

C • E • A • L

Center for the Economic Analysis of Law

WASHINGTON, DC

**Nigeria: Economic Impact of Secured
Transactions Reform***

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May 2009

*Mission discussion presentation

Secured Transactions

- Economics of collateral -- why is it important?
- Outline of project
- Work to date
- Request for guidance

Overview of economic impact

- FSS 2020 objectives
(2007 Workshop, Washington, DC)
- Improve business access to credit
 - *Movable property as collateral*
 - *Leasing*
- Improve operation of financial sector
 - *Securitize mortgages, chattel paper, accounts receivables*
 - *Reduce risk for a given amount of credit*
- Improve access to credit by the poor

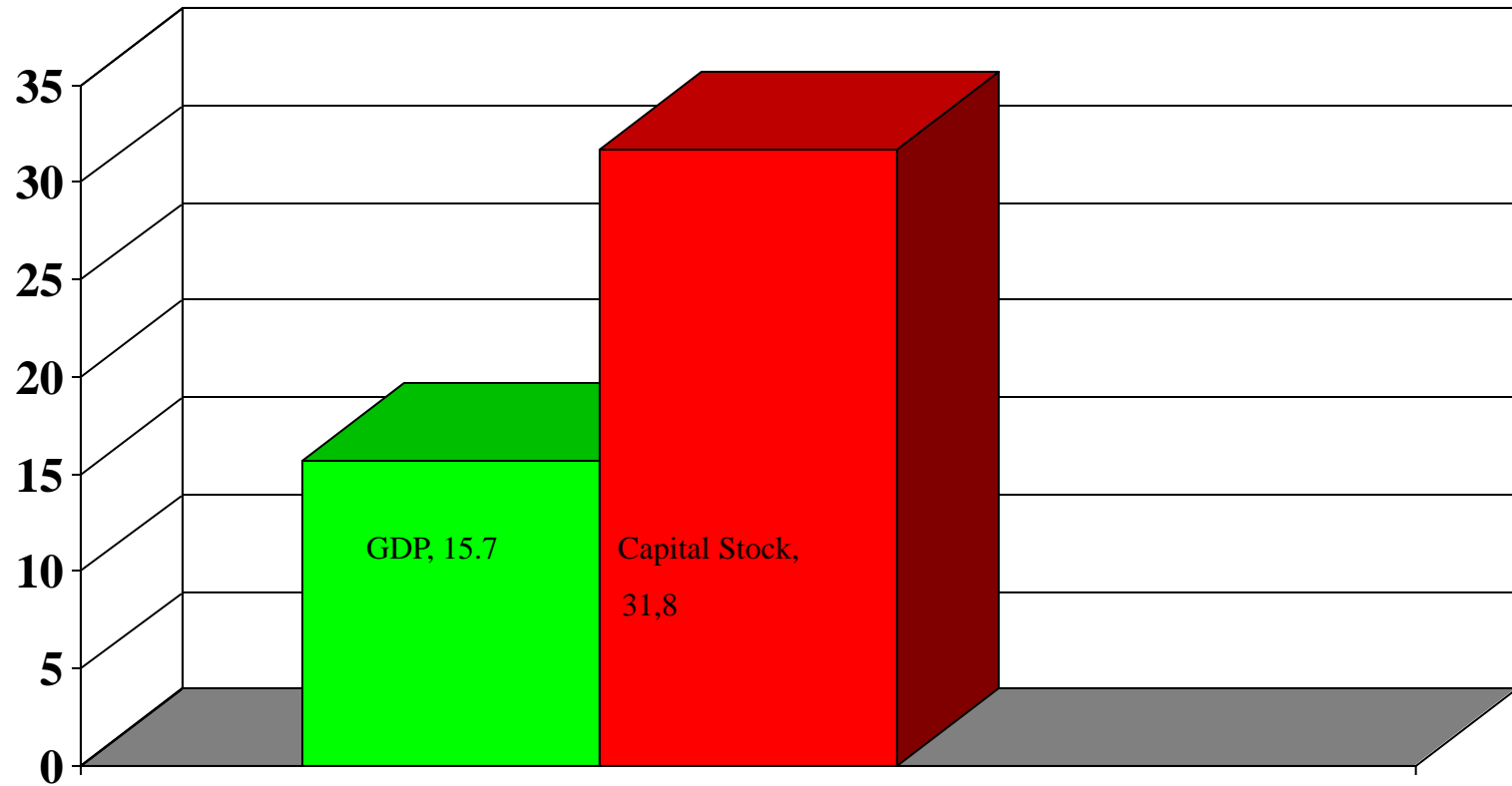
Nigeria GDP

(trillions of naira, 2007)



