It Started in Ghana: Implementing Africa’s First Collateral Registry

We all want to build something that matters. From the Advisory Services perspective, no matter the business line, it’s about helping meaningful players accomplish sustainable results. However, entering a continent with a new product is something that can be extremely challenging. This SmartLesson tells of a project that—against all odds—installed the first online collateral registry in Africa, designed in line with international best practices and following principles established by the United Nations Commission on International Trade Law.

Background

Secured Lending in Ghana is an ongoing project that started in 2008. The objective was to expand access to business credit and to encourage private sector growth by supporting the development of a secured-transactions system. The project was designed to: 1) address shortcomings in the legal and regulatory framework of secured lending; 2) support the appropriate institutional framework for the delivery of the functions of the registry; and 3) disseminate knowledge through a communication strategy and build capacity among stakeholders to accelerate the acceptance of the reforms and sustain their implementation by changing behaviors and mindsets in Ghana.

In 2008, a baseline study conducted in Ghana concluded that about 85 percent of the lending activities of commercial banks were biased toward state-owned enterprises and large corporate clients (both local and foreign), due to their low risk profiles. The fact that there was no national identity card system, no credit information bureau, and no collateral registry at that time made lending to lesser-known clients a riskier activity. Lenders were wary of extending credit to small and medium enterprises (SMEs) because of the lack of collateral or the risk that the same collateral would be used for multiple loans. On the other hand, there was some SME lending, but it was limited to those borrowers that offered immovable property as collateral.

The Secured Lending in Ghana Project had set quite an ambitious goal, given that Ghana was going to become the first country in Africa to have an electronic collateral registry in place. That meant it would be seen as a model for other African countries to follow. Ghana was not chosen at random. It was the first African country to show genuine interest in establishing a secured-transactions framework. In late 2008, Ghana’s parliament passed the Borrowers and Lenders (B&L) Act. This law aimed at improving standards of disclosure of information by borrowers and lenders and prohibited certain credit practices, in addition to promoting a consistent credit-enforcement framework. The act also established the collateral registry. At that point, the Bank of Ghana (BOG) requested IFC’s assistance in modernizing the existing rudimentary registry.

Although still not a perfect legal framework, the current B&L Act was a good start to encourage lenders to accept diverse movable property as collateral for credit. However, more steps were needed to fully adapt the act to international best practices. With IFC’s assistance, the BOG was able to propose amendments to the Act and to design a
modern web-based registry. Even though the project is not expected to finish before mid-2015, we believe it has been a success, as measured by the number of registrations in the collateral registry since its implementation (40,554 registrations—more than five times the initial target). As of June 2012, more than 5,000 SMEs and 22,000 microbusinesses had received loans secured with movable property, granted by banks and nonbank financial institutions, corresponding to more than $3 billion in financing.

Lessons Learned

**Lesson 1: Choose wisely:** The project’s success is directly proportional to the commitment and influence of your partners.

The Secured Lending in Ghana Project has been possible because of the following:

- Excellent work undertaken jointly by the IFC Global Team in collaboration with the country office, not only providing the required technical expertise but also adding pace and confidence in the implementation process.
- The strong commitment, support, and political influence of the project initiator and champion, the BoG. To support the implementation of the project, it is important to look for a partner that has a strong commitment and disposition toward achieving the results as well as being generally trusted and respected by the population.

At all times, the BoG has remained open-minded and demonstrated a collaborative spirit, with high professional integrity. One way to judge or evaluate a partner’s commitment is through establishing clear and well-defined contributions in the cooperation agreement. What are they willing to contribute to the project? The BoG committed to the project with an in-kind (not monetary) contribution consisting of its own resources and time. The BoG put together a team to work on the B&L Act that established the collateral registry; it 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, and it has the credibility to ensure that a secured-transactions reform is implemented. People have to feel that the institution they are giving the information to is trustworthy, which made the BoG an ideal candidate.

We present the Ghana example as a demonstration of what central banks can do to promote the financial system for broader economic development. A strong, committed institution needs to take charge of such initiatives to ensure timeliness in execution and success (see Figure 1).

**Lesson 2: Sooner rather than later:** Public awareness must start parallel to the implementation of the reforms, if you’re going to be able to reach the majority of end users and benefit from positive network effects.

Even with strong partnerships, establishing a collateral-registry reform takes a long time and quite a few resources. So it is crucial that, by the time the collateral registry is in place, stakeholders such as banks, nonbank financial institutions, and enterprises have been informed about it and are ready to make it part of their business routine.

A collateral registry’s success depends on its users. Lenders should know the benefits of using it. The collateral registry is a crucial tool to assess their risk and make prudent financial decisions, since it brings

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Constance Swaniker (left)—chief executive officer and founder of Accents & Art, Ghana—is an artist who started creating her pieces of art (mostly furniture or home accessories) for a little pocket money. After a while, she was able to access her first loan by pledging her machinery as collateral. Thanks to the loan, she expanded her business and hired more than 30 men and women from the local community. Now she is able to meet all the growing demand for her products.
transparency to the financial system. It protects their interest in a specific collateral and establishes their priority by determining whether a movable asset has been pledged before to guarantee other loans. Thus, banks and nonbank financial institutions, as the main users, need to populate the registry with information about the movable-asset-based loans they are granting. This is part of the benefit of positive network effects.

