

Effects of the Nigerian Capital Market on the Micro, Small and Medium Scale Enterprises (MSMEs) in Nigeria

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Abstract

This study on “Effects of the Nigerian Capital market on the Micro, Small and Medium Scale Enterprises (MSMEs) in Nigeria” is intended to identify and consequently analyze the financial incentives available to MSMEs in the Nigerian capital market. It provides solution to the financial gap existing between large scale enterprises and micro, small and medium scale enterprises in terms of availability of financial resources referred to as the missing middle. The methodology adopted in conducting the research was a survey design. The independent variable of the study was the Nigerian capital market while the dependent variable was the MSMEs. A disproportionate stratified random sampling technique was adopted to select a representative sample of one hundred MSMEs in Lagos state being the centre of commerce in Nigeria. Questionnaire was used as instrument for data collection. The questionnaire was developed on a five-likert scale ranging from one to five (i.e. from strongly disagree to strongly agree) while, the hypothesis developed was tested using Chi-square (X^2). Data analysed using the statistical technique called chi-square to test the hypotheses of the study. Base on the findings, it was recommended that, the government through the Nigerian Capital Market should create an Alternative Stock Exchange-that is, Dedicated Stock Exchange for MSMEs as done in the developed countries like USA, Japan, China, Malaysia, Morocco and many other countries which has changed their economic fortunes, also, the management of small and medium scale businesses should prepare timely, transparent and acceptable financial reports of their companies which would be acceptable to regulators, investors and stakeholders especially financial institutions and in addition to innovative financing mechanisms, innovative measures can also be put in place to share risk.

Keywords: Capital Market, Missing Middle, Entrepreneurship Financing, Capital Accumulation, Financial Gap

1.1 INTRODUCTION

Production of goods and services in the most efficient manner has continued to be the only viable and reliable option for growth, development, and survival of world economies. Despite the importance of production, it is impossible for a sustained high productive level to be attained without a well-developed industrial sector. Industries normally operate either on a large or small scale both in the public and private sector. In Nigeria, the private sector enterprises cover a wide range of different types of industries as distinguished by various criteria such as size, sector, ownership structure, employment and technology.

The small-scale industries cover the entire range of economic activity sectors and are very heterogeneous groups (Hallberg, 2011). They include a wide variety of firms – village handicraft, restaurants, bakeries, poultry farming, hair dressing, barbers shops just to mention a few. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), (2011) classify industries into micro, small and medium scale enterprises (MSMEs).

The significance of MSMEs to growth, productivity and competitiveness of the economies of developing countries is universally recognised. MSMEs are generally acknowledged in (Kasekende and Opondo 2003) as the bedrock of the industrial development of world economies. They are more innovative than larger firms are. MSMEs usually provide training grounds for entrepreneurs even as they generally rely more on the use of local materials. MSMEs development can play a key role in entrepreneurs’ development through their contributions to economic advancement and social empowerment.

In Oteh, (2011), the Global Entrepreneurship Monitor 2009, a research program aimed at assessing the national level of entrepreneurial activity in selected countries, conducted an entrepreneurship and economic growth study on 37 countries. According to the study, the economic growth of a country is directly correlated with its level of entrepreneurial activity. The study reveals that, there is a high correlation between economic growth and entrepreneurial activity in industrialised countries, hence to achieve Nigeria Vision 20:20 then greater attentions should be paid on very vibrant and robust enterprises. Entrepreneurs create new enterprises, new commercial activities and new sectors, which have a positive multiplier effect on the economy. Entrepreneurial activities are very crucial to fostering economic and social progress in the country. The development of MSMEs in Nigeria is therefore an essential element in the growth strategy. Notwithstanding the widely acknowledged role of MSMEs in fostering economic growth and development, MSMEs have continued to face a variety of constraints (Adelaja,

2004) and majorly that of finance.

This is quite common in many African countries, including Nigeria, where access to finance was the second most important constraint to doing business after inadequate supply of infrastructure. This is because; the conditions for financing MSMEs are more restrictive to those of large enterprises. This has also confirmed the fact that, inadequate finance is a serious challenge that must be tackled before there could be any meaningful progress in the MSMEs sub-sector.

MSMEs in Nigeria suffer from lack of access to appropriate (term and cost) funds from both the money and capital markets. This is due in part to the perception of higher risk resulting in high mortality rate of the business, information asymmetry, poorly prepared project proposals, inadequate collateral, absence of, or unverified history of past credit(s) obtained and lack of adequate accounting records of the company's transaction. In some cases, there are virtual absence of capital market facilities and instruments that MSMEs can access. (Bates, 2010). The capital market in Nigeria is still evolving while other conventional sources have no confidence in the credit worthiness of the MSMEs. Non-bank financial intermediaries such as micro credit institutions could play a greater role in lending to the MSMEs. Nevertheless, some of these institutions may not consider MSMEs credit worthy. .

