

Factors that Determine the Capital Structure among Micro-Enterprises: A Case Study of Micro-Enterprises in Kisii Town, Kenya

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Abstract

The purpose of this research was to determine the factors which influence the capital structure among micro-enterprises. The objectives of the study were to identify the factors affecting capital structure of micro-enterprises, to establish the extent to which the factors affect capital structure of micro-enterprises and to analyze the extent to which micro-enterprises have used external finances. The results identified the major determinants of the capital structure of micro-enterprises as being access to capital markets, size of the business, profitability of the business and lender's attitude towards the firm. Banks and financial institutions were noted as the most preferred form of external financing for the micro-enterprises. The study concluded that there are a number of factors affecting the capital structure of micro-enterprises and that micro-enterprises prefer borrowing from various external sources and this affects the capital structure of the micro-enterprises.

Key words : Capital, Equity, fund, return

1. Introduction

Capital is a critical resource for all firms, the supply of which is uncertain. This uncertainty enables the suppliers of finance to exert control over the firm (Stearns, 1986; and Mazruch, 1993) as quoted in Rahul (1996). A firm's capital structure is a mix of debt and equity. In equity capital, the investors are partners in a company or firm while debt capital involves acquisition of extra capital from sources outside the firm, like creditors and loans. The financial manager must strive to obtain the best financing mix or the optimum capital structure for his or her firm. The firm's capital structure is considered optimum when the market value of shares is maximized (Pandey, 1990). In the SME situation, it means that the capital should be structured in a way that maximizes the return, usually in a form of profits to the enterprise. Any other structure that brings fewer returns will therefore be interpreted as not being optimal or being inefficient. The firm's capital structure can be made optimum through among other things; minimizing the use of debt as a means of financing SMEs since often these debts are acquired by the firm at a cost in the form of interest paid on the debt. As much as the use of debt may increase the return on equity funds, but it always increases financial risk as well. Therefore, it implies that micro-enterprises should be encouraged to result in acquisition of capital from sources which have least risk to the firm (Pandey, 1990). Gilchrist and Himmelberg (1995), as quoted in Liu and Pang (2009) observed that firms are financially constrained in that they have preferred using internal funds that are less expensive than external sources. Kilonzo (2003), as quoted in Mwaka (2006) further argues that a firm that relies too much on debt suffers from high charges of interest rates and this may utilize further returns required for future growth as well as jeopardizing its operations.

They argue that on the other hand, a firm that relies too much on own funds will lack the adequate finance to grow. Many developing countries have introduced market reform programs aimed at reversing economic decline and to generate sustainable growth and development (Al-Najjar and Taylor, 2008). In Kenya, this has been achieved through encouraging self-employment and setting up of SME among youths and women. Youth funds have been set up by the government to provide loans to youth through banks like Family Finance, Equity and K-Rep to start businesses. Women funds have been set up to assist women to get finance to start business. All these are in view of encouraging self-employment and self-reliance. It is estimated that today, Kenya's SME sector constitutes 90% of all businesses in the country, absorbs annually up to 50% of new non-farm employment seekers; has an employment growth rate of 12-14% and contributes 30% of total employment and 3% of GDP (Riley, 2002), as quoted in Nyoike (2003). SMEs are attractive because they are labour intensive, require low initial capital and there is ease of entry (Wickman, 2000) as quoted in Nyoike (2003).

Many researches have been done on capital structure as regards to large enterprise. Besides, others focusing on small and medium enterprises have been carried out in various parts of the world, our country notwithstanding. However, the characteristics that make the micro-enterprises are different compared to those that make large enterprises. For example, most large enterprises have more fixed assets which are treated as collaterals and thus giving them a favorable ground for acquiring secured loan, while small enterprises have hardly enough to act as loan security. SMEs do not direct their special attention to these factors particularly access to capital markets, size of the business, profitability of the business, lender's attitude towards the firm, ability of owners to raise funds, age of the business and lending interest rates. Further still, most enterprises do not have business plans, yet this is of importance to lenders when making a decision on whether or not to advance credit to an enterprise. These are therefore good theoretical grounds to expect capital structures of micro-enterprises to be different from that of small and large enterprises, thus the need to carry research on the specific determinants that affect the capital structure of these micro-enterprises. The objectives of the study were to identify the factors affecting capital structure among micro-enterprises, to establish the extent to which the factors affect capital structure among micro-enterprises and to analyze the extent to which micro-enterprises have used external finances.

