Secured Transactions

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

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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

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
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.

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
PROJECT CYCLE – DIAGNOSTIC TOOLS

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

2. **ROSC ON INSOLVENCY AND CREDITOR’S RIGHTS**

3. **NATIONAL FINANCIAL SECTOR STRATEGIES**

4. **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

CLEARENCE 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

Financial services
- Grants
- Credits
- Guarantees
- Risk Management Products

Clients

Convening Services
- Standard Setting Bodies
- Thought Leadership

Analytical Services and Advisory (IFC/F&M)
- Diagnostic Assessments
- Capacity Building
- Data
# IMPLEMENTING SECURED TRANSACTIONS REFORMS THROUGH LENDING INSTRUMENTS

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

## ADVANTAGES

- Substantial amount that allow for a full fledged 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

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<th>ADVATAGES</th>
<th>DISADVANTAGES</th>
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<td>• IFC/WB in control of the technical content of the reform</td>
<td>• Funding more limited so may not be possible to do a full fledged reform</td>
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<td>• IFC/WB provide the technical expertise in house or through consultants</td>
<td>• Enactment of the law may become an obstacle affecting the implementation of the rest of the components</td>
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<td>• Stand-alone project with no competing priorities</td>
<td>• Less political leverage and clout</td>
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<td>• Usually strong government commitment since they contribute to project and always demand driven</td>
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<td>• Financial sector buy-in and support usually stronger</td>
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<td>• More targeted training and capacity to financial sector institutions</td>
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<td>• Direct engagement with Government institutions responsible for reform and implementation</td>
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### 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

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Finance & Markets*
INTERNATIONAL INSTRUMENTS: HOW DOES THE WORLD BANK SUPPORT THEIR ADOPTION AND APPLICATION?

- UNIDROIT Cape Town Convention. Leasing
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.


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!

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