of financial institutions' retail and SME lending portfolios to assess their capability to provide data as well as to receive and integrate credit bureau information into their credit underwriting processes.<sup>507</sup> The survey revealed major areas of concern in lending activity of Morocco credit market, including:

- A high incidence of collateral in lending or lack of sufficient physical or useable collateral;
- A high rate of nonperforming loans;
- Massive rejection rates and red-tape culture for firms/VIP consumers;
- Insufficient access to credit for potential customers;
- Unsuccessful lending strategies of banks in view of scarce, outdated, and unreliable credit information.

As shown in Figure 9.2.1, favored customers that had better access to finance showed the highest non performing loan levels; middle-income customers (4,000 Moroccan dirhams to 9,000 Moroccan dirhams) were neglected by banks, even though this segment represented the lowest NPL levels.

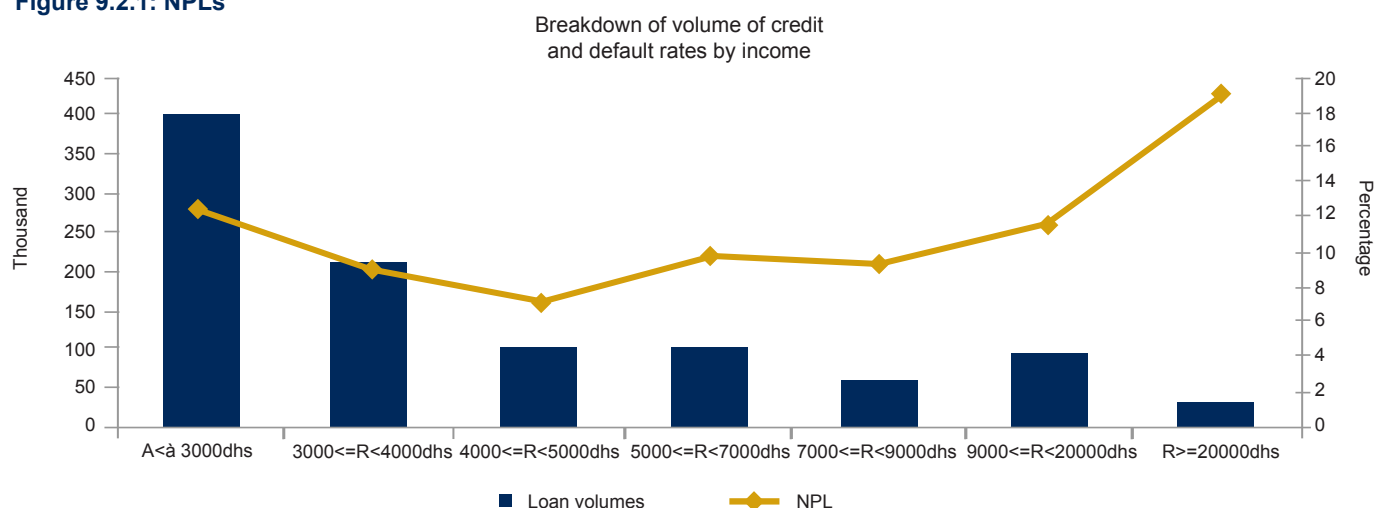
The new system would therefore address:

- Lending limited to favored customers;
- Asymmetric information generating moral hazard and adverse selection of borrowers;
- High nonperforming loans;<sup>508</sup>
- Allowing no risk-level discrimination between false positive and false negatives.

This survey therefore emphasized the need to create a national credit reporting system that complements the functions of the existing CR through the development of the first credit bureau in Morocco.



Figure 9.2.1: NPLs



## 9.2.2 EXPERIAN MOROCCO: THE FIRST CREDIT BUREAU OF MOROCCO

In 2006, the central bank decided to delegate CR information provisions services to a credit bureau (CB) to establish a transparent, competitive, and advanced credit-reporting infrastructure in line with international best practice. In September 2007, BAM issued the first credit bureau license to Experian Morocco, based on a “Delegation Agreement” signed between the two parties. The agreement contained provisions related to public service continuity, good governance obligation, data confidentiality and security, consumer protection, and BAM’s supervision of the credit bureau.

The technical support to Experian Services Morocco came from the largest world credit bureau provider, Experian Plc. ESM finally became operational in October 2009.

Experian Services Morocco is a state-of-the-art credit information sharing system owned by Experian in joint venture with seven Moroccan financial institutions (six banks and one insurance company).

