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## The Practice of Movable Collateral Registry Management Information System: the case of Rural Land Use Right as Collateral

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### ABSTRACT

Credit is a crucial component of investment. Banks require borrowers to provide collateral properties when dispersing loans. However, this poses a significant problem for individuals who do not possess the necessary collateral. To rectify this issue, Ethiopia has developed a movable property collateral law. To ensure the effective implementation of these laws, the National Bank of Ethiopia has established a Movable Collateral Registry. However, there is a lack of research regarding the implementation of this registry, its progress, and the challenges faced during the implementation. The primary objective of this study is to investigate the implementation of the Movable Collateral Registry System with a special focus on rural land use rights as collateral. Both primary and secondary sources of data were utilized to achieve this objective. The research finds that Movable property collateral is legalized where several movable properties can be used as collateral, one of which is the rural land use rights. The Ethiopian Movable Collateral Registry has registered about 100,000 credit collaterals, Motor vehicles made up the majority. There are still challenges, which include a lack of awareness, deeply ingrained cultural and traditional practices that impede the enforcement of collateral rights, banks, and financial institutions being hesitant to provide loans through the movable collateral registry, difficulties in valuing land use rights, system failures, network infrastructure issues, technological barriers, problems with liquidation, duplicate collateral registrations, and the transfer of title deeds without ensuring the asset's encumbrance in the Movable Collateral Registry. The study's findings suggest conducting comprehensive capacity-building and awareness-raising activities; avoiding duplicating collateral registrations in both the Movable Collateral Registry system and sector-based systems to streamline processes and reduce confusion; implementing System Integration and enhancing certain functionalities within the system.

**Keywords:** Movable property collateral, Collateral registry, and Rural land use rights.

### INTRODUCTION:

In finance, a loan is a debt evidenced by a note, that specifies, among things, the principal amount, interest rate, and date of repayment (Love *et al.*, 2016). A loan is the reallocation of the property for a period between the contracting parties (Bekele, 2023; Berhanu Lakew & Azadi, 2020; Dinku, 2019; Gorton & Kahn, 2000; Mossie, 2022). In a loan, the

borrower takes credit, called the principal, from the lender, and is obligated to pay back the principal together with an agreed interest to the lender, which is an incentive for the lender to engage in the loan. Typically, the money is paid back in regular installments in the same amount. Collateral refers to assets that the bank holds to mitigate default risk. Collateral should never be a substitute for

creditworthiness, which is the existence of adequate cash flow to repay the credit. Financial inclusion is very important in bringing savings, investment, and entrepreneurship, in general fostering economic growth and stability. Financial inclusion is defined as “the process of ensuring access to financial services and timely and adequate credit when needed by vulnerable groups such as the weaker sections and low-income groups at an affordable cost by mainstream financial institution players (Singh & Roy, 2015). According to the World Bank, financial inclusion means that adults have access to and can effectively use a range of appropriate financial services. Financial inclusion starts with having a bank account and a deposit or transaction, which can be used to make and receive payments and to store or save money (Demirgüç-Kunt & Singer, 2017).

As explained above, loans are a very important and integral aspect of investment and economic development. However, loans cannot be easily accessed; rather they require collateral to secure the loan (Charles & Mori, 2016; Prihantoro & Nuryakin, 2020; Rahman *et al.*, 2017). Collateral is an item of value pledged to secure a loan. Collateral reduces the risk for lenders. When the debtor defaults, the creditor can take the collateral and sell it and take the principal together with the agreed interest. The World Bank has conducted a comprehensive study in 73 countries on the implementation of movable collateral and a registry system (Love *et al.*, 2016). This study explores the impact of implementing movable collateral. Overall, the analysis finds that the introduction of movable collateral registries increases access to finance, which has larger effect among smaller firms (Love *et al.*, 2016). In the last two decades, in Ethiopia investments have increased from time to time at a high grade, especially in agro-industry, construction, and financial institution sectors (Shiferaw, 2017). These investment fields need huge amounts of finance to provide their activities, the main source for their financing is by borrowing from financial organizations and banks. This need for huge financing sources shows how financial institutions play an important role in economic sector development. The bank’s main source of income is customers' banks deposits that are used to finance investors by loan either short or long-term lending systems. However, there are issues related to the UniversePG | [www.universepg.com](http://www.universepg.com)

inclusivity of the credit system. There is plenty of information in this regard that, it is only a few individuals who take a loan and invest (Baza & Rao, 2017) (Bekele, 2023; Berhanu Lakew & Azadi, 2020; Dinku, 2019; Gorton & Kahn, 2000; Mossie, 2022). This is against the financial inclusion principles. Taking into account this problem, in 2019, the National Bank of Ethiopia drafted a proclamation, which allows movable properties to be used as guarantee for credit. The House of Peoples Representatives approved this draft proclamation on the 7th of August 2019 as Proclamation number 1147/2019 (Abab *et al.*, 2023). This proclamation under Art, 2(27) defines movable property as a property, that includes inventories, agricultural products, incorporeal assets, corporeal assets, and the right to use land unless prohibited by pertinent laws; security right under a hire-purchase agreement, etc. This law allows the land use right to be used as a security to access loans, which is the first of its kind at the federal level. The rural land titling program, which provides titles to about 31 million rural parcels, paves the way for this reform. Following this law, the NBE promulgated the codification, valuation, and registration of movable properties as collateral for credit directive number MCR/02/2020.

