

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND TO THE STUDY**

The economies of third world countries such as Nigeria operate with dual financial institutions. On one hand are group which function through direct governmental control known as Formal Financial Institutions such as Commercial Banks, Insurance Companies and Mortgage Banks. And on the otherhand are those financial institutions which are not directly controlled by government, called Informal Financial Institutions such as money lenders, cooperative societies, thrift and loan societies, local bankers, cooperatives etc. It should however be noted that statutory dominance of formal financial sectors since independence is hinged on the thinking that the sector would stimulate the growth of the economy and ensure the upliftment of the socio-economic lives of the people.

It has been contended that the Formal financial sector will promote savings and investment, improve opportunities for credit, and engender reduce poverty. But it has been observed that Formal financial institutions have seriously come short of the expectations as they have made things harder for Nigerians through stringent conditionalities for credit, poor customer services and high interest rates (Frank, 1998). Even the micro finance institutions that was created for the purpose of developing the small and medium scale enterprises has not been able to realize any of the objectives for which it was created, thereby leaving the small and medium scale enterprises to be sourcing for their respective means.

The introduction of the informal financial institutions by individuals and groups is to cushion the effects of the Formal financial institutions on the socio-economic wellbeing of the people. This practically done by borrowing loans to small and medium scale enterprises and individual for the purpose of expanding their respective businesses. It has been acknowledged all over the world that small and medium scale enterprises are the powerful tool any country can use to stimulate fast and sustainable socio-economic growth.

The informal financial institutions are creation of the indigenous people with aim of making credit/loan facilities more accessible to the people and SMEs so as help solve their socio-

economic and financial problems (Gulong, 2012). Although not directly under the control of government and its authorities, Informal Financial Institutions have pierced through government institutions and organizations, and a variety of formal and informal organizations. In almost all organizations, there seems to be existence of Informal Financial Institutions established for specific or general purposes which allow people to contribute funds periodically which are given to members as loans or credit. A typical example is the cooperative societies formed by various staffs of government establishments and institutions. Small scale enterprises 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. Takum Local government area of Taraba State is semi-urban area which is composed of varying population in terms of occupations as it is composed of government workers, farmers, traders and business men/women, private sector workers and transporters. However, the area does have formal banking system, but most people depend on informal financial institutions existing in the area for their financial transactions such as savings and loans. This study is therefore aimed at determining the contribution of informal financial institutions on the growth of small scale enterprises in Takum Local government area of Taraba State.

## **1.2 STATEMENT OF THE PROBLEM**

The contribution of informal financial institutions has been explained by variously by researchers and thinkers. 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 regulation. These institutions are not controlled directly through major monetary and financial policy instruments but are created by individuals and groups with no legal status. Studies on the impact of informal financial institutions on business development have been conducted by researchers and they found positive effects of informal financial institutions such as micro-credit programmes on the growth of business and the welfare of the people. The study showed that the programme reduced poverty through micro-finance and thrift societies. It also increased women empowerment, improved savings and purchase of agricultural inputs and ensured easy access to loans with considerably lower interest rates.

### **1.3 OBJECTIVES OF THE STUDY**

The following are the objectives of this study:

1. To examine the contribution of the informal financial institutions to the growth of small scale enterprises in Nigeria.
2. To examine the role of informal financial institution in providing more credit facilities to small scale enterprises in Nigeria.
3. To examine the role of informal financial institution in boosting economic growth in Nigeria.

### **1.4 RESEARCH QUESTIONS**

1. What are the contributions of the informal financial institutions to the growth of small scale enterprises in Nigeria?
2. What is the role of informal financial institution in providing more credit facilities to small scale enterprises in Nigeria?
3. What is the role of informal financial institution in boosting economic growth in Nigeria?

### **1.5 HYPOTHESIS**

$H_0$ : There is no significant relationship between informal financial institutions and the growth of small scale enterprises.

$H_A$ : There is significant relationship between informal financial institutions and the growth of small scale enterprises.

### **1.6 SIGNIFICANCE OF THE STUDY**

The following are the significance of this study:

1. The results of this study will educate the general public especially managers of small scale businesses on the relationship between informal financial institutions and the growth of small scale enterprises.
2. This research will be a contribution to the body of literature in the area of the effect of personality trait on student's academic performance, thereby constituting the empirical literature for future research in the subject area.

### **1.7 SCOPE/LIMITATIONS OF THE STUDY**

This study will cover the relationship between informal financial institutions and the growth of small scale enterprises.

### **LIMITATION OF STUDY**

**Financial constraint-** Insufficient fund tends to impede the efficiency of the researcher in sourcing for the relevant materials, literature or information and in the process of data collection (internet, questionnaire and interview).

**Time constraint-** The researcher will simultaneously engage in this study with other academic work. This consequently will cut down on the time devoted for the research work

## **REFERENCES**

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## **THE CONTRIBUTION OF THE INFORMAL FINANCIAL INSTITUTIONS TO THE GROWTH OF SMALL SCALE ENTERPRISES IN NIGERIA.**

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