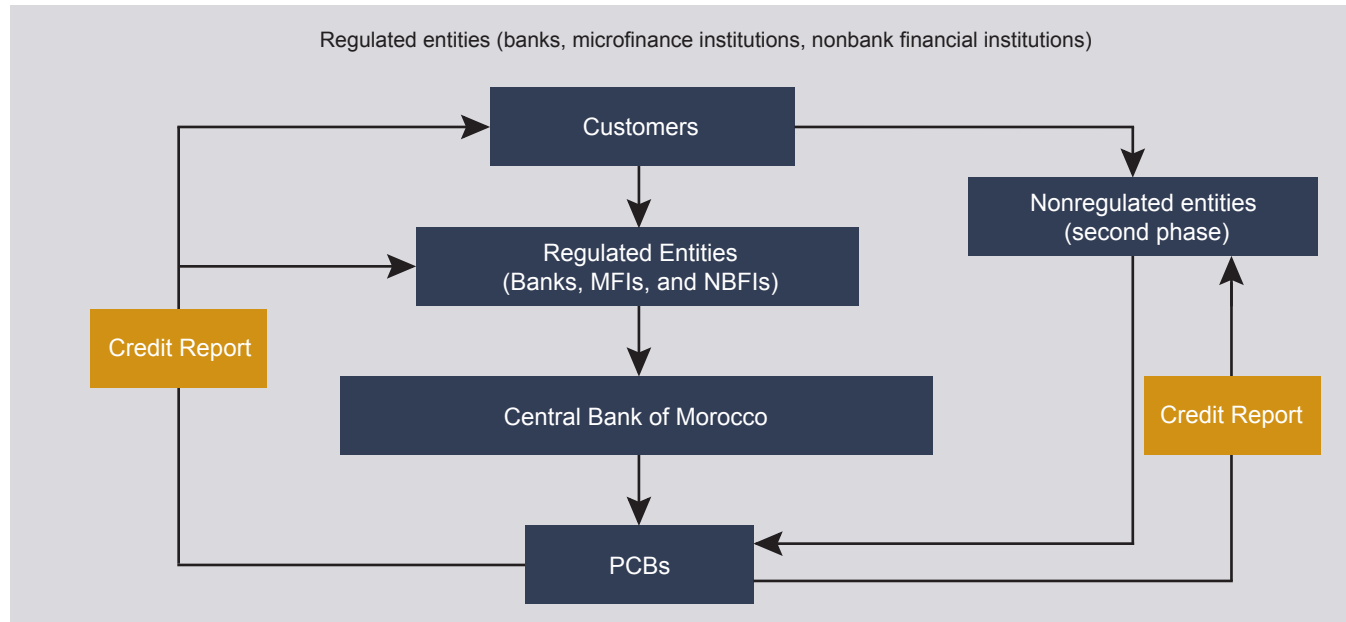
### CREDIT REPORTING OPERATING MODEL

As shown in Figure 9.2.2, the key highlights to note are:

- BAM is the supervising and licensing authority for CBs;
- BAM can access any CB’s database for supervision and systemic risk-prevention purposes;

- It is mandatory for all regulated entities (banks, MFIs, NBFCS) to provide BAM with all the data (positive and negative) on a monthly basis;
- The CR would make the data available to all credit bureau licensed by BAM;
- Nonregulated entities would be able to provide data directly to any credit bureau subject to consumer consent;
- Under principles of reciprocity, this would allow them to consult the bureau as well;
- All the regulated lenders would be required to consult at least one credit bureau prior to making any credit decision;
- Lenders would no longer be allowed to access the CR for inquiries;
- Regulatory amendments would be introduced through simple BAM’s regulations;
- All licensed credit bureaus would receive the same set of information from BAM and then compete on the basis of differentiated product, service offerings, and prices.<sup>509</sup>

ESM provides users with exhaustive credit reports containing full, comprehensive credit histories. The credit reports include arrears, historical data, payment pattern and performance, previous searches, etc.<sup>510</sup>

**Figure 9.2.2: Information Sharing Model**

Source: *Credit Reporting Knowledge Guide, IFC, 2012.*

## LEGAL AND REGULATORY FRAMEWORK

In 2006, the Banking Law of 1993 was modified and the new Banking Law No. 54-05 of February 2006 was passed to allow the central bank to become the licensor and supervisor of credit bureaus. In 2007, BAM issued three circulars (No.'s 27/G/2007, 28/G/2007, and 2/G/2007), outlining the scope and type of information (positive and negative) to be collected from all regulated lenders, and the terms and conditions to access such information. In addition, they gave the customer the right to view his or her credit report and dispute false information.

BAM also issued a code of conduct to cover operational aspects and to govern the relationship between the lender, the credit bureau, BAM, and the borrower. With the circulars and the code of conduct, a solid legal and regulatory framework was created to govern the credit bureau industry in Morocco, using a delegation model.<sup>511</sup>

### 9.2.3 BENEFITS OF MOROCCAN MODEL

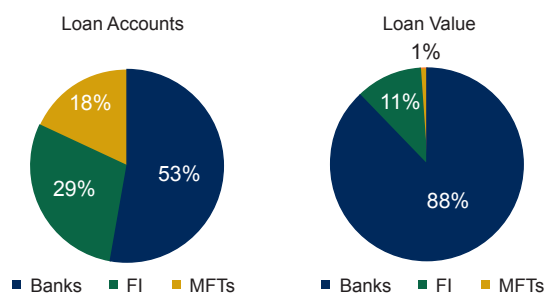
The innovative model of delegation introduced by BAM offers the following advantages:

- Establishes an open, full-file, nonfragmented credit reporting system;

- Prevents lender reluctance to share data and establishes a competitive, dynamic information-sharing market;
- Allows nonregulated lenders to be part of the system, thus preventing information-sharing monopolies;
- Gives the central bank authority to focus on supervisory and regulation activities;
- Allows borrowers to build their credit history across different sectors;
- Supplies the central bank with a wealth of information for credit supervision;
- Allows lenders to have stake in shareholding while at the same time avoiding any potential conflict of interest, by restricting individual shareholding to 5 percent and group shareholding to 49 percent;
- Permits tailoring ad-hoc services, and defined special prices and terms for microfinance institutions—recognizing their socially important role.<sup>512</sup>

### PARTICIPATION AND DATA SHARING

As shown in Figure 9.2.3, the major participants in data sharing are banks, financial institutions and microfinance institutions. As of February 2012, the number of participants in data sharing increased to 55. All MFIs were sharing data

**Figure 9.2.3: Loan Accounts and Value by Type of Institutions**

| Institution                | Number of Loan Accounts | Value of Loan (MAD Billion) |
|----------------------------|-------------------------|-----------------------------|
| Banks                      | 2,451,747               | 532                         |
| Financial Institutions     | 1,316,909               | 66                          |
| Micro Finance Institutions | 847,253                 | 4                           |

Source: Bank Al-Maghrib, 2012.

but were not making inquiries (the cost of CB credit reports was a prohibiting factor). The central bank has supported the microfinance sector in its negotiations of preferential conditions and services with ESM. The three major MFIs have started making inquiries since May 2012, mainly via CPU-to-CPU.<sup>513</sup>

## 9.2.4 PERFORMANCE OF EXPERIAN SERVICES MAROC

As of August 2012, ESM had database of over 7 million records of borrowers (both individuals and firms) from lenders, representing over 4.9 million live accounts with outstanding loan of over 600 billion Moroccan dirhams.<sup>514</sup>

There is an increase of 33 percent in total loan accounts and 18 percent in live accounts as well as outstanding value, over a period of 15 months, as shown in Table 9.2.1.

