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THE PLACE OF COLLATERAL REGISTRY IN CREDIT DELIVERY SERVICES

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INTRODUCTION

Micro, small and medium enterprises (MSMEs) are the main engines of economic growth. The sub-sector constitutes an integral part of the economy, providing products and services to Nigeria's teeming population, yet they are grossly underfunded. The huge financing gap, which characterized the MSMEs, inhibits their development, thus having a telling effect on the economy.

Access to finance has been the age- long problem of the MSMEs sub-sector in the country. Financial institutions are expected to partner with Central Bank of Nigeria to provide succor to these drivers of the economy. It is usually impossible for most MSMEs to meet the land and building collateral requirement when trying to access finance in the form of loans. All what MSMEs could offer are the movable assets, which are mostly tenable in the country's financial institutions. There is also information gap which is mostly asymmetrical that bedeviled micro, small and medium enterprises (MSME).

The Business Dictionary defines Collateral Security as "A form of **secondary protection sometimes required by a bank and intended to guarantee a borrower's performance on a debt obligation. The primary security on a substantial business loan is typically the thing that is being financed**, such as a factory, company car or shipment, but secondary or collateral security might also be requested by a bank to help assure that the loan will be repaid".

A successful Secured Lending Program is an efficient secured transaction system that uses collateral registries to increase access to finance in a country. Such program focuses on upscaling the level of financing of small and medium enterprises (SMEs). The World Bank Enterprise Survey (2010) reported that insufficient and unsuitable collateral amongst others rank top among the reasons why MSMEs find difficulty in accessing finance. A strong credit system ensures that credit flows to the productive sectors, promotes economic growth and consumer credit as well as enhance the quality of life.

Traditional credit is asset-based. It uses immovable collateral as its norm. In contrast, movable collateral involves credit transactions where a creditor holds an interest in a debtor's movable property such as inventory, account receivables, livestock, jewelries, equipment, and machinery, as collateral to secure a loan or a debt obligation. In general, formal financial institutions in Nigeria do not accept movable assets to be used as collateral. Their standpoint is informed by the following:

- There is weak legal and institutional framework which allows financial institutions to restrict on the types of assets used as collateral. There is also lack of clear creditor priority enforcement issues

- Lack of functional registry of security interest in movables assets was another issue, where you find some fragments of registry it may be dysfunctional, lack of transparency or lack of public awareness.

- The dearth of knowledge and experience on how movable assets lending can be practiced in the financial institutions was very clear.

- There was apathy to lending approach using movables by financial institutions due to lack of Interest, competition in the lending market and probably availability of other revenue sources from other businesses.

- Moreover, commercial banks' loans to MSMEs were 0.12% of the total credit to the economy (CBN Statistical Bulletin 2014). Net loans and advances of Micro Finance Banks was just N129billion(2014), while the rejection rate of SME loan application by nine(9) commercial banks during 2011-2014 stood at 50% with the average collateral coverage up to 150% of the loan amount.

1.0 STATE OF NIGERIA'S SECURED LENDING AND COLLATERAL REGISTRY FRAMEWORK

The framework for Secured Lending and Collateral Registry in the country is characterized by the following:
Prior to the establishment of the National Collateral Registry, there was a restrictive procedure of

creating security interest in movable assets in the country. A situation where only registered corporations with the Corporate Affairs Commission (CAC) are allowed, while publicity of security interest is limited to the charges of a corporation was a great challenge. Even where there is registration of interest, it is cumbersome and time consuming. The stress manifests itself due to costly process of enforcement of security interest in Nigeria. The fragmented and incomplete process of legislation also excludes certain types of transactions. There is also dysfunctional and non-transparent treatment of priority schemes for secured creditors.

2.0 NATIONAL COLLATERAL REGISTRY

Collateral Registry is an information platform for movable collaterals, a public database of ownership of assets, allowing borrowers to prove their creditworthiness and potential lenders to assess their ranking priority in potential claims against particular collateral. The Registry improves both access to finance, and induces prompt repayment of loans which provides a win-win situation for the borrowers and lenders simultaneously.

