

**THE ROLE OF CAPITAL MARKET IN FINANCING SMALL AND MEDIUM
SCALE ENTERPRISES IN NIGERIA**

BY

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DECLARATION

I hereby declare that this project has been written by me and it is a report of my research work. It has not been presented in any previous application for the Masters in Business Administration (MBA). All quotations are indicated and sources of information specially acknowledged by means of references.

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CERTIFICATION

This project entitled “The Role of Capital Markets in financing Small and Medium Scale Enterprises in Nigeria ” meets the regulations governing the award of Masters in Business Administration (MBA), of the School of Postgraduate Studies of Nasarawa State University, Keffi for its contribution to knowledge and literary presentation.

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DEDICATION

This project is dedicated to the Almighty God.

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ABSTRACT

The study investigates the role of capital markets in financing small and medium scale enterprises in Nigeria. It intends to find out how capital market has motive the growth and development of small and medium scale enterprises in Nigeria. The study adopted a survey research design; simple random sampling method was used in determining SMEs that have benefited from capital market. The data collected for the study comprise of primary data, through the administration of Questionnaire. Chi-square method was adopted to test the hypothesis and findings reveal that there is no significant relationship between Capital Market and the development of small and medium scale enterprises, there is no significant relationship between the method of small and medium scale enterprises used and the Nigeria Capital Market, Shareholders placing reliance on small and medium scale enterprises has not significant effect on the Capital Market and role of the capital market has no significant effect on the growth and development of the small and medium scale enterprises. The study concluded that on the level of financing small and medium scale enterprises in Nigeria, that the capital market is but marginally efficient, therefore the study recommends that the government should seek to strengthen the soundness of the capital market by improving, auditing and reporting of financial data of corporation so as to encourage the emergence of credit rating agencies to make it possible for corporate bonds to be placed without financial institution guarantees. This measure would also facilities the emergence of over the counter stock market to help smaller corporate bodies gain access to capital.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The rapid development of small and medium-scale enterprises (SMEs) is one of the instruments of tackling poverty in an economy. Both in literature and practice, poverty alleviation have always formed the nucleus of economic development policies in many developing countries- including Nigeria (Lemo, 2002). Most of the poor are found in one SMEs activities or the other, hence the policies focused on the development of these SMEs will not only aid in reducing poverty but will also promote economic growth and development of the economy. This is because economic growth and development is sustainable only if it is accompanied by the economic empowerment and mass participation of the citizens in the economic and social life of a nation. SMEs perform such functions as employment generation, acceleration of rural development, utilization of domestic resources, formation of competitive environment and maintenance of innovative activity. From this type of business, maximum results of economic development can be achieved, and it also has a sensation of a market (Toktarova, 2004).

For any economy to remain afloat in its bid for survival in today's globalization, deregulation and liberalization of markets, it needs to have an efficient business financial to direct the allocation of its resources, capital markets and institutions, of which the development is an integral part of paramount importance in a dynamic economy as Nigeria. (Lemo, 2002)

Capital market is a market for securities (Equity or debt), where business enterprises and government can raise long-term funds. It is also defined as a market in which money is provided for period of longer than a year, as the raising of short term funds take place on market e.g. Money market. The capital market includes stock market (equity securities and bond market, debt). Securities and Exchange Commission (SEC) oversees the capital market in their designated jurisdiction to ensure the investors are protected against fraud among other duties. (Anyanwu, & Oyefusi, Oaikhenam & Dimowo, 1997)

Nigeria is still grappling with the problems of low earnings with its attendant balance of payment problems, weak technological industries base resulting in massive importation of machinery and raw material, high rate of unemployment.

Actually, the economic turn down which started in 1978 is very much with us. The decline in Gross Domestic Product (GDP) from ₦26.9 billion in 1984 to ₦3.6 billion in 1985 marked the beginning of importation of the world's cast away goods into our country making Nigeria a dumping ground. Small and medium scale enterprises is the only way to boost export and redress the gloomy of balance of payment deficit. (CBN, 1997)

Nigeria government recognized this fact in 1971; small scale industries credited scheme was introduced and followed up with the establishment of Nigeria Bank for commerce and industry in 1978. The Central Bank of Nigeria also introduced its small scale business. (Hornby, 2000)

Despite all these measure, it is still obvious that small and medium scale enterprises problem is funding. And the actual fact, the growth of the small and medium scale enterprises still centre on proper funding which is missing today. (Hornby, 2000)

Capital market is seen as an alternative way of raising funds. The enhancement of an advance and vibrant capital market can lead to utilization of financial resources. The developed capital market also provides access to the foreign capital for domestic industry. In this way, capital market plays a constructive role in the over-all development of an economy generally. (Anyanwu et al., 1997)

1.2 Statement of the Problem

The recognition of the role of SMEs, has made successive governments to be interested in SMEs, and caused them to implement various measures and programmes in Nigeria in order to encourage their development. Despite these measures, SMEs are still plagued with myriads of problems, among which is finance. Finance is a major problem that has inhibited the growth of SMEs. Some of the constraints of inadequate SME financing include inadequate collateral to secure loans from private credit institutions, poor feasibility studies and lack of equity contribution, among others. Although, the second tier security market was introduced in 1985 to cater for small indigenous companies to be quoted in the stock exchange, yet only few were listed because of requirements and as well as the fact that some of these entrepreneurs do not want to share their companies with the public.

The Nigeria small and medium scale enterprises are faced with the problems of inadequate and low working capital. This aspect of small has really slowly down their

growth and development of small and medium scale enterprises to be at a small-pace consequently.

Mostly they depend mainly on self-finance (saving and borrowing from friends and family) and loan from willing providers (bank) who are always reluctant of providing loans for them due to weak financial background or history. Small and medium scale enterprises in Nigeria also face the challenges of concentrating risk in the hand of the owner. Thus, such risk can be spread by bringing their business to the stock exchange.

The capital market is also having a fair share of the problems because of the inadequate supply of securities and fall in stock exchange market. Most companies especially the indigenous ones are still reluctant in raising funds through the capital market. Based on the foregoing, this study discusses the possibilities of developing the SMEs through the capital market option.

1.3 Research Questions

This research work will attempt to answer the following questions:

- i. How does the development of small and medium scale enterprises relate to Capital Market?
- ii. How relevant are the method of small and medium scale enterprises used in the Nigeria Capital Market?
- iii. To what extent do shareholders place reliance on small and medium scale enterprises in the Capital Market?
- iv. To what level has the role of the capital market motivate the growth and development of the small and medium scale enterprises?

1.4 Objectives of the Study

The main objective of this study is to assess capital market and the development of small and medium scale enterprises in Nigeria.

To achieve this, the specific objectives are to:

- i. To evaluate how development of small and medium scale enterprises relate to Capital Market.
- ii. To examine the method of small and medium scale enterprises used in the Nigeria Capital Market.
- iii. To assess the extent to which shareholders place reliance on small and medium scale enterprises in the Capital Market.
- iv. To evaluate the role of the capital market and how it motivates the growth and development of the small and medium scale enterprises.

1.5 Statement of the Hypotheses

Based on the problems and objectives of the study, the following null hypotheses are postulated:

H₀₁: There is no significant relationship between Capital Market and the development of small and medium scale enterprises.

H₀₂: There is no significant relationship between the method of small and medium scale enterprises used and the Nigeria Capital Market.

H₀₃: Shareholders placing reliance on small and medium scale enterprises has no significant effect on the Capital Market.

H₀₄: Role of the capital market has no significant effect on the growth and development of the small and medium scale enterprises.

1.6 Significance of the Study

This researcher would be invaluable benefit to both the financial institution, Capital Market and Small and Medium Scale Industries in Nigeria, as well as the counties policy makers who have desire to place Nigerian on a sound economic and industrial footing. When this research is concluded, it would have contributed to the study of knowledge already piling on the issue of constraints on growth of SMEs, which cannot over look an aspiring nation like Nigeria.

Finally, since it is the aspiration of our national policy on education to train our youths to be self-reliant or self-employed after school, this study will therefore stimulates their zeal to involve in the establishment of SMEs.

1.7 Scope of the Study

The scope of the study will be the role of capital market in financing small and medium scale enterprises in Nigeria using SME's firms in Keffi Local Government, Nasarawa State as a case study and looking at the efficient utilization of available domestic capital resources and how it could evolve positive changes in their performance.

1.8 Definition of Terms

Capital Market: This is the market for long term capital i.e. long term financing assets. It is a market where long term financing assets are traded including preference and common stock debentures and bonds.