**Table 9.2.1: ESM Database**

|                                   | June 2011 | August 2012 | % Change |
|-----------------------------------|-----------|-------------|----------|
| Loan Accounts                     | 5,610,040 | 7,454,042   | 33       |
| Live Accounts                     | 4,135,894 | 4,883,353   | 18       |
| Outstanding balance (MAD billion) | 548       | 649         | 18       |
| Number of Individuals             | 3,293,361 | 3,482,084   | 6        |
| Number of Firms                   | 108,729   | 112,225     | 3        |

Source: Morocco Credit Bureau Presentation, Experian, March 2012. Presentation for WB mission, BAM, September 2012.

As shown in Figure 9.2.4, the number of inquiries made to ESM increased significantly since April 2010, and reached its peak in October 2011 (89,928); since June 2011, the average range was 75,000 to 80,000 per month. The total number of inquiries made on individuals as well as firms in 2013 was 1.3 million, an average over 100,000 inquiries per month.

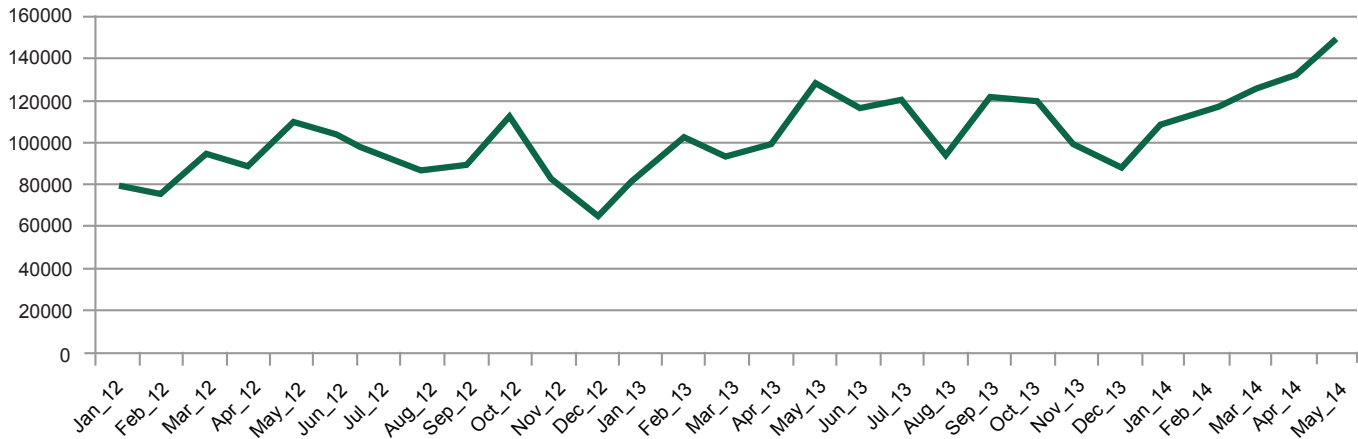
ESM has made a positive contribution by helping lenders as well as borrowers in terms of collateral reduction (10 percent to 40 percent), increasing in average loan volumes (by 10 percent), and reducing nonperforming loans in the banking sector (from 6 percent in 2008 to 5 percent in 2012). However, the level of NPLs for nonbanking financial institutions did not show improvement, and grew from 9.1 percent in 2008 to 9.7 percent in 2012. NPLs in the microfinance sector were still on the high side (5.3 percent in 2008 and 6.7 percent in 2012), due to cross lending and over-indebtedness; MFIs only started sharing data with ESM in 2012.

## FUTURE PLANS

In 2014 BAM started the process to issue a license to a second credit bureau in Morocco. To increase data sharing coverage, the central bank also aims to include data of mobile telephone operators, and other non financial lenders and service providers.

## 9.2.5 CONCLUSIONS

- The establishment of credit bureaus is a crucial step for the future of Morocco's financial system;
- With a clear vision, proactive approach and conducive legal environment, the central bank set up a very efficient and complete model within a short span of time;
- BAM has played a very important role in supporting the development of a private credit reporting system on par with international standards, which has attracted considerable attention from international credit bureau operators interested in investing in a new credit bureau in Morocco;
- Through ESM, the development of an effective credit information system will help Morocco to maintain its substantial lead in the credit industry; it will contribute

**Figure 9.2.4: Number of Inquiries**

Source: M. Aissame Makhfi, MAKHFI. "Establishment of a credit bureau: The experience of Morocco," YEAR.

significantly to the development of the financial market as it provides institutions with objective, reliable, and pertinent data in the underwriting process;

- The CB second license will create an even more transparent, advanced, open, and competitive information sharing industry, with benefits for the borrowers and lenders;

## 9.3 CASE STUDY: BUREAU SCORE DEVELOPMENT, WEST BANK AND GAZA AND SAUDI ARABIA

### 9.3.1 BACKGROUND

Value-added services (VAS) comprise a broad range of products that sophisticated credit bureaus can offer. Such services entail the processing and analysis of existing raw data to produce tools that can be easily integrated into banks' credit approval and risk-management processes.