MSMEs therefore rely on their retained earnings, informal savings and loan associations, which are unpredictable and insecure with little scope for risk sharing as their major source of capital. Many African countries have to deal with this chasm between the role of micro credit institutions and that of larger financial institutions. This is the space where MSMEs operate and is referred to in the African Commission's Report as the missing middle. (Oteh, 2011). Yet, the panacea for solving problems of economic growth in Nigeria often resides in adequate financing of small-scale industries. The missing middle or financial gap is a serious challenge in a fast- changing knowledge based economy because of the speed of innovation. Innovative MSMEs with high growth potential, many in high- technology sectors, have played a pivotal role in raising productivity and maintaining competitiveness in recent years. Nonetheless, innovative product and services need investment to flourish, however great their potential might be. MSMEs depend on capital accumulation, and capital accumulation requires investment and an equivalent amount of saving to match it. Two of the most important issues in developing countries, are how to stimulate investment, and how to bring about an increase in the level of saving to fund increased investment.

Most importantly, well functioning financial systems are heavily based on trust. An investor who deposits money in the bank or contacts his/her broker to buy stocks place his/her money and trust in the hands of the financial institution that provides her with advice and transaction services. (Madura, 1996).

No wonder, Kneown (1996) stressed that, one reason why underdeveloped countries are underdeveloped is because, they lack a financial system that has the confidence of those who must use it. Particularly, the stock market crash of 2008 affected the Nigeria financial sector adversely. It generated a pessimistic outlook on the economy that led to a decline in the demand for loans and higher percentage of loan defaults, causing a consequent decline in the stock prices. Despite all these illicit practices in the financial sector, the Nigerian capital market is potentially the most viable source of capital for industries in Nigeria.

The primary focus of this research work emanates from the fact that, there exist a wide financial gap between the capacity of micro financial institutions and that of larger financial institutions. While large loans are available to a certain degree for large-scale industries, there is an evident lack of access to medium and small-scale finance for MSMEs. In trying to bring a solution to this problem, the Central Bank stipulated that 20% of banks' credit should be granted as loan to the Small Scale Enterprises. This was not adhered to because, most loans granted to small scale holders were not repaid and so the banks did not consider them as creditworthy. In the light of these, the research has explored the financial incentives available to the small-scale enterprises especially in the Nigerian capital market in order to provide the financial information needed by entrepreneurs.

1.2 OBJECTIVES OF THE STUDY

The main purpose of this study is to identify and consequently analyze the financial incentives available to small and medium scale enterprises in the Nigerian capital market, thereby taking into consideration various conditions such as economic, political, social, psychological etc under which small and medium scale enterprises could be encouraged to operate. In so doing, the study provides an in-depth information and analysis on the various strategies through which small-scale enterprises can access the capital market for developmental funds. In view of the above, the researcher intends to analyse the following:

The implicate of the listing requirements in the second tier capital market on the small and medium scale enterprises in Nigeria

The difficulties faced by Small and medium scale enterprises in raising capital in the Nigerian capital market

The financial constraints hindering the promotion of small-scale enterprises in Nigeria.

This study is concerned with the importance of capital adequacy to the industrial sector as a whole. There is no

gain saying in the crucial role of capital as a factor of production because with inadequate capital, there would be no inputs to be processed into output. The vital nature of capital is also evident from numerous efforts of the government in form of policies aimed at promoting the SMEs sub-sector. Over the years, there have been a lot of plans and policy initiatives by the government in trying to position the SME sub-sector for better performance. Despite all these policies, the SMEs sub-sector is still grossly underdeveloped. Yet, it is believed that small and medium scale enterprises will propel the rationalism of economic independence that has long been expected after political independence. Thus, there is a need to evaluate hindrances in promoting small and medium scale enterprises. The research is meant to contribute to existing literatures on MSMEs by providing a detailed analysis of the financing hindrances and the strategies available to small and medium scale industries especially in Nigeria capital market with the aim of improving their operations and effectiveness. Specifically, the study was conducted to find out:

How do the listing requirements in the second tier capital market affect the listing of MSMEs on the Nigerian stock Exchange;

What are the difficulties faced by MSMEs in raising capital in the Nigerian capital market; and

What are the general financial constraints confronting the promotion of small-scale enterprises.

2.1 THE CONCEPTUAL FRAMEWORK

Current and relevant literatures are reviewed based on the purpose of the study and the dependent and independent variables under consideration. From national policy viewpoint, enterprises are classified by size, sector, organisation, technology and location. (Adebusuyi,1997). These variables interact with one another in complex ways, which must be taken into consideration in understanding the nature, characteristics, performance, problems and challenges of business enterprises. From the perspective of policy and planning, size provides the most practical basis for classifying MSMEs. The usual criteria include one or more of the following: employment, turnover, assets, and paid up capital. However, definitions vary from country to country relative to the overall size and structure of the domestic economy.

On the global context, a general definition of MSMEs using size and scale of operation is not easy, but within the fixed co-ordinates of national boundaries, it might be relatively easier. (Adebusuyi,1997). Prior to 1992, different government agencies in Nigeria such as the Central Bank of Nigeria tended to adopt various definitions to reflect differences in policy focus. However, in 1992, the National Council on Industry streamlined the various definitions in order to remove ambiguities and agreed to revise them every four years. Small Scale Enterprises were defined as those with fixed assets above N1million but not exceeding N10 million, excluding land but including working capital, while Medium Scale Enterprises were defined as those with fixed assets, excluding land but including working capital, of over N10 million but not exceeding N40 million. (Udechukwu, 2003)

The definitions were revised in 1996. Small Scale Industry were defined as those with total cost including working capital but excluding cost of land above N1 million but not exceeding N40 million. with a labour size of between 11 and 35 workers; while Medium Scale Industry was defined as those with total cost, including working capital but excluding cost of land, above N40 million, but not exceeding N150 million with a labour size of between 36 and 100 workers. At the 13th Council meeting of the National Council on Industry held in July, 2001 Micro, Small and Medium Enterprises (MSMEs) were defined by the Council as follows:

Micro/Cottage Industry: An industry with a labour size of not more than 10 workers, or total investment of not more than N1.5 million, including working capital but excluding cost of land.

