September 2023

NIGERIAN CREDIT INFRASTRUCTURE REFORM

A Snapshot of Progress and Recommendations for Next Steps

UKaid from the British people
Foreign, Commonwealth & Development Office

IFC International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

Table Of Contents

Executive Summary

Nigeria has made significant advances in strengthening its financial infrastructure in recent years with the aim to increase access to finance for previously excluded individuals, micro, small, and medium enterprises. By establishing a National Collateral Registry in 2016 and the enactment of the Secured Transaction in Movable Asset Act and the Credit Reporting Act in 2017, the Central Bank of Nigeria has laid the foundation for a modern credit infrastructure framework. These legislative reforms have been supported by specialized training and public awareness campaigns to catalyze institutional and behavioral change among both formal lenders and borrowers across the country.

This report provides a snapshot of the impact that these reforms and initiatives have had, based on a survey of financial institutions and their clients in 2021. The findings show that both lenders and borrowers, or would-be-borrowers, observe that the Credit Reporting Act and the National Collateral Registry have led to an increase in access to finance for borrowers.

The research suggests that the credit infrastructure reforms are beginning to positively change borrowers' access to finance and to give greater comfort to lenders to offer credit against movable security or credit history. However, credit providers still have a marked preference for immovable security and the survey findings indicate an overall need to increase coverage by credit bureaus and to improve public awareness and use of the National Collateral Registry.

Key recommendations in this report to further enhance credit infrastructure in Nigeria include the promotion of the utilization of the National Collateral Registry by financial institutions for the expansion of lending to micro, small, and medium enterprises, strengthening of insolvency procedures, public awareness and education campaigns, and the improvement of data collection and harmonization of data by all relevant stakeholders.

This report provides a **snapshot of the impact** that these reforms and initiatives have had, based on **a survey of financial institutions** and their clients in 2021.

World Bank Group Support for Credit Infrastructure and Asset-Based Lending in Nigeria

The **Credit Reporting Strengthening Project** provided technical assistance to the Central Bank of Nigeria and key stakeholders – i.e., private credit bureaus and lenders – to identify key regulatory and institutional constraints that prevented the performance of the credit reporting system, as well as by working with them to address such constraints. The project coordinated stakeholder engagement, provided technical guidance for the enactment of primary legislation on credit reporting, the National Credit Reporting Act, 2017, as well as revision of the guidelines for licensing and supervision of credit bureaus and credit bureau-related activities. These broadened the scope of credit reporting to include non-traditional lenders and entrenched data privacy and consumer protection. It also enhanced supervisory capacity for monitoring the credit reporting system and supported financial literacy and awareness activities.

The **Secured Transaction and Collateral Registry Project** provided support to the Central Bank of Nigeria to develop enabling legal and institutional frameworks, including the establishment of a modern collateral registry for movable assets to facilitate lending against movable property. The project mobilized public-private dialogues and coordinated stakeholder engagement and provided technical guidance for the drafting of appropriate legal instruments such as the Central Bank of Nigeria Regulation on the Registration of Security Interest in Movable Property, 2016, and Secured Transaction in Movable Asset Act, 2017. It supported the development and deployment of a modern, notice-based on-line registry for security interests in movable assets (the National Collateral Registry) and designed and delivered awareness campaigns as well as specialized training to banks and other financial institutions.

The **Strengthening Financial Infrastructure Project** was a short-term intervention that provided targeted technical assistance and advisory support to the Central Bank of Nigeria to enhance the legal and regulatory framework for credit reporting and to strengthen the implementation of movable asset financing and credit reporting reforms to boost financing to MSMEs and promote financial inclusion. Key outputs included hosting a roundtable of digital lenders, credit bureaus and the system, and the Central Bank of Nigeria to address issues relating to the participation of the lenders in the credit reporting system; technical guidance for the drafting of amendments to the Credit Reporting Act to address key omissions and a new credit reporting regulation; building capacity and promoting knowledge across key segments of the market to boost confidence in, and drive usage of, credit reporting and movable asset financing, notably by hosting workshops for judges and financial institutions; and enhancing the data analysis capabilities of the Central Bank resulting in the production of the maiden edition of the Credit Market Statistical Update, 2020.

Introduction

Private sector lending to micro, small and medium enterprises (MSMEs) in Nigeria is limited. Domestic credit to the private sector was about 10.5 percent of gross domestic product (GDP) in 2019, well below the about 45.5 percent average in sub-Saharan Africa.[1] While commercial banks lend to larger firms, smaller scale businesses generally struggle to access formal financing. It is estimated that the financing gap for Nigerian MSMEs is above 600 billion naira annually, and that small businesses accounted for less than one percent of total commercial credit in 2018.[2]

Women in Nigeria are less financially included than their male counterparts, for example in terms of access to an account. While more than half of men (55 percent) have access to an account, the same is only true for 35 percent of women.[3] Despite being actively engaged in micro, small, and medium enterprises, women only own about a 30 percent of registered business in the country.[4] This does reflect a relatively low economic and social status of women compared to men, also captured in the 2021 Mastercard Index of Women Entrepreneurs which places Nigeria in 51st place of 65 surveyed countries.[5]

In terms of access to finance however, it appears to be equally hard for men and women to borrow from a formal financial institutions. Only about 6 percent of either category had borrowed from a formal financial institution in the latest World Bank Group Global Findex Survey.[6] For youth, the numbers are about the same as for women, with 35 percent of youth having access to an account and about 6 percent having borrowed from a financial institution. Over 40 percent of women and youth and nearly 50 percent of men had borrowed from family and friends however, clearly indicating a demand for finance. Stringent loan conditions, including for example compulsory savings deposits, are barriers for women accessing credit.[7] Collateral, credit history, and cultural limitations have also been identified as significant barriers to women entrepreneurs accessing finance.[8]

In general, collateral is the missing link between the small-scale business sector and the financial institutions that could provide the necessary capital for them to grow. Smaller firms often lack the assets/collateral required to access formal loans, such as land or fixed property, making them risky clients in the eyes of the financial sector.[9]

From the perspective of financial institutions, information about creditworthiness among less-established borrowers is often asymmetric and unreliable. Historically, this has resulted in lender weariness and created an impediment to business financing. Insufficient credit information and inadequate enforcement mechanisms result in high rates of non-performing loans and deter formal financial institutions from extending financing to many individuals and micro, small, and medium enterprises.

