

# Inter-relationship between Bankruptcy, Debt Collection and Trade



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at

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- **INTRODUCTION**
- **BANKRUPTCY, DEBT COLLECTION AND TRADE DEFINED**
- **INTERACTION OF THE THREE THEMES**
- **OTHER FACTORS IMPACTING THE INTERACTION OF THE THREE THEMES**
- **WHAT HINDERS CREDIT CULTURE In NIGERIA**
- **EFFORTS BY CBN TO**
- **RECOMMENDATION**
- **CONCLUDING REMARKS**



# INTRODUCTION

- ❖ **Bankruptcy, Debt Collection, and Trade** are interconnected concepts that are integral to the functioning of the financial system. Bankruptcy provides relief to individuals and businesses who are unable to pay their debts, but it can also have a significant impact on debt collection and trade.
- ❖ Understanding the inter-relationship between these concepts is essential for businesses and individuals to make informed financial decisions and seamlessly navigate the complex landscape of the financial system.



# BANKRUPTCY, DEBT COLLECTION AND TRADE DEFINED

- ❖ **Bankruptcy** refers to a legal process that allows individuals and businesses to restructure their debts or obtain relief from their debts by seeking protection from creditors. This protection is granted in the form of an automatic stay, which prevents creditors from taking any further collection action against the debtor.
- ❖ **Debt collection**, on the other hand, refers to the process of collecting debts that are owed by individuals or businesses or countries.
- ❖ **Trade**, however, involves the exchange of goods and services between individuals, businesses, and countries.



# INTERACTION OF THE THREE THEMES

- ❖ The bankruptcy process can have a significant impact on trade. When a business files for bankruptcy, its assets are liquidated to pay off its debts. This liquidation can lead to the closure of the business, which can have a ripple effect on its suppliers, employees, and customers. This can create a chain reaction that can impact other businesses and the overall economy.
- ❖ The impact of bankruptcy on debt collection is also significant. When an individual or a business files for bankruptcy, it can affect the ability of creditors to collect their debts.
- ❖ Debt collection can impact trade and also lead to negative consequences for debtors. Finally, trade can impact debt collection and result in the accumulation of accounts receivable that may become a significant liability for businesses.



# INTERACTION OF THE THREE THEMES

- ❖ Debt collection can also have an impact on trade. When an individual or a business owes money to a creditor, it can impact their ability to purchase goods and services. This can lead to a reduction in trade, as the debtor may be unable to pay their bills or purchase goods and services from their suppliers. In some cases, creditors may be forced to take legal action to collect their debts, which can result in a lengthy legal process that can impact trade.
- ❖ Trade can also have an impact on debt collection. When businesses engage in trade, they may extend credit to their customers. This can result in the accumulation of accounts receivable, which can become a significant liability for the business. If customers fail to pay their bills, it can impact the business's cash flow and its ability to pay its own debts. This can create a chain reaction that can impact other businesses in the supply chain.



## OTHER FACTORS IMPACTING THE INTERACTION OF THE THREE THEMES

- ❖ **Credit** plays a critical role in modern economies by allowing individuals and businesses to access funds that they may not have available at the time of initiating a transaction. However, when credit is not managed properly, it can lead to debt and financial distress. This, in turn, can impact trade and debt collection.
- ❖ **Trade credit** is also an important component of the inter-relationship between bankruptcy, debt collection, and trade. Trade credit refers to the credit extended to businesses by their suppliers. It is a common practice in many sectors and can provide businesses with the funds needed to purchase inventory and raw materials. However, when businesses are unable to pay, it can impact their ability to access trade credit in the future. This can create a domino effect that can impact the entire supply chain.



## OTHER FACTORS IMPACTING THE INTERACTION OF THE THREE THEMES

- ❖ **The role of Government** - Government policies and regulations can have a significant impact on these concepts. Since bankruptcy laws vary from country to country, and some countries have more lenient bankruptcy laws than others. This can impact the decision of individuals and businesses to file for bankruptcy and can also impact the rights of creditors.
- ❖ Government policies can also impact debt collection. For example, some countries have strict regulations governing debt collection agencies. These regulations may limit the tactics that debt collection agencies can use to collect debts, such as prohibiting harassment or threats. In addition, some governments provide incentives or subsidies to businesses that engage in trade. This can encourage businesses to engage in trade and can also provide them with the funds they need to pay their bills and avoid debt collection efforts.