An electronic movable collateral registry is developed by the NBE. The World Bank financed hardware and software for this registry and it went ‘Live’ in March 2020. Before the introduction of this Movable Collateral Registry System, according to the WB, financial institutions relied heavily on fixed assets (which most Ethiopians often lack) as collateral. The operationalization of an electronic movable collateral registry is aimed to help diversify the collateral options and make the financial sector more inclusive. There is evidence that proves to introduce collateral registries for movable assets increases firms’ access to bank finance (Love *et al.*, 2016). Registration of the mortgage is another very crucial measure to protect the rights and interests of both the creditor and the debtor. Land use right that is being offered as collateral for credit shall be registered in the MCR by the secured creditor using: the tax identification number or the equivalent of the person who owns the land holding certificate; and by describing the unique parcel identification number of the land holding certificate on the field provided by the MCR. Despite these legal moves

towards financial inclusion (inclusion of the rural areas), there is no evidence about the application of the laws, especially on the MCR. There is some preliminary information that the bank and Micro Financial institutions has some problems related to loans and collateral to give to their customers using this law. There is a lack of information and knowledge about the application of the MCR, and the challenges facing the sector. There are research gaps regarding the implementation of the MCR system. No research assesses how banks and microfinance institutions are implementing and practicing the MCR. Besides, the awareness and land administration institutions as land use rights as collateral is one form of collateral, is not studied. There is knowledge gap in terms of the implementation of the land use right collateral provision of the law. Therefore, the major objective of the study is to investigate the implementation of the Movable Collateral Registry System in the case of land use rights as collateral. To achieve the main objective, the study has the following specific objectives: -

1. To review the Movable Property Security Rights Proclamation and the MCR Directive;
2. To assess the practice of the MCR System with a special focus on the land use right as collateral; and
3. To investigate the challenges and best practices in terms of implementing the Movable Collateral Registry System.

#### **METHODOLOGY:**

In conducting the research, both primary and secondary data sources are used to achieve the above-mentioned objectives. Primary data were collected through a Structured Questionnaire, KII, and FGD. Secondary data were collected from reports of the Ministry of Agriculture and the National Bank of Ethiopia, research, and other published and unpublished written materials. Structured questionnaires, KIIs, and FGDs were used as primary qualitative sources of data for the research. Structured Questionnaires were distributed to land administration experts to know the status of the implementation of the movable collateral law and the registry system. One FGD was conducted with officials and experts of the NBE, and another one FGD with the Ministry of Agriculture. Each FGD had 3-7 members based on the availability of members. Guiding questions for this were developed UniversePG | [www.universepg.com](http://www.universepg.com)

to know whether the Movable Collateral System is properly working and to understand the challenges and good practices in the implementation of the MCR. Besides, 3 individuals and experts from the NBE- working for a long period on the collateral registry were selected for the KII. As one of the movable properties according to the law is rural land use right, 3 experts and officials from the Ministry of Agriculture, an institution responsible for rural land, were approached for a Key Informant Interview. For the Structured Questionnaire, the target population of the study is all the land administration experts working on the implementation of land use right collateral. These include land law experts, land administration experts, land registrars, and team leaders who supervise the process. From this population, samples were selected using Taro Yamane's formula as follows (Umar & Wachiko, 2021).

$$n = \frac{N}{1 + N(e)^2}$$

Where: n signifies the sample size

N signifies the population under study

e signifies the margin error (it could be 0.10, 0.05 or 0.01)

According to the information gathered, there are about 60 experts who are directly working for the implementation of land use collateral in one way or another at the Federal and four regional states. As the population is few and less than 100, all are taken to fill the questionnaire without taking in to account the formula. The questionnaire was developed online using JotForm and distributed to the experts through their Telegram groups. For accuracy, one expert was allowed only to fill the form once. From the 60 samples, only 50 of the experts filled the form appropriately. As a result, the analysis is made based on the responses of these 50 experts. Other officials and experts for the KII and FGD were selected using a purposive or convenient sampling technique. The data collected from the primary and secondary sources are analyzed and triangulated. Document analysis, which is used in this study, is a form of qualitative research in which documents are interpreted by the researcher to give a voice and meaning to an assessment topic. This means the qualitative data obtained through Key Informant Interviews, Focus Group Discussions, and document reviews are described qualitatively in sentence form. Besides, data collected from the Structured Ques-

tionnaire are analyzed using descriptive statistics through SPSS. To show the discussion and result of the study, different data presentation techniques are used. Results from the primary sources and other secondary data are analyzed and presented in a narration form. For some quantitative data collected from primary and secondary sources, (especially those to be generated from the MCR System), tables and charts are utilized.

## **RESULTS AND DISCUSSION:**

### **Ethiopian Financial Inclusion Strategy**

To promote financial inclusion in Ethiopia, the first National Financial Inclusion Strategy was launched and rolled out in Oct. 2017. Among the four pillars it is grounded, “Improving Financial Infrastructure” is one of the main pillars. Improving credit infrastructure was one of the actions being implemented to improve “Access to Finance” mainly to a range of micro, small, and medium enterprises and households in rural area and contribute to reducing poverty and income inequality by promoting job creation in the private sector. The 2017 Ethiopian Financial Inclusion Strategy was developed to enhance access to financial services for all segments of the population, particularly the underserved and unbanked groups. The strategy aims to address the barriers to financial inclusion and promote the use of a wide range of financial products and services. The 2017 Ethiopian Financial Inclusion Strategy is a detailed blueprint aimed at fostering a more inclusive financial system that bolsters the economic development and overall well-being of all Ethiopians. This strategy tackles the primary obstacles to financial inclusion and advocates for a variety of financial products and services, with the goal of improving the financial stability and strength of individuals and businesses nationwide. To enable SMEs and households in rural & pastoralist areas to utilize their movable property as collateral to access credit, establishing a legal framework for secured transactions was given due attention as part of the strategy.

### **The Movable Collateral Registry in a nutshell**

According to the NBE, the Proclamation is concerned with the security rights over movable property and aims to substantially change how a collateral can be created over movable assets. The law is a very good reform in protecting the rights of creditors. However, immovable property (land,

building, fixed assets), ships, aircraft, or publicly traded securities are excluded as there exist laws that require registration or for which a special register already exists. The Proclamation requires an online registration/publicizing in EMCR, which is a unique means of creating and notifying security rights effectiveness against third parties that have been enabled and supported by a web, notice-based Collateral Registry System. As part of the actions of the NBE’s Financial Inclusion strategy, the introduction of this modern secured transactions legal regime is envisioned as a mechanism to address access to finance challenges faced particularly by individuals, persons in the agriculture sector, and Micro, Small, and Medium Enterprises (MSMEs) whose livelihood relies on the ability to access capital to finance their business, expand into other business opportunities leading to job creation, enhanced efficiency and productivity and economic development opportunities for all Ethiopians.