To curtail the problem and improve credit risk management, the Central Bank of Nigeria (CBN) has worked to build a modern credit risk management framework since the early 1990s. In 2008, the CBN issued guidelines for the licensing, operations, and regulations of credit bureaus, which were subsequently reviewed and reissued in 2013. This led to the licensing of the privately owned XDS Credit Bureau (now First Central Credit Bureau), CR Services Credit Bureau and CRC Credit Bureau. In 2017, the Credit Reporting Act (CRA) opened credit information to other providers, such as utilities, retailers, telcos, and landlords. The credit bureaus were able to issue credit reports, scores, and portfolio monitoring reports.

The National Collateral Registry and the Secured Transaction in Movable Asset Act, 2017 were established and enacted respectively to facilitate the use of movable, instead of immovable, property as collateral for business and consumer lending. The NCR is an online registry that allows lenders to register security interest in movable assets such as inventory, receivables, leases, farm products, equipment, electronic devices, jewelry, vehicles, consumer goods, or oil, gas and minerals as collateral. As of 30 September 2020, the NCR had registered security rights in movable assets corresponding to 1.80 trillion naira in financing.[10]

1 Nigeria Private Sector Diagnostic, World Bank Group, October 2020
2 PwC. (2020). PwC's MSME Survey 2020: Building to Last - Nigeria report, June 2020. Retrieved October 2020 from: www.pwc.com/ng
3 World Bank Group, Global Findex Database, 2021
4 Adetoyinbo, B. (2021). Nigeria, Women outnumber men in business startups, Harambee Today Pubs. Available Online At: https://harambeetoday.org/index.php/component/k2/item/15 62-nigeria-women-outnumber-men-in-business-startups
5 Mastercard, The Mastercard Index of Women Entrepreneurs, March 2022
6 World Bank Group, Global Findex Database, 2021
7 Adetiloye, K.A., Adegboye, F.B., and Akinjare, V.A. (2020). Sustainable financial access for female entrepreneurs in the micro, small and medium enterprises sector in Nigeria. Cogent Social Sciences, 6:1, 1823600.
8 Imhonopi, D., Urim, U. M., and Ajayi, M. P. (2013). Increasing the access of women entrepreneurs to finance in Nigeria. In D. Imhonopi & U. M. Urim (Eds), A panoply of readings in social sciences: Lessons for and from Nigeria. Pp. 387-408. Lagos: Department of Sociology, Covenant University, Ota, Ogun State.
9 The Credit Crunch: How the use of movable collateral and credit reporting can help finance inclusive economic growth in Nigeria, Central Bank of Nigeria, IFC, 2017
10 National Collateral Registry

Nigerian credit infrastructure reforms aim to strengthen the stability of the financial system and increase financial inclusion. Some of the major reforms are fairly recent and it may be too soon to conslusively assess the impact of these, but this report provides a snapshot of how well credit reporting and the National Collateral Registry support such objectives.

This report is based on a survey conducted in 2021 by IFC among 30 credit providers and 158 borrowers on the demand for credit, financial inclusion, and portfolio management.

Essentially, the research sought to find out if credit infrastructure reform in Nigeria has led to an increase in the number of borrowers, female borrowers, youth borrowers, first-time borrowers, credits, longer loan maturities, lower interest rates, higher collateral mix, and a reduction in non-performing loans/or high rate of recovery in the short-term.

For more detailed information on the study methodology, please see How the Research Was Done on page 20.

Survey Findings

Lenders See an Increase in Loans, Partly Supported by Credit Reforms

Credit Givers Have Seen a Significant Increase in Borrowers Since 2016

According to surveyed financial institutions, the number of borrowers accessing formal loans increased significantly in the years from the most recent credit reforms up until 2020 (figures 1 and 2). This trend was predominantly supported by an overall improvement in the Nigerian business environment, but both the Credit Reporting Act and the National Collateral Registry were judged to be contributing factors. Over 60 percent of respondents cited the Credit Reporting Act as a facilitator of new credit in the period, while 25 percent believed the National Collateral Registry also played a role (figure 3).

Figure 1: Do you think the number of borrowers accessing your organization has increased or decreased in the last 5 years?

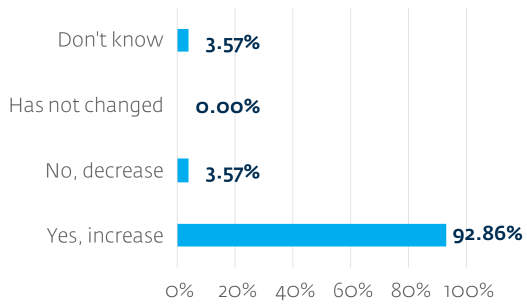


Figure 2: The size of increase/decrease

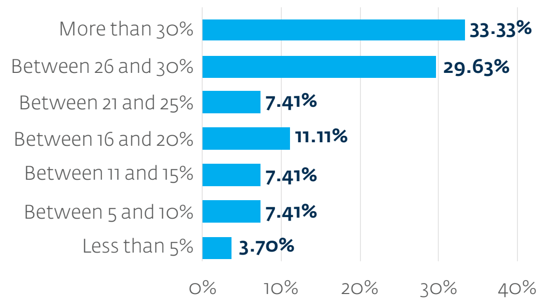


Figure 3: Factors attributed to the current trend in the volume of credits

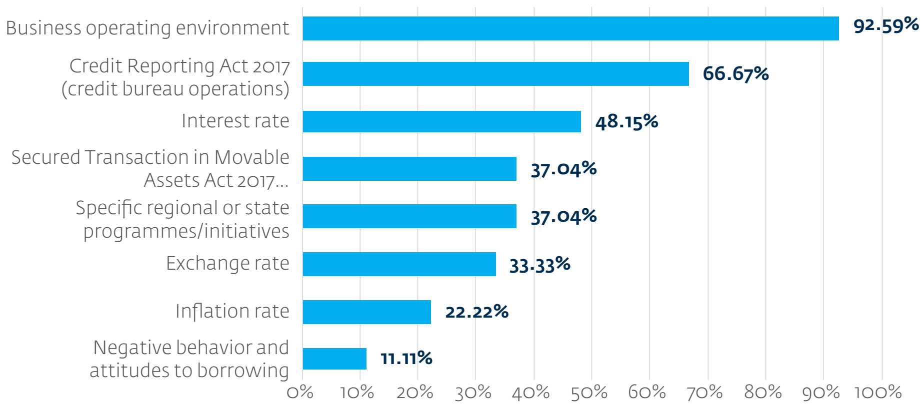


Figure 4: Has the implementation of the Credit Reporting Act 2017 led to greater increase in the number of credits compared to the period before 2017

