



# APFF

Asia-Pacific Financial Forum



## Key Messages

# Secured Transactions Development

## 2015

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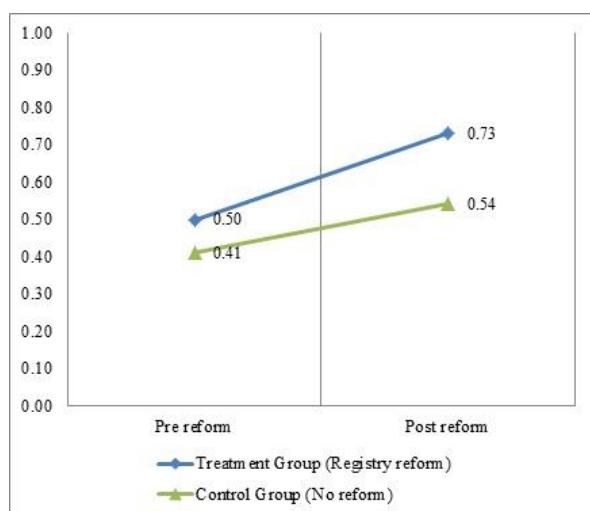
### KEY MESSAGES: SECURED TRANSACTIONS DEVELOPMENT

#### BACKGROUND

Financial inclusion and enhancing economic growth are key objectives of APEC member economies and supported by ABAC. Supporting small and medium enterprises is a critical element to achieve these objectives. Due to a lack of developed laws and infrastructure to support secured lending against moveable assets, these businesses lack access to adequate credit and are prevented from achieving their growth potential, inhibiting growth in GDP and expansion of employment.

Most micro-, small and medium enterprises (MSMEs) do not own real estate that is typically accepted by lenders in many developing economies as collateral for loans, thus giving rise to the most commonly known cause of MSMEs' lack of access to finance. In more advanced markets, MSMEs can obtain loans by using moveable assets (such as accounts receivables, inventory, equipment, intellectual property, among others) as collateral. This, however, requires functioning laws and collateral registries governing secured transactions.

#### BENEFITS OF SECURED TRANSACTIONS DEVELOPMENT



A recent study<sup>1</sup> provides empirical evidence that the development of functioning laws and collateral registries governing secured transactions provides greater access to credit for enterprises, including MSMEs. In the chart, this study compared firms' average access to finance before and after registry reform as compared to economies that did not implement such reforms.

Finding consistent results, such growth in access to finance is evident following significant reforms enacted across the Pacific Island region with support from the Asian Development Bank (ADB), including the member economies of New Zealand, Australia, and Papua New Guinea.<sup>2</sup> Secured transaction reform allows MSMEs

and other enterprises greater access to credit and at a lower cost. Interestingly, the post-implementation review by ADB indicates that the new frameworks are being utilised more by non-bank financial institutions and at lower non-performing loan ratios, providing added financial sector diversification benefits to those economies.

In China, following implementation of its reforms in 2007-8, it has been estimated that more than \$570B in financing secured by accounts receivable has been made available, 40% of which supported SME financing – and such reforms have enabled the development of the commercial factoring and leasing industries.<sup>3</sup>

<sup>1</sup> Collateral Registries for Moveable Assets: Does their Introduction Spur Firms' Access to Bank Finance?; Inessa Love, Maria Soledad Martinez Peria and Sandeep Singh;

<http://www.ifc.org/wps/wcm/connect/8891c280415edb709ba3bb9e78015671/Collateral%252BRegistries%252Bfor%252BMovable%252BAssets%252B%252BDoes%252BTheir%252BIntroduction%252BSpu%252BFirms%252BAccess%252Bto%252BBank%252BFinance.pdf%3FMOD%3DAJPERES&sa=U&ved=0CAgQFjACahUKEwjRzfrDvNXHhAhUD5KYKHQFwCzM&client=internal-uds-cse&usg=AFQjCNEb3ml0qAuv54daPPP74q-URicSdw>

<sup>2</sup> Unlocking Finance for Growth, Secured Transactions Reform in Pacific Island Economies, Asian Development Bank, 2014;

<http://www.adb.org/sites/default/files/publication/42904/unlocking-finance-growth-pacific-island-economies.pdf>

<sup>3</sup> Secured Transaction Systems and Collateral Registries, International Finance Group, January 2010.

## **KEY RECENT DEVELOPMENTS**

APEC member economies have continued to reform at varying speeds and levels of development, although significant work remains to be done. A few recent examples of progress in this area:

CHINA: Enforcement framework continues to be enhanced providing greater certainty for secured lenders following the release of the latest Judicial Interpretations of the Law on Civil Procedure issued January '15.

PHILIPPINES: Development of a self-service chattel mortgage registration system in process, initially launching through major banks with planned later expansion to an online system.

VIETNAM: Coordination with IFC to jointly train local bankers on moveables lending through symposiums and workshops leveraging industry and subject matter experts, resulting in a near doubling of security interest registrations and registry searches between 2012 and 2014.

## **PATHFINDER INITIATIVE IN APFF AND APEC**

APFF is seeking support of APEC to launch a pathfinder initiative that will address the most important factors behind the inability of many MSMEs in the region to access finance from lenders. Secured transactions and movable asset finance systems form an important part of the lending infrastructure that will enable more credit to flow to MSMEs, support the growth of supply chains and help APEC economies achieve inclusive and stable growth. APFF proposes to undertake activities that will help economies increase bank lending to MSMEs by developing the legal and institutional infrastructure and practices to enhance lenders' acceptance of movable assets as collateral.

APFF will seek to advance this initiative through the creation of the Financial Infrastructure Development Network (FIND) that will undertake workshops, dialogues and studies on the following topics:

- reform and development of secured transactions systems and insolvency frameworks among APEC economies;
- good practices and internationally accepted principles on secured transactions legislation;
- establishment and development of effective modern collateral registries and promoting pathways to single, central and online security interests notice filing systems and comprehensive coverage of security interests on movable assets within the economy;
- improvement of the capacity of lenders in structuring, delivering and managing credits based on movable assets and development of the necessary operational infrastructure such as third-party collateral management industry, electronic finance platforms and credit enhancement services to support the expansion of such credits for MSMEs, agri-business operators, domestic and cross-border traders and infrastructure companies, among others; and
- development of regionally consistent legal, institutional and operational structures to facilitate the financing and expansion of cross-border trade and supply chain finance.

***Prepared by Secured Transactions sub-stream of the Asia Pacific Financial Forum***  
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