2. Literature Review

There are many financial decisions that a firm makes in its daily operations. However, one of the important financial decisions facing them often involves the choice between debt and equity capital. The mix of debt and equity is known as the firm's capital structure (Pandey, 1990). There have been many debates centered on whether there is an optimal capital structure for an individual firm or whether the proportion of debt usage is irrelevant to the individual firm's value (Gay, Louis and Wallace, 1994). There exist several methods through which firms can be able to raise funds required to undertake its operations. However, the question on how much of debt and how much of equity a firm should maintain in order to optimize has been left unanswered in many scholars' minds. Roy and Ming Fang (2000) quote (Jensen 1986) emphasizing that the creation of a capital structure can influence the governance structure of a firm, which in turn, can influence the ability of a firm to make strategic choices.

Roy and Ming Fang (2000) state that an appropriate capital structure is a critical decision for any business organization, and that the decision is important because of the need to maximize returns to various organizational constituencies and also because of the impact such a decision has on organization's ability to deal with its competitive environment. They further quote (Modigliani and Miller 1958, 1963) emphasizing that there exists an optimal capital structure which balances the risk of bankruptcy with the tax savings of debt. They further note that once established, this capital structure should provide greater returns to stockholders than they would receive from an all-equity firm. However, many later empirical researches have been carried out only to disapprove this theoretical relationship. They argue that there are other firm related characteristics such as future growth options, earnings volatility, profitability and control, which affect a firm's capital structure (Titman and Wessels, 1988). In the International dimension, it has been observed that some of the determinants of capital structure include the country norms, type and size of industry and also host Government control (Lee and Kwok, (1988) as quoted in (Al-Najjar and Taylor 2008).

There are three principal theories which aim to explain corporate leverage and its dynamics. According to the static trade off theory (TOT), firms select optimal capital structure by comparing the tax benefits of its debt, the cost of bankruptcy and the costs of agency of debt and equity, that is to say the disciplinary role of debt and the fact that the debt suffers less from informational costs than outside equity (Modigliani & Miller, 1963; Stiglitz, 1972; Jensen & Meckling, 1976; Myers, 1977; Titman 1984), as quoted in Jean (2008). He further quotes (Donaldson, 1961; Myers & Majluf, 1984; Myers, 1984) arguing that in the so called pecking order theory (POT), because of asymmetries of information between insiders and outsiders, the company will prefer the financing by internal resources, then by debt and finally by stockholders' equity. The debt ratio depends then on the degree of asymmetry of information, of the capacity of self-financing of the company and the various constraints which it meets in the access to the various sources of financing.

The dynamic trade-off theory (DTOT) tries a compromise between TOT and POT (Fischer, Heinkel, and Zechner, 1989; Leland, 1994, 1998) as quoted in Jean (2008). Although, due to information asymmetries, market imperfections and transaction costs, many companies allow their leverage ratios to drift away from their targets for a time, when the distance becomes large enough, managers take steps to move their companies back toward the targets. While the POT explains short-run deviation from the target, the traditional trade-off theory holds in the long run.

According to the theory of the market timing and inertia, the structure of debt is the result at a given time of a historical process. According to the approach of the market timing, the leaders will carry out increases in the capital when they think that the actions are over-estimated. A small debt ratio must thus follow a long period of Market to Book high ratio (Baker & Wugler (2002) as quoted in Jean (2008). According to Welch (2004) as quoted in Jean (2008), the companies quickly do not adjust their debt ratio to the fluctuations of the value of the stockholders' equity; one period of rise of the courses must thus be accompanied by small debt ratios. In the static approach of the theory of the trade off, it is a question of explaining the target debt ratio, the debt ratios of the companies are supposed to converge towards the target debt ratio, but the process of convergence is not explicitly taken into account.

