

Secured Transactions

World Bank/IFC Finance and Markets Global Practice
Tailored Solutions and Instruments

Alejandro Alvarez de la Campa
February 2017



The World Bank Group

IBRD
International Bank for
Reconstruction and
Development



Est. 1945

IDA
International
Development
Association



Est. 1960

IFC
International
Finance
Corporation



Est. 1956

MIGA
Multilateral
Investment and
Guarantee Agency



Est. 1988

Role

- To promote institutional, legal and regulatory reform

- To promote institutional, legal and regulatory reform

- To promote private sector development

- To reduce political investment risk

Clients

- Governments of member countries with per capita income between \$1,025 and \$6,055.

- Governments of poorest countries with per capita income of less than \$1,025

- Private companies in member countries

- Foreign investors in member countries

Products

- Technical assistance
- Loans
- Policy Advice

- Technical assistance
- Interest Free Loans
- Policy Advice

- Investment through Loan, Equity, and Quasi-Equity
- Resource Mobilization
- Advisory Services

- Political Risk Insurance

← **Shared Mission: To Promote Economic Development and Reduce Poverty** →

FINANCE AND MARKETS GLOBAL PRACTICE – JOINT IFC/IBRD

1 FINANCIAL STABILITY AND INTEGRITY

- Crisis management and bank restructuring
- Banking regulation and supervision
- Financial integrity (including StAR)
- Capital markets regulation and supervision

2 FINANCIAL INFRASTRUCTURE, ACCESS AND INCLUSION

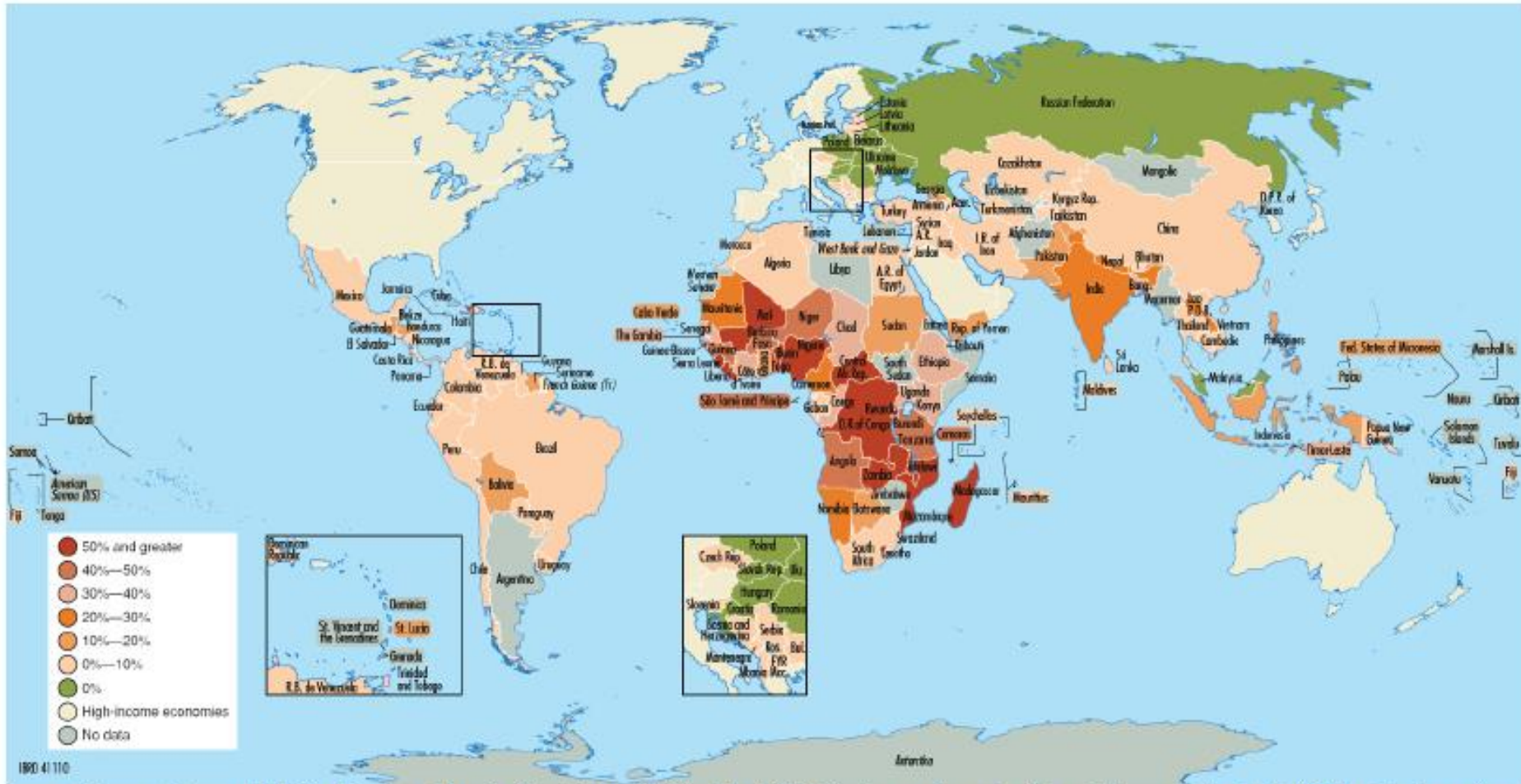
- **Credit infrastructure**
- Payment and market infrastructures
- Responsible financial access, including Universal Financial Access 2020
- SME finance