Development: By development in this context, we mean the small and medium-scale enterprises development. Development here refers to the gradual growth which is an increase in size of the small and medium scale enterprises so that they become more advanced and financially stronger to cope with business challenges, continuity and meeting with the goal of profit making and realizing dividends to the shareholders (Hornby, 2000). Growth here also involves an increase in the size, opportunities, and number of shareholders, businesses and business links, et cetera. of the small and medium-scale enterprises.

Small Scale Enterprise: Bankers committee (1999) defined Small Scale Enterprise as any enterprise with a maximum asset bases of ₦200 million excluding land and working capital and with the number of staff employed not less than ten (10) and not more than three hundred (300).

Primary Market: This refers to the new issues market when a firm issues new security either bonds or common stock, the securities are sold in primary market since they are new issues. Once the securities have been sold, any future sales occur in the secondary market. The primary market also exists in the money market.

Secondary Market: This is the market which exists as a result of future sale of securities which had initially been traded upon in the primary market.

Securities Market: This refers to the market where, the purchase and sale of securities takes place. It has three dimensions i.e. the capital market, money market, and secondary market.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Concept of Capital Market

Capital market is the financial market segment that is established for the mobilization and utilization of long-term funds for social, economic and industrial development. The instruments traded in the market include government bonds, company shares and mortgage loans (Anyanwu et al, 1997: Anyanwu, Oyefusi, Oaikhenan and Dimowo, 1997; Ayodele and Falokun, 2003). United Nations Institute for Training and Research (UNITAR), 2004, put it that the capital market refers to the buying and selling of capital investments, usually equity or debt investments to be used by a business in its growth and development.

There are two segments of the capital market in general: primary and secondary markets. Primary market refers to the offering of securities by the company to the public. It can be an “initial public offering (IPO)”, and for an offering of additional securities by a company that already has its securities listed in the market. In either case the primary market refers to the first issuance of securities to the buyers from the company. The company issuing the securities is called the “issuer”, and their (securities) sales are made directly by the issuer or through “underwriters;” while the buyers are called the investors, who put in their money in purchasing the financial instrument of the issuer for the purpose of earning dividend. Secondary market segment is where existing security holders, such as shareholders, offer their shares for sale in the stock exchange or over-the-counter market. In the other words, the

secondary market is the buying and selling of securities among shareholders. While the stock exchange is the floor for buying and selling of shareholders' stocks, the over-the-counter market is the secondary market for trading securities that are not listed on an exchange; and it is operated by broker-dealers who provide stock quotations and match buy and sell orders (UNITAR, 2004). In Nigeria, participants in the market include the Nigerian Stock Exchange, Discount Houses, Development Banks, Investment Banks, Building Societies, Stock-broking Firms, Insurance and Pension Organisations, Quoted Companies, the Government, Individuals, and the Nigerian Securities and Exchange Commission (Anyanwu, et al, 1997).

2.1.2 Concept of SMEs

Small and Medium Scale Enterprises (SMES) have been generally acknowledged as the bedrock of the industrial development of any country. Apart from the numerous goods and services produced by SMES, they provide a veritable means of large scale employment, as they are usually labor intensive. They also provide training grounds, for entrepreneurs even as they generally rely on the use of local raw materials. If well managed, SMES can gradually transform into the giant corporations of tomorrow. These contributions thus explain why government and international agencies mobilize efforts towards the realization of sustainable industrial growth and the creation of mass employment through the rapid growth and development of the small and medium enterprises (Nnanna, 2005).

This fact underscores the essence, importance and relevance of this sub-sector in the development of any given economy. The experiences of developed economies in relation to the roles played by SMEs buttresses the fact that the relevance of SMEs

cannot be overemphasized especially among the Less Developed Countries (LDCs) or rather Developing Countries. In order to highlight the significance of SMEs in relation to the growth and development of a given economy, SMEs have been variously referred to as the “engine of growth” (Basil, 2005). This stems from the fact that almost all countries that have focused on the SMEs sector and ensures its vibrancy have ended up succeeding in the significant reduction and its attendant enhancement in the quality and standard of living, reduction in crime rate, increase in per capita income as well as rapid growth in GDP among other salutary effects. There is a consensus that if all stakeholders are to show serious commitment to the development of the SMEs sub-sector, it follows that the economy must necessarily witness meaningful transformation and prosperity. A dynamic SME sub-sector is vital and imperative for the overall economic development of the country. Aside from providing opportunities for employment generation, SMEs help to provide effective means of curtailing rural-urban migration and resource utilization. By largely producing intermediate products for use in large-scale companies, SMEs contribute to the strengthening of industrial inter-linkages and integration. A vibrant, efficient and effective SME sub-sector generates many resultant benefits for stakeholders, employees, customers, employers as well as the entire economy. Customers on their part tend to enjoy personalized service and attention because of the keen competition, focus and innovation, which characterize the operations of SMEs.

Employers or rather SME entrepreneurs on the other hand are either motivated or compelled by competition to learn and broaden their knowledge and skills in order to meet up with the challenges of maintaining good relationship with their financiers

(banks and other financial institutions), auditors, regulators and even their competitors. They achieve this by belonging to and participating actively in the activities of appropriate chambers of commerce, trade groups, various fora, exhibitions, etc where ideas, new concepts and knowledge are shared and discussed. The bottom line of all these is that the relevant SME would remain efficient and profitable and hence contribute to the growth and development of the entire economy. SMEs have no doubt been indeed recognized as the main engine of economic growth and development, a major variable for promoting private sector, development and partnership. Various governments, development agencies and experts as well as multilateral institutions do appreciate this fact such that they positively respond to any occasion and situations, which could permit their contributing to or creating opportunities for promoting the lot of SMEs.

One major drawback in Nigeria's quest for industrial development over the past years has been the absence of a strong, vibrant and virile SME sub-sector. Given a population of about 150million people, vast productive and arable land, rich variety of mineral deposits, as well as enormous human and other natural resources, Nigeria should have been a haven for Small and Medium Enterprises with maximum returns as it also has the location advantage as a marketing hub for the West and even East African Countries. A number of reasons have been adduced as to why the expectations from the SMEs have not been met. If anything, the performance of the SMEs in Nigeria has been rather dismal. In developing countries like Nigeria, there is the dire need to create an enabling environment for the nurturing and development of SMEs so that they could play the crucial roles expected of them in economic transformation.

The key roles of SMEs include mobilization of domestic savings for investment, significant contribution to Gross Domestic Product (GDP) and Gross National Income (GNI), harnessing of local raw materials, employment creation, poverty reduction and alleviation, enhancement in standard of living, increase in per capita income, skills acquisition, advancement in technology and expert growth and diversification. This can however only be realized with the existence of a responsive and vibrant industrial policy and involving governments overall economic development strategies which will involve all stakeholders and ensure the effective and efficient harnessing, coordination and utilization of economic resources.

The small scale industries of Federal Ministry of Industries (2015) defined small scale as” enterprises having capital (investment in land, building, machinery and equipment and working capital) up to N60,000.00 and employing not more than 50 person” as far back as 1979. The Central Bank’s monetary and credit guidelines, small-scale industries were regarded as establishment whose annual turnover is less than N6million and capital not exceeding N10million. According to Brwon, Medott and Ilamitton (1990), Many Small firms are created as a last resort rather than as first choice and have therefore invited growth potential.

Although, the pro-SME view argues that small firms are more innovative than large firms the micro economic evidence is at best inconclusive. Examining US firms, Andretch (1987) find small firms have higher innovation rates in high technology, capital intensive industries. For sample, Schiuardi (2001) study on European industries show a larger average firm size is associated with faster innovation rates.

In developing countries, there is little R & D activity such that technology transfer from abroad and initiative drive productivity, improvement Rosenberg (1976). Thus, from a developing countries perspective, the firm level evidence does not favour SME subsidization as a mechanism for boosting innovation and productivity growth. Consistent with theoretical argument outlined, emerging empirical evidence supports the view that firm size responds to National characteristic. Maksimonie (2002) find that financially, more developed countries tend to have larger firms. This suggest that financial development ease financial constraints on successful firms and allow them to grow. Kumar, Rajan and Zingales (2001) show that countries with better institutions as measured by judicial system tend to have larger firms. Furthermore, Agbonifor (1998) noted that SMEs is a crucial factor in economic development. They indicated that it is a means by which productive activities indigenously owned and controlled and it is a means by which productive resources and talents that might not otherwise be put into productive uses. This will at least reduce the unemployment, menace which Nufakho (1998) said have reached an alarming proportion.

