



**International
Finance Corporation**
World Bank Group

IFC's SECURED TRANSACTIONS AND COLLATERAL REGISTRIES PROGRAM

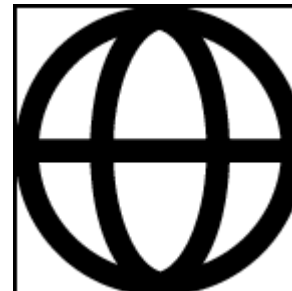
Alejandro Alvarez & Everett Wohlers, WBG

IACA Conference

Denver, June 21, 2009

THE WORLD BANK GROUP

WORLD BANK GROUP INSTITUTIONS



IFC ADVISORY SERVICES PRODUCTS

5 BUSINESS LINES IN IFC ADVISORY SERVICES PRODUCTS

1. Business Enabling Environment

2. Corporate Advice

3. Infrastructure

4. Sustainability

5. **Access to Finance:**

SME Banking

Microfinance

Secured Transactions and Collateral Registries

Leasing & Non-bank Financial Institutions

Credit Bureaus

Housing Finance...



IFC ADVISORY SERVICES PRODUCTS

**IFC – AS ACCESS TO FINANCE
FINANCIAL INFRASTRUCTURE**

FIAS – ST/SECURED LENDING PROGRAM

OPERATIONS

KM

Legal reform
setting up a
sound legal
framework

**Institutional
reform**
ST registry

**Capacity
building** for
govt. and
stakeholders

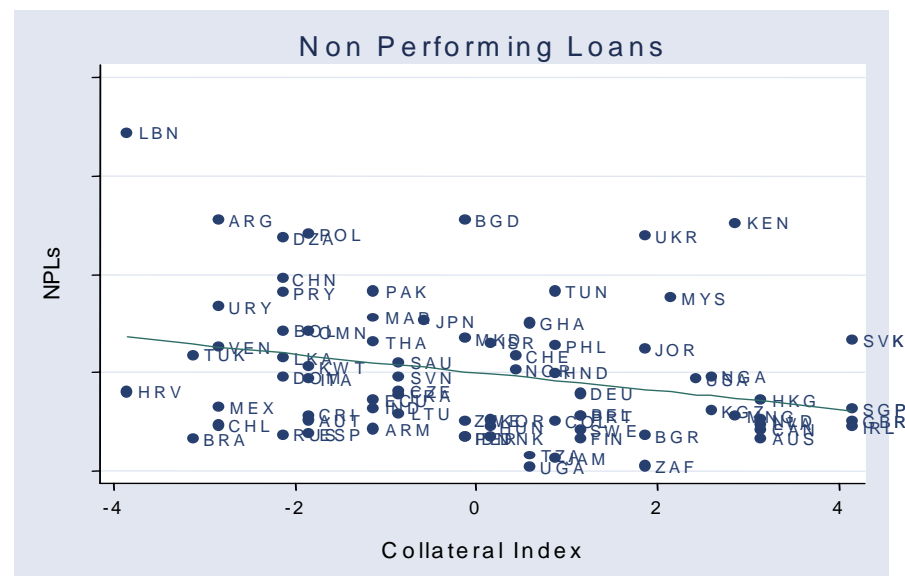
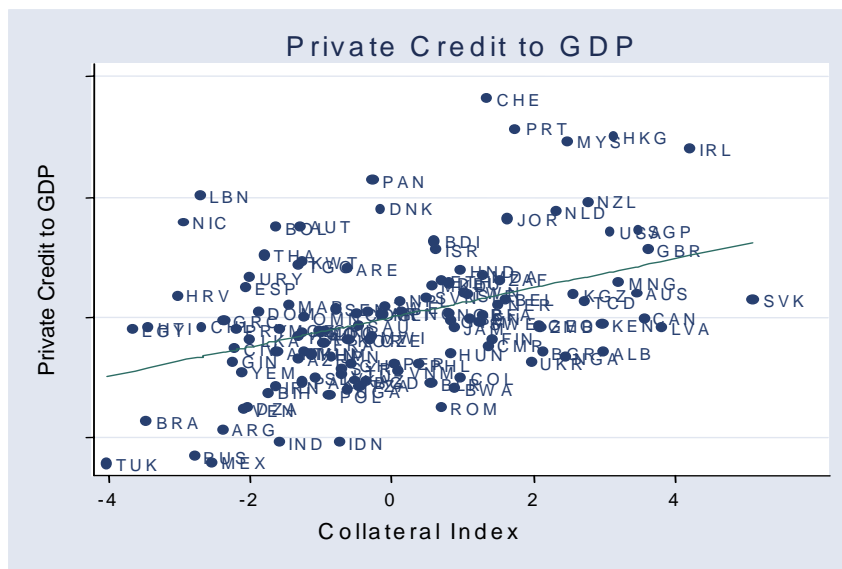
**Knowledge
Generation and
Dissemination**