## OTHER FACTORS IMPACTING THE INTERACTION OF THE THREE THEMES

- ❖ The inter-relationship between bankruptcy, debt collection, and trade also highlights the importance of financial literacy which can help individuals and businesses make informed decisions about their finances and avoid financial distress and debt collection efforts. In addition, it can also help individuals and businesses understand the impact of their financial decisions on trade.
- ❖ Finally, the inter-relationship between bankruptcy, debt collection, and trade highlights the importance of ethical practice. Businesses and individuals who engage in unethical practices such as deliberately avoiding payment of debts or engaging in fraudulent activities, can have a significant impact on trade and debt collection. This can damage the reputation of the debtor and can also create a negative perception of the entire industry. In addition, unethical practices can lead to legal action and can impact the financial well-being of the debtor.



# OTHER FACTORS IMPACTING THE INTERACTION OF THE THREE THEMES

These include:

1. Availability of FX – Whereby despite funding the Naira account at maturity of transactions, inadequate FX is available to effect remittance to suppliers.
2. FX volatility after transaction is consummated – This is whereby the FX rate adversely changes after the transaction may have been consummated.



# WHAT HINDERS CREDIT CULTURE

## 1. Collateral/Securitization

- Documentary requirements for credit are still a hurdle to various types of credits lying fallow.
- Processing some of the documents such as deed of assignment are not easy exercise to carry out and this constrains a large volume of credit potentials.



# WHAT HINDERS CREDIT CULTURE

## 2. Credit Perception (national cake)

- From our experiences a large number of credit applicants perceive credits from any source as national cake. This therefore increases the risk of lending, making credit dispensing unattractive.
- The eventual result of this perception is that application of credit proceeds are diverted to wrong purposes, thereby increasing the rate of default and blocking the chances of others assessing credit.



## WHAT HINDERS CREDIT CULTURE

### 3. The Business Profile of the Banking community.

- A sizeable portion of the liabilities of the Nigerian Banking Sector is on demand and short-term deposits. This constrains long term lending and create a mismatch between funds availability and use of funds.
- Desirable and profitable credit products are mortgages and consumable items such as cars, furniture that can only be packaged effectively on long term basis.
- Banks therefore fearing mis-match of funds that could lead to insolvency leave this viable sector untapped.



# WHAT THE CBN HAS IN PLACE

Implementation of the following programs:

**1. Creation and licensing of Credit Bureau:** To curb the activities of serial debtors and defaults. The CBN granted credit bureau licenses to three private companies:

- CRC Bureau Credit Limited
- CR Services Credit Bureau PLC
- XDS Credit Bureau Limited

⑩ These licenses were granted in 2008. They eventually formed what is now regarded as The Credit Bureau Association of Nigeria in 2012.

**2. Establishment of Commercial Courts:** The CBN is working to have dedicated courts that will take care of commercial cases to shorten the length of time required to settle debt default cases



# WHAT THE CBN HAS IN PLACE

Implementation of the following programs:

**3. Establishment of Global Standing Instructions (GSI):** This is a global view of the credit worthiness of an individual and the its exposure to the entire financial system in Nigeria.

**4. Establishment of National Collateral Registry of Nigeria.** The National Collateral Registry (NCR) of Nigeria is an initiative of the Central Bank of Nigeria (with support from IFC) to improve access to finance particularly for Micro, Small and Medium Enterprises (MSMEs). The Collateral Registry, which operationalizes the Secured Transactions in Movable Assets Act, (STMA) 2017, is a web-based system that allows lenders to determine any prior security interests, as well as to register their security interests over movable assets provided as collateral. The Collateral Registry facilitates the use of movable / personal assets as collateral that remain in possession or control of the borrowers and thereby improves access to secured finance.



# RECOMMENDATION

- ✓ There is need for greater engagement with stakeholders and collaboration between relevant agencies to stimulate and nurture an ideal credit culture in our country.
- ✓ Strengthening policy implementation and compliance, especially with our legal systems.



## CONCLUDING REMARKS

It is important that individuals and businesses understand the impact of their financial decisions on trade, debt collection, and bankruptcy. By doing so, individuals and businesses can avoid financial distress, maintain good relationships with their creditors and suppliers, and contribute to a healthy and vibrant economy.

It is therefore important that individuals and businesses are financially literate, become aware of Government policies and regulations concerning their businesses and most importantly to be ethical in their business practices.



# THANK YOU