Brian Levy (1993) explained that the study of entrepreneurship has relevance today, not only because it helps small business or entrepreneurs better fulfill their personal needs, but also because of the economic contribution of the new ventures. Brian Levy therefore sees SMEs as a positive force in Economic growth and development. He stresses further by summarizing the importance of SMEs to include ensuring rapid development, increased utilization of local resources and provision of a training ground for indigenous managers and semiskilled workers, reduction of the rural-urban drift, development of indigenous technology and raising the living standard of rural

dwellers and so on. In fact, SMEs accounts for the economic development in most developed economies of the World today. It has helped in the balance of payment position of countries; it reduces over dependence on inputs relative to their capital investment. Sequel to the aforementioned benefits, the Federal Government of Nigeria has made several attempts via the introduction of various policies at developing SMEs in Nigeria. Notable amongst these policies are; Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Economic Reconstruction Funds (NERFUND), National Poverty Eradication Programme (NAPEP). National Economic and Empowerment Development Strategy (NEEDS), Small and Medium Industry Equities Investment Scheme (SMIEIS) and so on.

Despite the huge amounts spent on the development of these policies for SMEs growth, Sagagi (2006) noted that not much changes and improvements have been achieved. The reason for this as he indicated was attributed to limited financing and support, as well as inadequate infrastructure, insecurity and lack of training and vocational facilities

2.1.2.1 Significance of the SMEs Sub-Sector in the Nigerian Economy

The SMEs operating in Nigeria are not shielded or immune from the typical problems and constraints of SMEs in other developed countries. Almost every country assists her SMEs largely because of the crucial inherent role they play in the economic growth and development. The assistance is usually in the form of facilities and supportive services than on protection and subsidies. Other services provided by some governments include commercial finance, venture capital, information training and retraining, Research and Development (R&D) support, infrastructure and tax

incentives. Some of these facilities are provided through local authorities and industry associations at times with the involvement of non-governmental organizations (NGOs) (Basil, 2005).

2.1.2.2 Characteristics of SMEs in Nigeria

A major characteristic of Nigeria's SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs 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 SMEs include the following among others (Basil, 2005).

- i. Labor-intensive production processes
- ii. Limited access to long term funds
- iii. High cost of funds as a result of high interest rates and bank charges
- iv. High mortality rate especially within their first two years
- v. Over-dependence on imported raw materials and spare parts
- vi. Absence of Research and Development
- vii. Little or no training and development for their staff
- viii. Poor documentations of policy, strategy, financials, plans, info, systems
- ix. Low entrepreneurial skills, inadequate educational or technical background
- x. Poor Capital structure, i.e. low capitalization

2.1.2.3 Prospects of SMEs in Nigeria

The identified problems of SMEs notwithstanding their enormous depth, breadth and intensity, it is only fair and proper to acknowledge the fact that the government did not

fold its arms to watch the SMEs wallow in the gamut of problems. Doubtless, the government fully appreciates the opportunities SMEs create for employment, their contributions to economic growth and development as well as the constraints and difficulties in their operating environment. These explain why in the past forty-five years or so, the government has established various support institutions and relief measures specially structured to render assistance and succor to minimize the constraints, which SMEs typically face if not to eliminate them. The support institutions established by the government range from specialized banks designed to focus on the funding of SMEs to agencies and departments all meant to give a flip to the fortunes of SMEs.

It is also pertinent to note that government policies behind the establishment and operations of the SME support institutions had not been effective and productive. From all indications, as well as observed lapses inherent in them, the policies were either defective in their formulation and conceptualization, or were not truly and religiously implemented. A study by Basil (2005) also revealed that part of the reason why the policies were not effective could be explained by the fact that the operators, managers or proprietors of the SMEs were neither consulted nor involved in the formulations of the policies, which were expected to solve their problems; hence, there were apparent misplacements of priorities and emphases. All the stakeholders in the SME sub-sector should be involved in policy formulations and implementation for them to be effective and yield expected results. The comfort is that the governments (local, state and federal) are neither relenting nor giving up in their bid to revamp and invigorate the fortunes of SMEs as to enable them play the expected role in Nigeria's

economic growth and development. This is evidenced by the government's recent establishment of as well as the mandate given to the Bank of Industry (BOI) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the facilitation of the Bankers' Committee's institutionalization of the Small and Medium Industries Equity Investment Scheme (SMIEIS), the federal government's drive and focus on realizing the objective of NEPAD, the government's endorsement and support of multilateral agencies and loans, and the government's backing of international development finance facilities such as the European Investment Bank (EIB) facilities and the likes. Other indications relate to the government's programmes aimed at poverty alleviation and providing succour to those whose jobs could be affected by the current government reforms as well as the proposed establishment of a Credit Guarantee Scheme for loans to SMEs. Aside from the government's concerted and relentless efforts towards revamping and sustaining to vibrancy of this all-important sub-sector, the private sector as well as professional groups and associations are also not relenting in their own vital contributions to the development of the sub-sector. The capital market driven by the Nigerian Stock Exchange (NSE) and Securities and Exchange Commission (SEC) have been not only expanding its facilities but also working to make it cost effective for SMEs to access funding from the market. Professional groups and associations such as the various Chambers of Commerce, Nigerian Association of Small and Medium Enterprises (NASME), Nigerian Association of Small Scale Industries (NASSI) and the likes are vigorously pursuing, pushing and lobbying the governments for improved welfare and a better and more enabling operating environment (Basil, 2005).

Given the current awareness of the Nigerian investing public as well as the depth of the Nigerian capital market, it is expected that many SMEs would approach the capital market to raise funds. On a related note, there is a reawakening and new impetus towards the establishment of venture capital companies primarily targeted at developing SMEs. Even some banks are exploring this option towards finding a sure window or vehicle through which they would invest the SMIEIS funds, which they have reserved since the commencement of the scheme. The on-going reforms being undertaken by the government ministries, inter-ministerial departments, agencies and parastatals and the realities of the global economic meltdown are bound to render quite a handful jobless. Certainly one sub-sector, which many of the affected persons may want to venture into would be the SME. Thus, this scenario would make it compelling for the government not to ignore this one of the most important sub-sectors of the Nigerian economy.

2.1.2.4 Problems and Challenges of SMEs in Nigeria

The fact that SMEs have not made the desired impact on the Nigerian economy in spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. It underscores the belief that there exists fundamental issues or problems, which confront SMEs but which hitherto have either not been addressed at all or have not been wholesomely tackled. Most SMEs die within their first five years of existence (Basil, 2005). Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity (Basil, 2005). A review of literature

reveals indeed the following plethora of problems, which are enormous, fundamental and far-reaching (Basil, 2005):

- i. Inadequate, inefficient, and at times, non-functional infrastructural facilities, which tend to escalate costs of operation as SMEs are forced to resort to private provisioning of utilities such as road, water, electricity, transportation, communication, etc.
- ii. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government. These discourage would-be entrepreneurs of SMEs while stifling existing ones.
- iii. Lack of easy access to funding/credits, which can be traceable to the reluctance of banks to extend credit to them owing, among others, to poor and inadequate documentation of business proposals, lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates.
- iv. Discrimination from banks, which are averse to the risk of lending to SMEs especially start-ups
- v. High cost of packaging appropriate business.
- vi. Uneven competition arising from import tariffs, which at times favour imported finished products
- vii. Lack of access to appropriate technology as well as near absence of research and development
- viii. High dependence on imported raw materials with the attendant high foreign exchange cost and scarcity at times

- ix. Weak demand for products, arising from low and dwindling consumer purchasing power aggravated by lack of patronage of locally produced goods by the general-public as well as those in authority.
- x. Unfair trade practices characterized by the dumping and importation of substandard goods by unscrupulous businessmen. This situation is currently being aggravated by the effect of globalization and trade liberalization, which make it difficult for SMEs to compete even in local/home markets.
- xi. Weakness in organization, marketing, information-usage, processing and retrieval, personnel management, accounting records and processing, etc. arising from the dearth of such skills in most SMEs due to inadequate educational and technical background on the part of the SME promoters and their staff.
- xii. High incidence of multiplicity of regulatory agencies, taxes and levies that result in high cost of doing business and discourage entrepreneurs. This is due to the absence of a harmonized and gazette tax regime, which would enable manufacturers to build in recognized and approved levies and taxes payable.
- xiii. Widespread corruption and harassment of SMEs by some agencies of government over unauthorized levies and charges
- xiv. Absence of long-term finance to fund capital assets and equipment under project finance for SMEs

2.1.2.5 Benefits of Informal Capital Market in Small Scale Development

- i. The informal capital market brings savings and credit facilities down to the grass root level and to the door steps of entrepreneurs.

