



PRINCIPLED INTEREST:
A DEVELOPMENT FINANCE LEARNING SERIES



MARKETLINKS

What Progress Have We Made to Increase Financial Inclusion through Movable Property Lending ?

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Team Lead, Development Finance
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»» AGENDA

- Objectives
- Opening Discussion
- Asset Based Lending in Colombia
- Asset Based Lending Tactics to increase Uptake
- Lessons Learned from pilots in Kenya, Indonesia, Vietnam
- Q&A

OPENING QUESTIONS



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1. **What is Movable Property Lending? and why does it matter on our world?**
2. **What is a Collateral registry?**
3. **Why hasn't there been greater uptake among Financial Institutions (FIs)?**

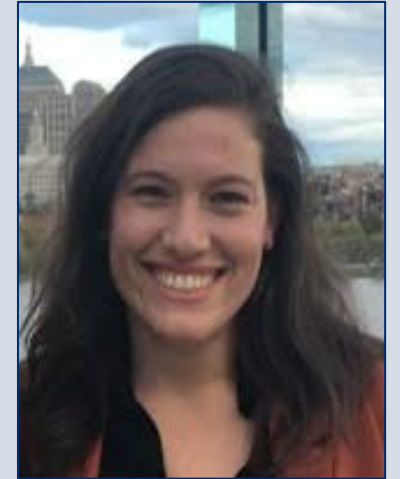
Lessons Learned in Asset-Based Lending



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USAID Engages Private Sector Firm-Dopkins & Company

Asset-Based Lending (ABL) Framework for Women's Economic Empowerment in Colombia

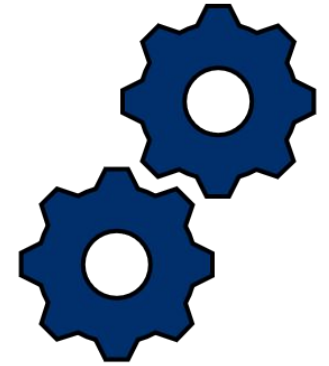
1. Objective
2. Colombian Context
3. Lessons Learned?



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Challenges create Opportunities in Asset-Based Lending

- Market Acceptance
- Building the Business Ecosystem
- Banking and Legal Environment
- Culture
- Technical Expertise



Invest and Engage Key Stakeholders in the Region

- Asobancaria – Colombian banking
- Banca de las Oportunidades
- Colombian Confederation of Chambers of Commerce
- International Finance Corporation (IFC)
- Servicios Integrales Campipetrol



ASOBANCARIA



Confecámaras
Red de Cámaras de Comercio



IFC
International
Finance
Corporation
WORLD BANK GROUP



BANCA DE LAS
OPORTUNIDADES

Policies and Procedures Supporting MPL in Colombia

- Secured transactions laws
- Simplified corporation laws
- Electronic financial records
- A centralized system for filing and searching of security interests – a national public registry



Invest and Engage in Industry Standard Tools

- Field Examination Handbook
- Field Examination Workpaper Template
- Field Examination Report Template
- Report on the Identification of Qualified Outsource Field Examination Firms

Key Recommendations

- A Disciplined Approach
- Robust Securing Lending Laws and Regulations
- ABL/MPL Policies and Procedures
- Due Diligence Framework
- Align with Experienced ABL/MPL Professionals

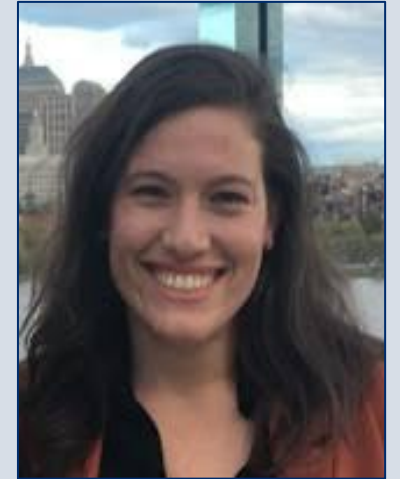
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Deloitte and USAID's Inclusive Finance Program

The program sought to determine (1) the viability of a specific form of inclusive lending in three countries where USAID is present, and (2) whether blended finance could accelerate financial institutions' interest in offering MPL

What is Movable Property Lending (MPL)?