ECONOMIC RATIONALE FOR SECURED TRANSACTIONS

Secured Transactions Contributes to Sound Financial Systems

- Diversification of assets held by financial institutions to spread risks more efficiently
- Reducing concentration and increasing competition in the financial sector, by enabling both banks and non-bank financial institutions to offer secured loans
- Creating opportunities for securitizing loan portfolios in secondary markets, which expands access to capital
- Improving the ability of regulators to analyze portfolio risks

Better Secured Transactions Systems = More Credit and Fewer Defaults



Source: World Bank Enterprise Surveys Global Database

ECONOMIC RATIONALE LEADS TO A STRONG DEMAND

Increasing Access to Credit and Improving Financial Infrastructure

- **Slovakia** reformed their secured transactions law in 2002. Now, 70% of new loans to businesses are backed by movables and receivables. Credit to private sector is up by 10%.
- **In Romania**, in the 5 years after secured transactions reform the number of annual filings increased from 95 (2000) to 359,000 (2005). The total volume of private bank credit as a share of GDP went up from 11.3% in 2000 to 15.8% in 2003.
- In countries with a clear **secured creditor priority scheme**, credit to the private sector as a % of GDP averages 60% compared with only 30 to 32% on average for countries without these creditor protections.
- **In industrialized countries**, borrowers with collateral get 9 times the level of credit given their cash flow compared to borrowers without collateral. They also benefit from longer repayment periods (11 times longer) and significantly lower interest rates (50% lower).

Strong Demand from Emerging Market Countries to Reform ST

- **Doing Business Legal Rights Index**, 1/3 of countries (58/182) scoring 3 or below on a scale of 10 and 61% (111/182) scoring 6 or below
- **Financial Crisis**, regulators and financial institutions will be looking for: (1) Better financial infrastructure and publicly available credit information; (2) Better and more transparent regulations that can help reduce risk; (3) Lending portfolio diversification toward movables and cash based guarantees like receivables, cash flows, etc. (4) Better Insolvency regimes

BUSINESS & DELIVERY MODEL

	DIAGNOSTIC What is wrong?	SOLUTION DESIGN How to fix it?	IMPLEMENTATION Making it happen
LAW	No laws, complex / conflicting laws	Drafting, revising harmonizing the legal framework	Enacting new laws. Intensive consultations to meet legislative agenda
REGISTRY	No registry or paper-based, malfunctioning registry	Creation of new registry or registry redesign, shift to electronic platform	New electronic / web based registry. Study visits, training, live demonstrations of registry, access points
CAPACITY	Little or no movable asset financing	Focus on raising awareness, building partnerships with private and public sector	Training of FIs and NBFIs. Workshops, conferences, media outreach, lending survey

Stakeholder Management (client: government + beneficiaries: FIs and NBFIs)

M&E

IFC STRATEGIC FIT

- ❑ **COUNTRY FOCUS IDA (LOW INCOME) AND DEVELOPMENTAL IMPACT:** Increasing Access to Finance allowing companies to grow and create employment. Currently 90% of projects in IDA countries.
- ❑ **GLOBAL STANDARDS:** Not universally accepted standards but the closest and in line with our approach resides with WBG, UNCITRAL, EBRD Principles
- ❑ **IFC's VALUE ADDED:** In house expertise, global local presence, developed methodology and M&E standards, strong niche area (only 3 other donors active in implem. reforms: EBRD, ADB and USAID)
- ❑ **LINKS TO OTHER WBG PRODUCTS:** Strong links with Leasing, Financial Infrastructure, Insolvency and Company Registration groups in IFC and ICR ROSC, PSD Financial Sector and FSAPs in IBRD. Potential economies of scale and increased impact.
- ❑ **CURRENT FINANCIAL CRISIS:** can result in stronger demand for financial stability through better financial infrastructure.

