Market Study Report

Movable Asset Based Lending in Zambia Market Study

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TABLE OF CONTENTS

List of Figures

List of Tables

List of Boxes

List of Abbreviations

B&L	Borrowers and Lenders
BoG	Bank of Ghana
BoZ	Bank of Zambia
CAC	Corporate Affairs Commission (Nigeria)
CBN	Central Bank of Nigeria
FI	Financial Institution
FINCA	Fighting Poverty with Microfinance and Social Enterprise
GDP	Gross Domestic Product
GHS	Ghanaian cedi (currency)
GNI	Gross National Income
GR	Government Regulation (Zambia)
IDR	Indonesian Rupiah (currency)
IFC	International Finance Organization
IT	Information Technology
LHS	Left Hand Side
LOC	Line of Credit
MFI	Microfinance Institution
MOLHR	Ministry of Law and Human Rights (Zambia)
MPRS	Movable Property Registry System (Zambia)
MPSI	Movable Property Security Interest Act
MSME	Micro,
NBFI	Non-bank financial institutions
NCR	National Collateral Registry (Nigeria)
NGN	Nigerian Naira (currency)
NGO	Non-governmental Organization
NIRSAL	Nigeria Incentive-Based Risk Sharing System for Agricultural Lending
NPL	Non-performing Loan
ODR	Online Dispute Resolution
PACRA	Patents and Companies Registration Agency (Zambia)
RHS	Right Hand Side
RHS	Rural Housing
RTSA	Road Transport and Safety Agency (Zambia)
SECO	Swiss State Secretariat for Economic Affairs
SME	Small & Medium Enterprises
USD	United States Dollar
ZAMCE	Zambian Commodity Exchange
ZIBFS	Zambia Institute of Banking & Financial Services
ZK	Zambian kwacha (currency)

Executive Summary

USE OF COLLATERAL REGISTRY IN ZAMBIA

To enhance access to finance for small and medium enterprises (SMEs) by facilitating movable asset-based lending, the International Finance Corporation (IFC) supported the Government of Zambia, the Bank of Zambia (BoZ), and the Patents and Companies Registration Agency (PACRA) in the creation of a strong legal and institutional framework for secured transactions. Consequently, the Movable Property Security Interest Act (MPSI) was enacted in October 2016 which led to the establishment of the Collateral Registry, also known as the Movable Property Registry System (MPRS). Officially launched in November 2017, the objective of the Collateral Registry was to improve the lending environment and the use of movable properties as collateral by having a unified registry that allows online registration of security interest in movable assets.[1] The Registry provides an online system that allows banks and other financial institutions to register movable assets by debtor name and by item description, such as serial number, along with other characteristics. The system can then be searched by the public to find limited information for free, or to view entire records for a fee.

Since its launch, the Collateral Registry has had low usage and consistently diminishing performance. Over the 3 years since its launch, the registration rate has fallen drastically. In 2017 there were 2254 new registrations, while in 2018 there were 1672, and in 2019 there were only 773 new registrations. This constitutes a registration rate reduction of 26% from 2017 to 2018 and a rate reduction of 54% from 2018 to 2019. The average number of monthly registrations in 2017 was 187 per month, while the average in 2018 was 139 and the average in 2019 was only 64 registrations. Currently, only 9 financial institutions use the Collateral Registry while the total number of commercial banks is 18 and non-bank financial institutions involved in lending is 40. Registrations are dominated by only a few large financial institutions, and analysis conducted without large outliers shows very low cumulative collateral value and declining rates of individual transactions. Of the top 10 creditors, only three are microfinance institutions (MFIs) – FINCA, JMAAC, and Pulse which account for 76% of all debtors in the registry, but only 2.86% of the total value of the loans underlying the transactions on the Register. Stanbic is the largest bank in the registry, with 1569 debtors at a total value of 1.084 billion USD.

Additionally, registrations with the Movable Property Registration System (MPRS) have largely failed to cover key segments, including rural populations, SMEs, and women-owned businesses. The registrations were primarily performed in urban areas, specifically in the cities of Lusaka and Copperbelt. Rural areas represented only 10% of registrations, which is probably a reflection of the fact that branches of financial institutions, and a significant share of their portfolios, are concentrated in urban areas. The expansion of registrations to other provinces

[1] Mapani. C. & Musonda. L. 2016. *The Zambian Movable Property (Security Interest) Act No.3 of 2016: A step-by-step Explanatory Guide to the Act.*

remains limited, which represents an obstacle for excluded segments of the population, such as women entrepreneurs and SMEs as most of them are located in rural areas.

The registrations on the Collateral Registry represent only a very small fraction of the total volume of movable asset-backed loans. For instance**,** the total number of new registrations on the Collateral Registry in 2019 was 773 while according to the data from the Bank of Zambia, there were approximately 40,000 movable asset-backed loans disbursed in 2019 with a total value of 6 billion kwachas (USD 572.4 million)[2]. While the total number of movable asset-based loans disbursed has remained relatively constant, with a slight decrease in 2018, the value of loans has increased significantly since 2016. The total value of loans in 2019 was more than 6 billion kwachas (USD 588 million), up from approximately 3.7 billion kwachas (USD 353 million)[3] in 2016. The average value of loans has also increased from 105 thousand kwachas in 2016 (USD 10,000) to 160 thousand kwachas in 2019 (USD 15,000).[4]

The nonperforming loan (NPL) ratio for loans backed by movable assets has decreased since 2017 but remains high compared to other types of loans including leases and other asset-backed loans. The NPL ratio for movable asset-based loans increased significantly from 6.49% in Q4 2016 to 23.34% in Q4 2017.[5] According to stakeholders interviewed, this was mainly caused by the extremely poor performance and subsequent license revocation of one of the major actors in the SME leasing finance industry, Focus Financial Services. Reportedly, Focus Financial Services had an NPL ratio as high as 80% due to inadequate underwriting and risk management practices. Although the NPL ratio of the movable asset-based loans has decreased since 2017, at the end of 2019, more than 15% of these loans were still non-performing. In contrast, 11% of loans backed by immovable properties and 10% each of revolving credit facilities and unsecured loans are classified as non-performing.[6] The underperformance of the leasing finance industry continues to be the primary contributor to the relatively high NPL ratio of movable asset-based loans.[7]

Analysis of Challenges

While FIs acknowledge the benefits associated with using the Collateral Registry, they consider both the registration process of the collateral and the management of repossessed collateral as additional administrative responsibilities. According to stakeholder interviews, FIs view the Collateral Registry as an important step toward facilitating the use of movable assets as collateral. However, FIs also maintain that in order to be able to minimize operational costs, they generally do not employ staff dedicated to handling the collateral registration process. As a result, the existing personnel have to take on the additional responsibility of registering movable collateral

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[2] In 2018 dollars.
[3] In 2018 dollars
[4] Bank of Zambia (2018) Credit Market Monitoring Report
[5] Ibid
[6] Ibid.
[7] For more information on the leasing industry, please refer to section 3.4.

on the Registry. On the other hand, due to the very nature of their businesses and policy focus on large corporations, commercial banks have not developed a system and infrastructure to manage movable collateral, such as laptops, TVs, fridges, etc. after they are repossessed. As a result, commercial banks are unlikely to accept movable assets as collateral which in turn leads to a low level of registration on the collateral registry.

Although the Registry protects an FI's claim on movable collateral from another FI's, it does not guarantee that a transfer of ownership of a pledged movable collateral will not take place until a loan is fully paid off. Stakeholder interviews suggested that there is a possibility that a borrower may sell or transfer ownership of a pledged movable collateral, such as a TV, laptop, cattle, etc. even before he/she pays off the loan in full. This exposes the lender to the risk of loan non-recovery if the borrower defaults and there is no real-time monitoring of collateral. While reportedly some FIs such as FINCA do conduct monthly inspections of collateral, it adds to the cost of lending for most FIs. In addition, frequent inspections run the risk of leading to a negative borrower experience.

Several FIs maintained that the fees charged by PACRA for registering collateral and discharging registered financing statements act as deterrents to registration. The fee for registering a financing statement does not depend on the value of the loan. Currently, it costs 100 kwachas (approximately USD 5.46) to register movable collateral on the Registry and costs another 100 kwachas for the creditor to discharge the registered financing statement within fourteen days after all obligations under the security agreement creating the security interest have been performed. As a result, for small loan amounts that could average about USD 1000, registering the movable collateral on the Registry disproportionately increases the cost of borrowing as compared to the upper limit of some SME loans that could be as high as USD 3 million. Therefore, reportedly FIs choose not to register movable collateral on the Collateral Registry for small loans, typically those less than USD 1000. However, it should be noted here that although a motor vehicle is considered a movable asset since it is already registered with the Road Transport and Safety Agency (RTSA), an FI typically does not see a need for registering it with PACRA's Collateral Registry and paying an additional fee. However, this indicates that the FIs may not be aware that registering with RTSA does not create a legally enforceable security interest.

Even after the establishment of the Movable Property Registry System, FIs attach more importance to business-related aspects and immovable assets than to movable assets such as consumer goods. FIs reported that one of the major reasons for not providing more loans to SMEs is a lack of formal financial recordkeeping practice among the latter. The FIs also maintained that household items such as appliances, furniture, a personal computer, etc. do not carry much in the secondary market. Moreover, disposing of such movable collateral adds to the lending cost. While this study did not include information or statistics on auction sales and values, it was commonly reported that the increased cost stems from the items being heavily discounted, and also that the FI must pay the auctioneering company for the service. Therefore, either financial institutions do not accept them as collateral at all, or if some of them do, they do not consider those collaterals as a valuable source of loan recovery. Rather, the majority of the interviewed FIs mentioned that they prefer lands, buildings, and motor vehicles as collateral. As a result, on average more than 90% of the collateralized loan portfolios of interviewed FIs consist of these kinds of assets. There is also an issue with over-collateralization, as, reportedly some FIs require tangible collateral for factoring or invoice discounting as an additional layer of protection against default.

There is an apparent knowledge gap among FIs regarding the Movable Property Security Interest (MPSI) Act. For example, several FIs maintained that for assets such as tables, sofas, etc., it is difficult to determine accurately prior security interests in them. The main reason cited for this is that these types of assets do not have unique identification numbers in contrast with televisions or laptops which have unique serial numbers. However, a close review of the MPSI Act shows that the Act does address the concept of blanket filing/floating charge and refers to several sections for inventories and security interests in “after-acquired” properties. Apparently, the FIs are not fully aware of it.

RECOMMENDATIONS

PACRA may consider revising its current cost structure to encourage more registrations on the Collateral Registry. The various fees charged for using the Collateral Registry in Zambia are higher than those in similar economies. Since several interviewed FIs have emphasized the need for lowering the fees associated with using the Collateral Registry, PACRA may consider pegging the fees to the registry systems in Ghana or Nigeria. Alternatively, PACRA may adopt a multi-tiered cost structure setting different fees for different ranges of loan amounts. In other words, PACRA may consider charging a lower registration fee for loan values under a certain amount and a higher fee for loan values equal to or above a certain amount. This strategy has been implemented in Liberia.

There is an opportunity for establishing interconnections among different registry systems in Zambia which may further strengthen the value proposition of the Collateral Registry. For instance, FIs choose to register their security interests in motor vehicles with RTSA and not to register with PACRA to avoid additional fees. However, the MPSI Act does enable the FIs to register their security interest only with PACRA for a single fee which eliminates the apparent necessity to register with RTSA. Nevertheless, to ensure the relevance of both the movable Collateral Registry system and RTSA in Zambia, the RTSA database and the Collateral Registry must be interconnected so that every time a security interest in a motor vehicle is registered with PACRA, the RTSA database gets notified and updated. The proposed interconnection will encourage the FIs to change their current practice of registering motor vehicles with RTSA which carries no legal benefits as opposed to registering with PACRA.[8]

A better system of enforcement may increase the rate of movable asset-backed lending. It was suggested through stakeholder interviews that the Registry only prevents the borrower from registering the collateral for a loan with another FI but does not prevent the borrower from selling the asset. If banks are better protected from this in the case of NPLs, there may be a desire to extend more loans using movable assets as collateral. In addition to the possibility of the collateral being sold, FIs expressed concern over their ability to accept consumer goods as collateral (such as laptops, TVs, fridges, etc.) as the FIs do not have a system and infrastructure to manage these once they can be repossessed. They also expressed concern over the acceptance of items without unique identification numbers (i.e., furniture) as it is difficult to track and enforce in the case of default. If an enforcement system is created to address these concerns, it could give FIs more confidence to accept movable assets as collateral for loans.

Several legal reforms could be considered to address the existing gaps in the movable asset-based lending ecosystem. All registrations to date have been done voluntarily by the FIs to protect themselves from other FIs' claims on movable collateral. However, an assessment of international experiences suggests that, although not considered as the best practice, some countries, e.g., Ghana and Sierra Leone, have made it mandatory for FIs to register all of their movable collateral. This is an option that is available for further exploration by the Bank of Zambia (BoZ). However, it should be mentioned that making registrations mandatory has the potential to undermine the rights of FIs. In general, the best practice emphasizes that financial institutions should realize the potential benefits of protecting their security interests by collateral registrations. While movable assets like TVs, mobile phones, laptops, fridges, furniture, etc. are forms of collateral utilized by money lenders, creating a legal framework to capture and register assets in the registry should also be explored.

The Bank of Zambia (BoZ) may consider revising the loan provisioning requirements (i.e., The Banking and Financial Services (i.e., The Banking and Financial Services (Classification and Provisioning of Loans) Regulations 1995 / Statutory Instrument no. 142 0f 1996 and Directives of 2020 under section Directive 5(d) of Part VI) to encourage lending to the SME sector based on movable collateral. The current wording in the regulation does provide sufficient clarity on the concept of adequate collateral protection. As already discussed, FIs indicated that they are subject to higher loan provisioning requirements when it comes to lending based on movable assets as collateral. The BoZ, by clarifying/lowering the capital provision requirement for movable

[8] Since the usual practice of the FIs is to register motor vehicle liens with RTSA, a shift from RTSA to the Collateral Registry may create a sense of uncertainty among the FIs. Therefore, an interconnection between RTSA and the Collateral registry will also help reduce that uncertainty as FIs will be assured that a motor vehicle registration with PACRA is automatically communicated to the RTSA. It is understood that an API has been developed to create an interface between RTSA and the Collateral Registry, but this has not yet been implemented.

asset-based lending, can incentivize the FIs to increase lending to SMEs. In this case, the modalities for monitoring collateral values must be in place to avoid having lower recovery rates. Furthermore, this kind of lending/model could apply only to a certain tier of FIs for which certain specific incentives could be given. While the recent draft Directives (Classification and Provision of Loans Directives, 2020, Gazetter Notice 287 of 2020) from the BoZ does acknowledge the use of movable assets as collateral and does not discriminate against the usage of them, it does not provide any particular incentives for the FIs to accept movable assets as collateral.[9] It is also important that the government considers providing VAT exemptions to interest incomes from leases as is provided to interest incomes from other types of loans.

Development of the secondary market for consumer goods could increase FI acceptance of these as collateral. One reported issue from FIs was the cost and difficulty when disposing of assets. Firstly, consumer goods have a significant discount on the secondary market, and secondly, the FI must hire an auctioneering company to sell them off. One recommendation is to develop an online secondary market that connects buyers and sellers. This type of platform would allow FIs to appraise the items themselves based on the prices of similar items that have sold and can allow FIs to quickly dispose of goods without the additional service charge of an auctioneering company.

Technical assistance can be provided to the FIs to expand their frontier to include previously untapped markets that have the potential to increase the usage of movable asset-based financing and the Collateral Registry. The MPSI Act (MPSI) includes warehouse receipts as movable assets eligible for registration on the Registry. The further development of the warehouse receipt system provides an additional opportunity for the Collateral Registry to increase its market coverage by expanding to the agricultural sector which oftentimes cannot provide traditional collateral. Since the livestock sector in Zambia contributes to the rural economy, Zambia can benefit by creating a more supporting business-enabling environment where livestock owners can get access to formal finances. Interviews with several FIs have indicated that SMEs in the sectors of transportation, education, and restaurant and bars have fared well before the pandemic caused by COVID-19. Additionally, the information and technology (IT) sector is often overlooked, but this sector has seen a 120% increase in its contribution to the GDP between 2010 and 2019. Therefore, technical assistance can be provided to FIs to enable them to design bespoke financial products and services that meet the needs of the SMEs in these industries. Examples of such products include warehouse receipt-based financing for agri-SMEs and purchase order financing for SMEs in the IT sector which often provide IT equipment solutions to other companies.

There is an apparent need to educate the market participants, including FIs and providers of large machines. As discussed previously, most FIs are not fully aware of the details of the MPSI

[9] Additionally, the government may explore options for devising tax incentive programs targeted at FIs which are willing to contribute to social impact by increasing lending to the underserved SME sector.

Act such as the concept of blanket filling/floating charges and security interests in "after-acquired" properties. As a result, there is a gap in their understanding of their own rights regarding lending based on movable assets such as business assets (laptops, office furniture, etc.), which according to FIs are difficult to track. Some FIs also do not understand the definition of movable assets. Therefore, even though they accept plant/machinery as collateral, they do not consider them as movable assets, and hence they do not register them on the Collateral Registry. Therefore, training sessions and workshops can be designed and organized to educate the FIs and providers of large machines on the details of the Act. Additionally, existing capacity building programs should be strengthened, and new training programs should be designed and implemented both inside and outside of Lusaka to make MSMEs "better prepared for financial service providers".

The Bank of Zambia and PACRA should engage in more outreach and public awareness campaigns. A widespread acceptance of the benefits and increased usage of the Collateral Registry system among the general public is expected to encourage the FIs to become more flexible in terms of accepting more non-traditional movable assets as collateral. Moreover, to date, there has not been any formal endeavor to introduce the Collateral Registry to the MSMEs. Therefore, awareness-raising campaigns should be designed to inform the MSMEs of the benefits of the Collateral Registry.

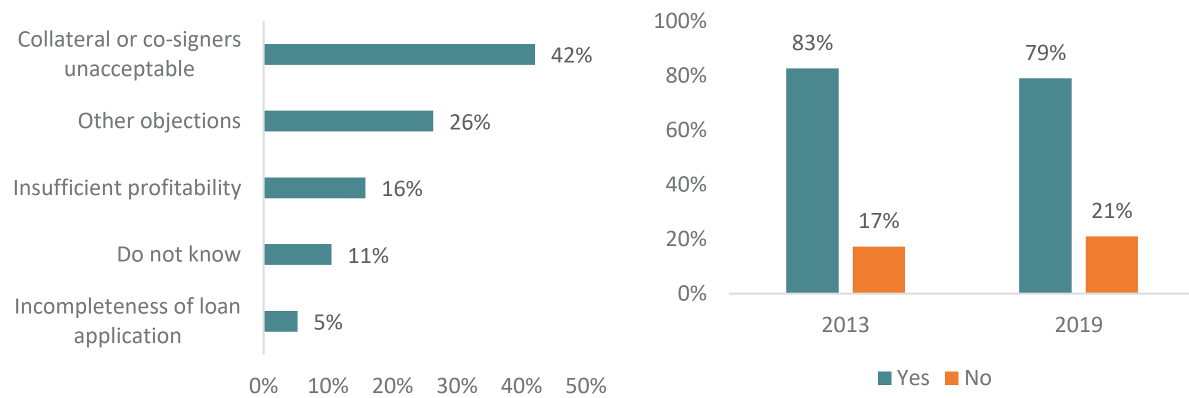
Table 1: Summary Key Recommendations

Key Recommendations
Revision of the Collateral Registry Fee Structure
Revise the Collateral Registry cost structure by lowering or moving away from the flat rate following the example of Liberia.
Interconnectedness
Connect the RSTA's vehicle registry system to PACRA's Collateral Registry
Legal and Regulatory Reform
Introduce an improved system for enforcement to decrease the risk for FIs accepting movable assets as collateral
Option for legal reforms to make registrations of movable assets with the Collateral Registry mandatory
Clarify/lower the Bank of Zambia (BoZ) loan provisioning requirements to encourage lending to the SME sector based on low-value movable collateral
Development of the secondary market for consumer goods could increase FI acceptance of these as collateral.
Focus on Sectors with Growth Potential
The further development of warehouse receipt system, equipment financing, factoring, and supply chain financing, provide additional opportunities for the Collateral Registry to increase its market coverage by further expanding to the agricultural sector.
Technical assistance for FIs to enable them to design bespoke financial products and services that meet the needs of the SMEs in the following sectors with growth potential: livestock, accommodation and food services, transportation, education, and information and technology
Developing and Strengthening Capacity Building and Awareness Programs
Training sessions and workshops to educate the FIs on the details of the Act, such as the concept of blanket filling/floating charges and security interests in "after-acquired" properties
Strengthen and develop more capacity building programs should be strengthened to make the MSMEs "prepared for financial service providers"
Provide Collateral Registry training programs to MSMEs
Implement awareness programs designed for the general public

1. Introduction

Although small and medium enterprises (SMEs) are considered the engine of economic progress in Zambia, access to finance persists as one of the key factors limiting their growth. Represented mostly by informal businesses, the SME sector is estimated to account for 97% of all businesses in Zambia. Of the 8.1 million adults in Zambia, 1.2 million operate a business which accounts for a sizable portion of their incomes.[10] Despite the significant contribution to the economy, SMEs face several challenges which include unanticipated financial mismatches between their income and expenses. To overcome these challenges, SMEs require support from financial service providers such as banks and microfinance institutions.[11] However, according to both the 2013 and 2019 Zambia World Bank Enterprise Surveys, SMEs identified access to finance as one of the main obstacles to their business growth. In 2013, one of the main reasons reported by SMEs (42%) for not being successful in loan application was insufficient collateral or unacceptable cosigners (see Figure 1 – left panel). Furthermore, in 2013, about 83% of SMEs that had obtained a loan reported that it required the use of collateral.[12] In 2019, this percentage had only decreased marginally, to 79% (see Figure 1 – right panel).

Figure 1: Reason Given for Loan Application Rejection in 2013 (LHS) and Share of Recent SME Loans Requiring Collateral (RHS)[13]



Source: 2013 and 2019 World Bank Enterprise Surveys - Zambia

To create an enabling environment that would ease collateral requirements for lending purposes, the International Finance Corporation (IFC) supported the Government of Zambia and the Bank of Zambia (BoZ) in the creation of a strong legal and institutional framework for secured transactions.[14] This successful task was reflected in 2016 through the enactment of the

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[10] Liyanda, Tom (2017) Access to Finance: SME Perceptions of Financial Service Providers. Available at: https://www.fsdzambia.org/access-to-finance-sme-perceptions-of-financial-service-providers/

[11] Ibid

[12] World Bank. 2019. *Zambia Enterprise Survey.*

[13] Data on reasons for loan application rejection are not available in Enterprise Survey 2019.

[14] This reform also includes the participation of the Patents and Companies Registration Agency (PACRA), and the Rural Expansion Programme (RuFEP).

Movable Property Security Interest Act (MPSI) by the Zambian Parliament and the subsequent establishment of the Collateral Registry, also known as the Movable Property Registry System (MPRS). The objective was to improve the lending environment and the use of movable properties as collateral by having a unified registry that allows online registration of security interest in movable assets.[15] Although the Collateral Registry started operations in 2016, it was officially launched in November 2017 to allow creditors to register their security interests against collateral for loans and lines of credit (LOCs). The system primarily seeks the inclusion of groups previously excluded from lending, such as women entrepreneurs and SMEs which often cannot provide fixed assets as collateral. The Collateral Registry is currently managed by the Patents and Companies Registration Agency (PACRA) which has 5 officers dedicated to the overseeing and management of the Registry.

