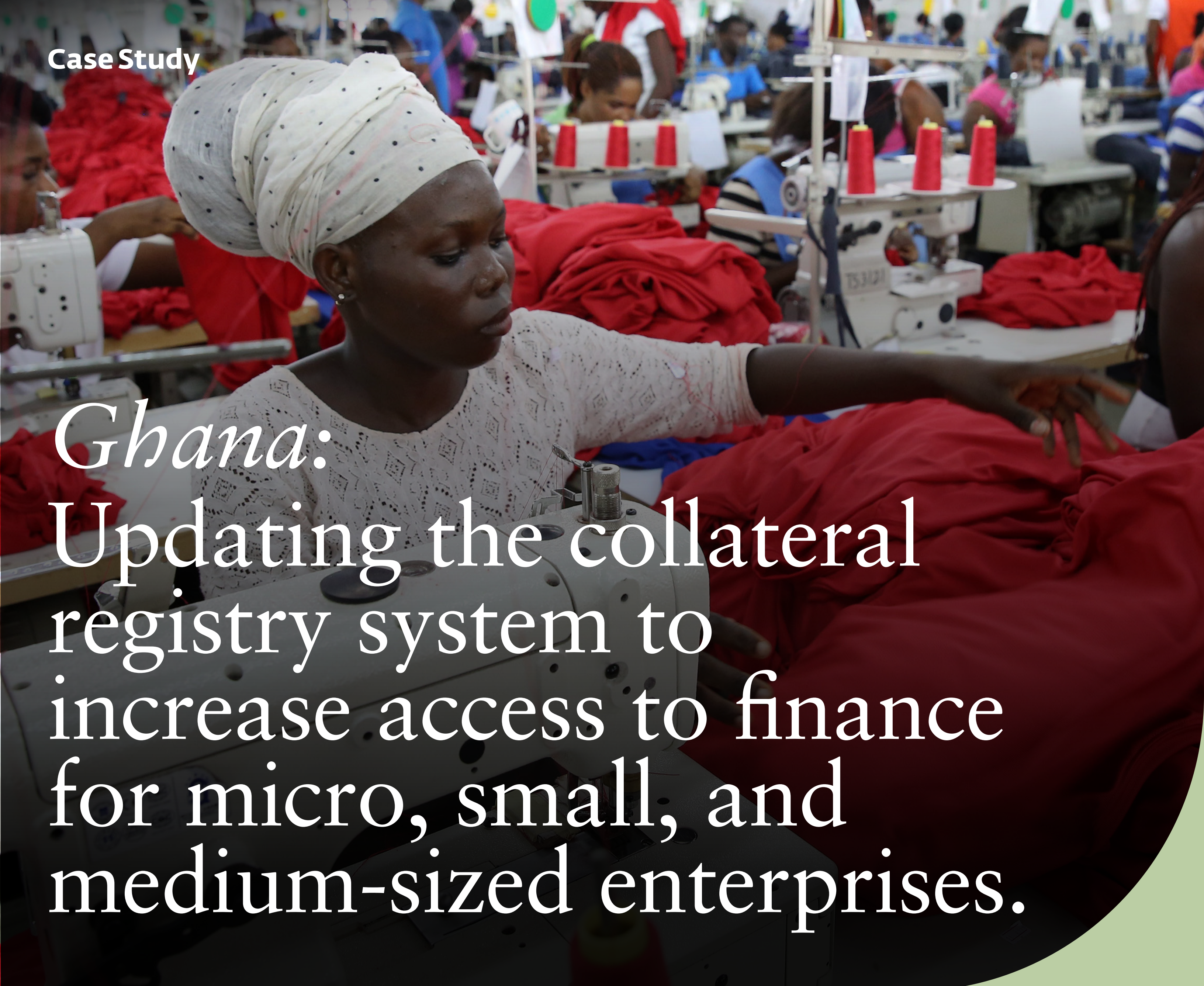
Case Study



Ghana: Updating the collateral registry system to increase access to finance for micro, small, and medium-sized enterprises.

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IFC International Finance Corporation
WORLD BANK GROUP

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Dignity factory workers producing shirts for overseas clients, in Accra, Ghana on October 13, 2015.

About IFC

IFC — a member of the World Bank Group — is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2024, IFC committed a record $56 billion to private companies and financial institutions in developing countries, leveraging private sector solutions and mobilizing private capital to create a world free of poverty on a livable planet. For more information, visit www.ifc.org.

