Secured Transactions and Collateral Registries Program

Access to Finance, IFC

July 2012
Outline

What is secured transactions?
Why is it important?
How does IFC implement this work?

Current portfolio and early results
Impact of reforms in other regions
Reform challenges and lessons learned
What is secured transactions?
Secured Transactions Systems

Legal and institutional framework to facilitate the use of movable property as collateral for both business and consumers credit

- Bank Accounts
- Accounts receivable and secured sales contracts
- Inventory and raw goods
- Intellectual Property rights
- Industrial and agricultural equipment
- Durable consumer goods
- Agricultural products (crops, livestock, fish farm)
- Vehicles
Why is secured transactions important?
Collateral Gap

Lack of adequate collateral

Credit Application Rejected: Insufficient Collateral

Did not apply: Collateral Requirements Too High or Thought Application Would be Rejected

Mismatch between assets owned by companies and collateral required

Capital Stock of Firms

Collateral Taken by FIs

Source: World Bank Enterprise Surveys
Weak borrowers and creditors rights

<table>
<thead>
<tr>
<th>Borrowers and Creditors Right Index (0-10)</th>
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<tbody>
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<td>OECD</td>
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<td>Europe &amp; Central Asia</td>
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<td>East Asia &amp; Pacific</td>
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<td>Latin America &amp; Caribbean</td>
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<td>Sub-Saharan Africa</td>
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<td>Middle East &amp; North Africa</td>
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**Weak Creditors Rights Despite**

- 1998 - G22
- 2004 - BASEL II
- 2010 - G20

*Source: World Bank Doing Business 2012*
Benefits of a Solid Secured Transactions System

**Benefits of a Solid Secured Transactions System**

- **Increases access to credit reducing the risk of credit**
  - Underserved MSMEs and women entrepreneurs
  - Promotes risk management, prudent lending

- **Increases market competition**
  - Development of industries (factoring and leasing)
  - NBFIs

- **Reduces the cost of credit**
  - Better interest rates
  - Move from informal to formal financing
  - Cost savings for businesses

- **Promotes credit diversification**
  - Credit risk diversification: immovable and movable
  - Sector diversification in the portfolio

- **Promotes credit diversification**
  - Development of industries (factoring and leasing)
  - NBFIs
Why are financial institutions not willing to lend taking movable property as collateral?

- Lack of Adequate Legal Framework
- Lack of Registry of Security Interests in Movables
- Lack of Know How on Movable Asset Lending
- Not Interested

Restrictions on types of assets
Lack of clear creditor priority
Enforcement issues

Dysfunctional Registry
No Registry
Lack of publicity
No transparency

Have never done that type of financing
Do not have the staff with skills

Not their type of business
No competition in the lending markets
Revenue from other sources (TB)
How does IFC implement this work?
Secured transactions objective

Increasing access to sustainable credit by:

(1) Creating the conditions to allow businesses and individuals to use all types of movable property as collateral

(2) Improving the infrastructure (registries) and the enforcement mechanisms to reduce the risk of banks in taking movable assets as collateral

(3) Introducing new financial innovative asset-based lending products and training banks and NBFIs
## Secured transactions overview

<table>
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<tr>
<th>Clients</th>
<th>Beneficiaries</th>
<th>Funding Model</th>
<th>Value Added</th>
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<tbody>
<tr>
<td>Governments (Central Banks, Ministry of Finance/Economy/Justice/Trade)</td>
<td>Financial Institutions, NBFIs, Firms (mostly MSMEs), Households and Consumers</td>
<td>IFC funds, Pooled donor funds, client contributions</td>
<td>In house expertise, global local presence, developed methodology and M&amp;E standards, demonstrated impact.</td>
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**IMPACT / RESULTS:** (1) Value of financing facilitated secured with movable property (US$) and; (2) Number of Firms/MSMEs with increased access to credit
Business and delivery model

1. Create Committee
2. Draft new Secured Transactions Law
3. Awareness
4. Submit Law to Parliament
5. Draft registry regulations

1. Determine Government Agency to Host Registry
2. Develop Technical Specifications
3. Hardware and Software Procurement
4. Training/awareness
5. Launching of registry

1. Develop monitoring and evaluation plan including baseline information
2. Conduct periodic monitoring of impact through registry indicators and surveys

1. Training and awareness to main stakeholders (both public and private sector) on the new system, including law and registry
2. Training on movable asset financing for Financial Institutions