The Collateral Registry has benefitted the financial institutions (FIs) at least in two important ways. First, it has streamlined the collateral registration process. Previously, different types of movable collateral were required to be registered with different registers. For example, for movable agricultural assets as collateral, FIs were required by the Agricultural Charges Act to register them on a separate agriculture-related registry. Also, for registering fixed and floating charges, FIs previously had to access Company's Registry. Similarly, for using traders' stocks as collateral, FIs were required to register the collateral with the register established by the Trades Charges Act. However, the creation of the Collateral Registry has provided a one-stop platform for FIs to register their security interests in various types of movable assets. Second, the Collateral Registry has enabled the FIs to establish and better assess priority status against the debtor's collateral. In other words, the registry gives transparency to the credit system by giving publicity to security interests that exist for particular collateral.

PACRA, with the support of the International Finance Corporation (IFC), the Bank of Zambia (BoZ), FSD Zambia, and the Zambia Institute of Banking & Financial Services (ZIBFS), has carried out numerous awareness-raising and capacity building programs. These programs have targeted mostly financial institutions and non-bank financial institutions to familiarize them with the Collateral Registry. In addition, a special training session for judges and multiple training sessions for law firms as well as accounting firms have been organized. The objective of these programs has been to sensitize the institutions to movable collateral-based lending. Funding for these programs came from various sources including the Rural Finance Expansion Project. To raise awareness, PACRA went around the country to educate both lenders and borrowers. They have already visited 50 districts since inception. In rural districts, the emphasis has been on agricultural equipment financing. Furthermore, to raise awareness among the general public, PACRA has participated in various TV and radio interviews.

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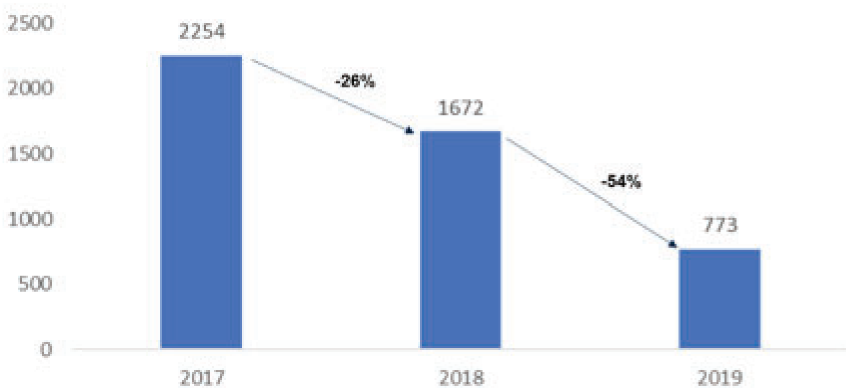
[15] Mapani. C. & Musonda. L. 2016. *The Zambian Movable Property (Security Interest) Act No.3 of 2016: A step-by-step Explanatory Guide to the Act.*

Despite the improvements to the legal and institutional framework governing secured transactions and various awareness-raising programs in Zambia, the current progress toward improving access to finance through the use of movable collateral has been relatively slow. According to stakeholder interviews, currently, only 9 financial institutions are actively using the Collateral Registry. As of December 2019, there were 4699 registrations in PACRA, and at present, there are 4085 active financial statements in the system. However, over the 3 years since its launch, the registration rate has drastically diminished. In 2017 there were 2254 new registrations, while in 2018 there were 1672, and in 2019 there were 773 new registrations. This constitutes a registration rate reduction of 26% from 2017 to 2018 and a rate reduction of 54% from 2018 to 2019 (see Figure 2). The average transaction volume has also decreased from 187 monthly transactions in 2017 to 139 in 2018, and only 71 in 2019.[16]

Figure 2: Number of Registrations by Year



Source: The World Bank (2019) PACRA Data Analysis

Additionally, registrations with PACRA have largely failed to cover key segments, including rural populations, SMEs, and women-owned businesses. The registrations were primarily performed in urban areas, specifically in the cities of Lusaka and Copperbelt, with approximately 90% of total registrations.[17] The expansion of registrations to other rural areas remains limited, which represents an obstacle for excluded segments of the population, such as women entrepreneurs and SMEs as most of them are located in rural areas. This is correlated with the geographical distribution of total credit disbursements. According to the Credit Market Monitoring Report of 2018, total credit disbursements remained concentrated in Lusaka and Copperbelt provinces, which jointly accounted for 77.0% of disbursements by value and 67.5% by number of loans (Figure 3). The stakeholders interviewed attributed the concentration of lending activities in the urban areas to the higher share of economic activities and businesses in these regions in comparison with the rural areas. Between 2017 and 2019 only 300 female-

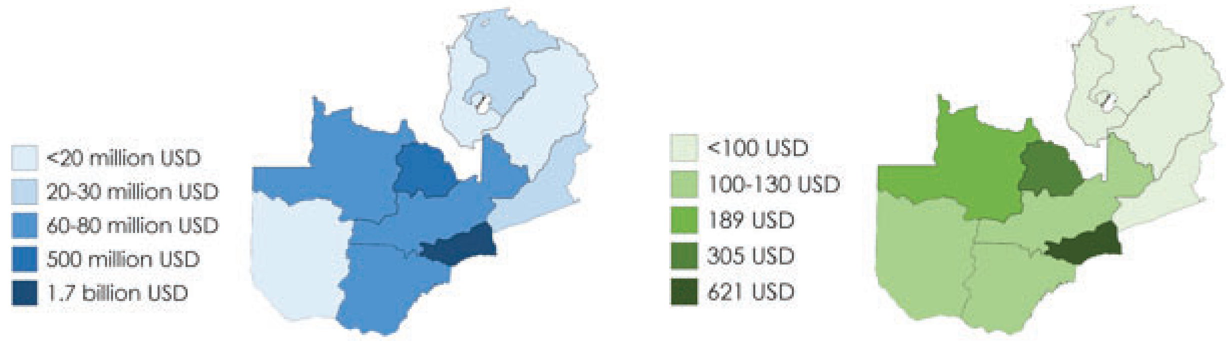
[16] PACRA (2019) *Business and Intellectual Property Rights trends for 2018*.
[17] World Bank Group (2019) *PACRA Data Analysis.*

owned enterprises were registered in the system. The majority of female-owned registrations correspond with medium and large, rather than small and micro, businesses.[18,19]

Figure 3: Credit Disbursement by Province 2019

*Total Credit Disbursement by Province**

*Average Credit Disbursement by Province**



Source: A2F Visualization using Data from Bank of Zambia Credit Market Monitoring Report 2019
**Note: Average 2019 Exchange rate from International Monetary Fund, International Financial Statistics available at: httos://data.worldbank.org/indicator/PA.NUS/FCRF?locations=ZM&view=chart*

This study provides a detailed assessment of the movable asset-based lending industry and identifies the factors constraining the expected performance of the Collateral Registry Zambia. There is a clear need to better understand the current situation and identify the bottlenecks in the development of movable asset-based financing in Zambia that may have adversely affected the expected performance of the Collateral Registry. The underlying objective of the study is to aggregate information to inform IFC on what can be done to address the existing challenges. The approach is based on stakeholder interviews, a review of laws and regulations, interviews with financial service providers, assessment of international experiences in secured transactions, and analyses of data from PACRA, the 2013 and 2019 World Bank Enterprise Surveys for Zambia, and the recent 2020 W-SME Survey in Zambia.

The structure of the report is as follows. Beyond the introduction, this report is divided into 5 sections. Section 2 provides an understanding of the issues faced by SMEs in terms of access to finance. Section 3 presents the current landscape of movable asset-based SME lending in Zambia. Section 4 provides an analysis of the data collected from PACRA on the usage of the Collateral Registry. Section 5 draws insights from stakeholder interviews and discusses the key factors that have led to the underperformance of the Zambian Collateral Registry. Section 6 delves into the successful experiences of Ghana, Nigeria, Colombia, and Indonesia in implementing collateral registries to draw lessons. Finally, Section 7 offers recommendations on how to address the key challenges in the movable asset-based lending industry and measures that should be taken to facilitate the usage of the Collateral Registry.

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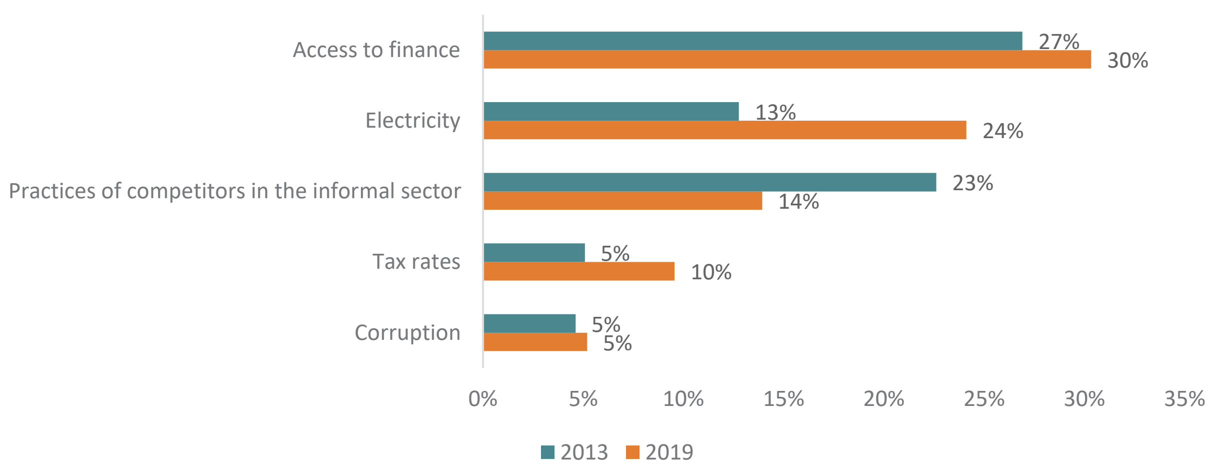
[18] PACRA. 2019. *Business and Intellectual Property Rights trends for 2019.*
[19] Zambian women had access to credit by using motor vehicles, manufacturing equipment and crops from agriculture as collateral.

2. Overview of SME Access to Finance in Zambia

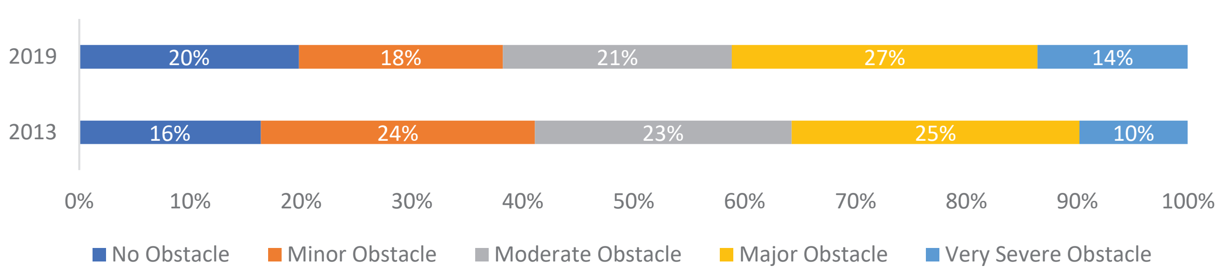
Access to finance has consistently ranked as the biggest obstacle SMEs face in Zambia.[20] According to the Enterprise Survey 2013, when asked about the biggest obstacle they face, 27% of SMEs in Zambia reported that access to finance posed the biggest issue. In that same year, the second most reported obstacle was competition in the informal sector, at 23% of SME respondents. In 2019, the percentage of SMEs that reported access to finance as the biggest obstacle had risen to 30%. SMEs were also asked about the degree to which access to finance posed an obstacle. In 2013, 35% of SMEs viewed access to finance as either a “major obstacle” or a “very severe obstacle”, while 23% viewed it as a moderate obstacle. Similarly, in 2019 this statistic had increased to 41% of SMEs who view access to finance as either a “major obstacle” or a “very severe obstacle”, while 21% viewed it as a moderate obstacle.

Figure 4: Biggest obstacle faced by SMEs



Source: 2013 & 2019 World Bank Enterprise Surveys – Zambia

Figure 5: Degree to which access to finance was an obstacle

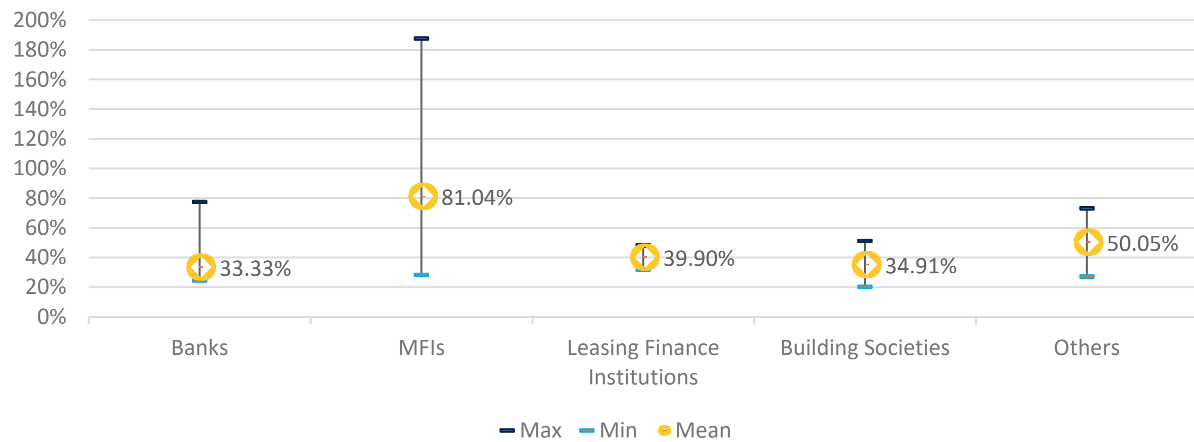


Source: 2013 & 2019 World Bank Enterprise Surveys - Zambia

[20] Definition of SME espoused by the World Bank Enterprise Survey, Zambia: small (5 to 19 employees), medium (20 to 99 employees), and large (100 or more employees).

The biggest challenges for SMEs include access to finance, high levels of informality, and high interest rates. In 2013, only 13% of SMEs had a loan or line of credit from a financial institution, compared to the regional average of approximately 17%. As of 2019, this percentage had remained at 13%.[21] The biggest challenges for SMEs included high levels of informality, poor bank loan tools, and inaccessible collateral requirements. This situation has worsened over time by the increase in interest rates as was more recently reported by SMEs. According to the BoZ Annual Report 2019, commercial banks' nominal average lending rate (ALR) increased to 28.0% in December 2019 from 23.6% in December 2018.

Figure 6: Annual Interest Rates Charged by Different Lenders



Source: Publication of Charges, Fees and Commissions and Demonstration of The Cost of Borrowing

The median value of loans taken is higher for medium enterprises than smaller enterprises and higher for male-owned SMEs than for female-owned SMEs. According to the 2019 World Bank Enterprise Survey, the median value of loans obtained by small enterprises was 60,000 kwachas (USD 3348) whereas for medium enterprises it was 300,000 kwachas (2019 constant prices) or USD 16,742. Male-owned SMEs obtained loans with a median value of 500,000 kwachas (USD 27,903) while female-owned SMEs obtained loans with a median value of 75,000 kwachas (USD 4,185).

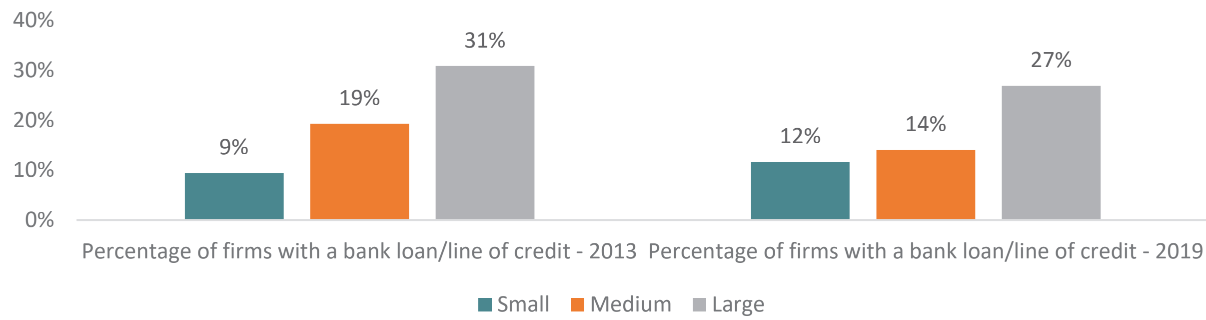
Table 2: Median Value of Loan Taken by Enterprise Size and Gender

	Median value of loan taken (Kwacha)	Median value of loan taken (USD)[22]
All SMEs (full sample)	150,000	8,260
Small	60,000	3,348
Medium	300,000	16,742
Male owned	500,000	27,903
Female owned	75,000	4,185

[21] World Bank. 2019. *Zambia Enterprise Survey.*
[22] Based on the exchange rate in July 2020.

Source: 2019 World Bank Enterprise Survey - Zambia

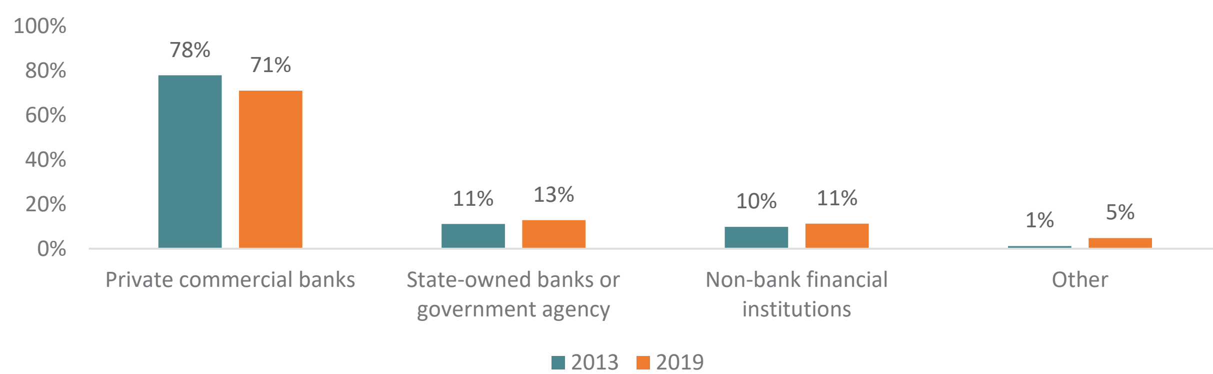
Figure 7: Use of Credit by Business Size, Over Time



Source: 2013 & 2019 World Bank Enterprise Surveys - Zambia

While the overall rate of business borrowing has not changed, the composition of borrowers and lenders has shifted. As shown in Figure 7, the share of small-sized firms with a bank loan or a line of credit (LOC) has increased, while the amount of medium and large businesses with a bank loan or LOC has decreased. The landscape of lenders has also changed marginally. Between 2013 and 2019 the rate of SME loans or LOCs coming from private commercial banks has decreased by 7 percentage points while loans from state-owned banks, non-bank FIs, and other origins cumulatively have increased by 7 percentage points.[23]

Figure 8: Source of SME Loan and Line of Credits



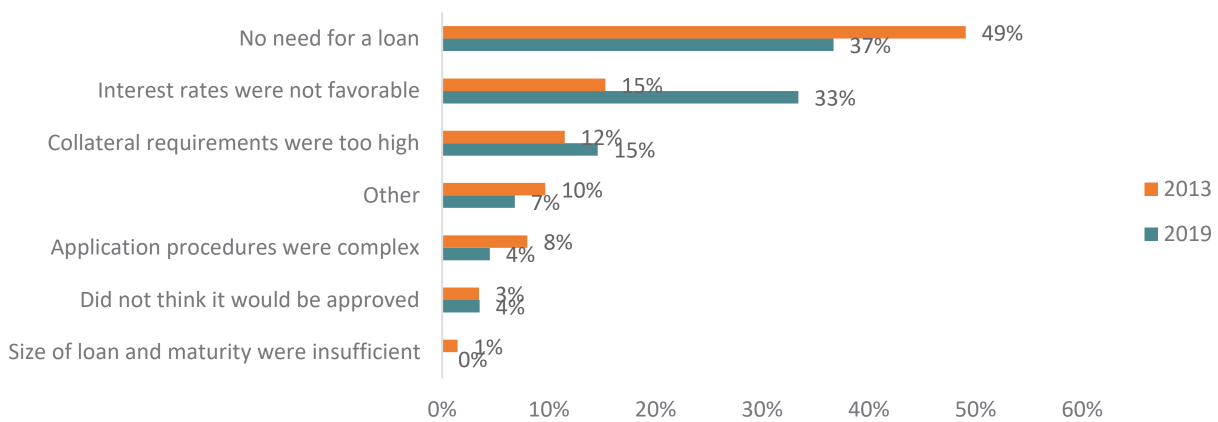
Source: 2013 & 2019 World Bank Enterprise Surveys – Zambia

SMEs are constrained in accessing finance for a variety of reasons, including high interest rates and high collateral requirements. According to the Enterprise Surveys, a significantly higher percentage of SMEs reported not applying for a loan in 2019 (33%) than in 2013 (15%) due to high interest rates. In both 2013 and 2019, high collateral requirements were ranked as the third most common reason SMEs didn't apply for a loan.[24] In 2019, 15% of the surveyed SMEs reported

[23] The apparent decrease in the proportion of the SMEs receiving loans or LOCs from commercial banks between 2013 and 2019 is probably tied to sampling error.
[24] World Bank. 2019. *Zambia Enterprise Survey.*

high collateral requirements as a reason for not applying for a loan whereas, in 2013, 12% of the surveyed SMEs reported so. From 2013 to 2019, the percentage of SMEs that did not apply for a new loan or a new line of credit because they had no need decreased by 12 percentage points from 49% to 37% as shown in Figure 9. Those that did not apply because interest rates were too high increased by 18 percentage points from 15% to 33%.

Figure 9: Reasons for Not Applying for a Loan in 2019



Source: 2013 & 2019 World Bank Enterprise Surveys - Zambia

Collateral requirements have eased overall, but still represent a challenge for SMEs. In 2019 the median collateral to loan ratio was 1.4. This represents a small decrease from the 2013 ratio of 1.52. However, when this is broken down by business size there is a large ratio difference between small and medium-sized enterprises. In 2013 the median collateral to loan ratio was 2, while in 2019 this had dropped by 38% to only 1.25. The trend for medium-sized enterprises shows the opposite trend over time. In 2013 the ratio was 1.5, but by 2019 this ratio had increased to 1.8.[25] For male-owned businesses, the collateral to loan ratio in 2013 was 1.5, while the ratio for female-owned businesses in 2013 was 1.6. In 2019, this same trend remains with the male-owned business ratio at 1.4 and the female-owned business ratio at 1.5. These statistics contrast with some of our interview findings in which women are consistently noted as more credible borrowers.

