

UNCITRAL - FOURTH INTERNATIONAL COLLOQUIUM ON SECURED TRANSACTIONS

FINANCE TO MICRO-BUSINESSES



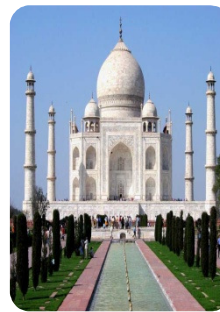
WORLD BANK GROUP
Finance & Markets

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World Bank Group*

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WORLD BANK GROUP: CURRENT STCR PORTFOLIO



AFRICA

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

MENA

Afghanistan
Jordan
Lebanon
Palestine
Morocco
Egypt
UAE
Pakistan

EAST ASIA & PACIFIC

China
Lao PDR
Mongolia
Philippines
Vietnam
Indonesia

SOUTH ASIA

India
Sri Lanka
Bangladesh
Nepal
Bhutan

ECA

Azerbaijan
Belarus
Tajikistan
Uzbekistan
Kyrgyzstan
Armenia
Georgia

LAC

Belize
Chile
Colombia
Costa Rica
Dominican Republic
Haiti
Trinidad and Tobago
Mexico, Paraguay
Peru
St Lucia

Pipeline

Kosovo, South Sudan, Uganda, Cape Verde, Cambodia

1. MSME CREDIT GAP

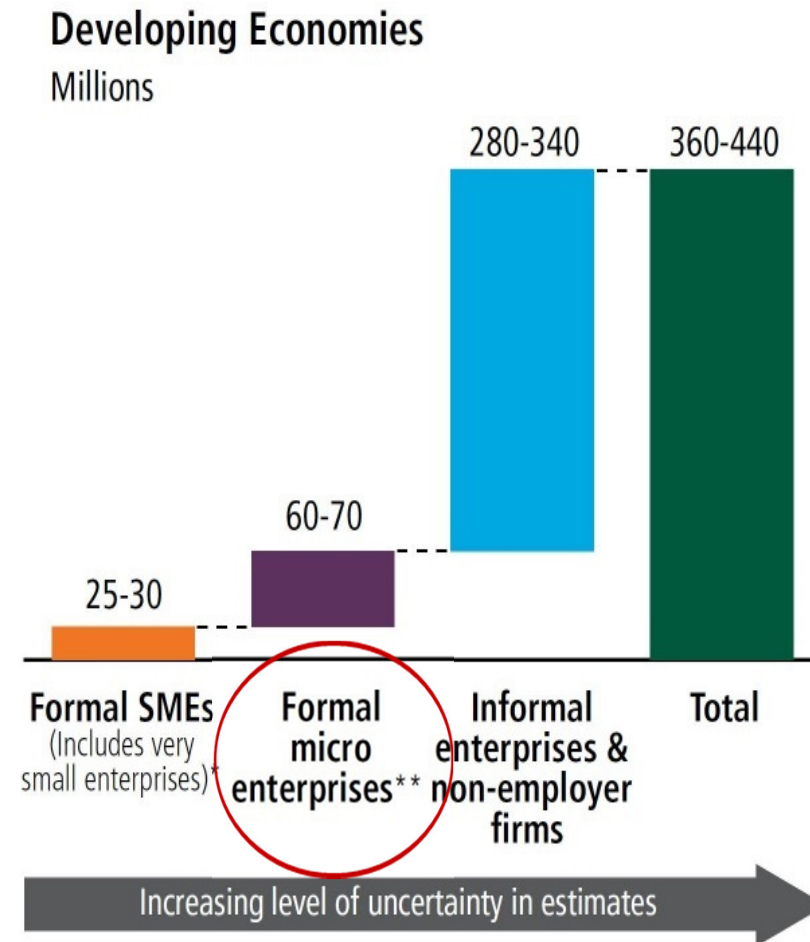
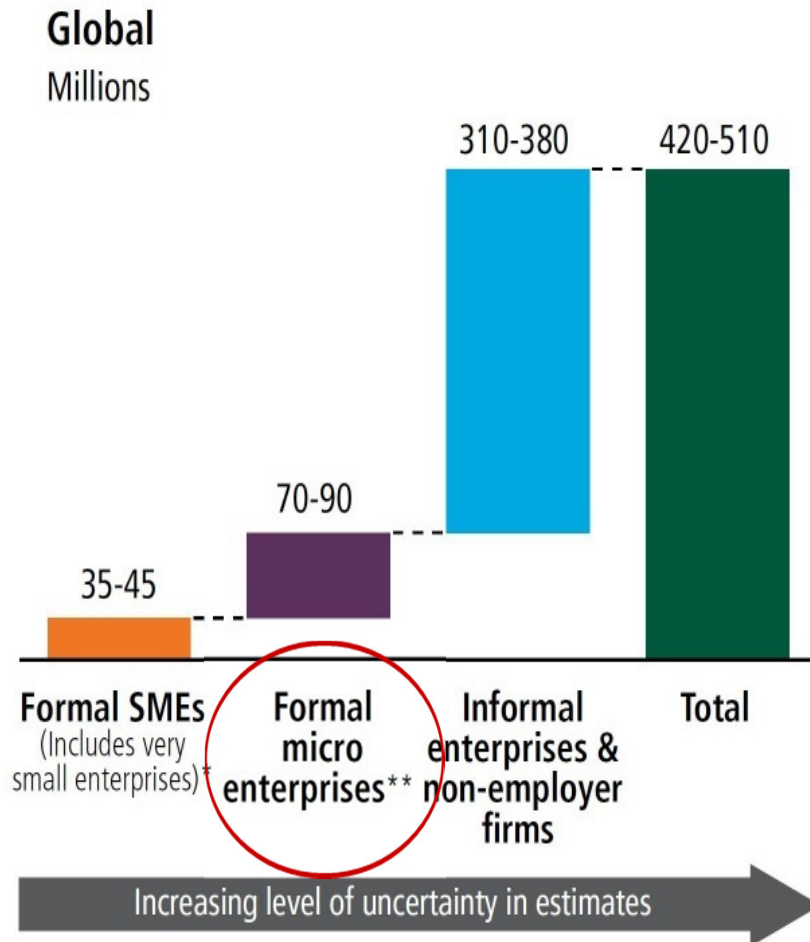
IFC ADVISORY SERVICES | ACCESS TO FINANCE