Small-Scale Industry: An industry with a labour size of 11-100 workers or a total investment of over #1.5m but not more than N50 million, including working capital but excluding cost of land.

Medium Scale Industry: An industry with a labour size of between 101-300 workers or a total investment of over N50 million but not more than N200 million, including working capital but excluding cost of land.

Large Scale: An industry with a labour size of over 300 workers or a total investment of over N200 million, including working capital but excluding cost of land. (Hamitle Consults, 2007). This is taken as working definition for this study.

Where there exists a conflict between employment and assets classification criteria, such that, an enterprise has assets worth of seven million naira, but employ seven people, the employment-based criteria will take precedence and the enterprise would be classified as micro. Employment based classification tends to be more stable definition, given that inflationary pressure may compromise the asset-based definition.

2.1.1 Characteristics of MSMEs in Nigeria

MSMEs cover the entire gamut of economic activity sector in Nigeria. One of the commonest features of MSMEs is that they are either sole proprietorships or partnerships. Even when they register as Limited Liability Companies, it is merely on paper, as their true ownership structure is one-man or partnership. Moreover, most MSMEs have labour-intensive production processes and centralised management. (Udechukwu 2003), MSMEs

are generally categorised as micro, small and medium scale enterprises. Each of the three size categories of MSMEs has its own characteristics. MSMEs are very heterogeneous groups. They include a wide variety of firms-village handicrafts makers, small machine shops, restaurants, computer software firms, e.t.c. (Hallberg, 2011)

2.2 Problems Militating Against Micro, Small and Medium Enterprises

According to Adelaja, (2004), promoters of Small and Medium Industries are people with ideas, dreams and imaginations but majority of the entrepreneurs lack the needed financial means to translate their dreams and aspirations into concrete materials, to create value/services that will earn them the desired wealth. In spite of the roles played by MSMEs in Nigerian economy, the sub-sector has continued to suffer from other myriad of problems at different stages among others are the following:

2.2.1 Lack of Access to Finance : MSMEs generally have limited access to long-term capital; even their access to short-term financing is limited and sometime attained at a penal rate of interest and other conditionalities. (Saito and Villanueva, 2001)

The worst of this is that the banking sector tends to be lukewarm in meeting the credit requirements of the MSMEs. This is because of inadequately prepared project proposals, incomplete financial documentation, and inadequate collateral, including the inability to raise the required equity contribution by the MSMEs. (Olorunshola, 2003). More worrisome is the inability of MSMEs to tap available finance from the capital market. This has been attributed to their aversion to disclosure and ownership dilution, although many MSMEs blamed this phenomenon on the cumbersome requirements and procedure for listing on the Stock Exchange.

2.2.2 Lack of management/financial accounting practices: Lack of management and financial accounting practices in MSMEs leads to poor formulation and execution of policies in the MSME sub-sector. This is because; many MSMEs do not keep proper accounts of transactions. As a result, many MSMEs find it difficult to obtain loans from financial institutions who demands for their past financial statements, business plans and feasibility studies.

2.3 The Nigeria Capital Market:

A financial market is made up of series of arrangements, institutions, facilities and processes that facilitate the exchange of funds (government, corporate bodies, and individuals). The duration of the lending/borrowing arrangement and the nature of the instrument/product used, determines the classification of a financial transaction as either a money market or capital market activity. (Madura, 1996). The money market is a market where funds for short-term purposes (usually between a day and one year) are sourced, while the capital market is a market where funds for medium to long-term purposes (usually above one year and upwards) are sourced. (SEC, 2012). Brigham and Houston (2007) defined capital market as the market for intermediate or long-term debt and corporate stocks. To Madura (1996), capital market is the financial market that facilitates the flow of long-term funds. According to Akinsulire, (2011), capital market is the market for raising/investing long-term funds. Financial instruments traded on this market are equities and loan stocks with over three-year maturity. The common term that run through these definitions is long term. This makes the capital market the most viable source of long-term capital for industries especially the MSMEs.

2.4 Types of Capital Markets

The capital market is divided into two segments: the primary and the secondary market. The primary market is a market for raising fresh/new funds from the investing public, while the secondary market is a market for trading in financial instrument/products previously issued in the primary market. (Madura, 1996). In the Primary Market, companies can be listed either on the first tier or on the second tier market.