Lack of collateral was the main reason for having a loan application rejected among SMEs surveyed in the 2020 SME Access to Finance Survey.[26] For those who have taken a loan from a bank or microfinance institution, 22% have had a loan application rejected. For this portion of businesses, the main reason for having their loan application rejected was the collateral requirement (44%). This was followed by challenges with documentation, particularly among medium-sized businesses.

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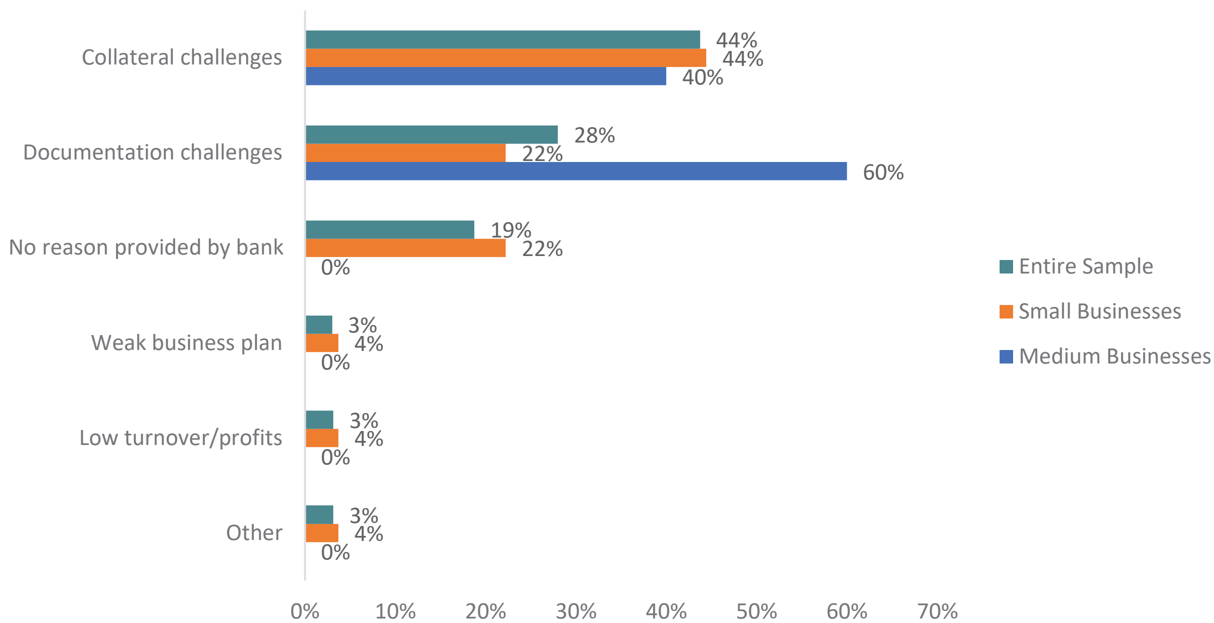
[25] World Bank. 2019. *Zambia Enterprise Survey.*

[26] A 2020 survey was conducted by A2F Consulting on behalf of the WBG to provide insight into the financial needs of predominately women-owned SMEs in Zambia.

Figure 10: Reason for Rejection of Loan Application



Poor macroeconomic performance and the recent COVID-19 outbreak have profoundly impacted Zambian SMEs in recent years. From 2013 to 2016, Zambia's GDP fell from USD 28 billion to USD 21 billion. This is a decrease of 25.3% over a short span of 3 years.[27] As of 2018, GDP had risen to only USD 26.7 billion.[28] Zambian currency has also experienced a steep decline in value. In 2011, the Zambian kwacha hovered at 4.86 relative to the USD and in 2016 this had risen by over 112% to 10.308.[29] By 2019 this had risen by another 25% to 12.889.[30] These macroeconomic factors along with the current COVID-19 outbreak, as interviews with FIs have confirmed, have contributed to the poor performance of SMEs. Reportedly, a large number of SMEs have gone out of business. The construction sector, in particular, has performed poorly and many enterprises in this sector defaulter on their loans. Consequently, many of the FIs are now trying to deleverage their SME portfolio in an effort to mitigate risk.

The COVID-19 pandemic is having a direct effect on SMEs and creating an enabling environment for SME lending and growth will be indispensable for recovery. As of July 2020, Zambia has had over 2300 COVID-19 cases and 82 deaths.[31] The Government of Zambia has issued an economic stimulus package of 8 billion ZMW (USD 439 million)[32], however, it has been reported that the SME sector has been particularly hurt. Some of Zambia's most promising sectors in terms of

[27] World Bank. 2019. Zambia GDP (current USD).
[28] World Bank. 2019. Zambia GDP (current USD).
[29] World Bank. 2019. Zambia Official exchange rate (LCU per US$, period average).
[30] World Bank. 2019. Zambia Official exchange rate (LCU per US$, period average).
[31] Zambia Ministry of Health, 2020.
[32] IMF, Policy Responses to COVID-19, 2020.

growth may be those sectors most affected by the ongoing pandemic. These include tourism, transportation, accommodation and food, and education. Areas that may be heavily impacted are supply chain dynamics, overall profitability, the government policy on improving access to finance, and lastly, the risk tolerance of financial institutions due to an increase in non-performing loans. Building the capacity of banks and FIs to mitigate risk through the acceptance of movable collateral will be essential for shielding SMEs from a loss in financial access and growth.

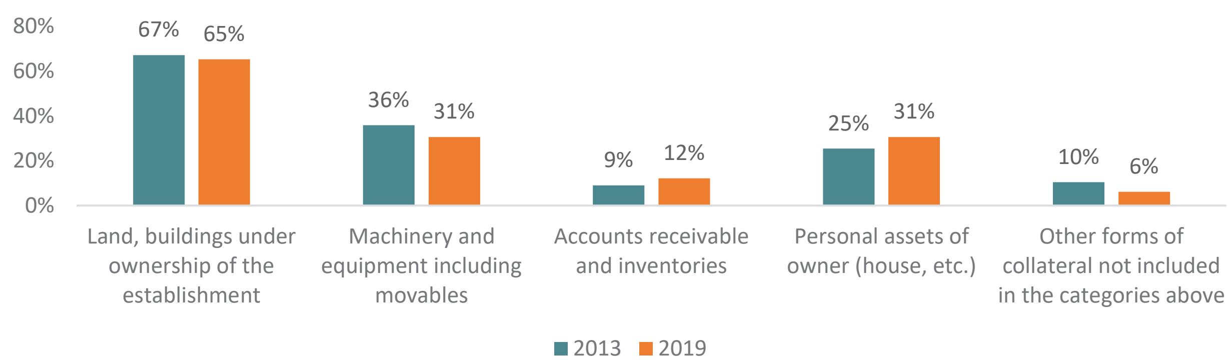
3. Current Landscape of Movable Asset-Based SME Lending in Zambia

3.1. Demand and Supply of Movable Asset-Based Lending to SMEs

3.1.1. Overall Demand & Supply Among SMEs

Many FIs in Zambia are currently involved in movable asset-based lending, even though their primary preference is immovable assets. These FIs include both commercial banks and microfinance institutions. According to stakeholder interviews, as far as movable assets are concerned, FIs typically prefer motor vehicles,[33] which constitute about 90% of the movable collateral while the remainder includes mostly fixed-term deposits and inventories[34]. Nevertheless, land and buildings have continued to be the most commonly used type of collateral, with only a slight decrease in usage from 2013 to 2019, from 67% to 65% according to World Bank Enterprise Surveys Data. There has also been a decrease in usage of machinery and equipment from 2013 to 2019 of 5 percentage points, despite the introduction of the Collateral Registry. The use of accounts receivable and personal assets as collateral have marginally increased over this period as shown in Figure 11.[35] According to the FIs interviewed, FIs either ask for immovable assets as collateral or a mix of both immovable and movable assets. In the latter case, immovable assets are typically required to be around 80% of the required collateral value.

Figure 11: Types of Collateral Used by SMEs



Source: 2013 & 2019 World Bank Enterprise Surveys – Zambia

This is consistent with findings from the 2020 SME Access to Finance Survey, which finds that among SMEs that have borrowed, the majority used immovable assets as collateral and many

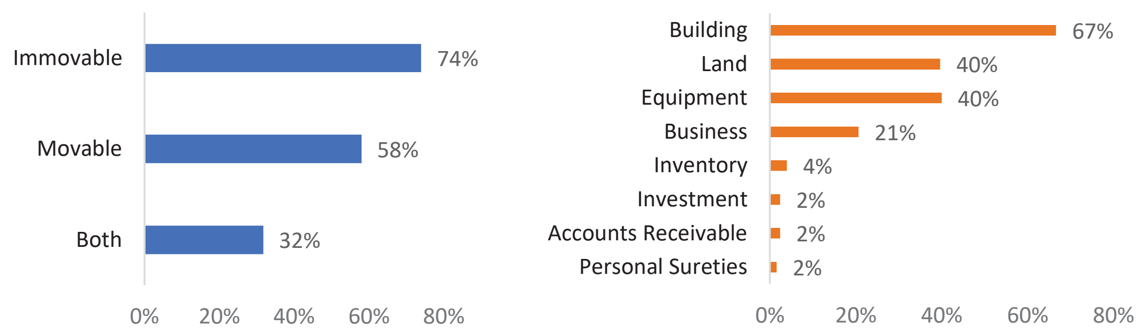
[33] Motor vehicles include tractors as well. AB Bank has issued 300,000 SME loans against motor vehicles only.

[34] Both Ecobank and AB Bank do accept inventories as collateral.

[35] Ecobank, Stanbic Bank and Investrust Bank have confirmed that they provide invoice discounting/accounts receivable based financing. Ecobank provides invoice discounting for loans up to a value of USD 10,000.

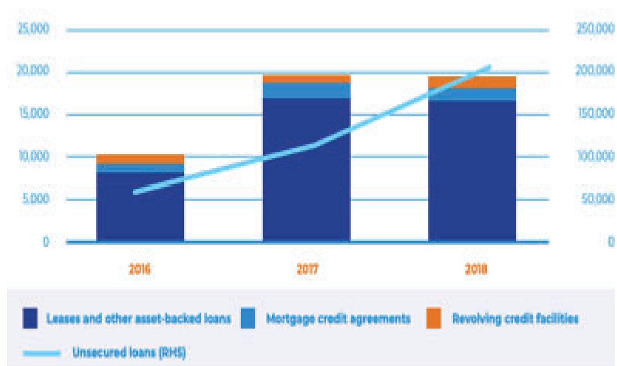
used a mix of both movable and immovable.[36] For those who have received a loan from a bank or a microfinance institution, most were required to back the loan with some form of collateral (86%). 74% of those who used collateral used immovable assets, while 58% used movable assets, and 32% used both types. Female-owned businesses and medium-sized businesses are much more likely to use movable assets as collateral, at 62% and 67% of the subsample, respectively. For male-owned businesses, this was 31%, and for small businesses, this was 56%. The most common types of collateral used were immovable assets consisting of either building (67%) or land (40%). The remaining types of collateral used were movable assets, consisting of equipment and vehicles (40%), other business assets (21%), and inventory (4%). From the sample of businesses that were required to use collateral, 51% used multiple types of collateral. The types of collateral used are shown below in Figure 12.

Figure 12: Types of Collateral Used



The vast majority of credit applications among SMEs in Zambia have been for unsecured loans. Unsecured loans represent more than 90% of the total loan applications from SMEs in 2018.[37] In contrast, in 2018, SMEs made only approximately 16,000 credit applications for loans against movable properties. Demand for leases and other asset-backed loans represents approximately 7% of the total demand for credit among SMEs. The remaining 3% is for loans backed

Figure 13: Demand for Credit among SMEs in 2018



Source: Bank of Zambia Credit Market Monitoring Report 2018

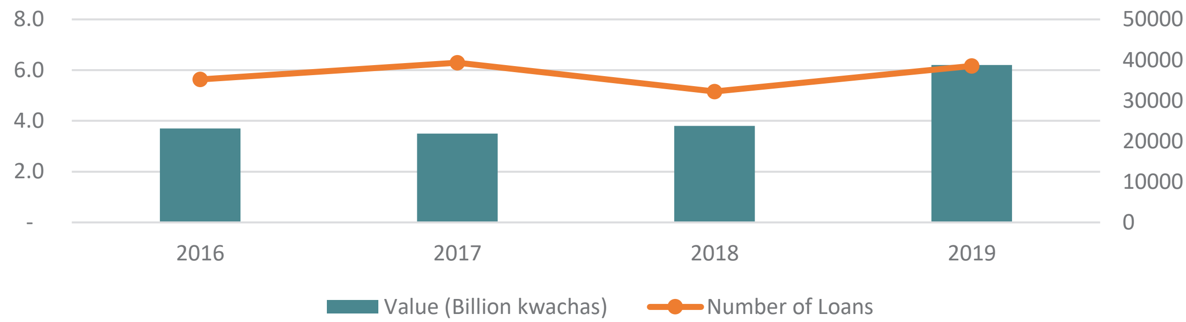
[36] A 2020 survey was conducted by A2F Consulting on behalf of the WBG to provide insight into the financial needs of predominately women-owned SMEs. This survey consisted of 621 interviews, 564 of which were with women-owned businesses (91%), and 57 of which were with male-owned businesses (9%). The sample consisted primarily of small businesses (91%), while 9% were medium sized businesses.

[37] According to Credit Market Monitoring Report, unsecured loans refer to term loans which are not secured by a pledge of immovable or movable property, or assets, (e.g., a loan granted to a household for building a house incrementally or for improving a structure is deemed an unsecured loan if it is granted without an asset that is on hold as security should the borrower default on payment.

by immovable property (mortgage credit agreements) and revolving credit facilities.

According to data from the Bank of Zambia, there were approximately 40,000 movable asset-backed loans disbursed in 2019 with a total value of 6 billion kwachas (USD 588 million). While the number of loans has remained relatively constant, with a slight decrease in 2018, the value of loans has increased significantly since 2016. The total value of loans in 2019 was more than 6 billion kwachas (USD 588 million), up from approximately 3.7 billion kwachas (USD 353 million)[38] in 2016. The average value of loans has also increased from 105 thousand kwachas in 2016 (USD 10,000) to 160 thousand kwachas in 2019 (USD 15,000).

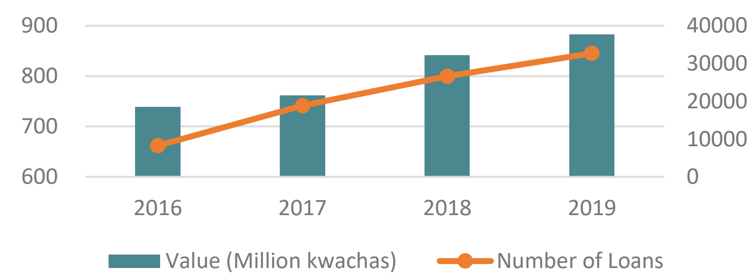
Figure 14: Disbursement of Loans Against Movable Collateral



Source: Bank of Zambia Credit Market Monitoring Report Credit Data 2019

The number and value of movable asset-backed loans to small businesses has increased steadily since 2016. In 2019, FIs disbursed almost 33,000 loans with a total value of 882 million kwachas (USD 48.64 million). The average loan amount for small businesses was approximately 27,000 kwachas (USD 1,489).

Figure 15: Disbursement of Loans Against Movable Collateral to SMEs



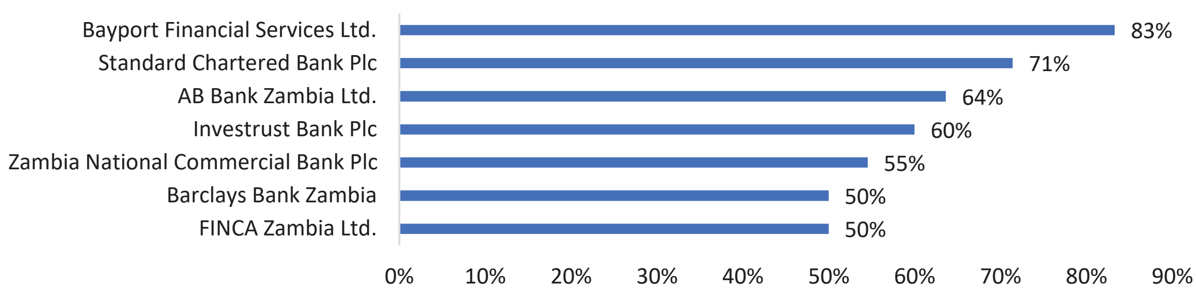
Source: Bank of Zambia Credit Market Monitoring Report Credit Data 2019

According to the recent SME Access to Finance Survey, among SMEs that borrowed using movable assets, the majority borrowed from a bank other than their main bank. Some of the most common banks from which SMEs borrowed using movable assets as collateral include Bayport Financial Services, Standard Chartered Bank, and AB Bank Zambia. In contrast, the most common banks for conducting their primary business banking among this group of SMEs are Barclays and Zanaco. This indicates that SMEs look for different aspects in choosing their bank for borrowing. In fact, among SMEs that have used movable assets as collateral, 44% report that

[38] In 2018 dollars.

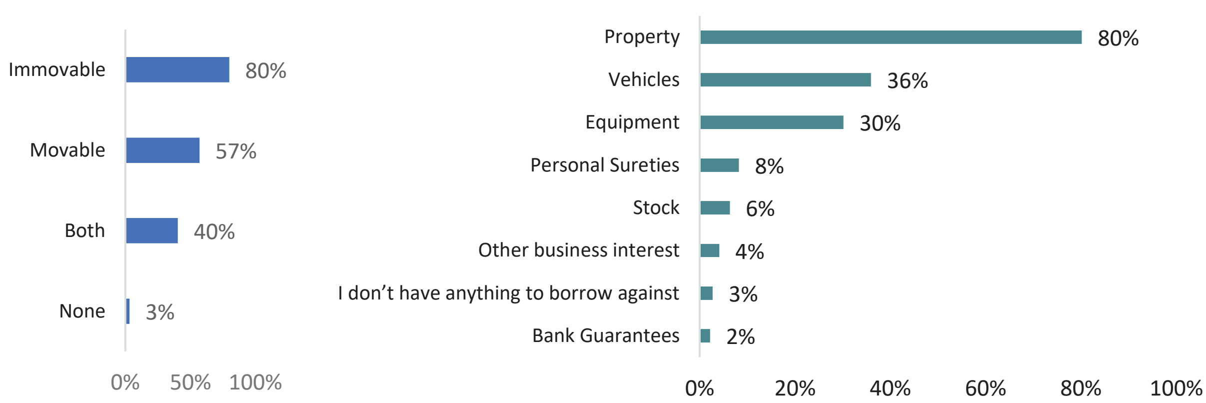
low collateral requirements were a key factor in choosing the bank at which they borrowed (compared to only 28% of SMEs that relied on immovable collateral).

Figure 16: Percent of SME Bank Loans Backed by Movable Assets



In terms of borrowing potential, vehicles are indicated to be an untapped source of collateral. Most businesses plan to borrow in the future (59%) and nearly all of these businesses report having some type of collateral to use (97%). Property is the most commonly reported collateral available (80%) which includes both buildings and land. The median value of property is 1,000,000 kwachas (USD 77,519). However, vehicles are the second most commonly reported collateral type (36%). This subsample includes those that have borrowed in the past, but also those businesses that have never borrowed. This indicates that there is an untapped market of businesses that want to borrow and have vehicles to use as collateral. The median value of vehicles in the sample is 500,000 kwachas (USD 38,760). Additionally, 30% of these businesses have equipment they could use as collateral, which has a median value of 560,000 kwachas (USD 43,411). If all asset types are grouped into the categories of movable or immovable assets, 80% have immovable assets consisting of property, and 57% have movable assets consisting of the other asset types. Only 3% have no assets to use as collateral, and 40% reported a combination of both immovable and movable assets.

Figure 17: Available Collateral for All SMEs Wanting to Borrow



3.1.2. Perspective by Size

There are significant differences between small and medium-sized enterprises in terms of borrowing habits and collateral availability. Small enterprises report having relatively lower loan values, but also have lower collateral requirements. 84% of small enterprise loans required collateral, compared to 93% of medium enterprise loans. For small enterprises, most report a collateral value of 1.5 times the loan value (37%), while for medium enterprises this was 2 times the loan value (33%). For small enterprises, the main lender used was AB Bank Zambia (22%), while for medium enterprises the main lender was Barclays Bank Zambia (21%). Table 3 shows the main differences in the lending profiles between small and medium-sized enterprises.

Table 3: Business Size Lending Profiles

Small Enterprise Profile:

Biggest lender: AB Bank Zambia (22%)
Median Loan Size: 180,000 (USD 13,953)
Loan Required Collateral: 84%
Main Collateral Types:

Type:	Percent:
Building	63%
Land	36%
Equipment	31%
Business	17%
Vehicles	6%
Inventory	3%
Accounts Receivable	3%
Investments	2%

Value of Collateral: 1.5x loan value (37%)
Plan to Get a Loan: 58%
Median Desired Loan Size: 200,000 (USD 15,504)
Available Collateral:

Type:	Percent:	Median Value
Property	80%	1,000,000 (USD 77,519)
Vehicles	34%	400,000 (USD 31,008)
Equipment	30%	500,000 (USD 38,760)
Personal Sureties	8%	120,000 (USD 9,302)
Stock	6%	520,000 (USD 40,310)
Other business interest	4%	200,000 (USD 15,504)
Bank Guarantees	2%	170,000 (USD 13,178)
Debtors (payments due to you)	1%	300,000 (USD 23,256)

Medium Enterprise Profile:

Biggest lender: Barclays Bank Zambia (21%)
Median Loan Size: 2,000,000 (USD 155,039)
Loan Required Collateral: 93%
Main Collateral Types:

Type:	Percent:
Building	81%
Land	52%
Equipment	48%
Business	33%
Inventory	7%
Investments	4%
Accounts Receivable	0%
Vehicles	0%

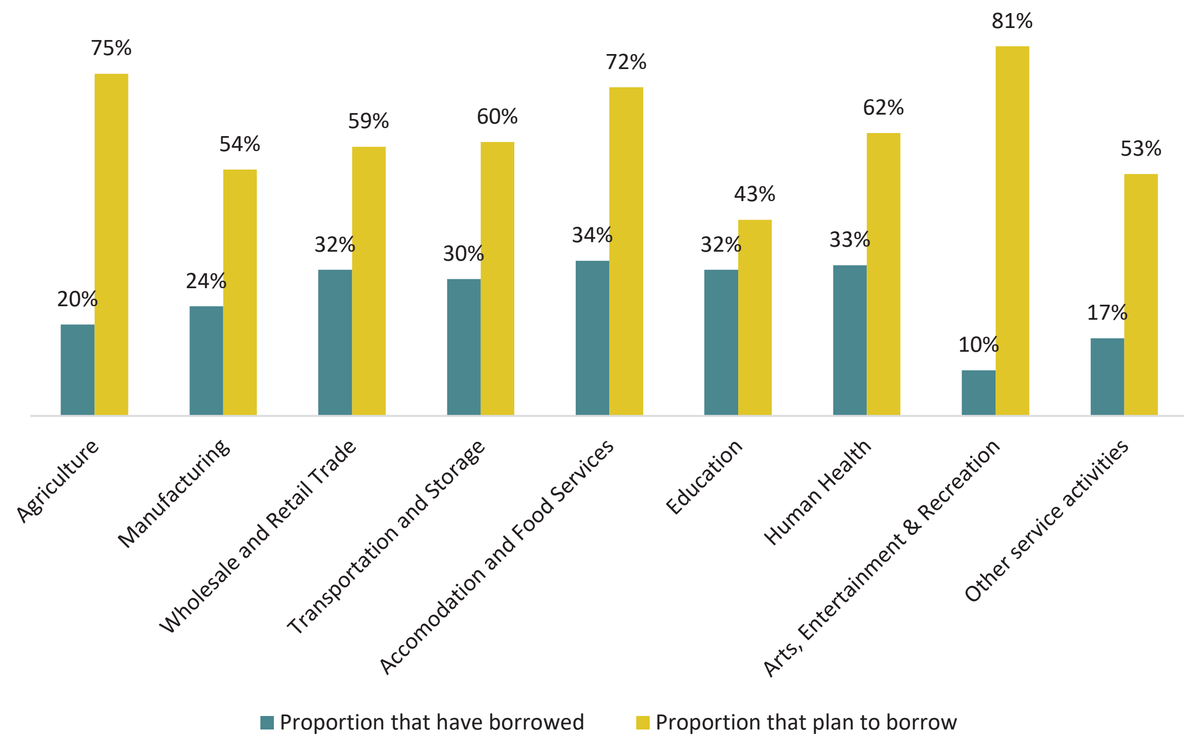
Value of Collateral: 2x loan value (33%)
Plan to Get a Loan: 61%
Median Desired Loan Size: 1,250,000 (USD 96,899)
Available Collateral:

Type:	Percent:	Median Value
Property	85%	3,500,000 (USD 271,318)
Vehicles	56%	2,000,000 (USD 155,039)
Equipment	38%	1,850,000 (USD 143,411)
Personal Sureties	9%	200,000 (USD 15,504)
Stock	9%	111,000 (USD 8,605)
Other business interest	3%	-
Bank Guarantees	3%	-
Debtors (payments due to you)	0%	-

3.1.3. Perspective by Sector

There is an opportunity for expanding the market for loans in the arts, entertainment, & recreation sector, and the agriculture sector. 81% of SMEs in the arts, entertainment, & recreation sector want to borrow in the future, while 75% of SMEs in the agriculture sector want to borrow in the future. The widest gap between the current level of borrowing and the expected level of borrowing is among SMEs in the arts, entertainment, & recreation sector (71%), followed by the agriculture sector (55%). SMEs in the accommodation and food services and the human health sectors are the most likely to have previously borrowed. SMEs in the arts, entertainment, & recreation sector are the least likely to have borrowed. The median expected loan amount for MSMEs in this sector is 100,000 kwachas (USD 7,752). For SMEs in the agriculture sector, the median expected loan amount is 225,000 kwachas (USD 17,442). Figure 18 shows the proportion of SMEs that have borrowed in the past and the proportion that expect to borrow in the future by sector.