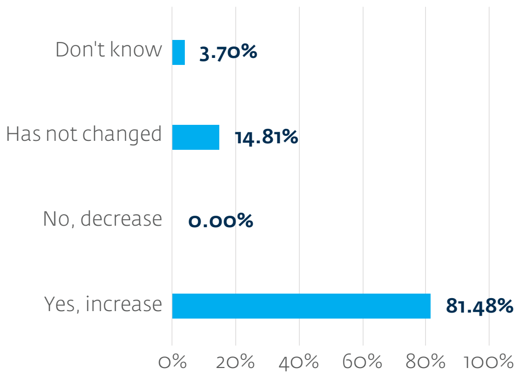


Figure 5: The size of increase/decrease

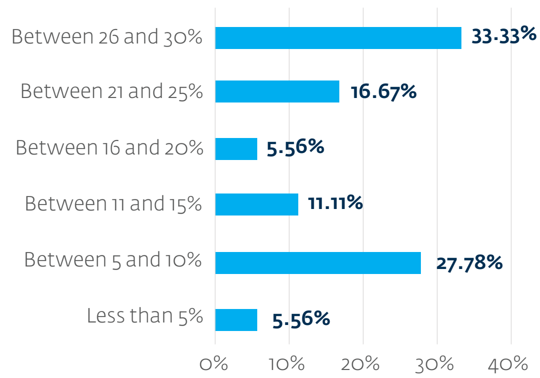


Figure 6: Has the implementation of the Secured Transaction in Movable Assets Act 2017 led to an increase in the number of credits?

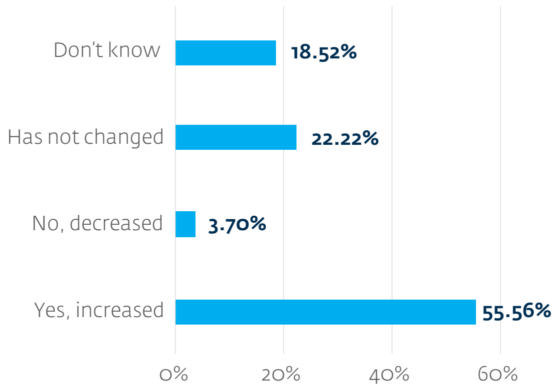


Figure 7: The size of increase/decrease?

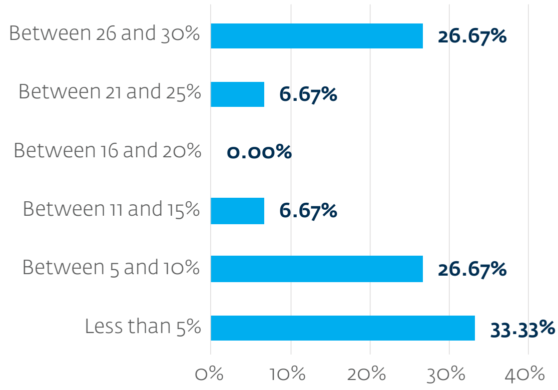


Figure 8: Has the Secured Transaction in Movable Assets Act 2017 (National Collateral Registry) impacted the acceptance by creditors of movable assets as collateral by MSME corporates?

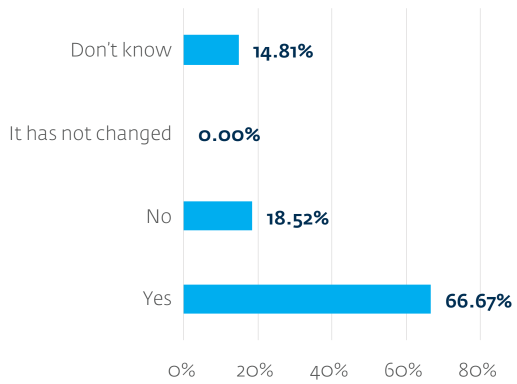
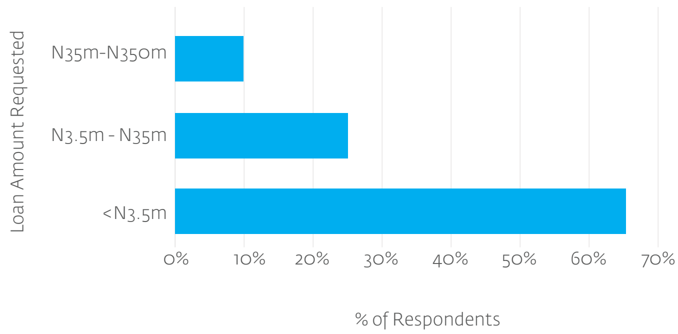


Figure 9: Ranking of loan size by request



When compared with the period before 2017, the study finds that credit bureaus have contributed to an increase in the number of credits (figure 4). According to the interviewed credit providers, the increase varies, but largely falls between 5 to 10 percent and 26 to 30 percent (figure 5). The same was true for the National Collateral Registry but to a lesser extent (figures 6 and 7). Although credit providers indicated that the STMAA and NCR significantly impacted the acceptance of movable assets as collateral (figure 8), this view was not shared by interviewed borrowers, who claim that collateral remains a significant challenge to accessing finance (see page 16).

From a sectoral perspective, the survey results indicate that credit bureau operations have had a particularly positive impact on the volume of credits to MSMEs and the agricultural sector compared with the period prior to 2017. The National Collateral Registry, meanwhile, appears to increase access to credit primarily in the manufacturing and transportation sectors. In the manufacturing sector, it is reported that movable assets are increasingly accepted, and that vendor and distributor finance seems to be readily available. The same applies to the transportation sector where loans are easily facilitated through movable assets.

The survey reveals that smaller loans, below 3.5 million naira and between 3.5 million to 35 million naira, are more accessible (figure 9). This could indicate that a large proportion of loans are channeled to micro and small enterprises. Supporting this finding is the fact that over 90 percent of respondent credit providers said that personal loans are more available to small and medium business owners than prior to the Credit Reporting Act of 2017.