2.4.1 The First Tier Capital Market: For a company to be quoted on the first tier capital market, such a company has to fulfil the following listing conditions as stipulated by SEC. These include:

It must be a public limited liability company; Application for listing must be sponsored by one of the dealing members of the exchange; The company must provide its financial records for the preceding five years required; Not less than 25% of the issued share capital must be made available to the public; An annual quotation fee is based on the share capital of the company; The amount that can be raised from the market is limitless subject to the companies' borrowing powers; Companies are required to submit quarterly, half-yearly and annual statements of accounts; Number of shareholders must not be less than 300 and date of latest audited accounts must not be more than nine months. I.e. stale accounts are not acceptable.

2.4.2 The Second Tier Capital Market (SSM): In order to deal with the bias of the capital market in favour of large enterprises, the Second Tier Securities Market (SSM) was established in 1985 to assist small and medium sized indigenous enterprises in accessing funds from the capital market for expansion and modernisation. Companies are required to fulfil the following listing conditions before they can be quoted on the SSM:

It must be a public limited liability company; Application for listing must be sponsored by one of the dealing members of the exchange; Financial records for the three preceding years must be made available; Not less than 10% of the issued share capital must be made available to the public; A flat annual charge of N30,000 is made

payable as quotation fees; The amount that can currently be raised from the market cannot exceed N20,000,000; Companies are required to submit half and yearly statements of accounts; Number of shareholders must not be less than 100 and date of latest audited accounts must not be more than nine months i.e. stale accounts are not acceptable

2.5 Securities traded in the Capital Market

The main participants in the capital market are the households, businesses (including financial institutions), and the government that purchase or sell financial assets. Those participants that provide funds are called surplus units, while participants that enter financial markets to obtain funds are called the deficit units. Many participants in the financial markets act simultaneously as surplus and deficit units but the main providers of fund are the households. (Madura, 1996). The securities traded in the financial market can be classified as equity or debt securities. Equities securities (common and preferred stocks) represent ownership in a business. Debt securities are commonly called debentures and bonds. Investors who purchase them are creditors.

2.6 Roles of the Nigerian Capital Market

The Nigerian capital market plays an important role in the development of the Nigerian economy. Some of the roles according to SEC, (2012) are as follows:

It provides opportunities for companies to borrow funds needed for long-term investments purposes

It provides avenue for the marketing of shares and other securities in order to raise fresh funds for expansion of operations, leading to increase in output/productivity. Through its allocation mechanism, the capital market ensures an efficient and effective Distribution of scarce resources for optimal benefit to the economy.

It encourages transparency and good accounting/management practices, by ensuring that Companies disclose relevant and adequate information to enable potential investors and shareholders make well informed decisions.

It reduces the over reliance on short-term funds for long-term projects.

It provides the needed funds for venture capital development that could serve as a vehicle for development. The capital market also provides facilities for commodities, futures and option trading.

3.0 RESEARCH METHODOLOGY

In the conduct of this research, survey design was adopted, whereby; the opinion of entrepreneurs and managers of small and medium scale industries about the independent variable of the study was obtained. The independent variable is the Nigeria Capital market and the Micro, Small and Medium Scale Enterprises (MSMEs) is the dependent variable. The population of the study is comprised of all small and medium scale industries in Nigeria. Specifically, small and medium scale enterprises constitute the target population based on the fact that, these industries source of capital fall under the missing middle between the role of micro credit institutions and that of large financial institutions. This is because, micro credit institutions do not always have enough funds to provide the long term funds needed by MSMEs for capital investment while large financial institutions considers MSMEs too risky to dare their funds.

The sample for the study was selected with the adoption of disproportionate stratified random sampling technique in Lagos being the centre of commerce in Nigeria. Lagos state was stratified into three senatorial districts. From each of the stratum, 20 small scale and 20 medium scale industries were selected from each district. This results into a sample of 120 enterprises. Questionnaires were used for data collection to provide answers to the research question and to test the hypothesis formulated for the study. The questionnaires contain 16 statements each, and the 16 statements were grouped into four categories. Each of the groups contains 4 statements. The first group with four statements (1-4) was used to analyse hypothesis one. The second group with four statements (5-8) was used to analyse hypothesis two. The third group with four statements (9-12) was used to analyse hypothesis three and the fourth group with four statements (13-16) was used to analyse hypothesis four. The statements were analysed using simple percentages and the hypotheses were tested with chi-square.

The questionnaires were pilot-tested to ensure its reliability. Twenty copies of the questionnaire were administered on the respondents who were not part of the main study. The data gathered were divided into two halves and correlated statistically with the use of split-half method of estimating reliability. The collected data was coded into the Statistical Package for Social Sciences, (SPSS) This was statistically analysed with frequency counts, percentages and chi-square.

4.1 DATA ANALYSIS

Given below are the various data gathered and presented according to their relevance in testing the propositions made in the studies and ultimately to answer the research questions. These were sorted and presented in tables based on the variables identified from the research questions and hypotheses of the study

4.1.1 Percentage Analysis: The computation of percentage analysis involved the use of the formula: Percentage

(%) Analysis = $R/N * 100$

Where R = Row figure

N = Total Population

Table 1.1: Analysis of Questionnaire: statement 1-4

S/N	Statements	Responses	Number of Responses	Percentage %
1	The major source of capital for MSMEs is personal savings	Strongly Agree, Agree, Disagree Strongly Disagree	51 41 6 2	51 41 6 2
	Total		100	100
2	MSMEs does not lack adequate capital for expansion	Strongly Agree, Agree, Disagree Strongly Disagree	1 3 41 55	1 3 42 55
	Total		100	100
3	MSMEs lack long term capital for long term investment	Strongly Agree, Agree, Disagree Strongly Disagree	62 31 4 3	62 31 4 3
	Total		100	100
4	Inadequate capital is the major constraint encountered by MSMEs in doing business in Nigeria after poor infrastructure	Strongly Agree, Agree, Disagree Strongly Disagree	72 22 5 1	72 22 5 1
	Total		100	100