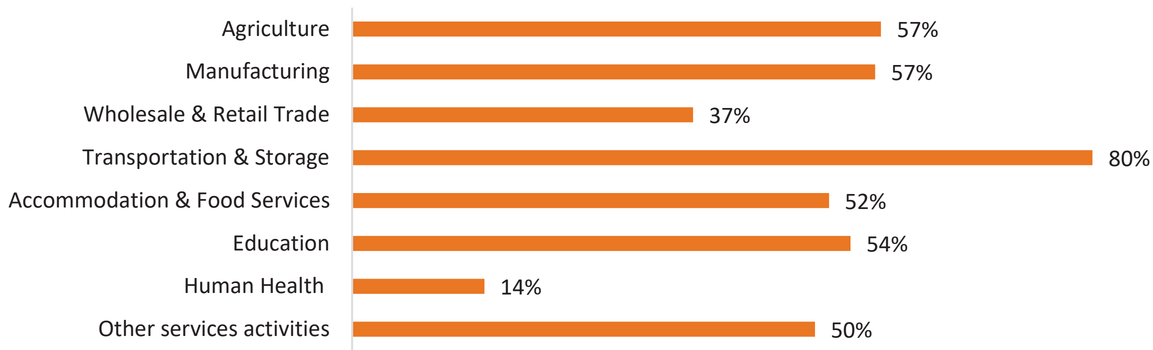
Figure 18: Current and Expected Borrowing by Sector



Note: Includes only sectors that constitute at least 3% of the sample (i.e., those that have 20 or more respondents)

Among those that have borrowed in the past, SMEs in the transportation and storage sector were the most successful in obtaining loans using movable assets as collateral. 80% of SMEs in the transportation and storage sector that have borrowed in the past used movable assets as collateral. A majority of SMEs in the agriculture, manufacturing, accommodation and food services, and education sectors were similarly able to use movable assets as collateral. In contrast, only 14% of SMEs in the human health and 37% in the wholesale and retail trade sectors that have borrowed in the past used movable assets as collateral.

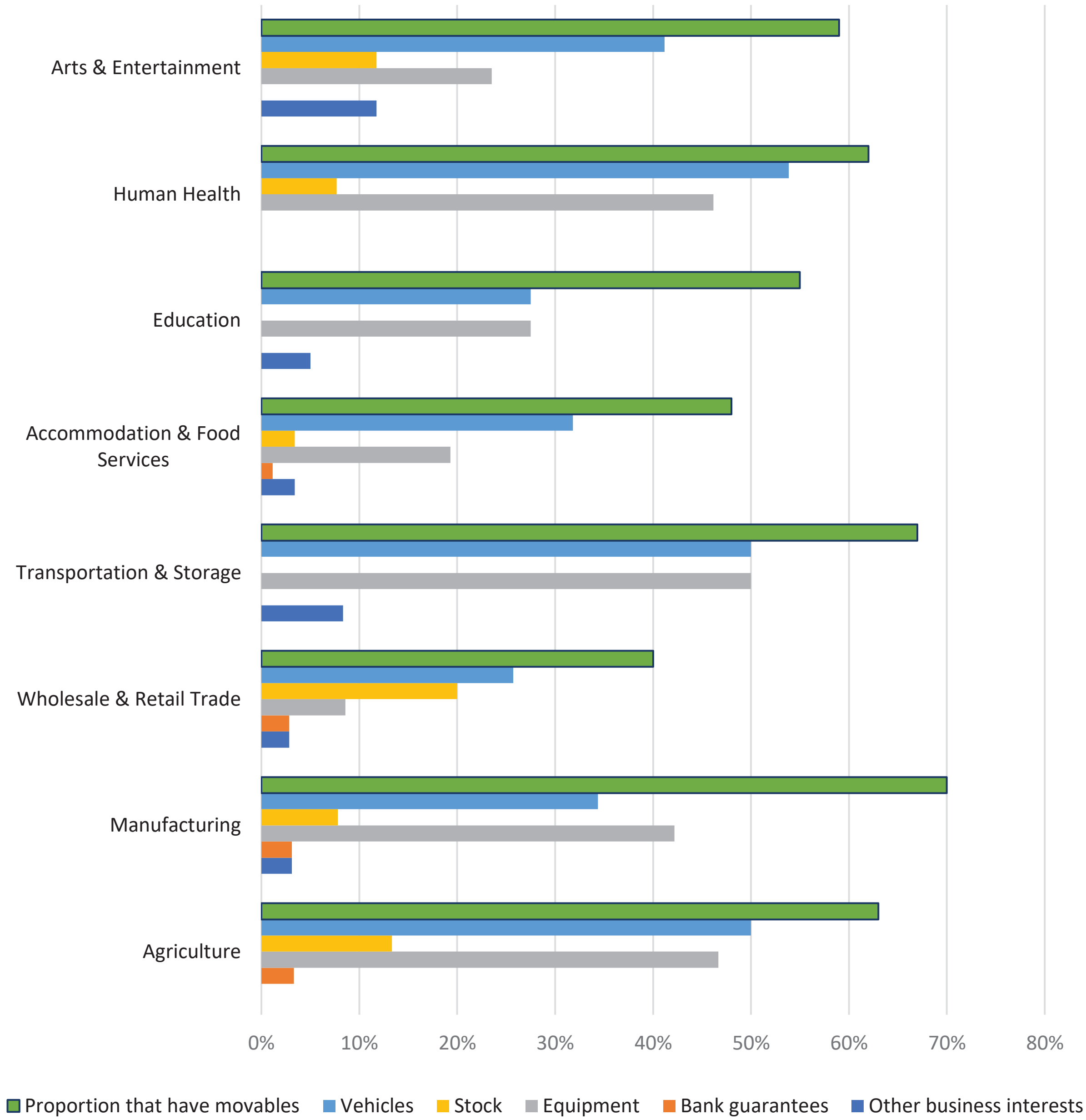
Figure 19: Loans Backed by Movable Collateral – by Sector



Note: Includes only sectors that constitute at least 3% of the sample (i.e., those that have 20 or more respondents)

Among SMEs that plan to borrow in the future, those in the manufacturing and transportation and storage sectors are the most likely to have movable assets. In the manufacturing sector, 70% of SMEs that plan to borrow report that they have movable assets against which they could borrow, and in the transportation and storage sectors, 67% of SMEs report the same. Across all sectors, the majority of SMEs report having access to a form of movable collateral. This is most commonly vehicles and equipment, although some differences exist. For instance, in the wholesale and retail trade sector, the most common forms of movable assets are vehicles and stock.

Figure 20: Movable Assets Owned by SMEs by Sector



Note: Includes only sectors that constitute at least 3% of the sample (i.e., those that have 20 or more respondents)

3.2. Market Potential

The total market potential is estimated to be 1.03 billion kwachas (USD 56.7 million). Tapping into this market would represent a **16% increase** in potential revenue for FIs, based on current credit disbursements to the SME segment. The total market potential is calculated as the existing customer market plus the new customer market.

1,033,149,628 kwachas	279,131,756 kwachas	754,017,872 kwachas
USD 56,728,300	USD 15,326,600	USD 41,401,700

The existing customer market is estimated to 279 million kwachas (USD 15 million). The potential existing market is defined as those SMEs that have previously applied for a loan but were rejected because of lack of collateral. This market was estimated based on the following formula where $existing\ market$ is the estimated market size; $potential\ value\ of\ rejected\ loans$ is the A value of the loans denied to SMEs, which has been extrapolated from the value of credit disbursements to the SME segment, assuming a loan approval rate of 87%; and $\%\ rejected\ for\ collateral\ reaons$ is the proportion of SMEs that report they have had loans rejected and collateral was the biggest issue.

$$existing\ market = potential\ value\ of\ rejected\ loans * \%\ rejected\ for\ collateral\ reasons$$

Existing Customer Market	
Current disbursement of loans to SMEs (businesses with 5-300 employees)	5,337,244,574 kwachas
Potential disbursement to those SMEs denied loans	797,519,304 kwachas
The proportion of SMEs that have been rejected because of collateral issues	35%
Existing Customer Market	279,131,756 kwachas

The new customer market is defined as those SMEs that have not previously applied for a loan because of lack of collateral but could potentially qualify for a loan backed by movable assets.

The new customer market is estimated to 754 million kwachas (USD 41 million). The potential new customer market is defined as those SMEs that have not previously applied for a loan because of lack of collateral but could potentially qualify for a loan backed by movable assets. This market was estimated based on the following formula where $new\ market$ is the estimated market size; $\# SMEs$ is the total number of SMEs in the country, extrapolated from Enterprise Surveys 2019 and BoZ data; $\%\ constrained\ by\ collateral$ is the proportion of SMEs that report they have had not applied for loans because the collateral requirements were too high; $\%\ capital\ stock\ as\ movables$ is the average proportion of a firm's capital stock that is vehicles, machinery, equipment or accounts receivable, in comparison to land and buildings[39]; and $average\ loan\ size$ is the average loan amount disbursed in 2019 against movable assets, as reported in the BoZ Credit Market Monitoring Report.

$$new\ market = \#\ SMEs * \%\ constrained\ by\ collateral * \%\ capital\ stock\ as\ movables * average\ loan\ size$$

New Customer Market	
Total number of SMEs	44,262
The proportion of SMEs that have not taken a loan because collateral requirements were too high	13.65%
Average % of capital stock owned by SMEs that is movable assets	78%
Average disbursement of leases and other asset-backed loans	160,000 kwachas
New Customer Market	754,017,872.37 kwacha

3.3. Movable Asset-based Lending Performance

The nonperforming loan (NPL) ratio for loans backed by movable assets has decreased since 2017 but remains high compared to other types of loans including leases and other asset-backed loans. The NPL ratio for movable asset-based loans increased significantly from 6.49% in Q4 2016 to 23.34% in Q4 2017. The average rate from Q1 2016 to Q4 2019 was 15.23%. According to stakeholders interviewed, this was mainly caused by the extremely poor performance and subsequent license revocation of one of the major actors in the SME leasing finance industry, Focus Financial Services. Reportedly, Focus Financial Services had an NPL ratio as high as 80% due to inadequate underwriting policies and risk management practices. Although the NPL ratio of the movable asset-based loans has decreased since 2017, at the end of 2019, more than 15% of these loans were still non-performing. In contrast, the NPL ratios for loans backed by immovable properties (11%) and each of revolving credit facilities and unsecured loans (10%) are lower. The underperformance of the leasing finance industry continues to be the primary contributor to the relatively high NPL ratio of movable asset-based loans. According to the Bank of Zambia Annual

[39] World Bank (2019) Knowledge Guide on Secured Transactions, Collateral Registries and Movable Asset-Based Financing.

Report 2018, NPLs are highest in the restaurant and hotels, and construction sectors. These sectors had NPLs of 79% and 38%, respectively.[40]

Table 4: Non-Performing Loan Ratio by Type of Loan Product

	Q4 - 2016	Q4 - 2017	Q4 - 2018	Q4 - 2019
Leases and Other asset-backed loans	6.49%	23.34%	16.07%	15.18%
Mortgages	17.83%	11.66%	14.87%	11.29%
Revolving credit facilities	6.80%	10.28%	13.09%	9.55%
Unsecured loans	9.91%	7.98%	7.30%	9.55%

Source: Bank of Zambia Credit Market Monitoring Report Credit Data 2019

According to the World Bank Enterprise Survey 2013, women-owned SMEs had a higher ratio of the median loan value to movable assets value than men. Women-owned SMEs had a median loan value to movable assets value ratio of 1.83 while men-owned SMEs had only 0.45. Additionally, SMEs in the sector characterized as Electronics and Basic Metals had the lowest ratio of the median loan value to movable assets (.01) while SMEs in the Machinery and Equipment sector had the highest ratio (4,320) (see Table 5).

Table 5: Loan to Value Ratios [41] [42]

	Median value of loan taken (Kwacha)	Median value of collateral (Kwacha)	Median value of movable assets (vehicles, machinery) (Kwacha)	Median value of loan/value of movable assets (Kwacha)	Median value of loan/value of total fixed assets (Kwacha)
All SMEs (full sample)	400,000,000 (USD 76,439)	500,000,000 (USD 95,549)	150,000,000 (USD 28,665)	1	0.269405
Business Size					
Small	150,000,000 (USD 28,665)	350,000,000 (USD 66,884)	150,000,000 (USD 28,665)	1.25	0.241936
Medium	675,000,000 (USD 128,991)	1,500,000,000 (USD 286,646)	435,000,000 (USD 83,127)	0.380952	0.333333
Gender					
Male owned	400,000,000 (USD 76,439)	600,000,000 (USD114,658)	250,000,000 (USD 47,774)	0.446999	0.333333
Female owned	300,000,000 (USD 57,329)	500,000,000 (USD 95,549)	123,000,000 (USD 23,505)	1.833333	0.25974
Sector					
Food	1,300,000,000 (USD 248,427)	18,500,000,000 (USD 3,535,301)	145,000,000 (USD 27,709)	0.23	0.14
Textiles	300,000,000 (USD 57,329)	470,000,000 (USD 89,816)	11,800,000,000 (USD 2,254,948)	.	.
Garments	48,900,000	.	13,000,000	6.52	.

[40] Bank of Zambia Annual Report 2018

[41] The variables for total movable assets (n6a) and total fixed assets (n6b) are not included in the Enterprise Survey 2019.

[42] Kwacha values are in pre-redenomination of currency 2013 by a denominator of 1000. All currency conversions are based on the average exchange rate of 2013 (pre-redenomination).

	(USD 9,345)		(USD 2,484)		
Leather	.	.	800,000,000 (USD 152,878)	.	.
Wood	125,000,000 (USD 23,887)	20,000,000 (USD 3,822)	80,400,000 (USD 15,364)	1.25	0.24
Paper	350,000,000 (USD 66,884)	2,000,000,000 (USD 382,195)	783,000,000 (USD 149,629)	0.45	0.45
Publishing, printing and recorded media	263,000,000 (USD 50,259)	445,000,000 (USD 85,038)	490,000,000 (USD 93,638)	0.21	0.11
Chemicals	400,000,000 (USD 76,439)	500,000,000 (USD 95,549)	234,000,000 (USD 44,717)	3.22	0.28
Plastics & rubber	2,000,000,000 (USD 382,195)	4,000,000,000 (USD 764,389)	325,000,000 (USD 62,107)	35.85	34.71
Non-metallic min	1,530,000,000 (USD 292,379)	1,080,000,000 (USD 206,385)	43,800,000 (USD 8,370)	.	4.00
Basic metals	800,000,000 (USD 152,878)	1,200,000,000 (USD 229,317)	12,500,000,000 (USD 2,388,717)	0.03	0.03
Fabricated metal	400,000,000 (USD 76,439)	800,000,000 (USD 152,878)	252,000,000 (USD 48,157)	1.33	0.63
Machinery and equipment	400,000,000 (USD 76,439)	193,000,000 (USD 36,882)	101,000,000 (USD 19,301)	4,319.56	2,034.05
Electronics	370,000,000 (USD 70,706)	130,000,000 (USD 24,843)	1,030,000,000 (USD 196,830)	0.01	0.01
Transport machines	.	.	.	.	.
Furniture	40,100,000 (USD 7,663)	2,230,000,000 (USD 426,147)	300,000,000 (USD 57,329)	2.00	.
Construction	2,050,000,000 (USD 391,750)	7,850,000,000 (USD 1,500,114)	.	.	.
Services of motor vehicles	300,000,000 (USD 57,329)	.	.	.	.
Wholesale	.	.	.	.	.
Retail	500,000,000 (USD 95,549)	1,250,000,000 (USD 238,872)	.	.	.
Hotel and restaurant	50,000,000 (USD 9,555)	110,000,000 (USD 21,021)	.	.	.
Transport	650,000,000 (USD 124,213)	800,000,000 (USD 152,878)	.	.	.
IT	25,000,000 (USD 4,777)	80,000,000 (USD 15,288)	.	.	.

Source: 2013 World Bank Enterprise Survey - Zambia

3.4. Current State of Factoring and Invoice Discounting

Factoring and invoice discounting are still at a nascent stage in Zambia. Several FIs in Zambia currently provide factoring and invoice discounting. According to stakeholder interviews, although large commercial banks such as Ecobank, Stanbic Bank, and Investrust Bank provide invoice discounting or accounts receivable based financing, this practice is more common among MFIs. However, for some of the interviewed MFIs, factoring and invoice discounting account for only 2% of the total loan portfolio. In addition, although invoice discounting is considered as a financing instrument that ideally should remove the requirements for tangible collateral from the borrowers, reportedly some FIs in Zambia still require tangible collateral for factoring or invoice discounting as an additional layer of protection against default, unless the lenders can be made signatories to the accounts where the invoice will be paid.

One key challenge that impedes the growth of the factoring and invoice discounting industry in Zambia is reportedly inefficient supply chains. According to the stakeholders interviewed, SMEs typically suffer from a lack of organized supply chains which generally is not true for larger corporations. Larger corporations tend to have professional backstopping which ensures that supplies are made in time and invoices are paid on time. Moreover, recent deterioration in the performance of several off-taker industries has caused the lenders to shrink their SME factoring and invoice discounting portfolios. For instance, previously it was common for SMEs providing supplies to the mining industry to avail themselves of invoice discounting from FIs. However, the mining industry has recently experienced a downturn. Similarly, once known as a reliable off-taker, ZESCO, a state-owned power company in Zambia has repeatedly failed to pay its SME suppliers on time in recent years.[43] For these reasons, FIs prefer providing factoring or invoice discounting services to larger corporations instead of to SMEs.

[43] Nevertheless, the following off-takers are still performing well in terms of timely payments to their SME suppliers/distributors: Zambia Sugar, Lafarge Cement Manufacturing Company, and Zambian Breweries.

Box 1: State of Factoring and Invoice Discounting in Zambia

Factoring and Invoice Discounting are a small but growing financial product category in Zambia. It was reported that the **following four Banks and FIs conduct factoring and invoice discounting**, however it makes up only a **small share of their total lending** portfolio.

- ***Zanaco Bank***: To become the top transaction bank is Zambia, Zanaco Bank began offering this product in 2016 with large corporation. Today, factoring and invoice discounting makes of 10-15% of their total lending portfolio.
- ***Access Bank***: Began as part of Access Bank’s value chain strategy and has grown to be 6-7% of their total lending portfolio. Includes a focus on women-owned SMEs.
- ***FMC Finance***: Had begun invoice discounting toward the end of 2019, makes up a small share of their lending portfolio
- ***Madison Finance Company***: Makes up just 2% of their total lending portfolio

Although it was reported that factoring and invoice discounting is conducted with a broad range of business sizes and sectors, it was also reported this product was used **heavily in the mining and oil sector** with large corporations. The practice is in the early stages of roll-out for **use with livestock to expand into the rural market**.

3.5. Current State of the Leasing Industry

The leasing industry in Zambia represents a very small share of the credit market. According to the interviews with the Bank of Zambia, leasing finance accounts for only 0.7% of the total credit market. Nevertheless, there are several leasing finance companies and commercial banks which are currently active in the leasing industry. As of Q4 2018, the total number of leasing finance institutions in Zambia is 4.[44] Alios Finance and AgLeaseCo are two leasing companies that collectively account for 60%-65% of the leasing market, while the commercial banks collectively account for the rest. The largest commercial banks that conduct leasing are Stanbic Bank, First National Bank Zambia, and FMC Finance.

There are several challenges including unfavorable tax regulation and poor underwriting practices, which are affecting the growth and performance of the leasing industry in Zambia. First, according to the stakeholders interviewed, the leasing industry is subject to unfavorable tax regulations. For instance, while the interest income earned by the FIs on loans extended are VAT exempted, interest income from leasing facilities does not receive similar tax treatment. This consequently increases the cost of providing leasing facilities. Second, reportedly, the business models of the leasing companies are weak. Poor underwriting has been an issue that has affected the NPL rate of finance companies, such as Alios Finance and Focus Financial Services.

Reportedly, there is a lack of a clear regulatory framework for leasing finance, which acts as a disincentive for FIs to engage in this industry. According to the stakeholders interviewed, the current regulatory framework does not make the appropriate distinction between leasing and other types of loans. In particular, there is no clear guidance as to how to arbitrate over transactions that involve leasing finances. Consequently, there were instances where judges ended up resorting to the Hire-Purchase Act to resolve disputes between lessors and lessees. Reportedly, there are certain provisions in the Hire-Purchase Act which, if not met, may render the finance lease agreements void. In other words, the Act does not provide sufficient protection to the lessor. It is understood that the Bank of Zambia is currently in the process of developing a regulatory framework for leasing finance that will address the aforementioned regulatory gaps.

