SECURED TRANSACTIONS & COLLATERAL REGISTRIES PROGRAM

The term **"secured transactions"** refers to credit transactions where a creditor holds an interest in a debtor's movable property (**"collateral"**) to secure a loan or a debt obligation. The interest in movable property is also referred to as **"security interest," "pledge"** or **"charge."**

Collateral facilitates credit by reducing the potential loss lenders face from non-payment. While land and buildings are widely accepted as collateral for loans the use of **movable collateral** (such as inventory, accounts receivable, livestock, crops, equipment, and machinery) is restricted by absent or ill functioning secured transactions laws and registries. Reforming the movable collateral framework thus enables businesses to leverage the greatest part of their assets and obtain credit for growth.

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Modern Secured Transactions Systems strengthen financial systems by:

- Diversification of assets held by financial institutions as to more efficiently spread risks;
- Reducing concentration in the financial system, by providing banks with profitable lending opportunities in the SME sector (so they can expand their activities beyond corporate);
- Improved liquidity of assets, especially short-term assets such as accounts receivable;
- Increased competition for financial services by enabling NBFIs to offer secured loans;
- Improved ability of regulators to analyze portfolio risks in line with both standardized approaches and internal risk rating models

Modern Secured Transactions Systems contribute to private sector development by:

- **Increasing the level of credit:** In countries where creditors can rely on clear priority rules in case of default, credit to GDP averages 60%, compared to 30% of average for countries without a clear creditor protection system.
- **Decreasing the cost of credit:** In industrial countries, borrowers with collateral get 9 times more cash, repayment periods of up to 11 times longer, and interest rates up to 50% lower than borrowers without collateral.

Program Approach

Our secured transactions reform initiatives are built on three structural pillars: law, registry and capacity. These three pillars provide the foundation for the three stages of our operational approach, namely: diagnostics, solution design and implementation

	PILLAR I	PILLAR II	PILLAR III
	LAW	**REGISTRY**	**CAPACITY**
STEP 1 **DIAGNOSTICS** What is wrong?	Complex, conflicting laws	No unified registry or paper-based, malfunctioning registry	Little to no movable asset financing
STEP 2 **SOLUTION DESIGN** How to fix it?	Harmonize and modernize the legal framework	Registry design, shift to electronic platform, reduce registration time, costs and paperwork	Awareness raising, partnerships with banks and government and consensus building
STEP 3 **IMPLEMENTATION** Making it happen	Consultations, advice on laws and regulations, and drafting assistance	Study visits, demonstrations and registry design	Workshops, conferences, media outreach training events

Stakeholder Management and Monitoring & Evaluation

The Secured Lending Program is jointly managed by the IFC's Access to Finance and Investment Climate Business Line, and FIAS, a multi-donor investment climate advisory service managed by the International Finance Corporation (IFC,) and supported by the Multilateral Investment Guarantee Agency (MIGA) and the World Bank. FIAS advises governments of developing and transition countries on how to improve their investment climates for foreign and domestic investors

Program Objectives

The main program objective is to increase access to credit to firms, especially SMEs, by developing the appropriate legal and institutional framework to allow and facilitate the use of movable assets as collateral for loans. To achieve this objective, our advisory projects are built on three structural pillars:

- **Legal Framework:** Advice to governments, law and policy makers, and financial sector players on the necessary improvements to the legal and regulatory infrastructure for secured lending.
- **Registry:** Provision of technical advice to the government and other stakeholders for the creation of new collateral registries or the improvement of the existing ones.
- **Capacity Building:** Training and awareness-building among public stakeholders (including judges) on compliance with new laws and regulations. Awareness-building among creditors on the use of the new system in place and training of creditors on asset based lending techniques.

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Partners

The IFC is supported with valuable financial contributions to develop its secured transactions program by the State Secretariat for Economic Affairs of the Government of Switzerland (SECO) and by the Government of the Netherlands through the Netherlands IFC Partnership Program (NIPP). A high level Advisory Panel composed of international secured transactions experts and institutions such as UNCITRAL and EBRD provides technical guidance and advice for the development of the program. Please contact the Secured Lending Program to learn more about our services. We welcome:

- Clients looking to improve their country's secured lending framework;
- Donors committed to improving access to credit;
- International or regional agencies interested in partnering on secured lending projects

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Success Stories

China

After the historic enactment of the Property Law in China supported by IFC's Secured Transactions Program in October 2007, the People's Bank of China Credit Information Center created a national online registry for pledges of receivables, the first of its kind in China. The new receivables registry is easy to use and efficient, incorporating all the key features of a modern movable collateral registry. In conjunction with the launch of the registry, the PBOC also issued receivables registry rules which have adopted modern collateral registry principles. As of June 2009, the Credit Information Center has reported an impressive impact that consists of:

- Over 75,000 registrations representing loans with a value estimated at over US$570 billion. More than 100,000 searches have been performed in the registry.
- Of the US$570 billion in new financing facilitated, approximately US$240 billion corresponds to SME financing.
- SMEs that have benefited by being able to access credit is around 50,000.
- The % of moveable-based lending in China went from 12% pre-reform to 20 % afterwards.
- The factoring industry was introduced in China and the value of domestic factoring has reached a volume of US$ 21 billion.
- Around 3,000 people have participated in workshops, trainings, and awareness raising events.
- Among the registry's 5,000 users are banks, guarantee companies, law firms, finance companies, and pawn shops. The user experience with the registration system has been overwhelmingly positive.

Vietnam

In Vietnam, IFC conducted a diagnostic of the secured transactions system and provided a report with recommendations to the government on how to modernize the secured transactions system. As of 2009, the Ministry of Justice has implemented a number of these recommendations with the support of IFC (including the passing of a new Secured Transactions Decree) and is currently working on the creation of a new web-based movable collateral registry. The reforms introduced have already produced a substantial positive effect in the financial sector in Vietnam as follows:

- A secured transactions system with the promulgation of the Secured Transactions Decree (published in the official gazette in January 2007) which enhances creditors and debtors rights by: increasing the scope of assets that can be used as collateral, making registration of security interest easier, protecting secured creditors and establishing a clear priority scheme in case of default and facilitating enforcement mechanisms.
- An increase in the number of registrations in the National Registry of Secured Transactions from 43,000 in 2005 (when the project started) to 120,000 by the end of 2008, which confirms that financing against movables has certainly increased after the reform. 3,200 searches on existing security interests were also done in 2008.
- Improved access to credit for businesses as reported by the Doing Business 2008 report. The Legal Rights Index indicator, which measures the strength of secured financing systems, was increased from 4 to 7.
- Vietnamese stakeholders, including public sector and private sector/financial sector representatives, have increased their awareness about the new secured transactions system. The program has facilitated training through workshops to more than 200 practitioners and different stakeholders.