The Collateral Registry is established under the NBE. It is an electronic, web-based registry system. It provides a 24/7 online registry service where collateral rights on movable property are registered to gain publicity, effectiveness against third parties, and priority rights. Secured creditors register, amend, and cancel the security right created for their benefit, obtaining immediate effect against third parties and a certificate confirming registration with electronic signatures and stamps. Registrations can be searched online by anyone and certified upon payment of the fee for the certificate. The Ethiopian Movable Collateral Registry System is a groundbreaking financial infrastructure aimed at enhancing credit accessibility for businesses and individuals by enabling the use of movable assets as collateral. This system was developed to tackle the obstacles that SMEs encounter in obtaining loans, primarily stemming from the absence of immovable properties such as land or buildings typically required as collateral. In general, the main objectives of the registration are: to give notice of the secured creditors' right in the pledged assets to third parties; and to establish the secured creditors' priority by the time of registration of the notice. The electronic movable collateral registry uses best practices such as being accessible to all via the Internet, automated acceptance or rejection, reliable, fully automated search process, no unnecessary formalities for registration, uniform treatment of notices of all

types, automated fee payment system, and secure from tampering and corruption. Banks, non-bank financial institutions, and leasing companies that provide loans, leases, and assignment of rights; individuals & businesses who provide credit secured with movables properties; and creditors practicing fiduciary transfer of titles and consignment arrangements are obliged by the legal framework to register the collateral using the Electronic Movable Collateral Registry System. This registration system protects the rights of creditors when a debtor (borrower) has defaulted on his/her obligations; helps any interested party find out if there are prior registrations against the assets offered by the borrower as collateral for a loan; and establishes the priority of security right of the creditor from the date and time of registration. A wide range of movable assets can be used for collateral, which need to be registered in the system. These movable properties include, according to the law, accounts receivable, machinery and equipment, crops, livestock, motor vehicles, shares, intellectual property, land use rights, and other tangible and intangible property. The EMCR has a search engine where any (including institutions and individuals) wanting to know about pledge rights can check the EMCR. The most common reasons for searching are buyers, searching to make sure that the goods they are buying do not have loans owed against them; a business or financial institution searching for a potential customer as part of their due diligence process; and liquidator or bankruptcy trustee searching for current pledge rights.

### **Legal Frameworks Governing the rural land use right as collateral**

Land in Ethiopia is a constitutional matter. Article 40 of the FDRE constitution enshrines governing provisions about rural and urban land. The federal government has enacted rural land administration and use Proclamation number 456/2005. This proclamation granted investors the right to use their leased investment land as collateral to access credit from financial institutions, but the same provision is not explicitly included in the law for peasants and pastoralists. As rural finance is key to bringing rural development (employment opportunities, off-farm activities) this poses the question of whether this right is allowed for peasants and pastoralists. The prohibition of or implicit nature of using rural land use rights as collateral is a criticism provided by UniversePG | [www.universepg.com](http://www.universepg.com)

different writers. They underlined that, if we allow collateral rights, it can create access to formal credit by making land available as collateral that enhances farmers' ability to invest in improvements to the land, engage in non-farming activities, or both (Zewdu & Malek, 2010).

As land in Ethiopia is owned by the Ethiopian people and the government, allowing the collateralization of rural land per se means derogating the constitutional provision because when there is a default on repayment of the loan, the creditor will secure the loan via selling the mortgaged land. The rationale provided for prohibiting collateral is to protect rural landholders from exploitation by loan sharks and land speculators and to stem the tide of rural-to-urban migration. Many scholars do not agree with this and ask the question 'Why are investors who lease land for a limited period allowed to use their land use right as collateral while small-scale landholders who have use rights in perpetuity are not accorded the same privilege?' (Association & Institute, 2002). Researchers were urging their recommendation towards the use of land use rights as collateral to get credit. Legal provisions were essential for the right to use small rural landholders' use rights to get access to credit services (Hailu, 2016). As a result, bringing an innovative approach was very crucial. This innovative approach allows collateralization of "rural land use right" represented by SLLC, not the rural land per se. During the pilot of the LIFT program, legal development that allows land use right collateral was started by the federal government through its rural land administration and use draft proclamation. Following the LIFT pilot results and the federal draft rural land administration and use proclamation, the Amhara National Regional State was the first that adopted a rural land law that allows rural landholders to use their registered land use rights as collateral for a loan. The regional rural land administration and use Proclamation number 252/2017 under article 19.1 states that 'any rural landholder may mortgage his land use right to a financial institution recognized by the country's National Bank for a maximum of 30 years'. There is a controversy on what constitutes a "financial institution recognized by the country's National Bank". Saving and Credit Cooperative Organizations (SACCOs) were excluded from providing loans using the land use right as collateral.

The reason raised was that the NBE is not able to monitor, supervise, and control SACCOs. According to the WB, and the Federal Cooperative Agency (FCA) 2021 official report, there are over 21,000 SACCOs in Ethiopia (Hensgens, 2022) <http://www.fca.gov.et/>. As SACCOs are financial institutions registered by the cooperatives agency, which is established by the HPR, and they provide loans to their members which leads to some form of diligence, it would be good if they are allowed to give loans using the land use right as collateral. Later, in 2018, Benishangul Gumuz (BG) became the second region to adopt the rural land law that allows land use rights as collateral for a loan. According to Art, 19(16) of the regional rural land administration and use proclamation number 152/2018, landholders are allowed to use their land use rights and/or properties found on such land, developed using labor and finance, as collateral to access loans from financial institutions recognized by the government. The implementation regulation number 60/2023 under article 14(8) clarifies the right to use land use rights as collateral. Landholders can use their land use right to access loans from financial institutions recognized by the government. Unlike the Amhara Proclamation, this law allows all financial institutions to give loans to landholders using their land use rights as collateral. As SACCOs are recognized by the government, they can also provide loans through this modality. Three pre-conditions need to be fulfilled to use the land use right as collateral: without affecting the food security of landholders, the land to be used as collateral should not be more than half of the total holding; all those who have land use rights on the land should agree; and the existence of Second Level Land Holding Certificate. The first and third prerequisites are quite obvious. The second criterion is ambiguous, though. What does it mean when it says "all those who have land use rights on the land"? Does this imply that family members who reside with the landowner, including children, must concur? Or does it imply that everyone must concur if the land belongs to spouses or other joint members? The second makes sense, and it appears that the law's goal is to safeguard the joint owners' interests and land rights. Later in 2019, the National Bank of Ethiopia drafted a proclamation, which allows movable properties to be used as security for a loan. The House of Peoples Representatives

approved this draft proclamation on the 7th of August 2019 as Proclamation number 1147/2019. This proclamation under Art, 2(27) defines movable property as a property, that includes inventories, agricultural products, incorporeal assets, corporeal assets, and the right to use land unless prohibited by pertinent laws; security right under a hire-purchase agreement, etc. This law allows the land use right to be used as a security to access loans, which is the first of its kind at the federal level.