Many Kenyan researchers have contributed a lot to this field of knowledge. Kamere (1987) did a research on some factors that influence capital structure of public companies in Kenya. From his research, he concluded that profitability was a very important and major factor that influenced capital structure decisions in firms in NSE. His observation was that those companies whose profits were very high borrowed very little, that is; they did not borrow so much since some of the profit would be ploughed back into the business. He further noted that those with small profit would not be able to plough back any substantial amount into the business; therefore, they were forced to seek additional funds from outside sources. In fact, this result concurred with the pecking order theory which argues that in the presence of asymmetric information, a firm would prefer internal finance over the other sources of finance, but would issue debt if internal funds were exhausted. However, Omondi (1996) in his research on capital structure in Kenya came up with a conclusion that totally contradicted the Pecking order theory. In his research, he observed that those firms in NSE and with high returns on investments used relatively high debt. That is, those firms which recorded high profit were also found to have borrowed much.

Other similar researches that have been done include that of Musilo (2005): capital structure choices, a survey of industrial firms in Kenya. His objective was to find out the factors that motivate management of industrial firms in choosing their capital structure. The research found out that industrial firms are more likely to follow a financing hierarchy than to maintain a target-debt to equity ratio, and that the models based on corporate and personal taxes, bankruptcy, and other leverage related cost are not as useful in determining the financing mix as are the models that suggest that new financing reveals aspects of the firm's marginal asset performance. He further added that, the importance managers attach to specific capital structure theories is not related to managerial perceptions of market efficiency.

Nalwelishe (2003) carried a research on sources of finance available to small scale enterprises in Nairobi. His objectives were to identify which types of credit are easily obtainable by SSEs and to evaluate the credit policies SSEs. On access to credit, majority of entrepreneurs relied on limited own and family savings for start-up and additional capital. They hardly rely on external sources of finance. Therefore, these enterprises have poor access to credit. Concerning supply of credit; urban-located enterprises were noted to have achieved a higher success rate than the rural ones.

Similarly, informal enterprises are more successful in the levels of their loan applications than formal ones. Karanja (2008) carried out an investigation on the factors affecting growth of women-owned small and micro enterprises in Kenya. His objectives were to determine the demographic characteristics of women operating SMEs, to establish what motivates women to participate in SMEs, to determine the role played by education, training and previous jobs in making of entrepreneurs and to investigate the factors affecting the growth of women SMEs. It was realized from the results of the study that limited finances were the main hindrances to business growth. It was further noted that the financing of SMEs was by a variety of “merry-go-rounds” and ROSCAs. The entrepreneurs were also noted to lack operating funds as collateral for credit. Therefore, it can be concluded that so far quite a few researches have been done in this area, and that even these few are not in agreement as far as their findings are concerned. It is due to these conflicting findings that I justify my research to fill the gap.

Jensen (1986) as quoted in Roy and Ming Fang (2000) observe that in order for small and micro-enterprises to maintain their competitive capabilities, goals and objectives, reduce risks and continue with their existence, they need adequate knowledge about capital structure. He further notes that, they should direct their special attention to those factors that are likely to influence the governance structure of a firm to make strategic choices. There are several factors that are known to affect capital structure from documented literature and empirical studies undertaken. These include:- Size of the firm- There is enough evidence to show that the size of the firm plays an important role in capital structure decision. Large firms tend to be more diversified and therefore less prone to bankruptcy. Therefore, a positive relationship is expected between a firm's size and its leverage (Titman and Wessels, 1988; Bhaduri, 2002). This motivates institutional investors to lend or loan large enterprises since they believe that their probability of bankruptcy is very low.

Profitability- The pecking order theory states that in the presence of asymmetric information, a firm would prefer internal finance over other sources of funds, but would issue debts if internal finance was exhausted. It further argued that the least attractive alternative for the firm would be to issue new equity. This implies that high profits would encourage a firm to finance itself from a fraction of that profit. In other words, there is a negative relation between leverage and past profitability, Donaldson (1961), Myers and Majluf (1984) as quoted in Al-Najjar and Taylor (2008). Liquidity- This liquidity ratios has both positive and negative effects on the capital structure and so far the net effect is unknown (Basil and Taylor 2008), as quoted in Al-Najjar and Taylor (2008). They argue that the effect is positive from the fact that firms with high liquidity ratios may have relatively higher debt ratios due to their greater ability to meet short term obligations; and the effect is negative from the fact that firms with more liquid assets may use such assets as source of finance to fund future investment opportunities.