Closing the Credit Gap for Formal and Informal Micro, Small, and Medium Enterprises



 **IFC** International
Finance Corporation
World Bank Group

NUMBER OF MSMEs BY SEGMENT AND FORMALITY



Source: IFC Enterprise Finance Gap Database (2011).

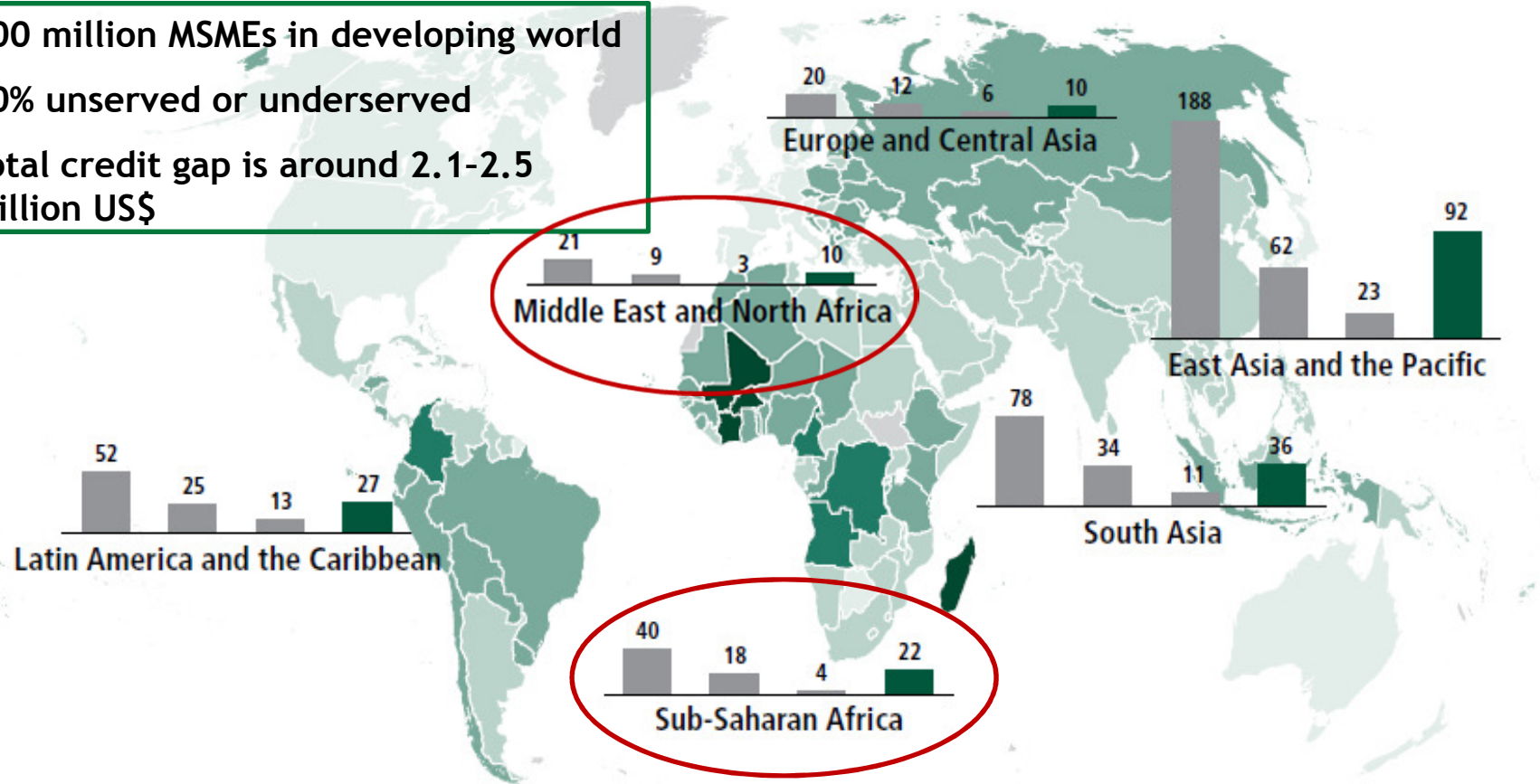
* Registered enterprises typically with 5 or more employees

** Registered enterprises with 1-4 employees

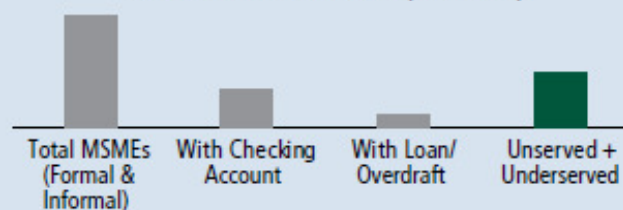
MSME FINANCE GAP

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

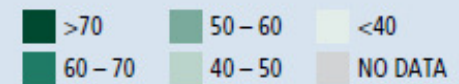
400 million MSMEs in developing world
 50% unserved or underserved
 Total credit gap is around 2.1-2.5 trillion US\$



Number of MSMEs (Millions)



Credit Gap: Unserved & Underserved (Percent)