Commercial and agricultural loans are also relatively accessible, according to 63 percent and 41 percent of respondents respectively (figure 10). Some of the factors supporting this trend are the loan size versus the level of risk, as well as a drive to grow the retail side of business. Agricultural loans are also relatively easily available, according to credit providers, primarily because CBN policy supports the sector through intervention loans.

Credit is more available in some regions than others. South-West region takes the lead, followed by South-South and South-East. Examining the geographical context of the three regions, this trend is likely influenced by the large number of businesses concentrated in these regions and supported by the general business environment. According to survey respondents, specific regional or state initiatives are also influencing factors as well as credit bureau operations. As in the case of number of credits, both the ranking of the regions and the influencing factors do not change for volume of credits.

Lack of Immovable Credit and Credit History Still Seen as Impediments to Credit

Factors limiting access to credit for MSMEs, from the credit providers' viewpoint, are lack of immovable collateral, difficulty in enforcing security in the event of default, and lack of credit history. This is especially true for women and youth. Credit providers see that credit infrastructure reform has primarily benefited male borrowers and middle-aged borrowers (see figures 11, 12, 13, 14)

Since lack of collateral and credit history are known challenges for women borrowers,[11] the survey results suggest these have not yet been sufficiently addressed by the CRA and the STMAA.

Figure 10: Loan types based on accessibility

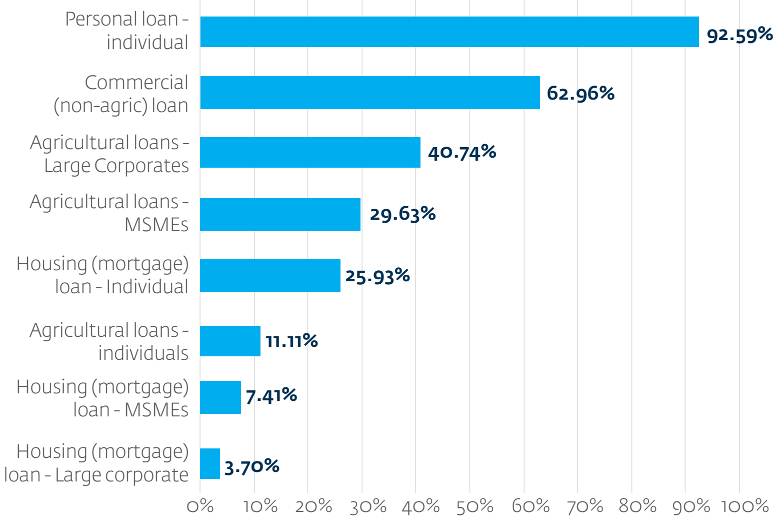


Figure 11 : Which of the gender groups has benefited more from the Credit Reporting Act 2017 (credit bureau operations)?

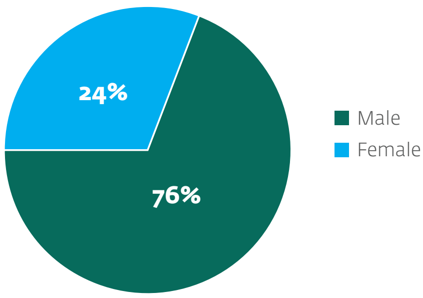
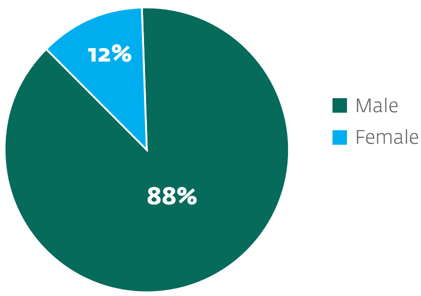


Figure 12 : Which of the gender groups has benefited more from the Secured Transaction in Movable Assets Act 2017 (National Collateral Registry)?



11 Imhonopi, D., Urim, U. M., and Ajayi, M. P. (2013). Increasing the access of women entrepreneurs to finance in Nigeria. In D. Imhonopi & U. M. Urim (Eds), A panoply of readings in social sciences: Lessons for and from Nigeria. Pp. 387-408. Lagos: Department of Sociology, Covenant University, Ota, Ogun State.

Figure 13 : Which of the following age categories has benefited more from the Credit Reporting Act 2017 (credit bureau operations)?

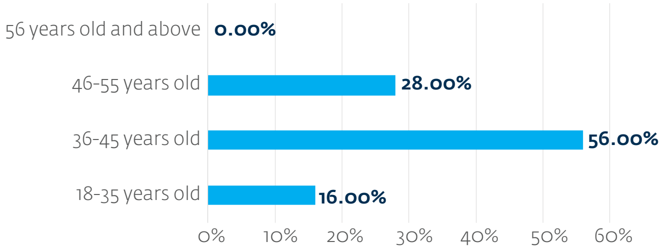


Figure 14: Which of the age categories has benefited more from the Secured Transaction in Movable Assets Act 2017 (National Collateral Registry)?

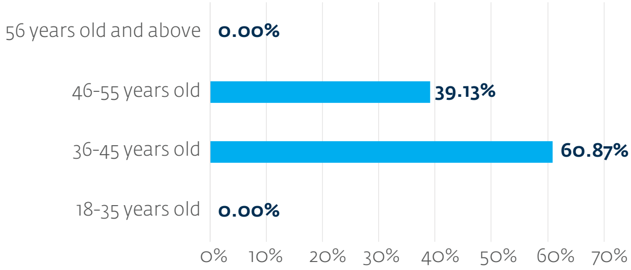
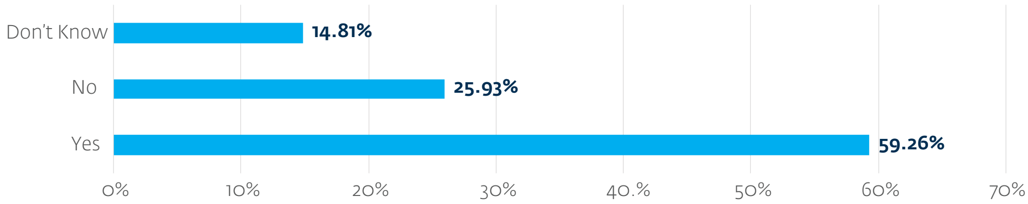


Figure 15: If yes, can this change be attributed to the operation of the Credit Reporting Act 2017 (credit bureau operations)?