Source: Field Survey of 2012

Table 1.2: above reveals that, the major source of capital for MSMEs is personal savings with greater number (92%) of respondents agreed with the positive statement as against 8%, also, 96% confirm that MSMEs lacks capital for expansion as 96% while 93% of respondent agreed to the fact that MSMEs equally lack long-term capital for expansion which hinders long-term investment. The major problem of capital inadequacy in doing business in Nigeria is affirmed by 94% of respondents.

Table 1.2: Analysis of Questionnaire: statement 5-8

S/N	Statements	Responses	Number of Responses	Percentage %
5	High capital has a positive effect on MSMEs profitability	Strongly Agree, Agree, Disagree Strongly Disagree	54 31 13 2	54 31 1 2
	Total		100	100
6	Low profitability for MSMEs does not reduce capital formation.	Strongly Agree, Agree, Disagree Strongly Disagree	5 12 41 42	5 12 41 42
	Total		100	100
7	Investment among MSMEs is low due to low capital and profitability	Strongly Agree, Agree, Disagree Strongly Disagree	35 51 11 3	35 51 11 3
	Total		100	100
8	MSMEs with high profitability are capable of building a large capital base	Strongly Agree, Agree, Disagree Strongly Disagree	55 30 11 4	55 30 11 4
	Total		100	100

Source: Field Survey of 2012

Table 1.2 above shows a greater number of respondents (85%) who were of the opinion that, high capital have a positive effect on MSMEs profitability as against 15% with a counter opinion. However, there was a strong

believe by 83% of the respondents that, low profitability for MSMEs reduces their capital formation as they disagree with the negative statement against 17% that agree with the statement that says “Low profitability for MSMEs does not reduce capital formation”. 86% of the respondents were of the view that, Investment among MSMEs is low due to low capital and profitability as against 14% who disagreed with it. These clearly show that, MSMEs with high profitability are capable of building a large capital base with 85% agreeing with the statement against 15% who were of a contrary view

Table 1.3: Analysis of Questionnaire: statement 9-12

S/N	Statements	Responses	Number of Responses	Percentage %
9	The Nigerian capital market is not a good source of long term capital for MSMEs	Strongly Agree, Agree, Disagree Strongly Disagree	2 13 31 54	2 13 31 54
	Total		100	100
10	MSME may not want any interference in making decisions on their enterprises	Strongly Agree, Agree, Disagree Strongly Disagree	35 42 12 11	35 42 12 11
	Total		100	100
11	MSMEs may not like to share their profits with other shareholders	Strongly Agree, Agree, Disagree Strongly Disagree	35 51 11 3	35 51 11 3
	Total		100	100
12	MSMEs are not sure as to whether their shares will sell after incurring the cost of being listed on the stock exchange	Strongly Agree, Agree, Disagree Strongly Disagree	55 30 11 4	55 30 11 4
	Total		100	100

Source: Field Survey of 2012

Table 1.3 shows that, the Nigeria capital market is a good source of capital for MSMEs as agreed by 85% of the respondents who disagreed with the negative statement contrary to 15% of the respondents who agreed with it. Despite this response, many MSMEs may not want to be quoted on the stock exchange due to the fact that, MSMEs may not want any interference in making decisions in their enterprises as 77% of the respondents agreed with the statement against 23% who did not agree. Another reason why SMEs may not want to sell their shares to the public could be attributed to their unwillingness to share their profit with other investors in form of dividend as agreed by 86% of the respondents against 14% who agreed. Apart from these factors, many MSMEs are not sure as to whether their shares will sell after incurring the cost of being listed on the stock exchange as 85% of the respondents agreed with the statement against 15% who disagreed.

Table 1.4: Analysis of Questionnaire: statement 13-16

S/N	Statements	Responses	Number of Responses	Percentage %
13	MSMEs may not always have up to 100 shareholders	Strongly Agree, Agree, Disagree Strongly Disagree	54 31 13 2	54 31 13 2
	Total		100	100
14	MSMEs may not always afford the cost of audited accounts	Strongly Agree, Agree, Disagree Strongly Disagree	42 31 18 9	42 31 18 9
	Total		100	100
15	MSMEs may not have a dealing member on the exchange to sponsor them	Strongly Agree, Agree, Disagree Strongly Disagree	35 51 11 3	35 51 11 3
	Total		100	100
16	The listing requirements of the second tier primary market are not too stringent for MSMEs	Strongly Agree, Agree, Disagree Strongly Disagree	4 21 30 45	4 21 30 45
	Total		100	100

Source: Field Survey of 2012

Other factors that hinder MSMEs from being quoted on the stock exchange include their inability to have the minimum number of shareholders to subscribe to their share with 85% of the respondents agreeing with the statement. Moreover, most of the MSMEs are unable to pay for the services of external auditors to audit their financial statements as requires by Securities and Exchange Commission (SEC) as 73% of the respondents agreed with this position. 86% respondents reasoned that MSMEs found it very difficult to have dealing member to sponsor them to the stock Exchange. The listing requirements of the Second Tier Primary Market were found too Stringent for MSMEs to meet as agreed by 75% of the respondents.

