



Informal Financial Institutions as Catalyst for Entrepreneurship Development in Nigeria: A Case Study of Osun State

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Abstract: This paper examined the extent the informal financial sector has contributed to the development of entrepreneurship in Nigeria. It, thus, appraises the effectiveness of the informal financial institutions in contributing to finance for productive investment and development of entrepreneurship in Nigeria, focusing on Osun State as a case study. A critical analysis of primary data collected from field survey and questionnaires administered on about one hundred and fifty entrepreneurs in Osun State shows the relative importance of the informal financial sector over its formal financial institutions in mobilizing funds for entrepreneurship development. Data gathered were analyzed through descriptive statistics in the form of tables and percentages. It was, however, found that Ajo appears to be the most prominent among the family of informal financial institutions, while money lending is declining in importance. Most entrepreneurs still prefer informal institutions to banks. Funds mobilized are effectively allocated to such activities as business expansion, trading, purchase of equipment, Business support, savings and income, financing of formal and informal education, etc. and therefore, suggests that Informal financial institutions should be given proper recognition and adequate consideration in the nation's financial system. To this effect, government should redesign her regulatory policies to formalize and standardize the operations of the major institutions in the informal financial sector. However, such regulations should not be framed in a way that will totally cripple or paralyze institutions' activities, but effectively enhance their performance for maximum contribution to development.

Keywords: Entrepreneurship, informal financial institutions, informal finance, cooperative.

1. Introduction

The role of finance is very important in the development of entrepreneurship and Micro, Small and Medium Scale Enterprises (MSMEs). The financial intermediation involves mobilization of savings of an economy and their channelizing into productive investment projects in the economy is a settled issue in the literature (Oloyede, 1999). Financial intermediaries who act as catalysts in the mobilization process between savings and investment needs of the people are of two varieties, namely: the informal financial intermediaries who evolve through cultural practices tailored to the local need of its citizens, and the formal financial intermediaries like banks which, are fashioned after the well-developed formal financial tradition of the Western Nations.

The Nigerian financial system like that of many developing countries is characterized by the existence of these two types of financial intermediaries operating side-by-side, a situation usually referred to as financial dualism. In spite of the recent upsurge in the number and increased activities of formal financial institutions and the subsequent high competition resulting there from, the informal financial intermediaries still remain prominent. This is arguably

attributed to the fact that the informal institutions have been able to provide savings facilities and credit at cheaper cost and on more favorable terms than that of formal institutions, which tend to benefit the poor and average people more and are, thus, more common in rural areas and among low and middle-income groups in the cities (Oloyede, 2008).

Entrepreneurs are significant because they have important effect on world economy (Wickham, 2004). An entrepreneur is an innovator, someone who transforms innovations and ideas into economically viable entities; independent of whether in the process she creates or operates a firm (Baumol 1993). However, when the firm has been created, sometime they do not meet a practicable sustainability; they are often times faced with problems and when the problems occur; the entrepreneurship is logically affected not only economically but also mentally and emotionally.

Mambula and Sawyer (2004) described that the strategies for meeting up development goals in this new millennium and in Africa cannot overlook the important role of entrepreneurship and small businesses as the engine for growth.

Entrepreneurship in Nigeria really needs attention from different sectors to help in every angle of its operation as it is one of the contributors of economic and social development in most developing and developed countries. The entrepreneurship business contributes to the economic and social development, bringing about employment opportunities. Entrepreneurship activities and innovative ingenuity in Nigeria have developed enterprises in the following areas. Agricultural/agro-allied activities where there are foodstuffs, restaurants, fast food vending etc. In the area of solid minerals, there are quarrying, germ stone cutting/polishing and crushing engineering. In power and transport, there are power generations, Haulage business (cargo and passengers). In the area of information and telecom business, there are manufacturing and repairs of Global System (GSM) accessories and the printing and selling of Recharge cards. In hospitality and tourism business, there are hotels, accommodation, resorts centres, film and home video production; in oil and gas business, there are construction and maintenance of pipelines, drilling, refining by products (Agbeze, 2012).

In the area of environmental and waste management business, there are refuse collection/disposal, recycling, and drainage/sewage construction job. In the area of financial banking services, there are banking, insurance and stock trading. In engineering and fabrication work, there are machines and tools fabrications. There is also the building and construction, where there are plan and design services and material sourcing (Agbeze, 2012).