Personal loans remain the most accessible loan to female borrowers (93 percent) followed by commercial (non-agricultural) loans (63 percent), individual agricultural loans (22 percent), and mortgages (19 percent). There were clear indications that few mortgage loans were held by women because of the low percentage of businesses owned and controlled by them. Youth borrowers face some of the same challenges as women borrowers. Although financial institutions observed that youth lending had increased over the period, lack of immovable collateral and high interest rates remain barriers for young borrowers.

Strikingly, credit givers had all witnessed a noticeable increase in the number of first-time borrowers in recent years and attributed that trend to a great extent to the operation of credit bureaus (figure 15). Among several factors, the CRA was considered second (46 percent) to the general business environment (88 percent). However, lack of immovable collateral, lack of credit history, lack of realistic proposals, and high-interest rates were still found to prevent access to credit by first-time borrowers. First-time borrowers tend to be primarily interested in personal (individual) loans, commercial (non-agricultural), agricultural, and mortgage loans.

Most credit givers (72 percent) said they prioritize certain market segments when granting loans, in particular the manufacturing and agricultural sectors. This was also, to a large extent, true for women and youth (64 and 57 percent, respectively). Women were also among the borrowers most likely to be offered a single-digit interest rate, according to the survey (76 percent), along with borrowers in the agricultural sector (88 percent), manufacturing (53 percent), and youth (29 percent). Such loans were said to be supported by the federal government, CBN, and development finance institutions, but also made possible through products specifically designed for target markets.

Credit Infrastructure Supports Longer Loan Maturities and Short-Term Recoveries

Survey findings suggests that the Credit Reporting Act has led to longer loan maturities (47 percent). But while 41 percent of respondents said the same applied to the National Collateral Registry, a further 41 percent said they did not know. Respondents that said the CRA had not led to longer loan maturities (18 percent) identified a lack of sustained intervention funds, the short-term horizon on investible funds and customer deposits as major limitations to longer loan maturities.

Most surveyed borrowers said they found it easy to pay back their loan (83 percent). Where there were challenges, these were largely caused by poor national economic performance and factors beyond their control. Most surveyed credit providers also rate loan recoveries in the short term as good (72 percent). This may be supported by the Credit Reporting Act as respondent credit providers (61 percent) find the introduction of this act, and to the STMAA, as being significant to borrowers' credit discipline and diligence in loan repayment. The credit bureaus have also been instrumental in the recovery of loans that were categorized as lost, with 22 percent of respondents claiming it has enabled "very significant recoveries" and 33 percent saying it has enabled "significant recoveries". The STMAA has increased the willingness to accept movable assets as collateral as mentioned above, but it has little effect in the resolution of financial distress caused by bankruptcy and insolvency laws.

Most credit providers (89 percent) had been using the credit bureau services for over three years at the time of the survey. Close to all (94 percent) consider the information from the credit bureaus accurate and reliable. For the majority, the information provided by the credit bureaus complements internal credit scoring methods, implying that the bureau platforms further facilitate the loan-granting process and enhance the loan disbursement function of providers. Although onboarding materials, training, and support services offered by credit bureaus were considered good, the general view among credit providers (61 percent) is that training on the use and benefits of credit bureau products, such as credit scoring and methodology, product knowledge, decision making and analytics, can be further improved (figure 16).

Figure 16: Would training on usage and benefits of credit bureau products, including credit scores and analytics improve work?

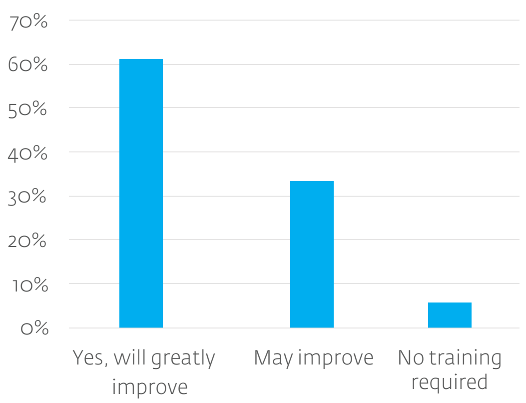
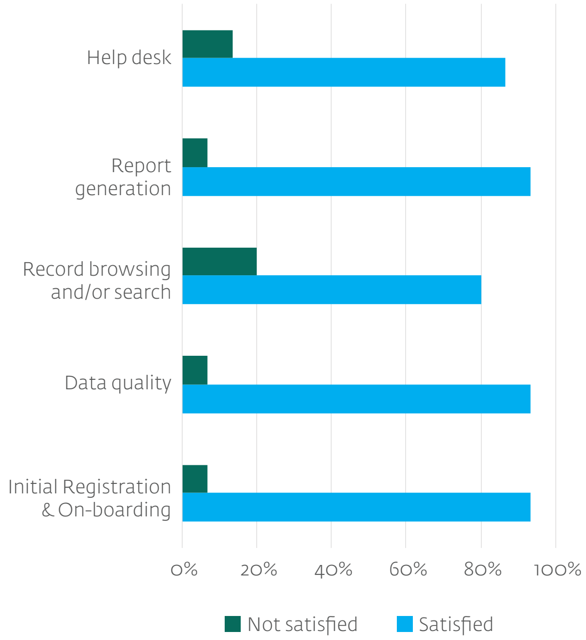


Figure 17: Are you satisfied with the performance of the system in regard to the following activities?



Overall, credit providers rate the NCR platform as satisfactory with regards to browsing and searching customer records, the help desk, generation of reports, amendment of financial statements, and registration of financing statements (figure 17). Credit providers generally see turnaround time as good, but say it could improve. Providers find the onboarding of users easy and say that it does not require support from the collateral registry.

Credit providers see that the vast majority of customers are aware of the existence of credit bureaus (94 percent). In addition, they report that credit is granted based on credit history and that a loan can be refused as a result of a bad credit history.

Still, the majority of surveyed providers advocate for mass publicity campaigns to further educate the public on the use of credit bureaus. Unlike the credit bureaus, awareness among bank clients about the collateral registry is low, with only about a third (33 percent) of the credit providers observing that customers are fully aware of the registry.

