

Should the Bank and the Fund Support the Reform of Secured Transactions?

Heywood Fleisig, CEAL
Nuria de la Peña, CEAL

What is the Legal Framework for Secured Transactions?

The legal framework for secured transactions governs the use of collateral for loans. It sets out the rules for creating security interests; for determining the priority among lenders; for sanctioning a system (registry, filing archive) for publicizing the existence of such a security interest; and for enforcing such security interests, by specifying the procedures for seizing collateral or evicting tenants from real estate and selling for selling collateral. With these four steps, the framework for secured transactions of a country sets out the unique legal and institutional system that permits using personal or real property to secure the payment of loans, or secure the performance of other obligations or transactions.

Economic Impact of a Good Framework

A good legal framework for secured transactions permits using more property as collateral, permits the use of collateral by more lenders and borrowers, and permits designing more transactions that use collateral.

Improves access to credit

Expanding the use of collateral, in turn, improves access to credit. A complex and abstract economic literature documents this. However, a visit to the credit union of the staff of the Bank and the Fund can verify this claim. Posted there are the loan terms for members who borrow without giving collateral -- unsecured loans. Relative to those terms, the same posting indicates that a borrower who offers real estate as collateral can get a loan nine times larger, take eleven times longer to repay, and pay an interest rate only half as high. The terms for loans secured by personal (movable or intangible) property -- cars, boats, and recreational vehicles -- fall in between. Any nearby commercial bank will offer similar terms. That is, the very same borrower gets a larger loan at lower rates with a long repayment period when the borrower offers collateral.

That is the power of collateral. A good legal framework for collateral can improve access to credit more than any other social institution.

Aggregate country data reflect these firm-level results. Financial systems with well-developed frameworks for secured lending supply five to ten times more private credit relative to GDP than do their unreformed counterparts. These systems supply credit at

interest rates close to the government borrowing rate for loans secured by a wide range of property -- real estate, apartments in cooperatives, condominiums, leases of public land, equipment, building improvements, portfolios of unsecured loans, inventories, accounts receivables, and livestock.

The problem

Few Bank and Fund borrowing member countries have such legal systems. Why? Briefly, their laws do not support the creation of a wide range of security interests over a full spectrum of property in ways that include most agents and transactions; their laws have no logically consistent system for assigning priority to security interests; their registries that give publicity to these priorities are expensive and ridden with fraud and error; and their systems of enforcement are slow, expensive, and uncertain. Such legal systems ensure that even property with a high market value has no economic value as collateral for loans.

Recent Policy Background

Multilateral development bank focus¹ on reforming ineffective systems of secured transactions began in the early 1990s with the about simultaneous efforts of the European Bank for Reconstruction and Development, as an institution, and by individual staff of the World Bank and the Inter-American Development Bank.

In the mid-1990s the question of whether the World Bank and the International Monetary Fund should play a larger role in limiting international financial disturbances was raised in a series of preliminary G-5 reports. It arose more formally at the 1995 Halifax meetings of the G-7 in response, largely, to events in Mexico. This concern took more concrete and specific form in the G-7 meetings in Washington in April of 1998 concerning the

spreading financial crises in developing countries.

G-22, Working Party 3

These G-7 consultations produced the meeting of the G-22, Working Party 3, which issued the "Report of the Working Group on International Financial Crises". That report was signed by representatives of the finance ministries of all G-7 shareholders in the Bank and the Fund, as well as those of several borrowing country members: Mexico, Argentina, Brazil, South Africa, Thailand, and Korea.

"Immediate Steps"

The report concludes with recommendations for "Immediate Steps". The first of these recommendations "endorses the key principles and features of effective insolvency and debtor-creditor regimes contained in Annexes A and B." Annex B goes on to describe, briefly and accurately, how effective debt collection laws require effective systems for creation, priority, publicity, and enforcement of security interests.

In this report, WP3 of the G-22, acting for the shareholders, instructs the Bank and Fund to act as agents in this reform.

Was this good advice? What have the Bank and Fund done? The remainder of this note answers those questions in the context of the economic impact of secured transactions reform on important classes of Bank and Fund operations.

Secured Transactions -- Links to Bank and Fund Programs

The legal framework for secured transactions underlies, in key ways, the effectiveness of many reforms proposed by the Bank and the Fund.

Microcredit

The Bank has taken an important lead in developing microcredit lending, an innovation in unsecured lending that has proven an effective conduit for credit in many countries, especially for reaching the poor and women.

