Secured Transactions & Collateral Registries: 
*Global Expansion, Global Results*
WHY SECURED TRANSACTIONS?
CLEAR MARKET FAILURE IN LAC AND BEYOND
Why is IFC focusing in this area?: Clear Market Failure

SME Finance Gap

400 million SMEs in developing world
50% unserved or underserved
14% with loan or line of credit
Collateral Gap

Mismatch between assets owned by companies and collateral required

Capital Stock of Firms
- Vehicles/machinery/equipment: 22%
- Accounts Receivable: 34%
- Land / Real Estate: 44%

Collateral Taken by FIs
- Land / Real Estate: 73%
- Movable property: 27%
Why are financial institutions not willing to take movable property as collateral?

<table>
<thead>
<tr>
<th>Lack adequate legal framework</th>
<th>Lack registry of security interests in movables</th>
<th>Lack know how on movable asset lending</th>
<th>Lack interest</th>
</tr>
</thead>
</table>
| • Restrictions on types of assets  
  • Lack of clear creditor priority  
  • Enforcement issues | • Dysfunctional Registry/  
  • No Registry  
  • Lack of publicity  
  • No transparency | • No experience with this type of financing  
  • Do not have staff with necessary skills | • Not their current business  
  • No competition in the lending markets  
  • Revenue from other sources |
POTENTIAL IMPACT OF SECURED TRANSACTIONS REFORMS IN ACCESS TO CREDIT
Opens the door to new types of collateral

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

- Bank Accounts
- Accounts receivable
- Inventory and raw goods
- Intellectual Property rights
- Industrial and agricultural equipment
- Durable consumer goods
- Agricultural products (crops, livestock, fish farm)
- Vehicles
Uncovers and broadens benefits

- **BENEFITS OF A SOLID SECURED TRANSACTIONS SYSTEM**

**INCREASES ACCESS TO CREDIT**
- REDUCES CREDIT RISK

**INCREASES MARKET COMPETITION**
- Market development (e.g. factoring and leasing)
- Expands credit providers

**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 & movable
- Sector / client diversification

- MSMEs and women entrepreneurs
- Promotes risk management, prudent lending
## Spurs firms access?

<table>
<thead>
<tr>
<th>Variable</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td>8 percentage points</td>
</tr>
<tr>
<td>Access to a loan</td>
<td>7 percentage points</td>
</tr>
<tr>
<td>% of working capital financed by banks</td>
<td>10 percentage points</td>
</tr>
<tr>
<td>Interest rates</td>
<td>3 percentage points</td>
</tr>
<tr>
<td>Loan maturity</td>
<td>6 months</td>
</tr>
</tbody>
</table>

Study also provides evidence that introducing a registry has greater impact on smaller firms, which also report a perceived reduction in finance obstacles.

*by Inessa Love, Sole Martínez Pería and Sandeep Singh*
Trinidad and Tobago (2010)

Top Ten Business Environment Constraints

- Inadequately educated workforce: 30.1%
- "Crime, theft and disorder": 17.4%
- Access to finance: 12.7%
- Practices of the informal sector: 10.6%
- Customs and trade regulations: 7.1%
- Corruption: 4.1%
- Tax rates: 4.0%
- Political instability: 2.9%
- Business licenses and permits: 2.7%
- Transportation: 2.6%
Belize (2010)

Top Ten Business Environment Constraints

- Tax rates: 16.3%
- Access to finance: 15.6%
- Inadequately educated workforce: 15.0%
- Transportation: 13.4%
- "Crime, theft and disorder": 11.7%
- Customs and trade regulations: 7.7%
- Corruption: 6.1%
- Political instability: 4.7%
- Tax administration: 3.5%
- Labor regulations: 3.5%

Percent of Firms
Top Ten Business Environment Constraints

- Access to finance: 35.0%
- Electricity: 22.4%
- Transportation: 10.7%
- Inadequately educated workforce: 7.4%
- Tax rates: 6.0%
- Labor regulations: 5.6%
- "Crime, theft and disorder": 5.1%
- Customs and trade regulations: 4.0%
- Practices of the informal sector: 2.7%
- Corruption: 0.9%
Jamaica (2010)

Top Ten Business Environment Constraints

- Tax rates: 35.1%
- Electricity: 12.4%
- Access to finance: 11.7%
- Practices of the informal sector: 11.6%
- "Crime, theft and disorder": 6.9%
- Tax administration: 5.2%
- Customs and trade regulations: 4.4%
- Corruption: 3.4%
- Inadequately educated workforce: 1.2%
- Political instability: 1.0%
Effective Secured Transactions System

- Broad scope
- Enforcement
- Creation
- Priority
- Publicity / registration

Effective Secured Transactions System
Modern registry system

1. Centralized on-line
2. For all types of security interests in movables
3. Registration by creditors
4. Notice based registry (no documentation)
5. Public search available to all
6. Reasonable flat fees
7. Limited role of registrar in verification
8. Security and data back up
9. No cash payments
Legal Rights Trinidad and Tobago