Survey Findings

Lack of Awareness of Credit Infrastructure Reforms Limits Benefits to Borrowers

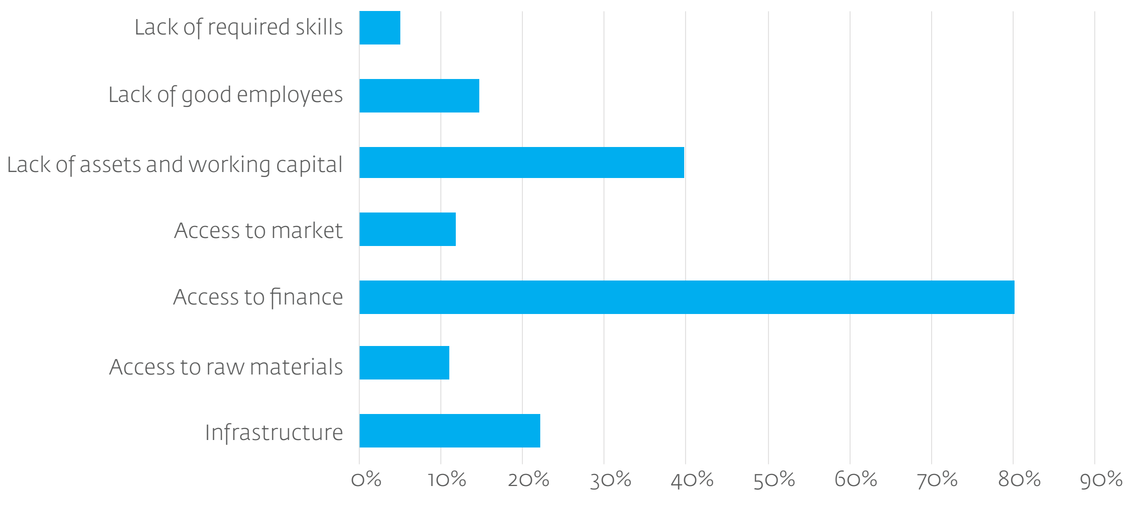
The individuals surveyed for this report are borrowers and non-borrowers, the majority of whom have approached a financial institution for credit in the past. Almost all of them (87 percent) are either business owners or managers in businesses classified as micro, small or medium (primarily sole proprietors, 63 percent). There's an overrepresentation of women in the sample (72 percent) but this is not seen as an issue considering that women dominate the informal and service sectors in Nigeria.[12]

In terms of age, most respondents are in the age groups 25-34 and 35-44 years. The services sector dominates (education, fashion/beauty, entertainment, sales, and distribution etc), but there are also a fair number of respondents in agriculture and construction. Most of these businesses serve domestic urban areas (57 percent) and domestic peri-urban locations (43 percent). More than 60 percent of respondents had been in business for five years or more, which suggests their ability to provide comprehensive information on the impact of reforms as well as the challenges encountered.

Access to Finance Remains Key Challenge for Entrepreneurs and Businesses

Among the surveyed MSMEs, 84 percent cited access to finance as the greatest challenge to their businesses (figure 18). This is closely followed by lack of assets and working capital, judged to have a greater negative impact on business performance than lack of market access, raw materials, infrastructure, skills, and employees. Despite the challenges faced by MSMEs, almost all (93 percent) were optimistic that the business environment will improve at the time of the survey. This is perhaps the main motivation for their near universal aspiration to expand business operations in the next five years.

Figure 18: Current business challenges



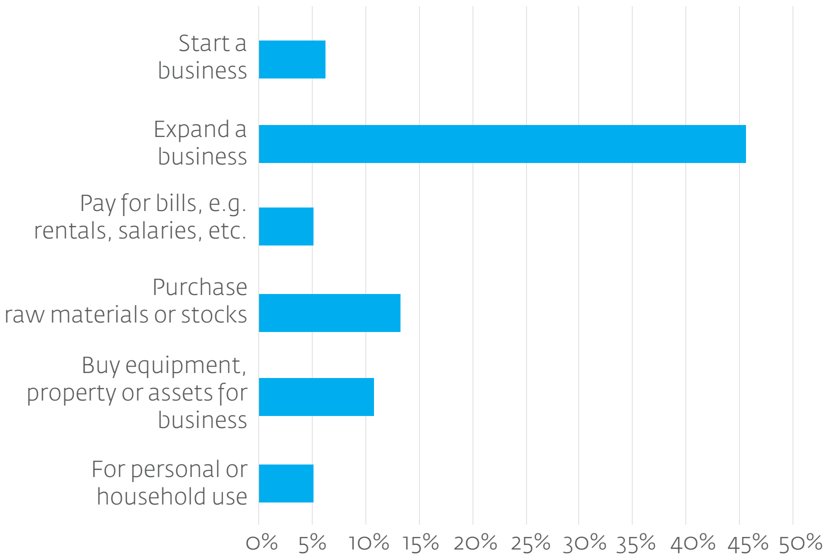
Commercial banks are the major source of credit for surveyed borrowers, though this may to some extent reflect the sampling method (see page 20). Microfinance banks, moneylenders, and savings groups or cooperative societies, are also regarded as ready sources of finance for businesses, although the data shows a record of relatively poor patronage (2-7 percent). Reasons for choosing commercial banks include existing relationships, credibility, reliability, availability of funds, ease of access, and low interest rates.

This is different to the choice of microfinance banks where access to loans without collateral is identified as a key motivator, along with ease of access/payment. Borrowers that access credit from moneylenders site ease of access and quick disbursement as the predominant motivating factors. Similarly, borrowers from savings groups and cooperative societies are motivated by the ease of access, in addition to the friendly terms of payment.

12 (C.f., Adeosun and Owolabi, 2021; Fapohunda, 2012)

About 76 percent of survey respondents who approached formal financial institutions received loans, primarily to expand business operations (figure 19). More than 50 percent of respondents borrowed money from informal sources or family and friends to meet similar business needs. Some resorted to informal sources when they could not access finance from formal institutions. Informal sources were thought to provide easier and flexible repayment, lower or no interest rates, shorter processing time, little documentation, and no need for collateral.

Figure 64: The purpose of the loan received



At the commercial banks, common collaterals are salary or business proceeds domiciliation, fixed assets/properties, guarantors, insurance certificates, and cheque or cash deposits. Microfinance institutions are flexible, issuing credits with or without collateral. Moneylenders do generally not request collateral from borrowers.