However, where do microcredit lenders get the funds that they lend? As the deposits of their largely impoverished members are usually insufficient, these lenders remain perilously dependent on government grants and donor resources.

A good framework for secured transactions could solve this problem, however. Such a framework would permit microlenders to offer their often-excellent portfolios as collateral for loans. Then large formal sector lenders could create a security interest in the loan portfolios of the microcredit institution. Refinanced with such loans, microcredit lenders could reduce dependency on fickle donors, fiscally-strapped governments, and expensive deposit-mobilization. Instead, they could finance their operations in the same way as do unsecured lenders such as American Express, MBNA, and Diners Club. These companies, operating in the framework of modern U.S. laws, readily finance their portfolios of small unsecured loans at rates close to bank wholesale lending rates.

However, in every country where the Bank has supported microcredit operations, the current legal framework makes this transaction economically impossible. Sometimes, the law does not recognize taking loan portfolios as collateral. Sometime, the law permits the transaction in a way that makes it too costly or does not adequately address risk. Often, unreformed law requires a transfer of the portfolio to the formal sector lender under the laws on the assignment of rights. However, then the formal sector lender must take a position directly against the individual small borrower; most large lenders

do not want this. Government officials responsible for laws and the microlenders themselves are typically unaware of how the law prevents this transaction. Microcredit literature rants about conservative banks that want collateral and will not refinance them, rarely recognizing that banks are bound by the same laws as the microcreditors -- laws that do not envision exactly the transaction sought by the microcredit lenders.

Nonetheless, no Bank microcredit operation has supported the reform of this legal framework; or supported even the research on what legal changes would be needed in a borrowing member's law to permit financing small portfolios of unsecured loans with legal security and in an economically feasible way. In Bangladesh and Bolivia, the countries most often cited for developing microfinance, the Bank has produced reports carefully analyzing how their laws prevent such portfolios from serving as collateral. But the Bank has designed no subsequent operations to address that problem in either country. Nor, in either country, has the Fund included the desirability of such a reform in its Article IV consultation or made such a reform a condition on any drawing on Fund resources.

Microenterprise and SMEs

The World Bank strongly supports microenterprises and SMEs. It has supported billions of dollars in credit lines and technical support operations aimed at stimulating the development of these enterprises and promoting loans to them by the private sector

However, firms of that size typically have only movable property as assets: for example, tools, restaurant equipment, shelves for stores, inventories, accounts receivables, or equipment for construction and manufacturing. These small enterprises often operate out of rented real estate. They have no real estate assets at all on their balance sheets.

Firms that own no real estate, however, obviously cannot offer anything as collateral in legal systems that, effectively, envision using only real estate as collateral. The persistent complaint that private lenders demand collateral that these borrowers cannot offer is not surprising: rather, their unreformed laws guarantee this outcome. Though these Bank-funded credit lines aim at creating sustained private sector lending support for these enterprises, they cannot succeed. The private sector will never willingly make such loans because the law determines that the collateral underlying those loans has no economic value.

Despite this, no Bank microenterprise or SME credit line operation has supported a change in these laws, or provided for preparing a strategy for ultimately passing such a law that could be drawn on by other Bank and Fund operations, donors, or the citizens and governments of the borrowing member countries themselves.

Privatization

Privatization of state-owned enterprises represents a major source of improvement in efficiency in most developing countries. In the countries of Eastern Europe and the Former Soviet Union, and other socialist countries, of course, privatization has revolutionary economic and political implications. Bank and Fund operations have lent billions of dollars supporting privatization.

Such programs are studded with financial peril. No longer owned by the state, these production units can no longer automatically offer sovereign guarantees for their loans. At the same time, the unreformed legal framework in which they operate ensures that their movable property cannot serve as collateral for private sector loans and that they cannot purchase equipment from the private sector on credit. Even where their real estate can serve as collateral, their demand for credit

for movable property may represent 80 percent or more of their overall financial needs. Their real estate will not suffice. And, of course, in the countries in transition, most of their real estate cannot serve as collateral for loans either.

Despite this, no Bank privatization program has proposed a legal reform that would permit the property owned by these firms to serve as collateral for private loans. Bank operations that identify funding as a problem repeatedly fund "transitional" state-run loan or loan-guarantee systems, aggravating the problem of the "soft budget constraint." Bank operations that do not address funding at all simply leave these firms struggling for investment funds to stay alive. Those that save themselves typically do so by establishing close personal ties with commercial banks. These ties permit larger amounts of, effectively, unsecured lending. These close relations between borrower and lender, however, undermine attempts by bank supervision and regulation operations to control related-party lending.

