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FINANCING ENTREPRENEURSHIP DEVELOPMENT THROUGH INFORMAL FINANCIAL INSTITUTIONS IN NIGERIA

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Abstract

This paper examines the complementary role of the Informal financial intermediaries in raising finance for the development and promotion of Entrepreneurship in Nigeria. Entrepreneurship is globally recognized as a veritable tool for economic development and growth in both advanced and developing economies. Significant contributions of small and medium enterprises (SMEs) include job and wealth creation, raw materials provision, income generation, poverty reduction among others. Access to credit is acclaimed as one of the limiting factors for the growth of entrepreneurship in Nigeria as most Small business firms are financially excluded by the mainstream banks due to collateral requirements. The role of Informal financial institutions as alternative finance sources has become more compelling in Nigeria more so as the formal financial sector and the informal financial sector co-exist as providers of finance to the productive sector of the economy – a situation usually refers to as financial dualism. The informal financial sub-sector plays a complementary function to its formal counterpart by providing credits to small businesses. The research methodology employed secondary data sourced from the Central Bank of Nigeria (CBN), Small and Medium Enterprises Development of Nigeria (SMEDAN), and the National Bureau of Statistics (NBS). The study affirms the complementary role of informal financial intermediaries as an alternative source of finance for entrepreneurs as more than 70 per cent of entrepreneurs raise capital outside the banking system.

Keywords: Entrepreneurship, Entrepreneurship Development, Small and Medium Enterprises, Economic Development. Financial System, Formal financial sector, Informal

1.0 INTRODUCTION

1.1 Background

Entrepreneurship is globally acknowledged as a vehicle for economic transformation and growth in both developed and developing nations, due to their significant contributions to economies of the world. The Small and Medium Enterprises Development Agency of Nigerian (SMEDAN) Survey 2017 Reports revealed that Micro, Small, and Medium Enterprises (MSMEs) contribution to the Gross Domestic Product GDP was 49.78%. In the same report, the number of MSMEs rose from 17,284,678 in 2010 to 41,543,028 as of 2017. In 2017 the SME sector generated a total number of 59,647,954 employment against 32, 414, 884 in 2010. It is reported that over 80% of the industrial labour in Nigeria was employed in the small and medium scale industries. All over the world, there are empirical pieces of evidence that Small and Medium Enterprises (SMEs) or Small Business firms serve as a catalyst for economic development through employment creation, capital formation, and income redistribution among other benefits. Most of the World’s largest enterprises today were once either micro or small enterprises. SMEs provide strong buffers against economic crisis, as they are notable job creators, employing more than half of the working population and wealth creators, contributing significantly to Gross Domestic Product (GDP). The wider geographical distribution of small business firms helps in mitigating against rural-urban migration and e3ffective resource utilization. Also, they enjoy a competitive advantage over large enterprises in serving dispersed local markets and production of various goods with low scale economies for a niche market, as well as serving as veritable means of mobilization and utilization of domestic savings **Owualah(1999).**

Access to finance has been identified as one of the challenges facing the development of small and medium enterprises. Unfortunately, sourcing finance from the Commercial banks has been a very difficult task for the small business firms due primarily to ownership structure or legal status of a sole proprietorship, partnership or cooperative that inherently limits their ability to loans from the conventional banking institutions. Over 65 % of small businesses fall under sole proprietorship and 20 % as a private limited liability company. Another issue relating to SME financing is age status as this determines the type of capital requirement and the possibility of attracting external funding from financial institutions. A business firm can fall into an Early-stage firm, Expansion Stage, Maturity stage, or Decline stage. Each stage of growth has peculiar funding requirements with its associated risks. The capital problem also originates from within the SMEs due to poor financial management and managerial competency. Dalberg (2011) mentioned that SMEs are a fundamental component of the economic fabric in developing countries and they play a crucial role in furthering growth, innovation, and prosperity. Unfortunately, they are strongly restricted in accessing the capital, that they require to grow and expand with nearly half of SMEs in developing countries consider access to finance as a major constraint. They might not be able to access finance from local banks at all or face unfavourable lending conditions. Due to these constraints, various Governments such as the United States of America, India, Malaysia, and others have successfully developed a more alternative or creative financing mechanism - funding institutions, credit /guarantees schemes to promote and finance the activities of Small and medium enterprises. In Nigeria, the demand for alternative sources of finance is more compelling in the reality of expanded public expenditures and dwindling public revenue. There is the need to explore the informal financial sector to promote entrepreneurship development- an all-important economic segment of the economy to create more employment opportunities and maximize the full benefits of small business firms and reduce urban population drift.