"Moveable Property" includes inventories, agricultural products, incorporeal assets, corporeal assets, the right to use land unless prohibited by pertinent laws; a security right under a hire-purchase agreement, security trust deed, trust receipt, commercial consignment, mortgage of a business, sale with ownership reserved, sale with right of redemption, security rights in certificated securities, and security rights in warehouse receipts, motor vehicle, trailer, agricultural machinery, construction machinery, industrial machinery, and other properties excluding land, house and building. Following this proclamation, the National Bank of Ethiopia promulgated the codification, valuation, and registration of movable properties as collateral for credit directive number 2/2020. Article 7 of the directive governs the collateralization of rural land use rights, codification, valuation, and registration of the collateralization. According to the directive, the Ministry of Agriculture has the duty to keep and speed up the provision of landholding certificates. The secured creditor shall authenticate from the source the land holding certificate offered as collateral for credit. A landholding certificate issued by relevant authorities is taken as an identity for the land use right. With regard to the valuation of the value of the land use right, the directive contains provisions. The valuation is based on the output of the land, which is measured by the level of yield it produces. For valuation purposes, the type of products to be produced on the land shall be assessed and determined by the secured creditor. The secured creditor shall use price indicators of the market or those provided by professionals and institutions as inputs to determine the value of the land. The ultimate value decision shall, however, remain in the discretion of the secured creditor. Registration of the mortgage is another very crucial measure to protect the rights and interests of both the secured creditor and the debtor. Land use right

that is being offered as collateral for credit shall be registered in the Movable Collateral Registry by the secured creditor using: the tax identification number or the equivalent of the person who owns the land holding certificate; and by describing the unique parcel identification number of the land holding certificate on the field provided by the Movable Collateral Registry Salam S. and Aktar B., (2020).

The recently promulgated Oromia and Sidama regional rural land administration proclamations also contain provisions that allow land use rights to be used as a guarantee for loans. Article 17 of the Oromia Proclamation number 248/2023 grants rural landholders to use up to half of their holdings land use rights to borrow money from financial institutions having legal recognition. It added, that when the debtor fails to pay his debt back as per the agreement, the creditor has the right to use the land for the agreed period of time specified in the credit contract or to transfer the land use right by rent. In this situation, the creditor is duty bound to pay back to the debtor any surplus benefits acquitted from such undertaking.

### **Institutional Frameworks established for the administration of the Electronic Collateral Registry**

The MCR is established to register collaterals based on movable properties. This registry is established and housed in the NBE pursuant to Movable Property Security Right Proclamation No. 1147/2019. All business is conducted online through the website [www.emcr.nbe.gov.et](http://www.emcr.nbe.gov.et) which can be accessed 24/7. The Proclamation authorizes the creation of the MCR but otherwise delegates all matters concerning the operation of the Registry to the NBE until such time of the establishment of an autonomous Collateral Registry Office by regulation. Experience from different countries across the world shows that the National or central bank plays a crucial supervisory role in overseeing the financial system. Ethiopia has adopted a similar approach, entrusting the NBE with the responsibility of hosting the Ethiopian MCR and granting it full supervisory powers. To support this initiative, a project office for the movable collateral registry was established with funding from the World Bank. This office is currently operational and has plans for an upcoming enhancement phase, which will introduce several new features to the EMCR system. The

establishment of the EMCR and the involvement of the National Bank of Ethiopia demonstrate a commitment to ensuring the stability and efficiency of the financial system in Ethiopia. The upcoming enhancements to the EMCR system will further strengthen its capabilities and contribute to the overall development of the financial sector in the country. To put it more comprehensively, the institutional arrangements for the Ethiopian Movable Collateral Registry are designed to ensure the efficient and effective operation of the system. These arrangements involve multiple stakeholders, including government agencies, financial institutions, and regulatory bodies. Here are the key components of the institutional arrangements:

### **Regulatory Authority**

The NBE acts as the primary regulatory authority overseeing the implementation and operation of the MCR. It is responsible for setting regulations, guidelines, and standards for the registry's operation, ensuring compliance, and addressing any regulatory issues that arise.

### **Administrative Body**

The MCR Office is tasked with the day-to-day administration of the registry. It manages the registration of security interests, maintains the electronic database, ensures the accuracy and integrity of the information, and provides support and services to users of the system.

### **Financial Institutions**

Banks and Microfinance Institutions are the primary users of the registry, registering security interests in movable assets offered as collateral by borrowers. They are responsible for ensuring the accuracy of the information they submit and for conducting searches in the registry when assessing collateral for loans.

### **Legal and Judicial Bodies**

Courts and Enforcement Agencies play a crucial role in the enforcement of security interests. They handle disputes related to movable collateral, oversee the seizure and sale of collateral in the event of default, and ensure that the legal rights of all parties are protected.

### **Stakeholder Engagement**

Industry Associations: Associations representing banks, microfinance institutions, and other financial

service providers play a role in advocating for their members’ interests, providing feedback on the registry system, and participating in consultations on regulatory and operational matters. Public Awareness Campaigns: government and non-governmental organizations may be involved in raising awareness about the registry system, educating potential users, and promoting the benefits of using movable collateral.