1.1 Statement of the Problem

In Nigeria, the level of finance for entrepreneurship is one of the lowest in the world. However, while the World Bank (2010) report indicates that Nigeria's financial system is highly capitalized and vibrant, her contribution to entrepreneurship and MSMEs sector is only about 1.6% of the total loans and advances to the private sector as of 2009 (CBN, 2009). Nigeria's MSMEs are estimated to contribute 10% of the employment level in Nigeria well below that of the United Kingdom's 54%; USA's 50.3%; Bangladesh's 80%; India's 80%; Belgium's 66.6%; South Africa' 60%; Malaysia's 57.7%, Ireland's 66.5% and China's 58.8% (Vision 20:2020, 2009).

The importance of credit in the transformation of developing countries, as regards the entrepreneurship development is beyond doubt. Accordingly, a number of policy interventions aimed at ensuring the easy access to credit of entrepreneurs and small and medium scale industries have been attempted in developing countries. Oshunbiyi (1989) wrote that the key problem facing most entrepreneurs in Nigeria is that of lack of finance in new or an already existing business. In his view banks especially commercial banks which we expect to launch platform for financing the development of entrepreneurship of small and medium scale industries by the providing loans have failed to support them adequately. He also wrote that the stiff collateral security demanded by the bank often means entrepreneurs loses the chances of obtaining the loans because they are unable to meet up the demand by the bank which worth more than the amount they want to borrow.

Headed that high interest rate charges on loans by banks scares off potential small and medium scale entrepreneurs.

Ford (2004) wrote that "one of the factors that divide industrialized economies from those in sub-Saharan Africa is the lack of access to credit. If a small business owner in the United States of America, United Kingdom or Western Europe has a good business idea or seeking fund to expand an already existing business, he has chances that a local bank will be able to give him loan on reasonable terms. Mambula (2002) stated that out of seventy-two percent of entrepreneurs he studied in Nigeria lack of finance is a major problem to develop and run their business.

In worldwide, for instance, the richest 358 people in the world are wealthier than the poorest 2.5 billion people (Kameel, 2002). In order to solve the imbalance among the people and assist the poor household and low-income families, it is necessary to have financial institutions that provide cheap, rapid, and sustainable financial service. Therefore, world leaders have pledged to achieve absolutely the Millennium Development Goals, including the overarching goal of cutting poverty in half by 2015 (United Nations Development Projects, 2007).

It is in the light of the above this study examined the impact of informal financial institutions on entrepreneurship development in Nigeria.

1.2 Objectives of the Study

The specific objectives are to:

- i. Determine the effectiveness of informal financial in enhancing entrepreneurial development in Nigeria
- ii. Examine the extent to which informal financial institution has contributed to the development of entrepreneurship in Nigeria.

1.3 Research Questions

- i. How effective are informal financial institutions in enhancing entrepreneurial development?
- ii. To what extent has informal financial institutions contributed to the development of Entrepreneurship in Nigeria?

1.4 Research Hypothesis

Ho: Informal Financial Institutions cannot act as catalyst for Entrepreneurial Development in Nigeria

Hi: Informal Financial Institutions can act as catalyst for Entrepreneurial Development in Nigeria.

2. Nature of Informal Financial Institutions

The institution of rotating savings is ancient, dating back at least to the 16th century, when Yoruba slaves carried it to the Caribbean, as part of their institutional luggage – or social capital. The term `esusu` and the practice have persisted to this day, as esuin the Bahamas, susuin Tobago or souin Trinidad. Among the Yoruba in Nigeria today, there is hardly a single adult who is not a member in one or even several esusu, numbering anything between two and several dozen or even hundreds of members. The institution exists all over West Africa as well as in many other parts of the world, where it is an integral part of the local micro economy

and referred to with its own vernacular term (arisanin Indonesia, paluwaganin the Philippines, gameyain Egypt, ekubin Ethiopia, and cuchubalin Guatemala — Seibel & Damachi, 1982). The concept of informal financial market has been defined in various ways in the literature as in such studies as Ojo (1976), Osuntogun and Adeyemo (1981), Chandavarkar (1985), Akanji (1994), among others.

According to Chandavarkar (1985), the informal financial market refers to the non-institutional financial market that covers all financial activities outside the ambit of the institutional finance. He described the informal financial sector as being a heterogeneous residual sector comprising of different entities such as moneylenders, traders, landlords, pawn brokers, friends and relatives. In this vein, the informal rural financial markets consist of “unregistered money lenders” and “informal lenders”, “non-institutional sources and unorganized sources”, which operate largely outside the banking system and which are majorly unregulated, and are more loosely monitored than formal sources.

