IFC’s Secured Transactions and Collateral Registries Program
“Results Framework: Methods and Findings”
Access to Finance, IFC

London, UK, November 4, 2013
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Global Product Leader STCR
1. Why IFC Focus on Secured Transactions?: Clear Market Failure

2. Empirical Evidence about Impact?

3. IFC’s Approach to Results Measurement?

4. Global Portfolio and Impact in Reforming Jurisdictions

5. Reform Challenges and Lessons Learned
1. Why IFC Focus on Secured Transactions?: Clear Market Failure
1. Why is IFC focusing in this area? Clear market failure.
COLLATERAL GAP

Mismatch between assets owned by companies and collateral required

- Vehicles/machinery/equipment
- Accounts Receivable
- Land / Real Estate

Capital Stock of Firms
- 22%
- 34%
- 44%

Collateral Taken by FIs
- 27%
- 73%

Source: World Bank Enterprise Surveys
2. Empirical Evidence About Impact
EXISTING LITERATURE AND EMPIRICAL EVIDENCE ON THE POTENTIAL IMPACT OF THIS TYPE OF REFORM

- **INCREASES ACCESS TO CREDIT:** IMF; World Bank; EBRD; ADB; Djankov, McLiesh, Shleifer (2005); Lago, Lopez, Saurina (2007)

- **INCREASES ACCESS TO CREDIT, MITIGATES FINANCIAL RISKS, PROMOTES PRUDENT LENDING PRACTICES AND REDUCES NPLs:** BASEL. IMF. Stiglitz, Weiss -1981. Steijvers and Voordeckers, 2009

- **REDUCES THE COST OF CREDIT:** World Bank; Chavez, de la Pena, Fleisig (2004); Lago, Lopez, Saurina (2007)

This paper explores the impact of introducing collateral registries for movable assets on firms' access to finance, using firm-level surveys for 73 countries.

Following a difference-in-difference approach, we compare access to finance pre and post the introduction of movable collateral registries in 7 countries (i.e., the reform or treatment sample) against three different “control” groups:

1) firms in all countries that did not implement collateral reforms
2) firms in a sample of countries matched by location and income per capita to the countries that introduced movable collateral registries
3) firms in countries that introduced other types of collateral reforms but did not set up registries for movable collateral
### SPECIFIC EVIDENCE/RESULTS

<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 the impact of the introduction of movable registries on firms’ access to finance is larger among smaller firms, who also report a reduction in subjective, perception-based measure of finance obstacles.
3. IFC’s Approach to Results Measurement
INTERNATIONAL ACCEPTED STANDARDS

- UNCITRAL Registry Guide and Legislative Guide on Secured Transactions

- World Bank Principles on Insolvency and Creditors Rights

- IFC Guide on Secured Transactions and Collateral Registries
BUSINESS AND DELIVERY MODEL - HOLISTIC APPROACH

1. Create Committee
2. Draft new Secured Transactions Law
3. Raise awareness
4. Submit Law to Parliament
5. Draft registry regulations
6. Revise Central Bank regulations

1. Determine Government Agency to host registry
2. Develop technical specifications
3. Hardware & software procurement
4. Training/awareness
5. Launching of registry

1. Develop M&E plan including baseline information
2. Conduct periodic monitoring of impact through registry indicators & surveys
3. Independent evaluations
4. Communications

1. Training and awareness raising stakeholders (public & private stakeholders), including law and registry
2. Training on movable asset financing for Financial Institutions

- Building the Capacity of Stakeholders
- Legal and Regulatory Framework
- Creation of Electronic Registry
- Monitoring Impact & Communications
KEY ELEMENTS FOR SUCCEEDING AND BEING ABLE TO TELL THE STORY

Developing a State-of-the-Art Registry that Allows Monitoring of Results

Mandatory fields when filing for statistical purposes (not retrievable on searches) that include:

- Number of registrations/filings and number of searches
- Number of FIs and NBFIs that are users
- Maximum amount of the obligation (loan/facility)
- Number and types of businesses (MSMEs or corporates) registered as borrowers and number of individuals
- Sector and location
- Types of assets used to secure the loan
KEY ELEMENTS FOR SUCCEEDING AND BEING ABLE TO TELL THE STORY

Educating Stakeholders, Users and Beneficiaries

- General Awareness Workshops for main public and private sector stakeholders
- Training to judges, legal community
- Communications strategy targeting main stakeholders (businesses, FIs, etc)
- Training to Financial Institutions on new internal credit policies, valuation of collateral/field examining/collateral management, risk management and enforcement/collection
- IFC Investment instruments (Global Facility for Movable Asset-Based Lending)
Financial News independently reported 36 cases of product innovations in 2010.