**Collaboration with Development Partners**

International Organizations and Donors provide technical assistance, funding, and expertise to support the development and implementation of the registry system, sharing best practices and lessons learned from other countries. By involving these various institutions and stakeholders, the Ethiopian Movable Collateral Registry aims to create a robust, transparent, and efficient system that enhances access to credit, particularly for small and medium-sized enterprises, and supports the overall economic development of the country.

**The practice of Electronic Movable Collateral Registry Management Information System**

The Ethiopian Movable Collateral Registry represents a significant step toward financial

inclusion and economic development by enabling a broader range of assets to be used as collateral for loans. The Ethiopian Movable Collateral Registry has made significant strides but still faces various challenges and ongoing developments. The implementation of the movable collateral registry has not progressed as anticipated. The NBE had set a goal to disburse 5% of total loans through this registry. However, the current status falls significantly short of this target. Some of the developments include:

**Establishment and Implementation**

The Movable Property Security Rights Proclamation No. 1147/2019 laid the legal groundwork for the establishment of the registry. This legislation aimed to enhance access to credit by allowing businesses and individuals to use movable assets as collateral.

**Functionality and Operations**

The registry is an electronic, centralized system designed to record security interests in movable property. It allows lenders to register their interests and potential borrowers to offer their movable properties as collateral. The following table shows the status of the EMCR in terms of the disbursement of credits and registration of the movable collateral in the information system.

**Table 1:** Registered Notices.

Registered Notices Status and Number of Debtors change	2023	2024	%
No. of All Registered Notices	70,013	91,615	30.85
No. of Active Notices (Current)	36,771	56,797	54.46
No of Debtors	74,867	97,786	30.61

When breaking down the total loan into various loan and collateral products, motor vehicles account for the majority at approximately 61%. In contrast,

warehouse receipts and land use rights make up the smallest portion, with 0% and 0.02% of the total share, respectively.

**Table 2:** Current State of Movable Collateral Registry. Source the NBE

Collateral Type as of March 31, 2024	Total	% Share
Agricultural Machines	1,186	0.58
All Movable Assets	7,211	3.53
Equipment	7,503	3.67
Industrial Machines	4,240	2.08
Machinery	30,783	15.08
Manufacturing Equipment	7,410	3.63
Motor Vehicles	125,342	61.39



Trailers	9,168	4.49
Farm products incl. Maize, Teff, Wheat, seeds, poultry	369	0.18
Livestock (Cow, Camel)	82	0.04
Warehouse receipts	1	0
Right to use land	35	0.02
Others	10,851	5.31
Grand Total	204,181	100

The Ministry of Agriculture has developed a unique system known as the National Rural Land Administration System, which currently holds over 26 million registered and digitized rural parcel data. This system is utilized when rural land use rights are used as collateral for loans. The Ministry, through the woreda land administration and use offices, registers these securities within the system. To date, the Ministry has successfully registered approximately 50,000 land use right collaterals within their system. In contrast, only 35 collaterals have been registered in the NBE EMCR system. This discrepancy highlights the fact that collateral securities are more effectively registered within the Ministry of Agriculture system compared to the NBE system. The existence of two separate systems has presented challenges for institutions involved in registering securities. Banks and financial institutions have expressed concerns regarding this issue. Both the Ministry of Agriculture and the NBE claim to be the legitimate institution for registering collaterals. Regional states argue that they have the authority to manage rural land administration and decide how collaterals should be registered within their territories. They assert that the NBE lacks the mandate to dictate their land management practices, including the registration of rural land use right collaterals.

### **The Benefits of the Land Use Right Collateral and the EMCR**

The modern secured transactions system allows individuals and entities to use their movable assets as collateral for credit, unlocking new opportunities for growth and investment. This system not only generates productive capital but also leads to increased job opportunities, enhanced production and productivity, and improved access to financial products and services. By creating security rights in movable property and ensuring their visibility and enforceability through efficient mechanisms, this system paves the way for expanding banking services to rural areas. Establishing a single,

comprehensive electronic registration regime for secured transactions in movable property is crucial for determining priority rights among competing claimants. The Ethiopian Movable Property Collateral System and Collateral Registry System provide several significant benefits that can enhance economic activity, improve access to finance, and support the development of the financial sector. Among the benefits include the following.

#### **Increased Access to Credit**

**For SMEs and Individuals:** By allowing movable assets to be used as collateral, the registry system enables SMEs and individuals who may not own immovable property to access credit. This is particularly beneficial in a country where many businesses lack traditional collateral such as land or buildings.

#### **Broadening Asset Base**

Lenders can now accept a wider range of assets, including inventory, accounts receivable, equipment, livestock, land use rights, and other movable property, thereby increasing the opportunities for borrowers to secure loans.

#### **Economic Growth and Development**

**SME Growth:** With improved access to credit, SMEs can invest in expanding their operations, purchasing new equipment, and increasing their productivity, which contributes to overall economic growth and job creation.

#### **Entrepreneurship and Innovation**

Enhanced credit access fosters entrepreneurship and innovation, as more individuals can start and grow businesses with the necessary financial backing. This is also very vital for employment creation.

#### **Risk Reduction for Lenders**

The centralized electronic registry provides a transparent and secure record of all registered security interests in movable property, reducing the risk of fraud and disputes over collateral. Besides, the registry system establishes clear priority rules,

ensuring that lenders can ascertain their priority position in the event of a debtor’s default, thereby reducing lending risks.

**Efficiency and Cost Savings**

The electronic nature of the registry system streamlines the process of registering and searching for security interests, reducing administrative burdens and costs for both lenders and borrowers. Improved efficiency in registering and enforcing security interests lowers transaction costs, making lending more cost-effective.

**Enhanced Financial Sector Stability**

Lenders have better tools for managing credit risk, as they can more accurately assess the value and enforceability of collateral. By accepting movable assets as collateral, financial institutions can diversify their loan portfolios, spreading risk across different types of assets.

**Legal and Institutional Strengthening**

The establishment of the registry system is supported by a robust legal framework that enhances the enforceability of security interests and provides legal certainty for all parties involved. The implementation of the registry system often includes capacity-building initiatives for financial institutions, legal practitioners, and regulatory bodies, strengthening the overall financial and legal infrastructure.