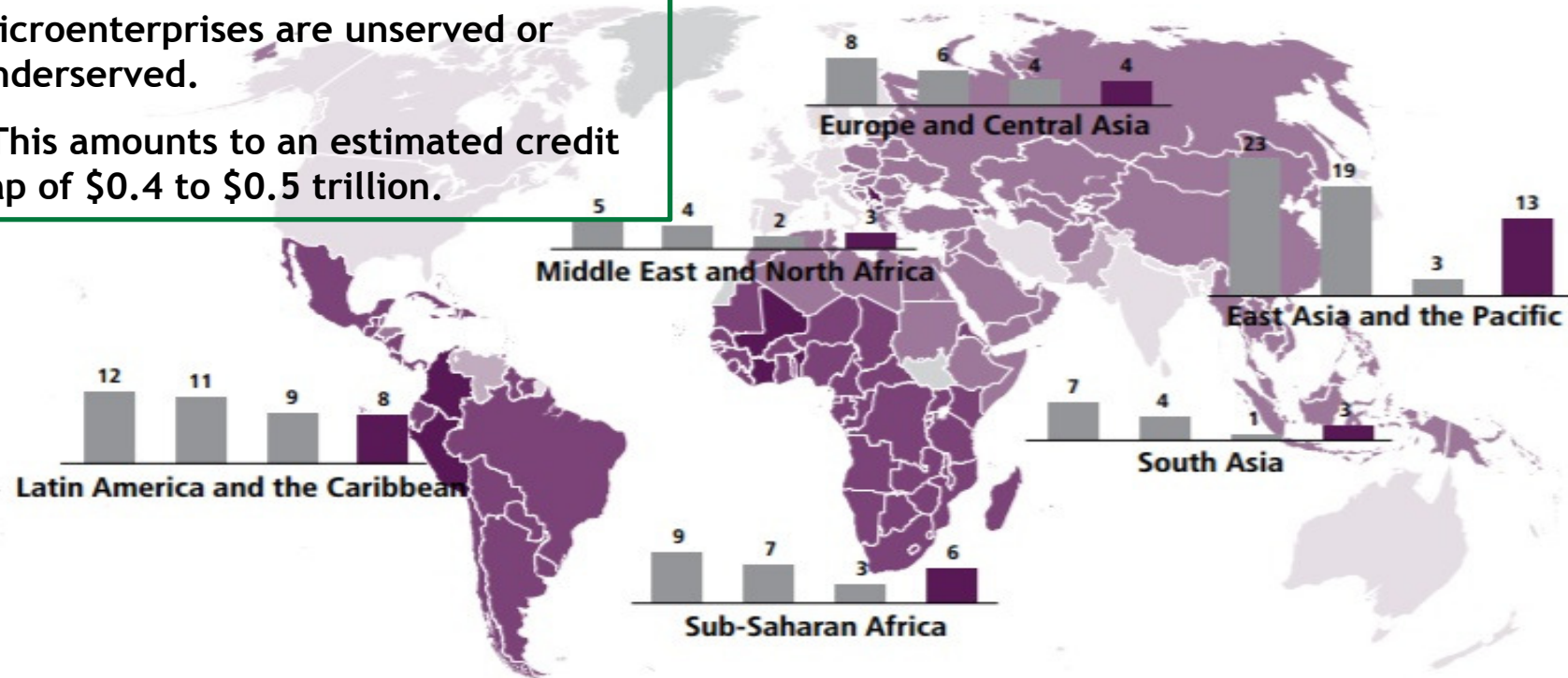
IBRD 40159 | JULY 2013
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Source: IFC Enterprise Finance Gap Database (2011)

FORMAL MICRO SECTOR - FINANCE GAP

Formal micro sector—Total credit gap

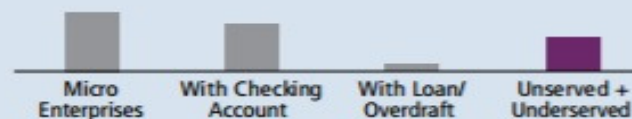
- An estimated 52 to 64 % microenterprises are unserved or underserved.
- This amounts to an estimated credit gap of \$0.4 to \$0.5 trillion.