3 LONG TERM FINANCE AND RISK MANAGEMENT

- Disaster risk finance
- Infrastructure finance/ Housing finance
- Agriculture finance and insurance
- Pensions, insurance, and investment funds

Credit Infrastructure **Includes Credit Reporting Systems, Insolvency and Creditor rights, and the establishment of Credit Bureaus and Collateral & Secured Transactions Registries**, aiming to increase the availability of credit to consumers and MSMEs as well as supporting informed lending decisions.

Extreme poverty is concentrated in a few regions but many poor remain in strong performing higher-income economies



Source: A Measured Approach to Ending Poverty and Boosting Shared Prosperity, World Bank 2014. Based on most recent, widely available country-level data (2011) updated annually. Next update planned for fall, 2015.

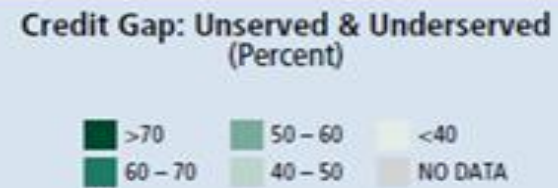
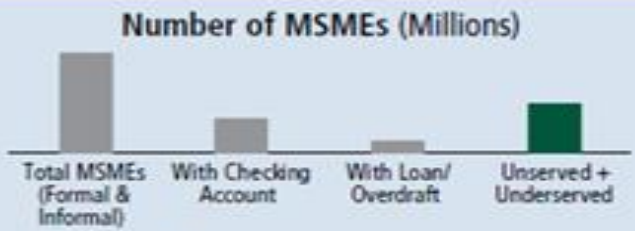
SME FINANCE GAP

Figure 1. Formal and informal MSMEs sector- Total credit gap

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



IBRD 40156 | JULY 2013
 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.



