

**ASSESSING THE RELATIONSHIP BETWEEN FIRM SIZE AND
FINANCIAL STRUCTURE EVIDENCE FROM SMALL FIRMS IN NIGERIA**

BY

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**BEING A PROJECT SUBMITTED TO THE DEPARTMENT OF
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CERTIFICATION

This is to certify that this work titled “**Assessing the Relationship Between Firm Size and Financial Structure Evidence from Small Firms in Nigeria**” was carried out by Ekene Francis NWAOLAI with matriculation number SSC2209437 and has been approved in partial fulfillment of the requirement for the award of Bachelor of Science (B.sc) Degree in the Department of Economics, Faculty of Social Sciences University of Benin, Benin City, under the supervision of the following persons;

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DEDICATION

The researchers wholeheartedly dedicate this work to their beloved families, whose unwavering love and understanding have been a constant source of strength. A special note of gratitude goes to their devoted parents, whose sacrifices and guidance have shaped every step of this journey. They also extend their deepest appreciation to Mr. Izevbigie John, their course advisor, whose words of encouragement and steadfast belief in their potential continually inspired perseverance and excellence.

This paper is equally dedicated to their dear friends, whose constant support, laughter, and motivation have carried them through challenges to this moment of completion.

To all classmates and colleagues who shared in this academic pursuit, your companionship and collaboration have made the experience truly enriching. Above all, the researchers offer this work to Almighty God, whose grace, wisdom, and strength have been their guiding light from the beginning to the end. Lastly, this paper stands as a reflection of every moment of hard work, faith, and hope that made this dream a reality.

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TABLE OF CONTENTS

Title Page	-	-	-	-	-	-	-	-	-	i
Certification	-	-	-	-	-	-	-	-	-	ii
Dedication	-	-	-	-	-	-	-	-	-	iii
Acknowledgements	-	-	-	-	-	-	-	-	-	iv
Table of Contents	-	-	-	-	-	-	-	-	-	v
Abstract	-	-	-	-	-	-	-	-	-	

CHAPTER ONE: INTRODUCTION

1.1	Background of the Study	-	-	-	-	-	-	-	1
1.2	Statement of the Research Problem	-	-	-	-	-	-	-	3
1.3	Research Question	-	-	-	-	-	-	-	5
1.4	Objectives of the Study	-	-	-	-	-	-	-	5
1.5	Hypotheses for the Study	-	-	-	-	-	-	-	6
1.6	Scope of the Study	-	-	-	-	-	-	-	6
1.7	Significance of the Study	-	-	-	-	-	-	-	6
1.8	Limitations of the Study	-	-	-	-	-	-	-	7
1.9	Structure of the Study	-	-	-	-	-	-	-	7

CHAPTER TWO: CONCEPTUAL LITERATURE REVIEW

2.1	Small Scale Enterprises (SSE's)	-	-	-	-	-	-	8
2.1.1	Objectives of Small Scale Business in Nigeria	-	-	-	-	-	-	9
2.1.2	Benefits of Medium Scale Enterprises (MSE's)	-	-	-	-	-	-	9
2.1.3	Performance of Small Scale Business	-	-	-	-	-	-	11

2.1.4	Small Enterprises Sources of Finance	-	-	-	-	-	-	12
2.2	Firm Finance	-	-	-	-	-	-	14
2.2.1	Firm Productivity	-	-	-	-	-	-	15
2.2.2	Small Enterprise Finance and Productivity	-	-	-	-	-	-	17
2.3	Theoretical Literature Review	-	-	-	-	-	-	17
2.4	Empirical Literature Review	-	-	-	-	-	-	22
2.5	Gap to Fill	-	-	-	-	-	-	28

CHAPTER THREE: THEORETICAL FRAME WORK AND METHODOLOGY

3.1	Introduction	-	-	-	-	-	-	29
3.2	Theoretical framework	-	-	-	-	-	-	29
3.2.1	Pecking Order Theory	-	-	-	-	-	-	29
3.2.2	Financial Intermediation Theory	-	-	-	-	-	-	30
3.2.3	The Demand-Following Hyposthesis	-	-	-	-	-	-	31
3.2.4	The Resource Based View Theory	-	-	-	-	-	-	31
3.2.5	The Credit Rationing Theory	-	-	-	-	-	-	31
3.2.6	The Supply-Leading Hypothesis	-	-	-	-	-	-	32
3.3	Variables of the Study	-	-	-	-	-	-	34
3.4	Empirical Model Specification	-	-	-	-	-	-	36
3.4.1	Apriori Expectation	-	-	-	-	-	-	37
3.5	Data	-	-	-	-	-	-	37
3.5.1	Estimation Techniques	-	-	-	-	-	-	38

CHAPTER FOUR: PRESENTATION AND INTERPRETATION OF EMPERICAL RESULTS

4.1	Descriptive Statistics	-	-	-	-	-	-	39
4.2	Estimated Result	-	-	-	-	-	-	41
4.3	Policy Implication	-	-	-	-	-	-	42

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1	Summary of Findings	-	-	-	-	-	-	44
5.2	Conclusion	-	-	-	-	-	-	44
5.3	Recommendations	-	-	-	-	-	-	45
REFERENCES		-	-	-	-	-	-	46
Appendix		-	-	-	-	-	-	50

ABSTRACT

This study assess the relationship between firm size and financial structure evidence from small firms in Nigeria. The main objective of the study is to investigate the relationship between finance and small scale enterprise productivity. The Ordinary Least Squares method was adopted to analyze the relationship between finance (debt finance and equity finance) and small scale enterprise productivity (proxy with small scale profitability). Secondary data was utilized for empirical analysis. The unit root test: test for stationarity, was carried out to determine if the chosen variables were stationary at level. Estimation of the parameters using OLS was performed and interpretations were given according to the results obtained. The result shows debt finance, equity finance and revenue has a positive impact on small scale enterprise profitability. Cost however impacted negatively on small scale enterprise profitability. Small Scale Enterprises (MSE's) are unarguably important in developing the Nigerian economy for the following key reasons which are; social and political role in domestic creation of employment, adequate resource utilization and income generation, the efficient use of local technology and raw materials and the promotion of change in a gradual and peaceful manner. There is growing realization on the part of the Government that instead of the promotion of large-scale enterprises, it should inventively promote micro, small, and medium enterprises. Finance is one of the factors needed by small firms to boost their level of profitability and thus their level of productivity. The growth of any industry largely depends upon the availability of adequate financing of business activities. Haven discovered from this study the positive impact of finance on, it is therefore recommended that Firms should have access to adequate funding either through debt financing or equity financing. Banks and other financial institutions should make debt financing in the form of bank loans and overdraft facilities readily available to small firms.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to survey report on Micro, small and medium enterprises (2010), in Nigeria, Medium Scale Enterprises (MSE's) play tremendous role in reengineering the socio-economic landscape of the country. These enterprises largely represent a stage in industrial transition from traditional to modern technology. The variation in transitional nature of this process is reflected in the diversity of these enterprises. Most of the small enterprises use simple skills and machinery as well as local raw materials and technology, (Yunusa & Paul, 2018).

Small Scale Enterprises (SSEs) are unarguably important in developing the Nigerian economy for the following key reasons which are; social and political role in domestic creation of employment, adequate resource utilization and income generation, the efficient use of local technology and raw materials and the promotion of change in a gradual and peaceful manner. There is growing realization on the part of the Government that instead of the promotion of large-scale enterprises, it should inventively promote micro, small, and medium enterprises (Yunusa & Paul, 2018).

Finance is one of the factors occupying an important place in all types of economic activities. The growth of any industry largely depends upon the availability of adequate finance in proper time. Financing of small scale enterprises is that critical aspect which gains special attention of banks and other financial

institutions (Uzonwanne, 2015). In recent years, financing has attracted much attention on account of the new economic and business environment, setting up of WTO and fast growth of information and computing technology, development of new tools of performance analysis like EVA and Balanced Scorecard (Hoekman et al., 2009).