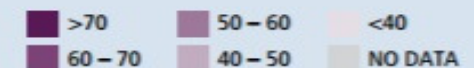
IBRD 40161 | JULY 2013

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Number of Micro Enterprises (Millions)



Credit Gap (Percent of Unserved & Underserved)



Source: IFC Enterprise Finance Gap Database (2011)

2. Potential Impact of Secured Transactions Reforms on Micro- businesses

POLICY RESEARCH WORKING PAPER

6477

Collateral Registries for Movable Assets

Does Their Introduction Spur Firms' Access to Bank Finance?

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Development Research Group
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June 2013





Collateral Registries for Movable Assets: Does their Introduction Spur Firms' Access to Finance?

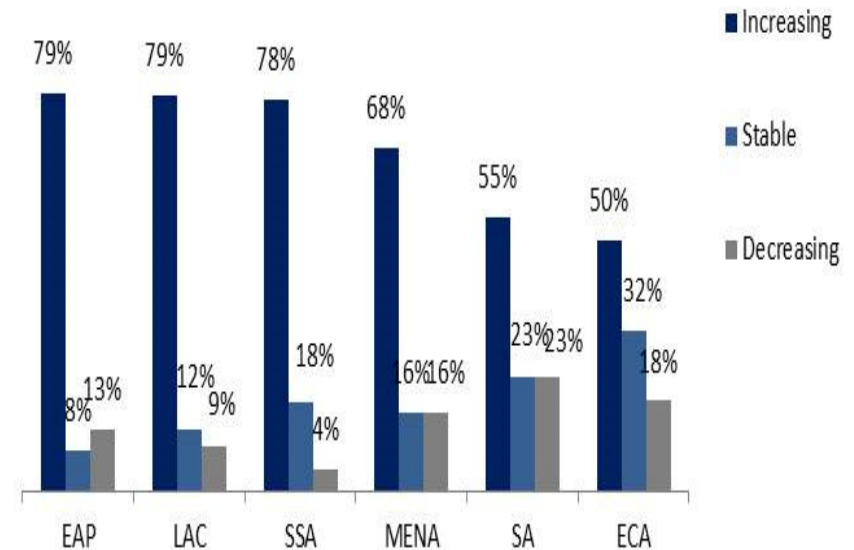
by Inessa Love, Sole Martínez Pería and Sandeep Singh

Variable	Effect
Access to finance	8 percentage points ↑
Access to a loan	7 percentage points ↑
% of working capital financed by banks	10 percentage points ↑
Interest rates	3 percentage points ↓
Loan maturity	6 months ↑

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.

CGAP MFI SURVEY

- CGAP surveyed over 300 MFIs in 69 countries in 2012.
- 78% of the interviewed MFIs reported that small enterprises (those with less than 20 employees) are already part of their strategy. Almost 70 % expect to increase their small business portfolio.
- MFIs see small firms as business growth opportunities and investing in them as a way to cultivate long term clients. East Asia and Pacific (EAP), Latin America and the Caribbean (LAC), and Sub-Saharan Africa (SSA) have the most MFIs whose small business portfolios are increasing.



Growth trend of MFIs' small enterprise portfolio by region (percentage of MFIs surveyed)

What Type of Security to Use ?

- Group loans are normally small and by virtue of their size do not merit collateral other than the group guarantee from the point of view of cost and time. On the other hand, immovable assets are impractical to collateralize where loan size is small and of much lower value than the immovable assets in question.
- With increased loan size, collateralized lending becomes more widespread. This is because the group guarantee no longer suffices not only because larger loans are riskier but also because group members become reluctant to guarantee each other for large amounts.
- Various small value, liquid movables are therefore considered and used increasing more often by MFIs to secure performance of obligations.