Asset structure is also another important determinant of capital structure. There is a positive relationship between tangible assets and debt (Titman and Wessels, 1988). The more tangible the firm's assets are the more such assets can be used as collateral. This will encourage borrowing. The degree to which the firms' assets are tangible and generic should result in the firm having a greater liquidation value. By pledging the assets as collateral (Harris and Raviv, 1990) or arranging so that a fixed charge is directly placed to particular tangible assets of the firm, also reduces adverse selection and moral hazard costs (Long and Malitz, 1992), as quoted in Gay, Louis and Wallace (1994). However, Huchinson and Hunter (1995) observed that tangible assets would also have a negative impact on financial leverage by augmenting risk through the increase of operating leverage. Part of the intangible assets, such as reputation, becomes quasi-tangible and interpreted by debt holders as a guarantee (Balakrishnan and Fox, 1993), as quoted in Gay, Louis and Wallace (1994). Liquidity ratios may have a mixed impact on the capital structure decision. Companies with higher liquidity ratios might support a relatively higher debt ratio due to greater ability to meet short-term obligations. On the other hand firms with greater liquidities may use them to finance their investments. Therefore the companies' liquidities should exert a negative impact on its leverage ratio (Ozkan, 2001). Further still, Growth of the firm also has some importance in determining capital structure. Al-Najjar and Taylor (2008) argue that agency problems are likely to be more severe for growing firms because they are more flexible on their choice of future investments, and therefore, in their view, the expected growth rate should be negatively related to long term leverage. Applying pecking order arguments, growing firms place a greater demand on the internally generated funds of the firm. Consequentially, firms with relatively high growth will tend to issue securities less subject to information asymmetries, i.e. short-term debt. This should lead to firms with relatively higher growth having more leverage (Gay, Louis and Wallace, 1994).

Bankruptcy theory identifies business risk as another important determinant of capital structure. It argues that there is a negative relationship between risk and capital structure. Institutional investors will favour investing in firms with low business risk because firms with high volatility in their returns are likely to have a high probability to default and to become bankrupt (Bassil and Peter, 2008); as quoted in (Al-Najjar and Taylor, 2008). Since higher variability in earnings indicates that the probability of bankruptcy increases, we can expect that firms with higher income variability have lower leverage (Titman and Wessels, 1988). Firms that have high operating risk can lower the volatility of the net profit by reducing the level of debt (Gay, Louis and Wallace, 1994). Dividends-Miller and Kevin (1985) suggested that a firm with a reputation of paying constant stream of dividends face less asymmetric information when entering the equity market. They note further that, if dividend payments represent a sign of sound financial health and hence, higher debt issuing capacity, then, it would expect a positive relationship between dividend payment and leverage.

Scholars have also identified Industry effect as being another important aspect of determining capital structure. Al-Najjar and Taylor (2008) argue that although firms have a corporate personality from outside, they are assumed to have an impersonal appearance. They further note that, however, on the inside, the personalities of the owners and managers have a strong impact in firm behaviors. They go on to suggest that, struggles over the control of the firm are frequent because with control comes access to the firm's earnings and other non-pecuniary benefits. As a result, maintaining the control can preoccupy management (owners if they are different) whenever capital structure decisions are being made and the choice between debt and equity can at times be in favour of debt on the basis of control, even when cost considerations would favour equity. As far as availability of finance is concerned, Manas'sh (1990) argues that, the cost of finance can be a limitation to the use of a given source of finance especially if it involves both implicit costs (indirect costs such as the insurance of the security) and explicit costs (such as direct costs of interest and dividend payable directly to lenders of such finance). He further states that, the total sum of these two may out-weigh the returns expected from an investment which will reduce its viability and thus will not be used in any financing endeavors.

