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Formal – Informal Financial Institutions' Synergy and Micro, Small and Medium Enterprises Financing In Nigeria: Evidence from South-South States

Boniface Akpan[1], Phd, Aniefiok Udo [2], Ededet Eduno[3], Edet Anwana Phd[4]
[1 & 3] Department Of Economics, Akwa Ibom State University, Nigeria
[2] Department Of Economics, Obong University Nigeria
[4]department Of Banking And Finance, Akwa Ibom State Polytechnic Nigeria.
Corresponding auther: Boniface Akpan

Abstract: This Study Examined The Effectiveness And Usefulness Of Formal – Informal Financial Institutions' Synergy As A Promising Alternative To The Funding Of Micro, Small And Medium Enterprises In Nigeria. Three Sets Of Structured Questionnaires Were Administered To Operators Of Micro, Medium And Small Businesses, Formal And Informal Financial Institutions In The South-South Geo-Political Zone Of Nigeria. The Data Obtained Were Subjected To Probit And Principal Component Models Of The E-Views Econometric Software. The Study Found That Financial Institutions' Synergies Is Majorly Constrained By Weaknesses Of Regulatory And Operational Framework And Lack Of Confidence Among Industry Players. Recommendations Are However Provided And If They Are Implemented Would Solve Effectively The Problems Of Funding Of Enterprises.
Keywords: Synergy, Enterprise, Financial Institutions

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I. Introduction

The Important Role Played By Micro, Small And Medium Enterprises (Msmes) In The Growth And Development Of Developing Countries Is Well Rested In Both Theoretical And Empirical Literature. Msmes Promotes Entrepreneurship And Have The Potentials Of Transforming Into Large Businesses As Well As Being The Engine Room For Fostering Economic Growth[1,2]. Also, Muritala Et Al Posit That There Is A Greater Likelihood That Msmes Will Utilize Labour Intensive Technologies, Thereby Reducing Unemployment, Particularly In Developing Countries And This Impact On Employment Generation[3,4,1]. According To The United Nations Industrial Development Organization Report For Developing Countries, Integration Into The Global Economy Through Economic Liberation, Deregulation And Democratisation Is Seen As A Paramount Way To Triumph Over Poverty And Inequality[5]. The Importance Of This Process Is The Development Of A Vibrant Private Sector In Which The Micro, Small And Medium Enterprises Play Key Role.

However, In Spite Of The Relevance Of The Msmes To The Industrialisation Drive, The Sector Continues To Be Bedevilled By Myriads Of Challenges. Some Of These Challenges Are Identified As Inadequate Capital And Inaccessible Credit Facilities[6,7]. Long Term Institutional Credit Was Known Not To Be Available To Msmes Because They Are Generally Considered High Credit Risk By Financial Institutions. To Eubuomwan Et Al, Indicated That 75.5 Percent Of Their Survey Respondents Relied Mostly On Own Funds To Finance Their Business[8]. Similar Surveys By The Nigerian Association Of Small And Medium Enterprises (Nasme) Shows That Over 80 Percent Of Msme Operators Source Funds From Relations, Personal Savings And Informal Financial Institutions[9]. A Promising Area That Is However Attracting Much Attention Recently Is The Synergy Between Formal And Informal Financial Institutions As An Alternative, Cost Effective And Sustainable Channel Of Expanding Financial Services To The Msmes Sector.

Financial Synergy Is Any Mutually Beneficial Partnership Between A Formal And Informal Or Less Formal Financial Institution That Results In The Expansion Of Financial Services To The Msme Sector[10]. Financial Institution Based On Sources And Extent Of Government Supervision Can Be Broadly Classified Into Formal And Informal. In Nigeria, While The Formal Financial Institutions Are Under The Direct Supervision And Control Of Central Bank Of Nigeria, The Informal Institutions Operate Largely Without Supervision Or Control. The Formal Banking Institutions Include Money Deposit Banks, Development Banks And Microfinance Banks While The Informal Institutions Includes Various Forms Of Self-Help Groups(Shgs), Thrift And Credit Societies, Money Lenders, Etc.