Land titling

Land titling can give land occupants more certain rights to land. More certain rights to the use of land encourage occupants to invest more in improvements and lose less time guarding their property. Drawing on its pioneering work in Thailand, the World Bank has supported billions of dollars in land titling projects.

However, most land titling projects have little impact on access to credit. Many important land-use rights and systems do not rest on title: examples include private and state-run cooperatives, customary land systems common in non-Western cultures, or leased land, whether private or public. Moreover, the secured transactions system, not the land titling system, governs the use of land as collateral for loans.

Nonetheless, no Bank-supported land titling project has supported expanding the range of transferable land rights to include cooperatively-owned land, land leased from governments or private owners; or land in non-traditional holdings like state-run cooperatives or communal lands in the altiplano of the Andes. None has proposed fundamental reform of the mortgage law so that even titled land could better serve as collateral. At most, Bank projects computerize existing registries and import an American-model mortgage or trust law, with all the defects that system now contains. As a result, little of the real estate in these countries serves any better as collateral after the reform than before. The impact of the expensive land-titling project on access to credit is minimal. In a recent project in Ukraine, for example, the Bank remains committed to a western-type fee-simple-title/mortgage system, even though virtually none of the real estate in Ukraine would qualify at present as collateral for a loan under such a system. Bank-supported land titling projects in Guatemala, Romania, Central America, Bolivia and Viet Nam ignore the advantages of Civil Code concepts of property rights in land and reproduce, at enormous expense, complex land mapping and titling systems imported from common law countries. Many of these systems are considered unaffordable even in wealthy US jurisdictions. No Bank-supported land titling project responds to these issues. The Fund, despite often-expressed concerns about the inflation of real estate collateral values in credit expansions in borrowing member countries, has never expressed in conditions or Article IV consultations support for programs to broaden the base of real estate collateral.

Housing and housing rehabilitation

About 1/3 of the world's capital stock is residential housing. Its creation and maintenance have a major bearing on the

standard of living of a country. These arrangements immediately affect the welfare of the poor, a key target group for Bank and, increasingly, Fund programs. To improve housing, the Bank has lent billions.

A poor framework for secured lending, however, severely undermines efforts to improve the housing stock. Under most legal systems, small properties cannot serve as collateral because of the high costs of creating a mortgage or other security interest. Consequently, these properties cannot be purchased on credit and they cannot serve as collateral for improvements to the property. Primitive legal systems restrict security interests in land to the mortgage, which, in turn restricts security interests to titled land. Other property -- leasehold, cooperatively owned property, other use rights -- cannot serve as collateral in these systems. Modern low-cost housing techniques, such as prefabricated housing and mobile homes, cannot be financed under traditional legal systems. In some systems they cannot serve as collateral at all. In other systems, the law sets out inconsistent provisions for the priority of claims against such collateral once it is affixed to the land. Bank-funded projects for renovation of housing suffer because the law treats property improvements -- fixtures such as furnaces, air conditioners, elevators -- as part of the real estate and subject to encumbrances on the underlying real estate. This makes private financing of improvements to housing impossible or very expensive, as it involves refinancing of the first mortgage.

Despite this, no World Bank-supported housing operation has proposed changes in the laws governing private lending for these investments; or provided for a study of such laws to give a government, concerned NGOs or other Bank task managers a road map or strategy for future required reform.

Technology and training

The World Bank has the world's leading program for improving intellectual property rights and expanding computer and Internet literacy. It has supported many innovative programs in this area.

However, the assets of a modern information technology company are nearly entirely personal (movable or intangible) property: patents, copyrights, computers, communication equipment, intellectual property, or accounts receivable. Real estate counts for little in the assets of these firms.

Unfortunately, none of this personal property can serve as collateral under the legal frameworks for most developing countries. Companies like Amazon or Yahoo could never be financed in Bank borrowing-member countries.

Nonetheless, no Bank lending operation supporting these technologies has ever recommended the appropriate change in laws; or supported creation of a roadmap to proper reform. No Bank document would inform an interested government or a local organizations such as a Chamber of Commerce about what changes in laws are necessary to permit the financing of activities key to building modern private information services in their economy.