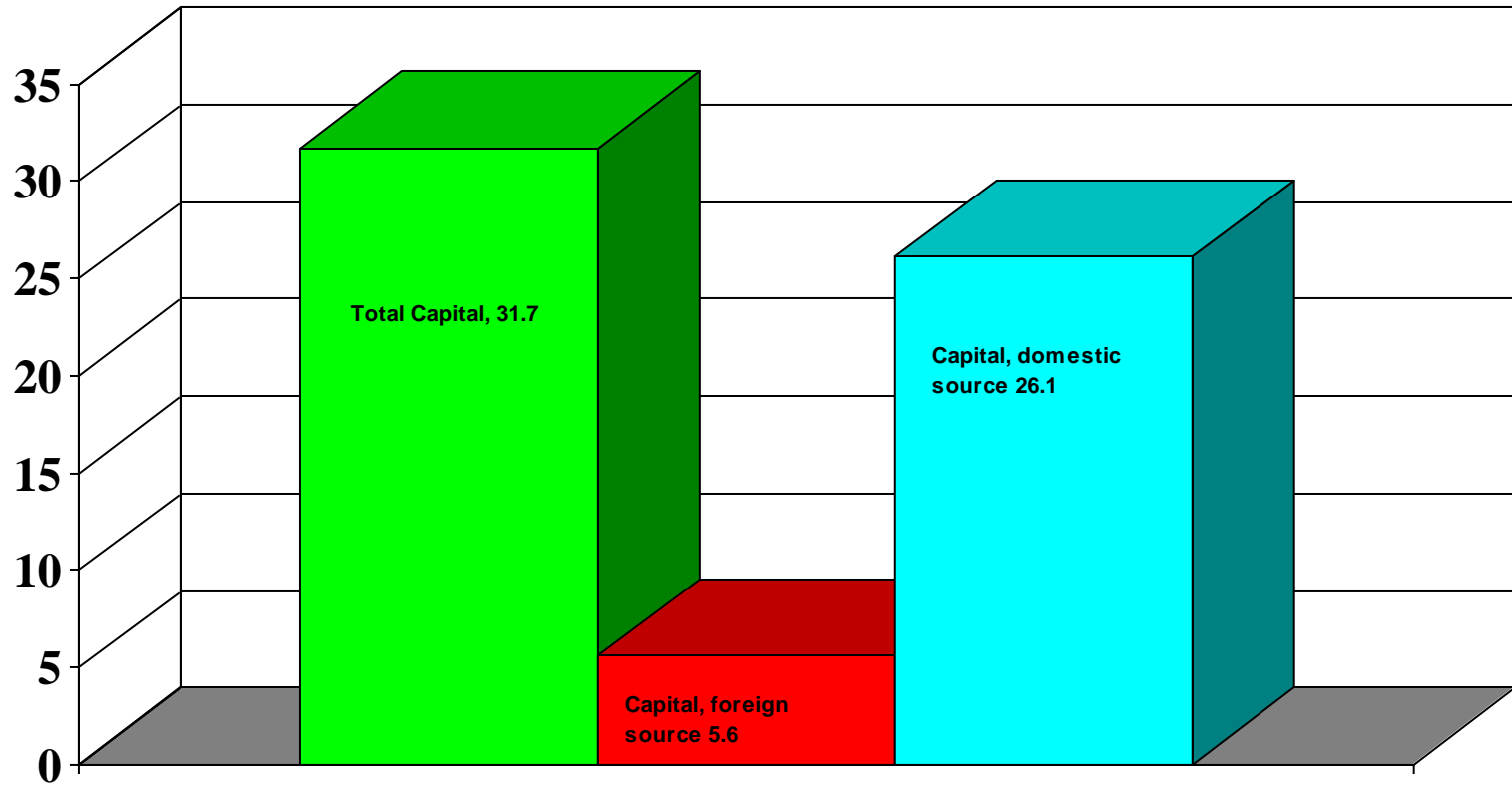
Nigeria: GDP, Capital Stock

(trillions of naira, 2007)



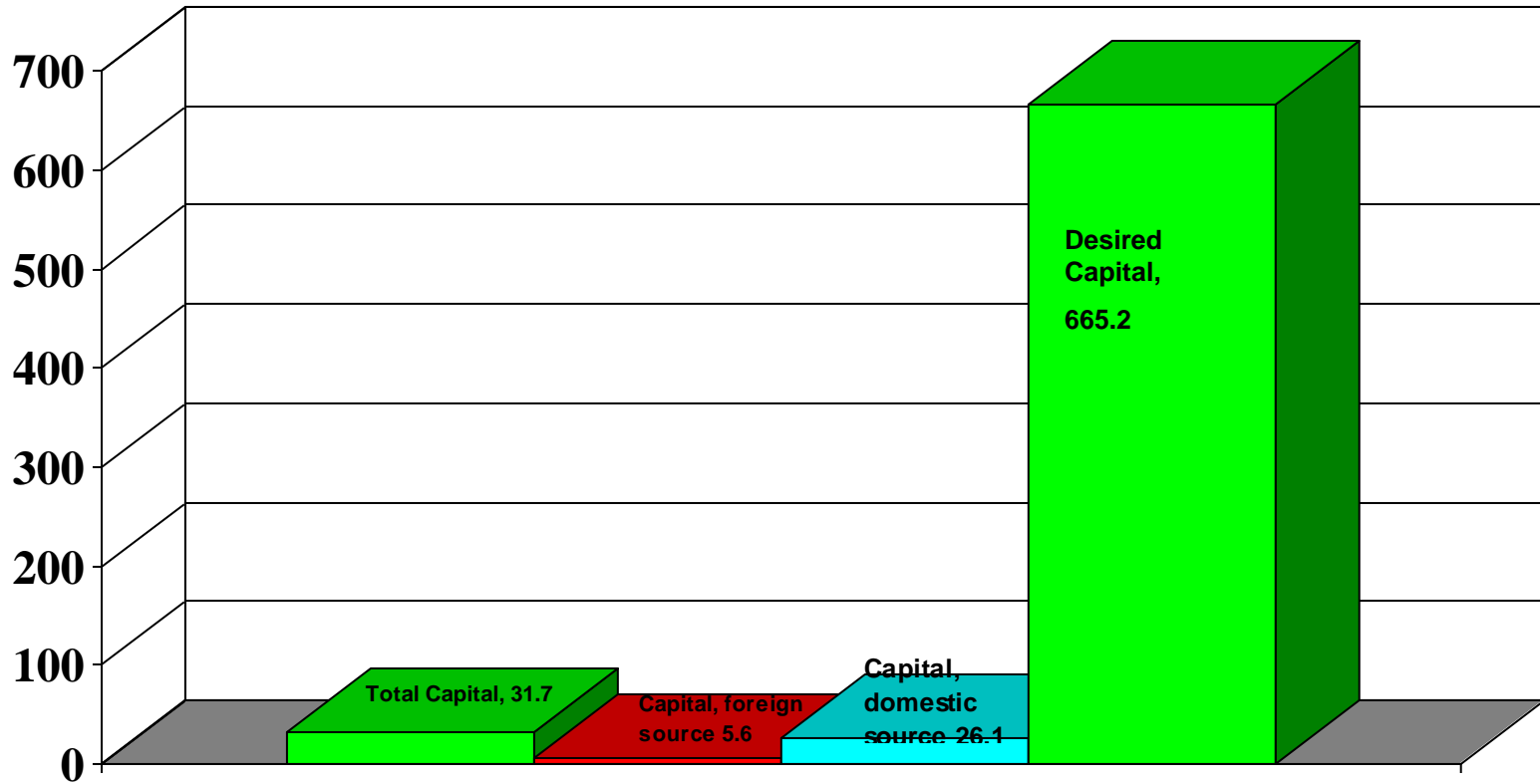
Nigeria: capital stock, total and by source

(trillions of naira, 2007)



Nigeria: capital stock, total and by source

(trillions of naira, 2007)