1.2 Statement of the Problem

The provision of appropriate credits is a cardinal factor for expanding the capacity of the informal sector of the economy. The failure of the formal financial institutions to satisfy the credit demand for entrepreneurs has consequential effects on SMEs in the country. Lack of access to finance by small business firms from the formal financial sector especially the Commercial banks or Deposits Money Banks (DMBs) have continued to hinder the development and promotion of entrepreneurship initiatives, thereby increasing the level of unemployment with unmitigated high population growth rate as well as an increase in crimes, creating insecurity challenges in the country. A sure way of resolving the National security issue is to promote appropriate and adequate funds for the development of Micro, small, and medium enterprises.

1.3 Objectives of the Study

The objective of this paper is to examine the potentials of informal financial institutions as an alternative source for financing entrepreneurship development. Specifically, the study reviews the accessibility of credits - the flexibility of lending to micro, small and medium enterprises through the informal finance sector is the attraction and why the IFLs are becoming an alternative for SMEs' financing.

1.4 Research Methodology

The research data were obtained through Publications and Bulletins of Central Bank of Nigeria (CBN), National Bureau of Statistics(NBS), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) Reports which were reviewed and analyzed. Information was also sourced from relevant stakeholders like small business owners and managers, operators in the informal financial sector, and the formal financial system.

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1.5 Research Hypothesis

The flexibility of lending terms and conditions of informal financial institutions offer significant access to credits to micro, small and medium enterprises.

1.6 Significance of the Study

The result of the research would be significantly important for policy review and formulation to resolve the critical problem of Entrepreneurship development in Nigeria thereby reducing the insecurity challenge of the Nation as a whole.

2.0 THEORETICAL FRAMEWORK

2.1 Concept of Entrepreneurship

Entrepreneurship has attracted divergent definitions among scholars all over the decades. The earliest use of the word entrepreneurship has been attributed to a French economist Richard Cantillion (1725) who linked risk-bearing activities in an economy with that of the entrepreneur. Richard Cantillion describes the entrepreneur as a person bearing risks and different from one supplying capital. According to Richard, the entrepreneur is a risk-taker who attempts to maximize every opportunity. To Brain Tracy, entrepreneurs continually try new things. They fail fast, learn quickly, and keep moving forward. They don't analyze things to death.

- *Entrepreneurship can be seen as a process that involves the effort of an individual or individuals in identifying viable business opportunities in an environment and obtaining and managing the resources needed to exploit those opportunities.*
- *Entrepreneurship as an innovative process of converting an idea into market place reality by exploiting opportunities*
- *Entrepreneurship is the dynamic process of creating incremental wealth*

Globally the definition of SMEs has been a contentious issue, among Nations as there is no common or uniform definition for small and medium enterprises or small business firms or small scale industries, even within a country there are varied meanings or definitions for entrepreneurship by Government and their agencies, and this is partly responsible for the inability to formulate appropriate policies for the development of SMEs sector.

Owualah (1999) argues that small firms are difficult to count and measure individually and the parameters used in defining SMEs are several employees, assets employed, and sales turnover. Mensah (2001) Small scale industry has been defined variously by authors, organizations, and countries and most definitions are based on either the number of workers per establishment and /or the value of the fixed asset even with such definitions, there are differences in the cut off points.

Joseph A Schumpeter has been credited with a modern definition of Entrepreneurship emphasized the role of innovation in the transformation of economic systems and viewed the entrepreneur as an innovator (Mainoma and Aruwa 2014). Joseph Schumpeter (1934) defined the entrepreneur as an innovator and develops untried technology. To Albert Shapero (1975) entrepreneurship involves initiative-taking, organizing, and reorganizing of social and economic mechanisms to turn resources and situations to practical accounts and accept risks of failure. Peter Drucker (1964) sees the entrepreneur maximizing opportunities. Robert Hisrich (1985) viewed entrepreneurship as a process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time, and or career commitments or provide value for some product or service. Oshorun (2009) asserts that Entrepreneurship is simply defined as the establishment and management of small businesses.

