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EXPLORING ALTERNATIVE FINANCING FOR ENTREPRENEURSHIP DEVELOPMENT IN NIGERIA: SURMOUNTING CHALLENGES

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ABSTRACT

The significance of Entrepreneurship development can be appreciated from the perspective of the promotion of growth, innovation and prosperity of economies. An effective financial system is one that can provide incentives in form of financial resources to a broad range of enterprises in diverse circumstances and channel financial wealth from different sources to business investments. However, availability, accessibility and sufficiency of appropriate financial capital to achieve growth and expansion of entrepreneurial endeavour has been the major constraint on entrepreneurs in contributing adequately to economic growth as well as achieving entrepreneurship development more importantly in developing economies. This review examined targeted government assistance towards entrepreneurial financing as well as the extent to which entrepreneurs are utilising alternative financing avenues to meet their financing needs in Nigeria. The study revealed that the adoption of alternative channels of funding is gradually gaining ground in Nigeria aside the use of traditional lending instruments. This is in addition to government support that focuses on establishing diverse schemes and various specialized financial institutions to deliver appropriate funding to the SMEs subsector. It is imperative to have a purposeful and focused government policy initiatives aimed at instituting cost effective financing framework and awareness targeted towards ameliorating the financing needs of entrepreneurs.

Keywords: Entrepreneurial Financing, Entrepreneurs, Entrepreneurship Development.

INTRODUCTION

The role of finance cannot be over-emphasised in the development of entrepreneurship and Micro, Small and Medium Scale Enterprises (MSMEs). The environments in which entrepreneurial activities are propagated contribute significantly to the development of private sector. Consequently, conditions that are favourable constitute the bedrock for the survival, growth and competitiveness of entrepreneurship development (UNESCAP, 2012). Availability and access to adequate and sustainable finance therefore is critical for entrepreneurs and small and medium enterprises (SMEs) in view of the fact that the life cycle of businesses require varied needs for cash, taken cognisance of the start-up, growth and transition stages of development. The increasing emphasis on the significance of entrepreneurship as a decisive factor for national development has dovetailed into the search through a wide range of schemes targeted at hastening the tempo of new business activities in the organized private sector (Okpala, 2012). To build and sustain SMEs, the entrepreneur needs to access diverse form of resources such as financial capital, human capital and physical capital with each playing significant but different roles during the life cycle of a new business (Fatoki, 2014).

Gaining sufficient access to capital is one of the crucial hurdles to overcome in starting and growing a new business. Hitherto, in view of the important role played by entrepreneurship development in the process of creative destruction and hence economic growth, it is therefore not surprising that drives to alleviate financing constraints encountered by would-be entrepreneurs form a significant goal for policy makers across the world. Consequently, promotion of financial assistance is paramount on the agenda of European Union and Organisation for Economic Co-operation and Development (OECD) where member states are implored to promote the availability of risk capital financing for entrepreneurs (OECD, 2015). According to Pandey (2005), start-up capital (for new entrants) and working capital (for existing ones) constitute one of the major limitations of entrepreneurship since they can neither penetrate the capital market nor meet the requirements imposed by commercial banks for funding. In effect, access to finance has been aggravated by the financial and economic crisis, as entrepreneurs and SMEs have borne the dual shock of a dramatic reduction in demand for goods and services and a stiffening of credit terms, both of which are strictly affecting their cash flows (Corno, Lal & Colombo, 2013). The performance of entrepreneurial ventures in Nigeria have failed to produce the desired and expected impact on the growth and development of the economy and this is attributed to the array of challenges confronting SMEs among which is finance (Ogbo & Nwachukwu, 2012).

Lack of access to credit is one of the critical challenges confronting Nigerian entrepreneurs because they are constrained by dearth of collateral, non-existing past track records for business appraisal, occasional lack of cognate experience (Somoye, 2013). The incapability of innovative entrepreneurs to convince financial intermediaries to invest in risky projects which is perceived to have the tendency to offer low returns also constitute a major hurdle for entrepreneurship development. Though bank lending is the commonest source of external finance for many entrepreneurs and SMEs, with heavy dependence on traditional debt to satisfy their start-up, investment needs and cash flow, traditional bank finance often pose challenges to newer, innovative and fast growing SMEs that possess higher risk-return profile (OECD, 2015). As much as asset-based finance has a wide-spread usage in entrepreneurial and SME financing terrain, little seems to be known about the extent of deployment and success of alternative forms of financing for entrepreneurship development in Nigeria.