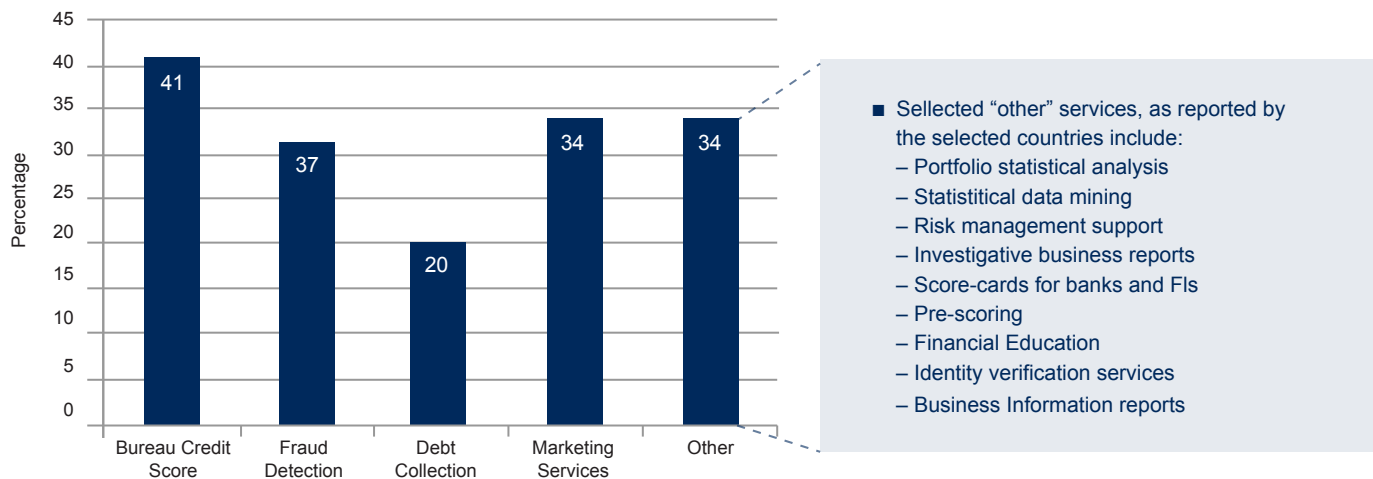
Given the business volumes and the number of decisions often required to manage a typical retail portfolio (such as grant/reject facility, overlimit authorization, cross sell/upsell, past due action required, portfolio review), many lenders have turned to VAS as a means of maintaining efficiency.<sup>515</sup> The range of potential VAS is quite extensive, and the services offered by credit bureaus have broadened significantly over the past 20 years.

Developing VAS can benefit both the bureaus and customers, ultimately improving access to finance for the broader community. Opportunities, challenges, and benefits, however, vary depending on a bureau's individual circumstances and the sophistication of the market.

Figure 9.3.1 gives a snapshot of the status of VAS in the international credit reporting industry. Credit bureau scores appear to be the most prevalent and used ancillary service, distributed by over 40 percent of CBs worldwide. It is one of the most effective and tested techniques to reliably predict credit risk. At the same time, they can be alternatively used in a vast array of situations.<sup>516</sup>

Ratings developed on the basis of credit bureau data are called bureau scores. These are different than ratings compiled with data supplied by individual lenders. Bureau scores are built on information pooled across many creditors, as well as public information sources; they include characteristics otherwise unavailable to the individual lender, such as total exposure, number of outstanding loans, and previous defaults within the system. All of these are highly predictive measures of future repayment.

Credit bureaus typically build scores using historical data related to defaults on previous credit transactions, positive payment behavior, and previous searches/inquiries. In certain circumstances, third-party data—such as court judgments and bankruptcies, demographic data or geo-demographic—are also used.

**Figure 9.3.1: Additional Services and Products Offered by PCBs**

Source: *Doing Business 2010*

Credit bureaus typically choose to develop a suite of models rather than just one model to accommodate multiple requirements of customers. Similarly, they may use a variety of distribution channels as different users use scores for different purposes.

The presence of sufficient historical data is a prerequisite for the development of scoring models. In emerging markets—where either the market is too small or the credit bureau is insufficiently mature to have confidence in the data—the bureau may consider offering models that rely more heavily on customer demographic characteristics than on credit performance data. Although less predictive, these models often provide a useful introduction to the methodology for lenders with little or no previous experience in credit scoring.<sup>517</sup>

CBs in a few countries (Bahrain, Egypt, Saudi Arabia) introduced the first credit bureau scoring models in MENA. The only CR using bureau scores in MENA, and one of the rare cases worldwide, is the Palestine Monetary Authority's CR, which was launched in April 2010.<sup>518</sup>

### 9.3.2 WEST BANK AND GAZA: PALESTINE MONETARY AUTHORITY BUREAU SCORE

With about 4 million inhabitants in the West Bank and Gaza strip, an established credit agency with the facilities of credit inquiry and assessment of financial standing of customers, as well as borrowers, was necessary. The

Palestine Monetary Authority (PMA) recognized the importance of sharing credit information to optimize the credit lending activity and pioneered a credit-reporting system for the economy. The objectives were:

- To collect information from the credit industry to support the PMA's oversight duties;
- To supply lenders with reliable and complete information for credit underwriting purposes.

Within three years, the PMA made remarkable progress in the development of the credit registry. The PMA established its first manual CR, the Palestine Monetary Authority Credit Registry (PMACR) in 2007, and launched an online credit reporting service in 2008. The PMA then included microfinance institutions in 2009 as data providers with an access to inquiry for borrowers.

In December 2009, the PMA decided to explore a new area by introducing credit scores—for the first time in the region. The objectives were accurate assessments of the risks of existing and future borrowers, periodic review of credit risk through portfolio monitoring, and strengthening banking facilities.<sup>519</sup>

PMA began by gathering information related to credit practices over 18 months. This information was to serve as a basis for the development of a score card. The job of developing a score system was entrusted to the Creditinfo Schufa GmbH, which provided the decision support system

and took over the technical aspects of implementation. The company was provided with financial statements and personal data of borrowers as well as guarantors.<sup>520</sup>

The requirements stipulated by the PMA for the score card were as follows:

- The mandate to develop a score card was six months;
- The installation of the system was to be integrated in the existing financial infrastructure without impairing core processes of the bank;
- The PMA demanded full control of the scoring process as well as the calculation of scoring variables and scoring values; also flexibility to later change these groups, if necessary;
- Any future changes should be implemented as early as possible to ensure quick processing of both single inquiries and bulk data. Thus, score calculation and inclusion went directly in the credit reports;
- In order to reduce the duration of development, the variables required for developing the score card should be directly plugged into the scoring system, rather than calculated by statistic software;
- Batch scoring of all the client portfolios of the large banks should function without impairing core functionalities of the CR.