Stevenson, H.H and Janilo, J.C.l (1991) viewed entrepreneurship as a behavioural concept or approach to management with the pursuit of opportunity without regard to resources currently controlled. To Stevenson and co-authors, there are six critical dimensions namely, strategic orientation, the commitment to opportunity, the resource commitment process, the concept of control over resources, the concept of management and compensation policy. Jhingan (2012) defines an entrepreneur as an economic leader who possesses the ability to recognize opportunities for the successful introduction of new commodities, new techniques, and new sources of supply and to assemble the necessary plant and equipment, management, and labour force and organize them into a running concern. *It is noteworthy that despite the divergent opinions by various scholars about the concept of entrepreneurship, there are grounds of independence and rewards*

Table 2. 1 Categorisation of Micro, Small and Medium Enterprises by SMEDAN

SN	Size Category	Employment	Assets N million Excluding; land & building
1	Micro-Enterprise	Less than 10	Less than N5m
2	Small Enterprise	10 to 49	5 to less than N50m
3	Medium Enterprise	50 to 199	50 to less than N500m

Source: SMEDAN SURVEY 2010

Table 2. 2 Small and Medium Enterprises Definition by Nations

Country	Definitional features
Australia	There are two definitions, one for

	statistical purposes and one for labour registration purposes. Small businesses must have independent ownership and operations. The definition includes non-employing businesses
Canada	Definition by different agencies eg Canadian Bankers Association, Export Development Corporation, and Industry. Canada have different turnover limits
China	The definition distinguishes between small and medium enterprises only
Egypt	The definition distinguishes between small and medium enterprises
Korea, Republic	The definition distinguishes between micro and small enterprises only
South Africa	The definition distinguishes between micro very small, small, or medium enterprises. Some reports also distinguish the Survivalist business that is generally defined as providing income only below the poverty line. Survivalist enterprises involve activities

	by people unable to find a paid job or get into an economic sector of their choice, that is people whose activities cannot be viewed as sustainable micro-enterprises even though many of them may eventually achieve such a position.
United Kingdom	The definition distinguishes between general small companies and parent small companies
United States of America	To be considered an MSME an enterprise must be independently owned and operated and not be dominant in its field of operation.

Source: Authors Adopted

2.2 Economic Relevance of Entrepreneurship

Entrepreneurship serves economic stimulant or catalyst for growth through innovations, creativity, and new ventures that increase output or wealth creation. Entrepreneurship is generally linked with the setting up of micro, small and medium enterprises as the engine of economic prosperity. Entrepreneurship connotes new venture creation, innovative growth or creativity, micro, small and medium-sized enterprises and creative development in larger firms, development of new products, services and creative ways of managing organizations, social and community initiatives generating value change, creative and enhanced employability, mindset change for value creation' and creation of innovative economic activity. The economic relevance of Entrepreneurship was further affirmed by Jhingan(2012) who describes the entrepreneur as the wheel of industry, as the entrepreneur is the "kingpin" of any business enterprise. Private entrepreneurship is an indispensable ingredient in economic development over a long period. The impact of Entrepreneurship on Economic development has variously been proven empirically especially with early works of Scholars such as Schumpter (1911) affirmed a positive nexus between Economic Development and Entrepreneurship. According to Scarborough (2013) of the 30.23 million businesses in the United States, approximately 30.14 million or 99.7 per cent are considered "small". According to the Small and Medium Entreprises Development Agency of Nigeria (SMEDAN) reports (2010, 2013 and 2017) reveal the significant contribution of SMEs to the Nigerian economy in terms of job and employment creation, wealth creation, assets building, poverty reduction and contribution to Gross Domestic Product.

