



**International
Finance Corporation**
World Bank Group

POTENTIAL RESEARCH OPPORTUNITY FOR SECURED TRANSACTIONS REFORM IN COLOMBIA

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1) SECURED TRANSACTIONS: WHAT, WHY, HOW?

2) POTENTIAL IMPACT OF REFORM: WHAT DO WE KNOW?

3) ADDITIONAL RESEARCH IS NEEDED?

4) COLOMBIA COULD BE A POTENTIAL COUNTRY TO CONDUCT RESEARCH

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WHAT DO WE MEAN BY SECURED TRANSACTIONS SYSTEMS?

SECURED TRANSACTIONS SYSTEMS: LEGAL AND INSTITUTIONAL FRAMEWORK TO FACILITATE THE USE OF MOVABLE PROPERTY AS COLLATERAL FOR BOTH BUSINESS AND CONSUMERS CREDIT

MOVABLE PROPERTY: ALL TYPES OF MOVABLE ASSETS, TANGIBLE AND INTANGIBLE, PRESENT AND FUTURE, INCLUDING:

- Vehicles
- Industrial, construction and agricultural equipment
- Inventory and raw goods
- Accounts receivable and secured sales contracts
- Agricultural products (crops, livestock, fishfarm)
- Negotiable instruments
- Bank accounts, insurance policies
- Intellectual property rights
- Durable consumer goods
- Minerals and timber to be severed, etc



SECURED TRANSACTIONS OVERVIEW

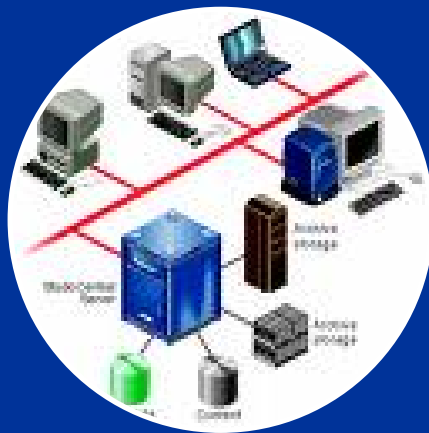
- ❑ **OBJECTIVES:** Increasing access to sustainable credit for firms, with a strong focus on increasing access for the SME sector
- ❑ **CLIENTS:** Governments (Central Banks, Ministry of Finance/Justice/Trade)
- ❑ **BENEFICIARIES:** Financial Institutions, NBFIs, Firms (mostly SMEs), Households and Consumers
- ❑ **IMPACT / RESULTS:** (1) Value of financing facilitated secured with movable property (US\$) and; (2) Number of Firms/SMEs with increased access to credit
- ❑ **FORM OF ASSISTANCE:** Advisory services (technical assistance)

WHY ARE FINANCIAL INSTITUTIONS NOT WILLING TO LEND TAKING MOVABLE PROPERTY AS COLLATERAL?



LACK OF ADEQUATE LEGAL FRAMEWORK

- Restrictions on types of assets
- Priority of creditors unclear
- Enforcement issues



LACK OF REGISTRY OF SECURITY INTERESTS IN MOVABLES

- Dysfunctional registry
- No registry, lack of publicity, no transparency



LACK OF KNOW HOW ON MOVABLE ASSET LENDING

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



NOT INTERESTED

- Not their type of business
- No competition in the lending market
- Revenues from other sources (TB)
- Other reasons



BUSINESS AND DELIVERY MODEL

• LEGAL AND REGULATORY FRAMEWORK

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

• CREATION OF ELECTRONIC REGISTRY

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

• MONITORING IMPACT

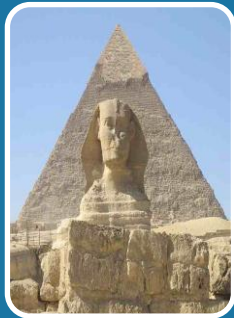
1. Develop monitoring and evaluation plan including baseline information
2. Conduct periodic monitoring of impact through registry indicators and surveys

