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EFFECTS OF SECURED LENDING REFORMS FOR WOMEN-OWNED MSMES

Creating More Inclusive Legal Frameworks to Stop Leaving Money on the Table

Secured transactions reforms have had a measurable impact on a number of economies that have experienced growth in access to secured credit, particularly for micro, small and medium-sized enterprises (MSMEs). In many developing economies, MSMEs are unable to access credit because they do not have collateral that financial institutions expect, i.e., immovables. Moveable assets rather than land often account for most of the capital stock of MSMES. According to the World Bank, in the developing world, 78 per cent of the capital stock of businesses is typically in movable assets such as machinery, equipment or receivables, and only 22 percent in immovable property. But in many economies, movable property is unacceptable to lenders because the law does not provide sufficient protections. These challenges are not only faced by women-owned MSMEs, but they are generally greater for women than men. Women's access to collateral and property rights can be hindered by property, contract, identity, inheritance,, marriage and other laws that frequently reduce women's access to assets by reinforcing discriminatory traditional stereotypes and norms. Globally, financial institutions' portfolios of loans with women-owned MSMEs tend to be significantly lower than the overall number of women-owned MSMEs in their target markets would suggest.

An efficient secured transactions and collateral registry regime can help overcome some of these hurdles for MSMEs and can be a particular advantage for women-owned MSMEs. Modernized collateral regimes expand the types of assets that can be used as security to all tangible (inventory, crops and livestock, vehicles, machinery and equipment) and intangible (accounts receivable, shares, deposit accounts, intellectual property rights) assets.

Modern secured transaction laws also increase the availability of credit and reduce its cost, by ensuring that lenders can collect debt and enforce their rights in moveable property collateral through a timely and inexpensive process. Reforming a country's legal framework for secured transactions can help businesses — particularly women-owned MSMEs— leverage assets into capital for investment and growth.

On March 13th and 14th, 2017 the USAID Middle East Bureau in partnership with the USAID E3 Office and the U.S. State Department held the MENA Secured Transaction Reform Workshop in Nicosia, Cyprus. The objective of the workshop was to build the capacity of key government officials from the Middle East and North Africa (MENA) region on how they can pursue and operationalize secured transaction reforms to increase access to finance and achieve further economic growth in their countries. During the two-day workshop, participants were able to hear best practices and lessons learned from countries who have successfully implemented modernized secured transaction laws such as Colombia and Ghana. These countries offer two examples where MSMEs, specifically women-owned MSMEs, have been positively affected by reforms and are now more significant players in the formal financial sector, gaining an ability to access finance that would have not otherwise been possible due to modernized secured transaction legislation.

COLOMBIA

The 2014 adoption of Colombia's modern secured transaction registry system led to more loans registered in the first 6 months than previously registered in total for the past 30 years. **Since the launch of the registry, access to finance for women has increased by 39 percent**. The collateral permitted under the new law included a wide variety of assets that were unlikely to have supported loans under the prior legal regime. Borrowers are now able to obtain loans by using collateral resources such as inventory, machinery and crops. Since the registry went live in March 2015, there have been over one million registrations, valued at more than $93 billion. Over 10 percent of these loans represent new credits. More than 100 financial institutions are participating in the collateral registries. Some of Colombia's largest banks have provided loans secured by movable collateral, including embroidery machines, milking equipment and rice crops. Colombia has soared to number 2 in the world for ease of getting credit in the 2017 World Bank's Doing Business as compared to their rank of 73 in 2014.

GHANA

Ghana implemented the first modern collateral registry in Africa in 2010. **As of 2017, more than $14,000 million in funding was provided to more than 13,000 SMEs and 40,000 microenterprises, including 70 percent owned by women.** After the creation of the collateral registry, financial and nonfinancial institutions expanded their loan operations to MSMEs in Ghana. Additionally, more than 63,000 registrations have taken place. Of them, 21percent were SMEs and 66 percent were microenterprises.

INCLUSIVENESS: A KEY THEME IN ECONOMIC GROWTH

Existing constraints to finance for women (who constitute approximately 50 percent of the human population) results in money being left on the table by banks, other lenders, and revenue authorities. This is unused capital that could be financing the growth for formal and informal of women-owned SMEs w while increasing revenue for banks, leasing companies, and tax collectors. Creating a regulatory environment that permits greater participation by women leads to more stable, robust growth. . Efforts by countries such as Colombia and Ghana have shown that secured transaction reform can lead to not only increased access to finance but foster a more inclusive economy that can create more jobs, increase foreign investment, improve credit market competitiveness and further drive sustainable economic growth.