Initially, there were 300 variables extrapolated for the development of score card, of which about 20 variables were used in the final score card. In addition, Credit info developed reason codes to provide the official in charge with an explanation for a poor score or negative credit rating. Such evaluation could be made for a score less than 300 and based on the financial transactions of a person during the past year.<sup>521</sup>

The credit bureau scoring system was launched on July 5, 2010. The system:

- Provides an accurate estimate of the credit risk of borrowers, based on the available data and information stored in the system;
- Determines the minimum and the maximum extent of risk for each borrower, and the probable percentage of default during a year period;

- Discloses, at most, five reasons to explain the evaluation of a client’s degree of risk;
- Limits the degree of risk, compared to the average customer credit risk for the portfolio of the banking facilities;
- The scores are a credit-assessment tool for internal use as well as for the use of all the regulated institutions, such as banks and microfinance institutions, none of which had their own credit scoring system. The scores are based on demographic and financial data (past and current), and range from 100 to 380. The higher the score, the lower the likelihood of a customer’s default. The scoring is used for individuals as well as institutions, including small and medium enterprises.

The score is presented online and, as shown in Figure 9.3.2, provides:

- Credit score of the individual;
- The probability of customer defaulting within a year;
- Risk grade;
- Reason codes.<sup>522</sup>

The credit scoring system is one of the important determinants in credit decision-making and offers advantages, such as:

- Accurate assessment of the risks of existing and future borrowers;
- More precision in the underwriting processes of lenders;
- Objective and fair credit decisions with automated decision-making process;

**Figure 9.3.2: PMA Credit Report Snapshot**

**Borrower Credit Scoring:**

| Score: | Probability Of Default within 12 months: | Risk grade: |
|--------|--|-------------|
| 000    | 00%                                      | A           |

**Reason Of The Score:**

| Code | Reason of the score |
|------|---------------------|
| A    | .....               |
| B    | .....               |
| C    | .....               |
| D    | .....               |
| E    | .....               |

Source: Palestine Monetary Authority Credit Registry (PMACR).

- Reduced collateral requirements;
- Reduced turnaround time;
- Risk-based pricing and assistance in evaluation of credit limits;
- Enhancement in the competitiveness among the lenders;
- Reduced cost of lending;
- Better access to banking facilities.

The credit scoring in the West Bank and Gaza is the first experiment in credit bureau scoring adopted by a CR in the region. It has brought about significant improvements in the underwriting processes and evaluation of credit limits by the credit grantors with reduced overheads. The establishment of the PMACR and the scoring system has also resulted in a decrease in nonperforming loans in the Palestinian credit market, from 14.5 percent in 2008 to 8 percent in 2012, as seen in Chapter 7.19.

With its bureau credit score model, the PMA has become the second central bank registry out of 65 central bank credit registries in the world to implement such a system.<sup>523</sup>

### 9.3.3 SAUDI ARABIA: SME SCORE DEVELOPMENT

The Saudi Arabia Credit Bureau (SIMAH) is the first and sole licensed national credit bureau offering consumer and commercial credit information services to its members in Saudi Arabia. It was established in 2002 with the mission of providing comprehensive credit information services and value-added products. By using best business practice, SIMAH is a world-class bureau in terms of products, services and standards. It became operational in 2004.<sup>524</sup>

Initially, services were confined to individuals. Later SIMAH recognized the need to extend credit to small and medium enterprises, and to better equip lenders to make fair credit decisions. Therefore, it expanded its services to include the commercial reporting for businesses to complement retail credit bureau operation in 2007.<sup>525</sup>

Besides the primary mandate of providing consumer and commercial borrower data to members, SIMAH has also developed new products and solutions for the credit industry. These include credit score cards, market and

product development solutions, research studies, and other customized advisory and research solutions. The concept behind these value-added services is to transform raw data into information, and then transform information into knowledge.<sup>526</sup>

Most of the small and medium enterprises (SMEs) in Saudi Arabia are individually-owned or limited liability firms. They are the major drivers of economic and social development, and contribute significantly in creating jobs. However, there were a few constraints to their growth; one major constraint was access to finance. Banks in Saudi Arabia were hesitant to lend to SMEs because of the lack of credit information to measure the level of financial solvency, high cost of loan assessment and evaluation, inability of SMEs to manage credit risks, increased lending costs due to increased credit risks, and the inability to anticipate and calculate the probability of default.<sup>527</sup>

Considering the vital role played by SMEs in the economy, SIMAH launched a project, Taqeeem, to assess SMEs in the Saudi Market. The project sought to:

- Carry out studies and analyze all financial, economic, administrative, and strategic aspects related to SMEs in order to assess such companies in terms of capital, scope of activities, and number of employees;
- Evaluate the entire SME sector by providing accurate credit information on their projects to the lenders;
- Encourage banks to develop a scientific base and methodologies of evaluation, by taking into account the financial risks of these enterprises;
- Create an opportunity for banks to diversify their products, adding value to the Saudi finance market;
- Remove uncertainty and increase transparency in the underwriting process;
- Encourage responsible borrowing and improve banking penetration in the economy.<sup>528</sup>

In order to increase awareness of this project, more than 20 workshops were conducted throughout the country. Similarly, two workshops, chaired by the governor of Saudi Arabia Monetary Agency (SAMA), were held for banks. The campaign included more than 300 media hits in the press and on air, through interviews and other reports.

As a part of Taqueem's initiative, the SME score was launched in late 2010. The objectives were to minimize the risk involved in SME lending, enable banks to undertake accurate and sound credit decisions, contribute to restructuring the SME sector, and set a national benchmark for SME credit lending.

The scoring solution was a homegrown technology to ensure that it would be in sync with the government's initiatives and incubation programs. It started with a sample of 2,000 SMEs, and required a consolidation of critical information related to the nature of SME behavior (such as finances, growth, business structure, and management style) in the Saudi market. Scoring was developed and enhanced, through 29 revisions, in collaboration with the banks.<sup>529</sup>

The score is easy to understand and represents the probability of default (PD) of an SME. Considering the relevant financial and nonfinancial data, an algorithm based on a statistical model produces a score that represents the PD. The model is a mix of quantitative and qualitative data, with more weightage to quantitative variables.<sup>530</sup> The data used for scoring includes:

- Three years of audited financials;
- Detailed management surveys;
- Detailed operational surveys;
- Financial spread and ratios;
- Creditor lending criteria;
- Nonperforming loans and nonperforming accounts;
- Historical records of default and delinquency;
- Any adverse information like check bounce, legal bankruptcy, etc.;
- Positive and negative data;
- Information from the data providers—regulated as well as nonregulated entities.