PRODUCT TEAM

Product Leader, Specialist & Admin. Support in DC

Advisory Panel reviews the progress of the program annually and makes recommendations. Members: EBRD, UNCITRAL, recognized international experts



3 Sr. Experts in regions

Global Program Team - project design, technical advice, quality control and supervision. Jointly funded and managed by FIAS&CGIFB

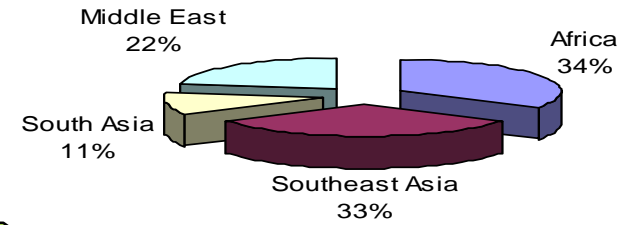
Extended Team (IFC Regional Offices) – project development, origination, implementation and client relationship management

PORTFOLIO SNAPSHOT



- **APPROVED FUNDING: US\$ 5 Million**
- **BUDGET PROJECTIONS FOR NEXT 2 YEARS: Additional US\$4.5 Million**

Active Portfolio by Region



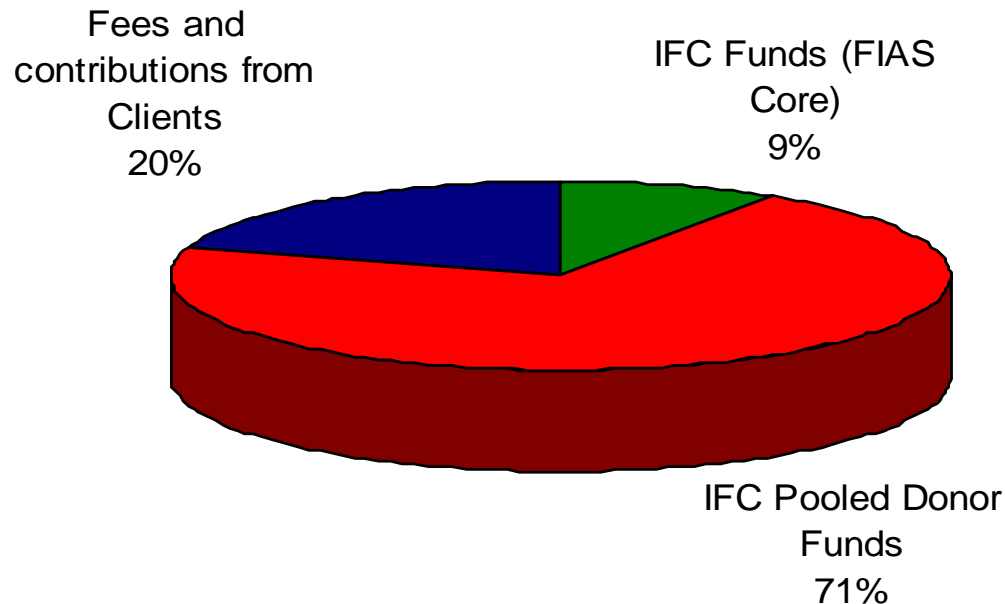
■ ACTIVE PROJECTS - 9

■ PIPELINE PROJECTS - 11

SUSTAINABLE BUSINESS / FUNDING MODEL

FUNDING MODEL: Mostly donor funded and pooled funds managed by IFC

Collateral Registries Funding Sources Total Funding \$4,940,687



■ IFC Funds (FIAS Core) ■ IFC Pooled Donor Funds ■ Fees and contributions from Clients

OPERATIONAL PROJECTS

ACTIVE PROJECTS

Country	Completed so far	Next Steps
1. China	<ul style="list-style-type: none"> ▪ Property Law Act Enacted ▪ Nation-wide electronic registry for receivables was established in October 2007 ▪ Awareness raising and capacity programs completed 	<ul style="list-style-type: none"> ▪ Continue the work on the interpretations of the Act with Supreme Court. ▪ Incorporate leasing transactions into the registry operations ▪ Rural financing
2. Vietnam	<ul style="list-style-type: none"> ▪ Secured Transactions Law Enacted ▪ Registry Law drafted ▪ Design specs and develop specs for the data migration program for the registry completed ▪ Vendor for creation of the registry has been selected 	<ul style="list-style-type: none"> ▪ Registry Law needs to be enacted. ▪ Registry expected to be up and running by December 2009. ▪ Training and awareness raising
3. Lao PDR	<ul style="list-style-type: none"> ▪ Implementing decree for Secured Transactions Law completed and under discussion ▪ Consultation workshops with public and private sector conducted and decree endorsed 	<ul style="list-style-type: none"> ▪ Passing of the decree by the Government ▪ Develop detailed registry specs to support the government's procurement of application software and necessary hardware. ▪ Procurement and selection of vendor to create registry. Registry completion in 2010 ▪ Training and awareness