Akanji (1994) added that in most cases, they are not regarded as part of the business of rural financial intermediation but engage largely in savings and credit schemes either as an integral part of their major business or source of income, or based either on contractual relationship or social and kinship ties.

Ojo (1976) explained that the informal financial sector has the same basic characteristics as the modern financial system, except that, the former is unorganized or non-institutional, though there are organized institutions in the informal financial system, which provide avenues for regular savings and offer some rudimentary credit facilities, including the provision of some lender-of-last resort facilities by the moneylenders.

In the view of Osuntogun and Adeyemo (1981), the informal financial market is an indigenous system of saving in varying forms which can be broadly summarized as a situation in which a group of people come together, contribute fixed amount at fixed intervals and assign the total amount contributed to an individual member on rotational basis or offer credit to members and share their accumulated savings at certain time in the year rather than on rotation.

3. Informal Finance in Nigeria

The literature on informal finance has grown over the years. In early days it was dominated by the contributions of historians and anthropologists. Later agricultural economists featured prominently, particularly in relation to assessing its impact on the financing of agricultural activities (Adeusi and Ibitoye, 2005). However, little appears to have been done in relation to analyzing the economic performance of the sub-sector and the extent to which it complements or competes with the formal sector. Perhaps the first notable book to discuss informal finance in Nigeria was that by Johnson (1921), who highlighted the character and modus operandi of esusu among the Yorubas of southwestern Nigeria. Among other earlier writers who focused mainly on esusu and to some extent other forms of informal finance in Nigeria are Ajisafe (1924), Nadel (1942), Bascom (1952), Amago (1957), Ogunyemi (1967) and Adegboye (1969).

The growing literature on informal finance in Nigeria was enriched in the 1970s by the contributions of Odubanjo (1970), Onyemelukwe (1970), Ugoh (1973) and Okorie and Miller (1976), among others. More recent contributions include those of Seibel (2001), Oloyede (2008), Madestam (2010), Adeusi and Ibitoye (2005), Yusuf et al (2009), Garmaise and Moskowitz (2003), Aryeetey (1998), Udry (1990) and Olomola (1992). The latter two contributions, Udry (1990) and Olomola (1992), apply the concept of the imperfect information paradigm, (i.e. the issues of moral hazard and adverse selection in rural credit) to the study of informal finance in Nigeria, and attempt to bring to the notice of policy-makers and scholars alike those characteristics of informal finance that can be exploited by formal financial institutions in order to improve their performance, particularly in relation to minimizing the risk of default.

Informal finance in Nigeria, particularly in the rural areas, is of two main types: cash and kind. The literature appears to have focused more on the in-cash variety. A common characteristic of the two types of informal finance is that they attempt to make pooled resources available for individual use. The in-kind type of informal finance which often involves pooling of labour, is used in agricultural projects such as land clearing, planting, harvesting and so on, or for building a new village meeting place. Among the Yorubas, there are two types of this labour pooling approach. The aaropools the labour of two or more people, usually friends or members of the same age-group to work, often on a farm, for a given period (Soyibo, 1996). This has to be 'repaid' to other members of the pool on a rotating basis, for the same length of time. The member on whose farm the pool works may provide food and other refreshment on the days when the group works on his farm. Whatever is provided is expected to be 'repaid' as other members benefit from the work of the pool. The other type of in-kind informal finance among Yorubas involving pooling of labour is called the owe and involves more people than the aaro. It can be employed in agricultural projects like land clearing, planting and harvesting. Whoever wants to use this type of labour-pooling technique will set aside a day or two for the purpose and invite as many people as possible in the village or other adjoining settlements to take part. On the appointed day, the invitees would meet on the farm to do the required work for as long as it takes to finish. The host usually provides them with food and drink. Cash compensation is not used at all. Of course, courtesy demands that if the host is invited to any other owe, having benefited previously, he is obliged to attend (Soyibo, 1996).

In the savannah belt of Nigeria, in particular among the Hausa/Fulani, the use of animal-power credit is another type of in-kind informal finance. The adoption of animal traction in farming, though known for a long time in the Northern parts of Nigeria, has remained low partly because of many farmers' lack of finance to acquire the draught animals and associated tools or to hire them for use on their farms (Olomola, 1992). Because of lack of cash, farmers in need of the services of draught animals often approach their owners and negotiate the release of these animals for use on their farms on a credit basis. When the charge for the particular operation (ridging or weeding) is agreed, the days on which

the operation is to be carried out are also fixed. The farmer then makes a pledge as to the time and form of payment for such services. Loan repayment is usually also in kind. It is done either by deploying family labour to work on the lender's farm or by selling farm products to the lender equivalent the loan amount as agreed by both parties. This type of in-kind informal finance is an example of credit-product market interlink-age, which Olomola (1992) has cited as one way of minimizing the problem of information asymmetry between lender and borrower (Soyibo, 1996).