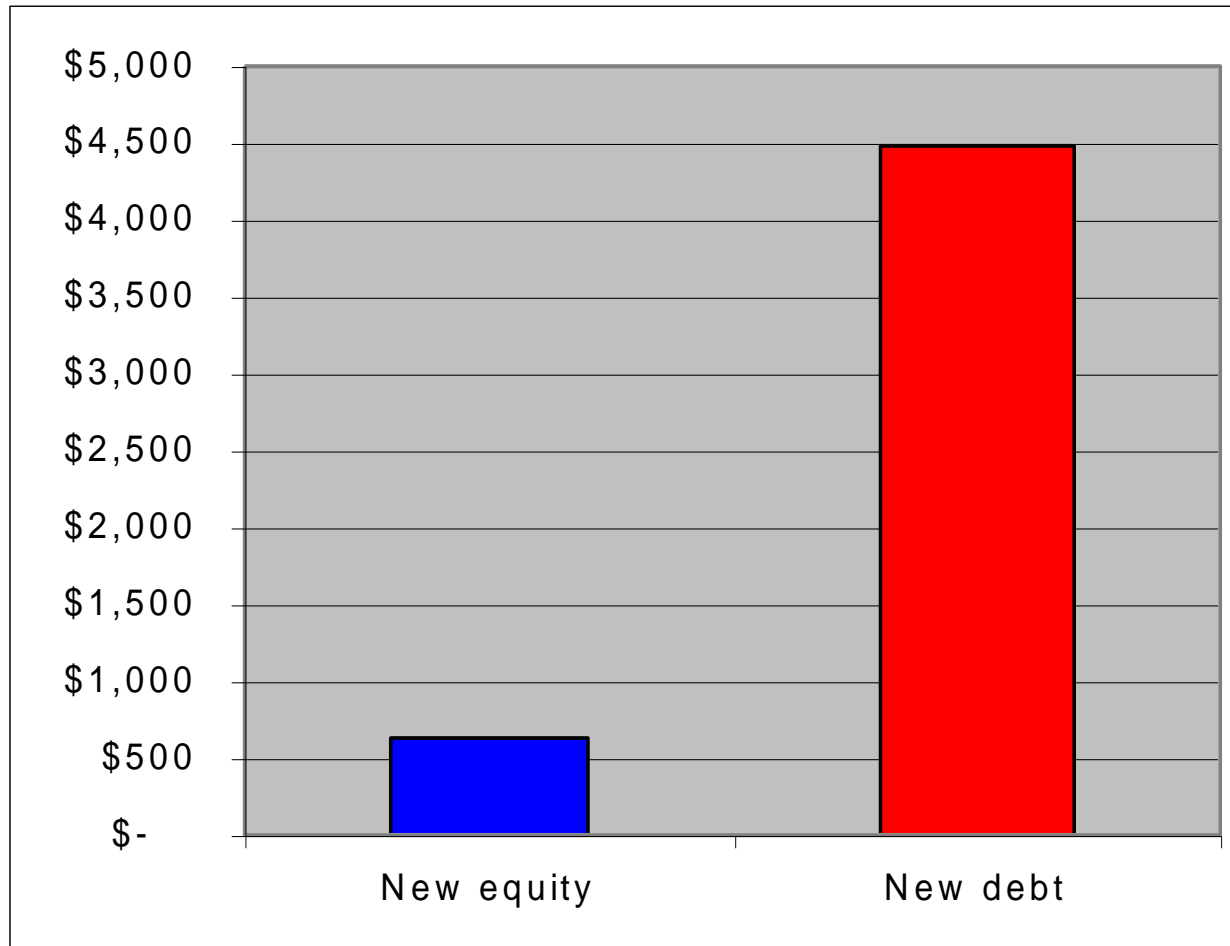


How will Nigeria finance this larger capital stock?

- Equity
- Debt

US: More debt than equity

US new equity issues and debt finance, 2001-2006



Issue: How do we increase private debt financing in Nigeria?

Answer the main question facing any private lender:

How do I get my money back?

Answer:

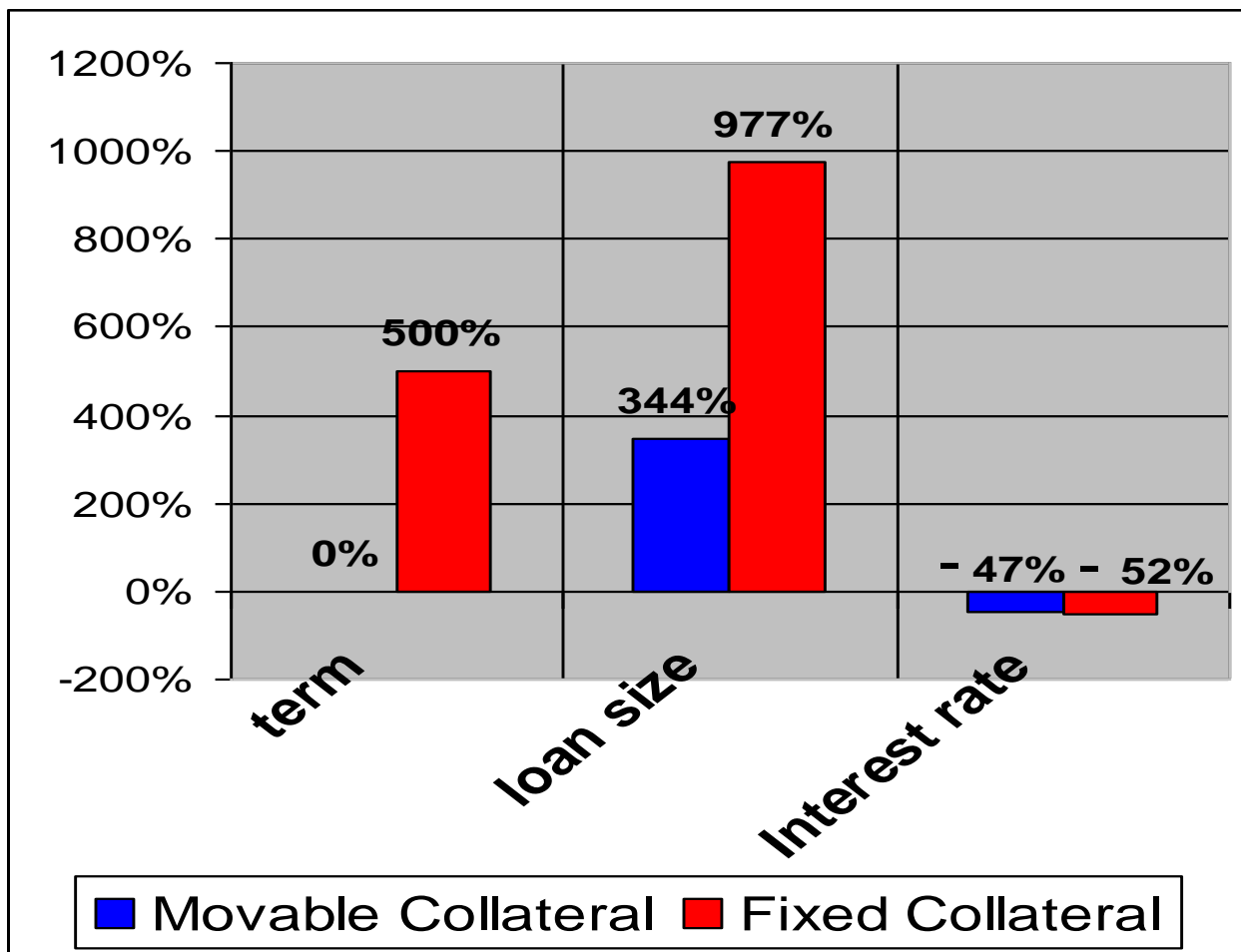
- Unsecured lending
- Secured lending

How well do these two systems work?

Power of collateral

Loan terms at a US federal credit union

secured loans as a percentage of an unsecured loan, same borrower, September 2007



Power of Collateral: Why?