3.6. Collateral Valuation and Disposal Methods

The collateral valuation method varies with the types of collateral. There are typically three broad methods used by FIs for collateral valuation. For the purposes of the valuation of real estate properties, FIs resort to external companies with professional valuation experts. For other types of collateral including motor vehicles, laptops, etc., FIs monitor auction proceedings and also carry out window shopping at stores selling used goods. In addition, the price determined during the original transaction is also taken into account when judging the value of the collateral. For example, an FI may look at the sales receipts of a motor vehicle while determining the value of the motor vehicle being pledged as collateral. Finally, loan officers, particularly in microfinance

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[44] Credit Market Monitoring Report 2018

institutions (MFIs), use their own experience to judge the value of an asset put forward by the borrower as collateral.

According to the interviews with various FIs, FIs follow a multi-step procedure when a borrower defaults on a loan. The process typically involves sending multiple demand notices to the defaulted borrower at specific time intervals. If the borrower responds in time, they are usually given the option to reschedule their loans. In case of nonresponse or if the borrower does not agree to reschedule, the lender takes possession of the pledged collateral and sends a notice of sale to the borrower. After receiving this final notice, if the borrower still fails to agree to the renewed loan conditions, the lender seeks to sell off the collateral through auctioneers, newspaper advertisements, or through direct selling to other customers of the lender. FIs have confirmed that they have access to both physical auction sites as well as online-based auctions such as Hammer and Tongues Auctioneers which also has a social media presence.[45] The type of products that are commonly sold through these auctioneers includes motor vehicles, heavy-duty laundry machines, refrigerators, and real estate properties.

Lack of reliable enforcement decreases the confidence of FIs to accept movable assets as collateral. Interviews with financial institutions revealed that they view the collateral registry as only preventing the borrower from registering the collateral for a loan with another FI, but not preventing the borrower from selling the asset. In addition to this, there was concern over their ability to accept consumer goods as collateral (such as laptops, TVs, fridges, etc.) as the FIs do not have a system and infrastructure to manage these once they can be repossessed. Thirdly, there was also concern over accepting items without unique identification numbers (i.e., furniture) as it is difficult to track and enforce in the case of default.

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[45] Hammer and Tongues Auctioneers can either be accessed through their Facebook page: https://www.facebook.com/pg/HammerandTonguesZambia/posts/
or through their website: http://www.hammerandtongues.co.zm/


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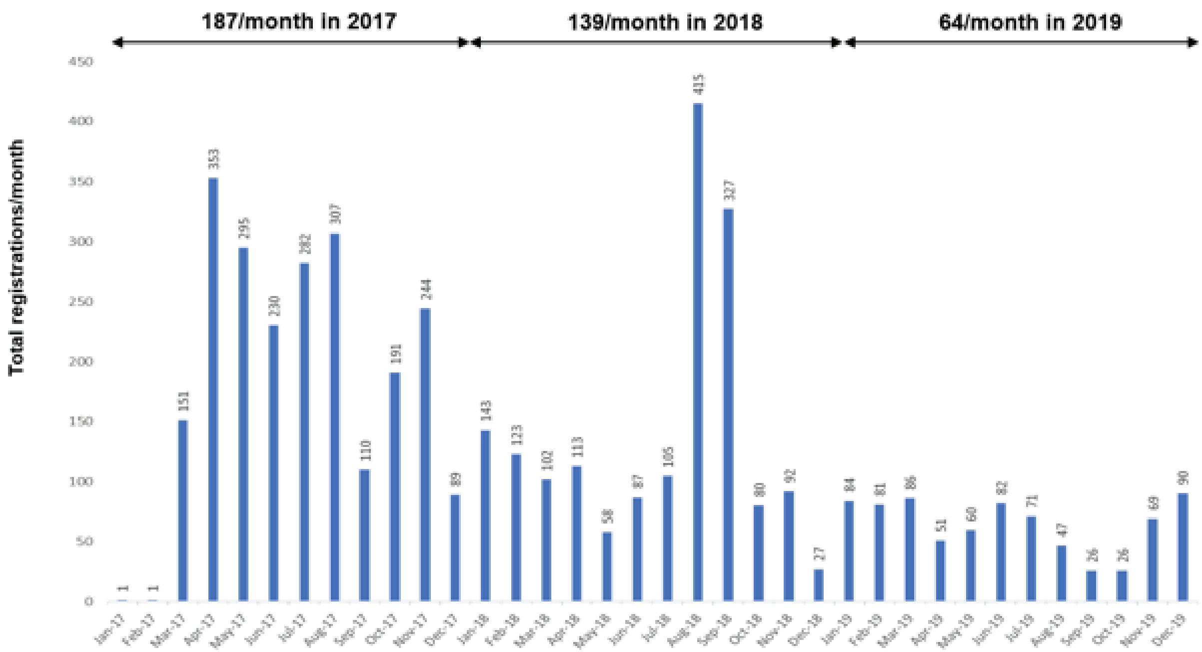
4. Analysis of the Collateral Registry Data

The PACRA Collateral Registry has seen declining registration rates since 2017 and is characterized by several extreme outlying months of both high and low registrations. The highest registration month was in August 2018 with 415 registrations, while the lowest was only 26 registrations in both September and October 2019. The average monthly rate in 2017 was 187 per month, while the average in 2018 was 139 and the average in 2019 was only 64. The monthly rate also shows a trend of significantly fewer registrations in Q4 of 2017 and 2018. For instance, in December 2017 there were only 89 registrations, in December 2018 there were 27 (see Figure 21). However, 2019 data does not show this same trend.

Figure 21: PACRA monthly registrations (2017-2019)

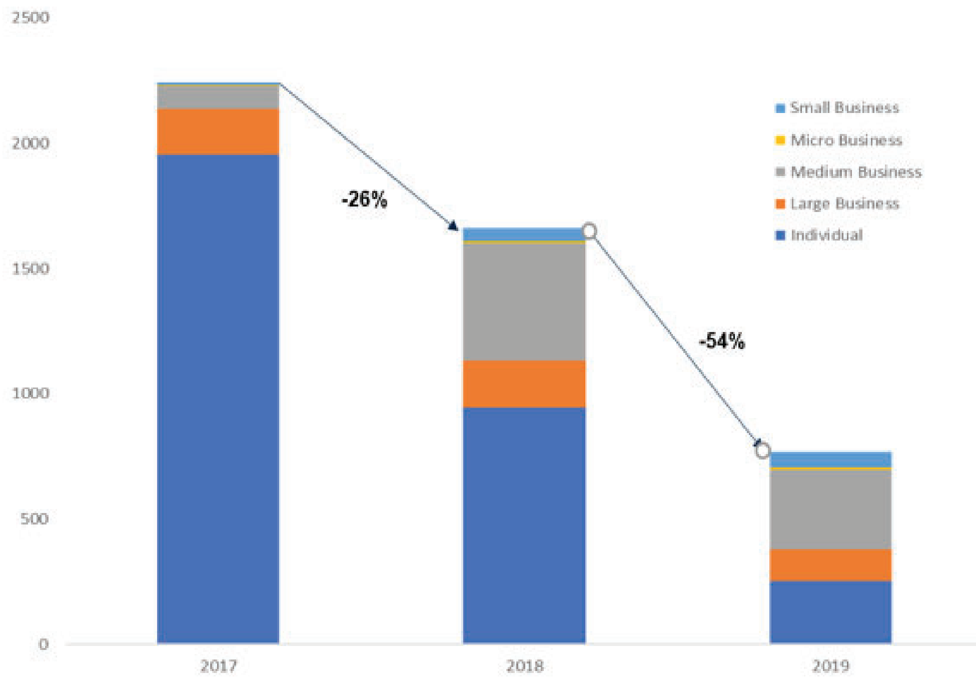


Source: The World Bank (2019) PACRA Data Analysis

Registrations have mainly been done for individuals and by medium-sized businesses in urban areas. In 2017, roughly 1,900 of the 2,254 registrations were for individuals, with the second-largest category as large businesses and the third-largest category as medium-sized businesses. In 2018, medium-sized businesses became the second-largest category while at the same time the proportion of individual registrations decreased. In 2019 this trend continued, with medium-sized businesses becoming the large category of registrations (see Figure 22). As of December 2019, Lusaka accounts for 3,510 of the 4,699 registrations in the Collateral Registry, equating to 75%. The Copperbelt towns of Ndola, Kitwe, and Chingola collectively account for 681 registrations, or 15% of all registrations. The rest of the country accounts for the remaining 10% of registrations, with the largest number being in Chipata. This is correlated with the geographical distribution of total credit disbursements. According to the Credit Market Monitoring Report of 2018, total credit disbursements remained concentrated in Lusaka and Copperbelt provinces, which jointly accounted for 77.0% (2017: 75.0%) of disbursements by value and 67.5% (2017:

66.6%) by the number of loans. The stakeholders interviewed attributed the concentration of lending activities in the urban areas to the higher share of economic activities and businesses in these regions in comparison with the rural areas.

Figure 22: Number of Registrations by Type

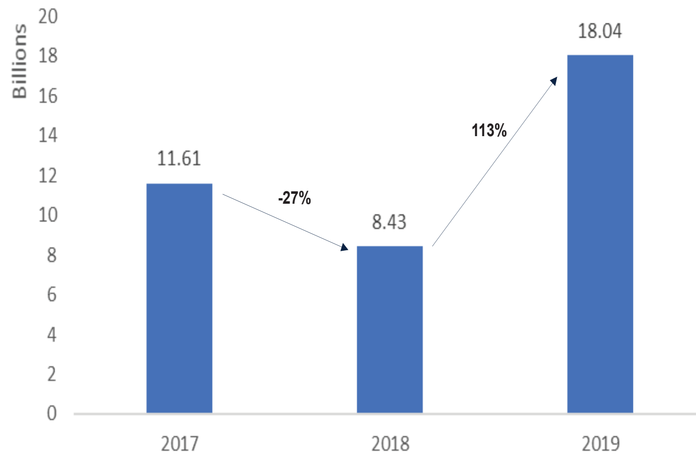


Source: The World Bank (2019) PACRA Data Analysis

Although the number of transactions has decreased over the last 3 years, the value of transactions has increased, and especially for transactions conducted in USD. USD-based credit accounts for 98% of the value of all transactions, and this is dominated by just three law firms, registering on behalf of clients, that make up 95% of USD credit. Furthermore, only 10 institutions in total make up 97.8% of all USD credit. The value of USD transactions in 2017 was 11.61 billion USD, which decreased to 8.43 billion USD in 2018, and increased to 18.04 billion in 2019. The average per transaction value went from 5.15 million in 2017 to 5.05 million in 2018, and 23.34 million in 2019. This represents a decrease of 2.1% from 2017 to 2018 and an increase of 362% from 2018 to 2019.

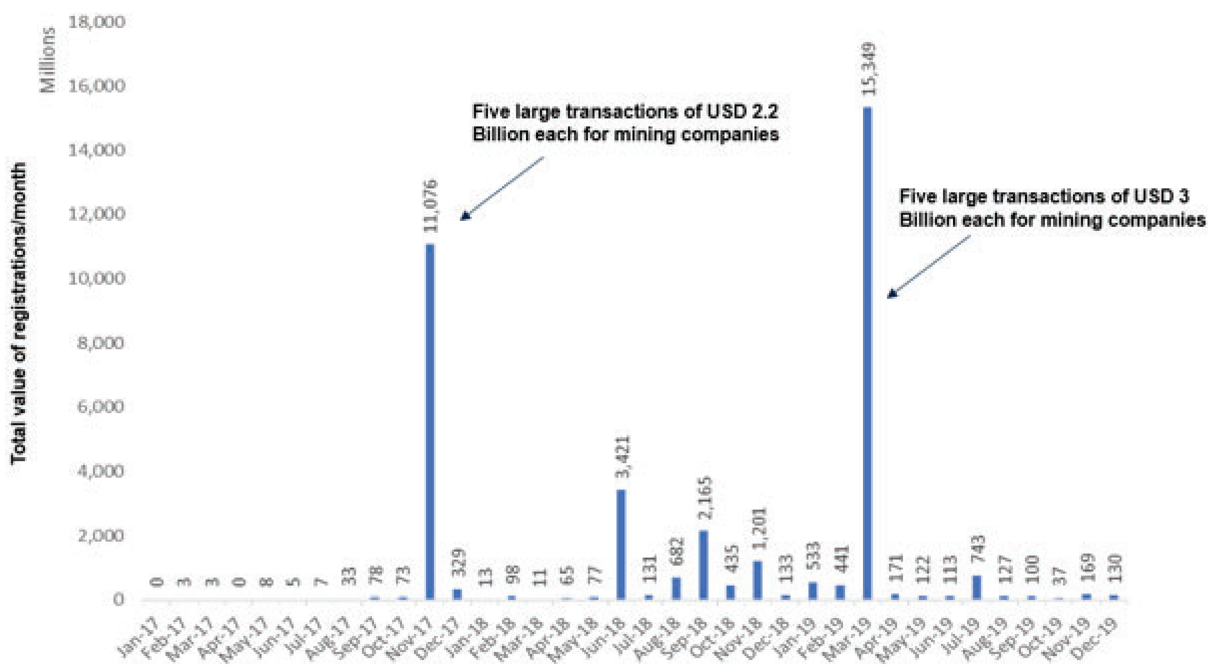
The overall value of registrations was driven by a few large outliers. For instance, in November 2017 there were five large transactions of USD 2.2 billion each for mining companies. In March 2019 there were five more large transactions worth USD 3 billion each for mining companies. This means that 10 of the 4,699 transactions make up 68% of the December 2019 cumulative total value of USD 38 billion. If these top 10 transactions remain in the data, the cumulative average transaction value would be USD 31,560,553. However, when they are removed, this decreases to USD 231,579. Transactions conducted in Zambian kwacha show similar trends. Only 10 creditors account for 98% of all kwacha-based transactions. The average per transaction value for kwacha-based transactions is USD 205,231; however, when the top ten transactions are removed, this decreases to USD 6,742.

Figure 23: Value of Registrations by Type of Currency



Source: The World Bank (2019) PACRA Data Analysis

Figure 24: Transaction Values by Month in USD

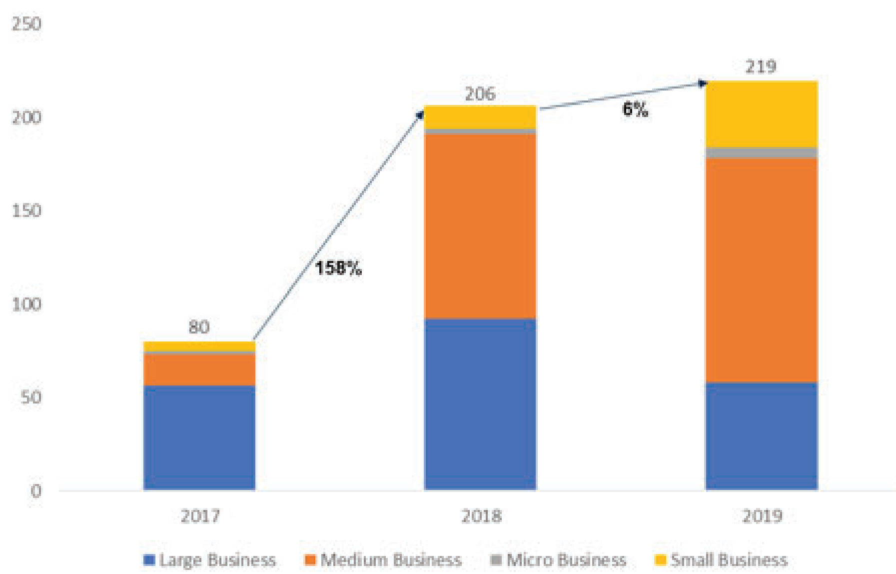


Source: The World Bank (2019) PACRA Data Analysis

Registrations are dominated by only a few large financial institutions and analysis conducted without large outliers show declining rates of individual transactions. Of the top 10 creditors, only three are MFIs – FINCA, JMAAC, and Pulse. These three MFIs account for 76% of all debtors in the registry, but only 3% of the total value of transactions. Stanbic is the largest bank in the registry, with 1,569 debtors at a total value of 1.084 billion USD. Due to a large number of outliers in the data, an analysis was conducted which removed the 100 largest registrations.[46] When these 100 largest outliers are removed from the data, the new cumulative total value is only 1.5 billion USD. When excluding these outliers, the data show that 69% of transactions are by individuals, with a median per transaction value of 807 USD. This overall individual transaction rate has been declining. In 2017 there were 1957 individual transactions, while in 2018 there were 944, and in 2019 there were only 250. Medium-sized enterprises make up 18% of the transactions with a median value of 66,442 USD, and large enterprises make up 10% of the transactions with a median value of 100,057 USD. There are very few transactions by small and micro-sized businesses.

Analysis conducted without large outliers shows larger numbers of female debtors who own medium and large businesses. Only 31% of the data specify gender, likely due to form fields not requiring the gender of the debtor. Of this 31%, 34% are transactions by female debtors with a median value of 95,000 USD, while 63% are combined male and female debtors with a median value of 63,187 USD. The remaining observations consist of male debtors. The female transaction median value is so high because the majority of those 487 registrations are by medium and large businesses. The number of transactions by female debtors has been increasing over the past several years. In 2017 there were just 80, while in 2018 there were 206, and in 2019 there were 219.

Figure 25: Registrations by Female Debtors



Source: The World Bank (2019) PACRA Data Analysis

[46] These registrations account for 96% of registrations by value despite being just 2% of the registrations by number.

Initial findings of the analysis through December 2019 reveal several gaps and inconsistencies in data. First, the data in the Registry contains duplicated debtor names on different records, with slight spelling differences. This defeats much of the purpose of the Registry, as the correct records may not be found during a search by a financial institution. Second, there exist individual records in which the creditor names are missing. This constitutes 7 creditors at a value of nearly 2 million USD. Third, there appear to be other potential data entry errors such as transactions that last only 1-2 days and transactions that last 9.5 years. It may be necessary to control such data entry errors through quality control or drop-down selection menus. Lastly, there is a lack of gender reporting in the system as 69% of the records do not report the debtor's gender. This could potentially be solved by making it a requirement for form submission.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5. Key Factors Affecting the Usage of the Collateral Registry

5.1. Administrative Burden and Cost Issues of FIs

According to stakeholder interviews, FIs consider the registration process of the collateral on the Registry as an additional administrative cost. FIs generally do not have staff dedicated to handling the collateral registration process to be able to minimize operational costs. In general, the legal departments of the FIs are responsible for the collateral registration process. As a result, the existing personnel have to take on the additional responsibility of registering movable collateral on the Registry. FIs, and in particular those which have a high number of transactions involving collateral, seek to circumvent this altogether either by choosing not to register movable collateral on the Registry or not accepting movable assets as collateral at all, except for motor vehicles.

Since commercial banks don't have adequate infrastructure in place to safe keep and manage movable assets after repossession, there is a lack of interest in accepting them as collateral. Due to the very nature of their businesses and policy focus on large corporations, commercial banks have not developed a system and infrastructure to manage movable collateral, such as laptops, TVs, fridges, etc. after they are repossessed. Unlike commercial banks, MFIs are generally better positioned to have this kind of system and infrastructure in place due to their business nature and policy which also involves charging very high interest rates to SMEs compared to commercial banks. As a result, commercial banks are unlikely to accept movable assets as collateral which in turn leads to a low level of registration on the collateral registry.

The various fees charged by PACRA for the usage of the collateral registry system are relatively high in comparison with other African countries. According to PACRA, the current fee structure of the Registry is benchmarked against other comparable Registries and is required to be able to maintain the operation of the service. However, as discussed previously, to register a financing statement, it currently costs 100 kwachas (approximately USD 5.46) in Zambia while in Ghana it costs GHS 10 (approximately USD 1.74) and 1000 NGN (approximately USD 2.58) in Nigeria. Although the search feature in the Zambian collateral registry is open to the members of the public, the information that can be looked up through a free search is limited. A free search only yields information on the financing statement number and the name of the debtor. It does not show detailed information such as the type of collateral registered. However, there is a paid search-service that costs 20 kwachas (approximately USD 1.09) which is comparable to Nigeria's (500 NGN or approximately USD 1.29) but still higher than Ghana's (GHS 5 or USD 0.87).

Table 6: Fees Charged by PACRA [47]

Type of Fee	Description of Fee	Amount	Country Comparison
Registration of financing statement	PACRA registration fee	100 kwachas (USD 5.46)	Nigeria: 1000 NGN (USD 2.58) Ghana: GHS 10 (USD 1.74) Liberia: 160-480 LD (USD 0.80-2.41) Sierra Leone: LE 50,000 (USD 5.12)
Amendment of Financing Statement	PACRA registration amendment	100 kwachas (USD 5.46)	Nigeria: N/A Ghana: "renewal" - GHS 5 (USD 0.87) Liberia: 80-240 LD (USD 0.40-1.20) Sierra Leone: LE 20,000 (USD 2.04)
Discharge of financing statement	PACRA registration discharge fee	100 kwachas (USD 5.46)	Nigeria: None Ghana: None Liberia: None Sierra Leone: None
Search Fee	PACRA search fee	20 kwachas (USD 1.09)	Nigeria: 500 NGN (USD 1.29) Ghana: GHS 5 (USD 0.87) Liberia: 240 LD (USD 1.20) Sierra Leone: LE 10,000 (USD 1.02)

Several FIs maintained that the fees charged by PACRA for registering collateral and discharging registered financing statements add to the cost of financing, and therefore, act as deterrents to registration. The fees for registering and discharging financing statements or discharging do not depend on the value of the loan. While it currently costs 100 kwachas (approximately USD 5.46) to register movable collateral on the Registry, it costs another 100 kwachas for the creditor to discharge the registered financing statement within fourteen days after all obligations under the security agreement creating the security interest have been performed. As a result, for small loan amounts, registering the movable collateral on the Registry disproportionately increases the cost of borrowing. Therefore, several FIs have chosen not to register movable collateral on the Registry for small loans. Similarly, since a security interest in a motor vehicle is already registered with the Road Transport and Safety Agency (RTSA) for a fee of between 434-465 kwachas (USD 23.79-25.49), an FI typically does not see a need for registering it with PACRA's Collateral Registry and paying an additional fee of 100 kwachas. In addition, reportedly, to avoid the additional cost of having the pledged collateral registered on the Registry, some borrowers are opting for personal fixed-term loans backed by formal sector salaries, instead of business loans, as the former do not require collateral but charge a higher interest rate.

According to stakeholder interviews, FIs are subject to higher loan provisioning requirements when it comes to lending based on movable assets, which discourages FIs to accept them as collateral. This is because most movable assets are inherently of lower value and the BoZ reportedly, considers them as risky assets. Unless the loan provisioning requirement is

[47] Currency in 2020 USD

clarified/lowered by the BoZ, particularly for movable asset-based lending, the FIs may lack adequate incentive to accept and register more movable collateral on the Collateral Registry.