• BUILDING THE CAPACITY OF STAKEHOLDERS

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

CURRENT PROJECT PORTFOLIO

23 countries and 5-10 in the pipeline



AFRICA

- Ghana
- Malawi
- Rwanda
- OHADA Regional Initiative
- South Sudan

MENA

- Afghanistan
- Jordan
- West Bank & Gaza
- Yemen
- AMF

EAST ASIA & PACIFIC

- Cambodia
- China
- Lao PDR
- Philippines
- Vietnam

SOUTH ASIA

- India
- Nepal
- Sri Lanka

ECA

- Azerbaijan
- Belarus
- Moldova
- Tajikistan

LAC

- Colombia

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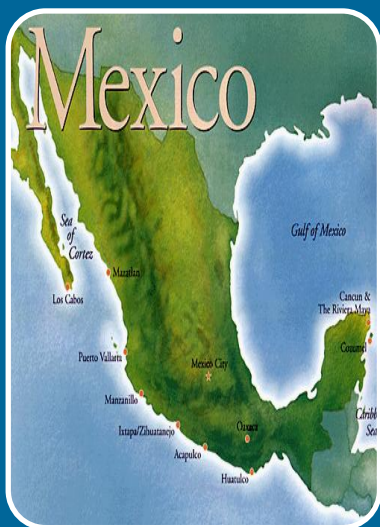
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EXISTING LITERATURE AND EMPIRICAL EVIDENCE ON THE POTENTIAL IMPACT OF THIS TYPE OF REFORM

- ❑ **INCREASES ACCESS TO CREDIT:** IMF; Djankov, McLiesh, Shleifer (2005); Lago, Lopez, Saurina (2007)
- ❑ **MITIGATES FINANCIAL RISKS, PROMOTES PRUDENT LENDING PRACTICES AND REDUCES NPLs:** BASEL I, II, III. Reduces information asymmetry (Stiglitz, Weiss -1981). Doing Business data.
- ❑ **REDUCES THE COST OF CREDIT:** Chavez, de la Pena, Fleisig (2004); Lago, Lopez, Saurina (2007)
- ❑ **PROMOTES GREATER FINANCIAL STABILITY:** Basel, G20
- ❑ **INCREASES FINANCIAL MARKET COMPETITION:** promoting new financial products (leasing, factoring). G22 after the Asian Financial Crisis

SPECIFIC COUNTRY EVIDENCE



MEXICO

- Law reform and new centralized online registry (October 2010)
- In 6 months number of loans secured with movables have multiplied by 4, to total of 23,000. 50% of loans in the agricultural sector
- Loans represent US\$ 68 Billion in financing, and 96% of loans are SME loans
- Businesses have saved US\$ 1.3 Billion in fees



ROMANIA

- Volume of private bank credit rose \$4.8 billion between 2000 and 2003
- Registrations of security interests went from 65,000 in 2000 to 536,000 in 2006 (60% increase per annum)
- Private sector credit to GDP went from 11.3% in 2000 to 11.4%, 13.6% and 15.8% in 2001-2003 respectively

SECURED TRANSACTIONS REFORM:

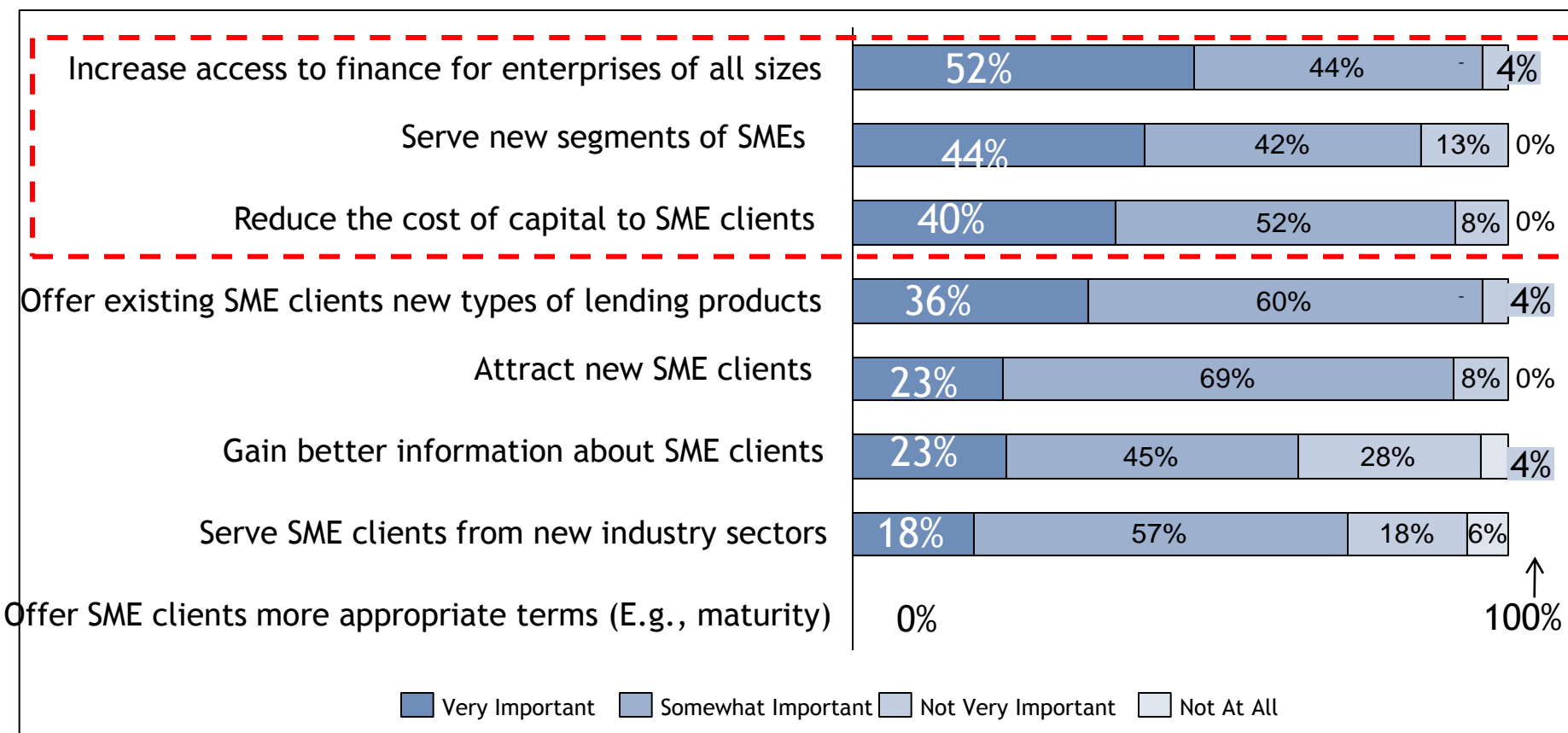
- ☐ INCREASES ACCESS TO CREDIT AND MOSTLY BENEFITS SMEs:** 84% of the borrowers receiving loans secured with movables (receivables) were SMEs. Almost none of the SMEs surveyed had any loans secured with receivables before the reform
- ☐ ALLOWS BUSINESSES WITHOUT IMMOVABLE PROPERTY TO ACCESS CREDIT USING ONLY MOVABLES AS COLLATERAL:** 40% of businesses are able to use only movable assets as collateral
- ☐ FACILITATES AND INCREASES ACCESS TO CREDIT FOR WOMEN ENTREPRENEURS:** 23% of SMEs surveyed were majority owed by female and 63% had females among their owners
- ☐ HAS MOST POSITIVE IMPACT IN CERTAIN SECTORS:** Wholesale, retail trade and manufacturing (more than 50% very relevant or relevant), transportation and storage (40%)

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NEW REVEALING EVIDENCE FROM CHINA (Cont')

❑ **REDUCES THE COST OF CREDIT:** 92% of FIs confirmed that it helps to reduce the cost of capital to SME clients