PBOC also published 120 cases in a book in 2010.

Source: IFC
Program Logic Model

Program Logic Model is a model that describes the sequence of cause and effect relationships between outputs, outcomes, and impacts.

Notice the relationships between goals, objectives, activities, outputs, outcomes and impacts:

- Activities result in Outputs
- Outputs contribute to achievement of Outcomes
- Outcomes contribute to achievement of Impacts
- Outcomes indicate the extent to which the objectives were met
- Impacts indicate the extent to which the goals were met
<table>
<thead>
<tr>
<th>Outputs</th>
<th>Outcomes</th>
<th>Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of entities receiving in-depth advisory services</td>
<td>Number of recommended laws/regulations/amendments/codes enacted or public policies adopted</td>
<td>Value of financing facilitated by advisory services (US$)</td>
</tr>
<tr>
<td>Number of new laws/regulations/amendments/codes/public policies drafted or contributed to the drafting</td>
<td>Number of entities that implemented recommended changes</td>
<td>Number of SMEs that have received loans secured with movable property</td>
</tr>
<tr>
<td>Number of procedures/firm policies/practices/standards proposed for improvement or elimination</td>
<td>Number of financial institutions/lenders participating in credit reporting systems, i.e. Credit Bureau, Collateral Registry, Public Registry</td>
<td>Number of micro-enterprises that have received loans secured with movable property</td>
</tr>
<tr>
<td>Number of workshops, training events, seminars, conferences, etc.</td>
<td>Number of new registrations of security interests in the registry</td>
<td>Number of women borrowers</td>
</tr>
<tr>
<td>Number of women participants in workshops, training events, seminars, conferences, etc.</td>
<td>Number of registry searches for security interests</td>
<td>Volume of financing to SMEs</td>
</tr>
<tr>
<td>Number of participants providing feedback on satisfaction</td>
<td>Number of new financial products launched</td>
<td>Volume of financing to micro-enterprises</td>
</tr>
<tr>
<td>Number of participants reporting satisfied or very satisfied with workshops, training, seminars, conferences, etc.</td>
<td>Number of new financial products or services launched, targeting women or women-owned firms</td>
<td></td>
</tr>
<tr>
<td>Number of reports (diagnostics, assessments, surveys, manuals) completed</td>
<td>Number of recommended procedures/firm policies/practices/standards that were improved/eliminated</td>
<td></td>
</tr>
<tr>
<td>Number of new financial products designed</td>
<td>Number of active women borrowers or co-signors</td>
<td></td>
</tr>
<tr>
<td>Number of new financial services designed, targeting women or women-owned firms</td>
<td>Change in score on Strength of Legal Rights Index</td>
<td></td>
</tr>
<tr>
<td>KM Project: Number of learning notes, tool kits, case studies, etc., developed/published</td>
<td>KM Project: Number of follow-on IFC projects that benefitted from the KM Project</td>
<td></td>
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<tr>
<td></td>
<td>Number of active borrowers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of new entities created or existing entities improved</td>
<td></td>
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<tr>
<td></td>
<td>KM Project: Number of downloads from the website and/or number of citations of the report</td>
<td></td>
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<tr>
<td>OUTCOMES</td>
<td>IMPACT</td>
<td></td>
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<tr>
<td>-------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Number of recommended laws/regulations/amendments enacted</td>
<td>Value of financing facilitated by advisory services (US$)</td>
<td></td>
</tr>
<tr>
<td>Number of financial institutions/lenders participating in Collateral Registry</td>
<td>Number of SMEs that have received loans secured with movable property</td>
<td></td>
</tr>
<tr>
<td>Number of new registrations of security interests in the registry</td>
<td>Number of micro-enterprises that have received loans secured with movable property</td>
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<td></td>
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MEASURING IS KEY BUT ALSO SHARING KNOWLEDGE

Toolkits

Surveys

Impact evaluation

Network Building

Factsheets

Knowledge Sharing

Events - Peer learning

Publications
4. Global Portfolio and Impact on Reforming Jurisdictions
CURRENT GLOBAL PORTFOLIO

AFRICA
- Ghana
- Liberia
- Malawi
- Rwanda
- Zambia
- Nigeria

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

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

SOUTH ASIA
- India
- Bangladesh
- Sri Lanka

ECA
- Azerbaijan
- Belarus
- Uzbekistan

LAC
- Colombia
- Costa Rica
- Haiti

Pipeline
- Sierra Leone, South Sudan, Egypt, Nepal, Belize, El Salvador, etc.
Law reform and new centralized online registry for movable assets launched in March 2012