**Consumer Protection and Financial Inclusion**

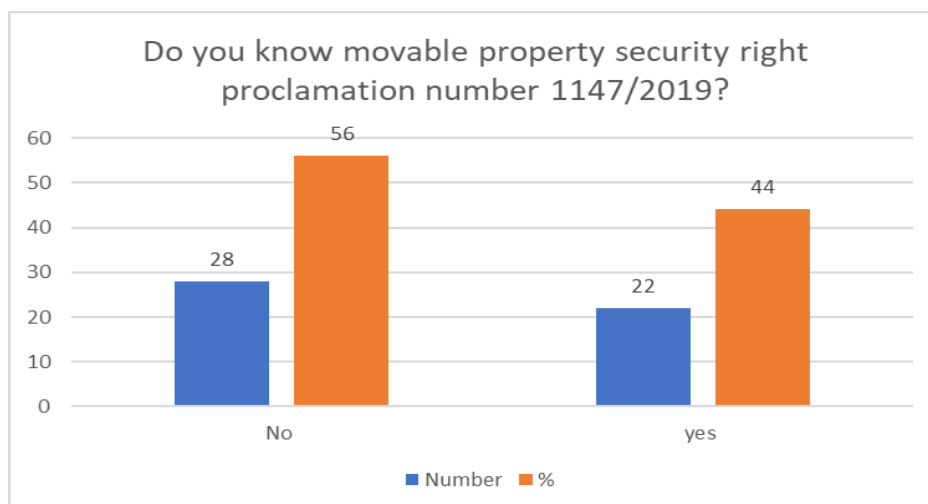
By formalizing movable assets as collateral, the registry system brings more individuals and businesses into the formal financial system, promoting financial inclusion. The registry system helps protect the rights of both borrowers and lenders by providing a clear legal framework for the use of movable collateral.

**Issues observed during the implementation of EMCR**

Despite the Ethiopian Movable Collateral Registry System moving forward in terms of legal frameworks, institutional arrangement, and the setup of the registry system, there are still several challenges that can impact its effectiveness, implementation, and overall functioning. Some of these challenges include:

**Awareness gaps**

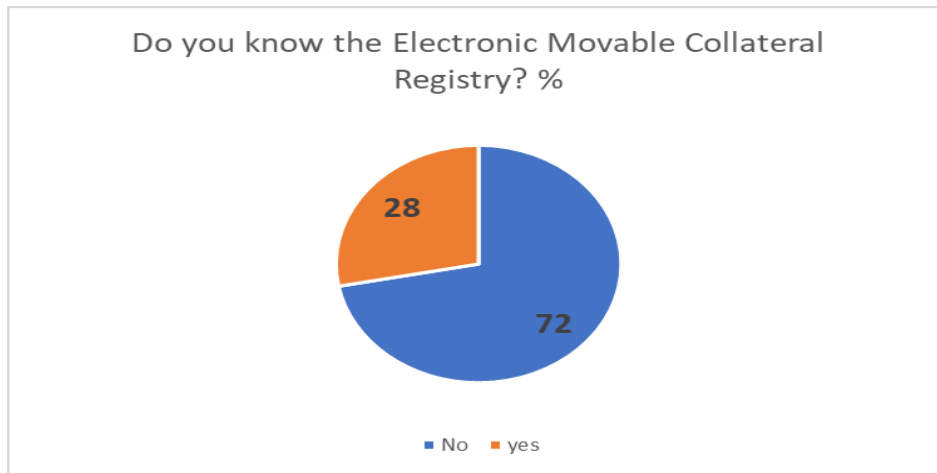
Awareness gaps in terms of the legal framework and the registry system takes the lion's share. Let alone, the rural community, and land administration experts lack awareness and knowledge on the implementation of the law and the EMCR. According to the structured questionnaire collected from 50 legal and land administration experts who are directly working on access to credit using land use rights as collateral, most of them don’t know the existence of the law and the registry system.



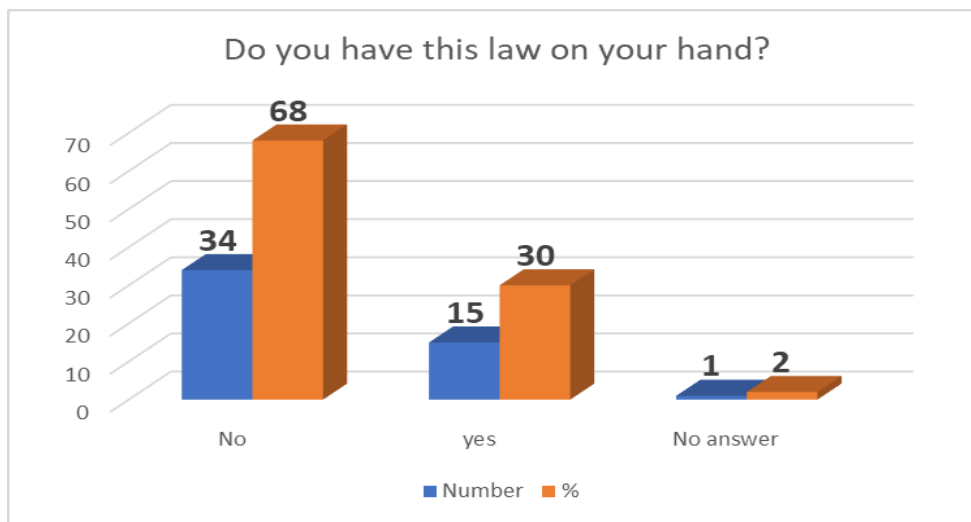
**Fig. 1:** Awareness of Concerned Experts on the Movable Security Rights Proclamation: Source: Own Analysis.

As shown **Fig. 2** above, 56 % of the respondents don’t know about the movable security rights proclamation, despite the experts working on access to credit including on the provisions of the proclamation. Besides, 72 % of the respondents do  
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not know the existence of the MCR System. This shows that there is a huge awareness gap in terms of implementing land use rights as collateral, which is one component of the movable rights collateral and registration system.