❑ **REDUCES THE GAP OF THE “UNDERSERVED SME SEGMENT”:** more than 80% of FIs confirmed that they started serving new segments and attracted new clients



Source: 50 FIs surveyed in Anhui, Guangdong, Shanxi, Shandong, Shanghai, Zhejiang, Beijing

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NEW REVEALING EVIDENCE FROM CHINA (Cont')

INCREASES BUSINESS GROWTH, TO A LESSE EXTENT EMPLOYMENT LEVELS:
88% of the borrowers receiving loans secured with movables mentioned business growth as the main impact

Majority of enterprises think that their businesses would be impacted if they had not obtained financing using A/R

Benefits of financing obtained for SMEs business



- Business growth is cited as the most common benefit of A/R loans
- Specifically, growth refers to increased sales, production, and product types as well as a greater number of marketing channels and business partners

Note: Respondents can choose more than one reason. This result holds across location, sector, firm age and firm size.

Source: 126 enterprises surveyed in Beijing, Chengdu, Hangzhou, Wuhan and Zhengzhou, out of which 100 are SMEs.

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OUTLINE

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STILL A NEED TO GO DEEPER INTO SOME QUESTIONS TO ASSESS THE IMPACT AT THE BENEFICIARY LEVEL

FROM THE REFORM PROCESS SIDE

- More on the political economy of the reform process: which type of institution is best positioned to be the champion (Central Bank, MoF, other? Who are the most powerful stakeholders?
- On the legal and institutional reform: critical elements of a secured transactions law to succeed?

FROM THE FINANCIAL INSTITUTION SIDE

- General lack of data on: (i) loan portfolio secured (types of collateral); (ii) average loan sizes; (iii) borrower data on client segment, gender, etc
- Is diversification of the security interests (both movable and immovable) good for FIs? Do those that have a more diversified pool of securities perform better (less NPLs or higher recovery rate)?
- Among the different types of movables, which ones are more valued, considered less risky, easier to enforce/sell, easier to monitor?

STILL A NEED TO GO DEEPER INTO SOME QUESTIONS TO ASSESS THE IMPACT AT THE BENEFICIARY LEVEL (Cont')

FROM THE FINANCIAL INSTITUTION SIDE (Cont')

- Why are some FIs early adopters of the movables financing scheme and others do not adopt it or take a long time to adopt it? Tested in China but sample size not large enough. *Encouragement design? Issues with IFC implementation model*
- “Lending boost”: it takes places, but most times we lack specific data/financial records before the reform? Could we compare banks/branches that are lending under the new system and banks that are not? *Randomized roll out in banks or branches?*

FROM THE BUSINESS (SME) SIDE

- Why are a large portion of SMEs that have movables still not benefiting from the reform? A large portion still getting informal financing. *Training? Not in line with IFC's model*
- How does business growth translate in poverty reduction, employment creation, benefits to households?

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OPPORTUNITIES FOR ADDITIONAL RESEARCH - SECURED TRANSACTIONS REFORM IN COLOMBIA

❑ **OBJECTIVE** Increasing access to credit for businesses (mostly SMEs)

❑ **ISSUES**

- **INEFFICIENT LEGAL AND REGULATORY FRAMEWORK:** fragmented legal framework; no Secured Transactions Law; restrictions in the use of certain types of movables as collateral (i.e., receivables); no effective publicity of security interests; enforcement is time consuming and costly
- **LACK OF A MODERN CENTRALIZED COLLATERAL REGISTRY**
- **SECURED LENDING PRACTICES:** (i) 41.35 % of Firms (mostly SMEs) identify Access to Finance as a major constraint; (ii) most of the lending is secured with land; (iii) Cost of credit for SMEs is high; (iv) very little use of movable property as collateral (especially intangibles like accounts receivables); etc.

❑ **PROPOSED REFORM TIMELINE AND REFORM ELEMENTS**

- Data gathering for baseline - October 2011
- Legal and regulatory reform - March 2011- June 2012
- Registry Development - June 2012 - June 2013
- Awareness and training - March 2011 - June 2013

THANK YOU!

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