

# Secured Transaction Reform: Potential & advances in its implementation



IN PARTNERSHIP WITH OUR DONORS\*

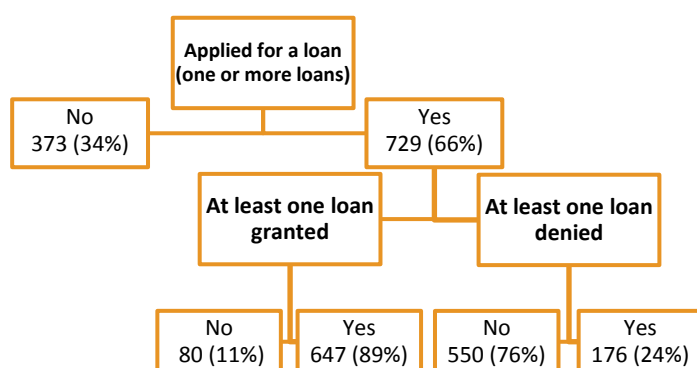
On August 20<sup>th</sup>, 2013 the President of Colombia enacted the law 1676 which laid the basis for the use of movable assets as collateral to secure credit. Firstly, it established a unified-online-registry for all movable assets used as collateral. This registry should enable potential creditors to verify whether the good they are being offered as collateral is subject to other obligations. Secondly, the law eases enforceability processes of movable collateral in case of default.

This document presents the preliminary results of the exploratory phase of the Secured Transaction Reform impact evaluation; the degree to which the inability to use movable assets as collateral seem to limit firms' access to credit; Financial Institutions' (FI) expectations on the utility of the new regulation; and the use of the registry since its launch, since February 24<sup>th</sup>, through September 30<sup>th</sup>, 2014.

## SMES' ACCESS TO FORMAL FINANCE

Eighty percent of the 1,125 SMEs surveyed by IPA between late 2013 and early 2014 (before the reform came into place) had a loan from a formal financial institution at some point during their existence. Of the 20% of firms which had never used external finance at the moment of the survey, 54% had never applied for a credit.

Figure 1. Loan application in 2012, % of firms



In 2012 alone, 66% of the firms applied for at least one loan or line of credit. Out of these, 89% were granted at least one application and 24% were denied at least one application (Figure 1).

**Fifty percent of the firms surveyed consider that the limited access to credit constitutes an extremely important or important problem for their business operation (Figure 2).**

\* This investigation was requested by the International Finance Corporation (IFC) and supported by the United States Agency for International Development (USAID) and State Secretariat for Economic Affairs of Switzerland (SECO).

A high collateral requirement was the reason most frequently cited for the rejection of the firms' most recent loan application (37%). The lack of collateral was cited more frequently than the lack of credit history (21%) (Figure 3).

In addition, 64% of the firms that were denied a loan in 2012 indicated that this loan required collateral. Furthermore, 47% of the firms that were denied a loan which required immovable assets as collateral in 2012 thought that, if allowed, they would have been able to fulfill the collateral requirement with movable assets (Figure 4).

Figure 2. Rankings of the main problems which affect the operation of firms, % of firms

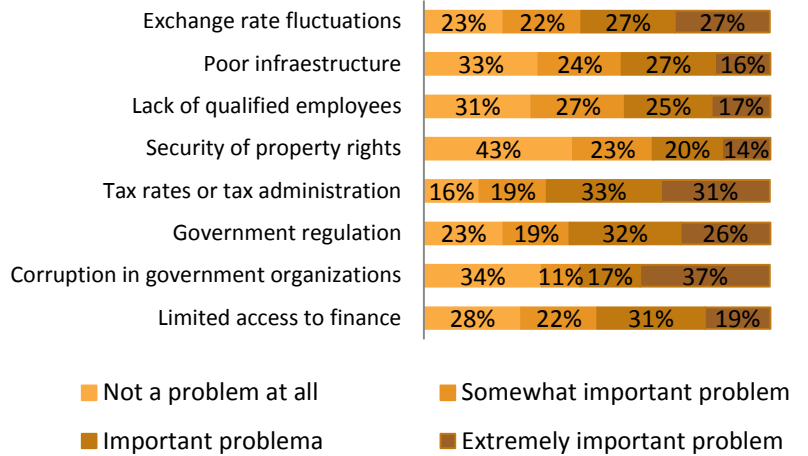


Figure 3. Reason for the denial of firms' most recent loan application, % of firms