Borrowers Generally Pay Back Loans on Time and Are Keen to Borrow Again

Survey results indicate that savings groups and cooperative societies generally charge the lowest interest rates, with microfinance institutions, finance companies, development institutions, microfinance banks, moneylenders and commercial banks charging progressively higher rates, though often offering ranges of rates. Since commercial banks are still the largest source of finance among surveyed respondents, it follows that interest rates were not a key consideration for surveyed borrowers when seeking loans.

According to surveyed borrowers, the average time to pay back a loan varies by institution, but they indicate that money lenders have the shortest payback period of four months, while commercial banks, on average, require borrowers to make full repayments within 48 months. Development institutions ask for the same repayment period. For savings groups and cooperative societies, the average payback period is 24 months.

When it comes to loan processing, moneylenders remain the most efficient, and can process loan requests within a few seconds. Development finance institutions have an average processing time of seven days and savings groups/cooperative societies take about 10 days. Institutions with short processing time require little documentation from their customers and finalize loan approval without bureaucratic processes, allowing individuals and businesses to meet urgent financial needs.
Of surveyed borrowers, more than 70 percent repaid their loans on time. Challenges were largely caused by poor national economic

performance and factors beyond their control. Where a borrower failed to pay back the loan, the credit providers resorted to measures that included issuing a letter/visitation to the borrower, repayment period extension/restructuring, and reminder calls. Most borrowers (60 percent) said they would consider borrowing again from their current credit provider. In general, they said choice of credit provider was motivated by quick response to loan requests (48 percent), low interest rates (38 percent) and convenient repayment periods (40 percent).

Credit Bureaus Are Better Known and Leveraged Than The National Collateral Registry

A majority of respondents (56 percent) believe that there are significant challenges for businesses to access finance from formal financial institutions in Nigeria (figure 20). These challenges cut across different areas and have a varied impact. In addition to interest rates, key barriers include collateral and the volume of documentation and bureaucratic processes of formal financial institutions. Micro enterprises and start-ups that have limited or no social or financial assets find it particularly challenging to meet collateral requirements. High charges are also a barrier.

When asked how they thought these challenges can be addressed, borrowers had various ideas including through more interventions from government and regulatory authorities, including CBN; lower interest rates and friendlier loan requirements; more unsecured lending; more accessible collateral (movable); less cumbersome credit processes; a reduction in processing time; adequate information to customers; more meritorious consideration of loan requests; and an increase in the loan amounts and tenure of loan facilities.

At the same time, the findings show that many borrowers and would-be-borrowers lack awareness of the structural support for access to finance offered by recent credit infrastructure reform. Most survey respondents (59 percent) are unaware of the willingness of financial institutions to accept movable assets as collateral. Only a fraction (11 percent) have heard about the National Collateral Registry, and even fewer (6 percent) have ever had any creditor register a movable collateral with the National Collateral Registry on behalf of the borrower.

Figure 20: Do you think there are significant challenges in accessing loans by businesses?

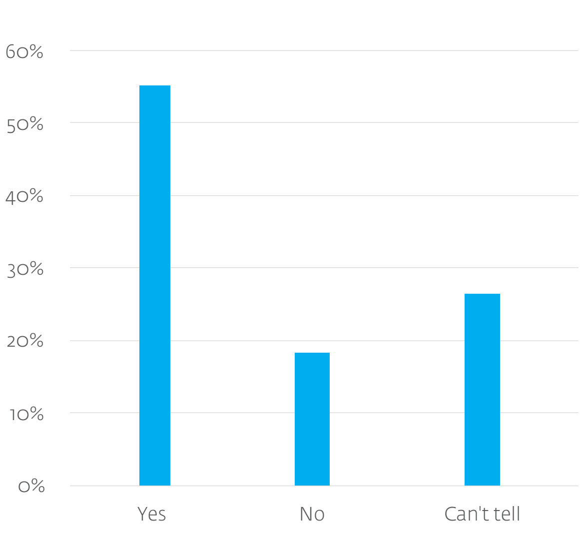
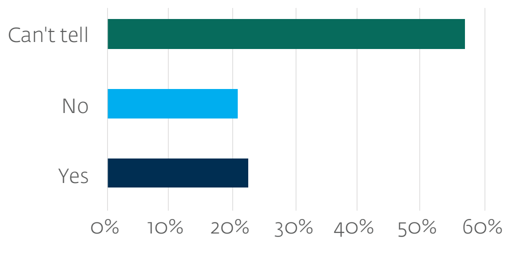


Figure 21: Willingness to accept movable assets by lending institutions



This can to some extent be attributed to poor or insufficient public information campaigns. Survey data also indicates that some lending institutions are still not willing to accept movable assets as collateral from prospective borrowers, which further limits the expansion and access to credit that the reforms are meant to achieve (figure 21). Survey findings show that fixed assets, personal guarantees, fixed deposits, cash flow, etc. are still very much in use as collateral. Still, many individuals expressed a desire to provide movable assets, equipment, devices, etc., as collateral for loans.

Similarly, the data shows that few borrowers (12 percent) have never contacted or used the services of a credit bureau. Yet, there is a higher level of awareness of the credit bureaus (64 percent) than of the National Collateral Registry. Most of those who did contact a credit bureau did so for self-enquiries about their personal credit information (65 percent) or to a lesser extent to make a case for inaccurate credit information (38 percent) or to complain about a breach of confidentiality (8 percent).

In general, respondents who had engaged with credit bureaus were content with the service. This is supported by the fact that many respondents claimed to have received a free credit report, which bureaus are mandated to provide. Borrower respondents believe that credit bureau operations have the greatest positive impact on documentation processing time and to make the treatment of loan applications less arbitrary, but also saw some positive impact on processing time, availability of credit, and interest rates.

Conclusions & Recommendations

The findings of this study are encouraging for the potential of credit infrastructure reform. Although only a few years have passed since the establishment of a National Collateral Registry in 2016 and the promulgation of the Secured Transaction in Movable Asset Act and the Credit Reporting Act in 2017, both credit providers and borrowers have noted some positive impact on the availability of credit, the terms of credit, and the behavior of borrowers, although several challenges remain.

The key task now will be to scale the impact of credit infrastructure reform to ensure wider and more pronounced results over the coming years. This means that both the coverage and utilization of the National Collateral Registry and the credit bureaus need to expand. According to 2019 data, credit bureau coverage in Nigeria stands at 13.9 percent, low in comparison with 66.5 percent in South Africa or 22.1 percent in Côte d'Ivoire, for example.

