INFORMAL FINANCIAL INSTITUTIONS AND GROWTH OF SMALL AND MEDIUM SCALE ENTERPRISES IN ABEOKUTA SOUTH, OGUN STATE, NIGERIA

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ABSTRACT
This paper examined the influence of informal financial institutions on small and medium scale enterprises growth in Abeokuta South, Ogun State, Nigeria. The study used money lenders, cooperative society, ROSCAs and daily savings as proxies of informal financial institutions. The study utilized a structured questionnaire to collect primary data from a total of 129 respondents. Descriptive statistics was used to analyze the demographics of the respondents, while the multiple regression statistic was used to test for the influence of the explanatory variable on the outcome variable; with the help of STATA 11.0. The study found that informal financial institution (money lenders, cooperative society, ROSCAs and daily savings) have positive and statistically significant influence on growth of SMEs in the study area. Thus, the study recommends that operators of SMEs in Abeokuta south that crave growth should leverage the opportunities provided by informal financial institutions to access funding with more favourable conditions.

Keywords: Cooperative societies, informal financial Institutions, money lenders, SMEs growth, ROSCAs

INTRODUCTION
The economies of third world countries such as Nigeria operate with dual financial institutions. One comprises financial institutions that function through direct governmental control. These are known as formal financial institutions, and include commercial banks, insurance companies and mortgage banks. The other comprises financial institutions that are not directly controlled by government. These are called informal financial institutions, and include money lenders, cooperative societies, thrift and loan societies, local bankers, cooperatives etc. It should however be noted that the statutory dominance of the formal

financial sector since independence is hinged on the thinking that the sector would stimulate economic growth and fast-track the development of small and medium scale enterprises in Nigeria.

Analysts contended that the formal financial sector will promote savings and investment, improve opportunities for credit, and engender reduced poverty. But it has been observed that formal financial institutions have seriously come short of these expectations as they have made things harder for Nigerians through stringent conditions for credit, poor customer services and high interest rates. The introduction of informal financial institutions by individuals and groups is to cushion the effects of the formal financial institutions on small and medium scale enterprises growth in Nigeria.

Informal financial institutions are creations of indigenous people with the aim of making credit/loan facilities more accessible to their communities, so as help solve socio-economic problems (Gulong, 2012). Although not directly under the control of government and its authorities, informal financial institutions have pierced through government institutions and organisations, and variety of formal and informal organisations. In almost all organisations, there seems to be the existence of informal financial institutions established for specific or general purposes which allow people to contribute funds periodically, and given to members as loans or credit. People prefer to operate with these institutions as their conditions for credit are soft, coupled with faster administration of loans with low interest rate compared to formal financial institutions.

Finance is essential to enterprise growth and performance, including small and medium scale enterprises. This is because finance is needed for undertaking different business activities from purchase of raw materials and other assets, to payment of wages. Therefore, providing adequate finance for enterprises survival is the major focus of government and policy makers in developing countries like Nigeria (Susan & Obamuyi, 2018). SMEs play important roles in the economies of developing countries; they create employment opportunities, generate foreign earnings and contribute to economic growth (Ofeimun, Nwakoby & Izekor, 2018; Owenvbiugie & Igbinedion, 2015).

Even though formal financial institutions are conventionally, required to provide finance for the growth of small and medium scale enterprises, focus has consistently shifted from these institutions to informal institutions in recent times. This is because of the imperfections of the formal financial market and their inability to meet the financing need of small and medium scale enterprises, especially those in rural and semi-urban areas (Fanta, 2015). Informal financial institutions are traditional institutions that operate savings scheme mainly for the mutual benefits of their members. Hanedar, Altunbas, and Bazzana (2014) referred to informal financial intermediation as financial transactions that take place outside official financial institutions and that are not regulated by governmental authorities.

