examine the regimes in the five RETA countries. It also presents qualifications to such a baseline policy model. Finally, it explains the methodology and system of citation used in the report.

5. Each of the four succeeding chapters (Chapters V to VIII) examines one of the four key steps that determine the effectiveness of a system of secured credit:

- Creation: how creditors establish a claim to property to secure the payment of credit;
- Priority: how creditors establish a ranking of their claims in collateral;
- Publicity: how creditors make public the ranking of their priority in collateral; and
- Enforcement: how creditors repossess collateral and sell it for satisfying their claims.

6. In each chapter, brief explanation of the economic consequences of these legal problems accompanies each set of legal findings. The chapters show how the laws of these countries set out a costly, complex, lengthy, and uncertain process for securing credit with movable property. Facing this, private creditors mainly do not take such collateral from debtors. Debtors, in turn, have little access to credit unless they own real estate or can obtain the guarantee of someone else who owns real estate.

7. The paper then turns, in Chapter IX, to the economic consequences of this system. Using extensive Enterprise Interviews, conducted by the project across a broad range of debtors and creditors in the five RETA countries, the chapter examines how these legal problems hurt key groups of creditors and debtors and limit important financial transactions. It shows how the debtors and creditors indeed face the problems that the earlier chapters predict will arise from analysis of the law. These interviews examined the experience of financial institutions as creditors and of other enterprises that operate both as creditors and debtors: firms that deal in agricultural inputs, general merchandise, cars, heavy machinery, computers, and fixtures. The findings confirm the prediction of the legal research: financial firms rarely lend on the security of movable property not in their possession and non-financial enterprises usually offer relatively little secured credit to their buyers. None is able to refinance unsecured credit and accounts receivable, limiting in turn the ability of the unsecured lending sector—including micro-finance creditors—to refinance their portfolios. Finally, in Chapter X, this paper reviews the outlook for reform. It discusses the incentives for reform and sets out a brief review of options for reform, including a baseline policy approach, a possible counter-approach based on the literature, and factors that argue for the occasional derogation from the baseline policy model. It explains why only a strategy that addresses the legal roots of these problems will improve access to credit in a sustainable way. It points out how these same legal problems have undermined previous attempts at solutions that attempted using economic measures to compensate for these legal inadequacies.

II. SECURED CREDIT

8. Secured credit is a concept that varies in scope in different countries. This chapter describes the phrase as used throughout the report, identifies the parties to the transactions, introduces the notion of the credit chain, identifies categories of secured transactions that are important to policy makers, and defines movable property (the type of collateral examined in this report).

A. What Is Secured Credit

9. Credit that is secured, as opposed to unsecured, grants priority to a creditor or a seller on credit to collect against some property, usually belonging to the debtor, if the debt is not paid as agreed. In most systems, a creditor can secure debt by creating a security interest against property of the debtor or a third party. Without a security interest, a creditor only has a general claim against a debtor's property.

10. A security interest is a right of satisfaction from the property upon which the security interest depends—the collateral. When a debt is in default, the collateral is sold or exchanged, satisfying the interest of the secured creditor ahead of the general claims of unsecured creditors. Typically, but not necessarily, payment occurs. When multiple claimants hold security interests in the same collateral, their claims are satisfied in the order of priority set by law.

B. Parties to a Secured Transaction

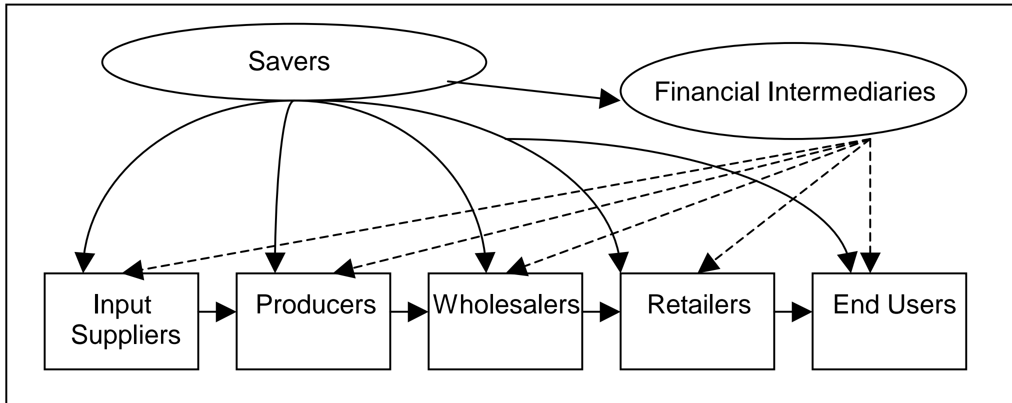
11. This report examines the transactions of debtors and creditors that are secured by movable property (see below). It emphasizes debtors that produce goods and services, rather than those that consume. Credit flows to a producer from three major sources: savers, banks and other financial intermediaries, and producers themselves (see Box II-1). The savers provide funds to producers directly in various forms (such as bonds or notes issued by companies) and indirectly (through deposits in banks). The banks lend to enterprises at each stage of production. The producers themselves provide credit to their buyers. In many industrial countries, players in the chain of production provide some form of credit to their buyers and take a range of security interests in the transformed goods, the movable property.