The use of **movable assets**, such as vehicles, manufacturing equipment, inventory, receivables or livestock, as **collateral for loans**. MPL increases **borrowing opportunities** for enterprises and individuals who lack fixed assets, such as land and buildings, making MPL **particularly advantageous for women**.

PROJECT GOALS

1

Generate, synthesize and disseminate learnings on (1) the MPL and inclusive finance ecosystem; and (2) the pursuit of a blended finance transaction leveraging MPL

2

Develop a transaction pipeline; prioritize opportunities; connect FIs and investors; provide limited ad hoc support toward closing transactions

Country & Targeting Rationale

Kenya



- Active collateral registry
- Competitive and innovative finance sector
- Investor attention
- \$2B women's SME (WSME) finance gap

Indonesia



- Thriving fintech sector
- Investor attention
- \$21B WSME finance gap

Vietnam

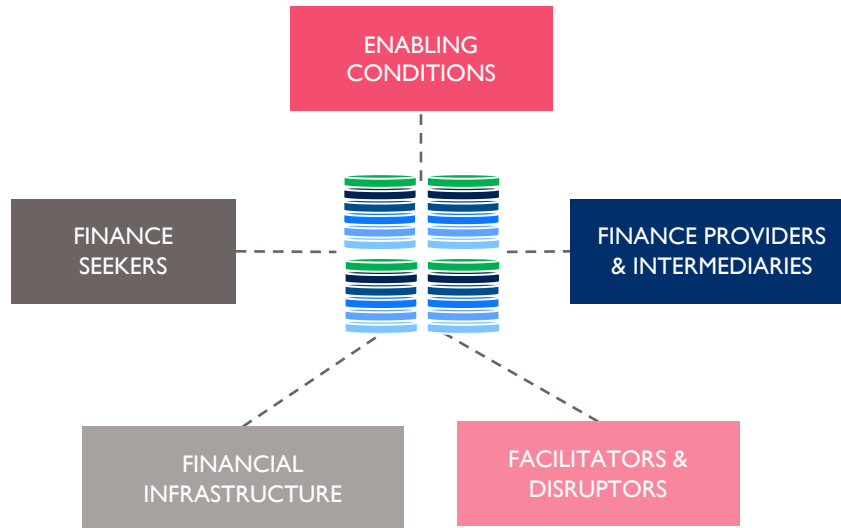


- Regulator-driven inclusive finance focus in banks
- Competitive finance sector
- Investor attention
- \$5B WSME finance gap

Analytical Frameworks

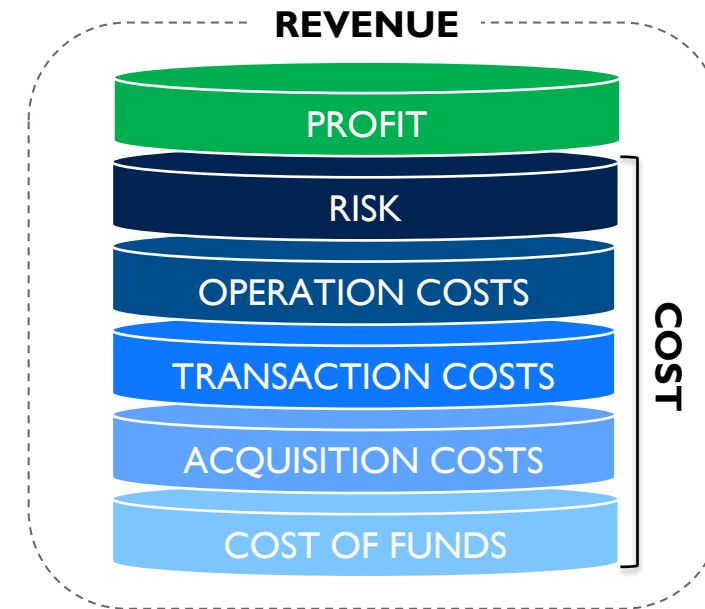
Ecosystem Factors

A number of market factors, categorized by the below framework, determine whether and how many MPL transactions are possible