Source: IFC Enterprise Finance Gap Database (2011)

PROJECT CYCLE – DIAGNOSTIC TOOLS

 **FINANCIAL SECTOR ASSESSMENT PROGRAM (FSAP).** Joint IMF-World Bank
Financial Sector Diagnostic

 **ROSC ON INSOLVENCY AND CREDITOR'S RIGHTS**

 **NATIONAL FINANCIAL SECTOR STRATEGIES**

 **GLOBAL INDICATOR DATABASES:** Global Findex, Doing Business, World Bank
Enterprise Surveys, Finscope, etc.

PROJECT CYCLE – ENGAGEMENT, PROJECT PREPARATION AND IMPLEMENTATION (3-5 YEARS)



LETTER OF REQUEST FROM GOVERNMENT TO THE WORLD BANK/IFC



INTERNAL DISCUSSION: regional priorities, country presence, country programs, funding availability, existing and potential instruments



CLEARANCE TO PROCEED: communication with client, identification mission, diagnostic, etc



PROJECT PREPARATION: project concept note, internal approvals, securing budget, team composition, project approval

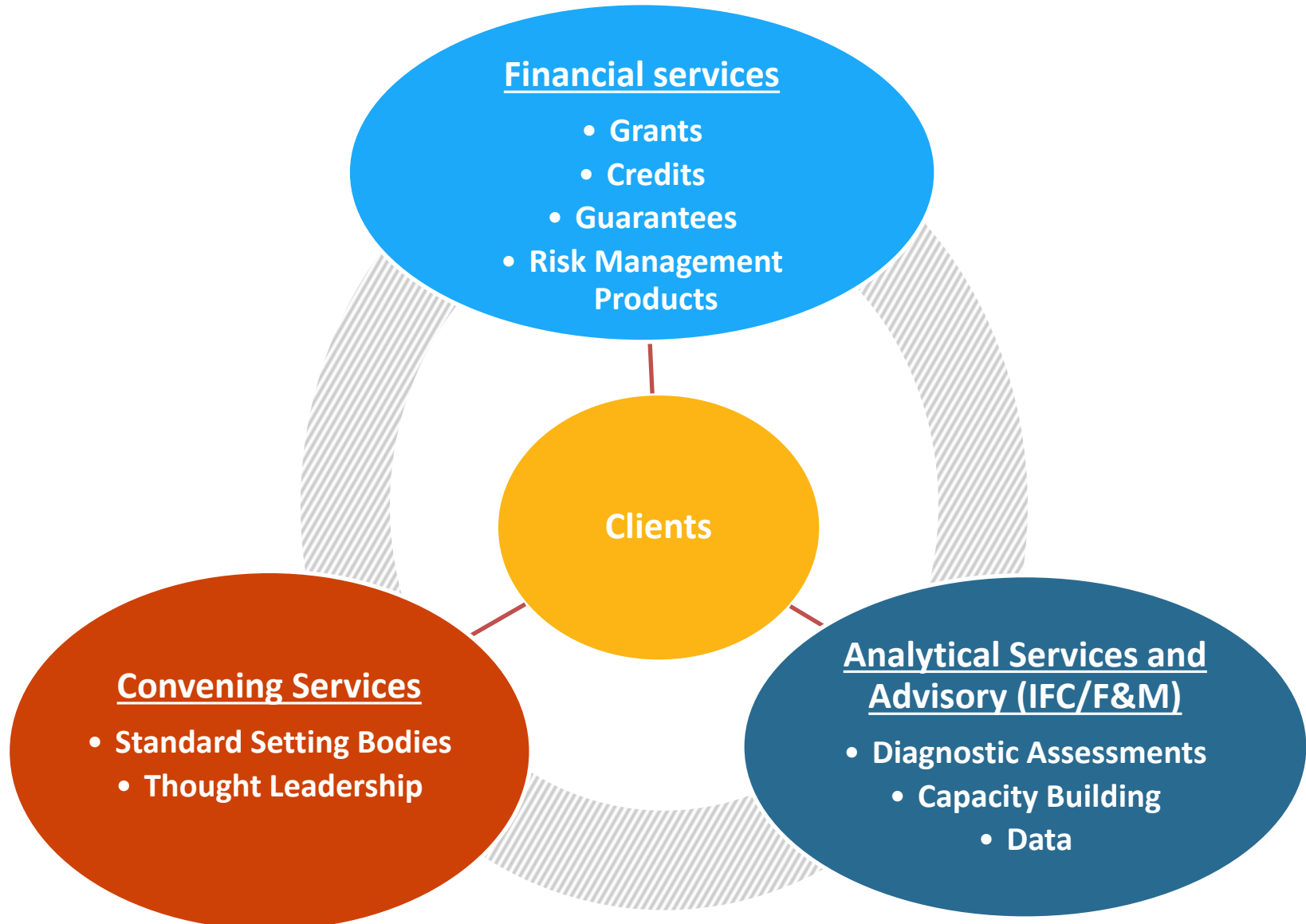


PROJECT IMPLEMENTATION: legal framework, stakeholder engagement, registry development, awareness raising, capacity and training, monitoring and supervision



MONITORING AND EVALUATION: impact monitoring, follow up implementation issues

MAIN WORLD BANK GROUP INSTRUMENTS TO SUPPORT REFORMS



IMPLEMENTING SECURED TRANSACTIONS REFORMS THROUGH LENDING INSTRUMENTS

- **Loan to Government to implement the reform**
- **Bank supervises but does not lead the reform process**

ADVATAGES

- Substantial amount that allow for a full fledge reform
- Loan can also finance hardware for the establishment of registry
- Loan can include triggers for disbursement (like enactment of the law)

DISADVANTAGES

- World Bank does not control reform process
- Experts/consultants are hired directly by the Government
- Project design can change mid way through the implementation and component removed
- Can be one component of a complex project with competing priorities