Informal financial institutions provide savings and credit services in order to meet the financial needs of members. There are various sources of informal credit which include credit from family/friends, moneylenders, rotating savings and credit organizations (ROSCAs), loan sharks, indigenous savings and credit clubs, informal credit unions, and savings collectors (Forkuoh, Yao, Emmanuel, & Isaac, 2017). The informal intermediation arrangements operate under different names in Nigeria such as Esusu or Ajo among the Yorubas of Western Nigeria, Etoto for the Igbos in the East, Adashiin in the North for the Hausas and Cooperative and Credit Thrift Societies which are found in rural and some urban communities. The key features of these informal schemes are savings and credit components, informality of operations, absence of collateral, closeness to borrowers' and lower interest rates.

In spite of the developmental role of small and medium scale enterprises in Nigeria, the sector has continued to experience setbacks in terms of productivity and development. Some of these problems include lack of access to credit, insufficient capital, inadequate market research, lack of business strategy, inexperience, cut-throat competition, as well as inadequate entrepreneurial skills with lack of finance and access to credit (Nelson, Paul, & Olumorin, 2020; Ofeimun, Nwakoby, & Izekor, 2018; Zirra & Charles, 2017). Yusufu, Suleiman, and Saliu (2020) asserted that the contributions of SMEs to the growth of the Nigerian economy have not been felt strongly because most SMEs in Nigeria do not reach the growth stage of their life cycle due to lack of access to finance.

It is also difficult for financial institutions to obtain information necessary to assess risks of new, unproven ventures, especially because the success of small firms often depends heavily on the abilities of the entrepreneur. The complex application procedure for formal credit increases the application cost and discourages SMEs from accessing formal credit, even if they could be satisfied in the formal credit system (Nguyet, 2014). In view of the foregoing, and with a view to providing knowledge on the influence of informal financing in SMEs growth and survival, this study opts to examine the effects of informal financial institutions on SMEs growth in Abeokuta south, Ogun State.

EMPIRICAL REVIEW

Prior empirical studies on the role of informal financial institutions in enterprise growth exist. Oluwole and Oluwagbemigun (2021) investigated the effect of informal financial institutions on SMEs performance in Akoko South-west Local Government Area of Ondo State; and reported that credit from family and friends and credit from money lenders had negative effect on the growth of small and medium scale enterprises. The study however, reported that cooperative credit and credit from business angels had positive effect on growth of SMEs. This report of Oluwole and Oluwagbemigun (2021) supports the report of Yusufu, Suleiman, and Saliu (2020), that microfinance banks play key role in the growth and development of SMEs, especially, in the wave of turbulence and hostile business conditions, since they provide short term facilities to SMEs. Yusufu et al. (2020) also observed that repayable loans provided at low interest rates enhance the development of SMEs.

Bamidele, Ayibiowu, Nwogu, and Attahiru (2019) evaluated the impact of Nigerian financial markets on SMEs in Gusau metropolis. The study found a positive significant influence of financial markets on growth of SMEs. Olusola (2019 appraised the most patronized informal financial institutions SMEs in Ekiti State, and the distribution of SMEs by informal finance options and rural and urban areas classification in the State. The study found that among the informal financial institutions analyzed, availability of fund from cooperative thrift and credit society, daily savings scheme, rotational savings and credit association, tends to be considerably high, while majority of SMEs in the state do not have access to funds from professional money lenders, and professional trade association.

Odunjo, Osawe, and Okoruwa (2018) in their study, evaluated the effect of microcredit on SMEs in Oyo state, Nigeria and its implication on their welfare. The study found that more than two-third (69%) of the respondents did not have access to microcredit, while 31% had access to microcredit. The study also revealed that poverty incidence was higher among respondents that did not use microcredit than those with access. This suggests that incidence of poverty declines with access to microcredit.