- ii. Unlike banks and other formal financial institutions, the informal capital market charges small or no interest on loans.
- iii. Criteria for credit extension are based on personal knowledge of the borrower. It is relatively easy to reschedule.
- iv. The absence of collateral securities gives the system an advantage over its formal counterpart.
- v. The operations of the informal capital market are adjusted to the financial need and ability of members.
- vi. Finance is made available at the right time since loan requests are quickly considered without any bureaucracy.

2.1.2.6 Challenges and Prospects of the Development of the SMES in Nigeria through the Nigerian Capital Market

There are challenges for financing SMEs through the capital market. These challenges as discussed by Cohn (2003); include company laws limitations; listing on Stock Exchanges; tax and financial disclosure and control concerns. The process of registration is the same for both small and large company. This process is very costly and time consuming and there had not been any exception to the registration process. This poses a challenge to the SMEs in financing their business through the capital market.

The listing requirements of the various countries stock exchanges are normally high in terms of company assets, number of shareholders and market capitalization. The cost of listing to raise a small amount of funds had proved to be as costly as raising large amount of funds.

The prospectus and investment statement normally demand so much detailed information, which are too cumbersome for SMEs to satisfy. The existence of second tier market was in a bid to address these problems. However, many investors regard the second tier companies as those that are not good enough; and as such, limit the trading on the market. In addition, despite the fact that the listing requirement for SSM in Nigeria and UK is quite similar, yet the SSM in UK is performing better than that of Nigeria. Available data showed that UK SSM grew by 37.5 per cent within 3 years while that of Nigeria fell by 16.3 per cent within three years (Nigerian capital market data bank, 2006). In addition, the number of listing in the SSM in Nigeria remains static since 1998. Table 1 attest to this. A study of SSM that was carried out in 2005 showed that there was an initial enthusiasm at the inception of the market resulting in slow but steady growth. However the SSM sector has been declining over time and had become stagnant in terms of listed companies. Thus, the number of listed companies peaked in 1993 with when there were twenty-three (23) companies listed on the SSM. It however dropped to nineteen (19) in 1997 and further to sixteen (16) in 1998 where it remained to date. It was reported that there had been no new listings on the SSM for over a decade (The Nigerian Capital Market Data Bank, 2006) Cohn (2003) argued that the inability of SMEs to meet the exchange listing requirements would not have been a serious hindrance to public offering if there were over-the counter (OTC) market for secondary trading. This is because an OTC market will perform a liquidity function similar to that of exchange for the shareholders. However, this market has not been functioning effectively in Nigeria, as it ought to. The OTC market is only functioning in the trading of bonds. The tax and financial disclosure

poses another challenge for SMEs as most companies keep two types of records, one for tax purposes and owner set of record, which discloses the true record. Another challenge has to do with the reluctance of the owner to go public to avoid losing management control.

It needs be noted, however, that the small and medium-scale enterprises have a lot of prospects if the following can be put in place: tax incentives; education of SMEs“ Managers; and small business loan programme, among others. With respect to the OTC, the brokerage firm should be further encouraged to freely educate the public and trade in the markets for SMEs and other unlisted companies. This will encourage SMEs to consider raising capital through public or limited offering; and as such, potential investors will be guaranteed of the secondary market for resale of their securities.

In addition, the issue of control could be taken care of by educating the owners of SMEs that they can still maintain control of the company. Added to this is that awareness should be created on the other significant economic benefits that can result from a public market in a company’s securities. It is also necessary that programmes should be developed to assist SMEs in obtaining capital. The implementation of the 10% set aside for investment in the equity of SMEs and Small Scale Industries (SSI) in Nigeria is necessary. This is because it is alleged that the bulk of funds other than this 10% is invested in the larger businesses (Odife, 2002). From Table 2, All-Share Index, which was only 233.6 in 1988 rose to 24,085.76, about 10,210% growth in 2005. This growth over the 18- year period under consideration is very tremendous, but without the values of the SMEs“ transactions being included. This impressive

performance could be attributed to several factors including improved market performance, privatization and commercialization policy, and infrastructural development as a result of the introduction of the automated trading system (SEC, 2001). The influence of the policy on privatization and commercialization of public enterprises on the tremendous growth of the share - index cannot be overemphasized. The Federal Government of Nigeria, on 27th July, 1988, promulgated the privatization and commercialization programme, under Decree No. 25 of 1988. The Decree provided for the establishment of Technical Committee on Privatization and Commercialization (TCPC). The implementation of indigenization programme and privatization policy has led to the expansion of the Nigerian Stock Exchange (NSE) Market in its scope and operations.

Moreover, since the implementation of privatization policy, there has been the formation of Zonal Shareholders' Association, which has revolutionized the corporate ownership structure of enterprises in Nigeria in the sense that just one or few individuals no longer own these enterprises but many shareholders do. Besides, it has created a sense of awareness of the merits of share ownership as a form of savings. This policy and its concomitant awareness creation have expanded the frontiers of the Nigerian Capital Market. For example, of the 142 companies listed in 1991 on the NSE, 25 of them came in through privatization policy.

The number of listed companies, which was 102 in 1988, 181 in 1995, stood at 302 in 2006. The trading volume in Nigeria, which was 3.95 billion shares in 1999 stood at 26.7 billion shares in 2005. The market capitalization, which was only N10 billion in 1988, had grown to the tune of N5.12 trillion in 2006. This arose from the stimulation

to borrow from the capital market and also from increase in the floating of shares. This is evidence that the market is gaining prominence in the country. The Stock Exchange started with call-over trading system but presently uses an Automated-trading system. With the growing use of internet, telephone and computer network for secondary securities trading, effective functioning of OTC market will go a long way to encourage the development of the SMEs in Nigeria. The number of deals of stocks and their monetary equivalents reveal that there is largely unstable growth, seeing that there are both positive and negative growths from time to time. The positive growth may have been attributable to the awareness that has been created to the public about the relevance of the capital market, which has encouraged a number of investors to buy shares, culminating in increase in the number of deals on shares in the Exchange (NSE).

The negative growth may have come about as a result of fears of investors losing their investment due to their inability to receive dividends or receiving low amount of dividends over time, hence selling off or redeeming their investments. This lack of receipts of dividends by shareholders was seen in some privatized institutions, like a number of banks, which became distressed along the line due to mismanagement of shareholder's funds. We expect that the SMEs' values would bring about improvement on the growth of the market if the secondary market has developed to the extent of incorporating them extensively into the capital market. However, the global economic meltdown and financial crisis arising from the international capital market that took place from 2008 had not allowed these Nigerian SMEs to develop meaningfully. This situation has been observed by different authors. For example,

Wikipedia, the Free Encyclopedia (2012) noted that the global financial crisis that began in 2008 caused a severe crisis among Nigerian banks, with several forced to close; and that after the Central Bank had audited the banks in 2009, the SEC started legal proceedings at the Investments and Securities Tribunal against about 260 individuals and entities, alleging that they were involved in abuses such as insider dealing and share price manipulation. The commission also instituted various reforms including improving regulations so as to encourage development of the bond market, promoting collective investment schemes and reviewing the 2003 Corporate Governance Code. The unstable and inconsistent values in the capital market data also justify the negative effects of the global financial crisis.

2.2 Empirical Review

Modinat and Edwin (2012) conducted a study on Capital Market and the Development of the Small and Medium Scale Enterprises in Nigeria. This study looked at the need to incorporate the Small and Medium Scale enterprises (SMEs) into the capital market in Nigeria as a means of raising capital for their operations. The findings of the study found that the growth in the transactions of the quoted companies has been fluctuating over the years. The study concludes that relaxation of conditions for listing of the SMEs in the stock exchange market and provision of enabling environment for SMEs to thrive in Nigeria will enhance the growth in the transactions of the capital market. The study therefore recommended that there should be further development of the use of internet, telephone and computer networking to accelerate effective functioning of the over-the counter market, so that all stocks can be traded in the secondary market

and government should provide enabling environment for SMEs to thrive and to stimulate the interest of local investors in investing on the enterprises.

