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National Microfinance Policy and Credit Accessibility by Micro, Small and Medium Entrepreneurs in Nigeria

Josephine Eluan Lloyd, PhD[1] & Igbani Owede Robbins[2]

[1&2]Department of Entrepreneurship and Skills Development, Faculty of Humanities and Social Sciences, Federal University, Otuoke, Yenagoa, Bayelsa State. Corresponding Author's Email: lloydjosephine983@yahoo.com .GSM:+2348037980590, +2347080767938

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Abstract

This paper examines the impact of the Microfinance policy on credit accessibility and financial inclusion by micro entrepreneurs, low income household, economically active poor, being denied access to financial services. This study therefore seeks to establish why the economically active poor, micro entrepreneurs in Nigeria are excluded from financial services. From findings only 35 percent of the economically active poor have access to financial services while 65 percent are denied access to financial inclusion. The reason is as a result of the CBN high Monetary Policy Rate of 12 percent, compelling commercial banks and microfinance banks to lend as high as 19 and 22 percent while the latter 30 percent and above, discouraging borrowers and posing threat to the development of the MSMES sector. Findings also reveal that the uneven spread of microfinance institutions across the country also accounts for the poor financial accessibility by micro entrepreneurs. Statistically, the South-west geopolitical zone has 343 microfinance banks (39.4%), North-East only has 32 (3.7%), South-South has 117 (13.4%), North-West has 58 (6.7%), North-Central 151(17.4%), South-East 169 (19.4%). Thus, those in South-West have more access to financial services than those in the North-East and North-West part of the country. The study therefore observed and recommended that the CBN reduced its 12% Monetary Policy Rate to 9 percent, to enhance financial inclusiveness and accessibility by the economically active poor. The study also recommended that more microfinance institutions be established in zones that has less. States like Yobe has only 1, microfinance bank, Bayelsa 4, Borno (4), while Lagos has 180, Anambra (75). The study also recommends that microfinance institutions should not demand for tangible assets and financial instruments as collateral security, it accounts for the poor financial inclusion and accessibility by micro entrepreneurs.

Key Words: National, Microfinance policy, Credit accessibility, Entrepreneurs, MSMEs

Introduction

Credit accessibility by the low income earners and the economically active poor in underdeveloped economies like Nigeria had best been described as one of the bane of the country's entrepreneurial underdevelopment and slow economic growth rate and development. It has been rightly observed that robust economic growth cannot be achieved without putting in place well focused and sustainable policy programmes to reduce poverty throu.gh empowering people by increasing their access to factors of production, specifically credit accessibility (CBN, 2011). The essence of Microfinance is to provide financial services to the economically poor that are traditionally not served by the conventional financial institutions, the commercial banks.

In order to boost credit accessibility, in December 2005, the Central Bank of Nigeria introduced microfinance regulatory policy frame work to promote and enhance the accessibility of micro entrepreneurs, the economically active poor, low income households to financial services required to expand and consolidate on their business fortunes. The economic rationale is that no inclusive economic growth can be attain without a deliberate and conscious effort on the part of policy makers such as the parliament (National Assembly) and the executive arm (Presidency) in creating a sustainable legal framework geared towards credit accessibility and affordability through a realistic interest rate regime.

Statistically, the Central Bank of Nigeria has posited that the formal financial system (banking sector) grant financial access to about 35% of the economically active population while the remaining 65% are totally excluded from financial services denying them access to the robust business environment. The 65% are often served or given financial access by the informal financial sector through Non-Governmental Organization (NGO), microfinance institutions, cooperative societies, friends, unions, relatives and credit unions. The issue of collateral security by prospective borrowers often demanded by commercial banks as a prerequisite or condition for credit lifeline is a major obstacle to entrepreneurship development because the economically active poor that runs the micro and small and businesses are denied of an opportunity to boost, expand, diversify and consolidate on their gains (CBN, 2011).

The Central Bank of Nigeria as part of her Monetary Policy Rate (MPR) functions has pegged 12% as the official lending rate to all commercial banks and every bank. The MPR is the rate at which banks borrow from the Central Bank of Nigeria to cover their immediate cash shortfalls from time to time; thus the higher the cost of such borrowing, the higher will be the rate at which banks advances credit to the real sector (manufacturing). For instance, the CBN's lending rate of 12% to commercial banks instigates the current borrowing cost of 18 to 28 percent to the real sector (manufacturing) and this necessitated the winding of many manufacturing firms in Kano, Lagos and Port Harcourt rendering thousands jobless. Such high cost of borrowing increases the cost of production and also makes local product uncompetitive against imported substitute, which are aggressively supported with conversely lower single digit interest rates in their home economies. (Punch online, November 19th, 2013).