The long-standing desire by entrepreneurs and SMEs to boost their capital structure and to reduce dependence on borrowing from financial intermediaries, which often times is laden with stringent conditions, has made it expedient to explore alternative financing and innovative channels with a view to surviving the prevailing economic and financial predicament. It is necessary to widen the range of financing instruments available to entrepreneurs and SMEs, in order to enable them to continue to play their role in investment, growth, innovation and employment creation. Therefore, the major objective of the study is to explore the entrepreneurial financing challenges from the perspective of financing provision sources and examine feasibility and applicability of the innovative and conventional financing options, which are of great impact for the SMEs firm performance and improvement of Nigeria economy. The study also seek to explore ways by which Nigerian government have been supporting entrepreneurial financing and the extent of deployment and success of alternative financing strategies.

REVIEW OF LITERATURE

Entrepreneur and Entrepreneurship

According to Gartner (1988) an entrepreneur is a person, working within an existing organization or independently, recognises a business opportunity within a given market and establishes an enterprise or subsidiary to seize the opportunity. The entrepreneur shoulders the risks involved in chasing the opportunity and also assumes credit for the reward that may ensue from taking such risk. Ofili (2014) stressed that entrepreneurs cannot work independently, but rather require the appropriate environment to thrive vis-à-vis the financial system, the judicial process and government policies that inspire and foster entrepreneurship. Entrepreneur is also perceived as being an individual with innovative disposition vis-à-vis new product introduction, identification of new market or sub-market, new organisational arrangement or new process development (Hashi & Krasniqi, 2011).

The term "Entrepreneurship'' has extensive definition in the literature. Generally, different perspectives about its definition incorporates common teams such as creation of employment, creation of innovation, creation of enterprise as well as creation of growth amongst others (Kraus, Rigtering, Hughes & Hosman, 2012). Hussain, Bhuiyan and Bakar (2014) conceive entrepreneurship to encompass the recognition of new business opportunities and the deployment of economic resources to initiate a new business or regenerate an existing business, under the conditions of risks and uncertainties, for the purpose of making profits.

Entrepreneurship Development

Tubey, Nandwa, Omboto and Situma (2015) conceived entrepreneurship development as the practise of improving entrepreneurial skills and knowledge via organised training and institution-building programmes. Also Osemeke (2012) defined entrepreneurship development as the 'programme of activities to enhance the knowledge, skill, behaviour and attitudes of individual and groups to assume the role of entrepreneurs'. In his own views, Tende (2014) contend that entrepreneurship development focuses at widening the base of entrepreneurs so as to accelerate the rate at which new ventures are created, as well as paying attention on individuals who intends to commence or expand existing businesses. Thus, entrepreneurship development helps in alleviating poverty when employment opportunities are created through new entrepreneurial venture start-up or the growth of existing ones. This eventually result in boosting social wealth through the emergence of new market, new industries, new institutional form, new technology and increase in income which result in enhanced living standards for the populace

Entrepreneurial Financing

The successful entrepreneurial process encompasses developing opportunities, assembly of necessary assets, financial resources, human capital and managing and building operations with the ultimate objective of value creation. Leach and Melicher (2010) conceptualises entrepreneurial finance as 'the application and adaptation of financial tools, techniques and principles to the planning, funding, operations and valuation of an entrepreneurial venture'. In essence, entrepreneurial finance laid emphasis on the financial management of a venture as it passes through the entrepreneurial process. Access to finance can assist entrepreneurial ventures to start up and expand their businesses through the development of new production processes and new products and investment in human capital.

Pretorius and Shaw (2004) considered access to financing from either internal or external sources and inferred that these constitute the crucial determinant of business start-up, development and performance for entrepreneurial ventures. According to Eniola and Entebang (2015) internal financing involve entrepreneurs getting capital on their own, mainly from savings, retained profits, depreciation and sale of assets, which thus form a crucial part of the survival and entrepreneurship development. They argued that more profitable SMEs deploy external sources of financing like individual investors, financial banks, venture capital and crowd-funding to become successful in their entrepreneurial pursuits. Thus, merchant, commercial banks and development banks respectively constituting formal sources of external financing which can take the form of debt or equity. Klapper, Laeven and Rajan (2006) posited that as the business start to expand, financing from external sources become imminent and their availability decisively determine the growth path of SMEs. Entrepreneurs and SMEs result to external sources of funding such as: Government sponsored programs/grants, business loan from banks, professional investors (venture capitalists, angel investors and corporate investors), the equity market and initial public offering (IPO) to meet their funding needs.