Productivity can be seen as a ratio to measure how well an organization, an individual, an industry or a country converts inputs (labor, materials, machines etc.) into finished goods and services. This is usually expressed in ratios of inputs to outputs. That is input (cost) per output (good / service) or output per unit of factor input. It is largely on its own a measure of how efficient the conversion process is (Fried et al., 2008). Productivity is a crucial factor in production performance of firms and nations. Increasing the aggregate or overall level of productivity can raise living standards because more real income improves people's ability to purchase goods and services, enjoy leisure, improve housing and education and contribute to social and environmental programs.

The pivotal role of Small-Scale Enterprises is evident through the positive impact that their growth has on employment creation, productivity and competitiveness (Cusmano et al. 2018). Research also suggests that SMEs have the potential to ensure more inclusive growth, and enable economies to adapt to the major trends in the new industrial revolution (Cusmano et al., 2018). It is therefore pertinent to state that the productivity of SSE's depends on the availability and

accessibility to different finance options (Ackah & Vuvor, 2011), therefore been a key concern for managers and policymakers, with particular attention being made to understand the innovation processes of Small-Scale Enterprises

1.2 Statement of the Research Problem

The research problem of this study is the effect of finance on productivity for Small Scale Enterprises in Nigeria. Despite their role in industrial output, employment generation, and economic diversification, Small Scale Enterprises face financial constraints due to macroeconomic challenges, restrictive credit facilities, and high-interest rates. This limitation affects their ability to expand operations and fulfill their developmental objectives.

The contribution of small scale businesses to development of any economy have been widely recognized because of their capacity in enhancing industrial output and human welfare (Olaore & Adetoye, 2014). Small Scale Enterprises consists of the driving force of industrial growth and development of many developing economies by ensuring diversification and growth of industrial production and the achievement of the basic goals and objectives of developments (Olaore & Adetoye, 2014). Small businesses account for a greater percentage of all businesses in virtually every economy and generate the majority of private sector employment and output. Small Scale Enterprises also generates employment opportunities thereby reducing the rate of unemployment in the country (Yunusa & Paul, 2018). The Small Scale Enterprises utilizes local raw materials in carrying out its production. Judging from

this present democratic rule, small scale businesses have contributed to the economy in one way or the other by creating jobs, driving innovation, generating revenue, fostering local development, and supporting economic growth despite challenges like limited access to credit and poor infrastructure. The contribution of Small Scale Enterprises should not be underrated at this critical time of socio-economic and political devastation of the nation, especially if this government must deliver dividend of democracy to the citizens of Nigeria (Yunusa & Paul, 2018).

In order for Small Scale Enterprises to continue to fulfil the above objectives they need access to finance to carry out their business operations and to expand their scale of operation (Olaore & Adetoye 2014). The disturbing lack of finance for many Small Scale Enterprises is not only retarding the expansion and productivity of small businesses in Nigeria, but also the growth of the nation's economy (Comeig et al.,2014). Macroeconomic conditions in Nigeria have severely constrained small business access to credit facilities needed to boost the level of production, employment and productivity (Ackah & Vuvor, 2011).

The performance of small-scale enterprises in Nigeria has been poor due to the lack of or limited availability of capital (finance). The incidence of high level of illiquidity and business failure among established small business is a matter of major concern in developing economies. The International Finance Corporation (IFC) reported in 2002, that only 2 out of every 10 newly established businesses, survive up to the fifth year in Nigeria. The performance and level of productivity of small

businesses should reflect in its employment generation, enjoyment of available local resources, local technology utilization, asset base, revenue generation, improved standard of living and growing Gross Domestic Product (GDP). Unfortunately, instead of small businesses to grow rapidly to meet international competitors, they are rather collapsing by the day and only account for only 37% of GDP (Investment Climate Assessment ICA survey, 2009). This challenge of collapse that small businesses face in Nigeria, have been widely attributed to limited access to finance. It is against this background that this study will be focused on empirically investigating the effect of financing on small scale enterprise level of productivity in Nigeria.

1.3 Research Question

The following research questions will be answered by this study.

1. Does finance have an impact on Small Scale Enterprises level of productivity?
2. Is there a relationship between equity finance and Small Scale Enterprises' level of productivity?
3. Is there a relationship between debt finance and Small Scale Enterprises' level of productivity?

1.4 Objectives of the Study

The broad objective of this study is to empirically analyze the impacts of financing on Small Scale Enterprises level of productivity in Nigeria. The specific objectives are:

1. To investigate the impact of finance on Small Scale Enterprises' level of productivity.
2. To examine if there is a relationship between equity and Small Scale Enterprises level of productivity.
3. To investigate if there is a relationship between debt finance and Small Scale Enterprises' level of productivity.

1.5 Hypotheses for the Study

1. Financing does not impact on Small Scale Enterprises level of productivity.
2. Equity finance does not impact on Small Scale Enterprises level of productivity.
3. Debt finance does not impact on Small Scale Enterprises level of productivity.

1.6 Scope of the Study

This study intends to investigate the impact of financing on Medium Scale Enterprises (MSE's) level of productivity and uses secondary data. The data that would be used for the purpose of this study would be sourced from Enterprise Survey Data, Central Bank of Nigeria (CBN) statistical bulletin and World Development Indicators (WDI). The dependent variable for the purpose of this study is Medium Scale Enterprises productivity while the explanatory variables will include various financing options.

1.7 Significance of the Study

Finance is seen as the life blood of every business organization; both small and large businesses. This means that without finance, businesses cannot continue to operate in their competitive business environment. The level of productivity, continued existence and expansion in business operation by Medium Scale Enterprises, depends on the availability of finance.

This work will be very useful to policy makers. The findings of this work can be used to make appropriate policies and initiate programs that are necessary to ensuring the availability and accessibility of finance to small businesses. Also, this work will be useful to students in various tertiary institutions who want to analyze the importance of financing on small business level of productivity and operation. Also, this research work will be found fascinating to researchers who want to carry out further research on this aspect.

1.8 Limitations of the Study

This study is limited by the time frame within which this study was carried out. Also the researcher would be limited by access to the data needed to carry out the analysis needed for the purpose of this research work. This research work utilized secondary data for the purpose of analysis and discussion of findings.

1.9 Structure of the Study

This study is structured in 4 chapters additional to the introductory chapter. Chapter two is the literature review, chapter three is the theoretical framework and

methodology, chapter four is data presentation and interpretation of results and chapter five is the summary, conclusion and recommendations.

CHAPTER TWO

CONCEPTUAL LITERATURE REVIEW

2.1 Small Scale Enterprises (SSE's)

Small-Sized Companies are considered an important component for the economic growth and development of every nation, especially for developing countries, (Nazir et al., 2024). Small Scale Enterprises (SSEs) as defined by the European Union (2014), are businesses with employees less than 250 and with annual turnover not more than 50 million Euro. The sector contributes immensely to the gross domestic product (GDP) of a country and employs a reasonable percentage of a country's labor force. It is estimated that more than 80% of enterprises across the world are SSEs and they account for approximately over 60% of employment in the private sector. A critical determinant of the growth and success of small businesses is access to finance (Kumar & Rao,2015).

According to the SMEDAN report (2012) the introduction of the National Policy on Micro Small and Medium Enterprises addressed the issue on the definition of Small enterprises. The SMEDAN report (2012) adopted a classification based on employment and asset base (excluding land building). Based on the employment and asset base classification, small enterprises have employee number ranging from 10 to 49 and asset base of 5 to 50 million naira.

In Nigeria, various agencies have defined small scale business over the years. The central bank of Nigeria, (2004), defined small-scale Industries as establishment,

whose annual turnover ranges from N25,000-N500,000. The Nigerian Industrial development bank (NIDB) I now Bank of Industry, classified or defined small scale enterprise, as an enterprises that has investment and working capital not exceeding N750,000. The National council of Industry (2001), however have a different classification. According to them, a small scale business is a business with a total capital employed of over 1.5 million but not more than N50 million (excluding cost of land but including working capital) and a labour size of not more than 11-100 workers.