	2017	**2013**	**2010**
Number of MSMEs	41,543.023	37,067.416	17,284.678
Job creation	59, 647,954	59,741,211	32,414,884

Source: SMEDAN Report

Mainnoma (2012) argues that MSMEs are variously defined in Nigeria as in other economies based on one or all of the followings; size or amount of investment in assets excluding real estate, total annual turnover, and the number of employees. Similarly, Darren (2009) concludes that generally small or small to medium-sized SME firms are used as a proxy for entrepreneurial activity with many definitions because of their global diversity and characteristics.

Table 2. 3 Categorisation of Micro, Small and Medium Enterprises by SMEDAN

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2	Small Enterprise	10 to 49	5 to less than N50m
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Source: SMEDAN SURVEY 2010

Table 2.4 Ownership Status of Business firms

	2017	
Sole Proprietorship	**65.7**	
Partnership	**5.0**	
Private Liability Company	**20.8**	
Cooperative Societies	**0.9**	
Faith-Based Enterprises	**5.7**	
Others	**1.8**	

Source: SMEDAN 2017 Report

2.3 Characteristics of Micro, Small and Medium Enterprises

The basic characteristics or attributes of the small and medium enterprises are; independent ownership, personalized management, small scale operations, small capital, small market share, and lack of Structured administration. In most small business firms ownership and management are inseparable which invariably limit their access to finance from the formal financial institutions.

2.4 Sources of Capital for Entrepreneurship

There are two sources of capital for the entrepreneur namely; Internal and external funds. Internally sourced funds include; personal savings, retained profits, sale proceeds of assets, reduction in working capital, credit from suppliers, and accounts receivables. While sources are equity and debt finance external sources. Bhide and Grousbeck (1999) classified alternative sources of financing for entrepreneurship into; (i) Startup financing, (ii) Outside/external equity capital – private investors, venture capital and public equity markets, (iii) Debt capital - cash flow financing and asset-based financing and (iv) internally generated financing – credit from suppliers, accounts receivables, reducing working capital and sale of assets. Generally, entrepreneurs have difficulties in sourcing funds from conventional (formal) financial institutions because of lending conditionality and the unwillingness of commercial banks to advance funds to start-up firms. Alternative financing sources include; self – financing, family and friends, suppliers and trade credits, commercial banks, other commercial lenders, assets-based lenders/lessors, specialized finance companies, Institutions, and Insurance companies, Pension funds, Venture capital, private equity placements, Public equity offerings, Government agencies, and other government programs.

Table 2.5: Proportion of SMEs Financing by Formal and Informal Financial Sectors

Region/Country	Bank finance (Formal Financial Institutions) %	Self-Fund financing (Informal Financial Institutions) %
Chinese firms	20	80
African firms	19	81
South Asia firms	23	77

Latin America /Caribbean Islands	21	79
East Asia /Pacific	32	68
The Middle East/North Africa	13	87
Brazil	14.30	85.70
Nigeria	29.76	70.24
China	20.37	79.63
India	33.48	66.52
Indonesia	16.34	83.66
Russian Federation	5.93	94.07
Income Groups		
Low Income	17.42	82.58
Middle Income	17.52	82.48
High Income (OECD)	20.78	79.22
Business firms		
Micro	15.06	84.94
Small	14.86	85.14
Medium	22.35	77.65
Large	21.35	78.65
Very Large	30.21	69.79

Source: Policy Research Working Paper Formal and Informal Finance Evidence from China; Meghana Ayyagari, Asli Demirgui – Kunt and Vojislav Maksimovic (2008)

Table 2.6 SMEDAN REPORT ON SOURCE OF CAPITAL FOR ENTERPRISES

Source	2010 Report %	2013 Report %	2017 Report %
Personal Savings	54.4	65.4	68.3
Loan	22.0	17.9	21.6
Family source	16.7	12.0	14.4
Cooperative /Esusu	5.1	3.8	6.6
Parents	0.9	-	-
Friends	0.9	-	-
Grants	-	1.8	3.3
Others	-	4.3	8.6
TOTAL	**100**	**100**	**100**

Source: SMEDAN(2010, 2013 and 2017 Survey Reports)