Besides, the cost of finance may also be influenced by the bank rates which the central bank may increase from time to time due to inflation. When such rates increase, the cost of finance may also go up and out-weigh the return realized from the investment and this will discourage firms from using such finance, and this will lead to less of it in the capital structure of a given company. The degree of competition in a given industry- Manas'sh (1990) warns firms which operate in a highly competitive industry against using excessive levels of debt finance. This is so because if new firms enter the industry, they will reduce the market share of the existing firms hence their profits will fall proportionately. This may make these existing firms unable to service not only the interest on debt but also the principal when it falls due. Since asset risk, asset type, and requirement for external funds vary by industry we could expect average debt ratios to vary from industry to industry (Haris and Raviv, 1991).

Need for flexibility is also another factor which cannot be ignored as far as determining capital structure is concerned. Manas'sh (1990) notes that, there are some finances which carry pre-conditions and restrictions which may put constraints to the user company. For example, use of lease finance may not allow the leasee to use the leased asset in any manner he thinks may increase his profitability. The firms using debt finance should also leave a "breathing gap" which can enable it to raise further debt finance when the need arises. Stability of future sales- If a company predicts stable future sales and hence profits, then the company can raise debt finance since it is able to service the debt and its interest from the profit; but if its future sales forecasts are unstable then it will be unwise for the company to raise debt finance (Manas'sh, 1990). Lender's attitude may also affect the capital structure of a firm. Manas'sh (1990) argues that the lender's attitude will influence the availability of finance in that they will be reluctant to avail their finance to a high geared company as its risks will not be acceptable to them. He also notes that lenders may be biased against the company due to its products and its future performance. For example, due to religious or social constraints some investors may not be willing to lend companies whose operations are viewed to be against their religious or social beliefs. Lastly, management attitude- There are some companies which, by their nature, cannot approve the use of some finances as this will dilute control which is of great value to them. For instance, private companies may not use ordinary share capital and excessive debt as this may dilute their control which they cannot compromise. This means that, such businesses will use other finances like overdrafts, trade credits and hire purchase hence less of debt in their capital structure (Manas'sh, 1990).

3. Research Methodology

The research involved a survey of the micro-enterprises within Kisii town. Information regarding the factors affecting the capital structure of micro-enterprises was obtained by administering a questionnaire with both closed-ended and open-ended questions to the owners of the selected micro-enterprises. The study was conducted within Kisii town in Kisii County of Nyanza province, Kenya. This research study targeted accessing information from all the managers of micro-enterprises in Kisii town. The respondents were owners of the selected micro-enterprises that are based within the town. The research targeted obtaining information from all the 200 managers of micro-enterprises within the town. The sample frame consisted of 200 active micro-enterprises within Kisii town. Simple random design was used to identify the micro-enterprises to be selected for study. Since the research was descriptive in nature, 40% of the accessible population (that is, 80 micro-enterprises) was selected using simple random design. A questionnaire was administered to the respondents who were owners of the micro-enterprises after it had been pre-tested for reliability and validity by subjecting it to a group similar in characteristics as that of the target group. To assist the researcher meet the study's pre-designed objectives; self-completion and semi-structured questionnaires were designed accommodating all the critical aspects covered in the identified variables. After the questionnaire had been collected, the data obtained from them were coded, entered and analyzed using descriptive statistics.

4. Results

The research established that most of the micro-enterprises engaged in general trading (30%) and in food and beverages at 15%. It was further noted that very few respondents engaged in plantation, printing and publishing and gas, energy and allied forms of micro-enterprises, each of which had 5%.