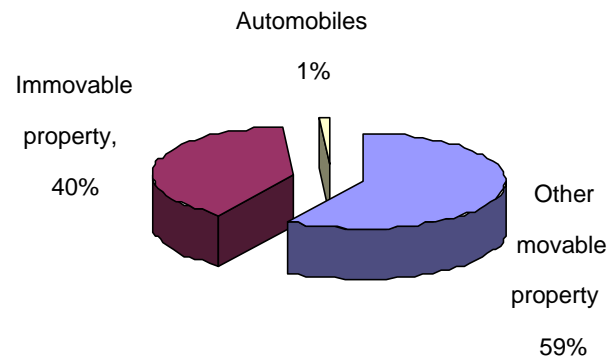
- Adverse selection
- Moral hazard
- Uninsurable risk

Puzzle:

- In most developing countries, little use of collateral

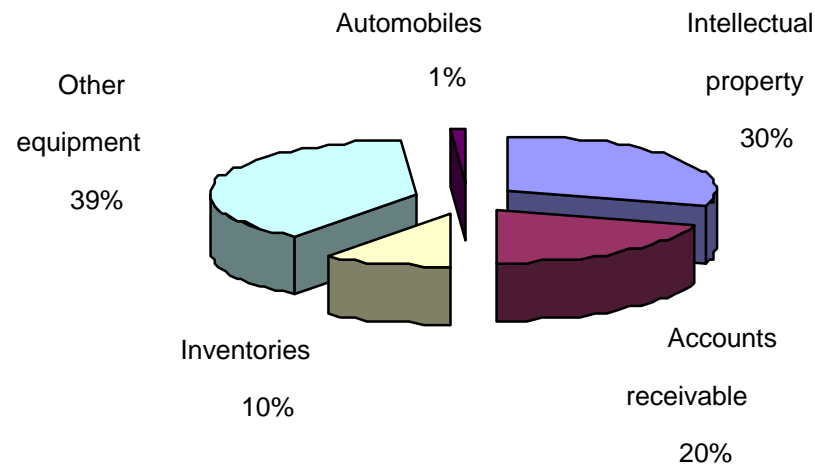
Most enterprise assets in industrial countries are movable

Composition of business capital stock, United
States, 2004



Movable assets in industrial countries are wide ranging—and widely acceptable as collateral

Composition of movable business capital stock,
United States, 2004



The Mismatch:

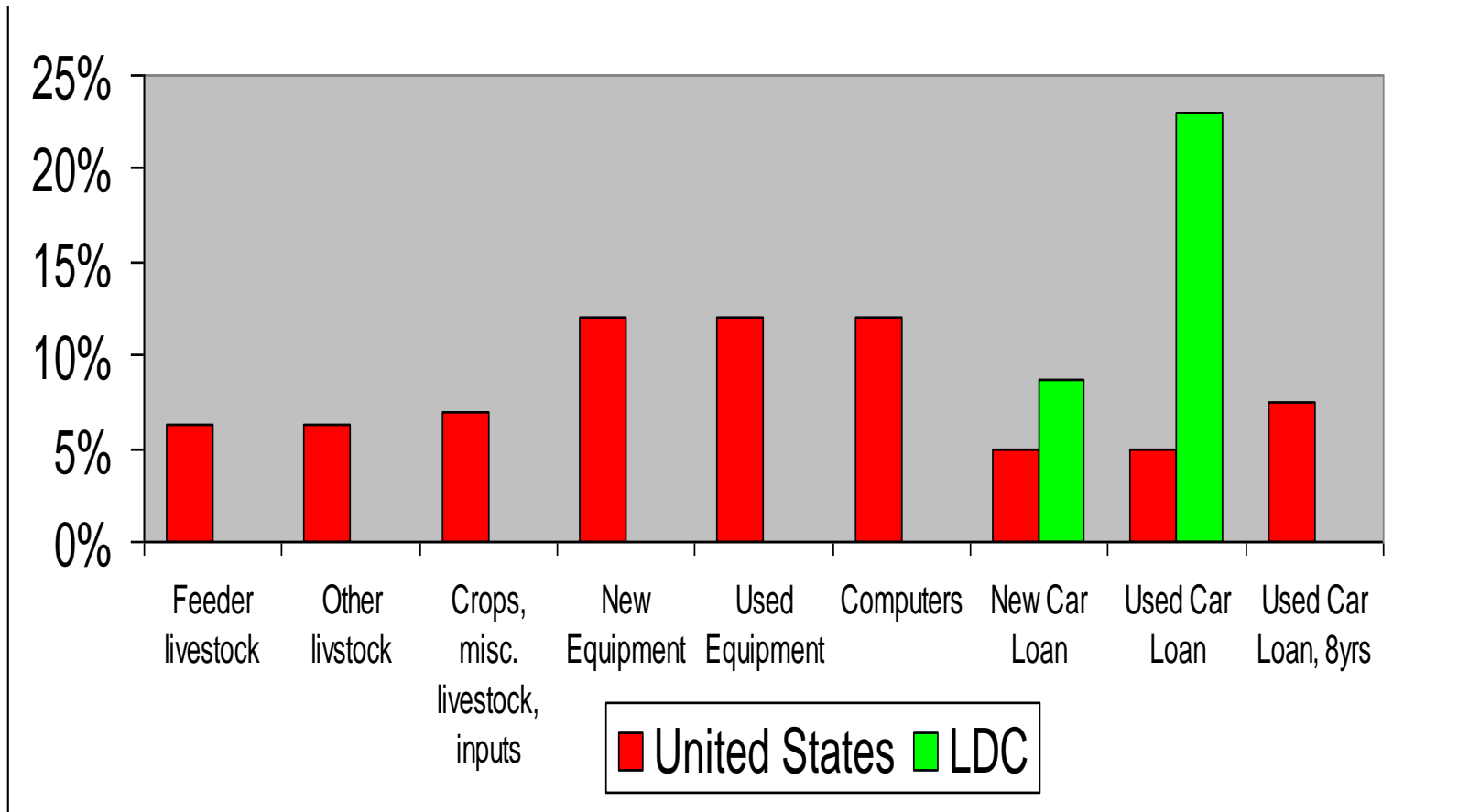
Acceptable collateral in Nigeria

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Property of Nigerian farms and businesses