12. One can see that the types of enterprises—input suppliers, producers, wholesalers, retailers, and end users—vary by sector of the economy (Box II-1, Sectoral Credit Chains). Suppliers of raw materials provide credit by, for example, lending to or accepting delayed payment from the manufacturers and take security interests in the materials or the transformed goods. Manufacturers could give their distributors and wholesalers credit, who do the same for retailers. In some industries, at least, the retailers offer finance to end purchasers. Sometimes the suppliers supply more credit to their buyers than do traditional sources of credit, the banks and other financial firms. These players are all part of what is called the credit chain.

13. The financial intermediaries and enterprises in the credit chain are of great concern to government policy makers for several reasons.

14. The debtors who are party to secured transactions are of interest to policy makers for several reasons, many of which affect the regime for secured transactions. First is the part they play in financial markets. Debtors include issuers of secured debt in markets for direct finance, borrowers from the financial firms that intermediate in the markets for indirect finance, and buyers on credit from producers. Each type plays a significant role in the economy, raising important issues for policy. Second is the nature of their economic activity. Commercial debtors raise policy issues that are different from those raised by consumer debtors. Some rules governing secured transactions are designed to protect consumers. Third, and related to the second point, is their economic power. Policy makers often distinguish between debtors with and without economic power, seeking to protect weak debtors (who may be small businesses or individuals with low income) from powerful creditors. Each track of policy impinges on and shapes the law governing secured transactions.

Box II-1.
GENERAL CREDIT



SECTORAL CREDIT CHAINS

Sector	Input Supplier	Producer	Wholesaler	Retailer	End User
Agricultural Sector (Perishable Commodities)	Farm equipment manufacturer	Rice Farmer	Granary/co-op trading company, packager	Grocer	Consumer
	Fertilizer, seed supplier	Soy Farmer	Distributor		Corporate Buyer
Consumer durables	Equipment supplier	Refrigerator Manufacturer	Distributor	Store	Consumer
	Parts				
	Raw materials				
Transport (movable but can be repossessed)	Equipment maker	Car Manufacturer		Car dealer Assembler	Car buyer Airline, shipping line
	Parts supplier	Airline, ship Manufacturer			
	Raw materials Supplier	Airline, ship Manufacturer		Boat seller	Retail buyer
Construction (fixtures)	Materials	Office builder			Land owner
	Equipment Lessor	Office builder			
	Subcontractor				
High Tech (knowledge-based security)	Hardware or other software	Distributor			Businesses

15. The creditors attract policy makers' interest as well. The health of the investors and the stability of financial firms is of great concern to policy makers. Financial policy makers and

regulators are also concerned about the health of suppliers giving credit, because their weaknesses may in turn weaken the investors and financial institutions that fund them.

C. Types of Secured Transactions

16. Secured transactions take several forms. Security interests strictly defined are those in which the creditor has no ownership interest in the collateral. They include, for example, different types of pledges, which are collateral property in the possession of the creditor, charges on assets (by statute or contract), hypothecation, and mortgages, which govern collateral in the debtor's possession. Hybrid security interests include conditional sales, in which the seller retains title or may have title revert back from the buyer, financial leases, and trusts. Interests created under contract law include assignment of rights to accounts receivable that secure a loan. This report examines all three forms.

17. The result is a wide range of transactions, some of which appear to be other than the functional equivalent of strict secured transactions. For example, a lease of a car for three years with a right to own it at the end may be functionally the same as the sale of a car funded by a supplier's credit that is repaid over three years even though the legal forms differ. A major policy debate in law is whether to treat them identically. For purposes of this report, all are secured transactions.

18. For some secured transactions, the debt drives the collateral, while in others the reverse is true. In the first one, the access to funds is the debtor's main concern. To borrow short-term from a bank, the debtor may give collateral that it already owns and that is tangential to the purposes for which the loan will be used. A simple example is gold jewelry that secures a loan for operating funds for a small grocery store. The grocer wants the credit and puts up the kind of collateral that the bank will accept. On the other hand, the collateral may drive the debt. A party wants to acquire ownership or its economic equivalent, and may take on debt to do so. For example, a business may buy equipment using the suppliers' credit secured by the equipment itself. In such a purchase money secured transaction, the credit is incidental to the purchase. The distinction becomes important in some regimes that give the latter type of security interest special priority. Chapter VI discusses this in some detail.

19. The debt being secured, therefore, may take many forms. In this report, it includes loans and other types of credit, such as lease finance. The credit may or may not exist when the security interest is given to the creditor. The credit may revolve or rotate, so that over the life of the contract, the debtor draws and repays the credit several times. A debtor may, for example, borrow to finance inventory, sell the goods manufactured with that inventory, repay the loan, then borrow again to finance the purchase of new inventory for further production. All drawings and debt servicing are governed by one contract.

D. Movable Property

20. This report examines movable property serving as collateral. This is property other than real property. The forms of movable property are extensive, ranging from existing identifiable assets, such as equipment with serial numbers, to property like grain in silos that cannot be specifically identified, intangibles including intellectual property such as a computer programs, fixtures to real property, and goods that have not yet been produced (future goods). The variety raises many problems for the law governing security interests in them.