Transaction Factors

The viability of each deal (i.e. MPL loan) is determined by the different elements that affect finance providers' profit

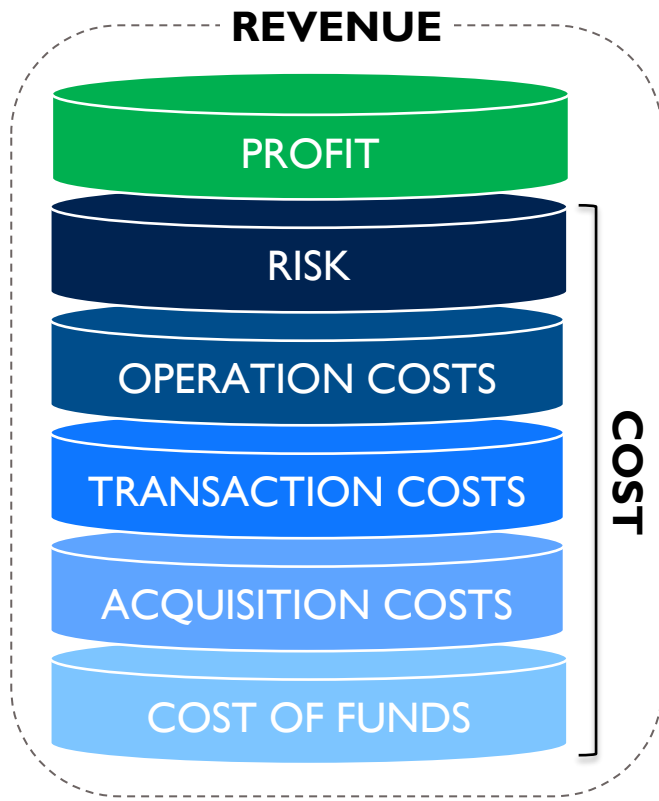


The ultimate profitability and business case for MPL relies on a number of factors that impact:

- 1) the **profitability of individual MPL transactions**, and
- 2) the **ability to engage in these transactions at scale**.

Tactics to Improve the Economics of MPL

Our research yielded several transaction-level tactics that financial institutions and other players can use to drive down costs and increase viability in focus countries.



MPL TACTICS



Asset Specialization



Lending for Productive Assets



Incorporating Repossession into Operations



Conveying future income as security

INCLUSIVE FINANCE TACTICS



Leveraging Anchor Companies



Reducing Risk with Group Guarantees



Leveraging Digital Platforms



Leveraging Local Networks



Using Alternative Credit Data

BLENDED FINANCE TACTICS



Using Blended Capital to Decrease Cost of Finance



Reducing Risk with Guarantees



Increasing Profit per Transaction with External Incentives



Looking at NBFIs for Innovation - Rather than Traditional Banks

Example Tactics for MPL

Asset Specialization



A lender can offer MPL only for specific assets that they are experienced with and can value and manage easily

Lending for Productive Assets



Default risk associated with movable collateral can be mitigated by lending against cashflow-producing assets that directly support repayment

Incorporating Repossession into Operations



Employing creative ways to repossess collateral in the case of default can reduce operating costs. An example would be when an FI can shut off equipment when a borrower defaults

Conveying future income as security



Lenders can accept invoices or other business commitments or expected revenue as collateral to reduce risk and to eliminate valuation costs



Juhudi Kilimo is a microfinance institution lending against specialized agricultural/pastoral assets, including livestock.