2.1.1 Objectives of Small Scale Business in Nigeria

Small Scale Enterprises (SSE's) have certain goals in view to achieve. The main objective of small scale business is to make profit for the enterprise to survive and it is also importance to the society because of its numerous advantages that lead to growth and development of the economy. Small Scale Enterprises performs the major function of providing goods and services to the society in order to improve the standard of living of the citizenries. This is done through the production of more and better commodities and service and their wide spread distribution throughout the society and it also seeks to achieve the objective of economic growth and development in Nigeria.

2.1.2 Benefits of Medium Scale Enterprises (MSE's)

The benefits of Medium Scale Enterprises (MSE's) to any economy are easily noticeable, they include, contribution to the economy in terms of output of

goods and services, creation of jobs at relatively low prices, providing an avenue for reducing income disparities, develop a pool of skilled, semi-skilled and unskilled employees as a basis for the future industrial expansion. Specifically, the benefits of Medium Scale Enterprises are given below:

1. Developing personal relationships: Medium Scale Enterprises (MSE's) are well placed to build personal relationships with customers, employees, and suppliers. With a medium business one can focus on customers you are in contact with one-on-one interaction is as relevant as ever in creating cordial relationships.

2. Responding flexibly to problems and challenges: In Medium Scale Enterprises there is little hierarchy or chain of command. Large businesses may have set ways of operating and established procedures that are hard to change. Medium Scale Enterprises are sometimes far more flexible. It can also arrive at a quick decision on whether or not it can execute what is required.

3. Inventiveness and innovation: Medium Scale Enterprises (MSE's) are well positioned to introduce and develop new ideas. This is due to their owners not having to report or seek approval from anyone else.

4. Low overheads: Due to the small scale of operation, Medium Scale Enterprises (MSE's) have lower overhead costs. They operate in small premises with low heating and lighting costs, and limited rent and rates to pay. Low costs result in lower prices for consumers.

5. Catering for limited or niche markets: Large firms with high overheads must produce high levels of output to spread costs. By contrast, medium firms are able to make a profit on much lower sales figures. They can therefore sell into much smaller markets.

2.1.3 Performance of Small Scale Business

According to (Comeig et al.,2014) the term performance is broad. Performance can be defined as the accomplishment of specified business objectives measured against known standards completeness and costs. Performance is taken to be the function of an organization's ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way. Firm increases in size, the level of stock, the level of sales, and the level of assets. These all have positive impact on firms' performance (Comeig et al.,2014)

The continuous increase in the level of sales means that the capacity of the organization is expanding and the organization is therefore performing well. Profit before tax and turnover are important financial measures for measuring performance and the non-financial measures focuses on issues pertaining to customers' satisfaction, customers' referral rates and employees turn over. Profitability, size and growth as measures of business financial performance. Human, social and financial capital as variables that can predict the performance of small businesses. The level of sales, liquidity and level of asset based to measure performance. In this study therefore level of sales and profit will be used to measure performance. More so, the

profitability and sales level were measured in qualitative terms using responses from the questionnaire. This was because, most of these small business owners are not willing to disclose their exact profit.

2.1.4 Small Enterprises Sources of Finance

According to (Olaore et al.,2014), there are several sources of finance available for MSEs and classified them as: initial owner financing, business angel financing, trade credit, leasing, factoring, venture capital, short-term bank loans, medium-term bank loans, mezzanine finance, private placements, public equity, and public debt. SMEs sources of finance can be broadly categorized into equity financing and debt financing, and the firm can decide to choose these two sources, or combine the two sources.

First, bank finance serves as the main source of external finance for SMEs in most countries, especially where banking dominates the financial system. Cosh & Hughes (2003) established that about 65% of small businesses in the UK are financed by bank loans. However, based on the UK Survey of SME Finances, (Fraser,2004) estimated that out of 80% of external finance used by 2.9 million SMEs, only 10% was bank loan.

Second, Personal savings which is also referred to as owner-savings is usually the first source of finance available to the small business owner. A significant proportion of the initial capital both fixed and working for small scale enterprises is obtained from personal savings accumulated from other activities.

Personal savings represents, funds invested into the business by the owner(s) which the business is under no obligation either to refund or pay interest on. It is also referred to as risk capital. Note that expansion of SSEs is mainly financed from internally generated funds. Internally generated funds refer to profits or revenues that the business earns and reinvests rather than seeking external funding (such as loans or investors). Small-Scale Enterprises often rely on their own earnings for growth because they may have limited access to external financing options like bank loans or venture capital. This means that as the business makes profits, the owners reinvest those earnings to expand operations, purchase equipment, hire staff, or enter new markets. For the small business owner, personal savings is preferred over debt as a mode of financing as they undergo a typical cash shortage and are generally unable to secure loans with collateral during the founding phase. However, personal savings or internal finding alone may not be expected to meet the entire demand for finance by the SSE given the likelihood of smaller savings because of lower incomes.

Third, the informal financial market is otherwise called “non-institutional financial market” has been described as the “unorganized” money market. In general three broad classifications of informal finance are found in Africa. These include primary savings mobilization units with little or no lenders, primary lending units that are hardly involved in savings mobilization and units that mobilize deposits and do a considerable amount of lending albeit, to members of distinct associations or groups such as savings collectors and money keepers commercial lenders, (money

lender, friends, family and non-commercial lenders, and licensed cooperative societies or unions).

Fourth, rotating/Non-Rotating Savings and Credit Associations. The rotating savings and credit arrangement including regular fixed amount of contribution of a common pool of funds by members in turn. Once each member has access to funds, the group disbands or start over again. It is popularly called Esusu in Nigeria. The 'Esusu' cycle depends on the number of participants and the units of collection (weekly fortnightly or monthly) on a contractual basis. In the non-rotating savings and credit association which is also another form of informal finance, there is a direct relationship between the contributed amounts, the individual savings capability and credit worthiness.

Fifth, besides personal savings, informal sources of finance comes from friends and relatives of the entrepreneur. This form of finance does not demand serious collateral from the business owner and it requires less paper work. In Canadian financial performance, it was revealed that the contribution of those financed by friends and family are larger than other small and medium scale financing sources.

2.2 Firm Finance

Finance is a term for matters regarding the management, creation, and study of money and investments. It involves the use of credit and debt, securities, and investment to finance current projects using future income flows. Finance is typically

broken down into three broad categories: public finance, corporate finance, and personal finance.

Public finance includes tax systems, government expenditures, budget procedures, stabilization policy and instruments, debt issues, and other government concerns. Corporate finance involves managing assets, liabilities, revenues, and debts for a business. Personal finance defines all financial decisions and activities of an individual or household, including budgeting, insurance, mortgage planning, savings, and retirement planning.

2.2.1 Firm Productivity

A simple way of looking at productivity in a business organization is to think of it in terms of the productivity model below. Essentially, productivity is a ratio to measure how well an organization (or individual, industry, country) converts input resources (labor, materials, machines etc.) into goods and services. This is usually expressed in ratios of inputs to outputs. That is (input) cost per (output) good / service. It is not on its own a measure of how efficient the conversion process is.

Productivity is an average measure of the efficiency of production. It can be expressed as the ratio of output to inputs used in the production process, i.e. output per unit of input. When all outputs and inputs are included in the productivity measure it is called total productivity. Outputs and inputs are defined in the total productivity measure as their economic values. The value of outputs minus the value of inputs is a measure of the income generated in a production process. (Caves et

al.,1982). It is a measure of total efficiency of a production process and as such the objective to be maximized in production process. Productivity measures that use one or more inputs or factors, but not all factors, are called partial productivities (Hannula, 2002). A common example in economics is labor productivity, usually expressed as output per hour. At the company level, typical partial productivity measures are such things as worker hours, materials or energy per unit of production. Productivity is a crucial factor in production performance of firms and nations increasing national productivity can raise living standards because more real income improves people's ability to purchase goods and services, enjoy leisure, improve housing and education and contribute to social and environmental programs. Productivity is an overall measure of the ability to produce a good or service. (McLaughli et al.,1990).