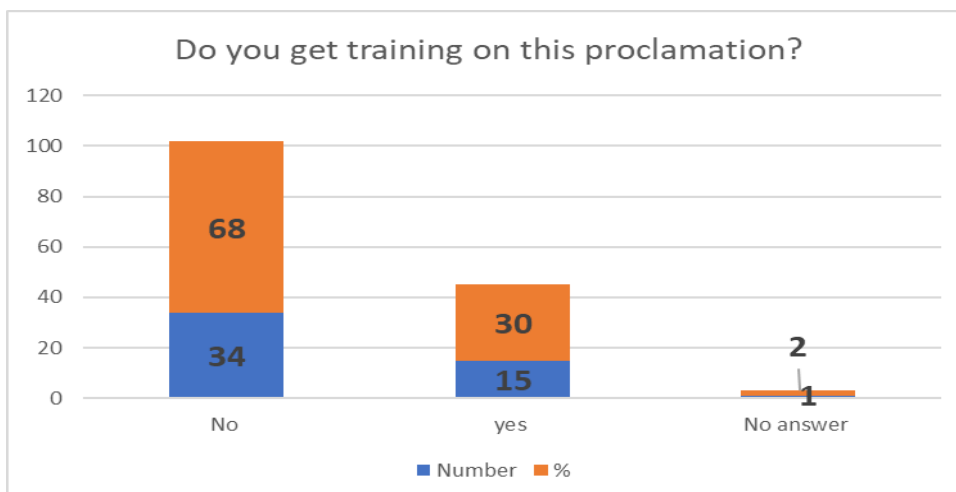
**Fig. 2:** Awareness of Concerned Experts on the MCR. Source: Own Analysis.



**Fig. 3:** Availability of the Law in the hands of Key Land Administration Experts. Source: Own Analysis

As demonstrated above, only 34% of key experts possess knowledge of movable rights collateral law. These experts are responsible for overseeing land administration, including land use rights collateral. The absence of this law in their possession indicates a significant gap in its implementation, particularly

concerning rural land use rights collateral. I have asked these 50 experts about whether they get training on the movable rights collateral proclamation and the EMCRS or not. Their responses are outlined below.



**Fig. 4:** Training Provided to Key Land Administration Experts on the Law. Source: Own Analysis

As demonstrated above, only 30% of key land administration experts receive training on the movable collateral law, highlighting significant capacity-building gaps. These experts must undergo extensive training and capacity-building initiatives to effectively implement the law. Besides the above gaps in the implementation of the law, the following are also challenges faced in fully implementing the movable property collateral proclamation and the EMCR System

### **Cultural and Traditional Practices affect the Enforcement of Collateral Rights**

Effective enforcement of collateral rights is essential. If lenders cannot easily seize and sell movable assets in the event of default, the perceived risk increases, making them less likely to lend against such collateral. In various regions of Ethiopia, traditional practices and cultural norms significantly impact the enforcement of land use rights as collateral. When a debtor is unable to repay a loan according to the terms of the agreement, the creditor may face challenges in seizing the land use right as land holds deep cultural significance within the community. It is unlikely that anyone within the community would be willing to acquire the land use right through foreclosure proceedings. As a result, the system in totality involves navigating a complex landscape of legal, cultural, and operational challenges.

### **Banks and financial institutions are reluctant to provide loans through movable properties**

Banks and financial institutions typically prefer using immovable property, such as houses, as collateral over movable assets. They are often hesitant and reluctant to provide loans secured by movable properties. This reluctance emanates due to perceived higher risks or lack of experience in valuing and managing such assets. Altering these long-standing practices can prove to be a challenging task.

### **Difficulty in Valuation of land use rights**

There is currently no established mechanism for valuing land use rights in Ethiopia. As a result, financial institutions often do not factor in the valuation of land use rights when providing credit, even though it is required by law. This is primarily due to the lack of a market value for land in Ethiopia, making it challenging for financial

institutions to determine an accurate value for land use rights.

### **System failure, network infrastructure issues, and technological Barriers**

The effectiveness of an electronic registry system is contingent upon a strong technological infrastructure. In areas with limited internet connectivity or unstable power sources, utilizing the registry can be difficult. Additionally, system malfunctions can hinder access and usage. For example, during interviews, some KIIs reported instances where they were unable to conduct searches on the EMCR system due to technical issues. This was further corroborated by an expert from the NBE.

### **Valuation and Monitoring**

Accurately valuing movable assets such as land use rights and monitoring them over time can be more complex compared to immovable property. This adds an additional layer of risk and complexity for lenders.

### **Liquidation issues**

Banks have limited involvement in offering credit using movable properties, like land use rights, as collateral. Microfinance institutions also face challenges in providing consistent credit across all branches due to liquidation concerns. Therefore, a coordinated effort between banks and microfinance institutions is necessary to address these issues and ensure access to credit for all individuals.

### **Duplication of registration of collaterals**

There is a problem of duplicate registration in the MCR system and with institutions that issue title deeds, leading to legal complications for financial institutions.

This results in the existence of two separate systems operating in parallel. For example, the Ministry of Transport registers vehicle collateral, while the Ministry of Agriculture registers rural land use rights collateral through its NRLAIS. Meanwhile, creditors are attempting to register the same collateral at the NBE Movable Collateral Registry. Similar issues arise with the Ministry of Trade and the Ministry of Urban and Infrastructure. This highlights the need for collaboration and legal alignment to ensure the effective and efficient implementation of the movable collateral system.

### **Transfer of title deed without ensuring the encumbrance of the asset in the MCR**

Institutions tasked with consulting the MCR before transferring title deeds of movable properties often fail to verify the registration of any collateral at the Registry during transfers through sales and other mechanisms. This oversight results in gaps and undermines trust in the system for secured creditors. This is a risky practice that can have serious consequences. It is important to conduct a thorough check of the registry to verify the status of the asset before transferring the title deed. This will help to avoid any potential legal issues or disputes in the future. It is crucial to prioritize due diligence and compliance with regulations to protect all parties involved in the transaction.