- Lack of Government capacity to implement and limited role of World Bank
- Need to coordinate with other ministries who are not the recipient of the loan
- Not always completely demand driven
- Sustainability of the reform is not always clear
- Financial sector support not always there

IMPLEMENTING SECURED TRANSACTIONS REFORMS THROUGH TECHNICAL ASSISTANCE (IFC OR IBRD ADVISORY)

- **IFC/IBRD control the funding and the design of the project**

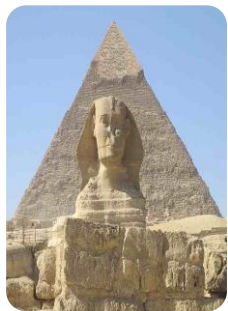
ADVATAGES

- IFC/WB in control of the technical content of the reform
- IFC/WB provide the technical expertise in house or through consultants
- Stand-alone project with no competing priorities
- Usually strong government commitment since they contribute to project and always demand driven
- Financial sector buy-in and support usually stronger
- More targeted training and capacity to financial sector institutions
- Direct engagement with Government institutions responsible for reform and implementation

DISADVANTAGES

- Funding more limited so may not be possible to do a full fledged reform
- Enactment of the law may become an obstacle affecting the implementation of the rest of the components
- Less political leverage and clout

CURRENT GLOBAL PORTFOLIO STCR – 40+ PROJECTS



AFRICA

Burundi
Cameroon
Cote d'Ivoire
Ethiopia
Ghana
Kenya
Lesotho
Liberia
Madagascar
Malawi
Nigeria
Sierra Leone
South Africa
Zambia

MENA

Afghanistan
Egypt
Jordan
Lebanon
Morocco
UAE
West Bank &
Gaza

EAST ASIA & PACIFIC

Cambodia
China
Lao PDR
Mongolia
Myanmar
Philippines
Vietnam
Indonesia

SOUTH ASIA

Bangladesh
India
Nepal
Sri Lanka

ECA

Azerbaijan
Belarus
Tajikistan
Uzbekistan

LAC

Belize
Chile
Colombia
Costa Rica
Haiti
Paraguay

INTERNATIONAL INSTRUMENTS: HOW DOES THE WORLD BANK SUPPORT THEIR ADOPTION AND APPLICATION?