Table 2. 7 OECD (2004) Report on Top Priority Areas

Rank	All Firms		Small firms		Medium firms		Large firms
1	Financing	36.5	Financing	38.9	Financing	38.0	Policy Instability
2	Inflation	34.6	Inflation	36.9	Taxes/Regulation	37.2	Financing

3	Policy instability	34.4	Taxes/Regulation	35.5	Inflation	36.1	Inflation
4	Taxes/Regulation	33.5	Policy instability	35.0	Policy Instability	36.0	Street crime
5	Exchange Rate	28.0	Street Crime	30.6	Exchange Rate	29.7	Corruption
6	Corruption	27.7	Corruption	30.1	Corruption	27.4	Exchange rate
7	Street Crime	27.2	Exchange Rate	28.9	Street crime	25.5	Organized crime
8	Organized Crime	24.5	Organized crime	26.9	Organized crime	23.4	Taxes/Regulation
9	Anti-Competitive practices	21.9	Anti - competitive practices	23.8	Anti - Competitive practices	21.9	Infrastructure
10	Infrastructure	17.0	Infrastructure	16.3	Infrastructure	17.2	Anti-competitive practices
11	Judiciary	13.7	Judiciary	13.8	Judiciary	14.4	Judiciary

Source: OECD (2001) Ranking of firms on Business Obstacles

2.5 Obstacles to Entrepreneurship

Entrepreneurship growth can be attributed to driving by the small business owner or entrepreneur to take charge or control, make an impact in the world, self – Fulfilment, make and reap profits and eventually contribute to society. The failure rate of small business firms is relatively higher when compared to large scale enterprises. According to Scarborough(2013), small businesses fail because of their limited resources, inexperienced management, and lack of financial stability. Small business firms, unlike the large scale business firms (transnational companies, multinational corporations, public-owned companies or quoted companies) small business enterprises are constrained not only by their nature of the business but by their legal status. As most of these small and medium enterprises are either as sole proprietorship or partnership business firms that lack access to finance or capacity to approach the capital market to raise funds for their business activities. According to SMEDAN (2010), Survey reports 57.5% of business firms are sole proprietorship type, Partnership business firms account for 8.3%. It further reveals that business firms with total capital less than N10 million accounted for 68.9 per cent and 54.4 per cent of business firms source their capital from personal savings.

The key problems of the SMEs globally are financing, unstable policies of the government, inflation, taxation, regulation, corrupt practices, crimes, insecurity, the legal system, poor infrastructure and social amenities, and regulatory issues.

2.6 Financial System

The role of a financial system in economic growth cannot be overemphasized, its importance as a catalyst of economic development has long been recognized in finance and development literature. It provides the catalyst for productive activities to ensure economic growth and development through financial intermediaries (Onasanya B, { ed}, 2014). Ojo (2012) argues that an economy can be broadly grouped into two systems of financial and economic, the financial sector facilitates borrowing by the deficit economic units and saving by the surplus economic units through the intermediation of financial intermediaries. “These various types of financial transactions engaged in have major implications for consumption, investments, production, macroeconomic stability and achievement of other economic objectives. The financial systems in no doubt shapes own domestic economy and in turn, economies shape financial systems, since economic growth usually leads to further developments of a financial system” The financial system of any country provides the catalyst for Economic growth and development. The state of any economy is a reflection of the state of the financial system. Ezike (2003) defines the financial system as a network of financial Institutions, Instruments, and financial markets that facilitate the transfer of financial resources from the surplus sector to the deficit of the Economy. The most basic function of any financial system is to facilitate the flow of payments in an economy and the quality of these services affects the performance of the economy as a whole. According to Olowe (2011), the financial system of any country provides the catalyst through financial intermediaries for productive activities to ensure economic growth and development, that is the state of any economy is a true reflection of the state of its financial system. Therefore economic development of a country is a function of the development of its financial system. This correlation seems to be true of both developed and developing countries globally. The financial system consists of financial institutions, Financial Instruments, financial markets, and financial regulatory bodies. Generally, the financial system promotes financial intermediation of moving financial resources from the surplus segment to the deficit sector of any economy.