A STUDY OF COLLATERAL OPTIONS FOR MICROFINANCE LOANS IN PAKISTAN, PMN, 2012

3. Types of collateral typically offered by micro-businesses



Gold Backed Loans: Classical Possessory Pledge - a Very Common Type of Collateral

- In regions of Pakistan (Sindh and Punjab provinces) and India (more the south than north), families use gold significantly as a means of savings. So much so that for some segments of society savings in gold greatly outpaces savings via financial products.
- Some microfinance institutions have taken notice of what happens with their clients and have added a gold lending product that competes with informal sector options.
- To provide a better service MFIs have sought to establish systems that are quicker, cheaper, and more reliable.



Gold Backed Loans: Classical Possessory Pledge - a Very Common Type of Collateral

- Tameer Microfinance Bank (TMFB) is a leading microfinance bank in Pakistan that has a gold backed loan portfolio most of which is in the rural portion of its operations used primarily for agricultural purposes.
- Kshetriya Gramin Financial Services (KGFS) in India is a non bank finance company that works in remote rural geographies. Both organizations developed a gold backed loan product.
- The interest rate is lower than un-collateralized loans: both TMFB and KGFS offer their gold loans at an annual interest rate that is 4-6% lower than their uncollateralized loans. The MFIs can keep costs low given that evaluation of loan applications does not require much work.
- The cases where either institution has had to sell the gold when borrowers have not repaid is very low.



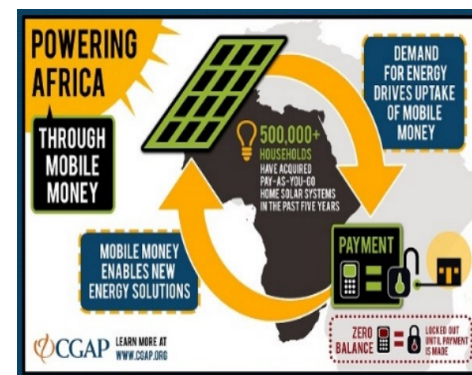
Vehicles Based Finance: a Very Commonly Used Non-Possessory Security Arrangement

- Tugende, an asset financing company which helps motorcycle taxi drivers own their means of income, is located on a dusty, unpaved road in Kampala.
- Motorcycle taxis, or *boda bodas*, are everywhere in Kampala, transporting passengers around the sprawling city, and they are a growing economic force in towns and rural areas across East Africa.
- The few banks and MFIs that do finance boda bodas usually require a land deed effectively disqualifying most potential borrowers.
- Tugende (motto: “Drive to Own”) has helped over 3,000 drivers get on the path to ownership. Established drivers acquire a motorcycle through a hire-purchase scheme: A \$120 down payment gets them a bike, and 82 weekly payments of \$22.5 earn them the deed.



Less Common Arrangements: Off-grid Solar Energy Solutions - the Use of Photovoltaic Panels as Collateral

- PAYGo solar home systems consist of photovoltaic panels, installed upon a customer's roof for a down payment (\$10-\$60, depending on system size). The customer pre-pays for energy usage through their mobile wallet. A solar home system usually includes 2-5 lights, phone charging, and radios or TVs in larger models, enough to seriously improve the quality of life for many families.
- The majority of households starting to use off-grid solar energy solutions are located in Kenya, Tanzania, Uganda, and Rwanda, and mobile money is the most common form of payment.
- As these clients accumulate energy payments they are establishing credit histories. At the moment those histories are being utilized by the solar companies to offer additional financed assets, with their solar unit as collateral.
- M-KOPA, for example, has given 40,000 follow up asset based loans, predominantly for productive assets like clean cook stoves or smartphones.



LEASING BEEHIVES - HONEY CARE AFRICA

- (KDA), Kenya's largest microfinance institution supports the Honey Care initiatives. To date, over 15,000 heads of household have been engaged in beekeeping. Honey Care has benefitted an estimated 75,000 individuals in impoverished rural Kenyan communities.
- Positive biodiversity impacts have been achieved through high levels of pollination and promoting the conservation of woodland areas for apiculture agreements.
- Beehives are leased on an annual contract. This includes hive management, pest testing etc. and providing onsite training on how to manage the hive. Fees are monthly: 1st hive @ \$44, with each additional hive @ \$22 each (approx).
- After the lease is up, farmer has the option of either continue the lease, cancel or purchase the hive and bees.