1. Building the Capacity of Stakeholders
2. Creation of Electronic Registry
3. Monitoring Impact
4. Legal and Regulatory Framework
Program Highlights - Knowledge Management

- **Toolkits**
- **Surveys**
- **Impact evaluation**
- **Network Building**
- **Publications**

**Factsheets**

**Knowledge Sharing**

**Events - Peer learning**
Current portfolio and early results
Current project Portfolio

AFRICA
- Ghana
- Malawi
- Rwanda
- OHADA
- South Sudan
- Sierra Leone

MENA
- Afghanistan
- Jordan
- Lebanon
- West Bank & Gaza
- Yemen

EAST ASIA & PACIFIC
- Cambodia
- China
- Lao PDR
- Mongolia
- Philippines
- Vietnam

SOUTH ASIA
- Sri Lanka
- India

ECA
- Azerbaijan
- Belarus

LAC
- Colombia
- Haiti

PIPELINE
AFRICA (Liberia, Guinea, Coted’Ivoire, Togo)
Ghana

Legal Framework
Borrowers and Lenders Act, 2008
Registry regulations, 2012

Collateral Registry
New on-line registry, 2012

Next Steps
Enactment of revised B&L Act, 2012
Awareness and capacity building

More than 36,000 loans registered
More than US$2 billion in financing to
2,000 + SMEs and 10,000 + Micro enterprises
Collateral: Inventory & receivables (25%), Household goods (20%), motor vehicles (19%)
Impact on SMEs: A practical case

CAL BANK: Purchase Financing Scheme for Gold Mining

Developed a local supply chain for big mining corporations, through local SME service providers

More than 100 local SMEs have received more than US$ 10 million. Created hundreds of new jobs.

SMEs use movable assets (contracts, receivables, equipment) as collateral

No defaults in the 30 months that program has been operating
Other Initiatives

Ohada Regional Initiative

New Uniform Act on Secured Transactions, passed by OHADA Council of Ministers 2010

NEXT STEPS

(1) Regional registry being designed

(2) Implementation of 3 - 4 national registries as pilots (2012-2014)

(3) Capacity building

Expected Impact in Africa Over next 4 years: More than 3 USD Billion to more than 6,000 MSMEs
Other Countries

Malawi

New Personal Property Security Act drafted and approved by Cabinet

NEXT STEPS
(1) Enactment of the PPSA by Parliament
(2) Drafting of regulations
(3) Registry design and development
(4) Capacity building

Liberia

New Secured Transactions Law, enacted in 2010

NEXT STEPS
(1) Drafting of regulations
(2) Registry design and development
(3) Capacity building
Impact of reforms in other regions
Impact of Secured Transaction Reform in Asia and Latin America

**MEXICO**

Law reform and new centralized online registry (October 2011)

Over 74,129 loans have been registered for a total secured amount estimated at over USD$190 billion

Businesses have saved US$3.8 billion in fees
Impact of Secured Transaction Reform in Asia and Latin America

HONDURAS

Law reform enacted (based on OAS Model Law)
New centralized online registry (March 2011)
More than 3,800 loans registered, mostly for SMEs
Impact of Secured Transaction Reform in Asia and Latin America

<table>
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<th>China</th>
<th>Law reform (2007) and new centralized online registry for accounts receivables and leasing (2008)</th>
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<td>Project has led to more than US$ 3.5 trillion in financing secured with receivables, mostly to SMEs (around 60% of the loans)</td>
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<td>More than 70,000 SMEs have received loans</td>
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<td>Project has led to the development of the factoring and leasing industries</td>
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Reform challenges and lessons learned
Collateral Registries Lessons Learned & Best practices

IFC Lessons Learned

1. Medium/long term reform that will not see immediate impact. Reforms take on average 4-5 years. Passing of laws, political instability major sources of delay.

2. Position the reforms as the “transformation of the credit market”

3. Sustain a long-term effort with a professional team over time merging local knowledge with global subject-matter expertise.
Collateral Registries Lessons Learned & Best practices

Client Best Practices

1. Partner with a strong institution with strong political clout (Central Banks). Build consensus among stakeholders.

2. Commitment is critical from both public and private sector: government counterpart commitment and a dynamic and supportive financial sector.

3. Local ownership is key: client monetary or in-kind contributions; local software solutions and local IT support for the registry strengthen client ownership and sustainability of the project.
THANK YOU

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