The Different Types Of Banking Institutions (Formal) Have Several Strength And Weaknesses, And These Include High Transaction Cost, Low Level Of Services To Customers, Long Bureaucratic Procedures

And Poor Information About Borrowers. They However Have Enough Capital, Cover Wider Areas And Are Easily Connected By The Internet. On The Other Hand, The Informal Financial Institutions Are Typically Efficient Over Relatively Close Distances And Within Society Groups But Do Not Have Adequate Capital. There Is No Unique Banking Institution That Can Provide All The Required Adequate Financial Services To Borrowers. To Attain Financial Viability And Sustainability In The Face Of These Weaknesses, The New Institutional Economics And Development Theory Suggest That Formal And Informal Financial Sectors Synergise. The Vision Is A Model Or Principle That Integrates Both Sectors Where Each Set Of Financial Institution Complements The Other Leading To More Financial Inclusiveness, Deepening And Delivering More Efficient And Effective Financial Services To The Society. Such Integration And Partnership Effort, As It Is Believed, Will Bring About Purposeful And Effective Solution To The Funding Of Msmes[11].

A Widespread Concern Is That The Formal Banking Subsector Which Is Supposed To Be A Major Financier Of Msmes Is Not Providing Enough Support To New Economic Initiatives And In Particular To The Expansion Of Msmes And Agricultural Sector. It Is Noted That Commercial Banks And The Hitherto Merchant Banks Which Retains Liquidity Levels In Excess Of Regulation Have Shown Reluctance Financing Msmes[12]. While Micro Financing Institution (Mfis) Have Expanded Vigorously In A Number Of Countries, The Size Of Credit Remains Limited, So That Their Support Is Not On The Scale Needed For Many Micro, Small And Medium Size Projects. Also, The Interest Rate On Microcredit Is Very High, Due To Large Administrative Costs In Relation To The Size And Scale Of Operations[13].

In The Immediate Past, Activities Of The Informal Financial Service Provider's Seemed Too Remote And Irrelevant To Many Experts. Currently, Perception Are Changing And Quickly Too. Many Researchers Are Asking Whether The Practice Of Informal Sector Lenders, Mobile Collectors, Workplace Cooperatives, Community Saving Clubs And Other Indigenous Practices Based On Trust, Social Network And Norms Can Overcome The Difficulties Behind Formal Lending Practices. This In Depth Study Into The Essential Features Of Synergies Of Formal-Informal Financial Institutions And The Funding Up Of Msmes Is Further Justified On The Grounds That Many Policies In The Past Which Sought To Address The Problem Of The Real Sector Of The Nigerian Economy Seemed To Have Failed. The Failure Of The Various Governments' Past Industrialisation Polices Favouring Msmes To Stimulate Economic Growth And Development Has Generated Renewed Interest In The Funding Of Msmes As A Catalyst To Industrialisation Quest And Its Resultant Effect On The Economic Growth Of Nigeria[14,15]. The Nigerian Economy In Pursuing This Agenda Has Placed Msmes Development And Promotion A Top Priority. The Msmes Constitute The Foundation Of Sustained Growth And Development Of The Economy.

There Is Very Little Theoretical, Empirical Or Case Study Research On Synergies Between Formal And Informal Financial Institution. We Do Not Have Enough Information On The Areas, Strategies And Constraints Of These Synergies, Yet Synergy Will Provide Channels Through Which The Economy Can Attend Higher Degree Of Sustainable Development, Especially As It Will Help Entrepreneurs To Be Financially Included In Accessing Credit For Development. Thus This Study Is Undertaken To Empirically Examine Formal – Informal Financial Institutions' Synergy And Micro, Small And Medium Enterprises Financing In Nigeria Using Evidence From The South-South States.