TURTLE FARMING: LIVESTOCK FINANCE IN CHINA

- There are around 1500 turtle farms located across China which are all small enterprises.
- Turtle farming is the practice of raising turtles and tortoises of various species commercially. Raised animals are sold for use as gourmet food, traditional medicine ingredients, or as pets.
- Jingshan Country Rural Credit Cooperative is providing finance to turtle farmers.
- Turtles pledged as collateral, using lowest market value. Duration of the loan is determined based on live/breeding cycle of the livestock.
- All present and future livestock is taken as a security in addition to accounts receivable.



4. Use of Collateral Registries by MFIs: Recent Experiences



COLLATERAL REGISTRIES - GHANA: IMPACT ON MICROBUSINESSES

- More than 22,000 loans to microenterprises with more than 10,000 women entrepreneurs have been able to gain access to finance using movable assets as collateral.
- Over 70% of interests registered in the new registry were created by individuals, while only 16% by companies that are classified as SMEs.
- In addition, over 40% of all registered rights were for amounts less USD \$1,700.
- Some of these loans are so-called “tabletop” loans where a lender takes an interest in all items that an entrepreneur sells from the table located in the street.



“For us in WWB [Women’s World Banking], where women don’t have immovable property for securities, the introduction of the registry has helped, in that we could take stocks, for example, vehicles, household assets, business equipment as security for loans, and this has gone a long way [toward] helping other women to come on board to take loans.”

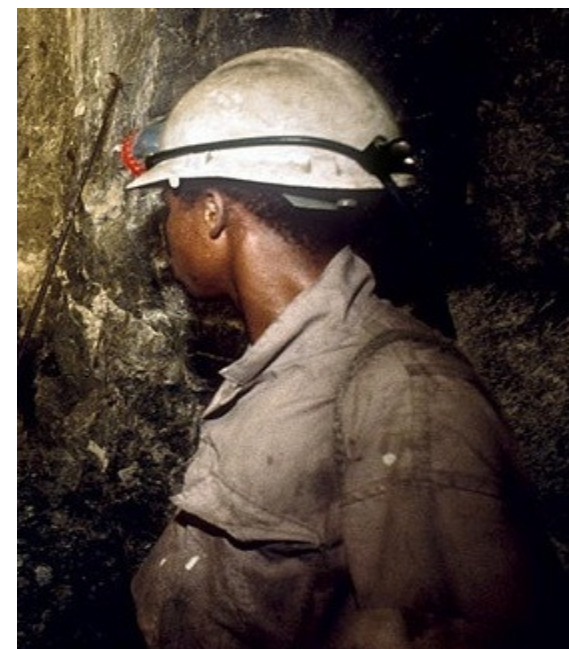
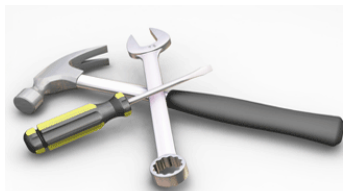
Michaelina Orleans-Linday,

Risk Manager, Women’s World Banking

COLLATERAL REGISTRIES - GHANA: IMPACT ON SMEs THOROUGH SUPPLY CHAIN FINANCE

CAL BANK: Purchase Financing Scheme for Gold Mining

Developed a local supply chain for big mining corporations, through local SME service providers



More than 100 local SMEs have received more than US\$ 10 million.
Created hundreds of new jobs.