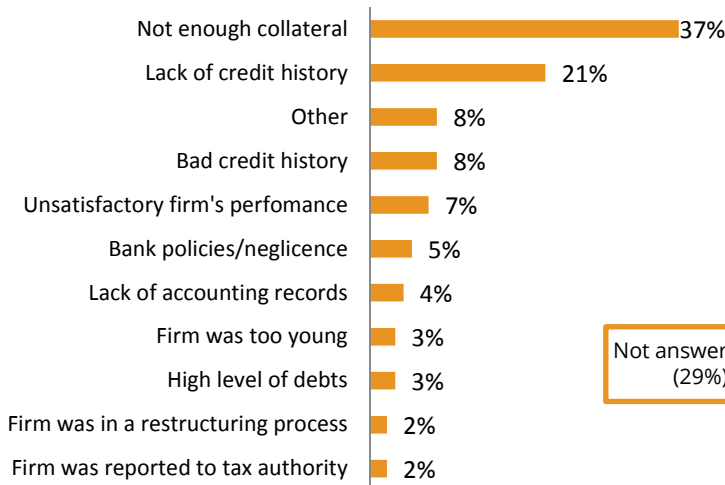
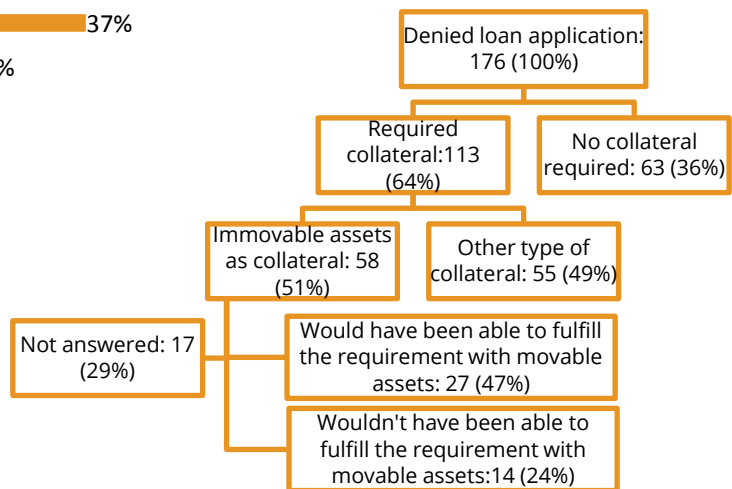
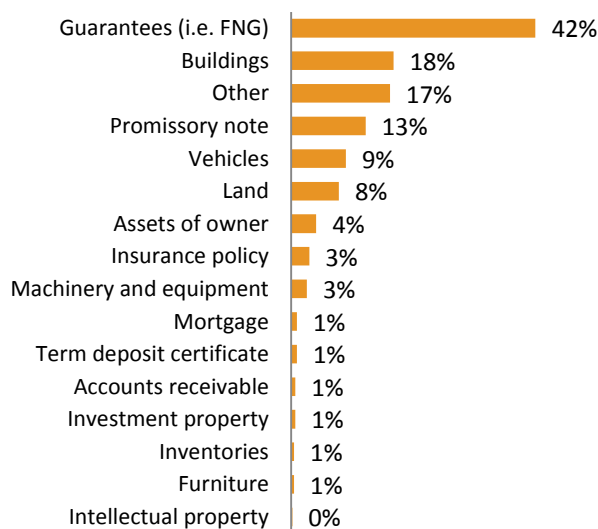


Figure 4. Financial institutions' collateral requirement to secure the most recent denied loan, % of firms