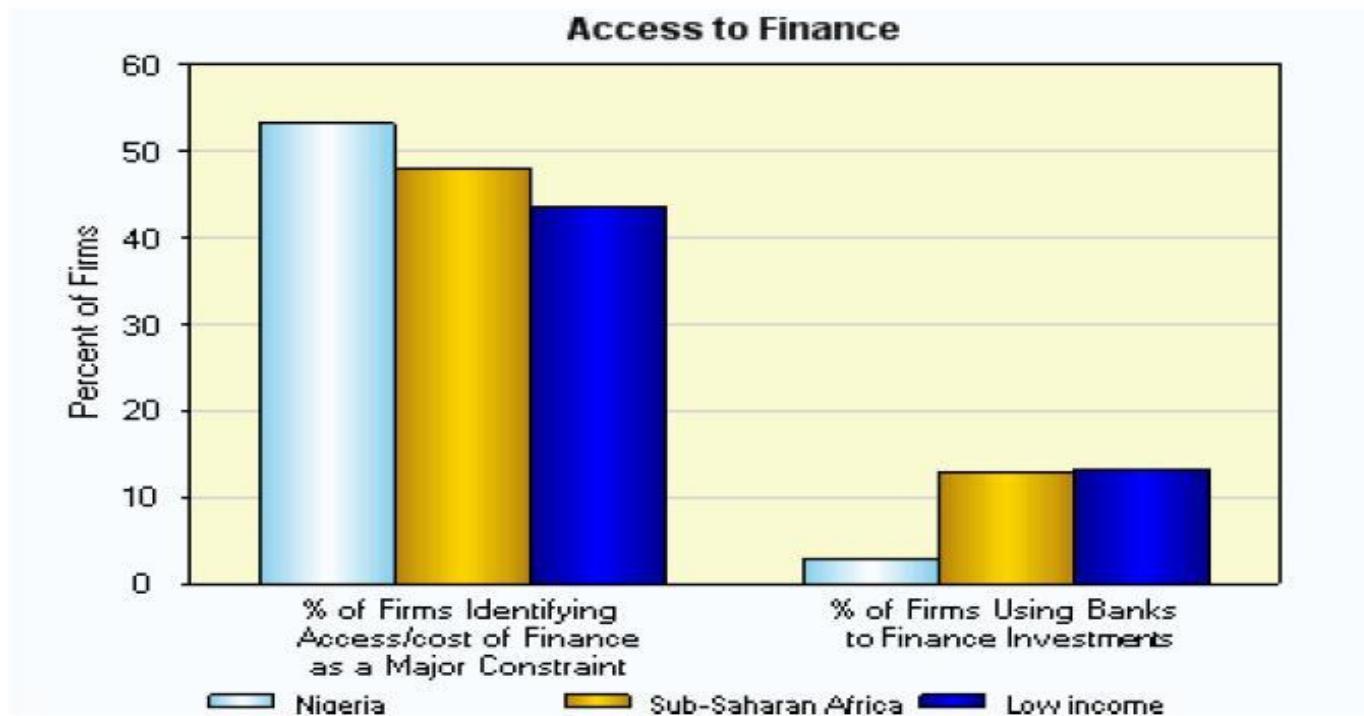
US and LDC loan rates by type of movable property as collateral