List of Lending Institutions in Nigeria as at December 2019

SN	Type of Regulated Formal financial Institution	Number of licensed Institution
1	Commercial Banks	24
2	Development Finance Institution	6
3	Merchant Banks	5
4	Microfinance Banks	911
5	Non-Interest Banks	2
6	Finance Houses/Companies	79
7	Primary Mortgage Institutions	34
8	Bureaux de Change	5,156

Source: Central Bank of Nigeria Data (2019)

2.7 Informal Financial Institutions

It is instructive to note that the formal financial institutions have not been able to cater needs of the informal economic sector as these operators are usually financially excluded due to the lending terms and conditions. The parallel existence of both formal and informal financial institutions is known as financial dualism. According to Philip Consulting 2014 Report," the informal sector is a vital part of any country's economy and contributes to overall economic growth by creating employment opportunities and contributions to GDP however it is unregulated and workers are often subjected to the whims of their employers". Globally the contributions of the informal sector have been acknowledged in terms of income generation, raw materials supplies, production of goods and services, wealth creation, employment creation among the low-income groups. This informal sector consists of Agriculture (small scale farmers), Financial services (Thrift cooperatives societies, Esusu, Ajo), Moneylenders,), Service Providers (make- up artists, Photographers, fashion designers, Event planners, Artisans, Technicians), Retail businesses (Street vendors, roadside sellers, hawkers, caterers), Education providers (private schools and tutors) and transport (private hire taxi drivers, tricycle operators, motorcycle operators).

It is estimated that the informal economy is worth $10 Billion and accounts for about 80% of the global workforce. According to the 2010 Report of Shadow Economies All over the World, the informal economies in 162 countries between 1999 and 2007 it was estimated that the informal economy represents at least 30% of Gross National Product (GNP) in 107 countries, the figure for Nigeria was 57%. The contributions of the informal economy in Nigeria show it accounts for 57.9 % of rebased GDP according to the United Nations Development Programme (UNDP). The National Bureau of Statistics states that the informal sector consists of over 17 million micro and small business firms. Between July 2012 and June

2014, over 2.48 million jobs were created and the informal sector contributing 1.48million employments. Oloyede (2008) states that the informal sector in Nigeria comprises all economic activities existing in all sectors of the economy that are functioning outside the framework of governments' regulatory and supervisory activities. The informal sectors involve all economic and productive activities of goods and provision of services.

2.8 Description of Informal Financial Institutions

The informal financial system has been variously defined in the literature. The Central Bank of Nigeria 2014 Report defines the informal financial systems as the whole arrangement of non-market financial institutions such as money lenders, cooperatives societies among others that are not governed by formal contractual requirements. The reports further say the informal financial sub-sector plays a complementary function to its formal counterpart by servicing the lower end of the market including community-based organizations such as cooperatives, microfinance institutions, rotating savings and credit associations (ROSCAs), self-help groups and other similar institutions. Ojo (2010), the informal financial sector consists of individuals, groups, and associations that mobilize local savings and grant credit. A common feature of informal financial sector operators is the self-regulation and discipline. These informal financial intermediaries include friends, relatives, traditional mutual aid groups like esusu, daily funds, collectors, middlemen, landlords, and professional moneylenders. Sambe, N. and Abanyan, N.L. (2013) describe the IFIs as institutions that are not controlled directly through major monetary and financial sector policy instruments but are created by individuals and groups with no legal status. According to Aryeetey (1995), informal financial institutions could be conceptualized as those institutions that embrace all financial transactions that take place beyond the functional scope of various countries and other financial sector regulations. The World Bank report of

1997 defines informal financial transactions as financial activities that are not regulated by the Central Bank supervisory authorities, unlike the formal institution's such transactions rarely use legal documentation or the legal system to enforce contracts. Atieno (2001) defines informal finance as all transactions, loans, and deposits occurring outside the regulation of a Central Monetary authority while the semi-formal sector has the characteristics of both formal and informal sectors. Informal financial institutions involve the operations of savings and credits associations, rotating savings and credit associations (ROSCAs), professional money lenders, part-time money lenders. The Overseas Development Institute (1992) makes a difference between the formal financial institutions and informal financial institutions that “theoretically the formal financial sector would refer to an organized urban-oriented institutional system catering to the financial needs of the modernized modern sector, while the informal financial sector itself unorganized and non -institutional would deal with the traditional, rural subsistence (non-monetized) spheres of the Economy” The financial exclusion of the informal market or lack of access to credit through the conventional banking institutions are responsible for the patronage and growth of the IFLs in the country, especially with the rising unemployment.