More specifically, productivity is the measure of how specified resources are managed to accomplish timely objectives as stated in terms of quantity and quality. Productivity may also be defined as an index that measures output (goods and services) relative to the input (labor, materials, energy, etc., used to produce the output). Hence, there are two major ways to increase productivity: increase the numerator (output) or decrease the denominator (input). Of course, a similar effect would be seen if both input and output increased, but output increased faster than input; or if input and output decreased, but input decreased faster than output. Organizations have many options for use of this formula, labor productivity, machine

productivity, capital productivity, energy productivity, and so on. A productivity ratio may be computed for a single operation, a department, a facility, an organization, or even an entire country.

2.2.2 Small Enterprise Finance and Productivity

According to (Ackah & Vuvor, 2011), Small Scale Enterprises are critical in the creation of employment, increase in output and the level of income viz-viz savings necessary to increase the level of domestic investment. Small Scale Enterprises are also important for economic development and improvement in the standard of living of the citizens of a particular country. The achievement of the stated objectives alongside the micro-objective of profit maximization, is dependent on the availability of finance. The provision of Finance for medium businesses will help to boost the level of investment. Increase in the level of investment will lead to increase in the level of output per person, growth in the level of Income, increase in the level of savings and reduction in the level of unemployment. Finance is therefore necessary to increase the level of productivity, performance and profitability of medium businesses.

2.3 Theoretical Literature Review

McKinnon-Shaw Hypothesis

McKinnon (1973), and Shaw (1973) lead the financial regressionist, and their hypothesis is popularly referred to as the “McKinnon-Shaw” hypothesis. They contended that an appropriate rate of return on account of financial liberalization on

the real cash balances is a driver of economic growth. The fundamental principle of their hypothesis is that a low or negative real interest rate will dampen savings which will shrink the supply of loanable funds for investment, which will in turn pull back the growth rate. Therefore, the McKinnon–Shaw model states that financial liberalization will amplify competition, induce an increase in savings by raising interest rates and thereby promote investment and consequently promote economic growth.

The Supply-leading Hypothesis

The relationship between finance and economic growth has been a subject of debate since (Schumpeter, 1911) highlighted the importance of a well-functioning financial sector in fostering economic expansion. A developed financial system facilitates resource allocation, enhancing productivity and growth. The supply-leading hypothesis suggests that financial development drives economic progress, while the demand-following hypothesis argues that economic expansion fuels financial sector growth. Given Nigeria's economic structure, understanding this relationship is crucial. The supply-leading hypothesis suggests that financial development drives economic growth by providing access to capital, improving financial intermediation, and fostering entrepreneurship. In the context of Small-Scale Enterprises in developing economies like Nigeria, this hypothesis would imply that a strong financial sector facilitates SSE growth by offering credit, investment opportunities, and financial services. However, empirical studies, including

(Adeyeye et al.,2015), indicate weak support for this hypothesis in Nigeria, where economic activities tend to drive financial development instead. SSEs often struggle with limited access to finance, suggesting a need for targeted financial policies to enhance their contributions to economic growth. A well-developed financial system is fundamental to economic growth. McKinnon (1973) and Shaw (1973) argue that financial sector development reduces transaction and monitoring costs while addressing information asymmetry, leading to improved financial intermediation. A strong financial system fosters the creation and accessibility of financial services in response to economic demand.

The supply-leading hypothesis suggests that financial development drives economic expansion. However, (Robinson, 1952) challenges this, advocating the demand-following hypothesis, which argues that financial deepening occurs as a response to economic growth. (Calderón& Liu, 2003) support this perspective, asserting that financial sector growth is driven by increasing economic activity.

Singh, (1999) further explains that macroeconomic expansion naturally strengthens financial institutions. (Patrick, 1966) introduced the "stage of development" hypothesis, which integrates both views. He argued that in early economic development, financial sector growth leads economic expansion, but as the economy matures, financial development increasingly follows economic progress.

The Nonlinear Relationship between Economic Growth and Financial Development

The nonlinear relationship between financial development and economic growth is often explained through the concept of diminishing returns. (Arcand et al.,2012) argue that while financial sector expansion enhances growth initially, excessive credit allocation can lead to economic instability, financial crises, and misallocation of resources. This is particularly relevant for SSEs, which rely heavily on financial accessibility but may suffer when financial systems become overly complex or biased toward larger firms.

For SSEs, moderate financial deepening enhances productivity by improving access to credit, reducing financing constraints, and facilitating business expansion. However, when financial sector growth is excessive or poorly regulated, credit allocation may become inefficient, favoring speculative investments over productive economic activities. Rousseau and (Wachtel, 2011) highlight that beyond a certain point, financial sector expansion can slow economic growth due to rising financial fragility and misaligned incentives.

In developing economies like Nigeria, SSEs contribute significantly to employment and economic output, yet they face persistent challenges in accessing finance. The nonlinear relationship between financial development and growth suggests that while increasing financial accessibility can stimulate SSE productivity, excessive financialization may divert resources away from productive sectors. For instance, banks may prioritize lending to large corporations or engage in speculative activities, limiting the benefits of financial deepening for SSEs.

Moreover, financial instability caused by rapid and unregulated financial sector expansion can disproportionately affect SSEs, which have limited resilience to economic shocks. The Global Financial Crisis of 2008 demonstrated how financial sector volatility can disrupt credit access for small businesses, leading to reduced investment and slowed economic growth. In regard policy consideration and conclusion, understanding the nonlinear relationship between financial development and economic growth is essential for designing effective policies that support SSEs. Policymakers should aim for balanced financial sector growth, ensuring that financial deepening aligns with the needs of small businesses. Measures such as targeted credit programs, improved financial regulations, and inclusive banking policies can enhance the positive impact of financial development on SSEs while mitigating potential risks.

In conclusion, financial development plays a crucial role in economic growth, but its impact is nonlinear, especially for SSEs in developing economies. While financial deepening fosters SSE productivity and expansion, excessive or misallocated financial development can lead to inefficiencies and instability. A balanced financial system, tailored to the needs of small businesses, is essential for sustainable economic growth. (Levine, 2005) identifies several ways in which financial development fosters economic growth. A more developed financial system lowers information costs, facilitating the efficient allocation of household savings into corporate investments. By enhancing corporate governance, financial

development improves investment productivity. It also increases transparency, mitigates risks, and encourages asset diversification, fostering long-term investment. Additionally, it enables better capital accumulation by efficiently mobilizing savings, a key driver of economic growth. Lastly, financial development enhances trade and specialization, improving labor productivity and overall economic output.

2.4 Empirical Literature Review

Ubiomoh, (2017) studied the relationship between financing sources and small-scale business performance in Delta State, using financing sources as independent variables and performance (measured by sales and profitability) as the dependent variable. A stratified random sampling technique was used to select 148 respondents, and primary data was collected via a four-point Liker-type questionnaire. Pearson correlation analysis revealed that all financing sources had a significant positive impact on performance, except personal savings, which was positive but not statistically significant for medium-scale businesses. However, regression analysis showed that personal savings had the highest predictive ability among all financing sources. The study recommends that government agencies educate and support medium-scale business owners to explore alternative financing options.

