



Paving the Way Forward for Rural Finance
An International Conference on Best Practices

Legal and Regulatory Requirements for Effective Rural Financial Markets

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Overview

- Secured transactions
- Regulation of rural financial institutions
- Contract enforcement
- Land rights
- Intellectual property rights
- Labor and debtor protection
- Policy guidelines and recommendations



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The Legal Framework for Secured Transactions

- Private finance in rural finance
- The economic gain from secured lending



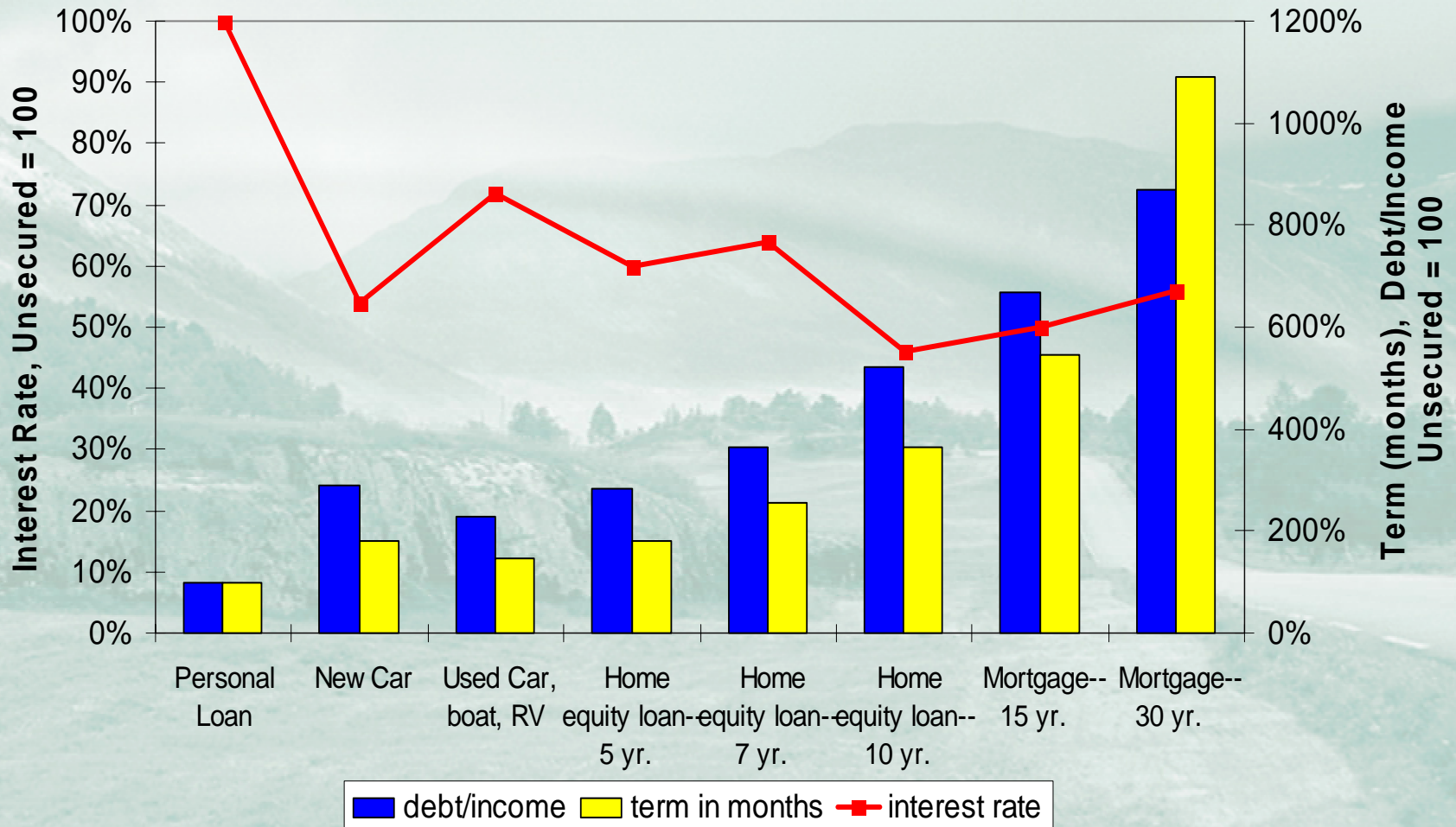
Collateral: Importance for Lenders

Example -- World Bank/IMF/FRB Credit Unions

	interest rate	term	debt/ borrower income
Personal loan	12.50%	33	50%
New Car	6.75%	60	144%
Used Car, boat, RV	9.00%	48	113%
Home equity loan	7.50%	60	142%
	8.00%	84	182%
	5.75%	120	261%
Mortgage	6.25%	180	334%
Mortgage	7.00%	360	434%



Loan Terms with Different Collateral, (Unsecured Loans = 100%)





Secured Transactions

Experience in Developing Countries:

- Creation
- Priority
- Publicity (Registries)
- Enforcement
- Best Practice Reforms



Regulation of Rural Financial Institutions

- Who should be regulated: "deposit-taking institutions" or "those engaged in financial activities"?
- Who should regulate deposit-taking non-banks?



Contract Enforcement

- Enforcing secured contracts
- Enforcing unsecured contracts
 - Arbitration
 - Making arbitration binding
- Enforcing non-consensual claims
 - Judicial reform
 - What goes to court?
 - Procedural laws
- Best practice reform



Entry/Exit of Institutions from Financial Markets

- Regulated financial institutions
- Exit of banks and deposit-taking non-banks
- Legal problems in entry: licensing, and registration of rural businesses
 - The commercial registry
 - Other licensing requirements
 - Best practice reform
- Legal problems in exit: bankruptcy laws



Land Rights, Land Titling, Cadasters, and Access to Credit

- **Creation**
 - Lowering costs
 - State cadaster system
 - Establishing clear rights (customary land tenure)
- **Priority**
 - Establishing a clear ranking priority of interests in land
- **Publicity (the registry of real estate)**
- **Enforcement**



Land Rights and Access to Credit

- Land titling, cadasters not necessary for land rights
- Land titling, land rights not sufficient for access to credit
- How land rights can serve as collateral



Intellectual Property Rights

- Why should developing countries support the framework for intellectual property in their rural development strategies?
- Problems in intellectual property law
- Other laws and institutions that affect intellectual property rights
 - Patent and trademark office
 - Enforcement of IP law
 - Other legal issues affecting the business aspects of biotechnology firms in developing countries



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Conclusions: Policy Guidelines and Recommendations

- Fix the legal framework for microfinance
- Refocus land titling projects toward reforming land use rights and using these rights as collateral for loans
- Reform the fundamental laws governing economically-relevant rights



Conclusions: Policy Guidelines and Recommendations

- Is there a minimum legal framework for effective rural finance?
- Proper sequencing of legal, regulatory, and institutional reform
- Reforming on a limited budget