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Accessing Finance with Movable Collateral: The Flipside for Micro, Small and Medium Enterprises in Nigeria

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Abstract
It is now a common view that lack of access to adequate finance is the bane of Micro, Small and Medium Enterprises (MSMEs) in developing economies. It is also widely noted that MSMEs difficulty in accessing finance is mostly due to their lack of fixed assets such as land or buildings which institutional lenders demand as collateral. Influenced by the International Finance Corporation, Nigeria in 2017 enacted secured transactions laws which establish financial infrastructures for securing credit with movable assets. Until after some years, an empirical study of the impact of the laws on MSMEs' access to finance would be premature and inconclusive. This paper is a theoretical analysis that engages the question; how can a legal and institutional framework for accessing credit with movable collateral solve the problem of access to adequate finance for MSMEs in developing economies like Nigeria?
Keywords: MSMEs finance, access to finance, movable collateral, macro-economic variables, secured transactions laws

1. Introduction

A financial infrastructure that ensures access to business loans with movable assets as collateral is mostly in the interest of micro, small and medium enterprises (MSMEs). Access to finance by this category of businesses is severely restricted as their applications for loans are hardly successful mostly due to insufficient, unacceptable or unsuitable collateral (Organisation for Economic Co-operation and Development [OECD], 2016). MSMEs find it extremely difficult to provide acceptable or suitable collateral because financiers who are mainly deposit money banks (DMBs) conventionally demand land or real state which in most cases is outside the assets of MSMEs. The capital stock of MSMEs is mainly constituted in movable assets like machinery, vehicles, equipment, agricultural produce, livestock, account receivables, company shares, amongst others (Uzonwanne, 2015).

However, it is now well noted that MSMEs can promote the attainment of socio-economic objectives such as poverty reduction, employment generation and wealth creation (Akingunola, 2011; Akpansung & Babalola, 2012; Afolabi, 2013; Chughtai, 2014; Chinweuba & Sunday, 2015). MSMEs also drive innovation and competition and these vital socio-economic contributions make the sector a key indicator of the overall performance of an economy (Onyeche & Oladunjoye, 2013). National governments and international development institutions have undertaken initiatives to promote the growth and development of MSMEs. For example, noting the financing gap of MSMEs and the fact that the sector represents a significant part of the world economy, the World Bank Group has aimed at ensuring universal financial inclusion by 2020 (International Finance Corporation [IFC], 2017).

The United Nations' Sustainable Development Goals have also advocated access to finance for MSMEs while the G20 leaders have recognized the importance of financing MSMEs as a critical part of economic development (OECD, 2015). These international institutions and bodies have sought the cooperation of national governments to make the closing of the financing gap for MSMEs a policy priority around the world. Like other developing economies, in Nigeria, efforts have been made by governments over the years to enhance access to finance for MSMEs. These efforts have been in the form of policies and intervention schemes aimed at facilitating the capacities of MSMEs to fulfil their socio-economic functions of generating employment and reducing poverty in the country (Onyeche & Oladunjoye, 2013; Onakoya, Fasanya & Abdulrahman, 2013).

Nigeria is considered an entrepreneurial economy with about 37 million MSMEs in the country. A study by the International Finance Corporation (IFC) and the Central Bank of Nigeria (CBN) notes that in addition to these numbers of MSMEs in Nigeria, there are also a large number of self-employed entrepreneurs who support themselves and their families by supplying goods and services to the economy (IFC & CBN, 2016). While MSMEs and self-employed entrepreneurs in Nigeria have the potential to become bigger and more prosperous, their growth is severely restricted for a variety of reasons, particularly lack of access to adequate finance. The World Bank (2017) indicates that Nigeria ranks 44th in the global access to finance index. As aptly demonstrated by the high unemployment rate and the developing status of Nigerian economy, past efforts to ensure access to adequate finance for MSMEs have not yielded the desired results for the country.

But renewed efforts were made in May 2017 through the enactment of the Secured Transactions in Movable Assets Act (STMAA) and the Credit Reporting Act (CRA). The objective of the STMAA is to afford MSMEs the opportunity of accessing finance from DMBs by providing movable assets as collateral. Similarly, the CRA is to promote access to finance by enhancing risk management in credit transactions through accurate and reliable credit information. With the establishment of a National Collateral Registry under the STMAA and the licensing of Credit Bureaus under the CRA, both laws therefore provide the legal and institutional framework for a secured transactions system necessary to exploit the economic potential of movable assets as collateral for accessing finance by MSMEs in Nigeria.

As at the time of writing, it was barely nine months after the laws were enacted as such any empirical study to know what their impact has been on MSMEs' access to finance would be premature and inconclusive. This paper is only a theoretical analysis of access to finance by MSMEs in Nigeria before the secured transactions laws were enacted. It engages the question; can a legal and institutional framework for securing credit with movable assets solve the problem of inadequate finance for MSMEs in Nigeria? The significance of this paper is that it would serve as a useful reference material for future studies that would examine the impact of Nigerian secured transactions laws on MSMEs' access to finance with movable assets.

2. MSMEs and Access to Finance in Nigeria

Emerging markets like China, India, Malaysia and Thailand have recorded remarkable socio-economic development as a result of policies that have grown MSMEs in ways that the sector is responsible for more than 70 percent of exports in those countries (Beck, Demirguc-Kunt & Levine, 2005; Edet, Anoka & Antakikam, 2014). Also, a flourishing MSMEs sector in developed economies in North America and Europe confirms the common view that MSMEs is the engine of economic growth and development (OECD, 2017). Efforts to grow MSMEs in Nigeria started many decades ago when successive military governments inaugurated micro-economic support programmes that assisted small businesses with soft loans, technical tools and agricultural machineries. The objectives were to generate employment, promote productivity, improve human development, reduce poverty, and enhance the living standard of citizens (Olutula, 2001; Gbandi & Amissah, 2014).

These initial efforts could not lay the foundations for a thriving MSMEs sector in Nigeria due to the micro and macro-economic consequences of the Structural Adjustment Programmes enforced on the country between 1985 and 1993. It was the period Nigeria liberalised the economy, relinquished control of the financial system and yielded interest rates and exchange rates to market forces (Owolabi & Nasiru 2017). It was a period of austerity measures in a depressed economy where entrepreneurship and MSMEs were not sustainable, and the government was the dominant sector. Serious national policies and coordinated approach towards building a sustainable MSMEs sector effectively started after Nigeria returned to democratic governance in 1999. There was the urgent need to revive an ailing economy that was only surviving on crude oil exports and the government sector. Efforts to revamp the private sector necessarily led to MSMEs-focused policies and the establishment of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2003.

The establishment of SMEDAN was to have a coordinating agency for government and private sectors intervention funds and schemes that were aimed at making finance available to MSMEs. A number of such intervention schemes that have been made at different times between 1999 and 2017 include the Small and Medium Enterprises Equity Investment Scheme (SMEEIS, 1999). This scheme required all banks in Nigeria to set aside 10 per cent of their profit after tax for assets financing or working capital investments in MSMEs. It offered large institutional backing for MSMEs, and the equity investments option did not require interest repayments. There was the Refinancing and Rediscounting Scheme (RRS, 2002) which was aimed at diversifying Nigeria's production base by encouraging medium and long term lending to MSMEs in agriculture, manufacturing, exploration and exploitation of solid minerals, and information communications technology. Eligible MSMEs in these areas were entitled to a concessionary rate of 2 per cent below the monetary policy rate. The RRS opened a window for MSMES, which were being constricted by high interest rates on existing credit, to refinance their borrowings thereby creating new opportunities to use the extra cash flow for business expansion.

The Small and Medium Enterprises Credit Guarantee Scheme (SMECGS, 2010) provided credit guarantee from DMBs to MSMEs, while the Micro, Small and Medium Enterprise Development Fund (MSMEDF, 2013) was aimed at closing the widening finance gap for MSMEs, including enterprises run by women and persons with disabilities. These interventions funds and schemes were in addition to others that specifically focused on MSMEs operating in the agricultural sector, as part of Nigeria's efforts to diversify the economy away from crude oil exports. These include the Agricultural Credit Support Scheme (ACSS, 2006), the Commercial Agricultural Credit Scheme Fund (CACS, 2009), the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL, 2011), and the Fund for Agricultural Finance in Nigeria (FAFIN, 2014).

However, these intervention schemes and funds could not achieve the objective of making adequate finance available for MSMEs growth in Nigeria. For example, some were only refinancing schemes that did not accommodate credit requests from MSMEs (RRS, 2002), while the interest rates for accessing some of the funds were too high to attract MSMEs (SMEEIS, 1999). Also, in some of the schemes the definition of MSMEs was fluid and this allowed DMBs to categorise big companies as MSMEs (SMECGS, 2010; MSMEDF, 2013). The effect was that priority was given to these big companies in finance and equity investments thereby denying genuine MSMEs the benefits of the schemes (Abereijo & Fayomi, 2005). But MSMEs in Nigeria have now been clearly categorised according to the numbers of employees and assets, excluding land and buildings (SMEDAN, 2013). The categorisation is compatible with that of the International Finance Corporation (IFC, 2010) and is the most widely used categorisation by countries across the world.

Reports from a national survey of MSMEs show that the total number of MSMEs in Nigeria is 37,067,416. Micro enterprises has the highest number of 36,994,578, followed by Small enterprises with 68,168, and Medium enterprises with the lowest number of 4,670. According to the survey, the total number of persons employed by the MSME sector is 59,741,211, representing 84.02 per cent of the total labour force in the country (SMEDAN & NBS, 2013). The International Finance Corporation's survey (IFC, 2016) puts Nigeria as the third largest contributor to MSMEs in developing countries. Together with China and Brazil, the three countries contribute 67 per cent to the total number of MSMEs in developing countries, which is equivalent to 109 million MSMEs. Therefore, the MSMEs sector base in Nigeria is relatively larger than its actual growth and contributions to the economic development of the country.

MSMEs in Nigeria are credit constrained as study estimates the potential demand for MSME finance in emerging markets at US$ 8.9 trillion, compared to the current credit supply of $3.7 trillion (OECD, 2016). MSMEs are considered as high risk with low returns and DMBs are generally wary of too much credit exposure to the sector (Beck & Demirguc-Kunt, 2006; IFC, 2014; World Bank, 2016). The usual practice in Nigeria is that DMBs grant credit to MSMEs mostly on short-term and condition of adequate collateral, especially land or real estate of a market value higher than the credit facility. But MSMEs require single digit lending rates in long-term rather than the current short-term credits provided at very high rates. For instance, the CBN's Statistical Bulletin (2016) shows that DMBs credit maturing within one year accounts for 57 per cent of total credits while those with longer term greater than 3 years accounts for less than 30 per cent.

A report by the International Finance Corporation and the Central Bank of Nigeria (IFC & CBN, 2016) identified collateral as the missing link between the MSMEs sector and DMBs that could provide the necessary finance for the sector to grow in Nigeria. The choice of collateral for the MDBs is land or real estate which is outside the assets of MSMEs, making them risky clients in the eyes of the DMBs. The implication is that MSMEs cannot obtain finance from the DMBs but rely mainly on personal savings, informal loans from family and friends, or retained earnings which are usually far less than adequate. For example, of the 840 MSMEs surveyed throughout Nigeria for the IFC and CBN (2016) report, only 31 per cent had obtained a loan from a bank or microfinance institution while 48 per cent who applied for bank loan but were rejected, believed that they were rejected because they did not possess fixed assets like landed property to use as collateral. As a confirmation that MSMEs in Nigeria are aware of the usual collateral requirement of DMBs in the country, 69 per cent of the respondents stated that they wished to apply for a bank loan, but did not because they felt their application would be rejected since they did not owe landed property to use as collateral.

Among the DMBs surveyed, 82 per cent stated that inadequate collateral is the strongest challenge when considering whether to grant loans to MSMEs. The survey shows that DMBs ask for fixed assets such as land or buildings as collateral in 98 per cent of loan applications. A second consideration is information asymmetry or lack of proper information about the applicant. There is a dearth of information on the operations of MSMEs in Nigeria. Poor records of account, business and financial transactions due to informal ways of operations make MSMEs opaque to assessment for credit evaluation by DMBs (Berger, Klapper & Udell 2001). Uncertainty about MSMEs' capacity to repay loans make DMBs to grant only simple credit on short term and with fixed assets as collateral. In a few instances where DMBs grant loan to MSMEs without fixed assets as collateral, it is either with equity participation in the management of the business or close monitoring of the business operations (Iloh & Chioke, 2015). This process tasks DMBs and the uncertain low returns also discourage such form of lending to MSMEs.

Consequently, in spite of the high level of liquidity of most Nigerian DMBs, access to finance remains the bane of MSMEs growth in the country. The IFC and CBN (2016) survey shows that 71 per cent of micro-enterprises in Nigeria use personal savings, 14 per cent source financing from friends and family, and only 11 per cent and 10 per cent have taken out loans from DMBs and microfinance institutions, respectively. Figures from the Central Bank of Nigeria show a consistent decline in loans granted by MDBs to MSMEs since 2003 such that from 2012 to 2015 total loans granted amounted to just over 0.1 per cent of total banks' credits to the private sector (CBN 2016). Therefore, in addition to past MSMEs-focused policies and intervention funds and schemes through the years, it is to promote MSMEs' access to adequate finance from DMBs that led to the enactment of secured transactions laws in Nigeria.

3. Secured Transactions Laws

The underlying objective of secured transactions laws is to ensure the utilization of valuable but movable assets as collateral for business loan. The laws provide the legal and institutional frameworks that encourage DMBs and other financial institutions to provide finance secured by the movable assets of the borrower. Under the laws, collateral registries and credit bureaus are established. While the collateral registry registers all movable assets used as collateral, the credit bureau records all relevant credit information about borrowers (IFC, 2010). A collateral registry eliminates the risk of a borrower using the same movable assets as collateral to secure other loans without the knowledge of the lender. This is because it allows the perfection of security interests of lenders in movable assets used as collateral, and gives priority to creditors in case of loan default.

In a secured transactions system the credit Bureau has a comprehensive database of lenders and borrowers' credit history and also awards credit scores to lenders and borrowers. This creates an incentive for borrowers to become financially responsible as their credit history or scores become a strong factor for institutional lenders when deciding whether to grant loan or at what interest rate (IFC, 2010). A collateral registry and credit reporting systems thus provide the opportunity for MSMEs to grow their business through easier access to affordable finance from DMBs and other financial institutions. On the other hand, financial institutions are encouraged to diversify their portfolios by accepting movables and more liquid assets such as receivables or investment instruments because they can make more informed credit decisions on collateral lending (Love et al, 2016). These benefits are what the new Nigerian secured transactions laws intend for the growth of MSMEs in the country.

For example, the objectives of the Secured Transactions in Movable Assets Act 2017 are to stimulate responsible lending to MSMEs, facilitate access to finance secured with movable assets, and facilitate the realisation of security interests in movable assets, amongst others. Under this law, movable assets are defined to mean tangible or intangible property other than landed property, including farm products, inventory, equipment, and consumer goods. To achieve these objectives the law establishes a National Collateral Registry (NCR) and provides for its operations. The NCR has the responsibility to collate and register all movable assets used as collateral for credit from DMBs. The NCR will also keep information on security interests created over movable assets and makes such information available to persons or institutions who need it for credit transactions.

In summary, the Secured Transactions in Movable Assets Act 2017 makes it possible for MSMEs to access finance from DMBs using movable assets as collateral. The law also tries to incentivize DMBs and other financial institutions with provisions that protect lenders' interest and ensure that loans are repayable or recoverable. Similarly, the Credit Reporting Act 2017 (CRA) aims at facilitating MSMEs access to finance, enhancing risk management in credit transactions, and promoting responsible lending and borrowing in the credit market. The law therefore provides for credit bureaus with the responsibility of receiving information relating to a person's credit worthiness, credit standing or capacity, and the history and profile of such person with regard to credit, assets and any financial obligations.

The CRA authorizes credit bureaus to disclose information at their disposal to credit information users such as DMBs when the latter are considering applications for credit, assessing a person's qualification to act as a guarantor for the grant of credit, reviewing, renewing, restructuring or monitoring of existing credit facilities, assessing the creditworthiness of a prospective tenant in a lease agreement, amongst others. In order to prevent undue litigation when conflict arises from credit transactions, the law provides for an Alternative Disputes Resolution Centre to which parties can approach for amicable settlement. In objectives and substance, the Secured Transaction in Movable Assets Act and the Credit Reporting Act are similar to the secured transactions laws in developed economies with financial infrastructures that allow MSMEs to access adequate finance using movable assets as collateral.

4. Relationship between Secured Transactions Laws and MSMEs' Access to Finance

The existence of secured transactions laws has an influence on the availability of credit and the cost of lending. The reason is that institutional creditors consider what protective laws and system for verifying prospective borrowers are available when making decisions about granting credit (Love, et al 2013). Therefore, the collateral registry and the credit reporting system established under the secured transactions laws can promote access to finance for Nigerian MSMEs and entrepreneurs to grow through formal and more affordable financing. Evidence shows that countries that have introduced new or reformed secured transactions laws have achieved a higher degree of development of their credit systems by increasing the effective use of movable collateral to secure credit (Safavian et al, 2006; Pería, Soledad & Singh, 2014).

One study records that finance to MSMEs as a percentage of gross domestic product averages 60 per cent in countries where security interests in movable assets are perfected and there is a predictable priority system for creditors in cases of loan default, compared with only 30 per cent to 32 per cent on average for countries without such creditors' protections (IFC, 2010). The International Finance Corporation, assisting developing countries to establish collateral registries and credit bureaus, notes that in 2016 as a result of collateral registries and credit bureaus it facilitated more than $250.6 billion in loans to 679,900 MSMEs with movable assets as collateral (IFC, 2016). It must be pointed out, however, that a system of securing credit with movable assets under secured transactions laws does not in itself translate automatically to access to finance for MSMEs. Secured transactions laws may be impeded by existing property and commercial laws as well as bankruptcy laws. For secured transactions laws to be strong and effective, it must unify all legal provisions that affect the rights of parties to credit transactions with movable assets as collateral.

Hence, the strength and effectiveness of secured transactions laws depend on protecting enforcement of credit contract and the protection of creditor's rights (Von et al, 2012; Pería et al, 2014). Where institutional creditors are uncertain about the protection of property rights and the enforceability of credit contracts, they adopt more conservative measures to limit exposure, leading to lower-risk lending and higher costs for borrowers (IFC, 2010). Only a strong secured transaction laws with strong enforcement mechanisms lower the cost of capital and increase the availability of finance. For instance, the Nigerian secured transactions laws are modelled on Article 9 of the Uniform Commercial Code (UCC) of the United States (US) which regulates the creation and enforcement of security interests in movable property, intangible property and fixtures. The UCC was adopted by all the fifty states of the US as a replacement for the disparate secured transactions laws that had evolved in the various states of the country during the 19th and early 20th centuries (Saleem, Hommes & Sorokina, 2017).

Thus, centuries of application of the UCC and the developed state of the financial system and economy of the US now make movables assets as collateral to account for about 70 per cent of MSMEs financing. Movable assets are up to about 60 per cent of the country's MSMEs' capital stock and lenders consider such assets to be excellent sources of collateral (Ouedraogo, et al 2012). But Nigeria is not the US and it has been estimated that approximately 90 per cent of the types of property that would be enforceable as movable collateral in the US would be unenforceable in Nigeria (IFC, 2010). It has been found that the relative strength of enforcement mechanisms and existing property rights protections have a statistically significant and economically large impact on loan terms; and that uncertainty about enforcement leads DMBs to shorten loan maturity, lower total amounts they are willing to extend, and lead to higher interest rates for borrowers (Kee-Hong & Vidhan Goyal 2009).

Secured transactions laws are therefore not unconditionally equivalent to availability of finance. In other words, access to adequate finance by MSMEs due to having in place a legal framework for securing credit with movable assets does not follow as a matter of course. Enforcement mechanisms and the alignment of secured transactions laws with other relevant laws are essential factors that determine how secured transactions laws can engender availability of finance for lending to MSMEs on movable collateral. How the Nigerian secured transactions laws relate with existing commercial laws and property rights protections is not the focus of this paper. While it is deserving of academic inquiry, it is inevitable that in future years the relationship will emerged during enforcement of credit contracts under the new laws and the courts are approached to adjudicate on disputes between parties. Other factors that determine how secured transactions laws may positively affect availability of finance are the state of a country financial system, prevailing lending culture, and awareness and readiness of the relevant players to utilize the financial infrastructure which the laws offer.

For example, as a developing economy Nigeria is yet to have a stable and predictable financial system that has the capacity to absolve intermittent shocks caused by fluctuating oil prices and volatile exchange rates. The financial system is still largely government-driven and DMBs are easily rattled by government finance deficits and budgetary imbalances. The fledging nature of Nigerian financial system is thus a constraint on MDBs' ability and willingness to grant credit due to their relatively lean capital base, lack of adequate liquidity and uncertainty about unforeseen crises in the financial system. The fear of becoming insolvent due to non-performing loans makes DMBs overly cautious in granting credit to high-risk MSMEs in developing economies. Therefore, the unstable state of the financial system in Nigeria also contributes to the culture of lending which requires landed property as the main collateral for loan facility. For the new secured transactions laws to bear the expected fruits of availability of finance to MSMEs, institutional lenders need to walk back from this culture.

But there have not been any noticeable signs of change of attitude by lenders since the first credit bureaus were licenced in 2009 and an online collateral registry launched in 2014 by the Central Bank of Nigeria (CBN). Indeed, the secured transactions laws were enacted in 2017 only to give legislative imprimatur to the CBN regulatory framework for accessing credit secured with movable assets, creation and perfection of security interests, and realization of security interests in movables assets. The 2014 regulations were a product of the CBN collaborative efforts with the IFC to establish financial infrastructures for securing credit with movable collateral in Nigeria. The readiness of institutional lenders to embrace the financial infrastructures is therefore a key factor for secured transactions laws to achieve the desire objective of promoting MSMEs' access to finance.

Also, adequate awareness of the financial infrastructures has to be created among the MSMEs. It is necessary to the achievement of the objectives of the Nigerian secured transactions laws for the MSMEs to be enlightened on the existence, uses and benefits of the collateral registry and the credit bureaus. Lack of awareness and enlightenment of the MSMEs sector largely contributed to the ineffectiveness of past government interventions to boost the sector's access to finance (Abereijo & Fayomi, 2005). For example, figures from CBN Bulletins (2010; 2015) revealed that MSMEs awareness level of past intervention schemes and funds ranged between 1 per cent (RRS, 2002) and 23 per cent (SMEEIS, 1999).

Already, the IFC (2016) has noted that though credit bureaus have been established in Nigeria since 2009, there is still a relatively low level of awareness on the benefits of the services that the credit reporting system can offer to the MSMEs sector and the economy. In the IFC and CBN (2016) survey, 85 per cent of the MSMEs sector stated that they were not aware of the credit reporting system. The relationship between secured transactions laws and MSMEs' access to credit can only be positive only if these varying factors coalesce at a functional point of tangency. The Nigerian secured transactions laws have provided the legal and institutional framework for using movable assets as collateral for credit. But for the laws to achieve the main objective of easier access to more finance for MSMEs in the country, there are other fundamental challenges that need to be adequately addressed.

5. Ensuring Easier Access to More Finance for MSMEs in Nigeria

Secured transactions laws are commendable efforts at ensuring easier access to more finance for MSMEs to grow and contribute to national economic development. The laws provide incentive to DMBs and other institutional lenders to grant loans to MSMEs on movable collateral. But the flipside for MSMEs in Nigeria is that the laws do not address the business environment and macro-economic variables that impact on the performance and profitability of DMBs and other financial intermediaries in the country. Availability of finance and the capacity to grant credit depends on DMBs' profitability which is sensitive to macro-economic variables such as the Gross Domestic Product (GDP), interest rates, inflation rate and foreign exchange rates. For example, deposits mobilization capacity and asset base influence lending behaviour of MDBs both in the short and long run (Cowan, Drexler & Yañez, 2015). If a MDB can mobilize more deposits and improve the quality of its assets, it is encouraged to lend more and allowed to charge higher margins only when there is economic growth.

Gross Domestic Product (GDP) is the macro-economic indicator to measure total economic activity within an economy, and it influences various factors related to the demand and supply of deposits and loans (Sufian & Habibullah 2010). Thus, there is a positive relationship between the growth rates of GDP and the profitability of DMBs. Favourable economic conditions will affect deposits and the demand for financial services positively, and these enhance the profitability of DMBs and their ability to lend. The reverse becomes the case when the rates of GDP are low, implying lack of economic growth. Nigerian GDP needs to grow far beyond the current rate of 13.40 per cent in order to boost the profitability of DMBs and their capacity to lend to MSMEs in the country. There is also a strong relationship between the profitability of DMBs and interest rates movements (Osuagwu, 2014. Interest rate is the price borrowers pay for the use of money they borrow from DMBs, and its fluctuations affect the profitability of DMBs in significant ways.

Studies show that high interest rates can stifle the credit market, result to lower demand for financial services and a higher percentage of non-performing loans (Flamini, McDonald & Schumacher, 2009). These adversely affect DMBs profitability and lending ability. Interest rates in Nigeria are high due to interest rates benchmarks such as the monetary policy rate and yields on government instruments which are usually high. For instance, Nigeria benchmark interest rate is currently 14 per cent while credit market rates range between 24 per cent 46 per cent. More favourable macro-economic policies are therefore necessary to have lower interest rates and enhance the profitability of DMBs for the purpose of boosting credit availability to MSMEs in the country.

High interest rates can attract high inflation rates with negative effect on DMBs profitability if wages and overhead costs grow faster than the inflation rate. In particular, an unexpected rise in inflation can occasion cash flow difficulties for borrowers which can lead to premature termination of loan arrangements or negotiations and precipitate loan losses (Anthony, 2012). Generally, it has been found that DMBs in developing economies like Nigeria tend to be less profitable in inflationary environments as their running costs increase faster than their revenues (Demirguc-Kunt & Huizinga 2001). Inflation rate in Nigeria is currently 11.23 per cent and contributes to the current benchmark interest rate of 14 per cent. Nigerian macro-economic policies makers need to initiate measures to curb unexpected hike in inflation rates in order to sustain the profitability of DMBs and their capacity to lend to MSMEs in the country.

There is a connection between inflation and foreign exchange rates as an increase in inflation rate can lead to the depreciation of the local currency. Foreign exchange rate is the value of a nation's currency in terms of another nation's currency; it is the required amount of units a currency can buy for a certain amount of units of another currency (Adeniran, Yusuf & Adeyemi, 2014). Nigeria's exchange rate has never been predictably stable. It is a floating exchange rate which makes it volatile and often leads to the depreciation of the country's currency. Exchange rate volatility affect DMBs expected cash flows, and by causing changes like depreciation in the home currency, leads to a fall in the liquidity position of DMBs (Ani, Ugwunta & Okanya, 2013). Exchange rate fluctuations therefore erode DMBs profitability and hinder the availability of finance for lending to MSMEs. Nigeria has to take appropriate macro-economic measures to ensure a fairly stable and predictable exchange rate.

In addition to the macro-economic conditions which have to be favourable in order for DMBs to be profitable enough to grant credit to MSMEs under the new secured transactions laws of Nigeria, the business environment in the country needs considerable improvements. In particular, the poor state of electricity infrastructure in the country has to be upgraded to a level that can reduce the operating costs of power generating machines. Nigeria currently generates about 7000 megawatts of electricity compared to the 160,000 megawatts of national demand (NBS, 2018). It is estimated that the cost of running power generating machines by Nigerian businesses accounts for over 85 per cent of operating cost and consumes up to 65 per cent of profits (Udeme, 2017). Nigerian DMBs mostly rely on power generating machines for their daily operations and 24hrs automated services.

Apart from its effect on profitability and credit availability, it makes DMBs risk-averse to MSMEs due to information asymmetries. Been so risk-averse, DMBs would be unwilling to grant credit even when lending interest rates are high, or at most would resort to credit rationing in order to solve the problems of adverse selection and moral hazard (Stiglitz & Weis, 1981). Nigerian DMBs' stringent screening of MSMEs loan applications, daunting documentation processes and close monitoring of beneficiaries show the high level to which DMBs are already risk-averse to MSMEs.

6. Conclusion

Ensuring easier access to adequate finance for MSMEs growth in Nigeria goes beyond the possibility of securing credit with movable assets under the financial infrastructures provided by the new secured transactions laws. More important is the profitability of DMBs which is necessary to the availability of finance and the lending capacity of DMBs. The DMBs have to be profitable and be less averse to lending before they can grant credit to MSMEs on movable collateral. For that to be achieved, the Nigerian government needs to adequately address key macro-economic variables that determine profitability and risk aversion of DMBs.

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