About SECO

The State Secretariat for Economic Affairs (SECO) implements Switzerland's economic and trade policy measures for the benefit of developing countries. It coordinates its activities with the Swiss Agency for Development and Cooperation (SDC) and the Peace and Human Rights Division (PHRD) of the FDFA. The three administrative offices implement Switzerland's international cooperation together. For more information, visit www.seco-cooperation.ch

Introduction

Ghana is one of the fastest developing economies in Sub-Saharan Africa, but financial inclusion remains a challenge that requires improvement.

Since 2012, the International Finance Corporation (IFC), a member of the World Bank Group, has been working with the Bank of Ghana (BoG) and key stakeholders to introduce regulatory and institutional reforms for improving credit bureau operations and implementing a modernized, web-based collateral registry to increase access to finance for micro, small, and medium-sized enterprises (MSMEs), including women-own MSMEs, in Ghana.

Private-sector credit in Ghana has been consistently lower than expected in recent years, with the financing gap now estimated to be around 13% of gross domestic product (GDP). The gap has widened due to several factors, including a reduced risk appetite among banks arising from the economic slowdown, a steady deterioration in asset quality, the closure of problem banks, and high levels of public sector borrowing; this has made investment in government securities highly profitable. While Global Findex data indicate that the percentage of individuals borrowing increased from 40% in 2017 to 52% in 2021, only 17% of these borrowers accessed credit from a financial institution. Lenders often cite information asymmetries, stringent collateral requirements, and weak creditors' rights as key limitations for extending credit to micro and small businesses.

The MSME sector is estimated to employ more than 80% of the workforce in Ghana, generating over 70% of GDP. The majority of these enterprises are informal, consisting mainly of micro and sole enterprises operated by women and young entrepreneurs, and are significantly impacted by lack of information and collateral constraints that limit access to finance. MSME access to finance has been identified by the government of Ghana and development partners as a key constraint and top priority area for assistance.

At the time of the project's implementation, major gaps in the market had limited SME finance. As of 2014, only 64.8% of Ghana's banks used the collateral registry. Nonperforming loans among commercial banks were disproportionately high compared to other emerging markets, and four to six times larger than in developed markets. Ghana's banking universe comprises the central bank (BoG), 30 commercial banks, 137 rural banks, 58 nonbank financial institutions, and 425 microfinance institutions.

One of the common issues in access to finance among MSMEs is due to unacceptable or unsuitable collateral. A review of the quality of bank assets revealed a strong need for the effective use of a collateral registry system and the legal remedies it provides. While secured lending for microfinance loans often relies on moveable collateral, the majority of MSME financing provided by commercial banks and nonbank lenders is secured by immovable assets, primarily land and buildings; there is insufficient use of the collateral registry. Secured transactions in Ghana are regulated by the Borrowers and Lenders Act (2009), which requires further amendments to address gaps and conflicting clauses with other legislation, and to align with international best practices. Financial institutions and key stakeholders have demonstrated a limited understanding of the Act's application in commercial transactions, particularly in managing movable collateral in a way that is consistent with sound credit policies and processes.

Updating the collateral registry system for movable asset-based lending

The project contributed to creating an improved and secured lending system, opening up the markets for movable asset-based lending (MABL) in Ghana; this took place between June 1, 2016 and December 31, 2019. IFC's intervention included enhancing the institutional, legal, and regulatory conditions that would allow MSMEs to secure credit through the use of movable assets to improve access to finance. IFC's role focused on providing legal advice and technical guidance for the enactment of the new law, upgrading and improving the existing online collateral registry system and its usage, and providing technical training and awareness for stakeholders. Digitalization and prosperity were the relevant priority verticals. Activities involved training, communications, and a public awareness campaign to build local interest and capacity for leveraging the new and improved transactions system.

Step 1 required strengthening the legal and regulatory framework by:

- Working closely with BoG legal interdepartmental committee and broader drafting committee (including the Ministry of Finance) to (i) incorporate recommendations to the revised version of the Amendments to the Borrowers and Lenders Act, (ii) draft necessary regulations to support the Act, (iii) advocate and lobby with relevant government actors and legislators to broaden their understanding of the importance of the legislative changes in the financial sector;
- Working closely with BoG to engage financial institutions and other relevant stakeholders in understanding the application of the Act;
- Organizing dissemination workshops to raise awareness of the law among the judiciary, court officials, relevant authorities, lenders, and legal practitioners;
- Surveying financial institutions, court officials, bailiffs, and public auctioneers regarding issues with the enforcement process and making the necessary legal and institutional recommendations required to streamline the process, increase transparency, and reduce realization costs.