5.2. Interest in Collateral

FIs attach more importance to the financial records of SMEs than to their collateral. According to stakeholder interviews, the practice of financial management and proper recordkeeping is virtually nonexistent among most micro and small enterprises which can be attributed to a low level of financial literacy of the entrepreneurs. The importance FIs place on financial records disproportionately affects women-led SMEs. It was reported in the 2020 W-SME survey that 23% of women-led SMEs have had a loan application rejected by a bank or MFI, compared to only 13% of men-led SMEs. Among W-SMEs, 23% reported they were rejected because of documentation challenges. As a result, it becomes difficult for FIs to assess the SMEs' cashflows, future performance, and loan repayment capability. From a commercial bank's perspective, collateral is less of a binding constraint than the requirement of SMEs to present proof of financial performance. Since a majority of the smaller enterprises fail to meet non-collateral requirements such as years of experience, proof of cashflows, etc., banks ultimately reject loan applications without even a need to appraise the collateral that could be pledged by a potential borrower. Additionally, an increasing number of MFIs prefer salary-based consumer lending over SME lending as the former represents lower risks. This eventually causes a low level of registration by FIs on the Collateral Registry itself.

Despite the establishment of the Collateral Registry, when it comes to collateral, FIs prefer immovable assets to movable assets such as consumer goods. According to stakeholder interviews, household items such as appliances, furniture, a personal computer etc. do not carry much value in the secondary market. Moreover, tracking them and disposing of them if the borrower defaults adds to the lending cost. Therefore, either financial institutions do not accept them as collateral at all, or if some of them do, they do not consider those collaterals as a valuable source of loan recovery. Rather the majority of the interviewed FIs mentioned that they prefer lands, buildings, and motor vehicles as collateral. As a result, on average more than 90% of the collateralized loan portfolios of interviewed FIs consist of these kinds of assets. This also disproportionately affects women-led SMEs. For rejected female loan applicants, 47% report collateral challenges as the reason for rejection. While overall, the majority of W-SMEs report that they have collateral against which they could borrow (80% report having property), lack of title deeds makes it difficult to use property as collateral. Many W-SMEs reported that they own personal vehicles and household equipment, but that banks typically do not view this as acceptable collateral.

5.3. KNOWLEDGE GAP AMONG MARKET PARTICIPANTS

There is an apparent knowledge gap among FIs regarding the Movable Property Security Interest (MPSI) Act. For example, several FIs maintained that although the Registry protects an FI's claim on movable collateral from another FI's claim, it does not guarantee that a transfer of ownership of a pledged movable collateral will not take place until a loan is fully paid off. This supposedly exposes the lender to the risk of loan non-recovery if the borrower defaults. They also mentioned that for assets such as tables, sofas, etc., it is difficult to determine accurately prior security interests in them. The main reason for this cited is, these types of assets do not have unique identification numbers in contrast with televisions or laptops which have unique serial numbers. Therefore, FIs, being risk-averse are reluctant to accept these types of movable assets as collateral and prefer real estate properties. However, a close review of the MPSI Act shows that the Act does address the concept of blanket filling/floating charge and refers to several sections for inventories and security interests in "after-acquired" properties. However, apparently, the FIs are not fully aware of it. Some FIs also do not understand the definition of movable assets. Therefore, even though they accept plant/machinery as collateral, they do not consider them as movable assets, and hence they do not register them on the Collateral Registry.

According to stakeholder interviews, MSMEs are not fully aware of the existence and benefits of the Collateral Registry. Several FIs mentioned that MSMEs never approached them with an offer for using movable assets as collateral. This indicates that MSMEs have not been adequately informed of the MPSI Act and the Registry. This is also supported by the previously discussed fact that the training programs carried out by PACRA and Zambia Institute of Banking and Financial Services (ZIBFS) have mainly focused on financial institutions. To date, there have not been any tailored training programs to introduce MSMEs to the Registry system. Additionally, this knowledge gap may affect women-owned SMEs disproportionately. From a series of 18 qualitative interviews with women-led SMEs specifically, only one business owner was aware of the Collateral Registry.

6. International Experience

The assessment in this section is based on secondary research and data analysis. To this end, information has been collected from various sources, such as the websites of the collateral registries, existing literature (if any), published reports, newspaper articles, etc. Information availability differs by country.

6.1. Ghana

6.1.1. Collateral Registry Performance

Ghana launched the Secured Lending Project in 2008 that led to the establishment of the Collateral Registry. In Ghana, before 2010, lending to small and medium enterprises (SMEs) was deemed very risky, and consequently, virtually all but a few SMEs which could offer immovable properties as collateral were excluded from formal loan facilities. [48] To address these challenges, in late 2008, Ghana's parliament passed the Borrowers and Lenders (B&L) Act. The Act aimed at improving the standards of disclosure of information by both borrowers and lenders, and prohibited certain credit practices, in addition to promoting a consistent credit-enforcement framework.[49] On February 1, 2010, the Bank of Ghana (BoG), operationalized the establishment of the Collateral Registry Ghana under the statutory mandate of the Act. The objective of the Registry is to register charges and collateral created by borrowers to secure credit facilities provided by lenders. Besides registrations, the Registry also provides information on the existence of relationships between lenders and borrowers as they relate particularly to movable and immovable collateral(s) as well as other ancillary functions.

There has been an upward trend in the registration of collateral and security interests (i.e., charges) as well as searches on the Registry with an overwhelming majority of the assets being pledged as collateral by individuals. According to the Bank of Ghana's (BoG) Annual Report 2018, the total number of security interests registered in 2018 was 82,302, indicating an annual increase of 43.1% from the previous year (see Figure 26). For the period under review, 83.8% of the registered collateral were assets pledged by individuals to secure loans, 11% by SMEs, 1.7% by associations/unions, 0.1% by government institutions, and 3.4% by other institutions (i.e., large enterprises). A total of 36,889 searches were conducted in 2018, compared to 25,049 recorded in 2017. Out of this figure, 36,804 were conducted by institutions set up on the Register, while 85 were done by the general public and institutions not set up on the Register. The Registry also facilitated the realization of interest in registered collateral.

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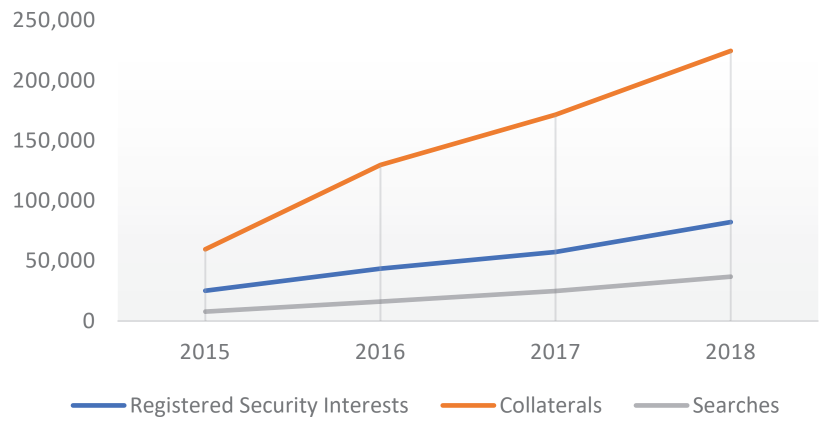
[48] Oudraogo, Alice; Caruana, Isabel, Rodriguez, Elsa; Tischendorf, Susann (2012). It Started in Ghana: Implementing Africa's First Collateral Registry

[49] Bank of Ghana, Collateral Registry: All You Need to Know. Available at: https://www.bog.gov.gh/wp-content/uploads/2019/05/Collateral-Reg-All-You-Need-to-Know_Updated.pdf

Figure 26: Recent Trend in Registration and Searches



Source: Bank of Ghana Annual Report 2018

Non-bank financial institutions (NBFIs) dominated registrations of security interests. NBFIs registered 58,046 (70.53%) of security interests in 2018. This was followed by rural community banks (11.54%), universal banks (9.21%), and MFIs (7%). The rest were micro-credit companies (1.53%), non-resident foreign banks (0.09%), investment firms (0.05%), financial NGOs (0.03%), insurance firms (only 2), and other companies (0.01%). A total of 224,583 assets of borrowers were encumbered, up from 171,551 recorded in 2017. This includes movable assets of 198,255, immovable assets of 9,768 with the remaining 16,560 being company assets registered as grouped collateral by lenders.

The Registry has allowed a wide variety of assets to be registered as collateral. More common assets have included equipment and machinery, household items, and inventory/account receivables. According to the Bank of Ghana's Annual Report 2017, collateral registered in 2017 comprised 44,933 equipment and machinery, 41,118 household assets, and 38,918 inventory/account receivables. The remaining collateral includes 15,571 investment properties, 10,655 motor vehicles, 9,008 real estate properties, and 3,760 business assets with 7,588 collaterals that were not classified.

Box 2: Innovative Collateral Based Lending in Ghana

In Ghana, Women's World Banking, a very frequent user of the collateral registry, extends so-called "tabletop loans," taking household assets owned by women as collateral to enable them to acquire basic equipment to open stalls in which they make and sell food. Once the business is established, the cooking utensils and foodstuff are taken as collateral. The collateral value does not determine the amount of the loan, and the amounts are very small.

Source: World Bank (2019) Knowledge Guide on Secured Transactions, Collateral Registries and Movable Asset-Based Financing.

6.1.2. Key Features of the Collateral Registration and Enforcement

The Act makes it mandatory for a lender to register the charge or collateral with the Collateral Registry within twenty-eight days after the date of its creation. According to the Act, a charge created and covering an amount of GH¢500.00 (USD 86.81) and above is eligible and shall be registered with the Registry. A person is entitled to register a charge electronically by establishing a user account with the Registry or obtain other authorization to submit registrations. All universal banks, Savings and Loans Companies, Rural Banks, Finance Houses, Leasing Companies, Licensed Microfinance and Money Lender Companies, Secured Creditors (i.e., Trade Creditors, Debenture Holders, etc.) and their representatives (i.e., lawyers/law firms, or Consultants) are required to patronize the services of the Registry electronically. Members of the general public who are only restricted to conducting searches shall do so electronically.

The Collateral Registry is a paid-for service. The fees determined for registration, searches, and renewals are respectively, GHS 10 (USD 1.74), GHS 5 (USD 0.87), and GHS 5 (USD 0.87). For billing users for the use of the Registry's services, all universal banks are required to be post-paid users authorizing the Registry to debit their account with the Bank of Ghana at the end of every month as fees charged for the services offered. All other users are given the option of being either a prepaid user or post-paid. Prepaid users are required to make a deposit into the Collateral Registry Income Account at the Banking Halls. It should be noted here that for billing purposes, members of the general public are treated as prepaid users.

The B&L Act includes four sections dealing with the enforcement of charges which empower lenders to enforce their rights extrajudicially. Consequently, a charge is not obligated to initiate proceedings in court to enforce the right of possession in the event of a default. However, Section 32 generally requires the lender to send a notice of default to the borrower. The borrower has a 30-day grace period after receipt of the notice of default to fulfill the obligation. On the expiration of the grace period, the lender must send yet another notice to the borrower indicating its intention to proceed judicially.

6.1.3. Lessons Learned

A well-designed legal system based on sound public policies is a prerequisite for incentivizing financial institutions to extend credit leveraging a collateral registry. Inadequate legal structure or reforms may lead to additional barriers to access to credit. For instance, the B&L Act passed in Ghana originally did not include any rules on the priority of charges, a significant oversight that is remedied in the 2017 Bill which would codify the first-in-time, first-in-right rule. In other words, a lender that registers a notice of its security interests first will have priority over any other subsequently registered security interests.[50] Additionally, the secured transactions law was not properly coordinated with the law governing the registration of charges created by companies.

[50] Dubovec, Marek and Gullifer, Louise (2019) *Secured Transactions Law Reform in Africa,* Hart Publishing.

This essentially resulted in a requirement for double registration of such charges. Consequently, a charge created by a company is not effective, unless it is registered in both the collateral registry and the Company Registry. Furthermore, the Rules for the Effective Implementation of the B&L Act provide that a lender has to register a notice to indicate the intention to realize the collateral extra-judicially only once the 30-day period after the borrower received the notice of default expires.[51] This requirement poses at least two challenges. First, reportedly, some borrowers intentionally seek to find ways to not receive the notice of default knowing that confirmation of receipt will commence the 30-day notice period.[52] Second, the requirement essentially empowers the registrar to make decisions concerning the enforcement process, which introduces a great deal of uncertainty, delays, and bureaucratic interference that often determines whether a secured loan would be made in the first place. Therefore, Ghana is considering another legal reform to address these issues.[53]

Besides legal reform, the Information Technology (IT) infrastructure of the collateral Registry has been upgraded to meet international standards. The upgrade of the IT infrastructure led to the creation of a web-based system that enabled access to a broad spectrum of users, simplified the mandatory registration of security interests, and also clearly defined issues of priority amongst competing interests.

An effective collateral registry is one that is not only used for registering security interests, but also for both pre-registration and post-registration searches. As can be seen in Figure 26, the number of registrations every year exceeded the number of searches. This implies that a significant number of lenders did not conduct a search on the Registry before the registration to ensure that the potential borrower has not previously charged the same assets to another lender. This is in stark contrast to the objective of implementing the Registry. The lower number of searches compared to registrations also highlights the fact the frequency of post-registration searches was also low. Conducting post-registration searches is a good practice to ensure that no other registration has been recorded in the interim. In this regard, the implementing agency should consider organizing training sessions, in particular, for financial institutions with a particular emphasis on the function and importance of searches. This effort will also help with the general objective of ensuring that regulated financial institutions adopt a prudentially sound approach to lending activities.[54]

While a collateral Registry project's success is critically dependent on the commitment and credibility of project partners, engaging local stakeholders can help implement a collateral Registry more efficiently. At all times, the BoG has remained open-minded and demonstrated a

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[51] World Bank (2019) Knowledge Guide on Secured Transactions, Collateral Registries and Movable Asset-Based Financing.

[52] Dubovec, Marek and Gullifer, Louise (2019) *Secured Transactions Law Reform in Africa,* Hart Publishing.

[53] World Bank (2019) Knowledge Guide on Secured Transactions, Collateral Registries and Movable Asset-Based Financing.

[54] Dubovec, Marek and Gullifer, Louise (2019) *Secured Transactions Law Reform in Africa,* Hart Publishing.

collaborative spirit through in-kind contributions consisting of its own non-monetary resources and time. The BoG put together a team to work on the B&L Act that established the collateral Registry and sensitized key stakeholders to the need for a change in the creation and registration of charges. In addition, the BoG is a very influential institution in Ghana wielding credibility that assures the people that the institution they are sharing the information with is trustworthy. IFC hired a Ghanaian public relations company with better knowledge of the local market to create awareness about the Registry. In addition, IFC hired a Ghanaian information technology firm that was in charge of designing and implementing the software required to put the Registry in place. The presence of a local IT team helped create a sense of ownership for the BoG. It also allowed knowledge sharing between the IT team and the Registry staff and a deeper sense of belonging to a team that was working toward the same goal.[55]

Effective awareness campaigns are critical to the success of the registry. The success of the Secured Lending in Ghana Project depended on its users learning about the benefits of the system and MSMEs about their ability to gain access to finance through the use of movable assets as collateral. Since the beginning of the project in 2008, investment was heavily devoted to developing a communication and training strategy to create awareness among stakeholders about the operations of the Registry.

[55] Oudraogo, Alice; Caruana, Isabel, Rodriguez, Elsa; Tischendorf, Susann (2012). It Started in Ghana: Implementing Africa's First Collateral Registry

Box 3: Case Study on Supply Chain Financing in Ghana

Following the Collateral Registry implementation, CAL BANK developed a purchase financing scheme for the gold mining sector in Ghana. The bank developed a local supply chain for big mining corporations, through local SME service providers. SMEs have been able to use movable assets (including contracts, receivables and equipment) as collateral. According to statistics from IFC, more than 100 local SMEs have received more than USD 10 million, the scheme has created hundreds of new jobs and no defaults were in the first 30 months of operation.

Number of loans registered	77,500
Value of loans registered	USD 20 billion
Number of SMEs	8,000
Number of microenterprises	30,000
Collateral by type	25% inventory and receivables 20% household goods 19% vehicles

Source: *World Bank Group. Secured Transactions & Collateral Registry Reforms: Recent Developments in Africa, Middle East, Eastern Europe, Central & South Asia. Presentation by Murat Sultanov. February 2017.*

Note: This is an example of innovation that has occurred in the development of the movable asset lending industry but cannot be directly linked to the collateral registry.

6.2. NIGERIA

6.2.1. Collateral Registry Performance

To improve access to finance and promote inclusive economic growth by addressing collateral related issues, the Central Bank of Nigeria (CBN), in partnership with the International Finance Corporation (IFC), established the National Collateral Registry (NCR). According to the National MSME Survey 2013, one of the main challenges confronting the operations of MSMEs in Nigeria was access to finance. The most common challenge in granting loans from the point of view of the financial institutions was inadequate collateral. Launched in 2016 and managed by the Central Bank of Nigeria, the NCR aims to register interests on moveable assets that can be used as collateral for credits. Both the public and the creditors can conduct a search on the web-based Registry platform to confirm the status of potential borrowers.[56] Subsequently, on 30th May 2017 the Acting President of Nigeria, Professor Yemi Osinbajo assented to the Bill on Secured Transactions in Movable Assets (Collateral Registry Act). This Act codifies CBN's earlier guidelines and applies to all security interests in movable assets created by an agreement and all financing and operating leases entered after the commencement of the Act.

The establishment of the NCR has facilitated the use of a wider range of assets that can be used as collateral against loans. In recent times, banks have been using a variety of assets to extend credits to small businesses, including cars, jewelry, tailoring machines, generators, bicycles, animals, crops, account receivables, etc. According to a CBN report in 2018, the number of movable assets used by the MSMEs to obtain loans rose to 57,639 as of December 19, 2018, from 26,471 in 2017, representing an increase of 118%. The most commonly registered moveable assets included: Documents of title / Negotiable Instruments (17105); Motor vehicles (11, 725); Consumer / Household goods (9,029); All assets (6,427); Electronics, namely Televisions, Refrigerators, Projectors (3,5740); Other intangibles (2,573); Inventory (2,531); Farm products (1,580); Deposit Accounts (1,141); and Equipment (537).[57]

As of November 2019, NCR has facilitated over N2 trillion in terms of loans[58], the majority of which has been extended to individuals. According to the Central Bank of Nigeria's Economic Report for the First Half of 2019, a total of 177,144 borrowers including individuals, large enterprises, and MSMEs have benefitted from the NCR as of June 2019. Further analysis of the total number of borrowers registered on NCR showed that individuals accounted for 94%; large businesses 0.43%; medium businesses 1.4%; small businesses 1.3%; and micro-businesses 2.6%. Cumulatively, 50,365 financing statements valued at N1.29 trillion, USD 1.16 billion and €6.08

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[56] A search can be conducted at the NCR using the unique biometric-based identity of the borrower or the serial number of the collateral.
[57] Lending to MSMEs under national collateral registry to hit N2trn. Available at: https://www.vanguardngr.com/2019/02/lending-to-msmes-under-national-collateral-registry-to-hit-n2trn/
[58] Interview with Mohammed Mainsara, the Registrar of the National Collateral Registry. Available at: https://allafrica.com/stories/201911180225.html

million in respect of 177,144 borrowers, had been registered by 100 financial institutions since inception as of June 2019.[59]

NCR tracks loans to groups of borrowers who are typically considered underserved such as women entrepreneurs and those in the agriculture sector. Although recent data on the number of women beneficiaries could not be obtained, as of December 19, 2018, 14% of the MSMEs were female entrepreneurs while the total number of MSMEs which obtained loans through NCR was 154,827. In terms of loan value, as of December 19, 2018, out of the total amount of N1.2 trillion, approximately 3.6% went to female MSMEs. Furthermore, all agricultural borrowers benefitting from the All Anchor Borrowers Program (ABP) and Agric-Business/Small and Medium Enterprises Investment Scheme are registered on NCR to avail themselves of moveable collateral-based loans.[60]

6.2.2. Key Features of the Collateral Registration and Enforcement

The NCR is backed by a strong legal framework that clearly delineates the rights and responsibilities of the creditors and borrowers. For instance, to deter fraud, the Act codifying the NCR stipulates that upon conviction, an offender providing false or misleading information to the NCR is liable to imprisonment for 1 year or a fine of N100,000 or both. Additionally, the legal structure includes a due process that a creditor has to follow while taking repossession of a defaulter's property while it also ensures sufficient flexibility for the defaulter. To be precise, the Act requires the creditor to give sufficient additional timeframe to the borrower to repay the loan once he/she defaults. If the defaulter fails to pay within the extended window, the creditor can seize the property of the defaulter only with the assistance and formal authorization of the police. Furthermore, the Act stipulates that the priority of security interest is according to the order of registration; however, a financial institution's right of set-off shall have priority over perfected security that extends to a deposit account. This provision is an incentive to financial institutions as they are assured of priority in the realization of their security.[61]

Based on an electronic platform, the NCR provides a search option that is open to all. The Collateral Registry may be accessed only electronically through a user account. All that's required is a computer and a stable internet connection. Searches are available without the necessity to establish a user account. Any person may search the Registry and obtain a printed search result of the registrations, without any need to provide reasons for the search. Searches may be carried out using the registered number of the company, co-operative, or registered business name. For individual debtors, the unique identification number must be provided in the search request.

[59] Central Bank of Nigeria, Economic Report for the First Half Of 2019.
[60] Interview with Mohammed Mainsara, the Registrar of the National Collateral Registry.
[61] Oyeti, Feyisola (2017) Nigeria: A review of the Nigerian Collateral Registry Act 2017. Available at: https://www.mondaq.com/Nigeria/CorporateCommercial-Law/617414/A-Review-Of-The-Nigerian-Collateral-Registry-Act-2017

Searches may also be conducted against the serial number of the collateral. While the fee for searches and search certificates is 500 NGN, currently, it costs 1000 NGN for the registrations of initial financing statements, and 500 NGN for renewal or amendment. These may, however, be subject to change from time to time.

6.2.3. Lessons Learned

An effective collateral registry must have a strong legal underpinning. This ensures that the rights of all parties involved in a transaction through the registry are protected and if any party feels its rights to be violated can have access to proper legal recourse. A strong legal structure involving enforceable punitive measures for offenders will not only minimize the risk of fraud but will also provide incentives to the financial institutions to engage in moveable collateral-based lending which is typically deemed risky. Moreover, as discussed above, Nigeria's Collateral Registry Act 2017 has a provision that stipulates that a financial institution's right of set-off shall have priority over perfected security that extends to a deposit account. This type of provision acts as a useful incentive to financial institutions as it assures them of their priority when it comes to the claims and realizations of the securities.

Carrying out sensitization and mobilization is necessary to ensure accessibility and the maximal use of a collateral registry. According to the National Survey of Micro, Small and Medium Enterprises (MSMEs) 2017 carried out in Nigeria, only 6.1% of the surveyed MSMEs were aware of the NCR. In 2018, 411 microfinance banks registered on the NCR portal as "a result of intensive sensitization campaign on the operations of the register carried out across the six geo-political zones of the country as well as other collaborative strategic enlightenment programmes".[62] From a broader perspective, the total number of financial institutions that registered on the NCR portal increased by 524% from 103 in 2017 to 643 by the end of June 2019. This has been possible due to various aggressive education and awareness campaigns on secured transactions in moveable assets conducted under the National Action Plan. Widely rolled out and carefully planned education and awareness campaigns can thus play an important role in tapping into a large number of both formal and informal financial institutions (such as cooperatives) to use collateral registry and extend loans to previously unserved or underserved segments of the population.