The PD model has been tested out-of-sample and out-of-period, and has performed very well. SIMAH worked closely with a pilot bank to test the model on the bank's portfolio, and results have been promising.

The bureau score is in the range of 1 to 20, and is aligned with that of rating agencies - Standard and Poor's (S & P) and Moody's scale. The score is available to both SMEs and lenders. All banks adopt the SME Taqueem score, and the cost to access it varies from lender to lender based on the business volumes. The cut-offs are based on the score scale. There is a scope for accepting and declining, and referring the score. The bureau scores are also used to provide differential pricing to the borrowers.<sup>531</sup> Figure 9.3.3, below, gives a snapshot of the credit report and score for SMEs.

**Figure 9.3.3: Sample Credit Report and Score format for SMEs**

| Assessment Summary   |               |
|--|---------------|
| CRNo: 1010123456 Name: Transportation  |               |
| <b>Final Results</b>   |               |
| Score  | 14            |
| Legend   | Moderate      |
| Standard & Poor's Equivalent Letter Grade Rating                               | B-            |
| Moody's Equivalent Letter Grade Rating   | B3            |
| Basel II Default Definition - Associated TTC Expected 1-Year Default Rates (%) | 5.501         |
| <b>Summary Report</b>  |               |
| Due Diligence Test   | Pass          |
| Behavioural Test   | Pass          |
| Sales Size Test  | Pass          |
| Already Defaulted Test   | Pass          |
| Proportion of Financial Factors Missing  | Fail          |
| Proportion of Non-Financial Factors Missing                                    | Fail          |
| Number of Outlier Scores   | Pass          |
| Minimum Lending Criteria   | Fail          |
| Age of Manager Test  | Pass          |
| Contractor Information (Completion) Test                                       | Pass          |
| <b>Ratings</b>   |               |
| Overall Rating   | Moderate      |
| Industry Rating  | Above average |
| Total Asset Growth (%)   | Satisfactory  |
| Net Sales Growth (%)   | Robust        |

Source: SIMAH

Under the Taqueem project, SIMAH has made significant contributions for improving access to finance for the SME sector. The scoring model has improved credit and risk-assessment practices undertaken by lending institutions, making decisions more objective and resulting easier access to credit for SMEs. SIMAH also plans to undertake various other initiatives to advance economic growth, create an efficient credit market, lower macroeconomic risk, and improve transparency.



### 9.3.4 CONCLUSIONS

- The contribution of PMACR and SIMAH in developing value-added services, like credit bureau scoring, is noteworthy. The two institutions were among the first in the region to develop and introduce such advanced tools;
- The bureau score is an important tool that has helped lenders to resolve the problem of information asymmetry, and improve the efficiency of the credit market in Saudi Arabia and the West Bank and Gaza.
- The two scoring models serve as examples for other MENA countries in the development of their own scoring systems. Although such initiatives have already been undertaken by the CBs and the Central Bank of Qatar, other CRs should develop scoring models.

## 9.4 CASE STUDY: INCLUSION OF MICROFINANCE DATA IN I-SCORE, THE CREDIT BUREAU OF EGYPT

Microfinance includes all financial services and products offered to the low and limited-income segments of the population. This consists of credit, insurance, savings and remittances tailored to the needs of these segments. It is considered an important mechanism for expanding access to finance, as it focuses on the self-employed, household-based entrepreneurs— those with informal or no business records, no collateral, and no access to formal credit markets. Microcredit suppliers in Egypt, named microfinance institutions, provide credit programs to economically-active poor people and micro and small enterprises.

### 9.4.1 EVOLUTION OF MICROFINANCE IN EGYPT

In order to fulfill their financial needs, low and limited-income people have previously depended on informal sources of finance, such as money lenders that charged exorbitant interest rates. In the late 1980's, the United States Agency for International Development (USAID) provided technical and financial support to Egypt's National Bank for Development (NBD) and Alexandria Businessmen Association (ABA) to offer microcredit programs to low-

income people and micro and small enterprises (MSEs). The success of these two programs encouraged more nongovernmental organizations to offer similar programs. Technical and financial assistance of many donors facilitated the growth of this sector. The Egyptian Social Fund for Development (SFD), an autonomous wholly state-owned entity, was established in 1991. SFD's mandate is to reduce poverty, promote the establishment of small and medium enterprises, assist with credit and technical services, and act as an umbrella organization to support the creation and development of microfinance institutions in cooperation with international donor agencies.

In 2001, Banque du Caire—followed by Banque Misr in 2003 and Bank of Alexandria in 2007—started offering microcredit programs. In addition, two private sector banks in cooperation with two service companies ventured into the microfinance sector. Accordingly, Reefy, a joint stock company, was set up in 2007 in cooperation with the Commercial International Bank (CIB); Tanmeyah, a joint stock company, was started in cooperation with Egyptian Gulf Bank (EGB) in 2009. As of March 2010, these companies had an outstanding loan portfolio of 68.4 Egyptian pounds and 97 million Egyptian pounds, with a branch network of 29 and 54 branches, respectively.<sup>532</sup>

In Egypt, presently, there are two microfinance companies, four banks, and the Egyptian Microfinance Network (which includes 23 nongovernmental organizations that are the main microfinance providers in the country). In addition, there are number of NGOs or community development associations that are not members in the microfinance institution network but offer microfinance programs.<sup>533</sup> The NGOs are prohibited from offering savings and deposit products to clients. Egypt Post is the main provider of savings products to Egyptian microentrepreneurs.<sup>534</sup>

### LENDING MECHANISM OF MICROFINANCE INDUSTRY

There are two prevailing lending mechanisms in the Egyptian microfinance industry: solidarity group lending and individual lending.

In the case of solidarity group lending, a group of three to five borrowers receive a loan that is equally divided among them; they give guarantee to each other in repaying

the loan. The loan is used to finance income-generating activities, mostly in the trade and service sectors.