Adeyemo & Olateju, (2022) analyzed the effect of access to finance on SME growth in Ibadan South East LGA, Oyo State, using a survey of 120 business owners. Their findings identified cooperative societies, Microfinance loans, personal savings,

and funds from friends and family as key financial options available to SMEs. The study also found that challenges such as lack of funding, poor power supply, high taxation, and high interest rates significantly impacted SME development, explaining 65.3% of its variance $[(R^2 = .653; F(5,119) = 42.862; p < .05)]$. The independent contributions of lack of funding $[(\beta = .284; t = 5.048; p < .000)]$, power supply $[(\beta = .565; t = 6.144; p < .000)]$, high taxation $[(\beta = .447; t = 7.957; p < .000)]$, and high interest rates $[(\beta = .463; t = 8.104; p < .000)]$ were statistically significant, whereas government policies had no significant effect. The study recommends policy reforms to enhance SME financing, reduce collateral requirements, and simplify loan application procedures.

Dada (2014) highlighted that the persistent challenge of limited access to finance remains a significant barrier to the growth of Small-Scale Enterprises (SSEs) in Nigeria. This financial constraint hampers the sector's development. The study examined the impact of commercial bank credit on SSE development by employing the Ordinary Least Squares (OLS) technique to estimate multiple regression models, providing insights into the relationship between financial access and business growth. The findings revealed that commercial banks credit to SSEs and the saving and time deposit of commercial banks exert a positive and significant influence on SSEs development proxy by wholesale and retail trade output as a component of GDP, while exchange rate and interest rate exhibit adversative effect on SSEs development.

Mamman & Aminu (2013), assessed the effect of 2004 banking reforms on loan financing of SMEs in Nigeria. A sample size of 500 was randomly chosen and chi-square test was used which indicated that there is no significant effect of 2004 banking reform on loan financing of SMEs in Nigeria and suggested that there are some constraints which restricted access to loans from the banks for SMEs in Nigeria.

Oladele et al., (2014), examined the effects of financial source on small scale enterprises performance in Ado Ekiti Metropolis. Their study used survey research method via structured questionnaire administered to 225 respondents in 45 conveniently selected registered SMEs in the Ado- Ekiti Metropolis. Stratified sampling technique was adopted, and multiple regression analysis was employed in the study, since they have multiple independent variables. They found that each of the financial sources has a reasonable level connection with the performance of MSE.

Harash et al., (2014), examined also the effect of financing on performance of small and medium enterprises in Iraq. The research employed contingency theory to show the effect of financing on the performance of the medium enterprises in Iraq. The study was more of a review; it failed to examine the effect of sources of finance on performance. The study also did not include methodology and data was not analyzed.

Alabi et al., (2019), investigated the effect of government policies on small business growth in South Western Nigeria. Using a descriptive ex-post facto research design, the study incorporated both primary and secondary data. A stratified

sampling technique was applied to determine the sample size, and structured questionnaires were used for data collection. Analysis was conducted using descriptive and inferential statistical techniques in SPSS. The findings revealed a significant relationship between government policies and small business growth in the region, highlighting the crucial role of policy frameworks in SME development. These results indicate the need for the Nigeria government to formulate and implement policies that will help ensure the optimal performance and subsequent survival of small scale businesses in the country. Furthermore, the country's monetary policies and macroeconomic indicators ought to be modified, to become more suitable for SSEs operating in the country. It is also important for the various levels of government in the country to embark on the massive infrastructural development.

Ikon & Chika (2018), examined Small Scale Enterprises and Industrial Growth in Nigeria. The objective of the study was to determine the relationship that exists between manufacturing SSEs production and industrial growth in Nigeria. Secondary data were sourced from the 2014 enterprise survey data conducted by the World Bank and regression analysis was used in analyzing the data. Findings of the study revealed that manufacturing SSEs production has a statistically significant relationship with industrial growth in Nigeria. This implies that manufacturing SSEs are capable of accelerating industrial growth through their contributions to the economy. The study, however, advocates more government intervention of

facilitating access to concessional funds to SSEs to trigger SSEs sustainable growth and industrial growth in Nigeria.

Bello et al., (2018), carried out a study on the impact of Small Scale Enterprises on Economic Growth: Evidence from Nigeria. The study examines the impact of small scale enterprises on economic growth of Nigeria using time series data spanning between 1986 and 2016. The data is obtained from the statistical bulleting published yearly by the Central Bank of Nigeria (CBN). Regression analysis is employed for interpretation and analysis of the data collected for the study. The finding of the study reveals a positive and significant relationship between small and medium scale enterprises and output growth indicating that small and medium scale enterprises in Nigeria make positive contribution towards the development of Nigerian economy. The study recommends that government should formulate new economic policy to restrict massive importation of foreign goods especially those goods that the SMEs can produce locally in order to protect the local producers against competition with foreign firms. Efforts should also be made to ensure that adequate infrastructural facilities are in place for proper operation of SMEs in the country.

Olusola & Tayo (2012), examined informal credit markets and the Development of micro and small scale enterprises in Nigeria. Primary data was used for the study and were collected from ten local government areas of Oyo State, using a multi stage sampling technique. The results indicate that size of lending,

experience in lending business, have a positive and significant impact on growth in investment of new and small scale enterprises. They recommend a policy to make fund readily available to Medium Scale Enterprises (MSE's) should be put in place by government.

Aliyu & Bello (2013), examined the contribution of commercial banks to the growth of SMEs in Nigeria between 1980 and 2009. Using ratio analysis and trend analysis, it was discovered that commercial banks contribute to financing SMEs but their contribution has declined as the government through CBN directives abolished the mandatory bank's credit allocations. Manufacturing output in Nigeria for the period spanning 1992 to 2010. Employing error correction modelling technique, the study deduced that bank loans to the SME sector had significant impact on manufacturing output both in the long and short run.

Ishmael et al., (2012), examined the impact of post-bank consolidation on the performance of SMEs in Nigeria, with special reference to Lagos State. A sample size of 50 was drawn from the supra-population of the study within Ikeja Local Government in Lagos State. Applying mean, standard deviation and coefficient of variation in its data analysis, the study revealed that SMEs do not have better access to finance through banks, due to neo-reorganization in banks as a result of post-bank consolidation and SMEs do not have absolute rapport with the financial institutions due to their financial background in Nigeria.

Ayuba & Zubairu (2015) analyzed the effect of banking sector credit on SME growth in Nigeria from 1985 to 2010. Using descriptive statistics, correlation matrix, and an error correction model, the study found that banking credit significantly impacts SME growth by influencing macroeconomic factors such as inflation, exchange rates, and trade debts. The study recommends that financial institutions ease loan conditions to improve SME access to credit, thereby enhancing business performance and overall economic development.

2.5 Gap to Fill

Potential gaps in the literature include the need for sector-specific analysis of small-scale enterprises (SSEs), comparative studies on different financing sources, and the impact of specific government policies on financial access. Additionally, existing research relies on older data, making an updated study necessary. The role of non-banking financial institutions, such as microfinance banks and fintech lenders, is also underexplored. Addressing these gaps would provide deeper insights into the relationship between financing and SSE growth in Nigeria.

CHAPTER THREE

THEORETICAL FRAME WORK AND METHODOLOGY

3.1 Introduction

In this chapter the theoretical framework upon which the model of the study will be built, will be presented. A critical review of the theory under consideration will be carried out, and the key variables of the study will be established. This section will also involve the model specification, the data estimation technique for the purpose of analysis and discussion of findings and the data source or sources.

3.2 Theoretical framework

The relationship between financing and firm productivity in Nigeria's small-scale enterprises can be explained through several key economic and financial theories. These theories provide a foundation for understanding how financial accessibility influences business growth and performance.

3.2.1 Pecking Order Theory (Myers & Majluf, 1984)

The Pecking Order Theory, developed by Myers and Majluf (1984), suggests that firms prioritize internal financing (retained earnings) over external financing due to concerns about information asymmetry. SSEs often face difficulties in accessing formal credit because lenders perceive them as high-risk borrowers. As a result, small businesses tend to rely on personal savings, reinvested profits, and informal loans before seeking bank credit. This theory helps explain why many SSEs in Nigeria struggle to expand despite the availability of external financing sources

growth. It posits that optimal allocation of resources is an outcome of financial sector development (Hurlin & Venet, 2008). The Pecking Order Theory explains how firms prioritize financing sources, preferring internal funds over debt and external equity due to concerns about information asymmetry. For small-scale enterprises (SSEs) in Nigeria, this theory is highly relevant as they often struggle with limited retained earnings and rely on personal savings or informal loans before seeking bank credit. Since equity financing is rare among SSEs, they tend to avoid external investors to retain full business control. However, unlike large firms, SSEs may not always have the luxury of choosing their financing hierarchy due to limited access to credit.