2006



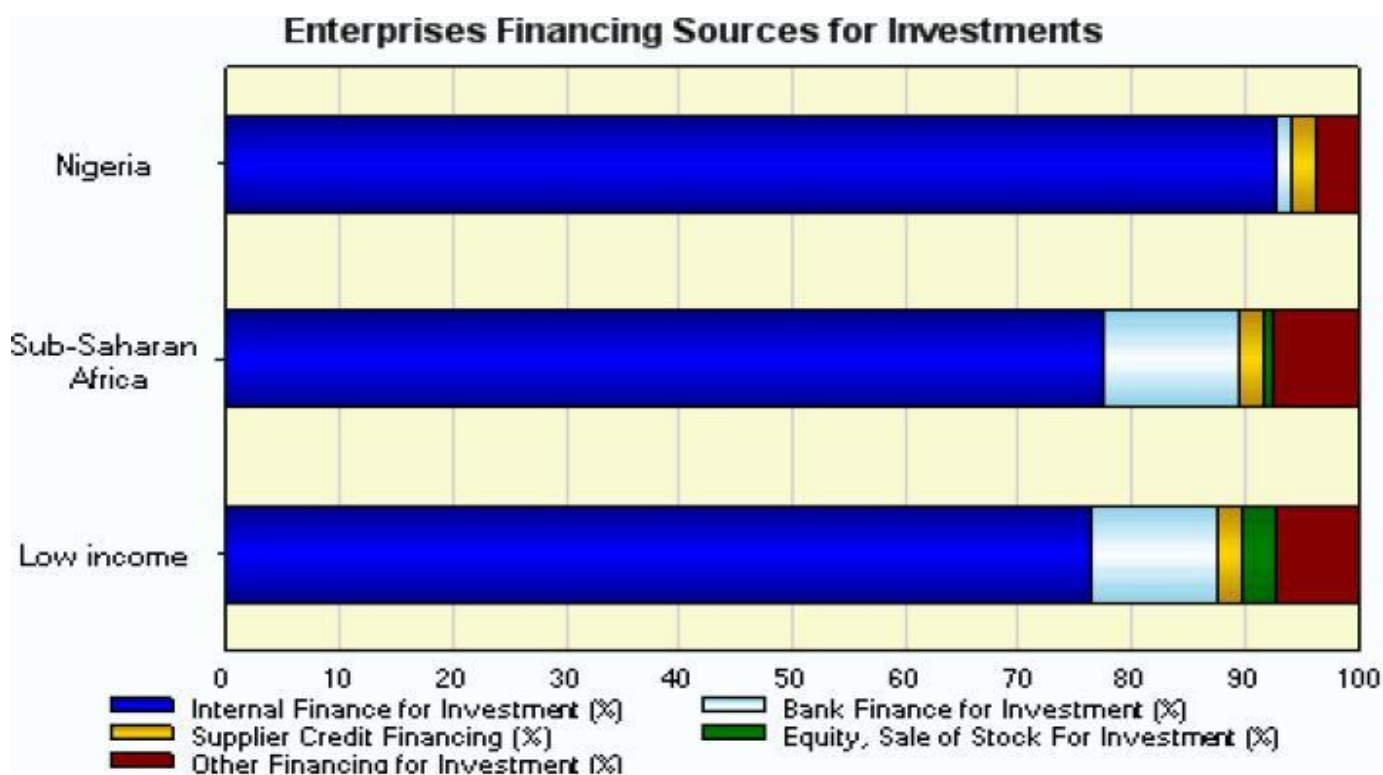
Nigerian business Access to credit

World Bank Enterprise Survey 2007



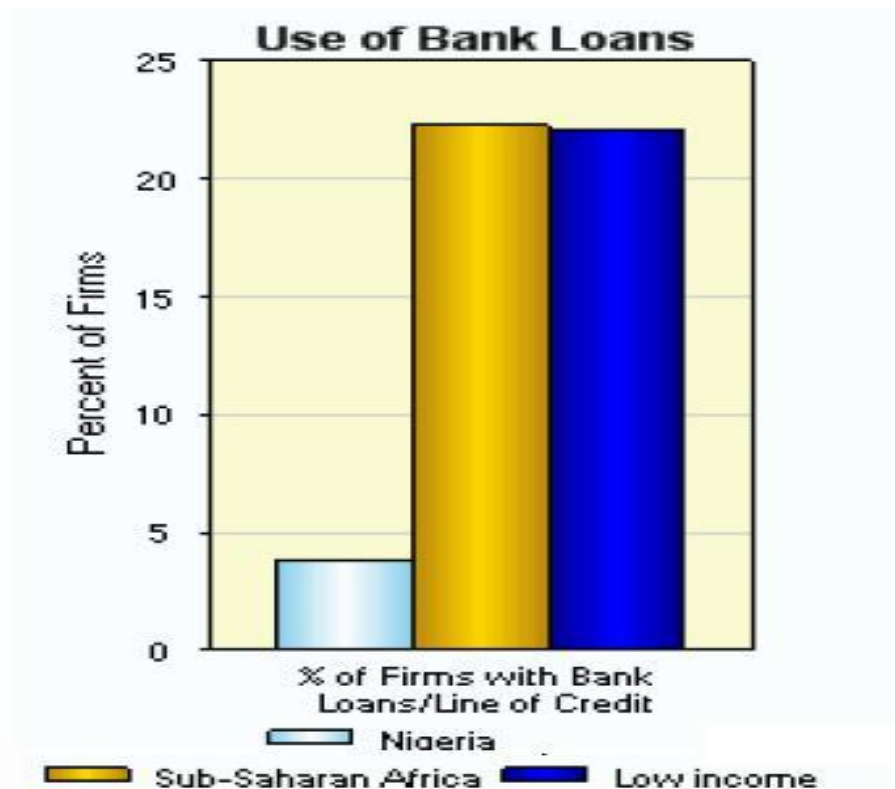
Nigeria – sources of finance

World Bank Enterprise Survey 2007



Nigeria – banks and business

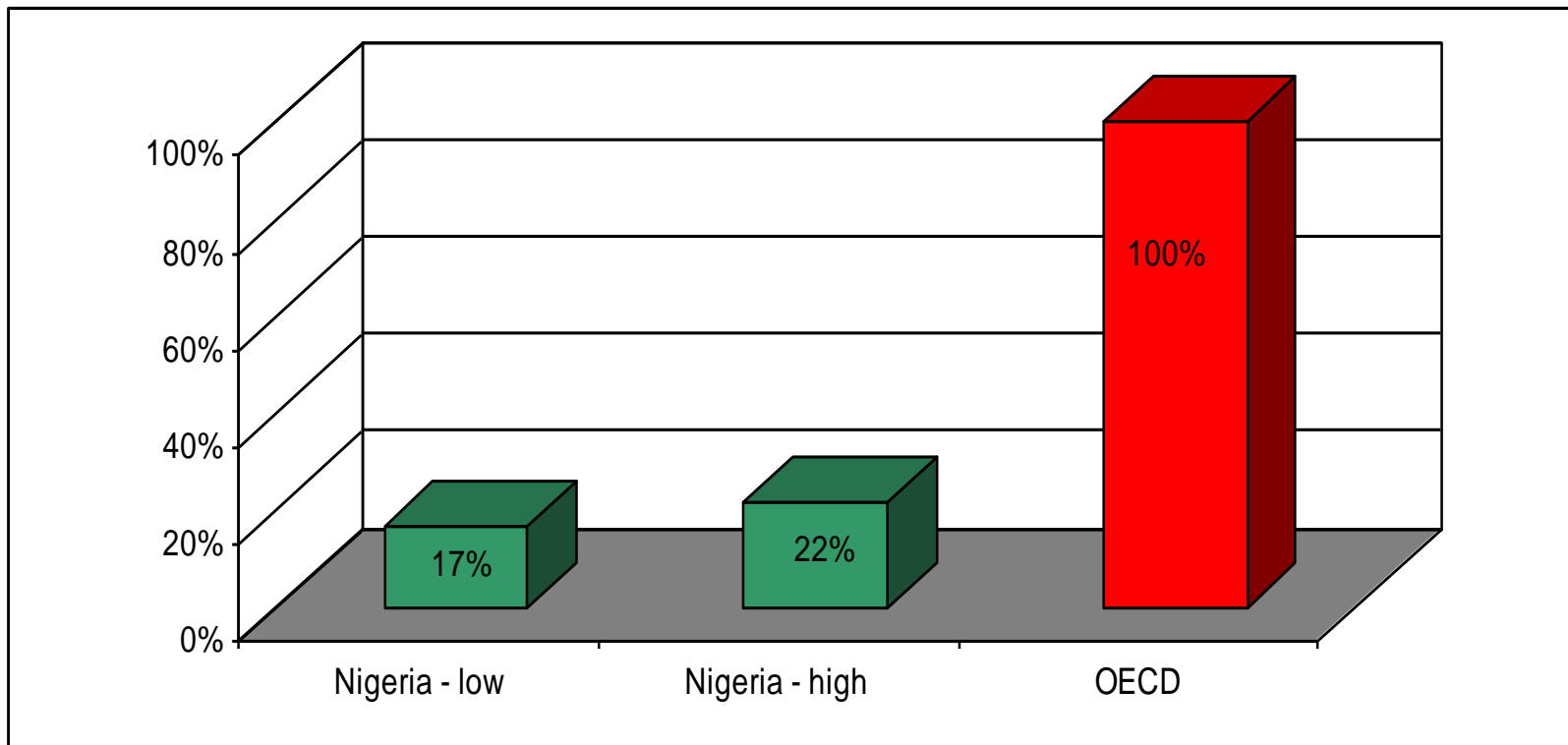
World Bank Enterprise Surveys 2007



Ratio of credit to GDP

Nigeria and OECD

Private credit as percent of GDP, 2007



Immediate Source of Problem

- Poorly drafted laws
- Badly run, badly designed legal institutions
- Weak enforcement

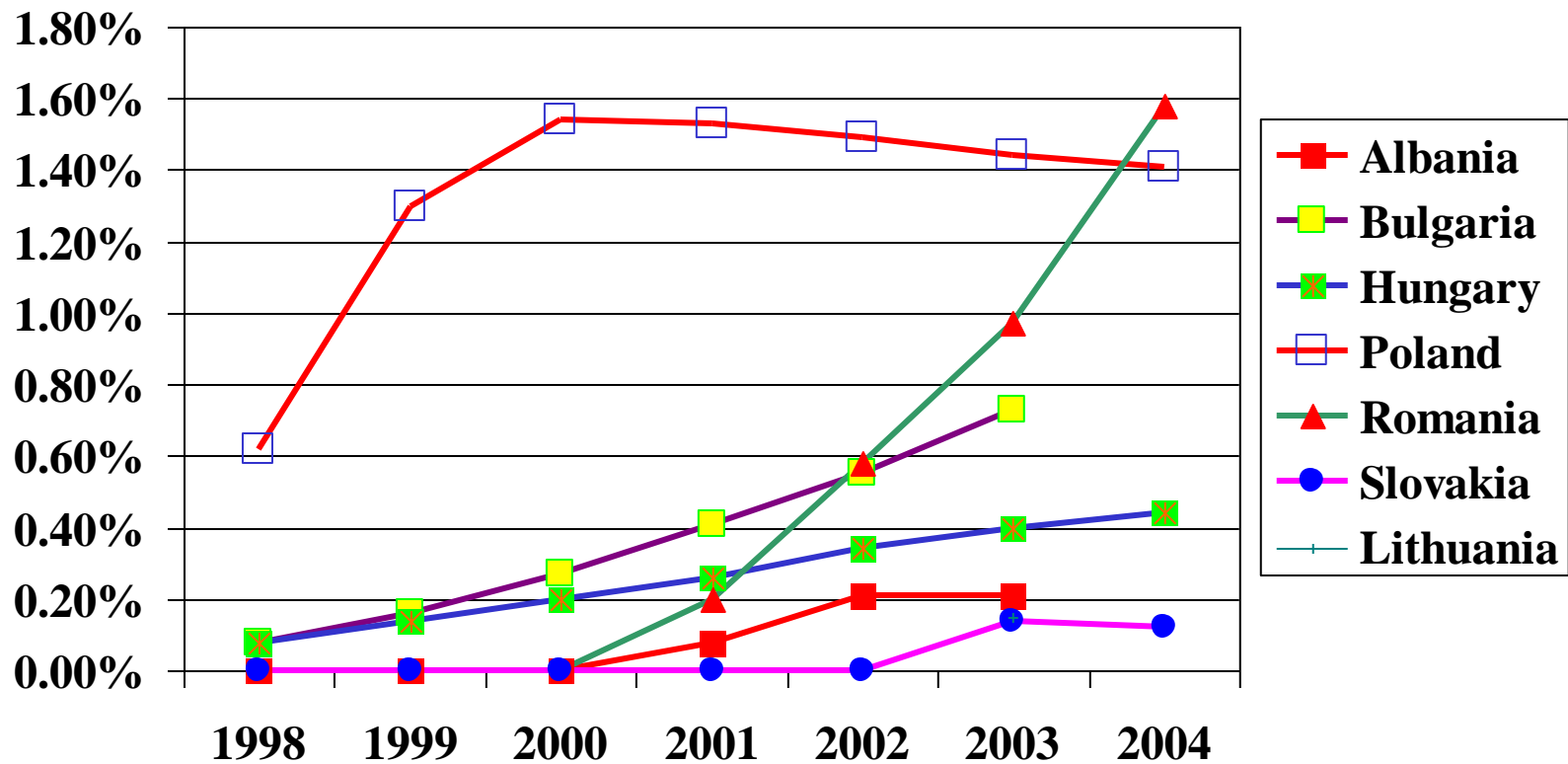
Elements in the Legal Framework for Secured Transactions