### **The MCR is still under development**

As the system is still in the development phase, there are several issues that need to be addressed. One major concern is the lack of a public portal where information can be easily accessed by the public and other stakeholders. Additionally, there are problems related to the search functionality within the system. Currently, the system allows collateral to be registered using either the property's unique ID or the Tax Identification Number (TIN) of the debtor. However, during the search process, users must be diligent in searching for registrations using all possible key terms, such as the debtor's name, property ID, or TIN. Failure to search using any of these key terms could result in legal complications and other issues. It is crucial that these system issues are resolved promptly to ensure smooth operations and prevent any potential problems in the future.

### **CONCLUSION AND RECOMMENDATIONS:**

Finance is critical in driving a country's economy forward. One of the key ways to secure finance is through credit, which involves providing collateral to financial institutions or creditors. Traditionally, immovable properties have been used as collateral for loans. However, this approach has limited financial inclusion as only a few individuals own such properties. To address this issue, many countries, including Ethiopia, have introduced movable property collateral. This innovative approach allows a wider range of individuals to access credit and participate in the economy. By expanding the types of collateral accepted for loans,

financial institutions can help more people achieve their financial goals and contribute to the overall growth of the country. Proclamation number 1147/2019, known as the Movable Property Collateral Proclamation, has been approved to enable individuals to secure loans using movable properties as collateral. Movable properties, as defined by this proclamation, encompass a wide range of assets including inventories, agricultural products, intangible assets, tangible assets, and the right to use land unless restricted by relevant laws. Additionally, security rights under hire-purchase agreements are also considered movable properties under this proclamation. Notably, rural land use rights are specifically highlighted as eligible movable properties that can be utilized as collateral for obtaining credit. For these land use rights to be effectively used as collateral, Ethiopia has been implementing a systematic and large-scale rural land registration and titling program. About 28 million rural lands have been securely registered and landholding provided to the landholders, which can be used as collateral for loan. A National Rural Land Administration Information System (NRLAIS) at the Ministry of Agriculture and a Movable Collateral Registry at the National Bank of Ethiopia have been developed and are ready to register land use rights collaterals for credit. The MCR has been developed within a legal framework as a centralized registry accessible through a web system. Its primary objectives are to provide notice to third parties of secured creditors' rights in pledged assets and to establish the priority of secured creditors at the time of notice registration. The Ethiopian MCR is a crucial tool in promoting financial inclusion and driving economic development. It allows a wider variety of assets to be used as collateral for loans, including rural land use rights. In 2023 and 2024, nearly 100,000 credit collaterals were registered through the MCR System. Motor vehicles made up the majority at approximately 61%, while warehouse receipts and land use rights accounted for the smallest portion, with 0% and 0.02% of the total share, respectively. This demonstrates the diverse range of assets that can now be utilized to secure loans, ultimately expanding access to credit and fostering economic growth in Ethiopia. Despite progress in the legal frameworks, institutional arrangements, and the establishment of the Ethiopian Movable Collateral Registry System,

there are still significant challenges that could hinder its effectiveness, implementation, and overall operation. These challenges include a lack of awareness, deeply ingrained cultural and traditional practices that impede the enforcement of collateral rights, banks and financial institutions being hesitant to provide loans through the movable collateral registry, difficulties in valuing land use rights, system failures, network infrastructure issues, technological barriers, problems with liquidation, duplicate collateral registrations, and the transfer of title deeds without ensuring the asset's encumbrance in the Movable Collateral Registry. Addressing these challenges will be crucial for the successful functioning of the system.

According to the findings of the study, the following recommendations are provided.

- 1) Capacity-building and awareness-raising activities need to be carried out on a large scale. In particular, experts in the field of land administration and land use rights as collateral often lack knowledge about the legal framework that permits this practice, as well as the movable collateral registry. Many of these professionals are unaware of the relevant laws and have never received any training on the subject. To address this issue, various methods of raising awareness should be employed, such as training sessions, awareness-raising meetings, dissemination of information through print media, distribution of relevant legislation, and hosting public dialogues on television and radio. These awareness-raising activities should be inclusive, targeting financial institutions, landholders and the local community, technical experts, officials, government agencies, judiciaries, courts, legal aid agents and other stakeholders.
- 2) To enhance efficiency and reduce confusion, it is imperative to avoid duplicating collateral registrations in both the MCR system and sector-based systems. Implementing System Integration is crucial in seamlessly integrating these systems. This integration will streamline the registration process, ensuring that collateral registered in one system is readily accessible in others without the need for separate registrations.
- 3) Institutions responsible for issuing title deeds for tangible and intangible assets must thoroughly check and search the Electronic Movable Collateral Registry System to confirm if the asset is free from any liens before transferring the title. Failing to verify this information before transferring the title will result in legal consequences for these institutions.
- 4) The Electronic Movable Collateral Registry is in need of system enhancements to improve certain functionalities. One key area that requires attention is the lack of a public portal. Additionally, the NBE should establish a sustainable maintenance contract to ensure the system can be properly maintained in the event of system failures or the need for enhancements or new functions.
- 5) Liquidation poses a significant challenge for Micro Finance Institutions when it comes to disbursing credit using land use rights as collateral. In order to mitigate this issue, it is essential to establish a coordinated effort between banks and MFIs. By providing financial support to microfinance institutions, banks can enable them to extend credit to landholders more effectively. This process is particularly advantageous for MFIs, as they typically have branches located in close proximity to the communities they serve.
- 6) It is crucial to establish a joint committee comprised of technical and steering stakeholders in order to develop a comprehensive plan. This committee will be responsible for overseeing the implementation of the law and conducting awareness campaigns. Without this collaborative effort, the enforcement of the law will simply continue as usual.
- 7) The government must prioritize the registration and titling of rural land to ensure that all rural landholders have access to credit using their land use rights. Failing to complete the titling program would hinder the achievement of the financial inclusion strategy.
- 8) Regular legal audits and policy revisions are crucial for maintaining a strong legal framework. Research plays a key role in this process, as it provides valuable insights for the overall program. Monitoring and evaluating progress and challenges are essential in order to effectively enhance the sector.

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### CONFLICTS OF INTEREST:

There are no financial and non-financial competing interests that are directly or indirectly related to this work.

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