Types of Informal Financial Institutions

The informal financial sector refers to the unorganized and non-money institutional financial services providers that deals with the informal, traditional and rural sector of the economy. Therefore the informal financial institutions (IFLs) include; Rotating Savings and Credit Associations (ROSCA), Professional money lenders, Savings collectors, Daily contributions scheme or Daily collections, Credit unions, Professional Trader Association, Cooperative Thrift and Credit societies.

Rotating Savings and Credit Associations – ROSCA (ESUSU)

Rotating Savings and Credit Associations are usually small groups of individuals that agree to contribute a fixed amount of money for a specific duration and the contributed sum is then given to members in rotation. This contributory scheme brings together a group of people for savings through the contribution of a fixed amount of money on fixed days of the week, month, or year. There variants of ROSCA such as Esusu, Susu, Dashi, Isusu, etc. Esusu arrangement is advantageous in business finance as it provides members with a lump to support business activities.

Money Lending

Money lending has been a traditional source of credit in rural areas of the country. Moneylenders are mostly individuals who specialize in money lending and eventually form money lending credit unions. This can be through socio- non-commercial lenders or professional money lenders, a close family, a cooperative fund to help members of the needy family. Money lending offer opportunities for borrowers or loan seekers who ordinary has no access to credit from the formal banking institutions

Daily contribution scheme

The daily contribution is a scheme where people unknown to themselves contribute unequal amounts to the collector or coordinator daily for a month. This contributory scheme is usually referred to as " Ajo ojumo" meaning daily contribution. A day's contribution is the commission that the collector deducts from the total contribution for the month. The money contributed is kept with the collector and which can advance as a loan to any contributing member as a short term loan.

Professional traders association

Members of the same trade group or association often engage in compulsory savings contributions to form a pool of funds to support the businesses of their members. Members normally contribute money weekly or monthly and fundraised is disbursed to members in the form of loans at a concessionary interest rate

Cooperative thrift and credit societies

Cooperative thrift and credit societies are institutions that mobilize savings from their members and extend loans to members at the lower interest rates. Cooperative thrift and credit societies have proven a good medium for grassroots savings mobilization for the productive sector. Sources of funding for the Cooperative thrift and credit societies include share subscription, special savings, membership fees, and dues and which are given to members as loans

Attributes of Informal finance institutions

Meyer, R L and Nagaarajour G (1991) in their contributions of the activities of Informal finance institutions identified the major characteristics as; heterogeneity /widespread, services (loans and savings), specialization, accessibility, collateral substitution, interest rates and transactions costs, and contributions to development. The growth of informal financial institutions is their accessibility and the services tailored to the specific needs of the small business owners.

2.9 Lending Terms and Conditions of Informal Financial Institutions

According to Schmidt and Kropp (1987), the access problem, especially among formal financial institutions, is one created by the Institutions mainly through their lending policies – this is in the form of the prescribed minimum loan amount, complicated application procedures, and restrictions on credit for specific purposes. Provision of credits by formal financial institutions are regulated by the licensing and supervising Authorities, unlike the informal financial institutions that are unregulated. Lending terms and conditions of formal financial institutions such as loan amount, loan tenor, repayments, collateral security, credit history, financial statements and analysis, credit analysis are anti-small business borrowers.

Policy formulation

The informal financial system thrives among small business owners or entrepreneurs they provide services that access to their clients because of personal relationships on extending credits rather than on formal guarantors or collateralization of loans. Similarly, informal financial institutions are socio-culturally compatible with the operating environment.

The demand for credits in the informal financial sector has continued to increase due to several factors such as flexibility and creativity of the loan process, simple credit application, sound loan screening procedure rather on loan monitoring, less emphasis on collateralization of the loan, tailoring of financial services on the specific needs of the borrowers, application of group joint liability, failure of Government intervention funds and lower transactions cost especially under group lending

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