3.2.2 Financial Intermediation Theory (Fazzari, Hubbard & Petersen, 1988)

The Financial Intermediation Theory emphasizes the role of financial institutions in reducing transaction costs, mitigating risk, and improving credit accessibility. According to (Gurley & Shaw, 1960), banks and other financial intermediaries facilitate capital flow between savers and borrowers, making it easier for businesses to obtain necessary funding. In the context of Nigeria, where many SSEs operate in an underdeveloped financial environment, weak intermediation mechanisms limit their access to affordable credit, thereby constraining productivity and growth. This theory underscores the need for a well-developed banking sector to improve credit accessibility. A stronger financial system would enable SSEs to obtain funds at lower interest rates and enhance their productivity through better financial services.

3.2.3 The Demand-Following Hypothesis (Robison 1952)

Conversely, the Demand-Following Hypothesis posits that financial sector growth is a response to increased demand for financial services, rather than a driver of economic growth. For SSEs, this implies that their expansion and increased financial needs will naturally lead to the development of financial institutions that cater to them. In Nigeria, where SSEs form a significant part of the economy, this theory suggests that strengthening business operations first—through capacity-building, market access, and infrastructure—will drive financial sector growth and encourage banks to offer better financial services.

3.2.4 The Resource Based View Theory (Barney, 1991)

The Resource-Based View (RBV) Theory emphasizes that firms achieve competitive advantage through the effective use of their resources, including financial capital. For SSEs in Nigeria, access to finance is a critical determinant of their ability to invest in technology, skilled labour, and business expansion. Limited financial resources often prevent these enterprises from scaling up or adopting productivity-enhancing innovations. This theory reinforces the need for improved financing mechanisms tailored to SSEs, enabling them to leverage their internal strengths and compete effectively in the market.

3.2.5 The Credit Rationing Theory (Stieglitz & Weiss 1981)

The Credit Rationing Theory explains why banks limit lending to certain businesses, even if they are willing to pay higher interest rates. It highlights the issue

of information asymmetry and the reluctance of financial institutions to lend to high-risk borrowers without collateral. For Nigerian SSEs, this theory is particularly relevant as many businesses struggle to secure loans due to the stringent requirements imposed by banks. The existence of credit rationing calls for alternative financing options, such as government-backed loan programs, venture capital, and microfinance, to bridge the financing gap for small businesses.

3.2.6 The Supply-Leading Hypothesis (Patrick1996)

The Supply-Leading Hypothesis argues that financial development precedes and stimulates economic growth by creating financial services ahead of demand. This theory suggests that improving financial infrastructure, such as expanding microfinance institutions and easing lending conditions, can boost SSE growth in Nigeria. If financial resources are readily available, SSEs can invest in productivity-enhancing activities, leading to economic expansion. However, the challenge remains that many SSEs still struggle to access these financial services despite financial sector development efforts. Mathematically, this relationship can be expressed as:

$$GDP_t = f(FD_t, X_t)$$

Where:

GDP_t represents economic growth at time T ,

FD_t represents financial development (such as credit availability, money supply),

X_t represents other control variables such as investment and inflation.

The supply-leading hypothesis suggests that causality flows from finance to economic growth with no feedback response from economic growth. A well-developed financial sector is a precondition for economic growth. McKinnon (1973) and Shaw (1973) argue that a well-developed financial sector minimizes transaction and monitoring costs and asymmetric information; thus, there is improvement in financial intermediation.

This hypothesis can be represented using the following equation:

$$GDP_t = \alpha + \beta_1 FD_t + \beta_2 X_t + \epsilon_t$$

Where:

α is the intercept,

β_1 measures the impact of financial development on economic growth,

β_2 represents the coefficients of control variables,

ϵ_t is the error term.

The financial Structure of Small Scale Enterprises are both long term and short term in nature. The long term financial structure is made up of savings (retained earnings), share capital, share premium and loan (bank loan and loan note). The short term financial structure is made up of trade payables (trade creditors) and bank overdraft. The robustness of the long term and short term financial structure of Micro Scale Enterprises will improve their level of productivity. These theories collectively provide a strong foundation for understanding the financing challenges faced by SSEs in Nigeria. While financial access is crucial for business growth,

structural issues such as weak financial intermediation, high borrowing costs, and stringent loan requirements continue to limit the productivity of small enterprises. Addressing these barriers through improved financial policies and innovative financing solutions will enhance SSE growth and economic development in Nigeria.

3.3 Variables of the Study

The variable of the study are presented as:

Dependent variable: Small Scale Enterprise Productivity (SSEP)

Small scale enterprise profitability is the study's dependent variable which is adopted as a proxy for small scale enterprise level of productivity. Profit is the excess over fixed and variable cost. A firm's level of profit depends positively on the level of revenue generated per period and inversely with the level of cost incurred in that same period. The amount of profit retained by firms will depend on the dividend policy to be adopted by the management of the firm. The profit not paid out as dividend is retained and added to equity finance. Thus means that retained profit or retained earnings forms part of a firm's long term capital structure and equity finance. The increase in the level of profitability depicts efficient utilization of capital used to acquire assets (Alabi et al.,2020).

Independent variable: Debt Finance (Dfin)

Debt finance refers to the funds that small-scale businesses borrow from external sources, such as banks, microfinance institutions, or trade credit. It is a form of business finance that involves a company borrowing money from a financier, like a

bank or working capital funding organization. It enables businesses to expand operations, purchase equipment, and invest in growth opportunities. However, excessive reliance on debt can lead to financial distress due to interest payments and repayment obligations. In this study, the measure used to capture debt finance is debt-to-capital ratio, and it is represented as 'Dfin' (Bello et al., 2015).

Independent variable: Equity Finance (Efin)

Equity finance involves raising capital through the owners' investments, retained earnings, or issuing shares. Unlike debt finance, equity finance does not require repayment, reducing financial risk for businesses. It plays a crucial role in long-term financial sustainability and business expansion. In this study, the measure used to capture equity financing is equity- to-capital ratio, and it is represented by 'Efin' (Bello et al.,2015).

Independent variable: Revenue (Rev)

Revenue represents the total income a business generates from selling goods or services. It serves as a primary indicator of a firm's financial health and productivity. Higher revenue suggests increased sales and market demand, which can contribute to business growth and sustainability. In this study, the measure used to capture revenue is revenue, and it is represented by 'Rev' (Dada et al.,2014).

Independent variable: Cost (Cst)

Cost refers to the total expenses incurred in running a business, including raw materials, labor, rent, utilities, and other operational expenditures. Managing costs

effectively is essential for maximizing profitability and ensuring financial stability. The total cost incurred by small-scale businesses. In this study, the measure used to capture cost is cost, and it is represented by ‘Cst’ (Dada et al.,2014).

3.4 Empirical Model Specification

Debt finance can has both positive effect on profit. When used effectively, debt can help businesses expand operations, increase production, and generate higher revenue, leading to increased profit (Ikon & Chika,2018).

Equity finance provides businesses with long-term capital without the burden of repayment or interest costs. This can improve financial stability and profitability in the long run. However, if equity financing dilutes ownership or if investors expect high returns, it may reduce retained earnings. (Kabiru et al.,2022).