- **Legal framework integrated and uniform? NO**
  - Concepts and terminology are not uniform
  - Difficulty of discovering unregistered but effective security interests
  - Fragmented approach overlooks underserviced business sectors
  - Integration of secured transaction law and insolvency law incomplete

- **Unified Registry for Individuals and Companies? NO**
  - Lack of uniform legal devices equals lack of registry uniformity and priorities

- **Required Registration of Functional Equivalents? NO**
  - No registration of Leases, Conditional Sales, Title Retention, Hire Purchases equals secret liens

- **On-line registration, amendments, cancelations and searches? NO**
  - Increased digitization of paper documents, but no searchable index in database, no electronic payment, filing or searching equals paper-based system and process
Legal Rights Belize

- **Legal framework integrated and uniform?** NO
  - Concepts and terminology are not uniform
- **Electronic registry that is unified?** NO
  - Lack of uniform legal devices equals lack of registry uniformity and priorities
- **Required Registration of Functional Equivalents?** NO
  - No registration of Leases, Conditional Sales and Hire Purchase Contracts
- **On-line registration, amendments, cancelations and searches?** NO
  - No on-line registration or searching options at the moment
- **Secured Creditors paid first outside of Insolvency?** NO
  - Labor and Tax Liens can have priority
- **Secured Creditors paid first in Insolvency?** NO
  - Labor and Tax Liens can have priority
- **Clear grounds for protection in automatic Stay?** NO
  - No clear procedures for determination of equitable rights in insolvency period
- **Does Law provide for out-or-court enforcement?** NO
  - Non-uniform system for extra-judicial enforcement remedies depending on legal mechanism used for transaction
Legal Rights St. Lucia

- Legal framework integrated and uniform? **NO**
  - Concepts and terminology are not uniform / Coexistence of Civil and Common Law Rules and Mechanisms

- Electronic registry that is unified? **NO**
  - Lack of uniform legal devices equals lack of registry uniformity and priorities

- Required Registration of Functional Equivalents? **NO**
  - Various Legal Figures for Individuals do not require registration, Companies registry does not contain all liens

- On-line registration, amendments, cancelations and searches? **NO**
  - No on-line registration or searching options at the moment

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  - Currently no, but WBG project in St. Lucia would seek to correct

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Jamaica is the best scoring country in Caribbean with score of 10 out of 12

Needed reform with Insolvency:

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IFC’s SECURED TRANSACTIONS PROGRAMS: BUSINESS AND DELIVERY MODEL
Project Implementation Model

1. Legal & Regulatory Reform
2. Creation of Collateral Registry
3. Capacity Building for Users

Monitoring & Evaluation

WORLD BANK GROUP
Current global portfolio

AFRICA
- Burundi
- Ghana
- Liberia
- Malawi
- Nigeria
- Sierra Leone
- South Africa
- Zambia

MENA
- Afghanistan
- Jordan
- Lebanon
- UAE
- West Bank & Gaza
- Morocco

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

SOUTH ASIA
- India
- Sri Lanka

ECA
- Azerbaijan
- Belarus
- Tajikistan
- Uzbekistan

LAC
- Belize
- Chile
- Colombia
- Costa Rica
- Dominican Republic
- Haiti
- St. Lucia
- Trinidad & Tobago

Pipeline
- West & Central Africa, South Sudan, Uganda, Egypt, Pakistan, Paraguay, Bhutan
## Success Stories

### Colombia

- New law (2013) and new centralized online registry (March 2014)
- Averaging 1,000 registrations per day
- Over USD$90 Billion in Loans and more than 1 million registrations
- Special emphasis on SMEs
- Colombia ranked number two globally in Getting Credit indicator, up 52 positions

### China

- Law reform (2007) and new centralized online registry for accounts receivables and leasing (2008)
- Project has led to more than US $3.5 trillion in financing secured with receivables, mostly to SMEs (around 60% of the loans)
- More than 70,000 SMEs have received loans
- Project has led to the development of the factoring and leasing industries
Success Stories

**Mexico**

- Legal reform and new centralized online registry (October 2011)
- More than 130,000 new registrations (quadrupling previous activity)
- 45% for the agricultural sector and 97% for SMEs
- Companies saved US $3.8 Billion in costs

**Ghana**

- More than 63,000 registrations (21% SMEs, 66% Micro, primarily women)
- More than US$ 14 billion in financing using movable property as collateral
- Movable assets:
  - Accounts receivables (25%)
  - Vehicles (17%)
  - Consumer goods (15%)
LESSONS LEARNED

1. Partner with a strong institution with strong political clout. Public and private commitment is critical.

2. Reform based on international accepted standards can be done in any legal system but more difficult to accept in civil law countries.

3. Local ownership is key: client monetary or in-kind contributions; local lawyers, local software solutions and IT support strengthen client ownership and sustainability.

4. Solid legal regime is important but so is a modern well designed registry and extensive training.

5. Financial institutions need to be willing to lend. If they don’t you can have the best system in the world but the impact will be insignificant.
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