Financial sector regulation

The financial sector is the economic brain of a country. When it functions well, it moves resources from savers to the investors with the best and, therefore, the most growth enhancing investment opportunities. When it functions badly, banking systems become decapitalized, asset price bubbles create huge risks in credit expansion, and state-run banks and guarantee programs run up losses sometimes in double digit shares of GDP. All this leads to misallocation of lending and long periods of low growth that jeopardize

international financial stability and aggravate poverty.

Not surprisingly, the Bank has lent billions of dollars to support financial sector reform. The Fund typically places conditions on financial sector reform on multi-billion dollar drawings on the Funds resources. For many countries, the Bank and the Fund collaborate on Financial Sector Assessment Plans (FSAPS) to spell out key problems and discuss options for reform.

A good framework for secured transactions plays a key role in developing an effective financial sector.

Bank supervision and regulation

Reform of the law of secured transactions is central to building sound bank supervision and regulation. A bank is an engine for transforming deposits into loans. How do you supervise a banking system where the legal framework does not support debt collection? The supervision manual could be very short, one line perhaps: "Don't lend." In such legal systems, a good Sup&Reg operation will usually reduce access to credit. Of course, these reform operations can create the appearance of good supervision and regulation system. They can do this by writing up the equivalent of the Federal Reserve Commercial Bank Examination Manual. But it is not possible to read even ten pages of that 1238 page document without seeing a reference to "collateral": its proper treatment, its proper valuation, how the loan officer should inspect it, and the collateral requirements for asset-backed finance, to name a few.

Such a supervision and regulation system has little relevance in countries where an inadequate legal framework prevents most property from serving as collateral. In most unreformed economies, none of its the movable property (about 1/3 of the capital

stock) can serve as collateral and only a fraction of the real estate (about 2/3 of the capital stock) can serve as collateral. In some of these countries, bank supervisors classify "personal guarantees" as a third type of collateral, even though well-regulated systems would correctly discard this classification and treat loans with a personal guarantee as just another name for an unsecured loan and so classify them.

Real estate bubbles

Most recent financial crises have included extraordinary asset price inflation – real estate prices driven to fantastic heights by credit expansion. The cases of Korea, Japan, Thailand, Indonesia, and the Philippines have been studied extensively in the "bubble literature". These reports document the cycle of how rises in property values fuel further increases in mortgage-based lending. This lending further drives up property values.

The problem of asset inflation is enormously aggravated by a poor legal framework for secured transactions. Where that legal framework is good, movable property, trading typically at world market prices, also serves as collateral. Domestic credit expansion will not drive up these asset prices because their prices are set in world markets too large to be influenced by one country's credit policies. Similarly, in a well-designed legal framework, all the real estate can serve as collateral, not just large pieces of titled urban real estate.

Real estate is the most untradeable good a country possesses. If only part of it can serve as collateral -- titled urban real estate -- it is no surprise that its price in domestic currency moves up and down sharply with changes in domestic credit.

State banks and state loan guarantee systems.

Attempting to solve the problem of enormous unmet needs for credit, government-run banks and loan guarantee systems were set up in most developing countries between 1960 and 1990. These state-run programs face two broad problems. First, as government institutions, their incentives to collect their loans are weakened by political interference and inefficiency. Second, these public banks face a weak framework for collecting debts but, nonetheless, accept collateral that most private lenders refuse. Whatever the books said, most of the loans they made were effectively unsecured.

These ventures, supported with World Bank loans, lost billions of dollars. Covering these losses became a burden on state budgets, sometimes absorbing double-digit shares of GDP.

Commendably, World Bank and Fund programs now aim at closing down these institutions and transferring this lending task to the more vigilant private sector.

Unfortunately, the private sector will not lend to the groups previously served by the state lenders. The weak framework for debt collection makes such loans uncollectable. This leaves developing country governments in an enormous policy conundrum. While these state-run programs made most of the bad loans, they also accounted for most of the credit reaching to key political groups with enormous credit needs -- farmers, small businesses, and industry. These needs could have been met by the private sector had the legal framework for secured lending worked. However, the legal framework was not reformed. The consequence? Governments face constant political pressure to reinstitute these unsustainable state-run banks and state guarantee programs.