4.1 Factors determining capital structure of micro-enterprises

The research sought to identify the various factors that determine the capital structure of micro-enterprises. The various factors identified from documented literature were listed and a five point Likert scale attached to it. Respondents were asked to tick against the number which represented the weight they attached to individual factors. The results established that there were quite a number of factors which determine the capital structure of micro-enterprises, as shown in the table 1 below. The results in the table indicate that the greatest factor which influences the capital structure is access to capital markets rated at 4.65 in a Likert scale of between 1 to 5 weights. This was followed by size of the business rated at 4.35 in a Likert scale of between 1 to 5 weights, then profitability of the business rated at 4.15 in a Likert scale of between 1 to 5 weights and then lender's attitude towards the firm rated at 4.05 in a Likert scale of between 1 to 5 weights. This implied that the respondents rated these factors as being "Very Influential" tending to "Mostly influential". The other factors identified were ability of owners to raise funds rated at 4.00 in a Likert scale of between 1 to 5 weights, age of the business rated at 3.90 in a Likert scale of between 1 to 5 weights and lending interest rates rated at 3.90 in a Likert scale of between 1 to 5 weights. Tax advantage of the debt (rated at 1.80 in a Likert scale of between 1 to 5 weights), government policy (rated at 2.25 in a Likert scale of between 1 to 5 weights) and level of competition of the industry (rated at 3.05 in a Likert scale of between 1 to 5 weights), in the respondents' views, were not significant in influencing the capital structure of micro-enterprises.

4.2 Value of Collateral Owned By Micro-Enterprises

The research sought to find the total value of collateral owned by the various micro-enterprises which they would use as security to secure loans from financial institutions. The results indicated that majority of the micro-enterprises (95%) had less than Ksh. 100 000 worth of collateral, while the remaining 5% had their value of collateral ranging between Ksh. 100 001 and Ksh. 200 000. This made it very difficult for the micro-enterprises to secure adequate loans from financial institutions using collateral.

4.3 Frequency of Financial Funding to Micro-Enterprises using Collateral

The research undertook to find out the number of times the various micro-enterprises under study had applied for financial funding using collateral over the previous two years. From the results above, it was evident that quite a good number of micro-enterprises (80%) had not made any attempts to apply for any financial funding using collateral in the last two years. This was because of lack of collateral which they would use in securing the loan.

The study further revealed that 15% of the micro-enterprises had made just one attempt to secure loan using collateral, while 5% of the micro-enterprises had tried twice to secure a loan using collateral.

4.4 Access to Financial Funding

The research sought to find the number of micro-enterprises which have at one time received any form of financial funding. The results indicated that 70% of the micro-enterprises had received at least some funding. The research further indicated that most of them (65%) had gotten between 25% and 50% of their financial funding using collateral, while 15% of them had secured more than 50% of their financial funding using collateral. The remaining 20% secured at most 25% of their financial funding using their collateral.

4.5 Forms of External Financing for Micro-Enterprises

The research undertook to find out the preferred forms of external financing for the micro- enterprises. The results of this study identified the most preferred source of external financing being banks (25%) and financial institutions (25%). A few of the respondents (16%) preferred borrowing from trade creditors. The least preferred forms of external financing for the micro- enterprises were noted to be micro-finance institutions, owners of the micro-enterprises and related businesses; which were rated at 15%, 15% and 0% respectively. It was also established that most the respondents (65%) do not prefer borrowing from more than one lender.

4.6 Portion of External Capital for Micro-Enterprises

The respondents were asked to state the percentage portion of external capital obtained from bank loans, SACCOs, own savings, welfare groups among other sources. The results indicate that just 20% of the micro-enterprises sourced that more than half (50%) of their external capital from their bank loans. 25% of them had sourced more than half their external capital from SACCOs, while 95% had sourced more than half of their external capital from own savings. Those micro-enterprises that had sourced more than half (50%) of their external capital from welfare group were 15%.

4.7 Percentage of Capital Borrowed

The respondents were asked to estimate the percentage of capital raised from own funds and borrowed funds. The results indicated that most micro-enterprises (80%) had sourced most of their capital from own funds; while 20% of the enterprises had sourced their capital from borrowed funds.

4.8 Proportion of Current Capital from External Financing

The respondents were asked to indicate the percentage of their current capital that was as a result of external financing. The results indicated that majority of the micro-enterprises (65%) had their current percentage of external financing ranging between 0% and 25%. Twenty percent of the micro-enterprises were noted to have their borrowing from external sources ranging between 25% and 50%. Five percent of the micro-enterprises had not succeeded to secure any form of external financing. This was attributed to lack of collaterals to use as security against loan.