In the case of individual lending, a loan is given to an individual and/or owner of a small or microenterprise. The majority of individual loans offered in this category are business loans.<sup>535</sup>

Microfinance institutions can extend credit and related financial services/products directly to customers, or indirectly as an agent for civil society organizations, donors, and financial institutions.<sup>536</sup>

## REGULATORY FRAMEWORK

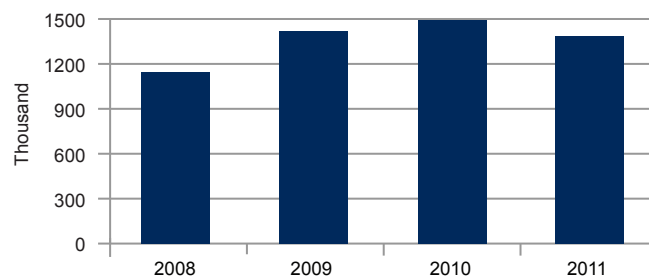
Until 2009, the microfinance industry in Egypt was not regulated or supervised by a single entity. NGOs were supervised by the Ministry of Social Solidarity and banks were supervised by the Central Bank of Egypt, whereas the microfinance portfolio of service industries was indirectly supervised by the central bank. In October 2010, the Egyptian Financial Supervisory Authority launched a set of controls, standards and principles. In its current form, it does not represent a legal tool, but rather a draft framework and code of ethics for microfinance companies.<sup>537</sup> As of November 2014, a new Microfinance law was enacted, while executive regulations will follow.

## SIZE OF THE MICROFINANCE INDUSTRY

Egypt's contribution to the microfinance sector is noteworthy. As of December 2011, the number of borrowers was over 1.3 million, with an outstanding loan portfolio of 2.6 billion Egyptian pounds. Figures 9.4.1 and 9.4.2 show the growth in business volumes, in terms of total number of borrowers and loan portfolio, since December 2008. The number of borrowers increased from 1.15 million in 2008 to 1.49 million in 2010, with an increase in gross loan portfolio from 2.2 billion Egyptian pounds to 2.6 billion Egyptian pounds—a growth of 30 percent and 14 percent respectively.<sup>538</sup>

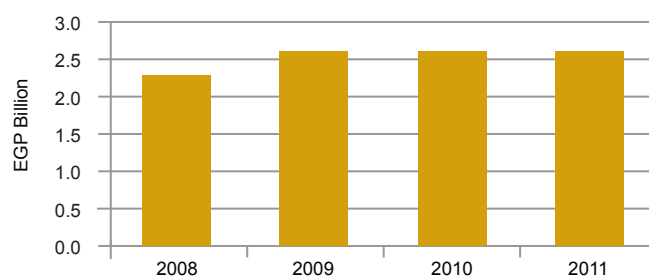
Although both outreach and scale slightly decrease by 7 percent, from 2010 to 2011, as a result of political changes, the Egyptian market maintained the second-largest share of the market in terms of outreach, following the Moroccan market.<sup>539</sup>

Figure 9.4.1: Number of Borrowers



Source: Sanabel

Figure 9.4.2: Gross Loan Portfolio



Source: Sanabel

## KEY CHALLENGES OF THE MICROFINANCE INDUSTRY

- **Lack of uniform regulatory authority:** There are different regulatory frameworks governing the microfinance institutions in Egypt. The Ministry of Social Solidarity supervises NGOs; banks are supervised by the Central Bank of Egypt. Newly established service companies are not regulated or supervised, yet their microfinance portfolios are supervised indirectly by CBE. As a result, there is an absence of standardized reporting systems on the performance of MFIs. This has led to a lack of transparency in the MFI's financial performance;
- **Competition:** The playing field is not level for the country's microfinance industry. The cost of funding, tax treatment, and overhead expenses vary from one legal entity to another, which is not conducive to healthy competition;
- **Constraints on outreach:** As non profit entities, small NGOs are unable to raise funding through commercial sources, such as private equity or banks. There are also restrictions on mobilizing deposits. As a result, they are unable to increase their outreach;

- Limited ability to offer diversified products: Under the current regulatory framework and also due to lack of infrastructure and technical expertise, MFIs cannot offer a diverse range of products to clients;
- Consumer protection of microfinance clients: There is no clear supervision with regard to the MFI practices related to the consumer rights;
- Over-indebtedness: NGOs that are MFIs do not report to the credit bureau or inquire about their clients' credit history. It leads to multiple lending in the same sector as well as cross-lending by banks which results in over-indebtedness in the microfinance sector.<sup>540</sup>
- Over 14 percent (nearly 50,000) of the MFIs' clients in the sample had been granted credit lines (one, two, or more) by banks, corresponding to an outstanding balance of nearly 500 million Egyptian pounds (three-times as much as the MFIs' total outstanding balances);
- 6,000 of these MFI/bank customers were 90 plus days past due;
- 460 of them were undergoing legal actions;
- About 100 showed records of dishonored checks;
- Around 13,000 MFI clients had been granted credit lines (one, two, or more) by other MFIs, with an outstanding balance of 14 million Egyptian pounds.<sup>542</sup>

Some of these challenges will be addressed by Egyptian Financial Supervisory Authority, which aims to bring efficiency and transparency to this sector. Similarly, I-Score, the credit bureau, would enable MFIs to address the problem of over indebtedness through a positive credit information system.

#### 9.4.2 INCLUSION OF MFI DATA BY I-SCORE, THE CREDIT BUREAU

With increasing lending volumes, MFIs started facing a problem of defaults in repayments in the microfinance sector. The situation became alarming, and there was an urgent need to address this crisis.

I-Score, a credit bureau launched in 2008, was successful in obtaining credit data from banks, leasing and mortgage companies, and the Egyptian Social Fund for Development. It was also trying to add MFI data to its database, but was unsuccessful due to MFIs' mistrust of I-Score's intentions. MFIs were keen to establish a separate credit bureau, which would have led to the fragmentation of information in the market.<sup>541</sup>

In 2011, I-Score and IFC proposed to three of the largest Egyptian MFIs a cross-tabulation analysis. The aim was to compare a sample of their loan portfolios with the data in the I-Score database to see if there was evidence of cross-lending (borrowers being granted lines of credit by other lending sectors, such as banks). The results were both unexpected and alarming for the MFIs:

The incidence of multiple lending, as demonstrated by the cross-tabulation analysis, dissuaded the MFIs from keeping their data separate from other lending sectors. MFIs recognized the fact that vertical information silos would not have provided the necessary quality and completeness of information needed to conduct responsible and reliable lending.