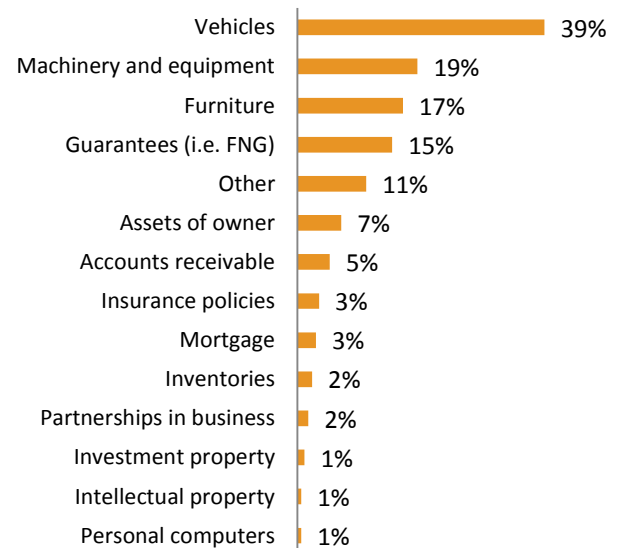


The type of asset most frequently used to secure the most recent loan were the Fondo Nacional de Garantías S.A. (FNG) and similar guarantees (42%), real state (18%), promissory notes (13%) and vehicles (9%) (Figure 5). However, only 19% of the firms had ever used movable collateral to secure a loan. Historically, the movable assets most frequently used as collateral were vehicles (39%), machinery and equipment, (19%) and furniture (17%) (Figure 6).

**Figure 5. Type of collateral used to secure the most recent guaranteed loan, % of firms**



**Figure 6. Type of movable collateral used to access a secured a loan, % of firms**



**The results from the baseline are confirmed by a survey done in collaboration with SuperSociedades.** Among 482 firms, 65% reported having applied for a loan or line of credit in 2013 and 95% of these firms were granted at least one of their applications. The firms that were denied a loan believed that the collateral requirement was one of the main reasons for the denial of their credit application. Finally, as in the baseline survey, the guarantee most frequently used to secure the last loan or line of credit was the FNG (and similar guarantees) and the four most used movable assets to secure a guaranteed credit were the same in both surveys.

## FINANCIAL INSTITUTIONS' OPINION OF THE REFORM

IPA surveyed 19 financial institutions between March and August 2014.<sup>1</sup> All of these FIs were knowledgeable about the reform and were taking the necessary steps to comply with the new requirements, especially the use of the Movable Collateral Registry.

Approximately 70% of the FIs thought that formal SMEs would be the main beneficiaries of the reform. Although none of these FIs expected to change their criteria to grant credit, which implies that payment capacity will continue to be the main factor when determining access to external finance, they are open to the possibility of modifying their financial products to include movable collateral and their criteria and policies to accept movable collateral.

*“Debtors are going to have more possibilities of accessing credit. There won’t be new products but new strategies and policies in response to the reform.”*

In addition, FIs believe that thanks to the new execution processes, and other innovations introduced by the reform, the cost of accepting movable collateral will decrease. They believe this will enable them to expand their client base.

*“The reform targets an interesting segment of the market: the SMEs. If everything works out well, we expect a positive impact in the growth of the bank’s portfolio.”*

However, **FIs do not expect to make any changes until the legal and regulatory framework of the reform is complete.** Approximately 84% of the FIs believe that the lack or overlap of the regulation is an obstacle for the use of movable collateral. The two points which were most frequently mentioned by the FIs were:

1. **Execution Decree:** without this decree the new execution processes (considered by most of the FIs as one of the key advantages of the reform) remain unusable. This significantly limits the appeal of accepting movable collateral since the benefits of a more effective and expedite execution system cannot be materialized.
2. **SuperFinanciera’s Circular 100:** although non-binding, FIs prefer to wait for SuperFinanciera to modify the definition of an admissible and ideal guarantee and to include movable guarantees in the provision regime before starting to actively accept movable collateral.