4. Informal Financial Institutions in Nigeria

Informal financial institutions exist in different forms and are majorly distinguished by the specific features and savings mobilization strategies they adopt. Some of the common ones found in Osun State are:

- i. Rotating Savings and Credit Associations (ESUSU)
- ii. Daily Contribution Scheme
- iii. Social or Professional Money Lending
- iv. Professional Traders Association
- v. Cooperative Thrift and Credit Societies

The first major type is the Rotating Savings and Credit Associations (ESUSU), commonly referred to as 'partners', 'susu' and 'isusu' in the West Indies and 'Esusu', or 'susu' in Osun State. While in many other developing countries they are known by such names as Bangalore type of financial corporation in India, Dajanggi in Cameroon, Tontine in Benin and Chilemba in Uganda. This scheme brings together a group of people for the purpose of savings through the contribution of fixed amount of money on fixed days of the week, month or year. According to Okorafor (1988), Isusu clubs are association of like minds who come together and contribute stated amounts monthly and the contributions are handed to members in a determined order.

As explained by Bascom (1982), Esusu has features which resemble a credit union, an insurance scheme and a savings club, but it is distinct from all these. It is a fund to which a group of individuals make fixed contributions of money at fixed intervals. The total amount contributed by the entire group is assigned to each of the members by rotation. 'Esusu' differs from a club in that many esusu groups hold no meetings and members are not frequently known to one another. 'Esusu' thus refer to fund not members. The Esusu arrangement is helpful in business finance since it provides members or contributors with a lump sum that can be employed in their businesses. As most of contributors are friends and workmates, it is usually easy to obtain one's collection well in advance of one's turn if there is an urgent need for business investment or other expenditure.

Another type of informal financial institution used as savings strategy which is prominent in Osun State is the Daily Contribution Scheme that is often referred to in the Yoruba-speaking part of Nigeria as 'Ajo Ojumo' (meaning daily contribution). It is a scheme where people unknown to themselves contribute varying amounts daily to an organizer (collector). The money is kept in safe custody for the contributors (from which the collector can grant short-term loan) till the end of the month when he returns the amount contributed less a day's contribution as commission that is equivalent to about 3 percent of the monthly contribution.

In the Nigeria context, the collector of funds, referred to as 'Alajo', comes around daily to collect the funds from the people who are interested in engaging in this scheme. The monies collected are determined by the amount of money that can be spared by the contributor, although the initial contribution determines the amount that will be contributed daily. This means that if the contributor decides to contribute an initial sum of N50.00, then the amount contributed daily after that will have to be N50.00 as determined by the initial contribution. According to Steel and Aryeetey (1994), a market woman typically sees her 'banker' every day to deposit as little as 10 percent of her daily income. At the end of the month, she gets back her accumulated savings, with which she replenishes her stock or buys something that she could not afford out of one day's profits. She often requests an advance of the month's expected proceeds, but her banker may avoid lending because he lacks cash reserves or access to credit in case repayment is delayed.

This scheme is advantageous in that the contributor can borrow against his accumulated savings even before the end of the month. This is one of the important roles of informal financial market in filling the gap created by orthodox banks. Whether or not the accumulated savings can be collected the same day, like banks depends on where the request is made, the amount involved, and the safe-custody the 'Alajo' uses. Most coordinators or collectors nowadays in order to beat high incidence of burglary and theft keep the proceeds in their account. Another advantage of the scheme is that it makes savings easy since the amount contributed is usually small, though the contributions can accrue to a fairly bulky amount later; and that it requires no waste of time and substantial transportation cost. Steel and Aryeetey (1994) further pointed out that the collectors differ from a microfinance bank and group-based organizations in that they are individual entrepreneurs who perform financial service without any capital of their own. They could intermediate more fully – use the fund as they are obtain from savers to end borrowers – if they had access to temporary liquidity.

The third informal financial institutions are the social or professional money-lending scheme. This can either be through social-non commercial lenders or professional money lenders, close associate lenders who for reasons of discharging their responsibilities either as family heads or distinguished persons in the locality, gives loans to close relations. Such loans given to justify the confidence repose in them by the borrower include those given by friends, brothers, uncles, etc. There is also the "family cooperative fund" which is used to help needy members of the family. They have no interest charge and needs no collateral security. The professional money lenders are individuals who specialize in money lending and those coming together to form a money lending union. Money lenders in Nigeria in most cases are traders, farmers and timber merchants with surplus funds to lend. Their main source of capital is their personal savings and in some cases, funds from credit institutions, since they have enough properties to use as security. The money lenders in most cases have a greater knowledge of the market than the borrowers and the moneylenders often take advantage of this against the borrowers, who in most cases, are more pre-occupied with

availability of loanable funds than with their interest cost (Oloyede, 2008).