Mungiru and Njeru (2015) opined that formal lending institutions fail to satisfy financial needs of smallholders, mainly due to stringent lending terms and conditions. This position was premised on the results of a study on the effect of informal finance on the performance of SMEs in Kiambu County; which showed that self-help group finance, family and friends finance; trade credit finance and shylock finance are the sources of SME financing in the study area; and that self-help group finance, family and friends finance; trade credit finance has a positive influence on the performance of SMEs while shylock finance have a negative influence on the performance of SMEs. In addition, Ashamu (2014) examined the performance of micro finance institutions in Lagos State, based on the development of SMEs. The findings indicate that the operations of micro finance institutions have grown phenomenally in the last three years, driven largely by expanding informal sector activities, the conversion of community banks to micro finance banks and the reluctance of commercial banks to fund emerging micro enterprises.

In view of the forgoing evidence from recent literature, the study hypothesizes as follows:

Ho_1: Informal financial institutions (money lenders, cooperative societies, ROSCAs, daily savings) do not significantly influence SMEs growth in Abeokuta South, Ogun State.

MATERIALS AND METHODS

This study investigated the influence of informal financial institutions on SMEs growth in Abeokuta South, Ogun State, Nigeria. One hundred and twenty nine (129) respondents were selected using stratified sampling techniques. The multiple regression analysis was employed to test for the influence of the explanatory variable of the outcome variable. The regression model specified in this study to analyze effect of influence of informal financial institutions on SMEs growth is expressed as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where;

Y = Growth

X_1 = Money Lenders

X_2 = Cooperative Societies

X_3 = Rotational savings and Credit Association

X_4 = Daily savings

In the model, β_0 = the constant term while the coefficient β_ii= 1….4 was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables X_1, X_2, X_3 and X_4. μ is the error term which captured the unexplained variations in the model.

RESULTS AND DISCUSSION

Table1: Descriptive Statistics on demographics of respondents ***N = 129***

Demographic Characteristics	Frequency	Percentage %	Cumulative
Gender			
Male	73	57.0	57.0
Female	56	43.0	100.0
Age Group			
0 – 25 years	14	11.0	11.0
26 – 35 years	75	58.0	69.0
35 – 45	18	14	83.0
46 year and Above	22	17.0	100.0
Marital Status			
Single	36	28.0	28.0
Married	78	61.0	89.0
Divorce/Widow(er)	15	11.0	100.0
Educational Status			
SSCE / GCE/O'Level	85	66.0	66.0
HND / B.Sc	28	22.0	88.0
Others	16	12.0	100.0

Source: Field survey, 2021

Table 1 reveals that 73 of the respondents were males while 56 were females, representing 57% and 43% respectively. This implies that majority of the respondents in the study were male. It was also shown that 78 (61%) of the respondents were married, 36 (28%) were single while 15 (11%) were divorced. This implies that majority of the respondents were married. Also, age distribution of the respondents revealed that 11% of the respondents were below 25 years, 58% were between ages 25-35 years, 14% were between 36-45 years while 17% of were above 46 years. This implies that majority of the respondents were between the ages 25-35years. The Table further shows educational qualification of respondents. The results reveal that 85 (66%) of the respondents were SSCE holders, 28 (22%) were NCE/ND, 16 (12%) holds other qualifications. Since majority of the respondents hold one qualification or the other these will enable them to handle the business efficiently.

Table 2: Regression Result of influence of Informal Financial Institutions on SMEs Growth

Explanatory variable	Coefficien	Std. Err.	Z	p>/z	(95% conf.)	Interval

	t			/		
Ln (age)	1.483615	1.615325	0.92	0.360	1.71574	4.682969
Ln(gender)	1.470118	1.144908	1.28	0.202	.7967192	3.736958
Money lender	8.152864	1.497486	5.44***	0.000	5.187946	11.11778
Cooperative society	16.0097	1.093736	14.64***	0.000	13.84418	18.17522
ROSCAs	6.647232	.7208786	9.22***	0.000	5.219942	8.074521
Daily savings	7.0503342	2.117032	3.33***	0.001	2.858757	11.24191
Constant	12.54182	2.998833	4.18	0.000	18.4793	6.604336
Number of Obs.	29					
F (8, 120)	1111.55					
Prob. > F	0.0000					
Pseudo R2	0.9867					