A cursory look at SME financing reveals that funding for the SME sub-sector is derived from micro-finance banks, deposit money banks (DMBs), governments and agencies in the dimension of soft loans and interventions. Ketley, Lightfoot, Jakubec and Little (2012) posited that though Nigeria remains a large and fast growing economy with a relatively competitive banking sector, however credit advancement to the SME sector is extremely small with loan to the sector representing about 5% of the total loan portfolio of deposit money banks despite MSMEs contributing about 48.47 percent to the Gross Domestic Products (GDP) of Nigeria. In the same vein, CBN (2014) estimated that less than 10% micro; small and medium enterprises took loan from DMBs. The report also reveal that only 3% of SME's working capital and 2% of their fixed assets were financed from private funding sources, thus creating a substantial financing gap.

Gbandi and Amisah (2014) observed that traditional debt financing options availed by banks through term loans, overdrafts or the use of credit cards constitute the most common source of external finance for SMEs as they provide moderate returns for the lender. The after effect of global financial crises of 2008-2009 have resulted in more stiffening conditions in bank lending as the financial institutions have become more risk-averse in expanding credit to the SME sector. According to IFC (2010), the crisis not only impacted negatively on SMEs activity in terms of output, employment, exports and sales, but the low profitability arising from it also has adverse effect on SMEs' credit worthiness. OECD (2014) identifies supplier credit as common source of finance for a number of SMEs worldwide. In this circumstance, trade credit allows businesses to delay payment for goods and services purchased, thus helping in effective cash flow management and bridging of short-term working capital requirement.

Constraints to Entrepreneurial Financing

Perception about the risk profile of SMEs premised on the lack of formal financial history and inadequate collateral have been adduced to be responsible for DMBs general averseness to credit delivery to the SME sector (Luper, 2012). This is in addition to the lack of requisite infrastructure and the fragile economic environment which in no small measure aggravated their cost profile, thus worsening their credit competitiveness. There also exists the presence of frictions in the credit market that precluded high-quality entrepreneurs (with good and innovative ideas) from entering the product markets due to their inability to access sufficient capital to initiate a new business.

According to Kerr and Nanda (2009) the metrics of financial market development moderate the ease with which entrepreneurs in dire need of external financial support can access the needed capital in addition to the prize that they pay for the funds. They emphasised three essential mechanisms through which frictions in the capital markets could lead to financing constraints for entrepreneurs as follows:

The depth of the local financial market

The willingness of financial intermediaries to lend to entrepreneurs (and by extension the willingness of keep their funds with intermediaries) is dependent on the security and financial laws in a country. Banks are less likely to extend credit facilities to entrepreneurs where there is less certainty of loan recovery (in the event of start-up failure) as is typical of U.S.A with strong bankruptcy protection for individuals (Berkowitz & White, 2004).

Competition between financial intermediaries

The degree of competition between financial intermediaries is seen to have decisive impact on the terms of credit to start-ups in addition to the extent to which capital is allotted to the highest-quality ventures, more importantly in developing economies where the banking system may be prone to political capture. Greater bank competition is said to have evolved sequel to US banking deregulation (from 1970s through mid-1990s) with increase in the number of bank branches (as opposed to the earlier one bank, one branch restriction). This has led to an improved capital allocative efficiency with inclination towards projects yielding highest returns.

Structure of Financial intermediaries and their relationship with firms

Studies have shown that where there are close ties between financial intermediaries and entrepreneurial firms, there is reduction in information asymmetries and consequently the lowering of financial constraints. Berger, Klapper and Udell (2001) observed that borrowing entrepreneurs with longer banking relationships have less tendency to advance collateral, less likely to depend on expensive trade credit and as well encounter less constraints in their investment decisions when compared to firms with shorter banking relationship. In another development, the work of Stern (2002) suggest that small or more decentralised banks (where branch managers are able to exercise certain level of authority in adjudicating decisions) are more likely to lend to start-ups and small businesses than those in large, hierarchical banks where adjudication decisions are centralised. Terungwa (2011) attributed the reluctance of banks to extend credits to SMEs to the following reasons amongst others: Inadequate collateral by SMEs operators, weak demand for the products of SMEs due to the dwindling purchasing power of Nigerians, lack of patronage of locally produced goods, poor management practices by SMEs operators and undercapitalization.

