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Credit Information and Secured Transactions

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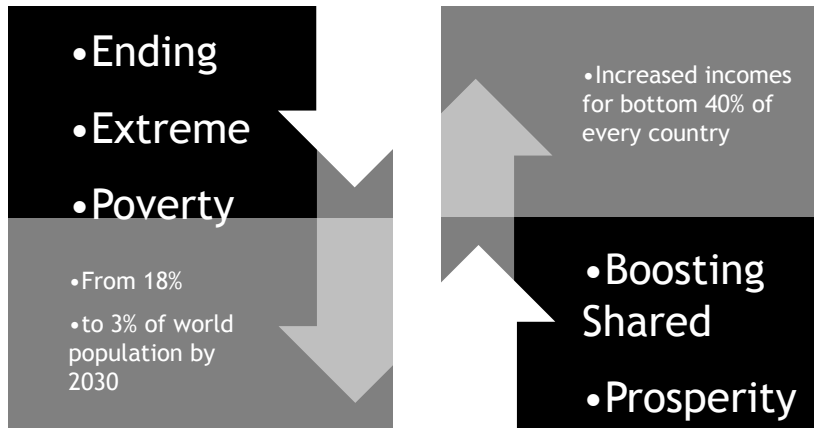
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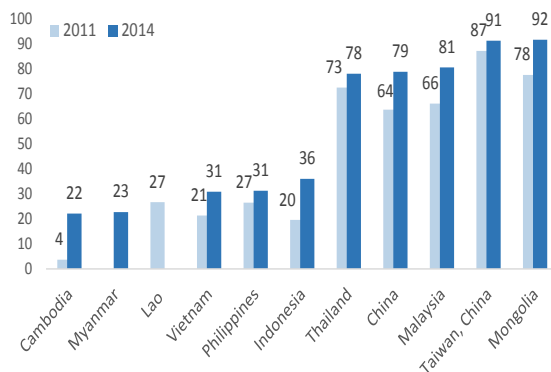
MISION NG WORLD BANK GROUP



•An Unprecedented Opportunity:
Ending Extreme Poverty in One Generation

Access to Finance in the Philippines

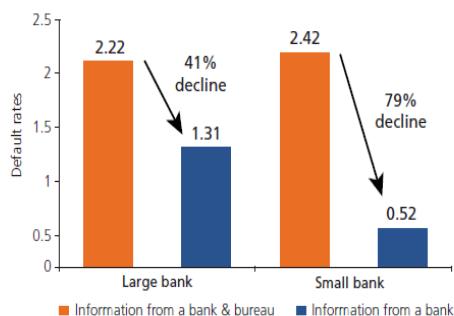
Share of adults with an account in 2011 and 2014, %



- The Philippines financial system is dominated by the banking sector, appears stable and highly liquid. Growth of the banking system and abundant liquidity however are not translating into greater access to financial services.

More Informed Decisions and Better Way of Managing Risk

Figure 1.11: Effect on Default Rates of Increasing Number of Information



Source: IFC using Barron and Staten 2003 data.

This provides a clear incentive to contribute data.

Credit reporting brings benefits to both small and large institutions. This is a study using data from Argentina where it is found that while small lenders do benefit more than large lenders from sharing information, large banks also benefit from a significant drop in defaults if positive information is used. Both anecdotal and available empirical evidence suggests that information sharing and use of credit scoring allow both large and small banks to significantly reduce default rates and/or increase lending volumes

Towards Financial Independence for every Hard Working Filipino

Economy	Borrowed Any money	Borrowed from a financial institution	Borrowed from family/friends	Borrowed from a private informal lender	Borrowed for a farm or business
Australia	43.2	23.4	16.9	0.8	3.1
China	36.3	9.6	25.1	1.1	7.0
Indonesia	56.6	13.1	41.5	2.9	11.7
Japan	23.1	7.9	6.0	0.3	1.1
Korea	39.4	18.2	17.1	0.7	4.6
Malaysia	56.1	19.5	39.0	0.8	6.1
Mexico	50.8	10.4	26.0	9.9	9.5
Peru	27.5	11.2	10.4	2.3	6.8
Philippines	69.7	11.8	48.7	13.5	13.6
Thailand	50.3	15.4	31.1	9.1	12.8
Vietnam	46.8	18.4	29.9	1.8	7.1
US	51.4	23.3	19.8	1.4	2.5
High Income OECD	39.8	18.4	14.9	0.9	2.6

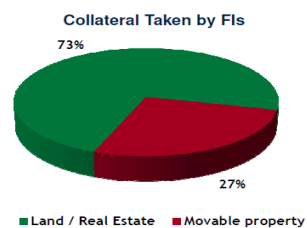
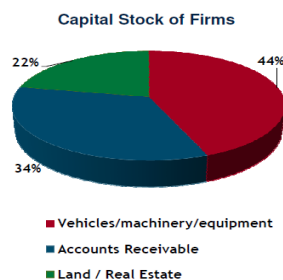
Reaching the Unbanked