Despite this, few Bank or Fund financial sector operations support the reform of the laws of secured transactions and related laws and infrastructure necessary to end this dependence of key sectors on state-run banks. Insolvent state banks and state guarantee funds, therefore, emerge every few years as major budgetary problems, undermining Bank and Fund proposed macroeconomic adjustment programs. In Uruguay, Brazil, and Argentina recent Bank operations refinanced bankrupt state lenders without suggesting changing the laws that make it impossible for them to collect their loans. In Bolivia, Bank-supported operations refinance a bankrupt banking system without supporting changing laws identified more than ten years ago in Bank reports as blocking debt collection. For Argentina and Uruguay, the Bank has had for years reports documenting the failures in the debt collection system and explaining the links between the law and the failures of the state and the private banking system. These same publications are available to the Fund. Yet Fund conditionality and consultations bless refinancing the state lenders and suggest no alternative path for these countries.

Structure of the financial sector

A good framework for secured transactions improves the overall stability of the financial sector in several ways. First, it reduces dependence on banks. Non-bank financial intermediaries can expand because the reformed framework provides a way to raise funds even though they do not take deposits. By using their accounts receivable and chattel paper as collateral for loans, they can refinance and expand. Non-bank financial intermediaries account for about 60 percent of US credit. In most developing countries, such intermediaries account for less than 5 percent of total credit. Financial sector stability improves because the larger non-bank sector reduces reliance on the ever-fragile banking

systems. Moreover, this diversification in credit suppliers -- both financial and non-financial -- allows specialized lenders to supply credit at lower risk, especially to target Bank borrowers such as the poor or those in rural areas.

A good framework for secured transactions also plays a large role in developing capital markets, as all securitizations depend in key ways on the legal framework for collateral. "Asset backed financing" literally means using assets as collateral for financial instruments.

Bottom Line

The G-5 and, ultimately, the G-22 thought the reform of secured transactions was a fundamental reform -- necessary for the success of key Bank and Fund operations and essential for advancing world financial stabilization. The G-22 instructed the Bank and the Fund to implement such a reform. We now approach the fifth anniversary of that instruction. Where do we stand?

The heavy lifting in the Bank and the Fund is done through their operations -- loans and negotiated agreements -- not through their short notes, research papers, conferences, statements of principles, or publicity documents. The strongest support the Bank can give to a reform of the law of secured transactions arises when it makes passage of the law a condition of tranche release on an adjustment operation. The Bank has done this on adjustment operations for Romania, Ukraine, and Slovakia. For the Fund, conditionality on drawings plays a similar role. A condition on the reform of secured transactions has been set for Bulgaria and, with reservations, Mexico. IMF Article IV consultations set out important but not binding actions in their Letters of Intent and Memoranda of Understanding. In these IMF documents, the reform of secured transactions

is mentioned as desirable for Honduras, Bosnia-Herzegovina, and Armenia.

Bank-supported reports have documented problems in the frameworks for secured transactions in Viet Nam, Jamaica, Bangladesh, Argentina, Colombia, Uruguay, Bolivia, Peru, Uzbekistan, and Bulgaria. In these countries the Bank has supported no further work in reforming the laws identified as responsible for these problems. In a few other countries, such as Guatemala and Nicaragua, the Bank has supported drafting laws of secured transactions and then supported no further work in the reform.

In a closely related area, Bank and Fund-supported banking laws, with no particular pattern, sometimes regulate deposit-taking institution and sometimes regulate all lending institutions. When poorly drafted, the latter strategy can cripple the growth of the non-bank financial sector. In Ukraine, Bank-proposed legislation needlessly controls non-bank leasing operations; in Romania, until derogated by the Bank-supported secured transactions law, the Fund-supported banking legislation subjected agents such as fertilizer vendors and tractor dealers to the norms of the bank Superintendency when they sold on credit.

Students of bureaucracy will see in the odd mosaic of countries -- never representing an entire division or department -- and in the large amount of dropped work, evidence that this reform enjoys no support in the Bank or the Fund at the Division Chief or Department Director level. That certain topical areas and regions completely ignore this reform shows that this reform lacks support in Bank and Fund topical central units, such as those for research, financial sector, microcredit and infrastructure. That the Bank and the Fund set conditions on completely different countries and mention them in almost-random Letters of Intent, FSAPs and Country Strategy Papers shows that this reform is not supported or

coordinated at any high level in either the Bank or the Fund.

Supporters of this reform, therefore, owe great thanks to these few task managers in the Bank and the Fund who sponsored the work set out above: nothing is so lonely in the Bank and the Fund as pushing forward a reform that senior management finds unworthy of including in the program of any other country or any other sector.