OPERATIONAL PROJECTS

Country	Completed so far	Next Steps
4. Nepal	<ul style="list-style-type: none"> ▪ Feasibility study to establish a ST registry finalized, recommendations fully endorsed ▪ Placement of the registry with the Credit Information Bureau settled and terms of concession proposed ▪ Regulations drafted and revisions to the law proposed 	<ul style="list-style-type: none"> ▪ Drafting committee to revise and adopt regulations ▪ Design registry specs and conduct procurement of registry software ▪ Training and awareness
5. OHADA	<ul style="list-style-type: none"> ▪ Uniform Acts on Securities and Company Law Act analyzed. Internal recommendations provided to OHADA team ▪ Existing registry solutions and IT systems in OHADA member countries evaluated 	<ul style="list-style-type: none"> ▪ Finalize set of recommendations on Uniform Acts related to Secured Transactions ▪ Present OHADA ST strategy to the Permanent Secretary. ▪ Draft new Uniform Acts ▪ Design of registry solution based on clients needs
6. Rwanda	<ul style="list-style-type: none"> ▪ Draft secured transactions law submitted to parliament for approval ▪ Leasing and insolvency provisions proposed for revision ▪ MoU with GoR signed to assist with registry development 	<ul style="list-style-type: none"> ▪ Assist with drafting of implementing regulations ▪ Supervise the work of NRD on the joint company and secured transactions registry. Completion June 2010 ▪ Training of stakeholders
7. Ghana	<ul style="list-style-type: none"> ▪ Diagnostic completed ▪ Awareness initiated (Global Conference ST in Africa) 	<ul style="list-style-type: none"> ▪ Re-engage with new Government counterpart ▪ Draft Secured Transactions Law and implementing regulations ▪ Design registry specs and conduct procurement of registry software ▪ Training and awareness

OPERATIONAL PROJECTS

Country	Completed so far	Next Steps
8. Yemen	<ul style="list-style-type: none"> ▪ Leasing law enacted ▪ Registry designed and currently being translated into English 	<ul style="list-style-type: none"> ▪ Training to Leasing companies ▪ Begin awareness raising on secured transactions with the view to develop a law concurrently with registry specifications and regulation.
9. Afghanistan (IBRD Project)	<ul style="list-style-type: none"> ▪ Law drafted and passed by lower house of parliament 	<ul style="list-style-type: none"> ▪ Registry design and specifications. Creation of the registry. Expected completion in June 2010. ▪ Awareness and training.

PROJECTS IN PREPARATION (PIPELINE)

Indonesia	<ul style="list-style-type: none"> ▪ Diagnostic completed 	<ul style="list-style-type: none"> ▪ Project document and budgeting
Belarus	<ul style="list-style-type: none"> ▪ Diagnostic completed 	<ul style="list-style-type: none"> ▪ Project document and budgeting
Azerbaijan	<ul style="list-style-type: none"> ▪ Draft law is at the council of ministers 	<ul style="list-style-type: none"> ▪ Registry design jointly with Land registration project
Jordan, West Bank & Gaza and Panama	<ul style="list-style-type: none"> ▪ Government expressed interest in receiving assistance 	<ul style="list-style-type: none"> ▪ Diagnostic to be conducted in May 2009
Egypt and Saudi Arabia	<ul style="list-style-type: none"> ▪ Government expressed interest in receiving assistance 	<ul style="list-style-type: none"> ▪ Request letters from Gov. ▪ Submit Proposals/action plan
Dominican Republic	<ul style="list-style-type: none"> ▪ Government expressed interest in receiving assistance 	<ul style="list-style-type: none"> ▪ Request letter from the Government ▪ Submit Proposals/action plan

MEASURING RESULTS: MONITORING AND EVALUATION FRAMEWORK

M&E Framework



Goal:

What do we want to change?

Objectives:

What should be implemented to achieve the desired change?

Activities/Inputs:

Physical actions and resources

Output:

Direct results from the Activities. Have immediate or short term effect during the project timeframe.

Outcome:

The expected effect. Measures the achievement of Objectives. Observed during the project life and up to 3 years after completion.

Impact:

Desired final change. Measures the achievement of Goals. Has effect within 3-5 years or longer after completion, rarely during the project timeframe.