Since its establishment, the NCR has managed to tap into a large number of and different types of financial institutions. For example, all the five development finance institutions, namely the Bank of Agriculture, the Bank of Industry, Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL Plc.), the Development Bank of Nigeria and Nigeria Export-Import Bank are registered on the NCR. Furthermore, all the deposit money banks in Nigeria are also registered on the NCR due to the mandatory registration requirement for these types of financial

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[62] Reported by a CBN report cited in a news article published by This Day. Available at: https://www.thisdaylive.com/index.php/2019/02/07/assets-in-cbns-national-collateral-registry-hits-n1-561tn/

institutions. In particular, from inception in 2016 to the end of June 2019, the number of financial institutions registered on the NCR portal rose to 643, consisting of 21 banks, 558 microfinance banks (MFBs), 4 merchant banks, 5 development finance institutions, 19 non-bank financial institutions, 35 finance companies, and 1 non-interest bank.[63] Furthermore, the legal structure underpinning the NCR provides the opportunity for registration to cooperatives and registered groups such as "Esusu".

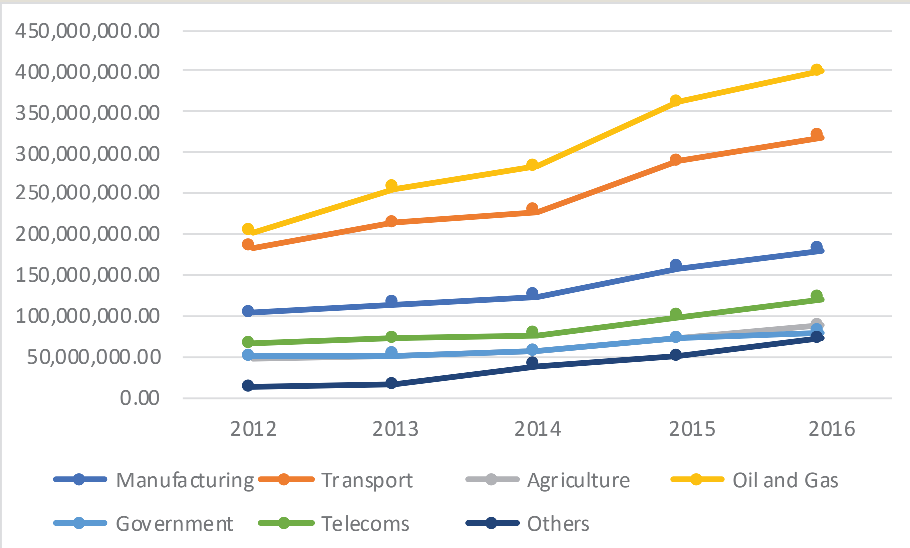
Interconnectivity among different registry systems can help to streamline the process for verifying prior security interests. The NCR is linked with the Corporate Affairs Commission (CAC). Consequently, if any company or an individual has floating charges registered in the CAC, the NCR will be able to capture the number of moveable assets the company or person has, be it machinery, computers, etc. This in turn allows tracking of those who default in the repayment of loans from one bank and attempt to approach another bank to request another facility without disclosing any information on the previous default.

[63] Central Bank of Nigeria, Economic Report for the First Half Of 2019.

Box 4: Case Study on Financial Leasing in Nigeria

The leasing industry, while still small compared to the financial sector as a whole, is considered to be vibrant and growing. According to the White Clark Global Leasing Report 2020, the annual volume in Africa is estimated to be USD 6.2 billion, with the top 5 countries (South Africa, Nigeria, Egypt, Morocco and Algeria) contributing more than 75% of this amount. In 2018, the outstanding lease volume stood at USD 650 million, with a growth rate of 11%. By volume, leasing is most concentrated in the oil and gas and transport sectors. Notably, leasing has increased across all sectors over the past decade.

Figure 27: Growth in Nigerian Leasing Industry 2012-2016



Source: Equipment Leasing Association of Nigeria

There are a number of leasing finance companies in Nigeria, in addition to banks that participate in leasing finance. The Equipment Leasing Association of Nigeria (ELAN) is a business membership organization established in 198, to promote the business of leasing in Nigeria. Membership of the Association consists of more than 90 banks, finance houses, independent leasing companies, insurance companies, equipment vendors as well as professional firms and individuals.

Increasing attention has been paid to leasing finance in the agriculture sector. The agriculture sector remains the bedrock of the Nigerian economy, yet the technology of production has not been modernized and there is thus significant potential for expanding financial leasing in this sector. Some of the incentives the government has put in place to encourage investment in the agricultural sector in Nigeria includes:

- Finance Credit
- Tax Holdings
- Agricultural Insurance Scheme
- Extension Services
- Reduced Customs Charges on Imported Inputs
- Technical Support through Research Institutions
- Export Financing and Guarantee

Note: This is an example of innovation that has occurred in the development of the movable asset lending industry but cannot be directly linked to the collateral registry.

6.3. INDONESIA

6.3.1. Collateral Registry Performance

Before 2013, the Fiducia Registry (Collateral Registry) in Indonesia had extremely low usage due to difficulty registering and an unsupportive legal, regulatory, and institutional framework. The Fiducia Registry has been in operation since 2000, and for the first 13 years of existence, it had a manual registration process. The system suffered from inefficiency through its paper-based system and from the decentralization of both the database and jurisdiction. The 33 regional and 157 satellite offices operated separately from each other for the first 13 years, which made the system inefficient, difficult to access, costly, and unattractive to MSMEs.[64] The Fiduciary Security Law that established the collateral registry (Law no. 42/1999) had originally mandated same-day certificate publication, however, this was not possible with the operational characteristics of the system through the manual registration process.[65] This mandate was never met, and registration of movable assets would regularly take anywhere from several weeks to several months for completion. As a result, the Fiducia Registry had only three million movable assets registered in the first 10 years of existence.[66]

To address these challenges and increase the number of registrations the Ministry of Finance and the Ministry of Law and Human Rights began a series of reforms in 2012 and 2013. The most significant reform was the transition of the Registry from a manual, paper-based system to a centralized, electronic system. After the shift to an online system, the number of registrations increased from three million, cumulatively over the first ten years, to six million registrations per year between 2013 and 2016. In 2014, the Fiducia Online system was awarded as one of the top nine National Public Service Innovation Awards, and as of March 2016, it was accessible to over 14,000 notaries.[67] Several other innovative reforms have been added to the system since then. According to the *Doing Business*, Indonesia was ranked 129 out of 190 countries in 2013, but has improved over the last 6 years to be ranked number 44.[68] Additionally, since 2013, the *Doing Business* legal rights index in Indonesia has improved to 5/10 (see Figure 28).[69] In December of 2015, it was reported that Fiducia Online had 298,044 registrations for non-vehicles financing, which sums to $30.8 billion in financing across 212,205 SMEs.[70] In the same year, it was reported that the cumulative total of registrations in the system had risen to 19.3 million.[71]

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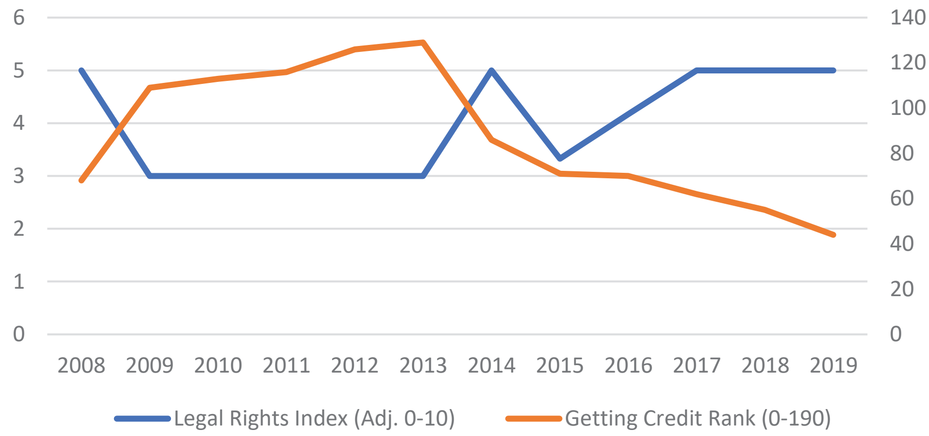
[64] "World Bank Group. 2017. Expanding Access to Finance for Small-Scale Businesses: Secured Transactions Reform--An Indonesia Case Study. Finance in Focus. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/25826 License: CC BY 3.0 IGO."
[65] Ibid.
[66] Ibid.
[67] (Expanding Access to Finance for Small-Scale Businesses: Secured Transactions Reform--An Indonesia Case Study. Finance in Focus, 2017)
[68] Doing Business, The World Bank Group (http://www.doingbusiness.org)
[69] Ibid.
[70] Ibid.
[71] Ibid.

Figure 28: Credit Measures from Doing Business Reports, 2008-2019



Source: The World Bank Group Doing Business Report 2008 and 2019

6.3.2. Key Features of the Collateral Registration and Enforcement

To increase the usage of the system, the government issued a decree in 2012 requiring multi-finance companies to register any fiducia-secured financing in the Fiducia Registry.[72] Government Regulation (GR) 21/2015 was passed to formalize the procedures to register the fiduciary security, to define a movable asset, and to establish the fees to draw up a Fiduciary Security Deed. The main goal of GR 21/2015 was to facilitate the use of the electronic registry system by clearly outlining strict procedures and definitions. GR 21/2015 specifies *tangible movable property* as (1) machinery and equipment, (2) vehicles, including vessels with a gross volume of less than 20 cubic meters, and (3) stock and inventory, including raw materials.[73] Additionally, fixed assets such as real estate, and financial assets such as shares of stock may be used as collateral. In that same year, the Ministry of Law and Human Rights (MOLHR) launched the first version of a new online registration system and began the digitization of old paperwork from the regional offices.

Lenders can now enforce the loan, guarantee, or security interest through public auction or private sale when the borrower defaults from failure to pay on time. Public auctions can be conducted without a court order, however in reality this order is necessary in Indonesia, as the State Auction Office would likely refuse it otherwise. When auctioning shares, two brokers must be involved in the sale, along with the power of attorney, to dispose of the shares. The second method of enforcement is a private sale, but this is only possible if it is consented by the debtor after the debt is due and it is in default, or if the debtor agrees to be a party in the sale and purchase agreement. If no default occurs and the debt secured under the Fiduciary Security is

[72] Ibid.
[73] Karyadi, Freddy, and Nina Cornelia Santoso. "Lending and Taking Security in Indonesia: Overview." Practical Law UK Signon. Thomson Reuters.

settled, the Fiduciary Security holder releases its rights under the Fiduciary Security, or the object of Fiduciary Security no longer exists, the Fiduciary Security holder has to notify the MOLHR within 14 days so the Fiduciary Security can be terminated. This termination is free of charge.

In Indonesia, the registration process consists of multiple fees and can only be processed by a notary. The applicant is responsible for two separate fees, the notary fee and the certificate fee. Notary fees are at the notary's discretion (this is a private entity), but GR 21/2015 has set a maximum fee value for drawing up a deed.[74] For a security valued at up to 100 million IDR, the fee for drawing up the deed is a maximum of 2.5% of the security value. For a security valued at between 100 million IDR and 1 billion IDR, the fee for drawing up the deed is a maximum of 1.5% of the security value. For a security valued at more than 1 billion IDR the fee can have a maximum value of 1% of the Fiduciary Security object.[75] Secondly, there is the certificate fee for fiduciary transfers or assignments. As of August 2019, this is determined through the criteria set out in Table 7.

Table 7: Certificate Fees

Secured amount more than	Secured amount up to	Per certificate fee
---	50 million IDR (3,384 USD)	50,000 IDR (3 USD)
50 million IDR (3,384 USD)	100 million IDR (6,768 USD)	100,000 IDR (7 USD)
100 million IDR (6,768 USD)	250 million IDR (16,919 USD)	200,000 IDR (14 USD)
250 million IDR (16,919 USD)	500 million IDR (33,838 USD)	450,000 IDR (30 USD)
500 million IDR (33,838 USD)	1 billion IDR (67,676 USD)	850,000 IDR (58 USD)
1 billion IDR (67,676 USD)	100 billion IDR (6,767,550 USD)	1,800,000 IDR (122 USD)
100 billion IDR (6,767,550 USD)	500 billion IDR (33,837,750 USD)	3,500,000 IDR (237 USD)
500 billion IDR (33,837,750 USD)	1 trillion IDR (67,675,500 USD)	6,800,000 IDR (460 USD)
1 trillion IDR (67,675,500 USD)	---	6,800,000 IDR (900 USD)

Source: Gbgindonesia.com. 2020. Fiduciary Security Registration in Indonesia

6.3.3. Lessons Learned

Investment in Information Technology (IT) infrastructure is key to the success of an online registry. In 2014, a second version of the online Fiducia Registry was launched to improve user-friendliness and to allow more complex searches, and further plans were made to speed up the digitization of old paperwork. These operational improvements were accompanied by the amendment of Government Regulation No. 86, which strengthened the legal basis of using the online system.[76] This amendment required all processes related to the Fiducia Registry to be done using the online system to streamline processes. In 2015 and 2016, two more versions of the online system were launched to improve the efficiency of the system and to centralize the

[74] Gbgindonesia.com. 2020. Fiduciary Security Registration in Indonesia.
[75] Ibid.
[76] Ibid.

database. This included enabling searches in the registry by the debtor's name, which improved the efficiency of the system and the ability of financial institutions to access information.

Investing in stakeholders and adapting policy to the market needs was key to success. Throughout the implementation of the system in Indonesia, the government stakeholders involved in the project were continuously changing. The task force assigned to the project had to re-establish relationships with these stakeholders to make progress. The members of the task force focused on this to keep the project on track. They also adapted policy when rolling out the registry system in Indonesia to meet the current market conditions and to address the new challenges that arose. For instance, in 2012 the MOLHR created enabling legal reforms that were essential to increasing registrations but were overwhelming the system in place. The government quickly recognized this and adapted by rapidly implementing a new online system in 2013.

To increase usage of a new online system, resources should be allocated for advocacy, raising awareness, and educating potential users of the system. When the second version of the online system was launched in March of 2014, the launch had over 1,000 members of the Indonesian Notary System attend.[77] Additionally, before the legal reforms enacted in 2012, the discussion of creating an enabling legal framework in Indonesia was unheard of. The task force members who worked on the Fiducia Registry had to engage extensively in discussion and education about the new system with stakeholders in the area of regulation, as well as lenders and businesses who did not immediately see a benefit to registration. Education amongst all parties involved is essential to registry implementation.

[77] (Expanding Access to Finance for Small-Scale Businesses: Secured Transactions Reform--An Indonesia Case Study. Finance in Focus, 2017)

Box 5: Case Study on Warehouse Receipt Finance in Indonesia

The development of warehouse receipt financing has seen substantial growth over the past decade, reaching approximately USD 21.6 million by 2016. In Indonesia, work on warehouse receipt finance, which has been ongoing since the mid-1990s, has recently seen a boost for implementation of a broader warehouse receipt system. In 2016, there were 250 warehouse receipts recorded with a total volume of 6,428.69 tons and a nominal value totalling Rp42.6 billion (USD 3.2 million). Financing based on warehouse receipt transactions totalled Rp15.59 billion, coming from several financial institutions, including Bank BRI, Bank BJB, Bank Jateng, Bank Jatim, Bank Kalsel and PKBL PT Kliring Berjangka Indonesia. In total, 2,423 warehouse receipts have been issued. The nominal value of the issued receipts is to amount Rp493.2 billion (USD 36.6 million) and of this sum, Rp291.3 billion (USD 21.6 million) is financed under various financial institution.

The government has incentivized loans against warehouse receipts. The warehouse receipt is a certificate of title over commodities stored in a warehouse issued by the warehouse manager. Financing is provided against this collateral by commercial banks for a period of 3–6 months. To incentivize lending to farmers, the government of Indonesia provided a subsidy program, while lowered the effective interest rate on these loans to only 6% per year, significantly lower than the normal commercial rates between 10.5-12%.

Table 8: Warehouse Receipt Programs in Indonesia

	Subsidized	Non-subsidized
Eligibility	Farmers, Farmers' groups and cooperatives	Individual companies, Commanditaire Vennootschap (CV), PT and others
Credit Allowed	Maximum 70% of value of warehouse receipt and maximum IDR 75 million per farmer (approx. USD 5000)	Maximum 70% of value of warehouse receipt
Interest rate	10.5% p.a. with subsidy of 4.5% making effective interest charged 6%	12.25% p.a.
Time Period	Maximum 6 months of credit, to be paid 1 month before expiry	Expiry time can be extended

A mobile platform, WRS Mobile, has also been implemented to increase the efficiency and accessibility of the WRS system. WRS Mobile is an android-based smartphone application developed by the Commodity Futures Trading Authority (CoFTRA) to provide services r the owners of commodities/ warehouse receipts. With this application, farmers s can plan the storage/release of their commodities, estimate the associated costs, learn information on commodity prices, plan sales through auction markets and consult with Warehouse Managers or CoFTRA. The WRS Mobile application integrates various applications relating to WRS such as Warehouse Receipt Information System, Commodity Auction Market Information System and Price Information System.

Note: This is an example of innovation that has occurred in the development of the movable asset lending industry but cannot be directly linked to the collateral registry.

6.4. Colombia

6.4.1. Collateral Registry Performance

The Colombian government, with support from the International Finance Corporation (IFC), introduced a new Secured Transactions Reform that led to the establishment of a collateral registry in March 2014 to address access to finance issues of businesses. According to the 2010 World Bank Enterprise Surveys, over 41% of firms in Colombia reported access to finance as a major constraint to operating their businesses. This is approximately ten percentage points higher than the average for the Latin America and Caribbean region. Before 2013, Colombia had no legal framework to govern the use of moveable assets as collateral, which restricted the ability of SMEs to take out loans secured with movable collateral.[78] Therefore, a reform was undertaken by the Colombian government in partnership with the Association of Chambers of Commerce and IFC to provide a legal framework for the use and enforcement of movable collateral. As a part of the reform effort, a centralized, notice-based collateral registry was also established in Columbia which started operation in March 2014. The Confederation of Chambers of Commerce (Confederación Colombiana de Cámaras de Comercio), which is a private non-profit organization, administers the Colombian Registry.

According to the Confederation of Chambers of Commerce, the number of registrations filed within three months after inception exceeded IFC forecasts for the first year. By May 2014, there were more than 11,000 registrations of security interests filed.[79] These registrations corresponded to loans of more than US $5 billion in financing.[80] Creditors who created accounts with the Colombian Registry included physical persons and organizations, such as commercial banks, financial institutions, and cooperatives.[81] The number of registrations kept rising over time and by July of 2014, there were more than 57,000 registrations, whereas in 42 years, there were only 40,000 security interests in the old public registries. [82] This means that there were more registrations of security interests in the Colombian Registry than the registrations filed in the public registries under the previous legal framework. The majority of assets used as collateral were motor vehicles (78%), with crops, mining drills, industrial equipment, livestock, fish, and consumer goods like sewing machines and vacuums representing 22% of the collateral registered. Many of these types of assets were not likely to be accepted as collateral under the previous legal framework.[83]

[78] The Impact of Secured Transactions Reform on Access to Capital for Small and Medium Enterprises in Colombia, Study Summary. Available at: https://www.poverty-action.org/printpdf/7491
[79] Ibid.
[80] This figure corresponds to the maximum amount secured rather than to the amount actually lent. The Colombian Secured Transactions Law provides that indication of the maximum amount secured in the registry is mandatory. See Colombian Secured Transactions Law, supra note 91, art. 42.
[81] Isunza (2016).
[82] Ibid.
[83] Ibid.

6.4.2. Key Features of the Collateral Registration and Enforcement

The Colombian secured transactions law has enabled implementing an online dispute resolution mechanism (ODR) through regulations and manual. It should be noted here that the ODR mechanism is not a replacement for other extra-judicial remedies but rather provides an additional option for secured creditors. The registration of an enforcement form in the collateral registry automatically connects the secured creditor with the relevant ODR platform operated by a Chamber of Commerce in the location of the grantor. In addition to this automatic connection, the system sends an electronic notification to other secured creditors that may have registered a notice against the same grantor. The notification alerts them to the possibility to take over the enforcement process if they have a priority over the enforcing secured creditor. In case of a dispute, the parties will be referred to a conciliation chamber. Nonetheless, when the grantor resists repossession of the collateral, the involvement of a court may be necessary. Upon the entry of a judgment, the ODR mechanism resumes and leads to the ultimate disposal of the collateral through an auction site maintained by the Chamber of Commerce.[84]

While searching the Registry is free of charge, registering a security interest requires a fee. On the main page of the Registry's website, all the guarantees registered by the creditors that are in force at the time of the consultation may be searched by anyone using the identification number or name of the debtor. This service has no cost. However, a secured creditor needs to set up an account in order to register a security interest and pay about 15 USD for filing. However, no other requirement, such as an electronic signature, is needed to file registrations. In addition, the certificates of the registered guarantees in force as well as a copy of the attached documents at the time of the registration are available for purchase at additional fees. Table 9 contains the new fees applicable to the different forms of the Registry of Secured Transactions for the validity of the year 2020, in accordance with Resolution 834 of 2014, 0356 of 2015, and 001 of 2015 of the Ministry of Commerce, Industry and Tourism.

Table 9: List of Fees for Using the Colombian Collateral Registry

Type of form	Fee in Colombian Peso	Fee in USD
Initial Registration (new guarantee)	$38,000	$9.88
Global Modification Creditor / Entity	$38,000	$9.88
Bankruptcy Execution Form	$38,000	$9.88
Modification of Records	$10,000	$2.60
Cancellation	$10,000	$2.60
Assignment	$10,000	$2.60
Execution	$10,000	$2.60
Restitution	$10,000	$2.60
Termination of Execution	$10,000	$2.60
Termination of Bankruptcy	$10,000	$2.60

[84] The World Bank (2019), Secured Transactions, Collateral Registries and Movable Asset-Based Financing, Knowledge Guide.

Prepaid certificates	$6,000	$1.56

Note: The above values DO NOT include the 19% VAT, or the cost of withholdings if there is room.