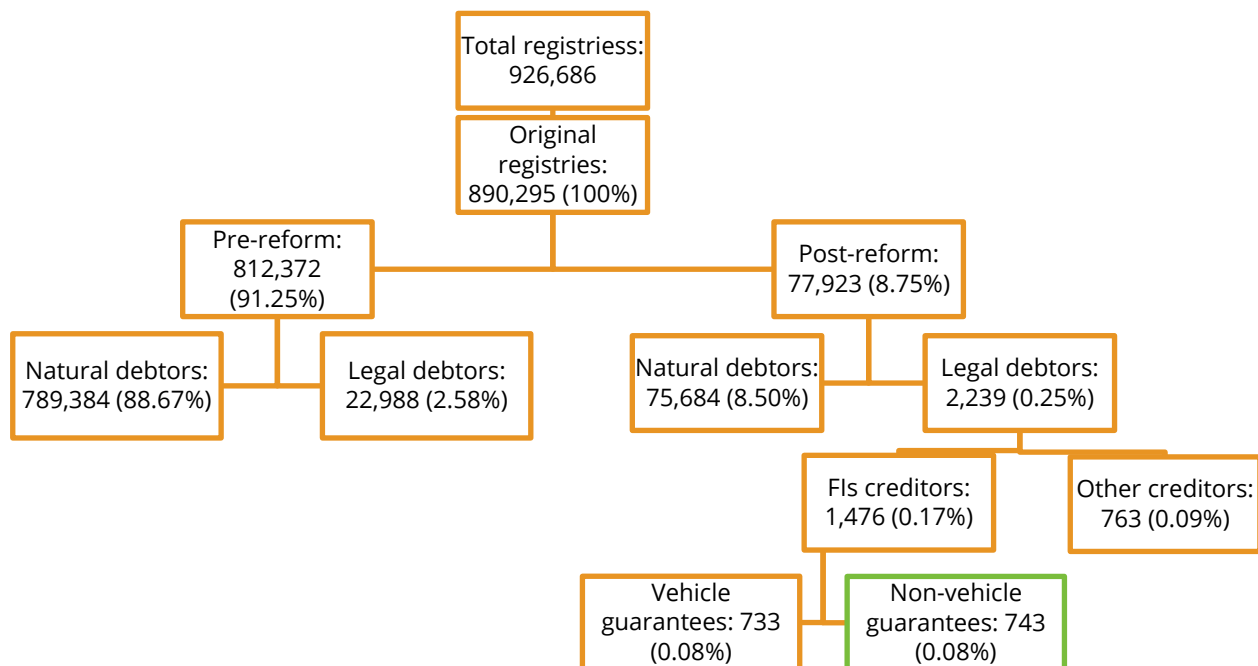
---

<sup>1</sup> 13 banks, 5 financing companies, and 1 cooperative.

## USE OF THE MOVABLE COLLATERAL REGISTRY

The new unified on-line registry of movable collateral is one of the key instruments necessary to ensure the implementation of the reform. Being able to gather in one registry the information of all movable guarantees contributes to improving financial access since it enables creditors to follow the assets given as collateral and eases the execution process in case of default. This reduces the risk of accepting collateral, especially movable guarantees.

Figure 7. Overview of registries up to September 30, 2014,  
% of registries with respect to the total number of original registries



The 30<sup>th</sup> of September of 2014, only a few months after its launch, the registry counted with 890,295 original registries of movable guarantees.<sup>2</sup> The rapid expansion of the registry constitutes an early success of the reform; the information of a huge number of credits was rapidly centralized in one same instrument.<sup>3</sup> The registry has enabled, for instance, to start understating

<sup>2</sup> Count using only one “electronic entry” per registry. This means that duplications of original registries created by “modification forms” were not included.

<sup>3</sup> As a reference point it is worth bearing in mind the Mexican registry. The Mexican registry has been working during 4 years and counts with approximately 400,000 registries (according to the Mexican Secretary of Economy). An economy much bigger than the Colombian only counts with half the registries.

the number of credits that are not related to the financial system. More than a third (43%) of the original registries correspond to creditors which are not financial institutions.

However, **the rapid growth in the registered number of movable guarantees cannot yet be interpreted as an indicator of the success of the reform in increasing the number of credits granted using movable collateral.** Less than 1% of the total original registries correspond to new credits given by FIs to firms using movable assets (different to vehicles) as collateral (Figure 7).<sup>4</sup> Of the 8.75% of guarantees registered in the post-reform period (the rest are guarantees which were previously registered in other instruments), only 1.9% (0.17% of all original registries) were registered by FIs as part of transactions in which debtors were firms. Finally, only half of these guarantees (0.08% of all original registries) were assets other than vehicles, which were commonly accepted as collateral before the reform came into place.

It is therefore early to judge the success of the reform based on the information of the registry, both because it doesn't yet include a high number of new credits and because the financial institutions are not yet extensively using movable guarantees since they are waiting for the legal and regulatory framework of the reform to be complete.

#### **IPA Colombia contact details**

Pablo Villar, Research Coordinator: [pvillar@poverty-action.org](mailto:pvillar@poverty-action.org)

María Aránzazu Rodríguez, Research Associate: [mrodriguezuribe@poverty-action.org](mailto:mrodriguezuribe@poverty-action.org)

---

<sup>4</sup> All percentages in this figure are calculated using the total number of original registries as the denominator.