MEASURING RESULTS: MONITORING AND EVALUATION FRAMEWORK

MAIN OUTPUT INDICATORS

- No. of laws and regulations drafted
- No. of reports completed
- No. of events organized
- No. of people trained

MAIN IMPACT INDICATORS

- Poverty reduction
- Economic Growth
- Employment created

MAIN OUTCOME INDICATORS

- No. of laws and regulations enacted
- Electronic, searchable ST registry becomes operational
- No. of registrations
- No. of searches
- Value of all loans disbursed (US\$)
- Increase in % of loans guaranteed by movable collateral
- Score of Legal Rights Index (DB)

RELEVANCE: RESULTS

**FY08 IFC
CORPORATE
AWARDS**

❑ MEASURABLE EVIDENCE IN CHINA

- ❖ Property Law enacted and first nation-wide electronic registry for receivables established (October 2007)
- ❖ The electronic registry recorded over 38,000 new registrations of interests in receivables, representing loans with a value estimated at over US\$300 billion
- ❖ The % of movable based lending in China increased from 12% to 20 %
- ❖ Factoring industry introduced and value of domestic factoring volume US\$ 21 billion (FCI)



Not all impact can be attributed to our project but key in expanding receivables market and movable based lending

KM AND PRODUCT DEVELOPMENT

Activity	Completed so far	Next Deliverables
1. Product Methodology & Implementing Framework	<ul style="list-style-type: none"> ▪ Draft Toolkit completed ▪ Baseline survey and registry survey completed ▪ M&E Framework completed 	<ul style="list-style-type: none"> ▪ Revising toolkit based on feedback, editing and publishing ▪ Financial Infrastructure Diagnostic ▪ Product Sheet
2. Research, Publications, KM Events and Training	<ul style="list-style-type: none"> ▪ First phase of registry survey completed (25 registries surveyed) ▪ Country case studies on China, Albania and draft of others (Romania, Mexico, Peru) ▪ Brochure completed ▪ FI events, FinNet, etc 	<ul style="list-style-type: none"> ▪ Compendium of country case studies ▪ Finalize the report on first 25 countries and expand the registry to more countries (target of 75) ▪ Deep Dive/Global Conference in China (July or September, 2009) ▪ Insolvency and Secured Transactions Note ▪ AccessFinance Newsletter
3. Network Building	<ul style="list-style-type: none"> ▪ Advisory Panel ▪ Internal WBG ST Practice Group created and first meeting organized ▪ International network of practitioners approached: IACA and Corporate Registrars Forum ▪ Donor coordination 	<ul style="list-style-type: none"> ▪ Participate/present in next IACA Conference (Denver, May 2009) ▪ Strengthen donor coordination. Pilot joint interventions (Azerbaijan) ▪ UNCITRAL Working Group VI Sessions
4. Product Development	<ul style="list-style-type: none"> ▪ Strategy for scaling up completed ▪ Strategy for comprehensive collateral Initiative completed 	<ul style="list-style-type: none"> ▪ Expand and consolidate team ▪ Scale up ongoing ▪ Pilot on comprehensive collateral in Azerbaijan ▪ Pilots with other products (Insolvency, FI)

CHALLENGES

- ❑ MEASURING AND ATTRIBUTING ECONOMIC IMPACT**
- ❑ RESPONDING TO CURRENT DEMAND (OUTSOURCING /PARTNERING?)**
- ❑ LACK OF INTERNATIONALLY ACCEPTED STANDARDS**
- ❑ RESISTANCE OF COUNTRIES TO REFORM BASED ON PROPOSED RECOMMENDATIONS**

IACA's History of Involvement

- Hermosillo 1995 – NLCIFT conference
 - Support of drafting of Mexican ST Law
 - IACA reps: Koskie, Garcia & Wohlers
- Boise 1996 – IACA conference
 - 22 countries, from all continents
 - Keynote by Woody Fleisig – what IACA can do
- Following years
- IACA alumni in development work
 - MacEachern, Raymond, Koskie, Welsh, Frazier, Hygate, Boggus, Davis

IACA's Lessons Learned – Relevance to Development

- Role in Article 9 revision in 1990's
 - 1990 conference – Harry Sigman – “mere receptacles” dust-up – now accepted wisdom
 - Article 9 Filing Project 1991-8 – IACA role
 - Lessons of 1990's are today's in development
- IACA role in RMBCA & NCCUSL Acts
 - Enablement, usable rules & transparency – not regulatory and punitive
 - Same lessons Andrei and Dobromir convey

Terminology

To accommodate common understanding in developing economies, we use terms with which they are familiar, accepting that they are not completely accurate; those are the terms we will use today

- Registry vs. filing office
- Registration vs. filing

What Investment Climate Division Does in ST Development

Recall the 3 pillars Alejandro mentioned:

- Legal reform
- Registry development
- Capacity building

We will look at what we do in each of those areas

Law Reform Process

- Analyze existing laws governing ST, if any
- Determine type of law reform needed & feasible in political and legal environments
- Start with most appropriate model & customize to specific needs of country
- Vet with working group – adjust as needed
- Support adoption of law
- Implementing decree, regulation, etc.