- Microfinance institutions continue to provide an important source of finance for the poor and the underserved that do not have access to traditional bank finance - “the Unbanked”
- For these consumers, income can be irregular and there is a need to bridge one paycheck to another to meet the needs of their families
- Developing a reputation collateral in a credit reporting system can a highly valuable asset - this will enable them to seek other sources of finance rather than be tied to one provider without much options
- MIDAS recently signed an Agreement of Support with CIC

Benefits of the Reforms to SMEs

COLLATERAL GAP

Mismatch between assets owned by companies and collateral required



- Most MSMEs do not own real estate typically accepted by lenders as collateral in developing economies resulting in lack of access to finance among SMEs
- Both projects provide the alternative collateral – credit information/or good borrowing behavior and movable assets to increase access to finance to SMEs

Secured Transactions Reform is about broadening the utilization of movable assets as collateral ...



Bank Accounts



Accounts Receivable



Inventory and Raw Goods



Intellectual Property Rights



Industrial and Agricultural Equipment



Durable Consumer Goods



Agricultural Products (crops, livestock, fish)



Vehicles

The World Bank Group Experience in Secured Transactions

- The World Bank Group has a successful track record in implementing secured transactions and collateral registries reforms worldwide. The Global Secured Lending teams have extensive experience in implementing these reforms. Some examples of this work include:
- Colombia: new Secured lending Law in 2013 and new centralized collateral registry in March 2014. In 6 months, more loans were registered than in the last 30 years. More than 445,000 loans were registered for a value of more than US\$ 1 trillion.
- China: legal reform was implemented in 2007 and a Registry launched in 2008, covering accounts receivable and leasing. This resulted in more than US\$ 10.4 trillion in financing with accounts receivable (mostly for SMEs) and development of the factoring and leasing industries.
- Vietnam: legal reform and new centralized online registry were established in March 2012. Since then, 675,000 loans have been granted to more than 354,000 SMEs and 20,000 micro-enterprises. Total volume of financing through the registry is US\$ 27 billion.

The Philippines: Secured Transactions

- The Philippines, as compared to other countries, i.e. China, Ghana, Vietnam and even Mexico, has already in place as early as the turn of the century (1906), a secured transaction legal environment, and a collateral registry.
- We have a diverse group of movable collateral accepted (of motor vehicles, and, standing crops, like rice, sugarcane, and other agri-aqua commodities (quedan inventory financing)
- However, it is not maximized to the full potential and spirit of the law - to increase trade and to increase access to finance to SMEs
- We need to keep up with the times and modernize laws governing movable collateral

DOF-LRA-IFC Project on Secured Transactions: Movable Collateral Reform

- IFC is working together in partnership with the Department of Finance and the Land Registration Authority on this reform
- In 2012, a Technical Working Group comprised of a diverse group of stakeholders (BAP, SEC, BSP, SME Groups etc.) was established and they came up with a framework document that provided recommendations on how to pursue a best practice secured transactions reform
- LRA adopted these recommendations as it enhanced its registry and move towards a web-based registry
- Today, we are reconvening the TWG to work together on drafting the law (what would work best in the context of the Philippines guided by the best practices)

Operationalizing through the Cebu Action Plan

- APEC economies agree and committed to these two reforms
- APEC created the Financial Infrastructure Development Network (FIDN) to leverage on each others' knowledge and experience
- It is now a critical part of Pillar 1-Financial Integration of the Cebu Action Plan signed off by the Finance Ministers in September 2015

A True Comprehensive Secured Transactions and Credit Information Reform Entails the Following:

- The establishment of an electronic, consolidated and central registry – to enable financial institutions to make more informed decisions in lending
- Legal and institutional framework to facilitate the use of credit information (CISA) movable property as collateral for both business and consumer lending
- A shift in mind set among key stakeholders (government/legislators/judicial, financial institutions, MSMEs...)

What does this mean for you?

- We hope that you can be part of this effort
 - For businesses and financial institutions to take proactive part in articulating what will work best to facilitate financing to SMEs taking into account balance of interest among debtors and creditors and striking a win-win situation for the overall economy

Annex: Philippines in the 2016 Getting Credit and Legal Rights Index

Indicator	Philippines DB2016	Philippines DB2015	Indonesia DB2016	Lao PDR DB2016	Malaysia DB2016	Thailand DB2016	Vietnam DB2016
Strength of legal rights index (0-12)	3.0	3.0	5.0	6.0	7.0	3.0	7.0
Depth of credit information index (0-8)	5.0	5.0	6.0	5.0	7.0	6.0	7.0
Credit registry coverage (% of adults)	0.0	0.0	48.5	5.1	57.0	0.0	41.5
Credit bureau coverage (% of adults)	14.0	11.3	0.0	0.0	77.1	60.2	6.9

Thank You !

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