- **UNCITRAL Registry Guide and Legislative Guide on Secured Transactions. Model Law. Receivables Convention**



- **UNIDROIT Cape Town Convention. Leasing**



INTERNATIONAL INSTITUTE FOR THE UNIFICATION OF PRIVATE LAW
INSTITUT INTERNATIONAL POUR L'UNIFICATION DU DROIT PRIVE

HOW DOES THE WORLD BANK GROUP SUPPORT THESE INSTRUMENTS



DIRECT SUPPORT IN THE DEVELOPMENT OF THOSE INSTRUMENTS: participation in UNCITRAL Working Groups, UNIDROIT Protocol Meetings, etc



USE SOME OF THE INSTRUMENTS AS MODELS AND INTERNATIONAL STANDARD PRINCIPLES: World Bank Principles on Insolvency and Creditor Rights, drafting of national laws



DIRECT DISCUSSIONS WITH GOVERNMENT COUNTERPARTS ON THESE INSTRUMENTS: not only with Government counterparts but also with private sector, legal community, judiciary, etc.



KNOWLEDGE SHARING AND KNOWLEDGE MANAGEMENT: publication of guides, papers, toolkits. Organization of seminars, conferences, workshops



LESSONS LEARNED IN THE IMPLEMENTATION OF SECURED TRANSACTIONS REFORMS IN AFRICA



POLITICAL INESTABILITY AND CONFLICT

- Conflict eruption (Yemen, Madagascar)
- Constant political change (Bangladesh, Jordan)
- Parliament is dysfunctional so no legal changes possible (Palestine, Haiti)



LACK OF POLITICAL COMMITMENT TO THE REFORM

- Client may be interested but does not have enough political clout
- Certain stakeholders may be interested but no support from main key players (Parliament, Central bank, etc)



BALANCE BETWEEN INTERNATIONAL AND LOCAL EXPERTISE: OWNERSHIP OF REFORM

- Key to have international expertise combined with local experts (Sri Lanka, Bangladesh)
- The Government must take ownership of the reform (Lebanon)



LEGAL AND/OR ENFORCEMENT ISSUES

- Enforcement is only through courts and court system is dysfunctional (Cambodia)
- Law that is enacted in parliament is not sufficiently solid for the system to work (Jordan, Rwanda)
- Central Bank rules on collateral eligibility restrict the use of movable assets (Rwanda, Colombia)



RED TAPE AND EXCESSIVE COST

- Client pushes for a very formal system with too many formalities that make the system unattractive (notary involvement, cumbersome process, etc.). Peru, OHADA, Lebanon
- Excessive cost due to Stamp Duty or high registration fees (Guatemala, West Africa/OHADA)



LACK OF SUPPORT FROM FINANCIAL INSTITUTIONS AND INDUSTRY

- Banks financial institutions do not see opportunities and are reluctant to use the system (Cambodia, Lao)
- Only NBFIs take the reform but major banks want to maintain the status quo



✓ **NIGERIA COLLATERAL REGISTRY PROJECT**

The Central Bank of Nigeria launched the collateral registry in May of 2016. In less than 6 months around USD 80 million in financing has been provided by banks using movable property as security. Around 2,800 loans have been registered in the registry. We expect that more than 40,000 SMEs will benefit from increased access in the next 3 years and the volume of financing generated as a result of the project will be more than USD 20 billion

✓ **MALAWI COLLATERAL REGISTRY PROJECT**

Since the establishment of the collateral registry in 2015, more than 3,000 SMEs have received loans valued at around USD 40 million. The total volume of financing secured with movable property including individuals and all types of businesses is USD 126 million.

✓ **LIBERIA COLLATERAL REGISTRY**

The Liberia Collateral Registry was officially launched on June 18, 2014. Despite the Ebola crisis, in the first year of operation, **30 lenders have registered** as users and 33 loans were secured with movable assets and registered for a value of **USD 226 million.**

Thank you!

Alejandro Alvarez de la Campa

Practice Manager
Finance & Markets Global Practice
World Bank Group

aalvarez1@ifc.org