Unfortunately, in Ghana the BoG didn’t have the capacity at that time to deal with the increased workload that an awareness and communication campaign will bring. In fact, the collateral registry started working in 2010, but there are still lenders and borrowers that are unaware of its existence. Promotion campaigns should have taken place earlier in the implementation process. It is important to raise awareness at every level, even before the collateral registry is in place. In Ghana, we should have created the demand for the product earlier—at the time the collateral registry was being built—but this was not possible because of the lack of resources from the client side.

Raising curiosity and knowledge among the population will create the positive network effects that will denote the success of the secured-transactions reform. Looking forward to Ghana’s next steps, IFC has hired a local public relations company, which is working with the BoG to enhance stakeholder awareness of the provisions of the B&L Act and the operations of the registry. Box 1 lists seven of the lessons we learned about raising awareness during the project.

Lesson 3: Under the same roof: When possible, engage local stakeholders.

It was not arbitrary that to spark awareness, IFC hired a Ghanaian public relations company with better knowledge of the local market. The Ghana project proved that, whenever possible, it is best to use local providers. Still, there are certain issues to be wary of when hiring locally, such as the following: Does the country adhere to international standards? Does the country possess enough infrastructure? resources? commitment to good service?

In Ghana, we found that the country did have the resources, commitment, and best practices in customer service to serve the needs of the collateral registry. The first local company hired was a Ghanaian information technology (IT) 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 created a sense of ownership for the BoG. It was no longer necessary to subcontract a foreign third-party enterprise to solve an issue of a developing country. In this project, the developing country did it its own way. We found out that embedding the local IT firm within the registry staff contributed to knowledge sharing and a deeper sense of belonging to a team that was working toward the same goal. Understandably, it will not be possible to hire local resources in all IFC destinations. So a bonus benefit of using a local IT firm from a developing country such as Ghana is that, once the software is created, projects can use it in other countries that lack the infrastructure that Ghana had.

Lesson 4: Keep in mind your target, but account for potential impact in underserved segments: How secured lending in Ghana affected microenterprises and women.

When the secured transactions and collateral registries team started Ghana’s reform, the objectives of the project were to benefit SMEs. The plan was to increase access to credit for SMEs. However, when gathering the data, we surprisingly

Box 1: Seven Takeaways from Raising Awareness in a Communications Campaign:

- Keep a long-term vision
- Convince, don’t impose
- Be context-sensitive
- Plan, not react
- Invest, not spend
- Track impact
- Be the owner—help make it work!
discovered that the majority of firms reached were microenterprises and women entrepreneurs. With more than 22,000 loans to microenterprises in the first six months of 2012, it has become the first project with such an important reach.

Thus, we have learned that a secured-transactions reform can very well affect microenterprises, and that they should be included in our targets and metrics. It is important to open the scope in data gathering to allow for variables that you may have thought were not affecting the project. As a result, we now measure microenterprise reach as part of the IFC Development Goals (Financial Services).

Women have been especially affected by the secured-lending reform. According to an Access to Credit survey of women entrepreneurs in Ghana, women tend to own fewer and lower-value assets. Thus, thanks to the security that the collateral registry presents to banks in assessing risk, women are able to use their assets to access credit. More than 10,000 women entrepreneurs have been able to gain access to finance using movable assets as collateral.

Lesson 5: The more, the merrier: Developing strategic knowledge-sharing platforms can multiply the results across borders.

Sharing knowledge across countries helps us realize the feasibility of the reforms, using as models other countries that have already undergone such reforms. Once the collateral registry was working at full speed, IFC decided to embark on a peer-to-peer (P2P) learning event in Accra, Ghana’s capital. More than 110 participants from 14 African countries attended the event, representing government agencies, financial institutions, and the private sector.

The goals of the P2P event were to share best practices, ideas, opinions, and expertise on the legal and institutional framework governing the creation, registration, and enforcement of security against movable assets in Africa; and to provide the opportunity for other African countries to learn from Ghana’s experience in implementing a secured-transactions reform that has successfully facilitated access to credit for businesses and individuals using movable assets as collateral for loans. Figure 2 shows the results of a survey of participants following the P2P event in Accra. It indicates how much the participants felt that they had increased their knowledge about secured transactions and collateral registries as a result of the event.

Developing a strategic learning platform such as the P2P event in Ghana has a multiplier effect in other countries, encouraging them to undertake the necessary steps to improve access to credit through secured-lending reforms in their own countries. These initiatives have to be
strategic, in the sense that the setup of the event is almost as important as the event itself. It was the setup of the P2P event in Accra, Ghana that made it a success.

There were two key elements that made the setup successful. First, targeting the right people, such as decision makers from different countries that were ready to make a difference and were willing to take on such a reform. Second, using colleagues to help identify and fund the attendees. This effort was a combination of World Bank and IFC personnel, including staff from three different business lines in IFC Advisory Services.

CONCLUSION

The Secured Lending in Ghana Project has proven that IFC is still succeeding in expanding new products across regions, even if it’s for the first time. We consider this project a sustainable, replicable model that combines local resources and international expertise—a pioneer for other countries to follow. Some African countries have already formally expressed interest in implementing a secured-lending reform inspired by Ghana’s success in developing one of the best collateral registries worldwide. Furthermore, it sets a precedent to encourage other IFC teams to break geographical frontiers and explore new markets. Let’s keep it up!

“The Ghanaian example will help my country a lot in implementing similar reforms. Apart from the interaction with representatives from other African countries, what was most interesting for me has been learning what steps my country needs to take in creating a best-practice model for reforms, especially how to regulate business activities in the formal and informal sector of Burundi.”
—Melchior Wagara, Deputy Minister of the Central Bank of Burundi