After 18 months of operation of the new registry, 170,000 new loans for a value of $2.5 billion have been registered and 340,000 searches conducted

It is estimated that around 90,000 SMEs have received loans
MORE THAN US$ 10 BILLION IN FINANCING
30,000 MICRO BENEFICIARIES AND 10,000 SMEs
60,000 + REGISTRATIONS

http://www.youtube.com/watch?v=5c84WF02_IY
Supply Chain Financing: CAL BANK Developed a local supply chain for big mining corporations, through local SME service providers

Impact

- 100 + local SMEs received > USD$10 million. Created hundreds of new jobs.
- Movable assets (contracts, receivables, equipment) as collateral
- No defaults in 30 months
# AFGHANISTAN

<table>
<thead>
<tr>
<th>Collateral Registry Updates</th>
<th>August-26-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of Client Accounts (All Commercial Banks)</td>
<td>16</td>
</tr>
<tr>
<td>Financial Supervision Department Users</td>
<td>13</td>
</tr>
<tr>
<td>Micro Finance Institutions</td>
<td>1</td>
</tr>
<tr>
<td>Total Number of Registered Notices</td>
<td>815</td>
</tr>
<tr>
<td>Total Number of Web Searches</td>
<td>649</td>
</tr>
<tr>
<td>Total Number of Certified Searches</td>
<td>194</td>
</tr>
<tr>
<td>Total Value of Credit Limited</td>
<td>23.6 Billion AF</td>
</tr>
<tr>
<td>Chargor Size (Less than 15 Employees)</td>
<td>448</td>
</tr>
<tr>
<td>Chargor Size (Less than 30 Employees)</td>
<td>125</td>
</tr>
<tr>
<td>Chargor Size (Less than 50 Employees)</td>
<td>45</td>
</tr>
<tr>
<td>Chargor Size (Less than 100 Employees)</td>
<td>22</td>
</tr>
<tr>
<td>Chargor Size (More than 100 Employees)</td>
<td>32</td>
</tr>
<tr>
<td>Ownership Composition (Male)</td>
<td>659</td>
</tr>
<tr>
<td>Ownership Composition (Female)</td>
<td>3</td>
</tr>
<tr>
<td>Ownership Composition (Male &amp; Female)</td>
<td>10</td>
</tr>
</tbody>
</table>
1. Law reform and new centralized online registry (October 2011)
2. Over 150,000 loans have been registered for a total secured amount estimated at over USD$200 billion
3. Loans secured with movables have multiplied by 4
4. 45% of the loans to the agricultural sector and 95% to SMEs
5. Businesses have saved US$4 billion in fees
CHINA RESULTS

MORE THAN US$ 4 TRILLION IN FINANCING
MORE THAN 100,000 BENEFICIARIES SMEs
600,000 + REGISTRATIONS
CHINA: INDEPENDENT EVALUATION FINDINGS

- **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 Movable Assets 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.

- **NPL Rates for Loans Secured with Receivables vs. Loans Secured with Immovables:** On average equal or less NPL rate for loans secured with receivables.

- **Important Spillover Effect on Non Bank Lending:** Leasing and factoring. Leasing grew from $2 billion to $70 billion in the first year.

Source: Independent evaluation of IFC Secured Transactions Project in China by Dalberg
CHINA: INDEPENDENT EVALUATION FINDINGS

- 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
CHINA: INDEPENDENT EVALUATION FINDINGS

- **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](https://via.placeholder.com/150)

  - **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.
## ADDITIONAL IMPACT MEASURED THROUGH EVALUATIONS

<table>
<thead>
<tr>
<th>EFFECT ON SMEs</th>
<th>EFFECT ON FINANCIAL INSTITUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment creation</td>
<td>Type of collateral accepted</td>
</tr>
<tr>
<td>Increase in sales</td>
<td>Effect on NPLs</td>
</tr>
<tr>
<td>Increase in investments, exports</td>
<td>Effects on the SME product offering</td>
</tr>
<tr>
<td>Decrease in cost of credit</td>
<td>Effects on the type of client</td>
</tr>
<tr>
<td>Changes in the financing structure</td>
<td>Obstacles faced by Financial Institutions to introduce new financial products around movable asset collateral</td>
</tr>
<tr>
<td>Impact on different SME segments</td>
<td></td>
</tr>
<tr>
<td>Impact on women entrepreneurs</td>
<td></td>
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</table>
5. Reform Challenges and Lessons Learned
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.
THANK YOU

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