Revenue is a direct determinant of profit since profit is calculated as revenue minus costs. Higher revenue, assuming costs remain controlled, leads to higher profit. This relationship is strongly positive. (Ikon & Chika, 2018). Cost has an inverse relationship with profit. Higher operational costs reduce profit unless matched by a proportionate increase in revenue. Businesses must manage costs efficiently to maximize profitability. (Kabiru et al.,2022).

The modified model is thus written as:

General form

$$SSEP= f (DFIN, EFIN, REV, CST) \text{ --- (1)}$$

Where;

SSEP= Small Scale Enterprise Productivity

DFIN = Debt finance

EFIN = Equity finance

REV = REVENUE

CST = COST

Econometric form

$$SSEP = \beta_0 + \beta_1 DFIN + \beta_2 EFIN + \beta_3 REV + \beta_4 CST + U_t - - \quad (2)$$

Where:

β_0 = Constant term

β_1 = Regression coefficient of Debt Finance

β_2 = Regression coefficient of Equity finance

β_3 = Regression coefficient of Revenue

β_4 = Regression coefficient of Cost

U_t = Error Term

3.4.1 Apriori Expectation

The apriori sign are: $\beta_0 > 0$, $\beta_1 < 0$, $\beta_2 > 0$, $\beta_3 > 0$, $\beta_4 < 0$.

3.5 Data

This study utilizes cross-sectional data obtained from the World Bank Enterprise survey data to analyze the impact of financing on small-scale enterprises' productivity in Nigeria. The data covers the Enterprise Survey Data (2014)

The dependent variable in this study is Small Scale Enterprises (SSEs) productivity, while the explanatory variables include various financing options such as debt finance, equity finance, revenue, and cost. The collected data will be processed and analyzed to establish the relationship between financing and firm productivity.

3.5.1 Estimation Techniques

This study utilizes the **Ordinary Least Squares (OLS)** method to estimate parameters in the regression analysis. OLS is a widely adopted technique for assessing relationships between dependent and independent variables in cross-sectional data. The method was selected due to its desirable statistical properties, particularly its status as the **Best Linear Unbiased Estimator (BLUE)**. Cross-sectional data, in this context, refers to data collected from various economic units at a specific point in time, enabling a comprehensive analysis of factors influencing small-scale enterprises.

Suitability for Cross-Sectional Data: Since this study focuses on different entities at a single point in time, OLS is an appropriate estimation technique. To ensure the robustness of the results, diagnostic tests such as multicollinearity checks, normality tests, and heteroskedasticity tests will be conducted. The results will be analyzed and interpreted to assess the impact of financing on firm productivity.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION OF EMPERICAL RESULTS

4.1 Descriptive Statistics

The summary statistics of all the series employed in this study are presented and discussed below. Specifically, we have Measures of Central tendencies and Variability. The mean of each of the series is a pointer to the average of the respective variable. The standard deviation shows how distributed the variable is from the mean. The maximum value shows the highest value for each variable, while the minimum value shows the lowest value for the entire period under study. The skewness value shows whether the data observation for a particular variable is positively skewed or negatively skewed.

Table 4.1

Variables	SSEP	EFIN	DFIN	REV	CST
Mean	8858051.	29.42520	32.78740	15330652	6472596.
Median	194970.0	20.00000	40.00000	1500000.	745000.0
Maximum	75400000	100.0000	100.0000	8000000	24900000
Minimum	-2500000	-9.0000	-63.0000	-9.0000	-63.0000
Std. Dev.	78168636	31.45229	45.97198	79543066	24116817
Skewness	7.405937	0.950681	-0.59539	8.558189	8.291814
Kurtosis	70.69404	3.165211	2.606070	80.14084	81.58543
Jarque-Bera	25409.92	19.27475	8.324608	33039.47	34134.88
Probability	0.000010	0.000065	0.015572	0.000020	0.000030
Sum	11200000	3737.000	4164.000	19500000	82200000
Sum Sq. Dev.	77000000	124645.0	266291.3	79700000	73300000
Observations	127	127	127	127	127

Source: Author's computation.

From the table above, it can be seen that the average value of small scale enterprise profit for the period is 8,858,051, with a maximum value of 75,400,000 a minimum value of -2,500,000 and a standard deviation of 78,168,636. The result also shows that small scale enterprise profit is positively skewed. From the table above, the minimum values stated for SSEP, EFIN, DFIN, REV, and CST are all negative, and this is a result of the source of data.

From the table above, it can be seen that the average value of equity finance for the period is 29.42520, with a maximum value of 100.0000 a minimum value of -9.0000 and a standard deviation of 31.45229. The result also shows that equity finance is positively skewed.

From the table above, it can be seen that the average value of debt finance for the period is 32.78740, with a maximum value of 100.0000 a minimum value of -63.0000 and a standard deviation of 45.97198. The result also shows that debt finance is negatively skewed.

From the table above, it can be seen that the average value of revenue for the period is 15,330,652 with a maximum value of 80000000 a minimum value of -9.0000 and a standard deviation of 79,543,066. The result also shows that revenue is positively skewed.

From the table above, it can be seen that the average value of cost for the period is 6,472,596 with a maximum value of 24,900,000 a minimum value of -

63.0000 and a standard deviation of 24,116,817. The result also shows that cost is positively skewed.

4.2 Estimated Result

Table 3

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-200.435	167.4305	-1.19713	0.2336
DFIN	2.269619	2.477944	0.915928	0.3615
EFIN	2.202635	3.651606	0.603196	0.5475
REV	1.000005	0.0000146	683089.7	0.0001
CST	-1.00002	0.0000478	-209382	0.001
R-squared	0.998900	Mean dependent var		8858051
Adjusted R-squared	0.989700	S.D. dependent var		78168636
S.E. of regression	1256.002	Akaike info criterion		17.14783
Sum squared resid	19200000	Schwarz criterion		17.2598
Log likelihood	-1083.89	Hannan-Quinn criter.		17.19332
F-statistic	1220000	Durbin-Watson stat		1.99757
Prob (F-statistic)	0.00001			

Source: Author's computation.

From the table above, it can be seen that debt finance is positively related to small scale enterprise profit and it's not significant at 5% level of significance. A unit increase in debt finance will lead to a 2.269619 unit increase in small scale enterprise profit.

From the table above, it can be seen that equity finance is positively related to small scale enterprise profit and it's not significant at 5% level of significance. A unit increase in equity finance will lead to a 2.202635 unit increase in small scale enterprise profit.

From the table above, it can be seen that revenue is positively related to small scale enterprise profit and it's significant at 5% level of significance. A unit increase in revenue will lead to a 1.000005 unit increase in small scale enterprise profit.

From the table above, it can be seen that cost is negatively related to small scale enterprise profit and it's significant at 5% level of significance. A unit increase in cost will lead to a 1.000002 unit increase in small scale enterprise profit.

Interpretation of the co-efficient (R^2) of determination and F-statistic

The coefficient of determination (R^2) shows that the entire model has very strong predictive power. The R^2 value which is given as 0.9989 explains that 99.98% of the total variations in small scale enterprise profit can be explained by variations in debt finance, equity finance, revenue and cost.

The p-value of the F-statistic show that the entire model is statistically significant at 5% or 0.05 level of significance. The Durbin Watson Statistic show the absence of auto or serial correlation.

4.3 Policy Implication

From the table above, it can be seen that both debt finance and equity finance positively impacts on small scale enterprise profit. The increase in both debt finance and equity finance by small scale enterprise will increase the level of profitability. Debt and equity finance are used to acquire assets and these assets are used to run the firm's business operations. The increase in the availability of assets will increase the level of output per employee and will increase the level of profitability of small scale

firms. From the result, revenue impacts positively on the profitability of small scale enterprise however cost has a significant negative impact of the level of profitability. Therefore Finance is one of the factors occupying an important place in all types of economic activities. The growth of any industry largely depends upon the availability of adequate financing of business activities. Financing of small scale enterprises is that critical aspect which gains special attention.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This study investigates the effect of finance on small scale enterprise productivity. The main objective of the study is to investigate the relationship between finance and small scale enterprise productivity. The Ordinary Least Squares method was adopted to analyze the relationship between finance (debt finance and equity finance) and small scale enterprise productivity (proxy with small scale profitability). Secondary data was utilized for empirical analysis.. Estimation of the parameters using OLS was performed and interpretations were given according to the results obtained. From the result obtained it can be seen that all the variables met the apriori expectation as specified in chapter 3. The result shows debt finance, equity finance and revenue has a positive impact on small scale enterprise profitability. Cost however impacted negatively on small scale enterprise profitability.