The money lenders perform some important economic functions in the Nigeria, at least to the extent that they render some financial services that satisfy the demand for loanable funds. For loans to be made available by the moneylenders, especially those who have organized themselves into a union, the borrower must produce a guarantor who will be jointly responsible and severally to the payment if the borrower should default. Inability to repay on time may involve penalties. The advantages of this scheme are majorly two-fold: first, it makes it easy for those people who are not qualify to obtain loans under the formal banking system to obtain such loans and second; it ensures that loans are granted within a shorter time span than what obtains in the formal banking system.

The fourth major type of informal financial institutions is the professional traders association. Members of the traders association are those sellers, dealing in the same types of business or those operating in the same market place. Their main objective is to help members in the time of needs and protect the interest of their members. Members make contribution weekly or monthly and the money collected is disbursed to members in form of loan at concessionary interest rate. The loan must, however, be repaid together with its interest at the end of the year.

Lastly, Cooperative thrift and credit societies that appear to be the most standardized informal financial institution with well-organized savings mobilization strategy in the informal market is also prominent in Osun State. The objective of this category of institution is mainly to provide savings facilities and granting short-term loans to members in various firms. The sources of funds of the cooperative include shares, special savings, entrance fees and dues. Entrance fees and weekly dues are used for the administration of these societies. Shares held by members represent the main source of the loanable funds. The special savings may be shared at a particular time or distributed in rotation, while loans are given to members on personal recognition and, or, guarantors could be demanded if the members total financial holding in the society is inadequate.

Currently, there is almost no developing country that does not consider cooperation as a fundamental and indispensable element of entrepreneurship development. Cooperation is one of the factors that are generally considered to be the basic prerequisites for entrepreneurship development through their facilities for providing needed credit to small and medium scale enterprises.

5. Theoretical Framework

Theoretically, the origin of the informal forms of financial system is based on two schools of thought: the financial repression and the structuralist schools of thought. The financial repression school of thought grew out of the seminar work of McKinnon (1973) and Shaw (1973), they theorized that the informal financial agents started operations as a result of the excessive regulations of the formal financial sector. The regulations were represented by the use of policies of directed credit interest rate ceiling and preferential credit allocation to government and its

parastatals. Hugon (1990) supports this view that, the administrative sluggishness, high management cost and payment delay of the banks prevents them from reaching small business. According to him "all these premised the development of the informal financial system".

The structuralist has different views that the informal finances occur not because of regulation but of some social goals. They asserted that, the informal form of finances is an offshoot of social system which currently has a greater velocity of circulation in the official system.

This study adopts the framework from the financial repression school of thought.

6. Methodology

6.1 Area of Study

This study was carried out in Osun State since Osun has 30 local governments, the particular areas of study or study location which was purposively selected under the three senatorial district in Osun State was Osogbo, Ife Central and Iwo local government areas. One of the study locations which is Osogbo local government has been the capital city of Osun State, which has been in existence for almost 22 years. However, the focus in this study is on the forms, prospects of informal finance available for entrepreneurs in the state.

6.2 Research Design

The research design for the study is descriptive research design in which survey method was used.

6.3 Sources of Data Collection

In order to ensure balance reporting and analysis, data and information were collected from the forms of informal financial institutions through the administration of questionnaires. The three concerned local government area which are Oshogbo, Ife Central and Iwo Local Government Areas were studied in which majority of the indigenes are artisans, traders and small and medium scale business owners. The communities are predominantly of Yoruba ethnic group, the language spoken in these three concerned local governments is Yoruba language.

6.4 Method of Data Collection

The collection of data was done by direct interview, this was carried out using structured questionnaires which is the basic instrument used in the process of collecting data and other relevant information. Administration of questionnaires was done purely by hand delivery to the business owners only which is used as a proxy for entrepreneurship. Since most of the respondents are illiterates and semi illiterates, the questionnaires were translated to them in Yoruba by the researchers with the assistance of an interpreter who is an indigene. 150 questionnaires were distributed, out of which 135 or 90% questionnaires were returned. Owners of business enterprise were used as a proxy for entrepreneurs so as to elicit relevant information on how informal finance has contributed to the running of their business.