Ways of Reducing Constraints to Entrepreneurial Financing

In exploring constraints to entrepreneurship development, both financial and non-financial barriers disproportionately affect SMEs although often times, these constraints are correlated. Prominent non-financial components of the business environment that SMEs often rated to be critical obstacles as heavy regulations, lack of electricity, high tax rates, corruption and practices of competitors in the informal sector (World Bank, 2010). These non-financial constraints are also binding on financial institutions which might ultimately undermine SME outreach and access to finance. Ayyagari, Beck and Demirguc-Kunt (2007) observed that the removal of regulatory obstacles more especially in the aspect of property registration could significantly increase SMEs' access to finance as reducing cost of registering properties may lead to an increase in collaterisable assets. In view of the fact that property registration and legal procedures constitute a vital part of financial infrastructure, an improved and efficient courts and legal proceedings is seen as having the capability to reduce enforcement costs for lenders.

Certain attributes of entrepreneurs and SMEs sometimes confine them at a disadvantage situation in comparison with large firms. Chaudhry (2003) opined that lack of business and management skills can amplify financial barriers for SMEs. Chaudhry further emphasized that low degree of financial literacy can deprive SMEs from sufficiently assessing and comprehending different financing options and from manoeuvring complex loan application procedures. Also, the fact that SMEs' accounting and financial statements are most times not transparent makes them risky borrowers and thus less attractive to lenders. According to International Finance Corporation (IFC, 2010), persistent inadequacies in the enabling environment (including both financial infrastructure and general legal and regulatory framework for financial instruments and institutions) assist in explaining the limited access of entrepreneurs and SMEs to finance. De la Torre, Peria and Schmukler (2010) suggested the institution of financial regulation typified by the case of maximum interest rate. They opined that effective legal and regulatory frameworks foster entrepreneurs' access to finance while at the same time preserving financial stability.

Financial infrastructure development has also been identified as contributing to the improvement of financial access by SMEs as this reduces the phenomenon of information asymmetry, opacity and legal uncertainties that aggravate risk to lenders, thus constraining supply of finance (World Bank, 2009). Consequently, entrenching strong accounting and auditing standards have the tendency of improving access to finance because as it enhances informational transparency, it encourages lending on the strength of financial statements (IASB, 2009). The development of credit bureaus and registries improves access to finance in view of severe challenges of information asymmetry and opacity. According to Djankov, McLiesh and Shleifer (2007) lower financing constraint is observed in countries where financial information can be accessed through credit bureaus, thus reducing cost of finance with resultant increased use of external finance. It has also been established that an effective collateral regime act as support to SME finance by lowering the risks and losses arising from lenders' exposure to entrepreneurs and SMEs (Berger & Udell, 2006). The authors further stressed that collateral system that is well-functioning entails diverse permissible collaterals (more importantly movable collateral), efficient enforcement of collateral when there is default and clear priority ranking (specifying the rights of secured creditors).

Government Support towards Entrepreneurial Financing in Nigeria

The financing of entrepreneurs and SMEs has been a major consideration in the development agenda in Nigeria with the involvement of largely two kinds of institutions in the provision of credit facilities (Fatoki, 2014). These are: The private sector-led institutions consisting of mainly DMBs and micro-finance banks and the public sector-led institutions established by the government to improve SMEs access to credit. In cognizance of financial setback confronting SMEs, successive governments in Nigeria had demonstrated interest in guaranteeing availability of adequate funds. This is being done by establishing diverse schemes and various specialized financial institutions to deliver appropriate funding to the subsector (Olaitan, 2006). Some of the schemes and specialised institutions as stressed by Tende (2014) include the following:

i. The establishment of Bank of Industry (BOI) in 2001 (a merger of Nigerian Industrial Development Bank (NIDB), Family Economic Advancement Programme (FEAP) and Nigerian Bank for Commerce and Industry (NBCI)).
ii. Initiation of Small and Medium Enterprises Equity Investment Scheme (SMEEIS) by Bankers' committee in 2001 (in collaboration with CBN) where DMBs are mandated to put aside 10% of their profit before tax towards equity investment in Small and Medium Enterprises.
iii. The introduction of Refinancing and Rediscounting Facility (RRF) by CBN in 2002 at concessionary interest rates to provide liquidity to banks so as to avail medium and long-term lending to SMEs in the productive sectors of the economy.
iv. The establishment of N200billion Commercial Agricultural Credit Scheme (CACS) in 2009 by CBN (in collaboration with Federal Ministry of Agriculture and Rural Development (FMA&RD) to foster commercial agricultural enterprises in Nigeria.
v. There has also been intervention at the State level, for example the establishment of Lagos State Employment Trust Fund (LSETF) in 2016 to provide N25 billion financial support to residents of the State to grow Micro, Small and Medium Enterprises with a view to tackle unemployment and create wealth. Through this scheme promoters and owners of micro-business can access a loan of up to N500,000 while small-businesses can get up to N5 million loan at 5% interest rate per annum respectively (LSETF, 2016).
vi. The establishment of Development Bank of Nigeria (DBN) in 2017 to inject additional capital that enable MSMEs borrow for longer tenure and at lower interest rate, giving their businesses the flexibility in cash flow management, opportunity to achieve capital improvement as well as acquiring equipment or supplies (Azubuike, 2017). As a wholesale bank, DBN will lend to micro finance banks who will in turn lend medium to long term to MSMEs.
vii. The institution of N200 billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) by CBN in 2010 aimed at providing guarantee on loans advanced by DMBs to SMEs in order to mitigate lending risks (Ketley et al., 2012).

Alternative Entrepreneurial Financing Options

Bank lending is the most regular source of external finance for many entrepreneurs and SMEs, which are often heavily reliant on traditional debt to satisfy their start-up, cash flow and investment needs. Though it is commonly used by small businesses, however, traditional bank finance presents challenges to SMEs, precisely to newer, innovative and fast growing companies, with a higher risk-return profile. Alternative finance strategies play an increasingly important role in helping businesses meet their financing needs to grow and contribute to the economy (Eniola & Entebang, 2015). The capital structure of a firm contends with decisions about debt and/or equity financing. According to Dagogo and Ollor (2009) the change in financing structure from debt to the adoption of more sustainable equity-based financial strategy represents an important solution to entrepreneurial financing challenge. A distinction exit between two aspects of equity investment: Public equity investment involving raising share capital straight from the public through the stock exchange and private equity investment in a private company by a few individual or institutional investors. The adoption of alternative channels of funding (though gradually gaining ground in Nigeria) is a re-orientation towards appropriate debt-equity capital restructuring by ensuring a hybrid capital structure with differing degrees of risk and return. The wide spectrum covers low risk/return (Asset-based finance e.g. leasing, asset-based lending, purchase order finance) and Alternative debt (e.g. Crowd-funding), medium risk/ return (hybrid instruments e.g. Mezzanine finance) and high risk/return (equity instruments e.g. venture capital, business angels).

Asset-based finance

Represents the channel through which firms obtain financing based on the value of a particular asset generated in the course of its business, rather than on its own credit standing) and this constitute a well-established and broadly used alternative for many SMEs (OECD Scoreboard, 2015). This financing option makes it a little more flexible for SMEs to access working capital under more flexible terms than they could from conventional lending channels.

Venture capital

Constitute a vital source of innovative financing alternative to traditional debt finance for entrepreneurial sector as it encompasses the provision of debt and equity financing to young privately held firms. Hisrich and Peters (1998) defined venture capital as "professionally managed pool of equity capital''. It is a strand of private equity finance which involve investments in unquoted companies (with growth potential) in exchange for a stake in the company by the venture capitalists (Dagogo & Ollor, 2009). An empirical study by the researchers on the effect of venture capital financing on the economic value added profile of Nigerian SMEs reveal that venture capital backed SMEs contributed more to the society in terms of provision for corporate social responsibility, taxes to government and staff welfare than non-venture capital backed SMEs. The venture capitalists take part in active management of the business they funded and often collaborate with the stock market to take the firm they fund public (Abereijo & Fayomi, 2005). In Nigeria, Small and Medium Enterprises Equity Investment Scheme (SMEEIS) represents the major institutional framework for promoting venture capital financing.