6.4.3. Lessons Learned

Incentivization can play an important role in encouraging financial institutions to use the collateral registry. Colombia initially incentivized the registration of security interests that predated the enactment of the Colombian Secured Transactions Law by waiving the fees for such registrations and maintaining the secured creditor's priority. The fee waiver ended in August 2014. But creditors availed of this opportunity and filed more than 500,000 security interests by August 2014. As a result, by December 2014, the Colombian Registry had more than 1 million registrations, of which approximately 76% corresponded to transactions created before the enactment of the Colombian Law of Secured Transactions, about 14% corresponded to security interests created after the reform, nearly 8% to modifications, and less than 1% to non-consensual liens.[85] As of 2016, about one-fourth of the registrations represent credit to micro, small, and medium enterprises.[86]

The Colombian secured transactions law took a functional approach to secured transactions and broadened the range of assets that can be used as collateral helped Colombia to improve its rankings along various dimensions of financial advancement. The various types of costs associated with using the collateral registry can act as deterrents to using a registry to its fullest potential, especially if they are deemed too high. The law allowed a general description of assets granted as collateral such as vehicles, industrial equipment, inventory, etc. It also established clear priority rules inside bankruptcy for secured creditors, set out grounds for relief from a stay of enforcement actions by secured creditors during reorganization procedures, and allowed out-of-court enforcement of collateral. Partly because of its secured transactions reform, Colombia advanced positions in the Doing Business Report of 2015. In particular, it rose 19 positions in general and advanced 53 positions up to second place in the Getting Credit Indicator.[87]

A collateral registry can leverage interconnectedness with other platforms to enhance its usefulness and thus create attractive value propositions for its target users. In addition to reliability and user-friendliness, a collateral registry should provide its users with certain flexibilities and additional benefits, such as an alternative mechanism for dispute resolution. This has the potential to encourage more users to explore and utilize the functions of the registry. As discussed above, the Colombian collateral registry system automatically connects the secured creditor to an online dispute resolution (ODR) platform operated by a Chamber of Commerce in

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[85] Ibid

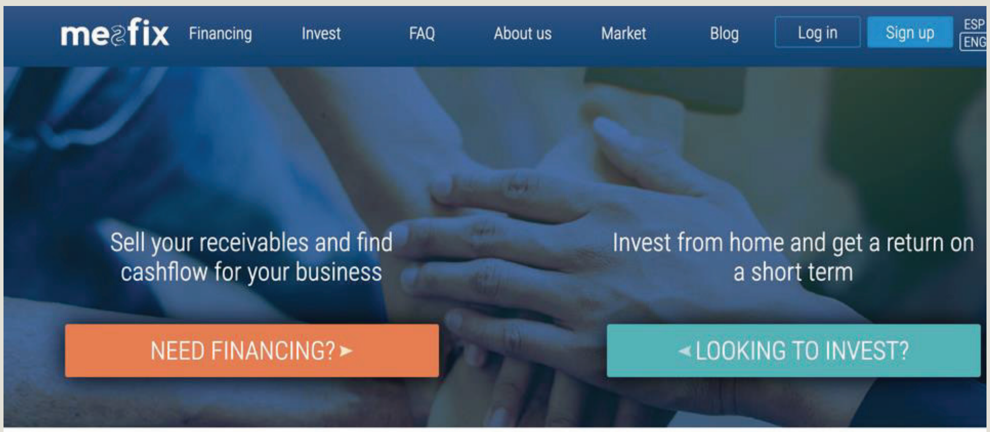
[86] IFC (2016) Collateral Registries: A Smart Way to Expand Access to Finance. Available at: https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/impact-stories/collateral-registries-smart-way-to-expand-a2f

[87] Isunza, Isis N. (2016) The Impact of Secured Transactions Reforms in Mexico and Colombia, *Arizona Journal of International & Comparative Law*, Vol 33, No. 1.

the location of the grantor whenever an enforcement form is registered. This system design based on inter-platform connectedness eases the process of resolution dispute among multiple secured creditors that may have registered a notice against the same grantor. This particular feature of the Colombian collateral registry can be considered by the creditors as an additional benefit of using the Registry.

Box 6: Case Study on 'Crowd factoring' in Colombia

Mesfix is a crowd factoring, tech platform that provides factoring services for SMEs in Colombia through private investor funds. It provides a web platform that allows companies needing cashflow to sell receivables to a community of people interested in investing. Since entering the market in 2014, Mesfix has experienced rapid growth, having enabled more than USD 100 billion in lending to SMEs, validating a market need for agile SME financing. The company reports that it has served more than 200 companies and has a network of 2,500 invoice buyers.



To improve their cashflow in the short term, companies can upload their receivables to the Mesfix platform and auction them. The community of investors bids for a part or the whole value of the receivable, and the lowest APR wins the auction. Once the sale is closed, the SME receives an advance of receivables within 72 hours. All participants are required to have a bank account. Mesfix also offers a financing calculator that indicates the total amount, advance, discounts, etc. based on a simulation of parameters, such as monthly percentage rate, cash advance percentage, receivable value and days for payment. Mesfix is subject to the inspection under the Superintendencia de Sociedades.

Note: This is an example of innovation that has occurred in the development of the movable asset lending industry but cannot be directly linked to the collateral registry.

6.5. Summary of Lessons Learned from Case Studies

Table 10: Lessons Learned from Case Studies

Have a well-designed legal system	Engage with local stakeholders and maintain partnerships through awareness and education	Link the registry with other systems already in place	Create incentives to use the registry	Leverage Technology in Adoption of New Products
• Inadequate legal structures or reforms may lead to additional barriers to access to credit • This was a lesson learned in Ghana where the secured transactions law was not properly coordinated with the law governing the registration of charges created by companies • This also ensures that all parties involved in a transaction through the registry are protected and have the right to seek legal recourse • Nigeria's Collateral Registry Act of 2017 had a provision that stipulated that a financial institution's right of set-off shall have priority over a perfected security that extends to a deposit account	• When constructing and maintaining a registry, this facilitates valued feedback, as well as continued support through partnerships. • The Bank of Ghana put together a team to work on the B&L Act that established the collateral Registry and sensitized key stakeholders to the need for a change in the creation and registration of charges • IFC hired a Ghanaian public relations company with better knowledge of the local market to create awareness about the Registry • In Nigeria, the team was able to increase registrations rates 5-fold within just a year and a half through planned education and awareness campaigns • In Indonesia, task force members who worked on the Fiducia Registry engaged in extensive discussion and education about the new system with stakeholders in the area of regulation, which led to a rise in registrations.	• Interconnecting registration systems helps to streamline registration processes • Nigeria achieved this by linking the NCR with the Corporate Affairs Commission (CAC) to capture any floating charges on the NCR from the CAC system • This allows proper tracking of debtors who default • In Colombia, the collateral registry system automatically connects the secured creditor to an online dispute resolution (ODR) platform operated by a Chamber of Commerce • This facilitates the resolution of a dispute among multiple secured creditors that may have registered a notice against the same grantor	• Banks and FIs must have a reason to use the registry system • The NCR was able to tap into a large number and variety of FIs as deposit money banks were required to register, and cooperatives and registered groups such as "Esusu" were allowed to register. • Colombia created incentives for security interests that predated the law by waiving the registration fees.	• New approaches and techniques, particularly those that harness technology, have been implemented in each of the 4 countries • In Colombia, 'Crowd factoring' employs a digital platform to allow SMEs to sell invoices online to buyers. • FIs can engage in strategic partnerships with Fintechs to acquire different capabilities and offset investment costs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7. Recommendations

The recommendations provided in this section are based on an analysis of the information collected through stakeholder interviews, the consultant's experience, as well as a review of international experiences, in particular, the experiences of the following four countries which have implemented movable collateral registry systems: Ghana, Nigeria, Colombia, and Indonesia

7.1. Revision of the Collateral Registry Fee Structure

PACRA should consider revising its current cost structure to encourage more registrations on the Collateral Registry. As has already been discussed, the various fees charged for using the Collateral Registry in Zambia are higher than those in Ghana and Nigeria. Since several FIs interviewed have emphasized the need for lowering the fees associated with using the Collateral Registry, PACRA may consider pegging the fees to the registry systems in Ghana or Nigeria. Alternatively, PACRA may adopt a multi-tiered cost structure. The lower tiers will charge smaller fixed fees for smaller loans, and higher tiers may charge higher fixed fees for larger loans. This strategy has been adopted by Liberia. In Liberia, the registration fee is USD 1 for any loan that does not exceed USD 7,000, while for loans over USD 50,000 it is USD 3.[88] The supplemental discharge fee of 100 kwachas could also be removed from the fee structure.

7.2. Interconnectedness Among Different Registry Systems

There is an opportunity for establishing interconnections among different registry systems in Zambia. For instance, as already discussed above, FIs choose to register their security interests in motor vehicles with RTSA and not to register with PACRA to avoid additional fees. To ensure the relevance of the movable collateral registry system in Zambia, it is imperative that the RTSA database and the Collateral Registry "speak to each other". In other words, these two systems should be interconnected so that every time a security interest in a motor vehicle is registered with PACRA, the RTSA database gets notified and updated. Currently, to check the existence of prior security interests, FIs pay visits to the RTSA office. The proposed interconnection will encourage the FIs to change their current practice of registering motor vehicles with RTSA which carries no legal benefits as opposed to registering with PACRA.[89]

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[88] World Bank (2019) Knowledge Guide on Secured Transactions, Collateral Registries and Movable Asset-Based Financing.

[89] Since the usual practice of the FIs is to register motor vehicle liens with RTSA, a shift of registration from RTSA to the Collateral Registry may create a sense of uncertainty among the FIs. Therefore, an interconnection between RTSA and the Collateral registry will also help lessen that uncertainty as FIs will be assured that a motor vehicle registration with PACRA is automatically communicated to the RTSA. It is understood that an API has been developed to create an interface between RTSA and the Collateral Registry. But it has not been implemented yet reportedly due to an apparently lack of initiative from RTSA.

7.3. Legal and Regulatory Reform

A better system of enforcement may increase the rate of movable asset-backed lending. It was suggested through stakeholder interviews that the Registry only prevents the borrower from registering the collateral for a loan with another FI but does not prevent the borrower from selling the asset. If banks are better protected from this in the case of NPLs, there may be a desire to extend more loans using movable assets as collateral. In addition to the possibility of the collateral being sold, FIs expressed concern over their ability to accept consumer goods as collateral (such as laptops, TVs, fridges, etc.) as the FIs do not have a system and infrastructure to manage these once they can be repossessed. They also expressed concern over the acceptance of items without unique identification numbers (i.e., furniture) as it is difficult to track and enforce in the case of default. If an enforcement system is created to address these concerns, it could give FIs more confidence to accept movable assets as collateral for loans.

Several legal reforms could be considered to address the existing gaps in the movable asset-based lending ecosystem. First of all, all the registrations to date have been done voluntarily by the FIs to protect themselves from other FIs' claims on movable collateral. However, an assessment of international experiences suggests that although not considered as the best practice, some countries, e.g., Ghana and Sierra Leone have made it mandatory for FIs to register all of their movable collateral. This is an option that is available for further exploration by the Bank of Zambia (BoZ). However, it should be mentioned here that making registrations mandatory has the potential to undermine the rights of FIs. In general, the best practice emphasizes that financial institutions should realize the potential benefits of protecting their security interests by collateral registrations. While movable assets like TVs, mobile phones, laptops, fridges, furniture, etc. are forms of collateral utilized by money lenders, creating a legal framework to capture and register assets in the registry should also be explored. In addition, the legal reform should provide clear guidelines for money lenders who obtain their licenses through application to the Court under the Money Lenders Act Cap 398 of the laws of Zambia.

The Bank of Zambia (BoZ) may consider revising the loan provisioning requirements (i.e., The Banking and Financial Services (Classification and Provisioning of Loans) Regulations 1995 / Statutory Instrument no. 142 0f 1996 and Directives of 2020 under section Directive 5(d) of Part VI) to encourage lending to the SME sector based on movable collateral. The current wording in the regulation does provide sufficient clarity on the concept of adequate collateral protection. As already discussed, FIs indicated that they are subject to higher loan provisioning requirements when it comes to lending based on movable assets as collateral. This is due to the reason that most movable assets are inherently of lower values and the BoZ, reportedly, considers them as risky assets. The BoZ, by clarifying/lowering the capital provision requirement for movable asset-based lending, can incentivize the FIs to increase lending to SMEs.[90] In this case, the modalities for monitoring collateral values must be in place to avoid having lower recovery rates. Furthermore, this kind of lending/model could apply only to a certain tier of FIs for which certain specific incentives could be given. To further develop the leasing industry, it is also important that the government considers providing VAT exemptions to interest incomes from leases as is reportedly provided to interest incomes from other types of loans.

Development of the secondary market for consumer goods could increase FI acceptance of these as collateral. One reported issue from FIs was the cost and difficulty when disposing of assets. Firstly, consumer goods have a significant discount on the secondary market, and secondly, the FI must hire an auctioneering company to sell them off. One recommendation is to develop an online secondary market that connects buyers and sellers. This type of platform would allow FIs to appraise the items themselves based on the prices of similar items that have sold and can allow FIs to quickly dispose of goods without the additional service charge of an auctioneering company.

7.4. The Impact of COVID-19 Pandemic on SMEs and Potential of Movable Asset Lending as a Response

In response to the crisis caused by the COVID-19 pandemic, governments around the world have put in place a variety of measures to support SMEs. The COVID-19 pandemic is likely to have a significant effect on small businesses and their ability to survive and grow over the next few years. The IMF has projected that the Zambian economy will shrink by at least 2.6% this year.[91] Crises like the one caused by the COVID-19 pandemic disproportionately impact small businesses. The COVID-19 pandemic will also likely make it more difficult for SMEs to access financing. As banks reduce their lending, SMEs tend are more vulnerable and less able to obtain loans compared to larger corporations. A variety of support measures are focused specifically on the ability of SMEs to access and repay loans, including new lending under concessional terms, delayed repayments, and credit guarantee schemes. The Bank of Zambia has instituted a refinance facility to provide liquidity to eligible Financial Service Providers (FSPs) for on-lending to viable non-financial corporates and households. The priority sectors identified for this facility are agriculture, manufacturing, energy, and tourism.[92]

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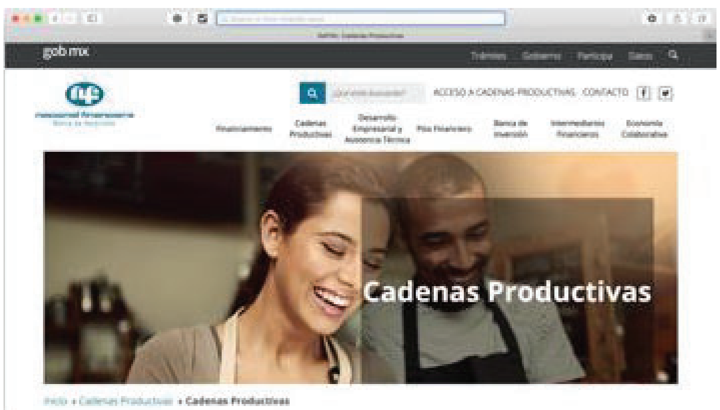
[90] While the recent draft Directives (Classification and Provision of Loans Directives, 2020, Gazetter Notice 287 of 2020) from the BoZ does acknowledge the use of movable assets as collateral and does not discriminate against the usage of them, it does not provide any particular incentives for the FIs to accept movable assets as collateral.[90] Additionally, the government may explore options for devising tax incentive programs targeted at FIs which are willing to contribute to social impact by increasing lending to the underserved SME sector.

[91] Ng'andu, B (2020), "Statement by the hon. Minister of finance on the impact of the coronavirus (covid-19) on the Zambian Economy". https://www.zambiahc.org.uk/news_events/statement-by-the-hon-minister-of-finance-on-covid-19/

[92] Bank of Zambia "Terms and Conditions for the Targeted Medium-Term Refinancing Facility" June 5, 2020

Movable asset-based lending models can provide the needed flexibility to adapt to these changing circumstances. A move toward moveable asset-based lending can allow FIs to diversify their portfolios with loans secured with more liquid assets. SMEs will also need to focus on cash flow as a key strategy to manage the crisis and consider tactics to generate faster cash flow. Innovative techniques, such as factoring receivables, can be a viable option to help SMEs weather the crisis. A focus on movable asset-based lending can also be combined with other government initiatives, such as credit guarantee schemes or the refinance facility currently being implemented by the BoZ. For example, the BPI in France has put in place a Guarantee Fund "Reinforcement of the Treasury, which is intended by very small enterprises, SMEs, and Mid-cap companies. This fund guarantees up to 90% on liquidity enhancement loans from 2 to 7 years and can be used to guarantee long and medium-term loans, movable and immovable leases, financial leases, etc. [93] France is also providing options for asset loans that can be used for one-off cash requirements and an exceptional increase in working capital requirements. These are unsecured loans on the assets of the company.

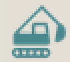
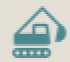
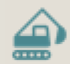


Digital financial services and FinTech solutions should also be leveraged. Digital technology offers an unprecedented opportunity to mitigate the impact of the COVID-19 crisis on SME financing. Online platforms for conducting reverse factoring transactions that can facilitate supply-chain finance to SMEs and shorten the maturity of the payments could be a crucial advancement for improving risk mitigation among SMEs. Another example would be an online platform for invoice discounting that could be set up that could be accessible through an online portal and/or mobile application and could be linked to the collateral registry. Buyers, suppliers, and FIs could register on the website and create their own profiles. This platform would allow for the systemic collection of information on supply-chain participants, which in turn could be used to track the impact on SMEs along the supply chain and be linked with the PACRA database. A similar electronic marketplace is operated by NAFIN, a state-owned bank in Mexico, under the name "Nafinet". The marketplace is also accessible via mobile using a specialized app. In 2017, Nafinet supported over 9,400 transactions daily with average amounts of more than 50 million USD and 67 participating financial institutions. Each buyer's historical records of the previous invoice payment rate are readily available online to all the potential FIs.

[93] KPMG "Government and institution measures in response to COVID-19: Update 14" Updated April 2020.

7.5. Potential Sectors with Growth Opportunities

Figure 29: Movable Assets Most Commonly Owned by SMEs by Sector

	Accounts Receivable	Machinery & Equipment	Inventory
Accommodation & food services			
Agriculture			
Construction			
Information & Technology			
Manufacturing			
Wholesale & retail trade			

There is an opportunity for enhancing the usage of the Collateral Registry by tapping into the rural economy, in particular, the agriculture/agri-business sector. The MPSI Act (MPSI) includes warehouse receipts as movable assets. FIs including First National Bank Zambia, Stanbic Bank, and Madison Finance are already participating in the ZAMACE warehouse receipt system. The further development of the warehouse receipt system provides additional opportunities for the Collateral Registry to increase its market coverage. Furthermore, as of 2012, the livestock sector contributed 3.2% to the overall national GDP and 42% to the agricultural GDP of Zambia. However, these figures are likely subject to underestimation[94] given that food and agro-based exports and livestock already account for about half of all non-mining exports.[95] Since livestock provides labor-intensive products, and that Zambia has a landlocked rural economy, Zambia can benefit from both increased income and employment by creating a more supporting business-enabling environment where livestock owners can get access to formal finances. To alleviate the challenge involving the collateral requirement for obtaining loans from FIs, Zambia may take lessons from Zimbabwe's National Cattle Identification Program. For instance, Zambia may consider tagging all cattle with an electronic RFID tag which is a form of electronic branding allowing each animal to be linked to its owner. With RFID in place, FIs will be able to grant loans using cattle as security and registering a lien of the animal(s) on the Registry.

The food and retail supply chains could be targeted with accounts receivable or inventory backed finance. Technical assistance could be provided to financial institutions to support them in developing movable collateral-based financial products and services for SMEs in the accommodation and food services industry. In fact, the accommodation and food services industry's contribution to Zambia's GDP has increased by more than 300% between 2010 and

[94] Lubungu, Mary and Mofya-Mukuka, Rhoda (2012) The Status of the Smallholder Livestock Sector in Zambia

[95] The World Bank (2018) Republic of Zambia: Systematic Country Diagnostic, Report No. 124032-ZM.

2019. The growth in the education sector's contribution has been slightly less at 85%.[96] As the accommodation and food services industry is likely to especially be hit hard by the COVID-19 pandemic, designing financial products and services that meet their needs will prove indispensable for recovery. In particular, these sectors have supply chains in which highly reputable local and national food retail companies are active and could provide FIs with security in entering the market. This type of accounts receivable financing can reduce some of the obstacles mentioned by FIs. For example, the stated value of the invoices reduces the cost of valuing the asset pledged as collateral and there is less need for large storage facilities in case of repossession.

An often-overlooked sector, information and technology (IT) has also seen a 120% increase in its contribution to the GDP. This thus represents an industry that FIs should pay particular attention to and design bespoke financial products and services that meet the needs of these SMEs. Often that would mean broadening the types of movable assets that FIs can accept from these SMEs as collateral. SMEs in the IT sector tend to possess hardware related to their IT activities, such as laptops and desktops, servers, storage arrays, backup devices, etc. In addition to asset-backed lending, this sector provides strong potential for equipment financing or leasing, given the significant capital required for the purchasing of the type of equipment used in the IT sector.

Interviews with several FIs have indicated that SMEs in the sectors of transportation and education have fared well prior to the pandemic caused by COVID-19. The transportation and storage sector's contribution has increased by 183%. Transportation sector SMEs are uniquely positioned to take advantage of developments in the movable asset lending market, as they are the most likely to possess motor vehicles, which FIs reported is their preference in accepting movable assets. FIs could thus engage in targeted outreach to this segment, including tailored products for transport sector SMEs.

7.6. Developing and Strengthening Capacity Building and Awareness Programs

Capacity building programs should be strengthened to make the MSMEs "prepared for financial service providers". As has been discussed above, FIs, in particular commercial banks, consider MSME lending risky as the latter often do not maintain financial records and lack adequate skills to present the value propositions of their businesses. According to the Enterprise Surveys 2019, 55.7% of businesses had financial statements checked and certified by an external auditor, but this varies significantly by business size. While 69.2% of medium-sized firms had such formal financial statements, only 38.5% of small firms did the same. Therefore, more training programs focusing on building the capacities of MSMEs should be designed and carried out, both inside and outside Lusaka. Topics of such programs should include bookkeeping practices, managing

[96] Central Statistical Office, Zambia.

budgets, reinvestment of profit, how to apply for loans, alternative financing options based on movable assets, etc. Commercial banks can also be encouraged to participate in these training programs to train MSMEs in financial management. This will also allow the banks to build relationships with SMEs and understand the unique issues that they can address by designing tailored products and services.

There is an apparent need to provide further education to the market participants on the MPSI Act, updated directives to the Classification and Provisioning of Loans, and the Collateral Registry. As of yet, at least five training programs have been carried out by the Zambia Institute of Banking and Financial Services all of which focused on familiarizing the FI personnel with the Collateral Registry. Despite the training programs, most FIs are not fully aware of the details of the Act, such as the concept of blanket filling/floating charges and security interests in "after-acquired" properties. As a result, there is a gap in their understanding of their own rights regarding lending based on movable assets such as furniture which, according to FIs are difficult to track. In addition, FIs are likely not fully aware of changes and amendments to the Classification and Provisioning of Loans, which have been recently updated and would have an impact on the internal operations of banks and FIs. Awareness of these aspects has to come from the top down. Opening up new products and allowing for additional forms of collateral is a strategic decision, and strategic decisions are made by the board of directors and by the CEO of the banks and various FIs. Education concerning capacity building for movable asset-based lending needs to be directed at those who have the power to make these decisions. On the other hand, to date, there has not been any formal endeavor to introduce the Collateral Registry to the MSMEs. Reportedly, this has contributed to a low level of awareness of the Registry among the MSMEs. It is expected that once more MSMEs become aware of the benefits of the collateral registry, the number of MSMEs applying for formal asset-based loans will increase.

The Bank of Zambia and PACRA should engage in more outreach and public awareness campaigns. A widespread acceptance of the benefits and increased usage of the Collateral Registry system among the general public is also expected to encourage the FIs, in particular the commercial banks, to become more flexible in terms of their collateral requirements and be open to non-traditional movable assets as collateral. However, as of yet, the awareness campaigns have mostly focused on financial institutions, and public awareness of the Registry has been rather limited. If more members of the general public become aware of the Collateral Registry and its benefits, they may use it frequently to confirm that no prior security interests exist on a used good that they are considering purchasing, such as a laptop or TV.