5. Discussion

From the research, its evident that a number of factors are quite influential in determining the capital structure of micro-enterprises. The study also revealed that there are certain determinants of capital structure which seem to be more influential as compared to others. The greatest determinants identified were: access to capital markets, size of the business, profitability of the business and lender's attitude towards the firm. In fact, this concurs with Kinyua (2005) who carried his research on empirical investigation of capital structure determinants of small and medium-sized enterprises in Kenya. Kamere (1987) also had a similar result on his research on Some factors that influence capital structure of public companies in Kenya. He identified profitability as an influential determinant of capital structure decisions in firms in NSE. The other major determinants identified were: ability of the owners to raise funds, lending interest rates, age of the business and attitude of the management towards risk. The respondents seemed to prefer using part of their profits because its a cheaper way of financing a business since its not acquired at any cost to the business. The research also revealed that government policy and tax advantage of the debt were not so influential in determining the capital structure of micro-enterprises. This was attributed to the fact that most micro-enterprises do not rely so much on external means of financing, hence they do not get tax advantage on debts.

Besides, the government has not established many policies which directly affect the micro-enterprises. Further still, it was established from the research that most of the micro- enterprises (80%) are funded by the owners of the micro-enterprises, largely because they lack collaterals to use as securities to acquire external funding and also they are thought of having a high default rate.

It was noted from the research that very little profits generated is ploughed back to expand the business. This makes it difficult for the micro-enterprises to expand and to continue to sustain themselves. It was further noted from the research that most of the business experienced little growth in terms of asset structure, increase in profits, increase in business size and increase in product line. It was also noted from the research that the most preferred form of external financing for micro-enterprises managers were banks and financial institutions, each of which was preferred by 25% of the respondents.

6. Conclusion

Capital structure of micro-enterprises is determined by a number of factors. This will influence the ratio of the capital that is borrowed from external sources to the amount of capital from owner's contribution. Besides, micro-enterprises prefer borrowing from various external sources and this also affects the capital structure of the micro-enterprises.

From the study, it can be concluded that the major factors that affect the capital structure of micro-enterprises are: access to capital markets, size of business, profitability of the business and lenders' attitude towards the firm. Other factors, though less significant, include: asset structure of the micro-enterprises, lending interest rates, age of the business and attitude of the management toward risk. Government policy and tax advantage of the debt have no significant role in determining the capital structure of micro-enterprises. From this research, it is clear that capital structure is affected by a number of factors. It is noted that micro-enterprises experience low growth rate. Therefore, there is need for micro-enterprise owners to plough back most of the profits since it will enable it to expand hence grow. They should also not rely too much on own funding as a means of financing since oftenly this is limited to the owner's capability; but should also source from cheap external sources as and when need arises.

Table 1: Factors Determining the Capital Structure of Micro-Enterprises.

Factor	Mostly Influential 5	Very Influential 4	Influential 3	Moderately Influential 2	Less Influential 1	$\sum f_i$	$\sum w_i f_i$	$\frac{\sum w_i f_i}{\sum f_i}$
Asset structure of the business	3	7	6	4	0	20	68	3.45
Profitability of the business	4	15	1	0	0	20	83	4.15
Lender's attitude toward the firm	5	12	2	1	0	20	81	4.05
Stability of future cash flows	3	6	8	1	2	20	67	3.35
The need for outside capital	3	4	9	1	3	20	63	3.15
Level of competition in the industry	2	5	7	4	2	20	61	3.05
Ability of owners to raise funds	5	12	1	2	0	20	80	4.00
Tax advantage of the debt	0	0	1	14	5	20	36	1.80
Attitude of management towards risk	4	11	3	1	1	20	76	3.80
Government policy	0	0	9	7	4	20	45	2.25
Age of business	3	12	5	0	0	20	78	3.90
Size of the business	10	7	3	0	0	20	87	4.35
Access to capital markets	14	5	1	0	0	20	93	4.65
Lending interest rates	5	10	3	1	2	20	78	3.90
Expected growth	6	9	2	2	1	20	77	3.85

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