5.2 Conclusion

Small Scale Enterprises (MSE's) are unarguably important in developing the Nigerian economy for the following key reasons which are; social and political role in domestic creation of employment, adequate resource utilization and income generation, the efficient use of local technology and raw materials and the promotion of change in a gradual and peaceful manner. There is growing realization on the part

of the Government that instead of the promotion of large-scale enterprises, it should inventively promote micro, small, and medium enterprises. Finance is one of the factors needed by small firms to boost their level of profitability and thus their level of productivity. The growth of any industry largely depends upon the availability of adequate financing of business activities

5.3 Recommendations

Having discovered from this study the positive impact of finance on firm productivity, it is therefore recommended that:

1. Firms should have access to adequate funding either through debt financing or equity financing.
2. Banks and other financial institutions should make debt financing in the form of bank loans and overdraft facilities readily available to small firms.
3. Small firms should ensure that there is proper mix of debt and equity finance in their financial structure and small firms should ensure that there is proper utilization of both debt and equity financing.

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Appendix

	SSEP	EFIN	DFIN	REVENUE	COST
Mean	8858051.	29.42520	32.78740	15330652	6472596.
Median	194970.0	20.00000	40.00000	1500000.	745000.0
Maximum	75400000	100.0000	100.0000	8000000	24900000
Minimum	-24800000	-9.000000	-63.00000	-9.000000	-63.00000
Std. Dev.	78168636	31.45229	45.97198	79543066	24116817
Skewness	7.405937	0.950681	-0.595394	8.558189	8.291814
Kurtosis	70.69404	3.165211	2.606070	80.14084	81.58543
Jarque-Bera	25409.92	19.27475	8.324608	33039.47	34134.88
Probability	0.000010	0.000065	0.015572	0.000020	0.000030
Sum	11200000	3737.000	4164.000	19500000	82200000
Sum Sq. Dev.	77000000	124645.0	266291.3	79700000	73300000
Observations	127	127	127	127	127

Null Hypothesis: SSEP has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=12)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-11.37683	0.0003
Test critical values: 1% level	-3.482879	
5% level	-2.884477	
10% level	-2.579080	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(SMEP)
Method: Least Squares
Date: 03/03/25 Time: 20:11
Sample (adjusted): 2 127
Included observations: 126 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SSEP(-1)	-1.021444	0.089783	-11.37683	0.0000
C	9121518.	7063469.	1.291365	0.1990
R-squared	0.510718	Mean dependent var	-5754.254	
Adjusted R-squared	0.506772	S.D. dependent var	1.12E+08	
S.E. of regression	78774162	Akaike info criterion	39.21781	

Sum squared resid	7.69E+17	Schwarz criterion	39.26283
Log likelihood	-2468.722	Hannan-Quinn criter.	39.23610
F-statistic	129.4324	Durbin-Watson stat	1.998521
Prob(F-statistic)	0.000000		

Null Hypothesis: DFIN has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=12)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-9.687662	0.0001
Test critical values: 1% level	-3.482879	
5% level	-2.884477	
10% level	-2.579080	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(DFIN)
Method: Least Squares
Date: 03/03/25 Time: 20:11
Sample (adjusted): 2 127
Included observations: 126 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DFIN(-1)	-0.852671	0.088016	-9.687662	0.0000
C	28.49370	4.972727	5.729995	0.0000
R-squared	0.430803	Mean dependent var		0.484127
Adjusted R-squared	0.426213	S.D. dependent var		59.95368
S.E. of regression	45.41416	Akaike info criterion		10.48527
Sum squared resid	255743.3	Schwarz criterion		10.53029
Log likelihood	-658.5720	Hannan-Quinn criter.		10.50356
F-statistic	93.85080	Durbin-Watson stat		2.006272
Prob(F-statistic)	0.000000			

Null Hypothesis: EFIN has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=12)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-10.21956	0.0002
Test critical values: 1% level	-3.482879	
5% level	-2.884477	
10% level	-2.579080	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(EFIN)
 Method: Least Squares
 Date: 03/03/25 Time: 20:12
 Sample (adjusted): 2 127
 Included observations: 126 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EFIN(-1)	-0.908723	0.088920	-10.21956	0.0000
C	27.03750	3.833665	7.052650	0.0000
R-squared	0.457186	Mean dependent var		0.230159
Adjusted R-squared	0.452809	S.D. dependent var		42.42399
S.E. of regression	31.38202	Akaike info criterion		9.746093
Sum squared resid	122119.1	Schwarz criterion		9.791114
Log likelihood	-612.0039	Hannan-Quinn criter.		9.764384
F-statistic	104.4394	Durbin-Watson stat		1.988192
Prob(F-statistic)	0.000000			

Null Hypothesis: REV has a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=12)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-11.34878	0.0001
Test critical values: 1% level	-3.482879	
5% level	-2.884477	
10% level	-2.579080	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(REV)
 Method: Least Squares
 Date: 03/03/25 Time: 20:13
 Sample (adjusted): 2 127
 Included observations: 126 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
REV(-1)	-1.018948	0.089785	-11.34878	0.0000
C	15744966	7274227.	2.164486	0.0323

R-squared	0.509483	Mean dependent var	7936.579
Adjusted R-squared	0.505528	S.D. dependent var	1.14E+08
S.E. of regression	80155669	Akaike info criterion	39.25259
Sum squared resid	7.97E+17	Schwarz criterion	39.29761
Log likelihood	-2470.913	Hannan-Quinn criter.	39.27088
F-statistic	128.7947	Durbin-Watson stat	1.997316
Prob(F-statistic)	0.000000		

Null Hypothesis: CST has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=12)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-11.46054	0.0004
Test critical values: 1% level	-3.482879	
5% level	-2.884477	
10% level	-2.579080	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(CST)
Method: Least Squares
Date: 03/03/25 Time: 20:13
Sample (adjusted): 2 127
Included observations: 126 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CST(-1)	-1.028633	0.089754	-11.46054	0.0000
C	6708782.	2241735.	2.992673	0.0033
R-squared	0.514381	Mean dependent var	13690.83	
Adjusted R-squared	0.510464	S.D. dependent var	34722133	
S.E. of regression	24293973	Akaike info criterion	36.86510	
Sum squared resid	7.32E+16	Schwarz criterion	36.91012	
Log likelihood	-2320.501	Hannan-Quinn criter.	36.88339	
F-statistic	131.3440	Durbin-Watson stat	1.997892	
Prob(F-statistic)	0.000000			

Dependent Variable: SSEP
Method: Least Squares
Date: 03/03/25 Time: 20:15
Sample: 1 127

Included observations: 127

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-200.4354	167.4305	-1.197126	0.2336
DFIN	2.269619	2.477944	0.915928	0.3615
EFIN	2.202635	3.651606	0.603196	0.5475
REV	1.000005	1.46E-06	683089.7	0.0001
CST	-1.000002	4.78E-06	-209382.2	0.0010
R-squared	0.998900	Mean dependent var		8858051.
Adjusted R-squared	0.989700	S.D. dependent var		78168636
S.E. of regression	1256.002	Akaike info criterion		17.14783
Sum squared resid	1.92E+08	Schwarz criterion		17.25980
Log likelihood	-1083.887	Hannan-Quinn criter.		17.19332
F-statistic	1.22E+11	Durbin-Watson stat		1.997570
Prob(F-statistic)	0.000010			