In Indonesia, the startup Crowde partners with agro-dealers to provide asset-based inputs to farmers



Fintech Kopo Kopo collects payment on loans by taking a direct cut from SMEs using its digital payments software.



NCBA has trade and supply chain finance offerings that allow SMEs to borrow against accounts receivable.

AC

TC

OC

RP

RP

RP

OC

TC

OC

RP

Key | Transaction costs addressed by specific tactics:

CF

Cost of Funds

AC

Acquisition Costs

TC

Transaction Costs




OC

Operation Costs

RP

Risk Premium

Prioritized MPL Opportunities

| | Institution Type | Size | Loan Portfolio | Investment Desired |
|---|-------------------------------------|------------------------|-------------------------------|--|
| Vietnam  | Commercial Bank | \$19.4B AUM | Commercial and SME loans | Gender-inclusive asset-backed loan pilot |
| | Commercial Bank | \$16.2B AUM | Commercial and SME loans | Gender-inclusive asset-backed loan pilot |
| | Non-Bank Financing Company | \$26M loan portfolio | Unrestricted consumer loans | Gender-inclusive asset-backed loan pilot |
| Indonesia  | Fintech: Peer-to-Peer Lender | \$158M loans disbursed | Group loans, microfinance | Supply chain finance/asset financing pilot |
| | Fintech: Peer-to-Peer Lender | \$50M loan portfolio | Restricted agriculture credit | Supply chain finance/asset financing pilot |
| | Fintech: Peer-to-Peer Lender | \$71M loans disbursed | Unrestricted consumer loans | WSME lending/alternative credit scoring improvements |
| Kenya  | Microfinance Institution | \$175M loans disbursed | Group loans, microfinance | Scaling of gender-inclusive asset-backed lending |
| | Commercial Bank | \$4.4B AUM | Commercial and SME loans | Supply chain finance/asset financing pilot |

Investors Engaged on Prioritized Opportunities



Lessons Learned on Private Sector Engagement

Our research found that private, for-profit companies are currently finding ways to successfully carry out MPL in a socially positive way – and that there is also a broad-range of investors who are interested to help them scale



Mindset

Helping companies make a *profit* can further development



Rigor

For a private corporation, market details *matter*



Process

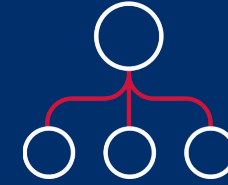
Money on the table and local presence supports *credibility*



Value

The development community *can surface* new opportunities

Q&A



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Path Forward Possibilities for MPL



Development approach

Implementing partners can use **private sector investment as a first resort** and subsidies as a last resort to understand which markets are sustainable through private sector engagement.



Geographic understanding

Landscape/ ecosystem analyses in additional countries can give the development community and investors a better idea of global opportunities in socially impactful industries.



Leveraging de-risking measures

Continued effort to **surface** investment opportunities/ transactions, with **private dollars and de-risking** measures (USAID, DFC, and otherwise) can help close deals.



Optimizing transactions

Creation of a **platform/ facility to source and transact** inclusive finance/ MPL deals can help achieve economies of scale and drive sourcing costs down.



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LEARN MORE

Visit our Finance Wiki on Marketlinks

<https://www.marketlinks.org/finance-wiki/finance-wiki>

<https://www.marketlinks.org/finance-wiki/26-role-investment-catalyst>

<https://www.marketlinks.org/finance-wiki/442-build-collateral-registries>

More Materials:

- [UNCITRAL Model Law on Secured Transactions](#)
- [UNCITRAL Legislative Guide on Secured Transactions](#)
- [No Real Estate? No Problem. A Look at the Potential of Asset-Based Lending to Empower Women in Colombia](#)
- [Chemonics Secured Finance Primer](#)

BEFORE YOU GO!



Please take a moment to
answer the poll questions