Okoye, Nwisienyi, and Eze (2013) carried out a study on Capital Market and Industrial Sector Development in Nigeria: A Theoretical Analysis. This paper examined whether the growth of the Nigerian capital market has impacted in any significant way to the growth and development of the industrial sector and hence the economic development of the country in general. To achieve this objective; the study examines a number of relationships between the capital market and the industrial sector, such as the proportion of the manufacturing sector in the total market capitalization, or the relationship between the GDP and market capitalization, manufacturing index, New issues, market access to credit, trading values etc to determine the types of influence exerted on the industrial sector by the capital market. The significance of this study is that it will help the policy makers to really know the relationship between capital market and industrial sector. The review of available literature indicates that the capital market is a common feature in any modern economy and is reported to promote the growth and development of the real sector in our case there are indication of positive links between the stock market and industrial sector development but the impact has been severely limited by adverse economic environment such as poor economic infrastructures, bureaucratic bottlenecks corruption and poor corporate governance, regulatory and supervisory frameworks. To improve the situation this paper suggest the following recommendations. Removal of impediments to capital market development such as Improvement of the financial

systems infrastructures and the general economic infrastructures to reduce stress in the system. Sound economic policies to stabilize the economy and improve the savings and investment culture of the people. Further liberalization of access to the capital market by indigenous small scale enterprises.

Adewale, Adeusi, and Ibitoye (2015) examined the impact of informal capital market on the development of small scale industries in Nigeria. This research seeks to establish that the small scale industries could be developed through the informal capital market participation provided it is well supported and managed. Obtained for the purpose of this work were secondary data from randomly selected thirty small scales industries and a cooperative society in Osun state. The data were analyzed through the use of SPSS, and the results obtained were made to gain insight on the whole economy. The study found out that the informal capital market plays an active role in small scale industries development and thereby helps in the development of the economy at large. The study however, concludes that massive awareness programmes and campaigns should be conducted on the relevance of informal capital market to the development of small scale industries in Nigeria. This study recommends that Informal capital market should be given proper recognition and adequate consideration in the nation's financial system. To this effect, government should redesign her regulatory policies to formalize and standardize the operations of the market. However, such regulations should not be framed in a way that will totally cripple or paralyze the market's activities, but effectively enhance its performance for maximum contribution to development.

2.3 Theoretical Framework

2.3.1 Finance Theory

Some studies in entrepreneurship have shown that entrepreneurial ventures contribute to economic growth by creating new jobs. However, because of the risks of these ventures, the institutional capital market could confine the economic development of these entrepreneurial ventures. In such a situation, the availability of informal investors is inevitably needed. Ironically, informal capital markets in some countries are not well developed. Some researchers regard the market inherently imperfect (Mason and Harrison, 1991; Lumme, 1998; Mason, 1998).

Imperfections arise mainly from information inefficiencies between informal investors and entrepreneurs. Both parties, the start-ups and the informal investors, contribute significantly to these inefficiencies. Start-ups are not able to provide perfect information for the informal investors due to their characteristics such as limited operating history, low scale potential or unforeseeable prospects. As newcomers in business, entrepreneurs may not have reputable names to be used as personal collateral. This makes it hard for informal investors to access the track record of entrepreneurs. On the other hand, informal investors, who may prefer to remain anonymous, make information about them unavailable. This situation creates serious problems for entrepreneurs to get to trust the informal investors. Informal investors also face difficulties to find attractive investment proposals. Several studies have shown that many private investors are unproductive, in the sense that there exist a large number of investors that are adequately experienced in identifying prospective business. In many countries, informal investors often feel disappointed as they have a

number of uncommitted funds available for investment but they hardly find suitable investment proposals (Stevenson and Coveney 1994; Osunbrugge and Robison 2000). Therefore, one could argue that the unfortunate situation for entrepreneurial ventures occurs not because of the absence of sufficient funds for the start-ups, but because of the difficulties faced by the investors and start-ups to tie each other's interests.

In addition to the problem of anonymity mentioned above, the difficulties to identify and to search for informal investors are contributed by the fact that there are no directories of informal investors (Gaston, 1989; Steel, 2005; Carree, 2005). The government also finds it difficult to obtain the precise record of informal investors' investment transactions and therefore they cannot build a directory of informal investors. Match-making agents have made parts of the directory available. The directory cannot be accessed freely and easily though, since informal investors came from a diverse and dispersed population of affluent people, it makes it difficult for start-ups to identify the investors. Some information about opportunities for investment in new or small companies are definitely available through informal communication channels. This makes the market fragmented. In this case, informal market relies on some sort of "primitive" informal networks of trusted friends and business associates to levy their search process. The use of such informal networks eventually leads to the proliferation of highly invisible networks (Equinox Management Consultant, 2000). Parties that provide information in the search process are: business brokers, commercial bankers, attorneys, accountants and investment bankers. However, some investors feel dissatisfied with this kind of information channel. As a consequence, we can find the existence of "virgin angels", namely

potential investors who have not invested their money yet. The underdeveloped informal capital market may be caused by the fact that the affluent people are hesitant to expose their wealth. This may cause specific weak ties of the informal investors' networks. As personal network plays a very important role in informal capital market, the weak ties of informal investors can lead to a specifically under-developed informal capital market (Osnabrugge and Robinson, 2000).

Furthermore, due to the asymmetric information, start-ups and informal investors are subjects to serious moral hazard problems. This can be seen from the following situation. Once entrepreneurs have raised funds from informal investors, they could have an incentive to misallocate these funds by spending on activities that benefit themselves disproportionately. For example, entrepreneurs might choose to invest their fund in research activities that bring fame and status for the scientists, yet result in little return for investors. Therefore to ensure that entrepreneurs do not behave undesirably and opportunistically for the sake of their own interest, informal investors may demand entrepreneurs to bear a part of the risk. In practice, informal investors demand the participation of entrepreneurs in the capital structure.

Furthermore, a mismatch of investment preferences also contributes to the inefficiencies of the informal capital markets (Mason and Rogers, 1996). This problem is also concerned of the unavailability of information about informal investors' investment preferences. Informal investors often keep their preferences private and personal (Gaston 1989; Steel and Carree, 2005). As a result, entrepreneurs are less informed about the investment preferences of informal investors. This situation will generate problems for the entrepreneurs to match their proposals with

the actual demand of informal investors. On the other hand, informal investors also have limited information about entrepreneurs' preferences for such investment. The mismatch could impose high search cost on both parties. In some areas, however, due to the difficulty to meet the investors' preferences to investments (interests), entrepreneurs could reject the opportunity (money) offered by the investors (Mason and Harrison, 1996). If this is the case, there is a need to better inform parties, entrepreneurs and informal investors about how to effectively negotiates such proposals to reach mutually satisfactory outcomes and to inform both parties about their preference and expectations.

2.3.2 Agency Theory

Before we analyze further the market of informal investors and entrepreneurs from the perspective of agency theory, we first describe the entrepreneurial activity. According to Knight, the entrepreneur is the organizer of uncertainty. This means that uncertainty is embedded within entrepreneurship (Knight, 1921). As an organizer of uncertainty, the entrepreneur possesses the ability to creatively reorganize the relationship between factors of production and market opportunities in such a way that create value that otherwise would not have been generated.

In the classical view of entrepreneurship, it is assumed that entrepreneurs will firstly notice opportunities, and then they will act and create new hierarchies to organise transactions. If the entrepreneur, as an explorer of opportunities, becomes the firm's manager or if the management function becomes separated from the entrepreneurial function, agency problems arise. The change of the role possibly takes place when informal investors enter the firm.

Let us now examine some agency problems that usually occur in the relationship between informal investors and entrepreneurs. To be parallel with the agency theory, it should be noted from the outset that we use the term principals to refer to the informal investors and the term agents to the entrepreneurs.

In the investors-entrepreneurs relationships, the entrepreneurs, as the agents, work for the investors' money, while the investors, as the principals, cannot closely monitor how efficient the entrepreneurs are allocating and using their money. When entrepreneurs successfully reach the investor's goal, they receive a normal salary and they may get fired by the investors if they fail to reach the goal. Thereby entrepreneurs may conceal or manipulate the information about actual situation. Alternatively, if entrepreneurs do not manipulate information, they will take low-risk actions, which result in lower outcomes, in order to keep them secured. Certainly, this behaviour contradicts with the interest of investors, i.e. the maximization of their wealth.