*** Significant at 1%

Source: Field Survey, 2021

Table 2 shows regression of influence of informal financial institutions on SMEs growth in Abeokuta South, Ogun State, Nigeria. The result shows coefficient of proxies of informal financial institutions (money lenders, cooperative societies, ROSCAs, daily savings) that were statistically significant at 1% probability levels. Money lenders with a coefficient of 5.44 positively influence SMEs growth. This means that, the more, money lenders are willing to extend loans, the better will be the growth of SMEs. Nguyet (2014) states that money lenders constitute a viable source of SMEs financing especially where they less expensive capital. Money lenders are particularly helpful because they provide access to finance for people who may not easily access funding from formal financial institutions.

Table also shows that cooperative societies, with a coefficient of 14.64 positively influence growth of SMEs; and this influence is found to be statistically significant at 1% level of probability. This implies that increase in loan facilities from cooperative societies will result in improved SMEs growth in the study area. The advantage of cooperative society credit is that it is mostly attracts very low interest rate in relation to bank interest rates on loans and advances. Cooperative societies also provide the advantage of extending financial assistance to members to improve their standard of living and households who operate small businesses to improve their operational efficiency and growth.

Similarly, Table 2 shows that rotational savings credit associations positively influence growth of SMEs with a regression coefficient of 9.22. This shows that the higher the level of loans disbursed by ROSCAs the greater the level of growth of SMEs will be. This further suggests that ROSCAs is a financial scheme where members pool money by making periodic payments into a fund which they then rotate among themselves as a lump sum payment (Yusuf, Gafar & Ijaiya, 2009). It is also a financial and non-financial scheme where members contribute money, material or labour into a common pool and the pool is handed over to members in rotationally.

In addition, Table 2 shows that, with a regression coefficient of 3.33, daily savings has a positive and statistically significant influence on growth SMEs in the study area. This suggests that increase in daily saving of operators, which guarantees better credit standing enhances growth of SMEs. The savings collected are returned at the end of the month (30 days) or as agreed after deduction of initial savings or deposit as commission (Ahiawadzi, Alabi & Alabi, 2007). The challenges of daily saving include lack of regulations, cost of operation, charges on savings and unsecured savings (Nguyet, 2014). However, the scheme also has the advantages simple mode of operation, flexibility, convenience, does not require literacy on the part of savers, and savings pooled by the mobile collector may be loaned to a client for investment (Iganiga & Asemota, 2008). These advantages contribute to its usefulness for SMEs and their growth in the study area. According to Iganiga and Asemota (2008), the operation of the daily saving system involves the following process. First, the banker (savings collector) designs a card, and issues to interested savers. Second, the saver and the savings collector agree on amount and days of deposit or savings. Such days may be on market days and could be weekly or daily. Third, at the end of the month (or as agreed upon), the savings collector would return the amount contributed less a service charge. Fourth, the savings collector and the saver endorse the portions provided for collectors' signature together.

CONCLUSIONS AND RECOMMENDATIONS

The empirical analyses conducted revealed that informal financial sources have a significant influence on the growth of SMEs in study area. This suggests that informal financial institutions constitute vehicles SMEs development and for economic advancement of Nigeria. This is in lieu of the roles in reducing financial exclusion by providing access to funding of business activities. The reduced costs and flexibility of informal financial institutions enhances access to finance, and also lead to increased SMEs growth. The study concludes that informal financial institutions in Abeokuta South, which include local bankers, rotational savings and credit associations, cooperatives, savings collectors, and money lenders, have largely helped their members to improve their living standards and to overcome poverty through loans that fund SME activities. Informal financial institutions have been remarkably effective and efficient in providing access to credit facilities; and promoting SMEs growth in the study area. The study therefore recommends that owners and operators of SMEs in Abeokuta south that crave growth should leverage the opportunities provided by informal financial institutions to access funding with more favourable conditions.

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