6.5 Sampling Technique

In the course of this study, the use of non-probability sampling techniques namely the judgmental sampling technique was employed. The choice of this sampling plan is derived from the fact that this sampling type ensures that specific elements which the study is interested in are included in the sample. Besides, the high degree of selectivity which accompanies this technique supposedly guarantees that all relevant strata will be represented in the design.

6.6 Method of Data Analysis

Data gathered were analysed through the use of descriptive statistics in the form of Tables and percentages.

7. Data Presentation and Discussion of Findings

As shown in Table 1, the required personal data of the entrepreneurs concerns three variables namely: age, sex and business type distribution. The age distribution were grouped into five brackets, namely (10 – 20), (21 – 30), (31 – 40), (41 – 50), and (Above 50) while the number of entrepreneurs were 15, 25, 45, 30 and 20 with a total of 135 with their percentage of total as 11.1, 18.5, 33.3, 22.2 and 14.8 representing 100% respectively.

Table 1: Distribution of entrepreneurs by age, sex and business type in Osun State

| PANEL A | | |
|------------------------------------|-------------------|-----------------|
| Age Groups | No of Respondents | Proportion in % |
| 10-20 | 15 | 11.1 |
| 21-30 | 25 | 18.5 |
| 31-40 | 45 | 33.3 |
| 41-50 | 30 | 22.2 |
| Above 50 | 20 | 14.8 |
| Total | 135 | 100 |
| PANEL B | | |
| Sex | No Of Respondents | Proportion in % |
| Male | 55 | 40.7 |
| Female | 80 | 59.7 |
| Total | 135 | 100 |
| PANEL C | | |
| Business Type | No of Respondents | Proportion in % |
| Small and Medium Scale Enterprises | | |
| Traders | 65 | 48.1 |
| Artisans | 25 | 18.5 |
| Total | 45 | 33.3 |
| | 135 | 100 |

Field Survey, 2014

About seventy-four percent of the entrepreneurs fall within the active labor force, that is 21 – 50 years. The proportion of respondents above the active labor force is 11.1 percent and below is 14.8 percent. This shows that a significant proportion of the active labor force in the area surveyed have confidence in the informal financial sector. This was revealed through the questionnaire distributed majorly to young entrepreneurs who depend on informal finance as a major means to their business survival and growth due to the fact that majority of them assert that they

are yet to acquire property to use as collateral in getting loan from the formal financial sector.

The sex distribution of entrepreneurs reveals 55 for male and 80 for female, making a total of 135 showing percentage of total as 59.3 and 40.7 percent respectively making a total of 100%. From this evidence, the percentage of over 59 percent shows that women were largely more involved in the informal financial sector compared to men. Complementary interview further confirmed that more women belonged to one form of informal financial institutions or the other than men.

On the business type distribution of entrepreneurs, the groups examined are Small and Medium Business Enterprises, Traders and Artisan while the numbers of entrepreneurs obtained are 65, 25 and 45 making a total of 135 respectively with percentage proportion of total as 48.1, 18.5, and 33.3 making 100% respectively. This shows that most of the entrepreneurs are small and medium scale business enterprises who engage in secondary occupations like trading or artisan. This confirms our earlier argument that Osun State engages largely in small and medium scale industry of all sorts. The entrepreneurs in the artisan bracket are mostly furniture maker, hairdressers, tailors, metal workers (welders, iron benders, aluminum etc).

7.1 Discussion and Findings

Our discussion in this section is focused on providing answers to the prior research questions: how effective are informal financial institutions in enhancing entrepreneurial development.

Relative Importance of Informal Financial Sector (IFS)

The prominence of the patronage of informal sector over the formal banking sector is evidenced in Table 2; showing that 77.8 percent of the total entrepreneurs patronize the informal sector.

Table 2: Entrepreneurs who Patronize Formal and Informal Institutions

| Institutions | No of Respondents | Proportion in % |
|--------------|-------------------|-----------------|
| Banks only | 30 | 22.2 |
| IFS only | 105 | 77.8 |
| Total | 135 | 100 |

Field Survey, 2014.