If we review the reward structure of entrepreneurs explained above, we better understand why some entrepreneurs have little incentive to take entrepreneurial actions. When entrepreneurs are engaged in the firm and they have special skills valued less elsewhere, entrepreneurs will take actions that will enable them to stay in the firm. Over and over again, entrepreneurs may prefer taking low-risk projects resulting in lower profits for investors. The illustrated agency problem gives rise to a misalignment of the interests of principals (investors) and agents (entrepreneurs) and result in the decrease of firm's entrepreneurial ability.

Thus from the perspective of agency theory, the core issue is to align the interests of entrepreneurs and investors. The alignment can be done by arranging the ownership structure. For this reason, informal investors could plausibly demand the participation of entrepreneurs in the capital structure. Many entrepreneurs would actually demand this as a core condition. A survey held by GEM in 2004 found that informal investors provide 66% of their start-up capital while the remaining is provided by the entrepreneurs themselves. This survey implies the participation of entrepreneurs in the capital structure. Due to limited information about start-ups, in terms of start-ups' operational performance and integrity, investors will find it difficult to predict the performance of the firm. As suggested, a control mechanism is required. The control mechanism can be translated into a contractual agreement. The deal negotiation can also help to minimize the agency problems that possibly arise later.

2.3.3 The Theory of Financing Choices

In general, three categories of financing are available to all businesses: internal equity, external equity and debt. For large firms that are listed on major stock exchanges an ordering of financing preferences known as the "pecking order theory" has been argued on theoretical grounds by (1984) and Myers and Maljuf (1984). According to this theory, firms prefer internal sources of finance (i.e. internal equity) to external sources. In resorting to external sources, firms prefer debt to external equity. The order of the preference is from the one which is least sensitive (and least risky) to the one which is most sensitive (and most risky) to asymmetric information between corporate insiders and less well-informed market participants.

For smaller firms, entrepreneurs' initial sources of capital are typically raised from personal sources (savings, mortgages, retirement funds, life insurance, friends, family). Beyond these sources, debt is the most common source of external finance used by small and medium scale enterprises (Binks, Ennew & Reed, 1992) and is particularly important to Canadian firms (Petersen and Shulman, 1988). While this ordering of preferences is the same as that predicted by the 'pecking order theory, it reflects owners' tradeoffs between control and growth. The Canadian Bankers Association (1998) finds that 85 percent of business owners would eschew growth if it compromised control.

2.3.4 Mobilization of Savings Theory

Financial markets and institutions function to mobilize savings for investments. Without access to capital, many production processes would be constrained to economically inefficient scales. Furthermore, through the mobilization of capital, financial markets and institutions create small denomination instruments that provide opportunities for households to hold diversified portfolios, invest in firms, and increase their asset liquidity. Sirri and Tufano (1995) suggest that, without pooling, households would have to buy and sell entire firms. Hence, by mobilizing financial capital, households are able to enhance their risk diversification and liquidity, and promote the productive sector of the economy through the efficient allocation of resources.

Mobilization of savings is very costly. There is transaction costs associated with collecting savings from different individuals, and informational asymmetries have to be overcome so that economic agents are comfortable parting with their savings. As

pointed out in Carosso (1970), in the mid-1880s, some American investment banks used their European connections to raise capital abroad for investment in the United States. Other investment banks used the ties with major banks and industrialists in the United States to mobilize capital, while others placed advertisements in newspapers, used pamphlets and travelled from state to state, selling securities to individual households. Carosso's example shows that the mobilization of resources entails a range of transaction costs, including the non-monetary cost of assuring savers of the soundness of their investments. De Long (1991) points out that, in addition to other transaction costs, financial institutions have to spend resources to establish stellar reputations so that savers feel comfortable about entrusting their savings to them.

Financial markets and institutions also mitigate the high transaction and information costs associated with the mobilization of financial capital from savers. Mobilization involves multiple bilateral financial contracts or arrangements between productive capital-raising units and savers. To minimize the transaction and information costs, financial institutions pool the multiple bilateral contracts together, ensuring that investors entrust them with their wealth to invest in hundreds of firms. Financial systems that are more effective at pooling the savings of households affect economic development, since better savings mobilization improves resource allocation and consequently boosts technological innovation. Thus, by effectively mobilizing resources for projects, financial markets and institutions play a crucial role in promoting the use of better technologies, thereby encouraging growth.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The study will adopt survey research design, because it is designed to determine the nature of a situation (The Capital Market in financing of small and medium scale enterprises)

3.2 Population, Sample and Sampling Techniques

This study focuses on SMEs that have existed up to 10 years and are been financed by capital markets from time to time. The total numbers of SMEs in this category are forty-five (45), which will serve as the population in which forty (40) out of the forty-five (45) SMEs in Keffi Local Government, Nasarawa State were examined using the Yaro Yamani formular:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = Total population of the study

1 = Constant

e = Margin Error (5%)

$$\begin{aligned} n &= \frac{N}{1 + N(e)^2} \\ n &= \frac{45}{1 + 45(0.05)^2} \\ &= \frac{45}{1 + 45(0.0025)} \end{aligned}$$

$$= \frac{45}{1 + 0.1125}$$

$$= \frac{45}{1.1125}$$

n = 40 sample size

The study will use simple random sampling method to determine the SMEs that have been financed by the capital market.

3.3 Method of Data Collection

More specifically, this research work is a sample survey as only a sample of the population is studied. For this study, data will be obtained mainly from Primary Sources (Questionnaire) which will be used to gather information from respondents and the information will be used for analysis.

The respondent will be required to mark among the options: Yes and No where applicable. Forty questionnaires would be administered to respondents.

3.4 Techniques for Data Analysis and Model Specification

This type of method used is questionnaire to obtain information from the respondents and it consists of items on the hypothesis. The respondent will be required to mark among the options: Yes and No where applicable. Forty questionnaires would be administered to respondents.

The data analyzed, which is employed for the purpose of this study, is chi-square statistics, which compares an actual or observed distribution with an expected distribution.

The Chi-square test is the idea test of significance to use when the sample size is more than 30. The formula for calculating chi-square distribution is given by:

$$X^2 = \frac{(F_o - F_e)^2}{F_e}$$

Where,

F_o = Observed frequency in a given cell

F_e = Frequency expected

X^2 = Chi- square

However, the (F_e) expected frequency of each cell is calculated as;

$$F_e = \frac{\text{Row Total X Column Total}}{\text{Grand Total}}$$

Degree Of Freedom

This is defined as number of scores that are subject to variation. It can be denoted as $n-1$ in the chi-square formula and it is calculated as:

$$DF = (r - 1) (c - 1)$$

Where,

DF – Degree of freedom

R – Number of rows

C – Number of columns

Decision Rule

The rule states: If the calculated value of chi-square (X^2) is less than the table value of chi-square, the null hypothesis (H_o) would be accepted, otherwise, it would be rejected and the alternative hypothesis (H_i) is to be accepted. The application of this

rule in testing hypothesis as well as the analysis of data gathered is presented in chapter four of this research work.

3.5 Justification of Methods

The primary data collection instrument for this study is questionnaire and for it to be useful, the data it produces must be trustworthy and ensuring that the resulting data must reflect the truth; it has to be validated. For the purpose of validating the questionnaire, internal and Linguistic validity will be used.

Internal validation: This is the degree, to which questions within a questionnaire agree with each other. This will be done by asking two or more questions which have the same meaning so as to find out if the respondent will respond to the questions in a similar way. It also affects the likelihood of producing false positives and false negatives.

Linguistic validity: whether the wording of the questionnaire is understood in the same way by everyone who completes it. This will be done by constructing the questions asked in the questionnaire in simple sentences so it will increase the capability of the respondents to understand the question asked and be able to answer them in the proper way.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

This chapter is concerned with the presentation and analysis of data. This would enable the researcher test relevant hypothesis and answer the research questions as stated in chapter one.

In the course of this research, the research administered forty (40) questionnaires, thirty (30) were returned. However, thirty (30) were properly attended to.

This method is an important extension of hypothesis testing and it will enable the following to be formed and its validity verified.

Table1: Sex of the respondents

Sex	Respondents	Percentage %
Male	15	50
Female	15	50
Total	30	100

Source: Field Survey, 2019

From table 50% of the respondents were male while the remaining 50% were female.

Table 2: Age of the respondents

Age	Respondents	Percentage %
30- 35yrs	7	23.33
40-45yrs	8	26.67
50 -55 yrs	7	23.33
60 yrs and above	8	26.67
Total	30	100

Source: Field Survey, 2019

The above table shows that no respondents were between the ages of 25-30 years, while 7 of the respondents were between the ages 30-35 years. However, ages 40-45 years and age 50-55 years have the highest respondents with 26.67% while 60 years and above represent 26.67%.