SMEs use movable assets (contracts, receivables, equipment) as collateral

No defaults in the 30 months that program has been operating

OVERALL - 77,500 loans registered for a value of US\$20 billion. More than 8,000 SMEs and 30,000 Microbusinesses received loans. Collateral by type: Inventory & receivables (25%), Household goods (20%), vehicles (19%)

IMPACT ON CONFLICT AFFECTED COUNTRIES: AFGHANISTAN COLLATERAL REGISTRY

AFGHANISTAN COLLATERAL REGISTRY STATISTICS (As of May 2015)	Indicators
Commercial Bank Users	All
Government Account (FSD/DAB)	15
Micro Finance Institutions (MFIs)	2
Total Number of Registered Notices	5023
Total Number of Search	9318
Total Value of Registered Credit	\$ 800 million
Chargor Size (Less than 15 Employees)	2116
Chargor Size (Less than 30 Employees)	299
Chargor Size (Less than 50 Employees)	88
Chargor Size (Less than 100 Employees)	40
Chargor Size (More than 100 Employees)	42
Ownership Composition (Male)	2552
Ownership Composition (Female)	10
Ownership Composition (Male & Female)	23



NEW COLLATERAL REGISTRY IN INDONESIA - IMPACT ON MICROBUSINESSES

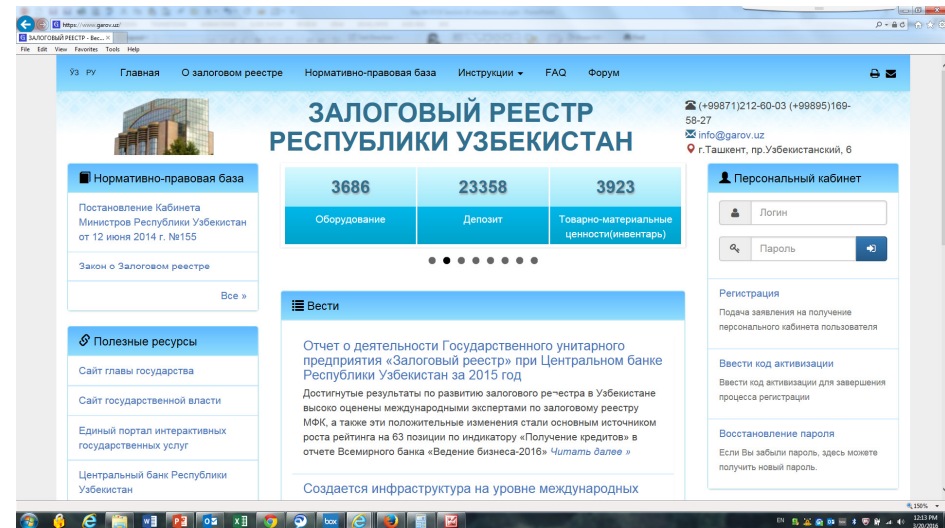
- Law 42/1999, Government Regulation 21/2015 (previously 86/2000)
- Registry launched in March 2013
- Expanded to all types of movables assets with the search function open to the public recently.



Number of registrations:	212,205
Number of SMEs:	83,300
Number of Micro:	128,905
Value of financing to MSMEs (US\$):	30,762,338,207

UZBEKISTAN - 29 MFIs Are Currently Using the Registry's Services

- Law on Collateral Registry adopted in 2013
- Registry launched in 2014
- Currently more than 300,000 registrations
- 29 Microfinance Institutions are using registry services filing 16,000 notices since inception (typically small vehicles, low cost farm equipment, jewelry).



AREAS OF FOCUS

- The imperative to search for alternative collateral options may be secondary to more pressing issues with regards to loan recovery, issues that are rooted in the client screening, selection and monitoring processes.
- However collateral becomes a condition precedent for a loan as its size increases and MFIs ability and willingness to use it would largely depends on:
 - Ease of collateral valuation
 - Liquidity of collateral
 - Cost and speed of processing the transaction
 - Quick and inexpensive enforcement and disposition in case of default.

THANK YOU

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**Secured Transactions & Collateral Registry
Specialist**

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