The microfinance institution is allowed by the CBN to peg their own interest rate in accordance with prevailing market forces of demand and supply, whims and caprices. There are over 1,000 Microfinance banks across the country but presently the interest rate at which they give loans is as high as 30% percent and above with very short tenure ranging from one month to six months. (Daily Trust online, August 16th, 2013). Microfinance loans are small loans granted to micro enterprises by financial intermediaries on the basis of the borrower's cash flow but not on the basis of tangible asset or financial instrument as collateral security. Ironically, from investigations and personal experience as a micro banker, some microfinance banks specifically in Bayelsa state demands for tangible assets and financial instruments as collateral security such as; land, building, deed of conveyance, certificate of occupancy, share certificate etc. a pre-condition for credit facility.

Against the backdrop of concerns expressed by stakeholders and the need to enhance financial services delivery, the 2005 Microfinance Policy, Regulatory and Supervisory Framework for Nigeria was Revised in April, 2011, and in exercise of the powers conferred on the Central Bank of Nigeria by the provisions of Section 28, sub-section (1) (b) of the CBN Act 24 of 1991 (as amended) and in pursuance of the provisions of Sections 56-60(a) of the Bank and Other Financial Institutions Act (BOFIA) 25 of 1991 (as amended). The policy recognized existing informal institutions and brought them within the supervisory purview of the CBN creating a platform for the regulation and supervision of microfinance banks (MFBs) through specially crafted Regulatory Guidelines (CBN, 2011).

The organized private sector remains the life wire of every economy as no nation can make a sustainable economic growth without the government creating the enabling environment for the private sector inclusive of the micro, small and medium scale enterprise. The Asian tigers; North Korea, South Korea, Taiwan, Singapore, and Malaysian unprecedented economic growth is attributable to the government conscious effort in driving the private sector through enabling legal credit frame work where the business community with a viable business proposal or idea have access to financial services with minimal, zero or no interest rate. That has been the brain behind the "Asian Miracle" where in the 1960's these economies were weak, vulnerable and non viable but today the "Asian Tigers" economy is not only strong and viable but has become a safe destination for Foreign Direct Investment attracting global attention in the manufacturing, tourism, agriculture and services industry.

China the World's second largest economy by nominal GDP and purchasing power parity after the United States, rated globally as the fastest growing economy with growth rates averaging 10% over the past 30 years, own its success to its investment in entrepreneurship and vocational skills development geared towards self reliance, sustainable job creation, capacity building and wealth creation. The United States government also gives key priority to entrepreneurship and vocational skills development to the youths making the economy self-reliant and sustainable. The emphasis is that government alone cannot provide jobs for the teeming population and at such developed democracies and economies strive to create the enabling business environment through legal credit framework to encourage local participation in critical sectors of the economy.

The world economic and global experts have come to accept entrepreneurship as a force. According to economic experts globally, entrepreneurship is the economic force that transform the United States into the most powerful economy in the world. This has been responsible for the USA's astronomical, growth in various sectors over the last 200 years. The fact is that the American education has its root in pragmatism, skills acquisition, challenges and psychological determination to do what appears to be impossible (Lawrence, 2013).

Statement of the Problem

The CBN Monetary Policy Rate of 12% as official lending rate to commercial banks and the unregulated interest rate charged by microfinance banks and allied institutions as high as 30 percent and above on a relatively short term basis, some on a reducing balance and majority on a flat interest rate, constitute a clog in the wheel of economic growth and development. The economically active poor and the low income households in most cases are denied access to financial services due to the high interest rate, short tenure ship, and the conditionality in terms of collateral security (tangible asset and financial instrument) posing a threat to entrepreneurship development and the CBN microfinance policy objectives of creating the enabling environment for financial accessibility and inclusion to the average unemployed Nigerian and micro businesses. The uneven distribution of microfinance banks and other allied financial institutions across the country also poses a hindrance to financial accessibility by some sections of the country as the banks are more concentrated in some geopolitical zone than others which investors perceived to possess high business volume and profitability.

Methodology

This study made use of secondary data such as; textbooks, journals, newspapers, magazines, online publications, statistical data generated from the office the Central Bank of Nigeria (CBN) and data are presented in a bar chart and statistically tables. Thus, statistical descriptive approach was used in the data analysis which aided in drawing relevant conclusions.

Microfinance Policy Objectives

In exercise of the power conferred on the CBN by the provisions of section 33 (1) (b) of the CBN ACT NO.7 of the 2007 and in pursuance of the provisions of sections 56-60 (a) of the Banks and other Financial Institution Act (BOFIA) No. 25 of 1991 (as amended) in conjunction with the MFBs operating template and revised regulatory and Supervisory Guidelines for Microfinance Banks (MFBs), presents a revised National Microfinance policy framework (April, 2011) for Nigerians that would enhance the provision of diversified microfinance services on a sustainable basis for the economically active poor and the low income households. According to Muhammad Yunus, Noble prize winner and founder, Grameen Bank, 1994 he opined that *If we can come up with* *a system which allows everybody access to credit while ensuring excellent repayment, I can give us a guarantee that poverty will not last long.*

The microfinance policy provides the window of opportunities for the low income earners, market women, tailors, artisans, welders, etc. to expand existing business, open new businesses and consolidate on existing businesses with access to affordable credit products. The policy also promotes the development of appropriate (safe, less costly and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy.

Policy Objectives

The microfinance policy objectives are as follows (CBN, 2011:16):

a) Provision of timely, diversified, affordable and dependable financial services to the economically active poor;
b) Creation of employment opportunities and increase the productivity and household income of the active poor in the country, thereby enhancing their standard of living;
c) Promotion of synergy and mainstreaming of the informal Microfinance sub-sector into the formal financial system;
d) Enhancement of service delivery to micro, small and medium enterprises (MSMEs);
e) Mobilization of savings for intermediation and rural transformation; Promotion of linkage programmes between microfinance institutions (MFIs), Deposit Money Banks (DMBs), Development Finance Institutions (DFIs) and specialized funding institutions;
f) Provision of dependable avenues for the administration of the microcredit programmes of government and high net worth individuals on a non-recourse basis; and
g) Promotion of a platform for microfinance service providers to network and exchange views and share experiences.

Policy Targets of the Microfinance Policy

Base on the policy objectives stated above the policy targets of the revised microfinance policy are as follows (CBN, 2011:17):

a) To increase access to financial services of the economically active poor by 10 per cent annually;
b) To increase the share of microcredit as percentage of total credit to the economy from 0.9 per cent in 2005 to at least 20 per cent in 2020; and the share of microcredit as percentage of GDP from 0.2 per cent in 2005 to at least 5 per cent in 2020;
c) To ensure the participation of all States and the FCT as well as at least two-thirds of all the Local Government Areas (LGAs) in microfinance activities by 2015; and
d) To eliminate gender disparity by ensuring that women's access to financial services increase by 15 per cent annually, that is 5 per cent above the stipulated minimum of 10 per cent across the board.

Policy Strategies

A number of policy strategies have been derived from the objectives and policy targets of the microfinance policy. They are (CBN, 2011: 17-19):

a) License and regulate the establishment of microfinance Banks (MFBs).
b) Promote the establishment of NGO-based microfinance institutions.
c) Promote the participation of Government in the microfinance industry by encouraging States and Local Governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs.

d) Promote the establishment of institutions that support the development and growth of microfinance service providers and clients;
e) Strengthen the regulatory and supervisory framework for MFBs;
f) Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;
g) Mobilize domestic savings and promote the banking culture among low-income groups;
h) Strengthen the capital base of the existing microfinance institutions;
i) Broaden the scope of activities of microfinance institutions;
j) Strengthen the skills of regulators, operators, and beneficiaries of microfinance initiatives;
k) Clearly define stakeholders' roles in the development of the microfinance initiatives;
l) Clearly define stakeholders' roles in the development of the microfinance sub-sector; and
m) Collaborate with donors, coordinate and monitor donor assistance in microfinance in line with the provisions of this policy.

Rationale for the Introduction of the Microfinance Policy in Nigeria

There are over one thousand (1000) Microfinance Banks across the country owns by individuals, Cooperative societies, Community Development Associations, private corporate entities, NGO-MFIs, foreign investors and among others. One major justification for the introduction of the microfinance policy by the CBN was existence of the huge size of the un-served market by the existing financial institutions. A study conducted by Enhancing Financial Innovation and Access (EFInA) in August, 2010 revealed that 39.2 million people representing 46.3 percent of the adults in Nigeria were excluded from financial services. Out of the 53.7 percent that had access, 36.3 percent derived their financial services from the formal financial institutions; while17.4 percent exclusively patronized the informal sector. Also the result of the survey revealed that Nigeria was lagging behind South Africa, Botswana and Kenya with 26 percent, 33 percent in financial exclusion rate, respectively (CBN 2011:10-11).

Many MFBs are located in urban areas. There needs to be an increase in the number of MFBS located in rural areas. Whilst there is a need for some Microfinance Banks to be located in urban areas, the requirement for rural based Microfinance Banks is much more critical for wider financial inclusion because it is unlikely that larger commercial banks will have any presence in rural communities and villages. Commercial banks should also be encouraged to open accounts for Micro businesses and those of low income earners. According to Central Bank Nigeria (2011:13), *a total of 866 microfinance banks had been licensed, Microfinance Certification Programme (MCP) for operators of microfinance banks put in place and promotional machinery beefed up."*

Distribution of Microfinance banks by geo-political zones as at 30th June 2011.

GEOPOLITICAL ZONES	NUMBER OF MFBs	TOTAL PER ZONE	% OF TOTAL
NORTH-WEST			
Jigawa	9		
Kaduana	23		
Kano	6		
Katsina	5		
Kebbi	5		
Sokoto	4		
Zamfara	6		
Sub-total	58	58	6.7
NORTH-CENTRAL			
Abuja FCT	54		
Benue	11		
Kogi	22		
Kwara	22		
Nasarawa	6		
Niger	24		

Plateau	12		
Sub-total	151	151	17.4
NORTH-EAST			
Adamawa	7		
Bauchi	12		
Borno	4		
Gombe	4		
Taraba	4		
Yobe	1		
Sub-total	32	32	3.7
South-West			
Ekiti	12		
Lagos	180		
Ogun	51		
Ondo	17		
Osun	33		
Oyo	50		
Sub-total	343	343	39.4
SOUTH-SOUTH			
Akwa-Ibom	14		
Bayelsa	4		
Cross Rivers	15		
Delta	38		
Edo	22		
Rivers	24		
Sub-total	117	117	13.4
SOUTH-EAST			
Abia	25		
Anambra	75		
Ebonyi	8		
Enungu	23		
Imo	38		
Sub-total	169	169	19.4
Total	870	870	100.0

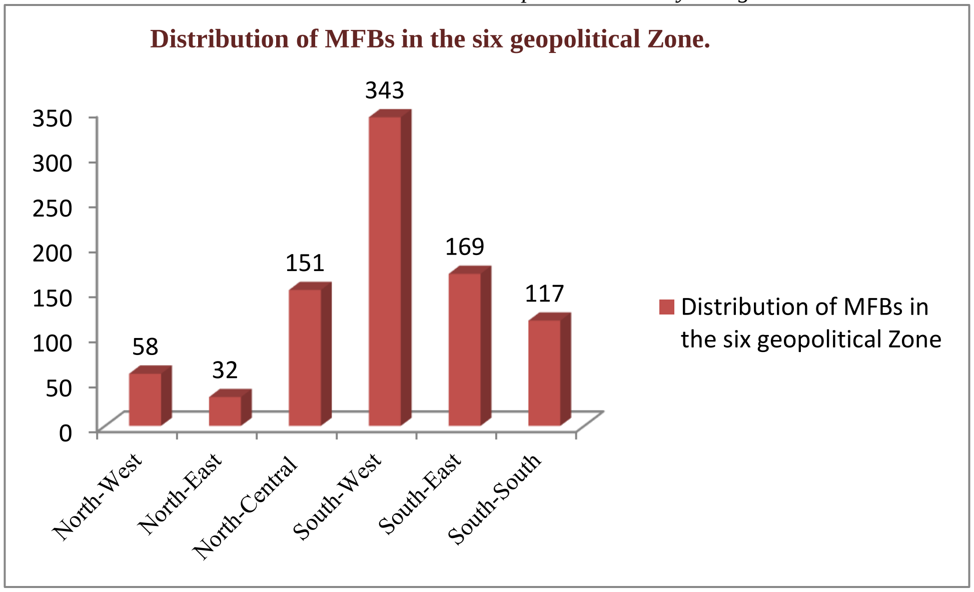
Source: Extract from the Nigerian Microfinance News Letter. Vol. 12 Jan. – June, 2011.

From the table above, one discovers that Microfinance banks are not evenly spread across the country, the spread is rather lopsided as those (populace) in Lagos state (180), Anambra state (75), Delta (38), Imo (38), Kaduna (23), Niger (24) have more access to financial inclusion while states like Yobe (1), Sokoto (4), Bayelsa (4), Kano (6), Katsina (5) etc. with less number of Microfinance bank has less access to financial inclusion and accessibility in the local economy. In essence, the people from these states have less access to the different credit products cum empowerment programs offered by the federal, states, local governments and the Microfinance banks.

A graphic bar chart in figure 1 below shows the distribution of Microfinance banks in the six geopolitical zones of the country, Nigeria. The graphic bar chart above, clearly illustrates the lopsidedness in the distribution of Microfinance institutions across the country as at 31st June, 2011 posing hindrance to financial accessibility & inclusion of the economically active poor, micro-entrepreneurs etc.

Distribution of MFBs by the SixGeopolitical Zones in Nigeria

S/N	Six Geopolitical Zones of Nigeria	Frequency
1	North-West	58
2	North-East	32
3	North-Central	151
4	South -West	343
5	South-East	169
6	South-South	117
Total		870



The poor Credit Risk Management System, (CRMR) of Microfinance institutions also necessitated the introduction of the Microfinance policy in 2005. The late 1980s and 1990s witnessed rising non-performing credit portfolios in banks and these significantly contributed to the financial distress of meltdown in the banking sector. Also identified was the existence of Predatory debtors in the banking industry whose modus operandi involved the abandonment of their debt obligations in some banks only to contract new debt in other obligation. The worst is that statutes enquiries on credit status on borrowing clients were regarded as mere business courtesies to which some banks gave vague excuses, replies and some even ignore. On the contrary, some banks stills went ahead contracting fresh facilities to hard core customers with varying un-serviced debts to different banks and financial houses, which could best be describe as a systemic weakness. (CBN: 2012).

Thus, the need for a central credit data base system where personal information and credit status can be easily verified with a tap on the computer became imperative. It was against this backdrop that the CBN established the Credit Risk Management System (CRMS) or the Credit Bureau. The decision to establish a Credit Bureau in Nigeria featured in the Presidential Budget Speech of 1990. Thereafter, it was given a legal backing by the CBN Act No.24 of 1991 [sections 28 and 52] as amended. The enabling legislation empowered the CBN to obtain from all banks, returns on all credits with a minimum outstanding balance of ₦100, 000. 00 (now ₦ 1million and above of principal and interest), for compilation and dissemination by way of status report to any interested party (i.e. operators or regulators). (CBN, 2012)

The Act made it mandatory for all financial institutions to render monthly returns to the CRMS of the CBN, in respect of all their customers with aggregate outstanding debit balance of ₦1,000,000.00 (One million naira) and above. It also required banks to update these credits on monthly basis as well as make status enquiry on any intending borrower to determine their eligibility or otherwise. Banks are penalized for non-compliance with the provisions of the Act. Presently the CRMS is web-enabled thus, allowing banks and other stakeholders to dial directly into the CRMS database for the purpose of rendering the statutory returns or conducting status enquiry on borrowers. Though, this practice is more visible in the commercial bank, the CBN has made it compulsory for all microfinance banks to furnish her with all existing and current debt portfolio in her monthly returns, so as to ascertain its level of credit risk exposure, accumulated bad debt portfolio and sanction any erring banks that default the lending guidelines.

Also the weak capital base of existing microfinance institutions could not adequately provide cushion for the risk of lending to micro clients as microfinance banks becomes synonymous with "Wonder banks, fraud and mismanagement". The fear of depositing monies in microfinance banks becomes the biblical beginning of wisdom; micro clients became apprehensive of banks going insolvent or broke due to the poor or low capital base, lending activities became restrictive and selective with a conditional clause for a collateral security. Also in most cases even when credit facilities are being granted to clients, the payback for both the principal and the accrued interests becomes a subject of litigation. The reasons deduce is that in most cases the duration for the loan is usually short; three (3) six (6) months while the interest rate ranges from 30 to 60 percent and above on a flat rate posing payback challenges to potential borrowers, rising profile of bad debts becomes monumental and constitutes a threat to the sector. (*Online Microfinanceafrica.net August 23rd, 2012)*

Prior to CBN's intervention, Microfinance in Nigeria was taking a swift decline into the abyss. The sector was riddled with fraud and mismanagement of funds. Some of the mismanagement may have been down to a lack of understanding of Microfinance by the senior managers in some of the Microfinance Banks. This assumption was corroborated by MFB's renting lavish offices, providing their senior personnel with salaries and benefits similar to those offered by larger commercial banks. CBN's intervention was late in coming, but was nonetheless welcomed. CBN set about evaluating the entire sector and took action to address some of the issues that had plagued it. This included withdrawal of the licenses of some of the MFB it believed were not fit for purpose or viable.

The CBN's actions to sanitize the sector has been complemented by NDIC's (Nigerian Deposit Insurance Corporation), whose responsibility is to commenced a repayment program for depositors of MFBs that had been declared bankrupt, liquidate or closed as a result of mismanagement or had their licenses withdrawn. These measures have brought some succor, stability, and have increased investors' confidence on the sector. Although there is still some way to go before the sector can start to fulfil its statutory responsibility of financial inclusion and poverty alleviation. A few problems still continue to plague the sector. The key ones include high rates of interest ranging from 30% to 60% and above by MFBs, duration of the loan usually on a flat rate, location of MFBs and financing. This level of interest rate will de-motivate many entrepreneurs but the desperate to seek loans from MFBs that has every possibility of going bad. (*Online Microfinanceafrica.net August 23rd, 2012).*

The CBN with the introduction of the Microfinance policy has made it compulsory for every player in the subsector to be adequately capitalized, technically sound and oriented towards lending based on cash flow and character of clients and has categorize Microfinance Banks in to three groups based on license. These are; Local, State and National; each one required a different starting capital and on-going minimum capital. Many MFBs has recapitalized to meet the new requirement for continues operation.

Categorization of Microfinance Banks

The Central Bank of Nigeria as part of its monetary policy measures on Microfinance policy has grouped Microfinance Banks in to different categories. (CBN, 2011:19-20).

Category 1: Unit Microfinance Bank (CBN, 2011:19)

A Unit Microfinance Bank is authorized to operate in one location. It is required to have a minimum paid up capital of N20 million (twenty million Naira). It is also prohibited from having branches and cash centers in other locations of the state, local government and villages. From investigations some microfinance banks are violating this condition by opening cash centers across the state as a Unit Microfinance bank, a clear act of civil disobedience against constituted authority. Such cases are rampant in Bayelsa, Rivers, Edo, Delta state.

Category 2: State Microfinance Bank (CBN, 2011: 20)

A State Microfinance Bank is authorized to operate in a State or the Federal Capital Territory (FCT). It is required to have a minimum paid up capital of N100 million (one hundred million Naira). It is allowed to open branches within the same State or the FCT, subject to prior written approval by the CBN for each new branch.

Category 3: National Microfinance Bank (CBN, 2011:20)

A National Microfinance Bank is authorized to operate in more than one State including the FCT. It is required to have a minimum paid up capital of ₦2 billion (two billion naira). It is equally allowed to open branches in all States of the Federation and the FCT, subject to prior written approval by the CBN.

Transformation Path

According to CBN (2011: 20-21):

a) A Unit MFB that intends to transform to a State MFB is required to surrender its license and obtain a State MFB license, subject to fulfilling stipulated requirements.

b) A State MFB that intends to transform to a National MFB must have at least 5 branches which are spread across the Local Government Areas in the State. This is to ensure that the MFB has gained experience necessary to manage a National MFB. It shall also be required to surrender its license and fulfill other stipulated requirements.

The prescribed minimum capital requirement for each Category of MFB may be reviewed from time to time by the Central Bank of Nigeria. Microfinance Banks can be established by individuals, groups of individuals, community development associations, private corporate entities, NGO-MFIs, or foreign investors. No individual, group of individuals, their proxies or corporate entities, and/or their subsidiaries, shall own controlling interest in more than one MFB, except as approved by the Central Bank of Nigeria. (CBN, 2011: 21)

Financial Accessibility by Micro Entrepreneurs in Nigeria

In 2012, Nigeria had about 17.6 million MSMEs employing about 32.4 million people, and contributing about 46.54 per cent of nominal GDP. A recent survey by IFC and Mckinsey (2010), suggests that 80 per cent of these MSMEs are excluded from the financial markets. The state of MSMEs in the country calls for urgent intervention, considering the critical role the sector plays in every economy. It is on record that between 2003 and 2012, commercial bank loans to small scale enterprises dropped at an exponential rate. Analysis of the annual trend in the share of commercial bank credit to small-scale industries indicates a decline from about 7.5 per cent in 2003 to less than 1% in 2006 and a further decline in 2012 to 0.14 per cent. (*Online Daily Trust, November 16, 2013).*

The Agricultural sector that accounts for about 40 per cent of the country's GDP and provides over 60 percent of employment only receives 2 percent of total lending of commercial banks which is very unhealthy for economic growth and development (Atah, 2011:9). Though, the CBN in collaboration with the ministry of Agriculture and water Resources, established the ₦200 billion Commercial Agricultural Credit Scheme (CACS) to enhance lending to Agricultural Sector to finance value chains from inputs to marketing. The scheme was also designed to reduce cost of borrowing (interest) in agricultural production so that farmers can exploit more untapped potentials of the nation's agricultural sector. It is also aimed at boosting output, generate employment and diversify the nation's export base. *(Vanguard online, March 5, 2012)*

The decision by the Monetary Policy Committee to retain the benchmark lending rate at 12 percent for the eighth time in a row is seen as a two edged-sword because of the ugly effect it will have on inflation and the real sector. The agony of business owners to get loan facilities for their business is definitely going to persist. The MPR is the rate at which banks borrow from the Central Bank of Nigeria to cover their immediate cash shortfalls from time to time; thus, the higher the cost of such borrowing, the higher also will be the rate at which banks advance credit to the real sector. For instance, the CBN's lending rate of 12 per cent to commercial banks instigates the current borrowing cost of 18 to 28 per cent to the real sector. Such a high cost of borrowing increases production costs and also makes local products uncompetitive against imported substitutes, which are aggressively supported with conversely lower single digit interest rates in their home economies. (*Punch online November 19, 2013)*

The Director-General, of the Lagos Chamber of Commerce and Industry (LCCI), Mr. Muda Yusuf, argued that the decision to leave the MPR at 12 percent would further impede competitiveness of firms. According to him; "The resolution by the MPC would bring about unfavorable economic conditions such as depressed activities, which had manifested in low sales, weak consumer demand, huge inventories by manufacturers, liquidity squeeze and tight cash flow conditions in the economy". The LCCI DG listed other consequences of the MPC's decision to include high risk of loan defaults, poor access to credit, weak financial inclusion, limited capacity of firms to retain or create new jobs, crowding out of domestic investors by foreign investors as well as influx of hot money into the economy.(*Punch online November 19,2013)*

The pressure of meeting the repayments with high interest rates is counterproductive. Any Micro business owners paying these levels of interest will not be able to grow their businesses and improve their living condition. The damaging effect of high interest rates caused to Microfinance in India should be taken seriously by the regulatory bodies and not allowed to repeat itself in Nigeria. The interest rates in India were much lower than the ones reportedly charged by MFBs in Nigeria, but were still too high and drove many Indians to commit suicides because they couldn't stand being declared bankrupt. One is not advocating that interest rates should be regulated, it is a function of demand and supply but Microfinance Banks must be continually sensitize on the need for responsible lending and the need to ensure interest rates are not excessively exploitative. Any reported excessive interest rates must be investigated by CBN and punitive action or sanction must be taken against any MFBs found guilty of excessive profiteering.

To ensure financial accessibility, empowerment and development of the local economies through SMEs intervention fund, the Central Bank of Nigeria on the 15th launched a ₦220 billion fund to be distributed to Micro, Small and Medium Scale Enterprises (MSMEs) by the micro finance institutions at 9 percent interest rate. The CBN governor, Sanusi Lamido Sanusi, said that the fund is to address the funding challenges currently faced by the SMEs in the country. The N 220Billion is for Micro, Small and Medium Enterprises Development Fund (MSMEDF). The Fund is designed to further enhance access to finance by MSMEs with the following major objectives, to:

(i) Provide wholesale financing windows for participating financial institutions (PFIs) ;
(ii) Improve the capacity of the PFIs to meet credit needs of MSMEs;
(iii) Provide funds at reduced cost to PFIs;
(iv) Enhance access of women entrepreneurs to finance by allocating 60 per cent of the Fund to them; and

(v) Improve access of NGOs/MFIs to finance."