4.2 RESEARCH HYPOTHESES

To get a good grasp of the subject matter the following hypothesis were formulated.

Ho₁: MSMEs will not significantly need to be quoted on the Nigeria Stock Exchange.

Ho₂: The listing requirements of the Securities and Exchange Commission (SEC) will not significantly affect the listing of MSMEs on the Nigerian Stock Exchange.

Ho₃: Capital will not significantly affect MSMEs' profitability in Nigeria.

Ho₄: Profitability will not significantly influence capital formation of MSMEs.

4.2.1 DATA PRESENTATION AND ANALYSIS

4.2.1.1 Test of Hypothesis 1

Null Hypothesis: (H₀) Capital will not significantly affect MSMEs' profitability in Nigeria.

Alternative Hypothesis: (H₁) Capital will significantly affect MSMEs' profitability in Nigeria.

Table 2.1.0 Analysis of Questionnaire: Statement 1-4 Observed Frequencies (fo)

Statement	SA	A	D	SD	Total
1	51	41	6	2	100
2	1	3	42	54	100
3	62	31	4	3	100
4	72	22	4	2	100
Total	186	97	56	61	400

Source: Field Survey of 2012

Table 2.1.1 Analysis of Questionnaire: Statement 1-4 Expected Frequencies (fe)

Statement	SA	A	D	SD	Total
1	46.5	24.25	14	15.25	100
2	46.5	24.25	14	15.25	100
3	46.5	24.25	14	15.25	100
4	46.5	24.25	14	15.25	100
Total	186	97	56	61	400

Source: Field Survey of 2012 [Table 2.1.0 (TR X TC)/GT]

2.1.2: Analysis of Statement 1-4, Observed and Expected Frequencies to Compute Empirical Test Using Chi-square (X^2)

Statement	o	e	o-e	(o-e) ²	$\frac{(o-e)^2}{e}$
1	92	70.75	21.25	451.5625	6.3825
	8	29.25	-21.25	451.5625	15.4380
2	4	70.75	-66.25	4389.0625	62.0362
	96	29.25	66.25	4389.0625	150.0534
3	93	70.75	22.25	495.0625	6.9973
	7	29.25	-22.25	495.0625	16.9252
4	94	70.75	23.25	540.5625	7.6405
	6	29.25	-23.25	540.5625	18.1702
					$\Sigma=283.643$

Source: Field Survey of 2012 (Table 2.1.0 & 2.1.1)

(i) Degree of freedom (df) = 12

(ii) Empirical Test (X^2) = 283.64

(iii) Value of critical ratio = 21.03

Decision Rule: reject Null hypothesis (H_0), when $X^2 > 21.03$

Since X^2 (283.64) is greater than corresponding critical value (21.03), that it is $283.64 > 21.03$ the Null which states that profitability will not significantly influence capital formation of MSMEs is rejected while the alternative hypothesis, which states that capital will significantly affect MSMEs' profitability in Nigeria., is accepted.

4.2.1.2 Test of hypothesis 2

Null Hypothesis: (H_0) Profitability will not significantly influence capital formation of MSMEs.

Alternative Hypothesis: (H_1) Profitability will significantly influence capital formation of MSMEs.

Table 2.2.0 Analysis of Questionnaire: Statement 5-8, Observed Frequencies (fo)

Statement	SA	A	D	SD	Total
5	54	31	13	2	100
6	5	12	41	42	100
7	35	51	11	3	100
8	55	30	11	4	100
Total	149	124	76	51	400

Source: Field Survey of 2012

Table 2.2.1 Analysis of Questionnaire: Statement 5-6 Expected Frequencies (fe)

Statement	SA	A	D	SD	Total
5	37.25	31.00	19.00	12.75	100
6	37.25	31.00	19.00	12.75	100
7	37.25	31.00	19.00	12.75	100
8	37.25	31.00	19.00	12.75	100
Total	149	124	76	51	400

Source: Field Survey of 2012 [Table 2.2.0 (TR X TC)/GT]

Table 2.2.2: Analysis of Statement 5-8, Observed and Expected Frequencies to Compute Empirical Test Using Chi-square (X^2)

Statement	O	e	o-e	(o-e) ²	$\frac{(o-e)^2}{e}$
5	85	68.25	16.75	280.5625	4.1108
	15	31.75	-16.75	280.5625	8.8366
6	17	68.25	-51.25	2625.5625	38.4844
	83	31.75	51.25	2625.5625	82.6949
7	86	68.25	17.75	315.0625	4.6163
	14	31.75	-17.75	315.0625	9.9232
8	85	68.25	16.75	280.5625	4.1108
	15	31.75	-16.75	280.5625	8.8366
					$\Sigma=161.614$

Source: Field Survey of 2012 (Table 2.2.0 & 2.2.1)

(i) Degree of freedom (df): (Row-1)(column-1) = 12

(ii) Empirical Test: $X^2 = \frac{\sum(o-e)^2}{e}$ where $e = \frac{\sum R \times \sum C}{\text{Total Observed}}$
 = 161.61

(iii) Value of critical ratio = 21.03

Decision Rule: reject Null hypothesis (H_0), when $X^2 > 21.03$

Since X^2 (161.61) is greater than corresponding critical value (21.03). That it is $161.61 > 21.03$ the Null which states that capital will not significantly cause decline in MSMEs profitability in Nigeria is rejected while the alternative hypothesis, which states that profitability will significantly influence capital formation of MSMEs is accepted.