- **Creation**
- **Priority**
- **Publicity**
- **Enforcement**

The reform

Effectiveness of reform

Secured lending as percentage of movable capital stock



Elements of the reform program for Nigeria

- Legislative reform and advocacy
- Registry (filing archive) development
- Capacity building and public awareness
- Regulations for the filing system
- Banking regulations: amendments and revisions

Elements of the reform program for Nigeria

- **Legislative reform and advocacy**
 - Work plan; subcontracts with CEAL local staff; first draft of Draft Law*
 - Preparation of first draft law and expert response to comments and questions; complete final draft law*
- Registry (filing archive) development
- Capacity building and public awareness
- Regulations for the filing system
- Banking regulations: amendments and revisions

Elements of the reform program for Nigeria

- Legislative reform and advocacy
- **Registry (filing archive) development**
 - Set up trial filing archive system*
 - Continue registry design and trial and response to comments;*
 - Implement the final form of the filing archive*
- Capacity building and public awareness
- Regulations for the filing system
- Banking regulations: amendments and revisions

Elements of the reform program for Nigeria

- Legislative reform and advocacy
- Registry (filing archive) development
- **Capacity building and public awareness**
 - Drawing on experience in updating the diagnostic study (see item 4), CEAL will begin to design materials for conferences to build stakeholder support*
 - Continue dissemination; refine design; complete short notes*
- Regulations for the filing system
- Banking regulations: amendments and revisions

Elements of the reform program for Nigeria

- Legislative reform and advocacy
- Registry (filing archive) development
- Capacity building and public awareness
- **Regulations for the filing system**
Begin work on draft regulations Continue work on draft regulations
- Banking regulations: amendments and revisions

Elements of the reform program for Nigeria

- Legislative reform and advocacy
- Registry (filing archive) development
- Capacity building and public awareness
- Regulations for the filing system
- **Banking regulations: amendments and revisions**

Complete the banking regulations

The work program for Nigeria

Quality control

- Monitoring and evaluation
- Progress reports

The work program for Nigeria

Quality control

- **Monitoring and evaluation**

Begin revising diagnostic study, design base line survey

Complete diagnostic study; prepare a stakeholder analysis and develop indicators.

- **Progress reports**

Request for guidance

- How to coordinate with government?
- Any other suggestions about program structure?

Background Material

Timing and organization of work; deliverables

- Deliverables
 - *What the contract specifies that CEAL will produce and deliver to the NPIC to implement the above program objectives*
- September 2008 – draft work program
 - *How will CEAL produce the deliverables agreed in the contract*

Progress Report 1

Deliverables (from contract) and timing

		<i>September-December 2008</i> June 2009	200 9- H1	200 9- H2	201 0- H1
1	Legislative Reform and Advocacy	Work plan; subcontracts with CEAL local staff; first draft of Draft Law			
2	Registry (Filing Archive) Development	Set up trial archive filing system			
3	Capacity Building and Public Awareness	Drawing on experience in updating the diagnostic study (see item 4), CEAL will begin to design materials for conferences to build shareholder support			
4	Monitoring and Evaluation	Begin revising diagnostic study, design base line survey			
5	Progress Reports (4)	Prepare first progress report			
6	Regulations for the Filing system				
7	Banking regulations: amendments and revisions				

Progress Report 2

Deliverables (from contract) and timing

		9/2008-12/2008	2009-H1 ?	2009-H1	2009-H2
1	Legislative Reform and Advocacy		Preparation of first draft law and expert response to comments and questions		
2	Registry (Filing Archive) Development		Continue registry design and trial and response to comments		
3	Capacity Building and Public Awareness		Continue dissemination; refine design; complete short notes		
4	Monitoring and Evaluation		Complete diagnostic study; prepare a stakeholder analysis and develop indicators.		
5	Progress Reports (4)		Prepare progress report		
6	Regulations for the Filing system		Begin work on draft regulations		
7	Banking regulations: amendments and revisions				