3.0 BENEFITS OF THE NATIONAL COLLATERAL REGISTRY

Collateral Registry enables businesses to leverage their assets to obtain credit for growth, improves the liquidity of assets, especially short-term assets such as accounts receivables and makes assets diversification possible in financial institutions by efficiently spreading risk and providing banks with profitable lending opportunities in the MSME sector. The registry increases the availability of loanable funds, reduces the costs of credit, promotes prudent lending, and therefore reduces non-performing loans. It promotes credit diversification and increases no-bank financial intermediation and shore up aggregate level of credit. It enhances the ability of regulators to analyze portfolios risks in line with both standardized approaches.

4.0 PILLARS OF COLLATERAL REGISTRY:

Successful operation of Collateral Registry is dependent on these three pillars:

Pillar One: Regulatory/Legal Framework

A good regulatory framework requires the creation and enactment of secured lending regulations. This comprises of broad scope, creation, registration, publication and enforcement. The internationally accepted regulatory standards for secured transaction are:

- UNIDROIT's adoption of convention on international interests in mobile equipment.
- UNCITRAL registry guide and legislative guide on secured transactions.
- IFC's guide on secured transactions & collateral registry.

In order to improve access to finance for MSMEs in the country, the Central Bank of Nigeria (CBN) approved the document on Registration of Security Interests in Movable Property by Banks and Other Financial Institutions in Nigeria. Regulations No.1, 2015 was issued in February 2015. The regulations aim to stimulate responsible lending to MSMEs by providing a mechanism for efficient registration of security interest in the event of default. The registry also provides information on the existence of relationship between lenders and borrowers as they relate particularly to movable collaterals.

Pillar Two: Collateral Registry

The Collateral Registry which has all features of a modern collateral registry has been established. Key features of the registry include a web-based electronic registry that is centralized and is notice based. There is also limited human input and fees are affordable.

Pillar Three: Capacity Building

The capacity building pillar involves communication, public awareness and training of operators. This pillar is to be delivered through:

Organization of awareness workshops for public and private sectors stakeholders, training of judges and the legal community, training of financial institutions on new internal credit policies, valuation of collateral/field examining/collateral management, risk management and enforcement/collection procedures.

5.0 COUNTRY EXPERIENCES:

Secured lending and collateral registry reform is already taking deep roots in the under-listed economies to mention a few.

China: the Registry has attracted 385,000 loan application valued at US$ 3.5 trillion of new financing in 4 years to 70,000 SMEs.

Mexico: its nationwide movable collateral registry created in October, 2010 has helped banks to multiply loans to businesses by 5 to around 32,000 generating a total of US$110 billion in financing with SMEs accounting for 90% of the loan recipient firms.

Ghana: The country's collateral registry currently being driven by the Bank of Ghana has facilitated about 20,000 loans amounting to $800 million secured financing with movable collateral property as at March, 2010, with accounts receivable accounting for 32% of the total.

6.0 CHALLENGES/CONSTRAINTS

(a) Securing Stakeholder Buy-in

Getting the various stakeholders to buy into the initiative and cultivating a broad-based commitment by government agencies and the operators.

(b) Infrastructure

Poor infrastructure like power, availability of internet coverage etc hinders accessibility and user interface with the registry.

(c) Non-Passage of the Bill

Delay in the passage of the Secured Transaction and Collateral Registry Bill by the National Assembly.

(D) Data availability in the form of updated bio-metrics

7.0 CONCLUSION

In conclusion, the National Collateral Registry is an initiative that the Central Bank of Nigeria (CBN) in partnership with the International Finance Corporation (IFC), Growth and Employment (GEM) and other stakeholders. They are committed to deliver the product as a financing enabler that will deepen credit delivery to the MSMEs; the Bank intends to continue with the delivery of the National Collateral Registry with the expected outcomes of diversification of lending portfolio of banks which will decrease loan default rate. The registry will boost production and create employment, and there will be increase in assets liquidity and a decrease in information asymmetry.