Table 3: Marital Status of Respondents

Marital Status	Respondents	Percentage %
Single	8	26.66
Married	10	33.33
Divorced	2	6.66
Widow/widower	10	33.33
Total	30	100

Source: Field Survey, 2019

Table 3 shows that 8 respondents representing 26.66% were single. 10 respondents representing 33.33% were married, 6.66% were divorced while the remaining 33.33% were widow or widower.

Table 4: Occupation

Occupation	Respondents	Percentage %
Banker	10	33.33
Civil Service	2	6.66
Self-Employed	8	26.66
Others	10	33.33
Total	30	100

Source: Field Survey, 2019

Table 4 shows that most of the respondents were bankers representing 33.33% of the population. Self-employed consist of 6.66% of the population while the civil servant respondents were 26.66% and 10 other respondents were 33.33%.

Table 5: Educational Qualification

Educational Qual.	Respondents	Percentage %
NCE/OND	2	6.66
B.Sc/HND	14	46.67
M.Sc/Professional	14	46.67
Total	30	100

Source: Field Survey, 2019

Table 5 shows that most of the respondents had NCE/OND representing 6.66% of the population. 46.67% of the respondents had BSc/HND, also 46.67% of respondents were M.Sc. or professional certificates.

Table 6: Do you know anything about the Nigerian Capital Market?

S/No.		No. of Respondents	%
1	Yes	30	100
2	No	-	-
	Total	30	100

Source: Field Survey, 2019

Show the responses to their knowledge of the activities of the Capital Market. It is observed that all the 30(100) respondents have knowledge of the activities of the Capital market with while no respondent attempt the No Colum.

Table 7: How much do you know about the Primary function of the Nigerian Capital Market?

S/No.		No. of Respondents	%
1	Very much	8	26.67
2	Much	15	50
3.	Not much	7	23.33
4	Indifferent	-	-
	Total	30	100

Source: Field Survey, 2019

This table describes the extent of knowledge about the primary function of the Capital Market. It is observed that 8(26.67%) known very much, 15(50%) know much and 7(23.33%) know not much about primary function of the exchange.

Table 8: Considering the fact that investment in Small and medium scale enterprises are influenced by the market value of a company’s share i.e. in Capital market.

S/No.		No. of Respondents	%
1	Very necessary	8	26.67
2	Necessary	15	50
3.	Not necessary	7	23.33
4	Indifferent	-	-
	Total	30	100

Source: Field Survey, 2019

Shows the responses of the sample survey 8(26.67%) of the respondents agree that it is very necessary, 15(50%) say it is necessary and 7(23.33%) say it is not necessary. It conclusive therefore that pricing securities is necessary.

Table 9: How Efficiency is the Small and medium scale enterprises in the Capital Market priced?

S/No.		No. of Respondents	%
1	Yes	30	100
2	No	-	-
	Total	30	100

Source: Field Survey, 2019

It illustrates how the responds to this particular research question. Since all respondents are in agreement to this particular research question by responding in the positively, it can be concluded that an efficient capital market has to allocate a greater proportion of price to companies with higher prospective rate of return.

Table 10: What is the capital market motivating strength which leads people into the small and medium scale enterprises?

S/No.		No. of Respondents	%
1	The desire to make money	15	50
2	The urge to improve its performance	8	26.67
3.	The provision for liquidity	7	23.33
4	Others	-	-
	Total	30	100

Source: Field Survey, 2019

Shows the responses as follows, 15(50%) agree that it is the drive to make money, 8(26.67%) say it is to improve its (the capital market's) Performance, while 7(23.33%) insists that in the provision for liquidity, it can be concluded that the desire to improve one's wealth is what drives people into investment market.

Table 11: Does the Small and Medium Scale Enterprises raise by Nigeria Capital market?

S/No.		No. of Respondents	%
1	Yes	14	40
2	No	16	60
	Total	30	100

Source: Field Survey, 2019

Shows the responses to this particular research question as 14(40%) of the respondents believe most of the money raised by companies listed by companies are got from internal sources while 16(60%) say that the bulk of finance is raised through the Capital market.

Table 12: Does Stock Exchange methods used in the Nigerian Capital Market in relation to other methods available?

S/No.		No. of Respondents	%
1	Yes	30	100
2	No	-	-
	Total	30	100

Source: Field Survey, 2019

Shows the responses of the thirty (30) respondents. All the ten respondents used the method of the capital market in relation to other methods available.

Table 13: What is the Trend of Capital market?

S/No.		No. of Respondents	%
1	Stable	18	80
2	Unstable	12	20
3.	Low	-	-
	Total	30	100

Source: Field Survey, 2019

The table above shows that the trend of capital market from the responses available were 18(80%) of the opinion that it is stable, 12(20%) were of the opinion that it is unstable, while nobody was of the opinion that is a bit low. Therefore, it can be concluding that presently in the Capital market the trend is stable.

Table 14: Is the trading in securities on the Stock Exchange improving or deteriorating?

S/No.		No. of Respondents	%
1	Improving	14	46.67
2	Deteriorating	14	46.67
3.	Indifferent	2	6.66
4	Others	-	-
	Total	30	100

Source: Field Survey, 2019

Shows that 14(46.67%) of the respondents believe that securities trading in the stock exchange is improving, 14(46.67%) felt it is deteriorating, while 2(6.6%) are indifferent. There isn't sufficient basis to come to a conclusion in this instance.

Table 15: Is the number of listed Small and medium scale enterprises on the stock increasing?

S/No.		No. of Respondents	%
1	Yes	30	100
2	No	-	-
	Total	30	100

Source: Field Survey, 2019

It can be concluded that the number of listed companies on the stock exchange is indeed increasing because all the respondents agree with this in the affirmative, but the increase is very minimal.

Table 16: Is investing on small and medium scale enterprises adequately aware of the nutrition of the Nigerian capital market?

S/No.		No. of Respondents	%
1	Aware	18	80
2	Not aware	12	20
	Total	30	100

Source: Field Survey, 2019

The table above shows that 18(80%) of the respondents say that investing small and medium scale enterprises are adequately aware of the nutrition of Nigeria Capital Market while 12(20%) say they were not aware.

Table 17: Is there need for some information to be kept away from stock market operators?

S/No.		No. of Respondents	%
1	Yes	30	100
2	No	-	-
	Total	30	100

Source: Field Survey, 2019

It shows that the responses on whether there is need to keep some information away from stock market operators. It is observed that all the ten (30) respondents support this action.

Table 18: Are the listing requirements for the quotation on the stock exchange stringent?

S/No.		No. of Respondents	%
1	Very stringent	17	70
2	Fairly stringent	13	30
3.	Stringent	-	-
4	Not stringent	-	-
	Total	30	100

Source: Field Survey, 2019

It shows that the responses as follows, 17(70%) of the respondents agree that listing requirements are very stringent, while 13(30%) agree that the listing requirements are fairly stringent. It can therefore be concluded that the listing requirements are indeed stringent.

4.2 Data Analysis and Results

Hypotheses are ideas, beliefs or assumptions, put forward by anyone for the purpose of helping and guiding him in arriving at a reasonable conclusion. As stated in chapter 1, this chapter consists of two hypotheses which two will be tested one after the other using the questionnaires and chi-square test.

No of Respondent	FO	FE	FO – FE	(FO – FE) ²	$\frac{(FO - FE)^2}{FE}$
Yes	30	5	25	625	125
No	0	5	-5	25	5
					X² = 130

Source: Field Survey, 2019

To test the expected frequencies, the formula shown below is used:

$$E = n/r$$

Where n = no of respondents

r = no of responses

Therefore, for the above the expected frequency is = $\frac{10}{2} = 5$

While to find the degree of freedom in a two table as applied in this study, the formula is:

$$DF = (C-1) (R-1)$$

Where df = degree of freedom

C = no. of columns

R = no. of rows.

$$\text{Therefore, } df = (2 - 1) (2 - 1) = 1$$

The critical value 1 df at 5% level significance from the chi-square table

$$X^2 = 3.841$$

S/No.		No. of Respondents	%
1	Stable	18	80
2	Unstable	12	20
3.	Low	-	-
	Total	30	100

Source: Field Survey, 2019

No of Responce	FO	FE	FO – FE	(FO – FE)2	<u>(FO – FE)2</u> E
Stable	18	3.3	14.7	216.09	65.48
Unstable	12	3.3	8.7	75.69	22.94
Low	0	3.3	-3.3	10.89	3.3
					X² = 91.72

Source: Field Survey, 2019

The expected frequency $\frac{10}{3} = 3.3$

The degree of freedom = (C-1) (R-1)

$$(2-1) (3-1)$$

$$= 2$$

The critical value of 2 df at 5% level of significance from the chi-square table $X^2 = 5.991$

Therefore, there is significant relationship between Capital Market and the development of small and medium scale enterprises, there is significant relationship between the method of small and medium scale enterprises used and the Nigeria Capital Market, Shareholders placing reliance on small and medium scale enterprises has significant effect on the Capital Market and role of the capital market has significant effect on the growth and development of the small and medium scale enterprises.