4.2.1.3 Test of hypothesis 3 Null Hypothesis (H_0): MSMEs will not significantly need to be quoted on the Nigerian Stock Exchange.

Alternative Hypothesis (H_1): MSMEs will significantly need to be quoted on the Nigerian Stock Exchange.

Table 2.3.0 Analysis of Questionnaire: Statement 9-12 Observed Frequencies(f_o)

Statement	SA	A	D	SD	Total
9	2	13	31	54	100
10	35	42	12	11	100
11	35	51	11	3	100
12	55	30	11	4	100
Total	127	136	65	72	400

Source: Field Survey of 2012

Table 2.3.1 Analysis of Questionnaire: Statement 9-12 Expected Frequencies (f_e)

Statement	SA	A	D	SD	Total
9	31.75	34.00	16.25	18.00	100
10	31.75	34.00	16.25	18.00	100
11	31.75	34.00	16.25	18.00	100
12	31.75	34.00	16.25	18.00	100
Total	127	136	65	72	400

Source: Field Survey of 2012 [Table 2.3.0 (TR X TC)/GT]

Table 2.3.2: Analysis of Statement 9-12, Observed and Expected Frequencies to Compute Empirical Test Using Chi-square (X^2)

Statement	o	e	o-e	(o-e) ²	$\frac{(o-e)^2}{e}$
9	15	65.75	50.75	2575.5625	39.1721
	85	34.25	-50.75	2575.5625	75.1989
10	77	65.75	11.25	126.5625	1.9249
	23	34.25	-11.25	126.5625	3.6952
11	86	65.75	20.25	410.0625	6.2367
	14	34.25	-20.25	410.0625	11.9726
12	85	65.75	19.25	370.5625	5.6359
	15	34.25	-19.25	370.5625	10.8193
					$\Sigma=154.656$

Source: Field Survey of 2012 ((Table 2.1.0 & 2.1.1)

(i) Degree of freedom (df): (Row-1)(column-1) = 12

(ii) Empirical Test: $X^2 = \frac{\sum(o-e)^2}{e}$ where $e = \frac{\sum R \times \sum C}{e} = 154.66$

(iii) Value of critical ratio = 21.03

Decision Rule: reject Null hypothesis (H_0), when $X^2 > 21.03$

From the above, it is established that the calculated value- X^2 (154.66) is greater than corresponding critical value (21.03). That it is $154.66 > 21.03$ the Null which states that MSMEs will not significantly need to be quoted on the Nigerian Stock Exchange is rejected, while the alternative hypothesis, which states that, MSMEs will significantly need to be quoted on the Nigerian Stock Exchange, is accepted.

4.2.1.4 Test of hypothesis 4

Null Hypothesis (H_0): The listing requirements of the Securities and Exchange Commission (SEC) will not significantly affect the listing of MSMEs on the Nigerian Stock Exchange.

Alternative Hypothesis (H_1): The listing requirements of the Securities and Exchange Commission (SEC) will significantly affect the listing of MSMEs on the Nigerian Stock Exchange.

Table 2.4.0. Analysis of Questionnaire: Statement 13-16 Observed Frequencies (fo)

Statement	SA	A	D	SD	Total
13	54	31	13	2	100
14	42	31	18	9	100
15	35	51	11	3	100
16	4	21	30	45	100
Total	135	134	72	59	400

Source: Field Survey of 2012

Table 2.4.1 Analysis of Questionnaire: Statement 13-16 Expected Frequencies (fe)

Statement	SA	A	D	SD	Total
13	33.75	33.50	18.00	14.75	100
14	33.75	33.50	18.00	14.75	100
15	33.75	33.50	18.00	14.75	100
16	33.75	33.50	18.00	14.75	100
Total	135	134	72	59	400

Source: Field Survey of 2012 [Table 2.4.0 (TR X TC)/GT]

Table 2.4.2: Analysis of Statement 13-16, Observed and Expected Frequencies to Compute Empirical Test Using Chi-square (X^2)

Statement	o	e	o-e	(o-e) ²	$\frac{(o-e)^2}{e}$
13	85	67.25	17.75	315.0625	4.6849
	15	32.75	-17.75	315.0625	9.6202
14	73	67.25	5.75	33.0625	0.4916
	27	32.75	-5.75	33.0625	1.0095
15	86	67.25	18.75	351.5625	5.2277
	14	32.75	-18.75	351.5625	10.7347
16	25	67.25	42.25	1785.0625	26.5636
	75	32.75	-42.25	1785.0625	54.5057
					112.8379

Source: Field Survey of 2012 ((Table 2.1.0 & 2.1.1)