Crowd funding

Crowd funding has appeared to be an innovative source of entrepreneurial financing for SMEs with a projected value of USD 16.2 billion raised globally in 2014 (Salau, 2015). Crowd-funding has an immense potential of turning out to be the largest financier of SMEs worldwide as entrepreneurs constantly seek flexible ways of raising funds outside family loans and traditional bank loans. Crowd funding started in US as an online annex of traditional financing by friends and family where communities combine money to fund members who have business ideas. This new form of capital formation appeared in the wake of the 2008 financial crisis largely because of the challenges encountered by entrepreneurs and artisans in raising funds. Nigeria though categorised as having the largest internet users in Africa and 8th in the world with more than 70.3 million internet users in 2014 is yet to fully embrace crowd-funding (Eniola & Entebang, 2015). This is attributed to the absence of appropriate legislation that guide crowd-funding, the culture of entrepreneurship with entrepreneurs and willing investors and the slow pace of e-commerce adoption in contrast to some developed countries of Europe and America where the practice is heavily guided by legislation (IFC, 2010). Notwithstanding, the pace of crowd-funding finance is continuously developing in Nigeria though not comparable to that of the US where $1.5 billion was raised in 2011 (Ijatomi, 2012).

The report of African and Middle East Alternative Finance Benchmark (2017) also evidence the fact that out of the total of African alternative finance market of about $83.3million in 2015, Nigeria contributed about $8m with about 90% of the contribution coming from equity crowd-funding and peer-to-peer business lending while reward-based crowd-funding and donations and microfinance made up the remaining 10%. Crowd-funding online platforms are gradually being noticed in the market with the emergence of four Nigerian based platforms as at the start of 2017 namely: Dmate-ng.com; A donation-based crowd-funding platform targeted at charities, Malaik crowd-funding–An equity-based platform, Imeela–A donation-based platform and Naturad–A donation-based platform targeting charities (Wisse-Huiskes, 2017).

DISCUSSION AND CONCLUSION

Entrepreneurs and SMEs access to credit is necessary to create an economic environment that enables firms to grow and prosper. Entrepreneurial financing thus enhances the performance of entrepreneurial ventures, facilitates market entry as well promotes innovation and exploitation of investment opportunities. The constraints to finance are more prominent in developing countries due to observed gaps in the financial system occasioned by high collateral requirements, high administrative costs and information asymmetry amongst others. Increased access to finance for SMEs can improve economic conditions in developing countries by fostering innovation, macro-economic resilience and GDP growth.

Financing options for entrepreneurs and SMEs in Nigeria have been largely through the informal sector (personal savings, family and friends, money lenders and co-operative societies amongst others), with the sector providing over 70% of funds to SMEs. Recourse to the formal sources of finance (like the commercial banks) for traditional lending to meet needed funding for growth and expansion has however been meted with constraints. The unwillingness of traditional banks to avail credit to SMEs has been predicated on the risk-profiling of SMEs, information asymmetry and inability to meet collateral requirements amongst others. The reluctance has however culminated into the steady decline in financing of the SME sector. The high interest rate and exorbitant administrative cost on the other hand is also a disincentive to borrowing.

Common obstacle undermining the ability of entrepreneurs and SMEs to fully reap the benefits of a more diversified financing window borders on limited awareness and understanding of alternative instruments by start-ups which invariably slowed the development of these markets. Nigerian population with the largest number of internet users in Africa represent a potential market for budding entrepreneurs to access funding via crowd-funding, but the absence of appropriate legislation makes crowd-funding phenomenon under-exploited in contrast to advanced countries like US, UK, Canada, Turkey and some countries in Europe where the practice is heavily guided by legislation. Crowd-funding can be an innovative financing option for entrepreneurs and SMEs in a well regulated environment notwithstanding associated risks of fraud, project default, platform closure or failure, cyber-attack, misleading advertising, liquidity risk (lack of exit options), donor exhaustion, infringement of intellectual property rights and legal uncertainty arising from different legislation amongst others. There is still ample room for government to strengthen the basic legal and regulatory environment for crowd funding to thrive.

Taking cognizance of the peculiarities of the business environment, effective policy interventions that provide SMEs with stable and competitive exchange rate, low and stable inflation, a steady growth rate as well positive (low) interest rates on loans should be designed to reflect the constraints and opportunities inherent therein. In environments (like Nigeria) where legal action could be lengthy, costly and with uncertain outcomes, government can implement specific support initiative and interventions such as Partial Credit Guarantee Schemes (PCGS), which reduces the losses arising from loan defaults regardless of the outcome of the legal process. Entrepreneurs and SMEs are vital force for the sustenance of rapid and healthy development of Nigerian economy despite the low external financing provisions. It is therefore imperative that entrepreneurs are innovative in choosing the correct and appropriate financing sources so as to overcome the financing challenges depending on the capital structure desired.

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