Step 2 involved the training, awareness, and capacity building processes. **Step 3** involved the registry system enhancement.

The expected development outcomes included updating the legislation in the form of amendments to the existing law and enhancing the existing collateral registry system. The project team trained stakeholders to implement these two outcomes.

$53.1B

in financing equating to over $63,000 in new financing across all types of firms for every dollar spent on project expenses.

Results – a reformed legal and institutional framework and significant facilitated financing

Project outcomes

The project initiated efforts toward drafting the new law for movable collateral and delivered 15 workshops, training events, seminars, and conferences to the benefit of seven hundred twenty attendees.

Additionally, the project facilitated $53.1 billion in financing, equating to over $63,000 in new financing across all types of firms for every dollar spent on project expenses. The project exceeded its targets significantly when comparing the baseline year (2015) with the final year (2019):

- Value of financing facilitated: Baseline $12 billion, Target $44 billion, Result $53.1 billion.
- Number of microenterprises that received loans secured with movable assets: Baseline 62,000, Target 120,000, Result 293,000.
- Number of small and medium enterprises that received loans secured with movable assets: Baseline 12,000, Target 25,000, Result 31,000.
- Value of financing facilitated to women borrowers: (No baseline data), Target $350 million, Result $525 million.
- Number of women borrowers: Baseline 31,000, Target 60,000, Result 194,000.
- From 2018, the number of women-owned MSMEs receiving loans secured with movable assets has grown every year compared to the previous six months of movable asset registry activity, except in 2022, presumably due to the COVID-19 pandemic (see Table on page 6).

Results in numbers

$53.1B

Value of financing facilitated

293K

Number of microenterprises that received loans secured with movable assets

$525M

Value of financing facilitated to women borrowers

194K

number of women borrowers

Market outcomes

IFC's intervention has made a significant contribution to creating a reformed legal and institutional framework and a modern secured lending system for movable asset-based lending in Ghana. Financial Institutions are now better informed about the benefits and new tools available for credit delivery through the enhanced collateral registry, with more than 300 already participating as lenders, including some of the largest banks. These institutions have benefitted from targeted technical training, gaining a broader understanding of the new methods available using a wider range of assets. This achievement is the result of strong collaboration and commitment between IFC and the BoG.

By the end of June 2019, the newly improved collateral registry had recorded over 269,000 secured charges. Since the project's inception, the value of financing has exceeded $1 billion for microenterprises and $5.8 billion for SMEs. The end of project evaluation states that "in the last three years, movable assets grew by 67% compared to immovable assets which grew by 27% for that period….The proportion of SME loans secured by movable assets for the financial institutions that were surveyed in the project completion evaluation were 93%, 91%, and 92% for 2017, 2018 and September 2019. Out of the reported value of loans secured by the sampled institutions for 2017, 2018 and 2019 (September), movable assets constituted 83%, 83% and 81% for the respective years." These are similar to the figures reported in 2018 in the BoG Annual Report. According to the BoG, 88% of secured assets were movable and a further 7% were a combination of movable and immovable. Whilst the percentage figures are fairly constant, the overall lending market and the volume of MABL experienced substantial growth, which was confirmed by stakeholders during interviews.

Partners

IFC partnered with the Bank of Ghana, the Ministry of Finance, commercial banks, and a network of microfinance associations. IFC also partnered with SECO (State Secretariat for Economic Affairs, Switzerland), the donor funding the project.

Annex

Data from Ghana's Movable Asset Registry in USD

	2018	2019	2020	2021	2022	Total (rounded)
Value of loans disbursed to MSMEs secured with movable assets (millions)	544	499	501	484	297	2,324
Number of MSMEs receiving loans secured with movable assets (thousands)	82	96	102	151	97	527
Value of loans disbursed to women-owned MSMEs secured with movable assets (millions)	67	79	80	106	65	396
Number of women-owned MSMEs receiving loans secured with movable assets (thousands)	50	63	69	111	73	367