The full implementation of the STMAA is also critical. With more willingness to accept movable assets as collateral, the principal goal of the reforms to expand access to finance for previously excluded market segments may be realized. While the financial regulatory authority provides the legal backing, it is also necessary to ensure that the operating environment is structured to motivate credit providers to drive the reform objectives.

A change in attitude can also directly facilitate greater awareness on the use of movable assets as collateral and the services of credit bureaus among individuals and MSMEs. The data indicates that the National Collateral Registry contributes less significantly in terms of number and volume of credit accessed compared with the credit bureaus, primarily owing to creditors' preference for immovable security, but also lack of awareness among borrowers. More measures to increase movables lending should be developed, perhaps by means of positive market incentives.

The lack of awareness of National Collateral Registry and, to a lesser extent the credit bureaus, also indicates the need for more and effective public education. Training targeted at credit givers may also be beneficial. The general view is that by providing training on the use and benefits of credit bureau products the services of credit providers will be improved. The same should be true for the services rendered by the National Collateral Registry.

In terms of next steps, the study suggest that the following five initiatives could serve to further deepen the impact of recent credit infrastructure reform in Nigeria:

- **Financial institutions can leverage the STMAA and collateral registry system to expand lending to micro and small businesses to diversify lending portfolios and foster the evolution of an inclusive financial system.** This will require scaling up of skills, especially of movable asset lending product design, valuation, and management of movable asset collateral as well as utilization of credit de-risking tools including guarantees and insurance.

- **The difficulty in enforcing security in case of repayment default and constrictive prudential requirements for movable asset collateral compared to immovable asset collateral requires attention.** Though BOFIA 2020 has introduced Credit Tribunals among other measures, the 25 million threshold limits applicability to loans for medium and larger businesses. It appears at odds with the philosophy of corporate restructuring in insolvency promoted by CAMA, 2020, that acknowledges "small company" (corresponding to micro businesses) especially as BOFIA overrides other regulatory statutes. CBN should re-examine the apparent policy discordance, clarify the direction, and evolve a nuanced approach that does not subvert the financial inclusion of micro and small enterprises.

- **Public sector policy makers and regulators as well as relevant private sector operators should actively promote effective public education and literacy programs that can increase the level of awareness of the relevant public about the emerging credit infrastructure.** Lack of awareness of STMAA by over 90 percent of respondents (borrowers) and to a significantly lesser extent the Credit Reporting Act, indicates the need for more and effective public education and enlightenment for borrowers.

- **The Central Bank should facilitate the harmonization of data collected and reported upon by the different credit bureaus.** A notable shortcoming of this study is the lack of harmonization in the capture and storage of data by the different credit bureaus. This had significant implications for reporting the extent to which the reforms to the credit infrastructure have impacted access to credit for micro, small, and medium enterprises in Nigeria.

- **Credit bureaus can improve their data collation and analytics capabilities to ensure quality data is provided to aid macroprudential supervision and policy by the central bank.** The quality of periodic data and information rendered to the central bank by the credit bureaus has been poor and inconsistent with their statutory obligations. Enforcement by Central Bank of uniform data reporting templates by credit bureaus and financial institutions would be helpful.

How the Research Was Done

The full study of the impact of recent credit infrastructure reform in Nigeria employed both quantitative and qualitative methods. This summary report reflects the findings of the quantitative findings of this study, based on surveys conducted among 30 credit providers and 158 borrowers or would-be-borrowers. Not all questions were answered by all respondents, and survey responses should be interpreted with caution.

A purposive sampling method was adopted when selecting a sample of 30 credit providers, which were emailed directly by the CBN. The credit providers were approached to each recruit 30 borrowers from their record to complete the demand-side sample. The administration of the survey instrument lasted three weeks, from 15 December 2020 to 11 January 2021. A total of 217 borrowers attempted the survey, but not all completed the instrument. After data cleaning and filtering, only 158 questionnaires were found useful and were analyzed and reported. Both supply-side and demand-side instruments were hosted on Survey Monkey and links were provided by the CBN and credit providers to the respondents.

Acknowledgements

This research study was supported by the UK Foreign, Commonwealth & Development Office (FCDO). IFC commissioned Olawale Ajai, Professor of Legal, Social & Political Environment of Business, Lagos Business School, Pan Atlantic University, to conduct the research study on which this report is based, with the assistance and participation of Dr Ikechukwu Kelikume and Mr Tayo Muritala, both of the Lagos Business School.

On the IFC side, the research study was managed by Ubong Awah, Senior Specialist, Credit infrastructure, IFC Financial Institutions Group Advisory, Africa, with support from Luz Maria Salamina, Moyo Violet Ndonde, and Zipporah Anuga. The team would like to thank IFC colleagues Kalim M. Shah, Riadh Naouar, Hasan Shahriar, and Soren Heitmann for their input and support for this project.

Special thanks to the Central Bank of Nigeria notably Ms. Aisha Ahmad, Deputy Governor, Financial System Stability, who gave full support to the project, and the following; Mr. Hasan Mustapha, Director of Banking Supervision, Mr. Musa Igabi, Assistant Director/Lead, Credit Reporting System Supervision, Mr. Christian Nwosu, Principal Manager, CBN/National Collateral Registry, Ms. Lami Ashwe, Assistant Director, and Mr. Cape Coast Obudah, both of the Credit Reporting System Supervision Unit.

This report was edited and formatted by Lisa Johnston, Anna Koblanck, and Max Roussinov, at IFC.

Acronyms

API	Application Programming Interface
BOFIA	Banks and Other Financial Institutions Act
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CGAP	Consultative Group to Assist the Poor
CPS	Credit to Private Sector
CRA	Credit Reporting Act
CRMS	Credit Risk Management System
DMBs	Deposit Money Banks
EFInA	Enhancing Financial Innovation and Access
Fintech	Financial Technology
FSI	Financial Soundness Indicators
GDP	Gross Domestic Product
IFC	International Finance Corporation
KYC	Know Your Customer
MSME	Micro, Small and Medium Enterprises
NCR	National Collateral Registry
NFIS	National Financial Inclusion Strategy
PLR	Prime Lending Rate
STMA	Secured Transaction in Movable Asset Act
WBG	World Bank Group
ToC	Theory of Change

Contact details

Ubong Awah
Financial Institutions Group Advisory, Africa
uawah@ifc.org

Foreign, Commonwealth & Development Office
International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities