An Empirical study of the Capital Structure of Micro, Small and Medium Scale Enterprises in Nigeria

Oyewo Babajide Michael, **ACA, ACTI, ACMA (UK), CGMA**
Department of Accounting, Covenant University
Ogun State, Nigeria
Email: meetjidemichael@ymail.com

Badejo Solomon Oluseye, **M.Sc., ACA, ACTI**
Protrac Associate Limited,
Lagos State, Nigeria
Email: koolseye@yahoo.com

Abstract

The analysis of capital structure of organizations has conventionally been applied to corporate entities. Previous studies on Microfinance have classified enterprises into two broad categories-the Small and Medium scale enterprises respectively. Micro-scale businesses are conventionally grouped with Small scale enterprises without specifically analyzing their businesses. The research therefore examines the capital structure of micro, small and medium scale enterprises (MSMEs) as well as the factors influencing it. Primary data were collected by administering 300 copies of research instrument with a combination of cluster and simple random sampling techniques. The research discovered that there is a significant difference in the Capital Structure of Nigerian MSMEs; there is no statistically significant difference between the Capital Structure of Nigerian MSMEs at start-up and the Capital Structure at continuation; and the factors influencing the patronage of bank and non-bank finance providers among MSMEs do not significantly differ.

Keywords: Capital Structure, Financial exclusion, Developing Countries, Venture Capital

1.0 Introduction

1.1 Background of study and Statement of Problem

Capital structure refers to the combination of equity and debt of an entity. It is the way the organization finance its operations. Micro, Small and medium-sized enterprises (MSMEs) are a very heterogeneous group of businesses usually operating in manufacturing, trading, agriculture and service businesses manned by individuals (mostly the owners as the proprietors and entrepreneurs) possessing sophisticated skills but the businesses usually run on a micro, small and medium scale, hence the name 'Micro, Small and medium-sized enterprises (MSMEs).MSMEs are the life blood of any serious economy and one of the easiest ways to increase the number of jobs in a society astronomically. For developing countries, integration into the global economy through economic liberalization, deregulation and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector in which MSMEs play a central part. MSMEs make up over 90 per cent of businesses worldwide and account for between 50 and 60 percent of employment (Sapovadia, 2006; Aghion*et al,* 2005).

Engaging in MSMEs business is unarguably one of the avenues available to tackle the problem of unemployment in an economy in that, instead of seeking employment, people (whether educated or uneducated) can be self-employed. As such, they play an important role in any economy such as contributing significantly to the provision of productive employment opportunities, the generation of income and ultimately the reduction of poverty.

It is through the promotion of small enterprises that individual countries and the international community at large can make progress towards reaching the global target of tackling poverty levels by in a country(Rai, 2012; Seibel and Shyam,2002;Wright,2000).

The growth of this sector has, unfortunately, been limited due to certain constraints such as inadequate and inefficient infrastructural facilities, procedural bottleneck in the execution of incentives, poor support facilities provided by the government, lack of easy access to finance, discrimination of MSMEs by banks which are averse to the risk of lending to MSMEs especially start-ups, and uneven competition arising from import tariffs, which at times favour imported finished products.

Many other challenges aside the ones mentioned have been identified to be confronting MSMEs in Nigeria but the main problem of MSMEs is finance because most smaller firms live under tight liquidity constraints (Branch and Janette, 2002; Dowla and Dipal, 2006).

Finance, whether owned or borrowed, is needed to expand investment so as to maximize profit. A potential SME entrepreneur may have credible, feasible and promising business ideas but lack finance for start-up capital. Similarly, an established SME entrepreneur may have business proposals which will see to the expansion of the current business but may lack external finance and will be eventually constrained to projects that existing capital (in form of start-up capital and retained profit) can handle. The opportunities offered by the viable project become unrealizable and this negatively affects economic growth.

Viewing the funding challenge from the standpoint of the bank, the reluctance of banks to extend credit to the MSMEs could be owing to issues inherent and characteristic of Nigerian MSMEs such as poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, poor business management skills, lax control over business resources, high cost of administration and management of small loans, high interest rates or borrowing cost, poor attitude towards external financing by Nigerian entrepreneurs, unreliable and outdated database and inability to access the database of the MSMEs by financial institutions amongst other factors.

In spite of the numerous contributions, significant multiplier effect and strong positive impact of MSMEs in the Nigerian economy, the constraints which they face in accessing credits from conventional commercial banks, have received insignificant attention from the appropriate quarters in resolving them. Some of the MSMEs are also financially excluded in that they access credit from the informal fund providers when they cannot meet the lending requirements of a typical commercial Nigerian bank. Assessing the extent to which the MSMEs are excluded in the formal financial system of the economy (financial inclusion) is worth consideration.

In addition, the analysis of capital structure has conventionally been applied to corporate entities. Besides, studies on MSMEs have classified enterprises into two broad categories-the Small and Medium scale enterprises respectively. Micro-scale/cottage businesses are conventionally grouped with Small enterprises without specifically analyzing micro-scale businesses with capital of less than N1.5 million(according to CBN classification of 2005).The Micro-scale/cottage businesses are predominant in Nigeria; they constitute a sizeable number in the economy and therefore cannot be ignored or aggregated with the Small scale business (with a minimum capital of between N1.5Million and maximum of N50 Million) but deserve special attention, as there is significant differences in the Capital requirements.

To the best of the researcher's knowledge, there are few studies that investigate the capital structure of MSMEs. Previous studies have established that the capital structure of an entity affects its performance, but this is in the context of corporate organizations. Considering that MSMEs have played and continue to play significant roles in the growth, development and industrialization of many economies the world over, we are of the opinion that the issues raised in the foregoing paragraphs merit recognition. This research has therefore being carried out in an attempt to address these issues.

1.2 Research Hypotheses

The following hypotheses, stated in the null form, were formulated:

H_o^1: There is no significant difference in the Capital Structure of Nigerian Micro, Small and Medium Scale Enterprises

H_o^2: There is no significant difference between the Capital Structure of Nigerian Micro, Small and Medium Scale Enterprises at start-up and the Capital Structure at continuation

H_o^3: The factors influencing sourcing credit from commercial banks do not significantly differ among Micro, Small and Medium scale enterprises in Nigeria.

H_o^4: The factors influencing sourcing credit from informal fund providers do not significantly differ among Microfinance, Small and Medium scale enterprises in Nigeria.

2.0 Review of Literature

2.1 MSMEs and Their Characteristics

Microfinance is usually understood to entail the provision of financial services to micro-entrepreneurs and small businesses that lack access to banking and related services due to the high transaction costs associated with serving these client categories. It is the supply of loans, savings, and other basic financial services to the poor. Rai (2012), Sinclair (2012), Seibel and Shyam (2002) all submitted that Small and Medium Enterprises (MSMEs) occupy a place of pride in virtually every country or state and because of the significant roles they play in the growth and development of various economies, MSMEs are key for socio-economic transformation of any country. They further posited that environmental related factors, instability of governments and frequent government policy changes.

There are different mechanisms for the delivery of financial services to SMEs some of which are (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Some MSMEs borrow from informal moneylenders and save with informal collectors. They receive loans and grants from charities. They receive funds transfers through formal or informal remittance networks. Ensuring financial services to poor people is best done by expanding the number of financial institutions available to them, as well as by strengthening the capacity of those institutions (Ledgerwood and Victoria, 2006; Hirschland, 2005). In recent years there has also been increasing emphasis on expanding the diversity of institutions, since different institutions serve different needs (Dowla and Dipal, 2006).

The Central Bank of Nigeria defined small-scale enterprises as having an annual turnover not exceeding 500,000 naira (CBN, 2005). In the 1990 budget, the federal government of Nigeria defined small-scale enterprises for purposes of commercial bank loans as those with an annual turnover of not exceeding 500,000 naira, and for Merchant Bank Loans, those enterprises with capital investments not exceeding 2 million naira (excluding cost of land) or a maximum of 5 million naira. The National Economic Reconstruction Fund (NERFUND) put the ceiling for small-scale industries at 10 million naira. Section 37b (2) of the Companies and Allied Matters Decree of 1990 defines a small company as one with: (a) An annual turnover of not more than 2 million naira; (b) Net asset value of not more than 1 million naira. The Central Bank of Nigeria (CBN) also defined MSMEs as an enterprise that has asset base (excluding land) of between 5 million naira and 500 million naira, and labour force of between 11 and 300 in its employment.

A major characteristic of Nigeria's MSMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the MSMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business. Other common features of Nigeria's MSMEs include the following among others (Odeyemi, 2003; Ojo, 2003; Adebusuyi,1997); labour-intensive production processes, concentration of management on the key man, limited access to long term funds, high cost of funds as a result of high interest rates and bank charges, high mortality rate especially within their first two years, over-dependence on imported raw materials and spare parts, poor inter and intra-sectorial linkages - hence they hardly enjoy economies of scale benefits, poor managerial skills due to their inability to pay for skilled labour, poor product or low quality output, absence of research and development, little or no training and development for their staff, poor documentations of policy, strategy, financials, plans, information systems, low entrepreneurial skills, inadequate educational or technical background, Lack of adequate financial record keeping, poor capital structure, i.e. low capitalisation, poor management of financial resources and inability to distinguish between personal and business finance. The loaning of MSMEs by banks is provided in table 1.

Table 1: Loans to SME by Commercial Banks in Nigeria, 1992 to 2008

Year	Loans to MSMEs in N'million	Total bank loan in N'million	% of bank loan to MSMEs
1992	20,400	41,810	48.8
1993	15,462.90	48,056	32.2
1994	20,552.50	92,624	22.2
1995	32,374.50	141,146	22.9
1996	42,302.10	169,242	25
1997	40,844.30	240,782	17
1998	42,600.70	272,895.50	15.5
1999	46,824	353,081.10	13.3
2000	44,542.30	508,302.20	8.7
2001	52,428.40	796,164.80	6.6
2002	82,368.40	954,628.80	8.6
2003	90,176.60	1,210,033.10	7.5
2004	54,981.20	1,519,242.70	3.6
2005	50,672.60	1,899,346.40	2.7
2006	25,713.70	2,524,297.90	1
2007	41,100.40	4,813,488.80	0.9
2008	13,383.90	7,725,818.90	0.2

2.2 Financing of MSMEs in Nigeria

Traditionally, banks have not provided financial services, such as loans, to clients with little or no cash income (Odeyemi, 2003; Ojo, 2003). Banks incur substantial costs to manage a client account, regardless of how small the sums of money involved are. The fixed cost of processing loans of any size is considerable as several things—assessment of potential borrowers, their repayment prospects and security; administration of outstanding loans, collecting from delinquent borrowers, etc.—have to be done in all cases. There is a break-even point in providing loans or deposits below which banks lose money on each transaction they make. Poor people usually fall below that breakeven point. A similar calculation resists efforts to deliver other financial services to poor people (Roodman, 2012; Robinson, 2001).

In addition, most poor people have few assets that can be secured by a bank as collateral; even if they happen to own land in the developing world, they may not have effective title to it. This means that the bank will have little recourse against defaulting borrowers.

Due to these difficulties, when poor people borrow they often rely on relatives or a local moneylender, whose interest rates can be very high.

2.3 Challenges Facing Nigerian MSMEs in Accessing Finance

One of the principal challenges of microfinance is providing small loans at an affordable cost. The nature of microcredit - small loans - is such that interest rates need to be high to return the cost of the loan. There are certain costs the MFI has to cover when it makes microloans. The first two, the cost of the money that it lends and the cost of loan defaults, are proportional to the amount lent. The third type of cost, transaction costs, is not proportional to the amount lent. The reason for the high interest rates is not primarily cost of capital but the high transaction cost of traditional microfinance operations relative to loan size.

Microfinance practitioners have long argued that such high interest rates are simply unavoidable, because the cost of making each loan cannot be reduced below a certain level while still allowing the lender to cover costs such as offices and staff salaries(Odeyemi, 2003; Ojo, 2003).). For example in Sub-Saharan Africa credit risk for microfinance institutes is very high, because customers need years to improve their livelihood and face many challenges during this time. Financial institutes often do not even have a system to check the person's identity. Additionally they are unable to design new products and enlarge their business to reduce the risk. The result is that the traditional approach to microfinance has made only limited progress in resolving the problem it purports to address: that the world's poorest people pay the world's highest cost for small business growth capital. The high costs of traditional microfinance loans limit their effectiveness as a poverty-fighting tool.

For example, offering loans at interest and fee rates of 37% mean that borrowers who do not manage to earn at least a 37% rate of return may actually end up poorer as a result of accepting the loans.

2.4 Non-Bank Financial Service Providers to MSMEs

The Banking Sector generally provides services to MSMEs in various forms such as: Short term loans, repeated loans (where full repayment of one loan brings access to another and where the size of the loan depends on the client's cash flow), bank overdraft facilities appropriate for meeting the day to-day financial requirements, factoring and invoice discounting, asset finance (including commercial mortgages), and equity finance, all being within the framework of a customer-friendly approach (Sinclair, H. 2012; Obadan and Agba, 2006).

There are growing numbers of non-bank financial service providers dominating and replacing finance functions provided by banks to MSMEs. The informal financial service providers include moneylenders, pawnbrokers, savings collectors, money-guards, etc. Considering that they know each other well and live in the same community, they understand each other's financial circumstances and can offer very flexible, convenient and fast services. These services can also be costly and the choice of financial products limited and very short-term. Informal services that involve savings are also risky; many people lose their money. They are generally small and local, which means they have access to good knowledge about each other's financial circumstances and can offer convenience and flexibility. However, these providers may have little financial skill and can run into trouble when the economy turns down or their operations become too complex. Unless they are effectively regulated and supervised, they can be 'captured' by one or two influential leaders and the members can lose their money. Member-owned organizations include self-help groups, credit unions, and a variety of hybrid organizations like financial service associations.

In addition to commercial banks, formal financial institutions include state banks, agricultural development banks, savings banks, rural banks and non-bank financial institutions. They are regulated and supervised, offer a wider range of financial services, and control a branch network that can extend across the country and internationally. However, they have proved reluctant to adopt social missions, and due to their high costs of operation, they are often unable to deliver services to poor or remote populations (Obadan and Agba, 2006).

Venture Capital is another source of finance to MSMEs. Venture capital (VC) is financial capital provided to early-stage, high-potential, high risk, growth start-up companies. The venture capital fund makes money by owning equity in the companies it invests in, which usually have a novel technology or business model such that after the business has made enough money, the loans are paid off to throw off excess cash not needed to grow the business. Venture capital is a subset of private equity. Therefore, all venture capital is private equity, but not all private equity is venture capital.

By definition, VCs also take a role in managing entrepreneurial companies at an early stage, thus adding skills as well as capital, thereby differentiating VC from buy-out private equity, which typically invests in companies with proven revenue, and thereby potentially realizing much higher rates of returns (Austin, 2010).

2.6 Performances of MSMEs in Nigeria

According to Odeyemi (2003), SME account for more than 50% of the Gross Domestic Product (GDP) in Nigeria. Adebusuyi (1997) posited that by maintaining that MSMEs account for about 70% of employment. Increasing the productivity of those engaged in small-scale production could alleviate poverty. In the case of Nigeria, MSMEs have performed below expectation due to a combination of problems which ranges from attitude and habits of MSMEs themselves through. The supportive business environment for MSMEs is still weak in Nigeria. The SME support programmes are poorly coordinated and lack the necessary coverage to reach all sectors of the small business community.

In December, 2001, the bankers committee decided that all banks in Nigeria would set aside 10% of their profit to start a scheme called the Small and Medium Industries Equity Investment scheme, left to me this was a charade because by the definition of the scheme a small business is "any enterprise with a maximum asset base of =N=200 million excluding land and working capital and must have a staff of a minimum of ten people and a maximum of 300 people" it therefore means that over 70% of the population have been disenfranchised from using this scheme and only those in the upper echelon of society can use the scheme and therefore the aim of starting up small businesses that will grow into mega companies is defeated.

As Khandker (1999) observed, government assistance strategies in both developed and developing countries often try to achieve a combination of equity objectives (alleviating poverty and addressing social, ethnic and gender inequalities) and efficiency objectives (raising the productivity and profitability of firms).

3.0 Research Method

3.1Research Design

Primary data was used for analysis and was collected using 300 copies of research instrument. The research instrument measured enterprise characteristics and factors influencing capital structure of MSMEs. The population of the study is the MSMEs in Nigeria. Copies of questionnaire (300 copies) were administered using cluster sampling. Two clusters that had proliferation of MSMEs in Alaba International Market at Ojo Local Government in Lagos and Computer Village under Ikeja Local Government, Lagos Nigeria were visited and the research instrument administered, distributed. The research combined cluster sampling technique with the simple random sampling technique.

3.2 Background Information on Sample Location

Alaba International Market (Electronics) is the largest electronics market in Africa where all major international brands of electronics and allied products are offered for sale. The market is situated in Lagos, the economic hub of Nigeria and the commercial nerve-center of commerce in Africa. The market occupies a land area approximately 2km by 1km on the OjoIgbede Road. In view of the fact that all electronics products, from communications, broadcasting, computers, televisions, videos, home appliances, refrigerators, musicals, video games to generators, satellite systems, general goods etc. are available in this market, buyers throng this market from as far as Ghana, Niger, Chad, Togo, Benin Republic, East Africa etc. to make their purchases. In Nigeria, resellers from almost all major cities come to Alaba International Market (Electronics) for their supply of electronics and allied products. Other ancillary products and/or services to be found in this market include financial services such as banking, mortgage banking, microfinance, stock broking, investment consulting, etc. Others are office service facilities such as photocopy shops, telephone booths, cyber café, and secretarial services centers. There are many MSMEs operating in the market.

Computer village, Ikeja is one of the towns in Lagos where the largest IT and computer equipment items market in West Africa is located. Like other well-known markets in Lagos, it is very busy and it is home to the major dealers of Mobile Phones and computers as well as their accessories, accommodating the needs of Telecommunication users, especially small businesses and end users. The market attracts larger sized stores than road sellers or the ones with smaller shops. Stores are well stocked with variety of products or with large number of a single items or related products. Product lines include mobile phones and mobile phone accessories, (memory cards, chargers, batteries, casings etc.), computers and computer accessories including DVD writers, Mother boards, LCDs, Keyboards, RAM cards among others. There are also incidental businesses operating such as clothiers, food vendors, etc.

3.3 Presentation of Data

The statistics on distribution and retrieval of the research instrument is presented in table 2:

Table 2: Distribution of Research Instrument

Cluster Location	No. distributed	% distributed	No. Returned	% returned
Alaba International Market	120	40%	112	42%
Computer Village	180	60%	155	58%
Total	300	100%	267	100%

More copies were distributed in computer village because of the wider geographical space and number of business in the location compared to Alaba International.

For the purpose of our research, we have used the CBN 2005 business classification to categorize MSMEs. Generally, a Small and Medium Scale Enterprise (SME) is an enterprise that has asset base (excluding land) of between N5million –N500 million and labour force of between 11 and 300, as follows:

(i) Micro/cottage industry: An industry with a labour size of not more than 10 workers, or total cost of not more than N1.50 million, including working capital but excluding cost of land. For the purpose of this study, this class is referred to as 'Micro-scale enterprises'.

(ii) Small Scale industry: An industry with a labour size of 11-100 workers or a total cost of not more thanN50 million, including working capital but excluding cost of land. We refer to them as 'Small-scale enterprises' in the context of our study.

(iii) Medium Scale industry: An industry with a labour size of between 101-300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding cost of land. We also refer to this class of enterprise as 'Medium Scale enterprises'.

In order to allow for uniformity, we have decided to use the capital as basis to classify business into MSMEs because it is the economic relevance and impact of a business that is of concern to us.

Table 3: Structure of Finance of MSMEs at Start-Up

	Micro scale	Small scale	Medium scale	Total
Equity (Personal savings & Plough back profit) only	132 (77%)	58 (73%)	8 (47%)	198
Equity + Borrowings from relations& friends	39 (23%)	13 (17%)	3 (18%)	55
Equity + Venture Capital	0	8 (10%)	6 (35%)	14
Total	171	79	17	267

Table 4: Structure of Finance of MSMEs at Business Continuation

	Micro scale	Small scale	Medium scale	Total
Equity (Personal savings & Plough back profit) only	118 (69%)	55 (70%)	6 (35%)	179
Equity + Borrowings from relations& friends	46 (27%)	6 (7%)	0	52
Equity + Bank Credit	7 (4%)	15 (19%)	9 (53%)	31
Venture Capital + Bank credit	0	3 (4%)	2 (12%)	5
Total	171	79	17	267

Table 5: Highest Education Level of MSME Proprietors

	Professional Qualification/ University/Polytechnic degree(B.Sc./HND)	University diploma/ polytechnic OND	Secondary School Certificate	Primary School Certificate	Total
Micro scale	5 (3%)	13 (7.5%)	112 (65.5%)	41(24%)	171
Small scale	3 (3.8%)	25 (31.6%)	46 (58%)	5 (6.4%)	79
Medium scale	9 (53%)	6 (35%)	2 (12%)	0	17
Total	17	44	160	46	267

Table 6: Proprietor's years of Work Experience

	0-3yrs	4-7yrs	8-12yrs	Over 12yrs	Total
Micro scale	55 (32%)	36 (21%)	54 (32%)	26 (15%)	171
Small scale	0	10 (13%)	47 (59%)	22 (28%)	79
Medium scale	0	2 (12%)	6 (35%)	9 (53%)	17
Total	55	48	107	57	267

Table 7: Account Maintenance with a Commercial Bank

	No form of account maintained with any bank in Nigeria	Personal savings and/or current account maintained with Nigerian Bank(s)	Total
Micro scale	107 (63%)	64 (37%)	171
Small scale	17 (21%)	62 (79%)	79
Medium scale	0	17 (100%)	17
Total	107	160	267

Table 8: Responses to Statements on Factors Influencing Capital Structure of MSMEs

	N	Normal Parameters	
		Mean	Std. Deviation
MSMEs proprietors lack business management skills	267	3.38	.490
Accessing finance from banks is cumbersome & procedural	267	3.42	.530
MSMEs have poor / non-existent control over business resources	267	3.38	.490
In credit application and processing, Banks require/request for plenty documentations which most MSMEs cannot meet up with	267	3.12	.691
High Transaction cost of securing finance from banks discourages application for credit	267	3.37	.486
MSMEs do not apply for bank credit because of low chances of getting it	267	2.93	.800
MSMEs do not apply for a bank loan because of collateral security requirements which most MSMEs do not have	267	3.40	.494
High borrowing cost/interest rate has discouraged application for bank credit by MSMEs	267	3.52	.504
Discrimination by banks between well- established and start-up enterprises has discouraged application for credit	267	3.25	.654
Most MSMEs have no proper/non-existent accounting function/ officer	267	3.38	.490
Affordable interest rate as a motivation for patronizing informal provider of finance	267	3.35	.481
Banks are reluctant in lending to MSMEs sectors in comparison to other sectors	267	3.05	.594
Confidentiality of transaction as a motivation for patronizing informal provider of finance	267	3.12	.613
Quick loan disbursement as a motivation for patronizing informal provider of finance	267	3.23	.533
Flexible repayment schedule as a motivation for patronizing informal provider of finance	267	3.17	.376
Possibility of renegotiating credit terms as a motivation for patronizing informal /nonbank provider of finance	267	3.15	.481
Banks do not grant MSMEs credit because of problems caused by MSMEs themselves which make them financially unattractive and non-marketable	267	3.02	.469
Low transaction cost as a motivation for patronizing informal provider of finance	267	3.22	.490
Most MSMEs have non-existent/no proper accounting records	267	3.03	.520

3.4 Test of Hypotheses

H_o^1: There is no significant difference in the Capital Structure of Nigerian Micro, Small and Medium Scale Enterprises

Table 9: ANOVA table for test of Hypothesis 1

Capital Structure					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6.947	2	3.473	5.817	.005
Within Groups	34.037	264	.597		
Total	40.983	266			

Decision rule: Since Sig (0.005)< 0.05we reject the H_0 and accept the H_1

H_o^2: There is no statistically significant difference between the Capital Structure of Nigerian Micro, Small and Medium Scale Enterprises at start-up and the Capital Structure at continuation.

Table 10: Correlations Analysis Result for Hypothesis 2

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	Capital Structure at commencement/start-up & Capital Structure of MSMEs at continuity	267	.595	.000

Table 11: Paired Samples Test for Hypothesis 2

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Capital Structure at commencement/start-up - Capital Structure of MSMEs at continuity	**-.100**	**.796**	**.103**	**-.306**	**.106**	**-.973**	**266**	**.335**

Decision: Since Sig (0.335)> 0.05, accept null hypothesis that there is no statistically significant difference between the Capital Structure of Nigerian MSMEs at start-up and the Capital Structure at continuation.

H_o^3: The factors influencing sourcing credit from commercial banks credits do not significantly differ among MSMEs in Nigeria.

Table 12: ANOVA Table for the Test of Hypothesis 3

Factors influencing patronage of formal banking sector					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	8.096	2	4.048	1.344	.269
Within Groups	171.637	264	3.011		
Total	179.733	266			

Decision : Accept H_0 since sig>0.05 that factors influencing sourcing credit from commercial banks credits do not significantly differ among MSMEs in Nigeria as they are faced with same constraints. The well-established businesses are however able to overcome some of the challenges generally facing the sector.

H_o^4: The factors influencing sourcing credit from informal fund providers do not significantly differ among Microfinance, Small and Medium scale enterprises (MSMEs).

Table 13: ANOVA Table for test of Hypothesis 4

Factors influencing patronage of informal credit providers					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.281	2	.140	.077	.926
Within Groups	104.452	264	1.832		
Total	104.733	266			

Decision: Since Sig (0.926) > 0.05,accept H_0that the factors influencing sourcing credit from informal fund providers do not significantly differ among Microfinance, Small and Medium scale enterprises (MSMEs).

4.0 Discussion of Findings

Table 3 presents the capital structure of MSMEs at start-up. The trend revealed shows that all Micro scale businesses financed their business at start-up via personal funding and borrowing from relatives because of the relatively low set-up cost which can be conveniently sourced from relations, 90% of small scale fund their business at start-up through Equity and Borrowing from relations while 65% of Medium scale enterprises source finance by a combination of Equity and finance from relations & friends.

The proportion of the medium scale enterprises that could raise start-up finance by Equity only is 47%, Equity & borrowing from relations to augment personal equity is constitutes 18% and a further 35% of them source finance at start-up by partnering with willing venture capitalist in addition to personal finance, because of the huge set-up cost. The inference deducible is that Banks do not fund start-up MSMEs which eventually results to poor funding. We further examined the capital structure of MSMEs after start-up, during business continuation as per table 4.Since banks would typically request for evidences of past successful business acumen we observed small changes in the granting of loans to micro scale business (4%).Some of them still however prefer to source external finance from non-institutionalized sources like their relations, in augmenting their financing needs, as the fund from this source with combination of equity was still up by 4%.

The changes in financing structure of the Small scale enterprises provide an interesting discovery. The small scale enterprises were able to finance 19% of their operation by a combination of Equity and Bank credit (in form of overdraft, drawing against un-cleared effect, invoice discounting, and bank loans) .This could be attributable to banks' prerequisites for granting credits such as showing evidences of successful business acumen, provision of requisite documentation & collateral, and generally significant positive improvement in the constraints to granting of credits occasioned by the growth in age of the company, which could also be a strong reason that signaled the attractiveness of such businesses to venture capitalist to partner in financing over 18% of the business. The Medium scale enterprises were also able to secure bank credit during their business continuation stage. The reasons for this may also be attributable to the factors which favoured the Scale enterprises. They also liquidated debt arising from borrowings from friends and relations, reduced finance from venture capital and substituted the two with the growth of bank credit.

The numbers of businesses that overcome the challenges are however not much because of the insignificant change in Capital structure between start-up and continuation.

The foregoing corroborates the acceptability of the Null hypothesis 2 that there is no significant difference in the capital structure of Nigerian MSMEs at commencement and continuation. The changes in capital structure of MSMEs as a result of funding from banks have not significantly improved.

Table 5 presents the educational profile of Nigerian MSMEs proprietors/entrepreneurs. Over 65% of the Micro-scale entrepreneurs have a secondary school education. Very few proportions (3%) of Nigerian university/polytechnic graduates are engaged in Micro-scale business because most graduates seek white-collar jobs, unlike the small scale enterprise that has over 30% Nigerian graduates. For the medium scale enterprises, 53% of professionally and educationally qualified entrepreneurs are in business. Possessing this level of educational qualification imbibes some elements of business managerial skills in them, thereby overcoming some of the limitations of MSMEs which could explain the slight increase in the proportion of funding from bank credit at continuity and their ability to attract venture capitalists to partnership in business. We observed that all entrepreneurs in the Medium scale class of business have a minimum of secondary school education, thereby reinforcing the claim that they possess some basic business managerial skills.

We also infer that possessing educational background is not a requirement or constraint to entering the MSMEs sector. However, as business grows, entrepreneurs see the need to acquire work experience to conduct their business. The entrepreneur who may not have educational background and work experience at start-up eventually acquires education to enhance their business decision, administration and management.

Table 6 captures the years of work experience of MSMEs proprietors. Less than 70% of operators in the Micro scale businesses have a maximum of 3 years' experience. All the entrepreneurs in the small and medium scale businesses have over 3years work experience. This also suggests that one does not require any work experience to start a microfinance business: such experiences are acquired from the running of the business one establishes. Table 7 presents statistics on the ownership of bank accounts by MSMEs. We observed that over 60% of micro scale businesses do not operate any form of account with commercial banks. This could partly explain reasons for low access to bank credit by them, which is one of the inherent problems created by MSMEs themselves in sourcing finance. Over 75% of the small scale and all medium scale businesses have accounts with banks; this could be accountable for their ability to access bank credits unlike the micro-scale businesses. Banks generally require that before line of credit can be given to customers, banking relationships must first be established through the operation of an account.

Table 8 presents the results of factors influencing the capital structure of MSMEs generally categorized into three factors – (i) patronage of commercial banks (which embodies issues like procedures in securing credits, documentations, transaction cost, collateral security requirements, borrowing cost), (ii) patronage of informal fund providers (which includes interest rate, confidentiality of transaction, turnaround time between loan application & disbursement, flexibility of repayment, possibility of renegotiation of credit terms) and (iii) the inherent problems of MSMEs (such as lack of business management skills, control over business resources, discriminatory practices of banks, existence of accounting functions and structures).

We observed that the constraints in accessing credits from the formal financial institutions are addressed by the informal fund providers by allowing for the peculiarities of the MSMEs. Hypotheses 3 and 4 respectively examine if the factors influencing the patronage of commercial banks and informal finance providers significantly differs among MSMEs. The acceptance of null hypotheses for both supports our observation that these factors do not significantly differ as they are challenges faced by all class of Enterprises, whatever the size.

Constraints generally faced by MSMEs are also not significantly different. This also supports the statement that banks do not grant credit to some MSMEs because of their inherent problems, negatively affecting their attractiveness and marketability.

Table 9 contains the result for test of hypothesis 1.We accepted the H_1 that there are significant differences in the in capital structure of Nigerian MSMEs. Factors responsible for this are the differences in the ability of the size of enterprises to overcome the hindrances to securing bank credit such as differences in the level of managerial skills, stage of business growth, ability to reduce transaction cost as a result of economies of scale occasioned by the volume of transactions. Medium scale enterprises are able to benefit from the economies of large scale because of high transaction volumes when compared with the Micro and small scale businesses. Small and medium scale businesses were also able to attract Venture Capitalists which the Micro scale businesses could not, hence the difference in the capital structure among the MSMEs in Nigeria. The larger the size of the business, the more its ability to overcome the constraints in obtaining finance from external sources and the easier it becomes to secure finance from the external sources.

Hypothesis 2 examines if there are statistically significant differences between the Capital Structure of Nigerian MSMEs at start-up and the Capital Structure at continuation. We used the dependent sample t-test because the capital structure at continuation is dependent on the capital structure at start-up. As a matter of convention and practice, banks generally requires evidence of past successful business acumen in giving credits: so start-up capital structure influences continuation capital structure. Table 10 which shows a strong positive correlation between the capital structure at commencement and continuation corroborates this view. The result of the hypothesis test contained in table 11 is the acceptance of null hypothesis that there is no significant difference in the capital structure at commencement and continuation. The funding of MSMEs by banks is not significantly improved.

Hypotheses 3 and 4 consider factors influencing patronage of commercial banks and informal fund providers respectively. Factors that discourage patronizing banks are the ones encouraging the patronage of informal fund providers because of allowance for the peculiarities of the MSMEs by the non-formal finance providers.

5.0 Conclusion and Recommendations

Access to credit allows poor people to take advantage of economic opportunities. While increased earnings are by no means automatic, clients have overwhelmingly demonstrated that reliable sources of credit provide a fundamental basis for planning and expanding business activities. Many studies show that clients who join and stay in programs have better economic conditions than non-clients, suggesting that programs contribute to these improvements. A few studies have also shown that over a long period of time many clients do actually graduate out of poverty. Bank staffs should be trained to seek out small businesses that would yield good dividends in the long run. The banking sector - specifically commercial banks and specialized banks should get more involved in MSMEs finance, such as participating in MSMEs finance investment funds, creating specialized unit for financing MSMEs within the bank.

The revisiting and revision of bank policies for account opening and granting credits to MSMEs by the policy makers is also highly desirable in order to address the current challenges of financial inclusion.

A significant number of Micro scale businesses in Nigeria still do not have any form of account with banks but would rather patronize the non-formal finance providers. The informal fund providers enjoy favourable patronage by MSMEs because they are doing what banks are reluctant to do- giving consideration to peculiarities of the MSMEs, hence financial exclusion.

To enhance the development of MSMEs the government should put in place policies that will such as creating enabling legal environment for MSMEs to thrive, extending opportunities to compete to previously disadvantaged categories of entrepreneurs, implying procedures for business registration and licensing, export documentation, designing tax policies to favour MSMEs, formulating rural and micro finance policy to create a sound and sustainable financial sub-sector specialised on savings and credit facilities for very small entrepreneurs, developing clusters of MSMEs from specific sub-sectors to create opportunities to support efforts focused on promoting flexible specialization, supporting the export of products produced by MSMEs, developing rural areas by improving infrastructures to discourage rural-urban migration, training entrepreneurs in business accounting and management skills and establishing linkage between SME and large scale enterprises to create readily available market and high patronage for their products

References

Adams, D. W., Douglas H. Graham andVon J.D. (1984). Undermining Rural Development with Cheap Credit. Westview Press, Boulder & London

Adebusuyi, B.S.(1997)Performance Evaluation of Small-Medium Enterprises (SMEs) in Nigeria.CBN Bullion 21. (4). October/December, 46–52.

Aghion, D, Beatriz A. and Jonathan M.(2005). The Economics of Microfinance.The MIT Press, Cambridge, Massachusetts.

Branch, B and Janette K.(2002) Striking the Balance in Microfinance: A Practical Guide to Mobilizing Savings. PACT Publications, Washington.

Central Bank of Nigeria.(2008): CBN Bulletin 2008 edition.

Central Bank of Nigeria.(2005): CBN Bulletin 2005 edition

Dowla, A. and Dipal B. (2006). The Poor Always Pay Back: The Grameen II Story. Kumarian Press Inc., Bloomfield, Connecticut.

Floro, S. and Pan, A. (1991). Informal Credit Markets and the New Institutional Economics. Westview Press, Boulder Colorado.

Hirschland, M.(2005). Savings Services for the Poor: An Operational Guide. Kumarian Press Inc. Bloomfield CT.

Khandker, S.(1999). Fighting Poverty with Microcredit: The Bangladesh edition.The University Press Ltd, Dhaka.

Ledgerwood, J. and Victoria W. (2006). Transforming Microfinance Institutions: Providing Full Financial Services to the Poor. The World Bank.

Obadan, M. and Agba, A. (2006). Small and medium enterprises development policy in Brazil, Malaysia, South Africa and South Korea: Lesson for Africa and Nigeria. Business Publication. Union Bank Nigeria Plc. 10 (1), 24-50.

Odeyemi, J.A. (2003). An Overview of the Current State of SMEs in Nigeria and the Need for Intervention. A Paper Presented at the National Summit on SMIEIS Organised by the Bankers' Committee and Lagos Chambers of Commerce and Industry (LCCI), Lagos, 10th June, 2003.

Ojo, A.T. (2003).Partnership and Strategic Alliance Effective SME Development.Small and Medium Enterprises Development and SMIEIS.Effective Implementation Strategies. CIBN Press Ltd, Lagos.

Pollack, A (1989). Venture Capital Loses Its Vigor. New York Times. Retrieved from http://www.nytimes.com/1989/10/08/business/venture-capital-loses-its-vigor.html

Rai, A. (2012). Venture: A Collection of True Microfinance Stories. Zidisha Microfinance. Retrieved from http://www.amazon.com/Venture-Collection-Microfinance-Stories-ebook/dp/B009JC6V12

Raiffeisen, F.W (1970). The Credit Unions. The Raiffeisen Printing & Publishing Company,Germany.

Robinson, M. S. (2001). The microfinance revolution.The World Bank, Washington D.C.

Roodman, D. (2012). Due Diligence: An Impertinent Inquiry into Microfinance. Centre for Global Development.

Rutherford, S.(2000). The Poor and Their Money. Oxford University Press, Delhi.

Seibel H. and Shyam K (2002).SHG Banking: a financial technology for very poor micro entrepreneurs. Savings and Development,ISSN 0393-4551, 26 (2).

Spencer E. (2008). Creative Capital: Georges Doriot and the Birth of Venture Capital. Cambridge, MA: Harvard Business School Press.

Sinclair, H. (2012). Confessions of a Microfinance Heretic.Berrett-Koehler Publishers.

Wright, G (2000). Microfinance Systems: Designing Quality Financial Services for the Poor. The University Press, Dhaka.

United Nations Department of Economic Affairs and United Nations Capital Development Fund (2006). Building Inclusive Financial Sectors for Development. United Nations, New York.

Yunus, M.(2008). Creating a World without Poverty: Social Business and the Future of Capitalism. PublicAffairs, New York

YunusM, Moingeon B. and Laurence L .(2010). Building Social Business Models: Lessons from the Grameen Experience. April-June, vol. 43, Long Range Planning, pp. 308-325.