In the end, however, this management inattention by the Bank and the Fund management has worsened performance in a wide range of otherwise useful Bank and Fund-supported programs. It has needlessly endangered the guarantees and funds of lending-member shareholders. This inattention has left unreformed the basic debt collection systems of every important country in the world that has had a financial crisis: Argentina, Mexico², Brazil, Thailand, Indonesia, Philippines, Korea and Russia. It has left unreformed the basic systems of smaller financial hot spots and larger impending problems: Guatemala, Bolivia, Jamaica, China, India, and Pakistan. It has left Africa untouched.

Next Steps?

Gathered here, as we are, in this enormous and elegant building complex, and supplied as we are with copious publications from these institutions together with public comment on that information, it is easy to misjudge the size and importance of different agents. The Bank's annual gross disbursements range between \$10 billion and \$20 billion and those of the IMF typically fall just short of \$35 billion. Their net disbursements are less.

These large numbers, however, pale beside the Gross Domestic Investment of the world's developing countries: about \$2 trillion. This investment is required annually to achieve the unambitious objective of maintaining, relative to advanced countries, their present low

incomes and standards of living. Large as the Bank and the Fund loom in the public's perception of the development community, therefore, their resources cover less than one percent of the investment needs of developing countries.

Such small amounts of resource transfer by the Bank and the Fund can only have an important effect when they are linked with well-designed programs that change fundamentally the underlying laws and institutions that face the private sector. Only private sector credit can finance these investment needs, and the private sector needs an effective framework for secured transactions. Private lenders who cannot collect will not lend.

The G-22 was right to instruct the Bank and the Fund to address these problems in the world's legal frameworks for secured lending. This reform is now long overdue.

Heywood Fleisig is Director of Research at CEAL; Nuria de la Peña is Director of Legal Operations. These remarks were presented at the Global Forum on Insolvency Risk Management sponsored by the World Bank, January 28-29, 2003. The views expressed here need not reflect the views of other staff of the Center for the Economic Analysis of Law or of its Research Associates.

References: Bank and Fund documents referenced here are available at the following sites. IMF programs: <http://www.imf.org/external/work.htm>. IMF documents by country: <http://www.imf.org/external/country/index.htm>. IMF/World Bank Financial Sector Assessment Programs: <http://www.imf.org/external/np/fsap/fsap.asp>. World Bank documents and reports by country: <http://www-wds.worldbank.org/navigation.jsp?pcont=browcon>. World Bank loans and credits by country: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,menuPK:34471~pagePK:34396~piPK:34442~heSitePK:4607,00.html>. The Federal Reserve Commercial Bank Examination Manual: <http://www.federalreserve.gov/boarddocs/supmanual/cbem/0211cbem.pdf>. The paper by the former President of the Federal Reserve Bank of New York discusses the "myth" of reforming bank supervision and regulation without fixing the underlying laws and legal institutions. See Gerald Corrigan, *Building Effective Banking Systems in Latin America and the Caribbean* (Washington, DC: Inter-American Development Bank, May 1997). <http://www.iadb.org/sds/doc/ifm%2D107e.pdf>. This paper had strong influence on the early G-5 deliberations (Draghi Committee) and G-7 recommendations for further action. The New York Federal Reserve District has more supervisory responsibilities than do most countries. The G-22 report, **Report of the Working Group on International Financial Crises** can be found, among other places, on the IMF's website: <http://www.imf.org/external/np/g22/ifcrep.pdf>. Publications setting out a variety of issues concerning legal reform for secured transactions and its economic impact can be found at www.ceal.org.

¹ Improving the system for using property as collateral has preoccupied policymakers and scholars for several thousand years. Hundreds of articles appear in law journals concerning aspects of this system. Their number rises sharply after the US reform of the 1950s. The economic literature begins in the 1960s and builds in the 1980s and 1990s.

² Mexico reappears on this list because the Article IV consultation that discusses Mexico specifies a legal reform that, by the logic described therein, could have no economic effect. The economic ineffectiveness of the Mexican reform was confirmed in the public presentation of the supervisor of that reform at the Inter-American Development Bank's Microcredit Summit in Rio de Janeiro, September 2002. Finally, according to the 2001 report to Congress of the US Executive Director to the Fund, the condition on Mexico was placed specifically at his request.