Following the cross-tabulation analysis (see Table 9.4.1), in early 2012, IFC entered into an agreement with the Egyptian Microfinance Network to support the integration of four of the largest MFIs into I-Score over a year. The objective was two-fold:

1. To ensure a smooth functioning system of data submission and acceptance of the bureau by MFIs;
2. To help MFIs to make better credit decisions, using credit reports, and thereby build healthier credit portfolios.

The data collected and distributed is positive data, including personal, financial and demographic information, loan data, and payment performance data. There is no legal obligation on MFIs to make inquiries to or share data with the credit bureau, and they need to obtain consent from the borrower to do so.

I-Score now receives data from two microfinance companies and the microfinance network, incorporating four NGOs (Lead Foundation, Alexandria Business Association, Sharkia Business Association for Community

**Table 9.4.1: Comparison Between MF Network Relationship Analysis as of September 2011 vs. September 2013**

|        | Egyptian Micro Finance Network | Total Customers | Total Outstanding Balances | Total Facilities | Total 90+ Bad Accounts | Total 90+ Bad Amount | NPL (90+ ACC) | NPL (90+ AMT) |
|--------|--------------------------------|-----------------|----------------------------|------------------|------------------------|----------------------|---------------|---------------|
| Sep-11 |                                | 1,06,914        | 28,52,09,231               | 1,07,172         | 6,737                  | 1,12,99,638          | 6.29%         | 3.96%         |
| Sep-12 |                                | 2,08,699        | 58,77,52,207               | 2,09,642         | 6,294                  | 1,04,86,126          | 3.00%         | 1.78%         |
| Sep-13 |                                | 2,18,102        | 59,32,15,247               | 2,19,043         | 6,342                  | 1,22,00,080          | 2.90%         | 2.06%         |

|        | I-Score Relationship with Egyptian Micro Finance Network | Number of Customers | Total Balance in I-Score (EGP) | Number of Loans | Bad Accounts 90+ DPD | Bad Accounts 90+ DPD Amount | NP (90+ ACC) | NP (90+ AMT) |
|--------|--|---------------------|--------------------------------|-----------------|----------------------|-----------------------------|--------------|--------------|
| Sep-11 |  | 19,228              | 24,70,65,612                   | 30,464          | 3,543                | 3,38,27,530                 | 11.63%       | 13.69%       |
| Sep-12 |  | 37,137              | 53,93,84,008                   | 57,616          | 4,031                | 4,29,27,656                 | 7.00%        | 7.96%        |
| Sep-13 |  | 35,799              | 56,22,59,847                   | 53,572          | 4,870                | 4,11,90,124                 | 9.09%        | 7.33%        |

Source: I-Score Data

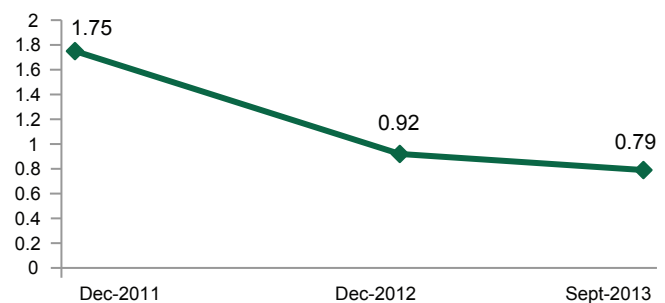
Development, Dakahlia Businessmen Association); the data received from them has reached 766,848 records, as of September 2013 (individual loans). MFI borrowers are registered individually using their National ID. However, the data of solidarity groups has not yet been reported. The MFI data from NGOs are submitted under the MFI network (excluding two companies that report the data directly).

There has been a significant increase in the data inclusion by I-Score, as seen in Table 9.4.2. But there is tremendous scope to cover more MFIs as well as group lending which is not yet covered.

There is a special pricing arrangement of around 5 Egyptian pounds for MFI lenders (compared to 16 to 26 Egyptian pounds for other lenders); and a three to six month free trial period. However, some MFIs feel that a better pricing deal can be agreed upon with I-Score.

## IMPACT OF MFI DATA INCLUSION ON NONPERFORMING LOANS

MFI data inclusion by I-Score is a recent development and therefore the impact of this initiative will be measurable over the next few years. However, the NPLs have started to show a declining trend since December 2011, as shown in Figure 9.4.3. Multiple factors, including the integration of MFI data into I-Score are contributing to this trend.<sup>543</sup>

**Figure 9.4.3: MFI Data in I-Score – NPAs (%)**

Source: Based on response from I-Score.

**Table 9.4.2: Microfinance Data Inclusion from December 2011 to September 2013**

| Category  | Dec-11  | Sep-13  | % increase |
|---|---------|---------|------------|
| Active individual customers (#)                             | 180,545 | 286,312 | 59         |
| Active individual customers (Outstanding loans Million EGP) | 532.5   | 834     | 57         |
| Women borrowers (#)   | 45,450  | 88,617  | 95         |
| Women borrowers (Outstanding loans Million EGP)             | 117.5   | 231     | 97         |

Source: I-Score Data

### 9.4.3 CONCLUSIONS

- In order to increase the effectiveness of the I-Score initiative, more NGOs need to join the initiative, as the data included is marginal considering the size of microfinance industry.
- It is essential to integrate group loans in the credit bureau as they constitute a significant portion of the microfinance portfolio in Egypt.
- I-Score and MFIs need to reach a sustainable pricing agreement in order to ensure the continuity of the initiative.
- MFIs should make inquiries to the credit bureau more frequently in order to see the benefits of utilization of the bureau's services.
- MFI data inclusion will not only help to strengthen microlending practices but will also benefit the Egyptian financial sector as a whole.



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