More so, in assessing the relative prominence of the informal sector, we first examined the respondents' preferences for different types of informal financial institutions. From Table 3, the listed groups are *Ajo*, *Esusu*, *Cooperatives*, *Moneylender* and *Others* with number of entrepreneurs representing 60, 20, 30, 15 and 10 totaling 135 with percentage proportion of total entrepreneurs representing 44.4, 14.8, 22.2, 11.1 and 7.4 totaling 100% respectively. It is noteworthy that the number of entrepreneurs outnumbered the total questionnaires administered due to the fact that an individual can possibly join more than one group if he or she so desires. In fact, some entrepreneurs claimed that they belonged to as many as four informal groups. It is obvious that the most popular informal financial institutions in the area under survey are the *periodic contribution (Ajo) group*. Out of the total 60 people interviewed orally and through questionnaires, about 44.4 percent belongs to this group. The *Esusu group* and the *Thrift society* are also famous means of savings and credit in

the State while the moneylenders surprisingly have relatively low importance in the area. Of all people interviewed, none accepted belonging or having any association with any moneylenders through the questionnaire, but during oral interview, two entrepreneurs accepted that some institutional money lenders did lend out money to them at some cost. Two other entrepreneurs said they have borrowed money from moneylenders sometimes in the past. The remaining 10 entrepreneurs belong to other IFS that are outside the scope of this study.

Table 3: Distribution of entrepreneurs among various IFS

| IFS | No of Respondents | Proportion in % |
|--------------------|-------------------|-----------------|
| Ajo | 60 | 44.4 |
| Esusu | 20 | 14.8 |
| Cooperative/Thrift | 30 | 22.2 |
| Moneylenders | 15 | 11.1 |
| Others | 10 | 7.4 |
| Total | 135 | 100 |

Table 4: Duration of member of respondents in IFS

| Duration | No of Respondents | Proportion in % |
|---------------|-------------------|-----------------|
| Below 1 year | 10 | 7.4 |
| 1-3 years | 20 | 14.8 |
| 3-5years | 70 | 51.9 |
| Above 5 years | 35 | 25.9 |
| Total | 135 | 100 |

Next, as shown in Table 4, we examined the duration of membership of entrepreneurs in the informal financial institutions they belong to. The groups examined are (Below 1 year), (1– 3 years), (3 – 5 years) and (above 5 years) with the number of entrepreneurs representing 10, 20, 35 and 70 totaling 135 and the proportion of the total representing 7.4, 14.8, 51.9, and 25.9 totaling 100% respectively. Of all the entrepreneurs, about 74 percent claimed to have joined the informal society between 1 and 5 years ago. This is likely due to the fact that about 70 percent of total respondents belong to the 31 – 50 years age bracket. As the IFS were described in the literature as an age-long tradition, one would expect the analyzed data to reveal a high proportion of entrepreneurs to have been members for over 5 years.

A likely explanation for this anomaly is probably that only about 15 percent of total entrepreneurs belong to the 50 years above bracket. Further investigation of the data available, revealed that 35 percent of the total 15 percent of entrepreneurs of 50 years and above claimed to have become members of the IFS for over 5 years. So, if more old people have been interviewed, the data is likely to have revealed more 5 years and above membership of IFS. However, we analyzed further the reasons why entrepreneurs patronized the informal financial institutions in the growth of their businesses. The reasons given and number of entrepreneurs respectively are shown in Table 5 as Easy access to borrowing 60, Easier to operate 28, Kinship/family ties 10, Safer than banks 20, Closeness and personal relationship 17 with their proportion given as 44.4, 20.7, 7.4, 14.8 and 12.6 respectively.

Table 5: Entrepreneurs reasons for preferring IFS to Banks

| Reasons | No of Respondents | Proportion in % |
|-------------------------------------|-------------------|-----------------|
| Easy access to borrowing | 60 | 44.4 |
| Easier to Operate | 28 | 20.7 |
| Kinship/Family ties | 10 | 7.4 |
| Safer than Banks | 20 | 14.8 |
| Closeness and Personal relationship | 17 | 12.6 |
| Total | 135 | 100 |

Field Survey, 2014

On the other hand, as shown in Table 6, 91.1 percent of the sample had applied for one form of loan or the other from informal financial institutions out of which about 95 percent succeeded in obtaining the amount of loan applied for.

Table 6: Entrepreneurs application for informal loan and degree of success

| Response | No of Respondents | Proportion in % |
|--------------------|-------------------|-----------------|
| Have applied | 123 | 91.1 |
| Have not applied | 12 | 8.9 |
| Total | 135 | 100 |
| Degree of Response | No of Respondents | Proportion in % |
| Succeeded | 128 | 94.8 |
| Failed | 07 | 5.2 |
| Total | 135 | 100 |

Field Survey, 2014

Further investigations of the contributions of informal institutions in enhancing entrepreneurial development require data on the uses or outlets to which the loans and financial assistance from the informal financial institutions are channeled as in Table 7. Eight categories of uses structured in the questionnaires are Business expansion, Business support, Purchase of Equipment, Trading, Savings and Income, Guide against unforeseen occurrence, Education and Training, and others; with respondents figures of 122, 86, 73, 92, 116, 52, 63 and 25 making a total of 629 representing 19.4, 13.7, 11.6, 14.6, 18.4, 8.3, 10.0 and 4.0 percent making 100% respectively.