ST Law Models

- Article 9
- PPSA
- EBRD Model
- Annex to UNCITRAL Legislative Guide (not a model per se, but follows same structure)
- Simplified models adopted in specific countries, e.g. Cambodia, Marshalls, et.al.

Registry Development

- Assess government capacity
- Identify potential responsible agency & champion
- Assess IT & communications infrastructure
- Assess capacity of financial sector
- Develop registry concept & design
- Consider what should be outsourced
- Specifications & procurements
- Installation, testing & acceptance

Our Message on Registries

- Guiding principles
- Purpose of registry
- Notice concept
- International best practices
- Registry authority & duties
- Form of registry
- Registry design
- Qualities & features

Guiding Principles

- Rationale for registration – increase access to capital by reducing risk
- Risk is reduced by transparency – eliminate risk of hidden interests
- Priority in collateral determined by when security interest is publicized
- Centralized registration provides publicity & legal certainty for users

Purposes of Registry

- To give notice of the secured creditor's interest in collateral
- To establish the secured creditor's priority by time of registration
- No other purpose!

What kind of registry is required for these two purposes?

Notice Registry

- Notice registration – simple notice of claim of security interest – not the agreement
- No formalities – notice does not create rights; only provides publicity
- Notice needs to include only:
 - Debtor name or identification number
 - Secured party name and address
 - Collateral description – general or specific

International Best Practices

- Based on North American & developing economy experiences
- General agreement among experts
- Reflected in UNCITRAL & EBRD pubs
- Not based on common law – often a point of misunderstanding

Best Practices

- Accuracy – capture of exactly the information that is presented
- Speed & timeliness – speed of registration & response to a search request – database includes all effective notices
- Accessibility – any time, any place
- Cost effectiveness – low cost of operation; fees cover costs of operation
- Simplicity – reduce risk of error & encourage use

Best Practices (continued)

- Limited to purposes of registration – give notice & establish priority in collateral
- Rule-based decision-making – rules can be enforced by computer – no discretion in accepting notice & reporting search results – reduces liability for risk of errors
- Add-only – never change or delete registered information; add changes to existing record

Registry Authority & Duties

- May refuse to register only as provided by law – few, specific reasons to reject
- Assign registration number & date/time; create record & make available to public
- Index by debtor name/number; may index by serial number of vehicle or major equipment if authorized by law
- Return a copy of record to registrant

Form of Registry

- Electronic – uses best practices
- Accessible to all via internet
- Automated acceptance of notices
- Reliable, fully automated search
- No formalities
- Uniform rules for processing notices
- Integrated fee & accounting system
- Secure from tampering & corruption

Registry Design

- Single web-based system – used by external users & registry
- Modes of user access:
 - Internet access for all users
 - Paper only if circumstances require it
- System architecture
 - Database located in central office
 - Remote offices with PC's & internet or WAN connection if circumstances require

Qualities & Features of E- Registry

- Automated acceptance & rejection according to uniform rules
- Minimum information collected to provide notice of security interests
- User friendly – simple, intuitive screens & procedures
- Accessible on web at all times
- Predictable, inclusive search results

Qualities & Features (continued)

- Electronic records are official records
- Unrestricted access to information via internet
- System determines acceptance or rejection
- System processes & accounts for fees
 - Fully integrated with business processes
 - Anti-corruption measures – no cash in registry – outsource intake to bank

Capacity Building

- Early awareness building among key stakeholders
- Training of FI's & lawyers on law
- Training registry staff
- Training of users on registry operation
- Use of publications & website to inform
- Promotion events & press releases
- Take to law & business schools

Opportunities for Cooperation

- Support for attendance at IACA by registry management in target countries
- Development of best practices
- Sharing of knowledge
- Sharing of standards, e.g. XML DTD
- Short term support of development projects
- Other ideas?

Contact Information

- Alejandro Alvarez – aalvarez1@worldbank.org
- Everett Wohlers – ewohlers@worldbank.org