Progress Report 3

Deliverables (from contract) and timing

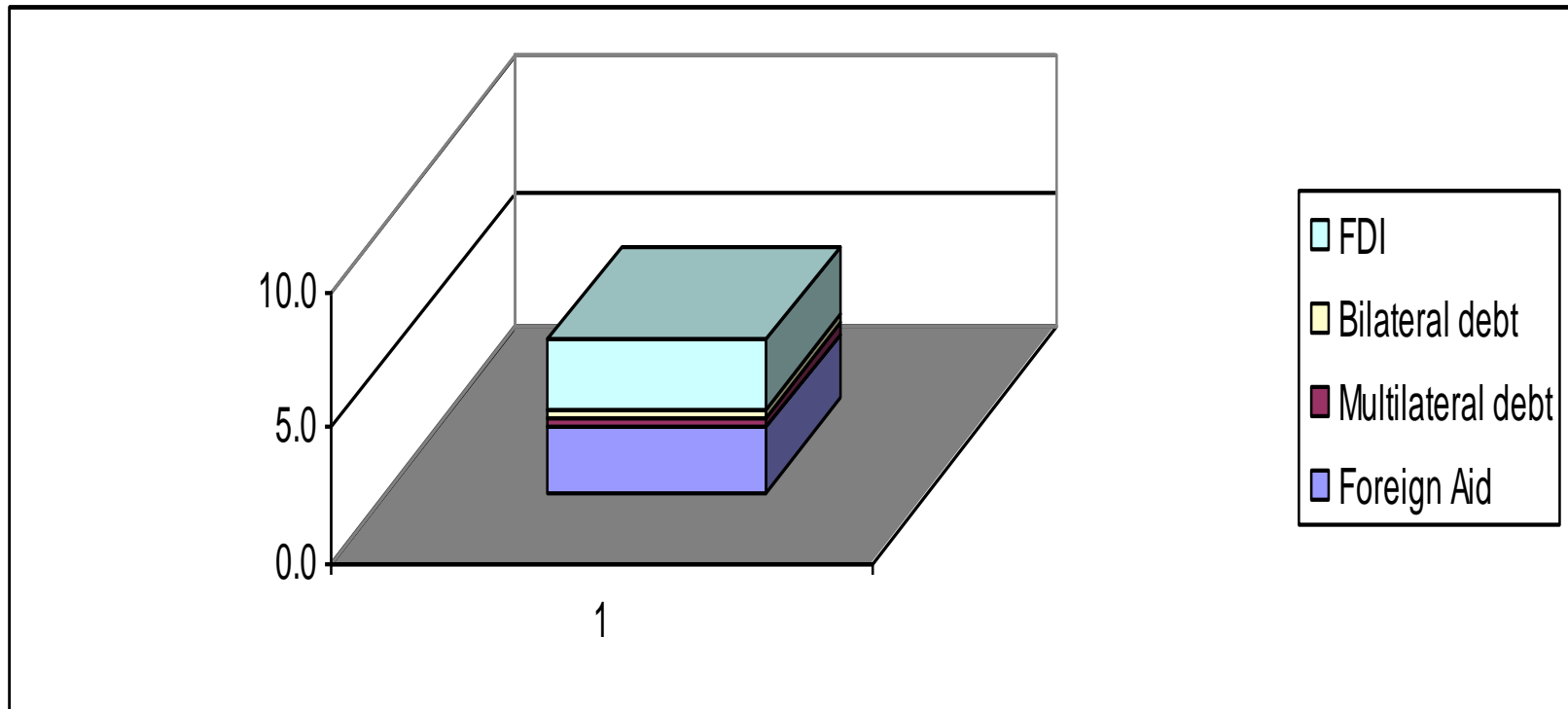
		9/2008- 12/2008	2009-H1	2009-H2 ?	2010 -H1
1	Legislative Reform and Advocacy			Complete final draft law	
2	Registry (Filing Archive) Development			Implement the final form of the filing archive	
3	Capacity Building and Public Awareness			Prepare and deliver the 3 rd dissemination plan	
4	Monitoring and Evaluation				
5	Progress Reports (4)			Prepare progress report	
6	Regulations for the Filing system			Continue work on draft regulations	
7	Banking regulations: amendments and revisions				

Progress Report 4

Deliverables (from contract) and timing

		9/2008-12/2008	2009-H1	2009-H2	2010-H1 ?
1	Legislative Reform and Advocacy				
2	Registry (Filing Archive) Development				
3	Capacity Building and Public Awareness				
4	Monitoring and Evaluation				
5	Progress Reports (4)				Prepare final progress report
6	Regulations for the Filing system				Complete the registry regulations
7	Banking regulations: amendments and revisions				Complete the banking regulations

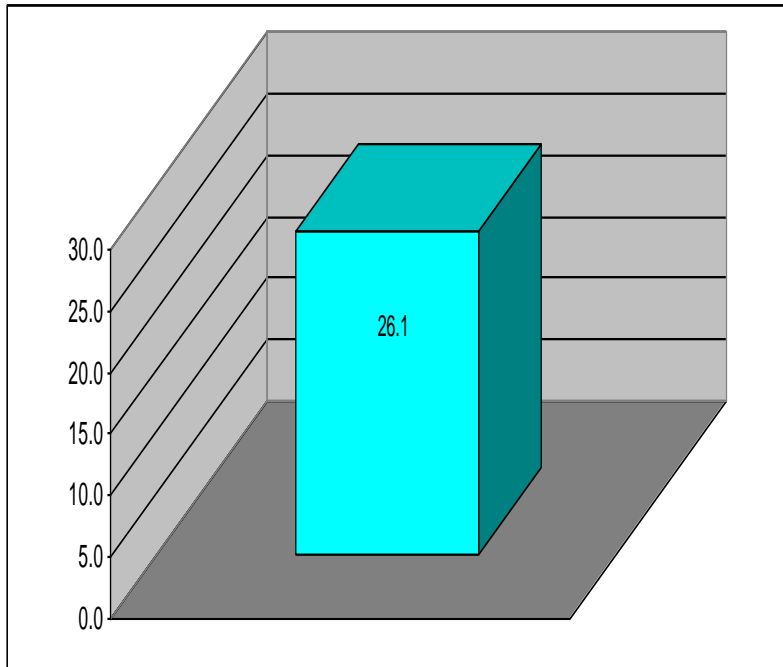
Nigeria: Foreign Sources of Capital (trillion naira, 2006-2007)



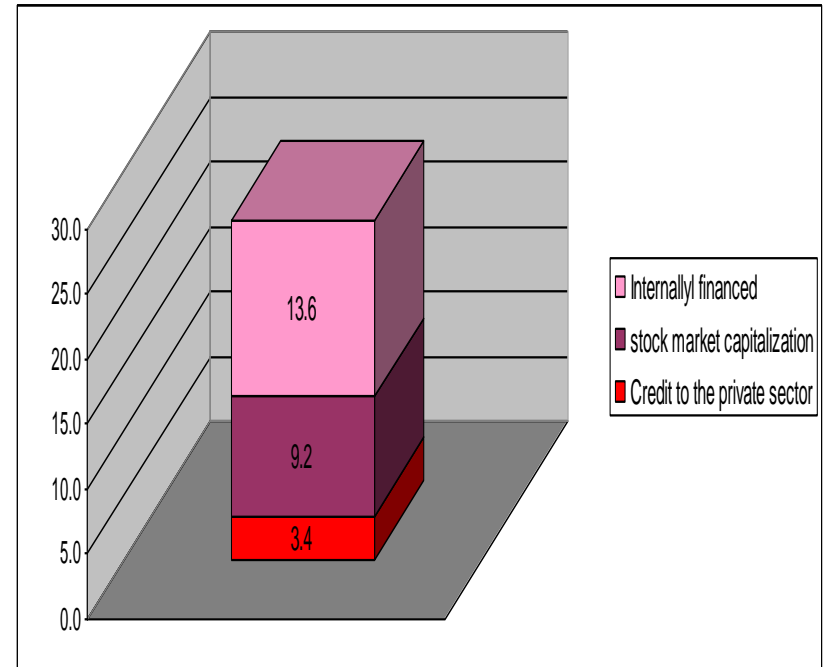
Domestic Capital Stock

Its domestic financing

(naira trillions, 2005-2007)



Total domestic K



Its domestic finance