The fund is one of the elements in the Micro Finance Policy of the federal government which was launched in 2005. According to Sanusi (2013) *(Daily Trust online November 16, 2013)*

"*The policy is being implemented in stages; we got the micro finance banks, which are now strong and capable of handling such fund. After we have done competency requirement test on them, we are now confident that we can inject such fund into the micro finance banks the package did not only stop at funding the MSMEs but will address issues that are related to marketing of final products and how to help address post harvest loss by the small farmers".*

The then CBN Governor Sanusi Lamido said sixty percent of the funds would be channeled to women with strict monitoring in collaboration with other government institutions. He said choosing women to be the major beneficiary is as a result of the role they play in the economic cycle of the country. There are over 1,000 micro finance banks across the country but presently the interest rate at which they give loans is as high as 30 percent with very short tenure. The CBN fund has a long tenure that will give enough room for MSMEs to break even. According to him:

> The ultimate responsibility for sustainable intermediation for the subsector lies with the financial markets. Moreover, these interventions serve to integrate the micro-entrepreneurs, the low-income earners, farmers, artisans and the active poor who operate in the informal sector, into the financial system to improve the effectiveness of public policy (Daily Trust online November 16, 2013).

Conclusion

Conclusively, from finding majority of Micro, Small and Medium Entrepreneurs are still excluded from financial services at the micro level of the Nigerian economy either due to lack of policy framework on the part of the government or as a result of the uneven spread of Microfinance institutions across the country. The microfinance banks are more dominants in states like Lagos, Delta, Oyo, Imo while states like Yobe, a state with 27 LGAs has only one microfinance bank, Bayelsa has eight LGAs but only has four (4) MFBs, Sokoto with its hugh population size with 23 LGAs only has four (4), Borno has 27 LGAs but only has four (4) MFBs. The implication is that more than 80 percent of the local people, the economically active poor that are engaged in trade, petty business, farmers, artisans etc. that are resident in the villages and communities in these states have been automatically denied and alienated from financial accessibility and inclusion. Even in states with sizable number of microfinance banks, more than 90% of them are located in the state capital.

The Monetary Policy Rate of 12 percent, the official lending rate of government (CBN) to commercial banks also poses a threat to micro entrepreneurs and the development of the Micro, Small and Medium Enterprises (MSMEs) in Nigeria as commercial banks interest rate is as high as 19 and 22 percent while Microfinance banks interest is from 30 percent and above thereby, discouraging many from borrowing. And even those who finally borrow ends up in bad debt due to the high servicing interest rate.

Recommendations

Based on the findings of this paper, the following are recommendations for consideration by relevant government authorities; Ministries, Department and Agencies as a means of ensuring that the average Nigerian entrepreneur, the economically active poor, the low income households etc. has access to financial inclusion and accessibility in the microfinance sub-sector as part of the Microfinance Policy Objectives, so as to promote sustainable economic growth and development in Nigeria.

1) That the Central Bank of Nigeria as part of its monetary policy statutory responsibility must continue to ensure the full implementation of the Microfinance Policy Objectives of promoting financial inclusion and accessibility to the economically active poor and the micro entrepreneurs.
2) The CBN also as part of its monetary policy measure must also ensure that the Monetary Policy Rate of 12%, the official lending rate of the CBN to commercial banks which the CBN has consistently maintain for a period has to be downwardly reviewed to 9 percent so as to enhance more financial accessibility and inclusion with a low interest rate, thereby encouraging borrowing for potential entrepreneurs and the economically active poor.
3) The government must also ensure that investors are encouraged to establish more branches of microfinance banks in villages, towns and all LGA's across the country so as to correct the anomaly in the lopsided nature of the spread of microfinance banks. From findings the spread of microfinance institutions are more dominant in the South-West and South-East geopolitical zone of the country. Therefore the government through collaborative effort with the organized private sector must work to ensure the establishment of more microfinance institutions across the country to enhance financial inclusion and accessibility in all part of the country.
4) The government must also sensitize and monitor the activities of microfinance institutions in terms of arbitrary interest rate charge, and durations of loans so as to encourage potential borrowers, the economically active poor from being exploited by banks.
5) The government must also advice Management of Microfinance banks from giving unnecessary conditionality in the form of collateral security as pre condition for credit facility. The demand for tangible assets and financial instruments such as; cars, houses, deed of conveyance, Certificate of Occupancy, bank shares among others must be discouraged by microfinance institutions so as to promote financial accessibility by the economically active poor.

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