4.3 Discussion of Findings

Where the computed value of x^2 is lesser than the table value of x^2 , we reject the null hypothesis; otherwise the alternative hypothesis is accepted. Since from the above computations, the various calculated value of x^2 are greater than the table value of 3.841 and 5.991 It shows in each case a significant difference between the expected frequencies and the observed frequencies.

So we reject the null hypothesis that there is no significant relationship between Capital Market and the development of small and medium scale enterprises, there is

no significant relationship between the method of small and medium scale enterprises used and the Nigeria Capital Market, Shareholders placing reliance on small and medium scale enterprises has not significant effect on the Capital Market and role of the capital market has no significant effect on the growth and development of the small and medium scale enterprises.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study has been undertaken with the objective of justifying Nigerian Capital Market in financing small and medium scale enterprises in Nigeria. It has shown the growth of the small and medium scale enterprises over the years. And since its inception has been very slow compared to other stock exchanges established at the same time along with it, in other nations.

A narrow defined Capital market today fulfilled the following roles in financing small scale and medium enterprises in Nigeria economy.

- i. It provides an important source for mobilizing idle savings from the economy. It also mobilizes fund from people for forth investment in the productive channels of an economy. In that sense, it activates the ideal monetary recourses and put them in proper investment.
- ii. It helps in capital formation of any business. It is not addition to the existing stock of capital on the capital in the economy. Through mobilization of ideal resources, it generates savings, the mobilized savings are made available to various segment such as manufacturing, agriculture, industries etc. This helps in increasing capital formation.
- iii. It raises resources for longer period of time. Thus, it provides an investment avenue for people who wish to invest resources for a long period of time. It provides suitable interest rate return also to investors. Instruments such as

bonds, equities, units of mutual funds, insurance policies etc. definitely provide diverse investment avenue for the public

- iv. It enhances production and productivity in the national economy. As it makes funds available for long period of time, the financial requirement of business houses is met by the capital market. It helps in research and development. This helps in, increasing production and productivity in economy by generating employment and development of infrastructure.
- v. It helps in fund mobilization but it also helps in proper allocation of these resources. It has a regulation over the sources so that it can direct funds in a quality manner.
- vi. It provides various types of services. It includes long-term and medium loan to industry, underwriting services, consultancy service, export finance, etc. these services help the manufacturing sector, in a large spectrum
- vii. It provides fund available on continuous basis, both buyers and sellers can easily buy and sell securities as they are continuously available. Basically, capital market transactions are related to the stock exchange. Thus market ability in the capital market becomes easy.

5.2 Conclusion

The capital market is the principal sources of long term financing in Nigeria. In the light of this, it must be efficient in all aspect to contribute greatly to the economic development of the country. Therefore, we can say based on the level of financing small and medium scale enterprises in Nigeria, that the capital market is but marginally efficient.

Empirical evidence available from the study has shown that Nigerian Capital Market has been efficient to a large extent. However, the capital market has not been operationally efficient due to the small number of companies listed on the Nigerian Stock Exchange.

Therefore, regulators policy makers of the Nigerian Capital Market should work towards balancing these two dimensions of efficiency pricing and operational. This would make the Nigerian Capital Market a leading market among other capital markets of comparable age.

5.3 Recommendations

Amongst such policy measures to be taken by the government to encourage public participation and enhance the growth of the capital market are:

- i. To encourage proper pricing of stock and operations of the capital market, the government should seek to strengthen the soundness of the capital market by improving, auditing and reporting of financial data of corporation so as to encourage the emergence of credit rating agencies to make it possible for corporate bonds to be placed without financial institution guarantees. This measure would also facilities the emergence of over the counter stock market to help smaller corporate bodies gain access to capital.
- ii. Dividends should be excluded from withholding tax except for large stockholders and interest from corporate bonds should be tax free. If these are adhered to the number of individuals investing in stock would increase, significantly and discussion of stock investment would become frequent topic of conversation among all.

- iii. Adoption of various measures to encourage competition in the domestic capital market.
 - a. Denationalization of major commercial banks
 - b. Loosening of government controls on interest rates allocation of credit.
- iv. Adoption of various measures to encourage competition in the domestic capital market
- v. The Nigeria small and medium scale industrialist should be enlightened against the belief that they might lose their controlling interest upon public.

5.4 Limitations of the Study

This study is intended to educate every reader of this piece that there is no smoke without fire, but in trying to check these problems, other fundamental problems showed, hindering the successful completion of this project work

Time: Time allocated for this research work by the authority, of the institution was very short regardless of the difficulties in data collection.

Resources: The cost of materials and transport for the data collection has also not been favourable. The researcher had to make do with the meager resources available to him.

However, this limitation did not invalidate the quality of this research.

5.5 Suggestion for Further Studies

Given that this research work is generally about role of capital market in financing small and medium scale enterprises, we suggest that more research be done on the development of small and medium scale enterprises through transparency and accountability of NSE, which I believe will guide against Domestic trade and preferential treatment and many prevent the development of small and medium scale enterprises in Nigeria's economy.

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APPENDIX

School of Postgraduate Studies,
Faculty of Administration,
Department of Business
Administration,
Nasarawa State University,
Keffi,
Nasarawa State.
10th October, 2019

Dear respondent,

I am a student of the above mentioned institution am carrying out a research on the role of Capital Markets in Financing Small and Medium Scale Enterprises in Nigeria.

You are therefore implored to complete this questionnaire by ticking in the appropriate box in order to provide the necessary information to achieve the objective of this project. Be assured that this required information is purely for academic purposes and your anonymity is guaranteed. Your honest answers are will be deeply appreciated.

Yours faithfully,

Titilola Olusola Joseph
NSU/MBA/FIN/0075/16/17

QUESTIONNAIRE

Section A: Socio-demographic information

- 1) Sex: Male () Female ()
- 2) Age: 30-35 years () 40-45 years () 50-55 years () 60 years and above ()
- 3) Marital status: Single () Married () Divorced () Widow/widower ()
- 4) Occupation: Banker () Civil Service () Self-Employed () Others ()
- 5) Educational qualification: NCE/OND () B.Sc/HND () M.Sc/ Professional ()

Section B

- 6) Do you know anything about the Nigerian Capital Market?
Yes () No ()
- 7) How much do you know about the Primary function of the Nigerian Capital Market?
Very Much () Much () Not Much () Indifferent ()
- 8) Considering the fact that investment in Small and Medium Scale Enterprises are influenced by the market value of a company's share i.e. in Capital market
Very Necessary () Necessary () Not necessary () Indifferent ()
- 9) How Efficiency is the Small and medium scale enterprises in the Capital Market priced?
Yes () No ()
- 10) What is the capital market motivating strength which leads people into the small scale business?

The desire to make money () The urge to improve its performance () The provision for liquidity () Others ()

- 11) Does the Small and medium scale enterprises raise by Nigeria Capital market?
Yes () No ()
- 12) Does Stock Exchange methods used in the Nigerian Capital Market in relation to other methods available?
Yes () No ()
- 13) What is the Trend of Capital market?
Stable () Unstable () Low ()
- 14) Is the trading in securities on the Stock Exchange improving or deteriorating?
Improving () Deteriorating () Indifferent () Others ()
- 15) Is the number of listed Small and medium scale enterprises on the stock increasing?
Yes () No ()
- 16) Is investing on small and medium scale enterprises adequately aware of the nutrition of the Nigerian capital market?
Aware () Not Aware ()
- 17) Is there need for some information to be kept away from stock market operators?
Yes () No ()
- 18) Are the listing requirements for the quotation on the stock exchange stringent?
Very stringent () Fairly stringent () Stringent () Not stringent ()