(i) Degree of freedom (df): (Row-1)(column-1) = 12

(ii) Empirical Test: $X^2 = \frac{\sum(o-e)^2}{\text{Total Observed}}$ where $= \frac{\sum R \times \sum C}{e}$
 = 112.84

(iii) Value of critical ratio = 21.03

Decision Rule: reject Null hypothesis (H_0), when $X^2 > 21.03$

The calculated value- X^2 (112.84) is greater than corresponding critical value (21.03). That it is $112.84 > 21.03$ therefore the null hypothesis which states that the listing requirements of the Securities and Exchange Commission (SEC) will not significantly affect the listing of MSMEs on the Nigerian Stock Exchange is rejected, while the alternative hypothesis, which states that the listing requirements of the Securities and Exchange Commission (SEC) will significantly affect the listing of MSMEs on the Nigerian Stock Exchange is accepted.

5.1 SUMMARY AND DISCUSSION OF FINDINGS

This studies proof that:

- (i) states that capital will significantly affect MSMEs profitability in Nigeria, is accepted.
- (ii) profitability will significantly influence capital formation of MSMEs is accepted.
- (iii) listing requirements of the Securities and Exchange Commission will significantly affect the listing of MSMEs on the Nigeria Stock Exchange.

It is also discovered

- (a) that the listing requirements of the Second Tier is also too stringent for most MSMEs to take advantage of for sourcing for long-term capital in the capital market.
- (b) Small Scale entrepreneurs are sceptical for public subscription, as they fear the offer may not enjoy wider acceptance despite huge cost public listing.
- (c) After poor infrastructure, another constrains hampering MSMEs business ability is inadequate capital.

5.2 Conclusion

The studies having established the aforementioned, it can therefore be concluded that, inadequate capital is a major limiting factor to MSMEs growth in Nigeria as they are unable to benefit from low cost of production. It was also observed that, low profitability due to inadequate capital has a chain effect on MSMEs as it reduces capital formation from retained profit. As a result, MSMEs finds it difficult to expand their productive capacity to grow into large corporations. This hinders them from employing more labour and capital thereby creating more employment opportunities for the country.

This study revealed that, MSMEs always see the Nigerian Capital Market as a good source of capital for them since equity financing is always cheaper for long-term financing. Yet, many MSMEs still entertain some fears in approaching the Nigeria capital market such as: the fear of losing their total control over their companies, and the fear of sharing their profit with other investors as well as hostile takeover of their companies by other investors.

5.3 Recommendation

MSMEs in Nigeria are the catalyst of economic growth and development. They are very important components of the economy, especially in Nigeria where they make up the majority of enterprises. MSMEs are increasingly taking the role of the primary vehicle for the creation of employment and income generation through self-

employment, and therefore, have been tools for poverty alleviation. MSMEs also provide the economy with a continuous supply of ideas, skills and innovation necessary to promote competition and efficient allocation of scarce resources. For these to contribute maximally to the growth of the economy, it is therefore recommended that ways of easing the processes and costs of MSMEs sourcing funds from the capital market as well as being listed should be explored. The following options are therefore recommended:

5.3.1 Creation of platforms on the Stock Exchange for MSMEs: The example of the Alternative Investment Market (AIM) in London is instructive, considering the amount of money raised so far on the AIM (about 25 billion pounds for about 3000 companies across the globe (Oteh, 2011). Our MSMEs can benefit greatly from these types of initiatives. It should be noted however, that a number of countries already have such platforms. The Second Tier Market as presently operational and constituted is not living to meeting the need of the MSMEs.

5.3.2 Develop Assets Backed Securities (ABS): This could take the form of the primary collateralized bond obligation (P-CBO) of Korea. The MSMEs could sell corporate bonds, which will be the underlying assets to some special purpose vehicle (SPV). These SPVs will pool the different corporate bonds sold to them by MSMEs and in turn, sell to investors. In this way, even MSMEs with low credit ratings will be able to raise money while the weighted risk of bonds in the pool will minimize the risk exposure of investors.

5.3.3 Promotion of Venture Capital Companies Through Competitive Initiatives: In 2000 alone in Korea, venture capital invested was about 2 trillion won. (US \$1,787,629,603). (Oteh 2011). Venture capitalists can be encouraged through comprehensive and competitive incentives such as tax breaks/holidays. Viable and diverse exit strategies must also be put in place for the venture capitalists. Above all, a key success factor for venture capital is the provision of a conducive operating environment throughout the entire life cycle.

5.3.4 Fostering Development of innovative Instruments and Risk Sharing Arrangements: Some African countries are already experimenting with innovative financial instruments. For instance, warehouse-receipt financing is helping to guarantee loans with agriculture stocks in South Africa, Kenya and Zambia. (Oteh, 2011). Other financial instruments, such as leasing can reduce risk effectively for credit institutions. In addition to innovative financing mechanisms, innovative measures can also be put in place to share risk.

5.3.5 Government in Nigeria should consider harmonising initiatives for supporting the MSME sub-sector: This is very important because there are instances in Nigeria where a number of government agencies were found to be duplicating the efforts of others. This was the case with NBC, NIBC and NERFUND before they were merged into the Bank of Industry. Harmonising efforts could lead to greater efficiency and perhaps lead to an improvement in their supportive capacity.

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