Table 7: Utilization of informal loans for entrepreneurship development

| Uses | No of Respondents | Proportion in % |
|-------------------------------------|-------------------|-----------------|
| Business expansion | 122 | 19.4 |
| Business support | 86 | 13.7 |
| Purchase of Equipment | 73 | 11.6 |
| Trading | 116 | 18.4 |
| Savings and Income | 92 | 14.6 |
| Guide against unforeseen occurrence | 52 | 8.3 |
| Education and Training | 63 | 10.0 |
| Others | 25 | 4.0 |
| Total | 629 | 100 |

Field Survey, 2014

It is evident that the highest portion of the funds obtained from the IFS is channeled into business expansion. Followed by trading, some of the traded items in the area includes food items, beverage, cold drinks, cloth (both English and traditional clothe), light household materials, etc. During the time of plenty (harvest period) the traders

buy large quantity of food items that are not easily perishable and sell when the price has hiked as a result of scarcity. This is a useful economic activity as it helps to even out the supply of these commodities. The traders approach their various financial societies to source for funds to engage in all these trading activities. Another prominent use to which funds obtained from the informal financial sector is Savings and Income. Also fund from IFS also can be used to support entrepreneurs' business activities.

Another identified area from which funds from IFS is channeled is Purchase of Equipment. Funds thus obtained are used in procuring the necessary tools and machineries used in the industry. From the information gathered from the respondent loans obtained from IFS is used as a guide for unforeseen occurrence, education and training. The entrepreneurs that claimed other uses for her use of loan stated that she used the loan to repay a past loan obtained from microfinance banks. The total number of respondents in the table above is more than the total number of people interviewed because some of the respondents chose more than one option. Some even ticked as many as four.

8. Conclusion and Recommendations

8.1 Conclusion

This study examined the role of Informal Financial Institution on Entrepreneurship Development in Nigeria using Osun State as a case study. It discusses the various roles in which informal financial institutions plays in enhancing the growth of entrepreneurship development. The study shows the various uses in which informal funds are put into to enhance entrepreneurship. Analysis of the questionnaires randomly administered to 135 respondents in three local governments from senatorial district of Osun State during the study period revealed that:

- i. *Ajo* appears to be the most prominent among the family of informal financial institutions, while money lending is declining in importance.
- ii. Most entrepreneurs still prefer informal institutions to banks.
- iii. Funds mobilized are effectively allocated to such activities as business expansion, trading, purchase of equipment, Business support, savings and income, financing of formal and informal education, etc.

The major problems besetting the effective performance of these institutions however, include utter neglect and lack of official recognition of their activities, poor or inadequate capital base for effective operation, poor record keeping or crude accounting systems and gross mismanagement or embezzlement of funds by the managers or leaders.

8.2 Recommendations

Based on the findings, the following recommendations are made regarding better performance of the informal sector for entrepreneurship development in Nigeria, as well as in other developing countries:

Akanji, O. O. (1994). Towards a viable rural financial market in Nigeria. *Bullion, CentralBank of Nigeria*. 18(4), 22 – 38.

- i. Informal financial institutions should be given proper recognition and adequate consideration in the nation's financial system. To this effect, government should redesign her regulatory policies to formalize and standardize the operations of the major institutions in the informal financial sector. However, such regulations should not be framed in a way that will totally cripple or paralyze institutions' activities, but effectively enhance their performance for maximum contribution to development.
- ii. Massive awareness programs and campaigns should be conducted on the relevance of informal financial sector to entrepreneurship development.
- iii. Serious efforts should be made by both the government and relevant institutions concerned to reduce the level of mismanagement and loan default in the informal sector. This would be best done by showing more interest in the use to which loaned funds are put and in making sure that they are spent on profitable ventures and reasonably invested on projects that are capable of yielding long term returns. Furthermore, money lenders should be made to show more interest in the use to which their loans are put.
- iv. Members of the cooperative thrift and credit societies can employ the services of experts like business expert, agriculturalists, lawyers, and investors etc. to advise members on their investments.
- v. Appropriate means should be devised to ensure loans given out by the informal institutions are put into productive ventures so as to reduce loan default.

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