II. Literature Review

Empirical Literature

Micro, Small And Medium Businesses Constitute The Very Foundation Upon Which The Large Businesses Are Built. Msmes Have Been Identified Differently By Various Individuals And Institutions Such That An Enterprise That Is Considered Small In One Place Is Seen Differently In Another, Even Within The Confines Of Geographical Entity The Definition Changes Overtime. Although The Pro-Msmes View Argues That Small Firms Are More Innovative Than Large Firms, The Microeconomic Evidence Is At Best Inconclusive. Examining The Firms In The United States Of America, Acs And Andretech Found That Small Firms Have Higher Innovative Rates In High Technology, Capital Intensive Industries[16]. On The Other Hand, A Study By Schivardi Of European Industries Shows That A Larger Average Firm Size Is Associated With Faster Innovation Rates[17]. Kumar Et Al Concluded In Their Study Of Msmes That Countries With Better Institutions, As Measured By Judicial System Tend To Have Larger Small Firms[18].

The Study Of Entrepreneurship Has Relevance Today, Not Only Because It Helps Small Business And Entrepreneurs Fulfil Their Personal Needs, But Also Because Of The Economic Contribution Of The New Ventures[19]. The Study Sees Msmes As A Positive Force In Economic Growth And Development. Ekanem Summarizes The Relevance Of Msmes To Include Ensuing Rapid Development, Increased Reduction Of The Rural-Urban Drift, Development Of Indigenous Technology And Raising The Living Standard Of Rural World Today[20]. It Has Helped In The Balance Of Payment Position Of Countries, Reduces Overdependence On Inputs Relative To The Capital Investment Provided By Msmes, Help In Increased Utilization Of Local Resources And Provision Of Training Ground For Indigenous Managers And Semi-Skilled Workers. Another Study Showed That Very Little Financial Support Have Been Provided By The Traditional Financial Institutions (Commercial

Banks) To The Msmes[6]. The Reasons Are That Small Businesses Have Serious Inherent Structural Defects That Make Them High Risk Borrowers, And The Traditional Banks Are Not Structured To Cater For The Type Of Credit Demanded By The Small Businesses Owing To The Nature Of Their Credit Assessment Procedures[21].

Okraku And Croffie Argued That In Ghana, Msmes Rely Primarily On Personal Savings Of Others, Business Profits, Family Members And Friends For Their Financial Needs[22]. They Have Little Or No Access To External Credit. This Results To Inadequate Fixed Capital As Well As Working Capital. The Consequences Of These Are Very Slow Growth Rate And Frequent Failures Among Small Businesses. Akingunola Accessed Specific Financial Options Available To Msmes In Nigeria And Contribution To Economic Growth Through Investment Level[23]. The Spearman's Rho Correlation Test Was Employed To Determine The Relationship Between Msmes Financial And Investment Level. The Analysis Reported A Significant Rho Value Of 0.643 At 10 Percent Which Indicated That There Is Significant Positive Relationship Between Msmes Financing And Economic Growth In Nigeria Via Investment Levels. Finance Availability And Accessibility Has Been Reported As One Major Constraints Of Msmes[8]. In Another Study For Empirical Evaluation Of The Performance Of The Small And Medium Enterprises Equity Investment Scheme (Smeeis) In Benue And Nasarrawa States Of Nigeria Utilized Secondary Data Of Total Credit For A Period Of 1993-2008 And Paired Sample T-Test To Test The Significance Of Bank Loans Before And After Introduction Of Smeeis[24]. In Addition, Mean Scores And Standard Deviation Were Used To Analyse The Primary Data Obtained Via Questionnaires. The Study However Reported No Significant Difference Between The Loans Disbursed By Banks To Msmes Before And After The Introduction Of Smeeis Due Largely To The Fact That The Conditions For Accessing Smeeis Funds Were Beyond The Reach Of The Targeted Msmes.

Formal And Informal Financial Institutions Synergy Has The Potential Of Overcoming The Inherent Challenges Of Financial Exclusion Of Msmes In The Credit Market. Also, A Survey Study Comprising Five African Countries Found That Financial Synergies Are Necessitated Following The Information And Enforcement Problems In The Credit Market[25]. This Results In A Mismatch Of Resources And Abilities Between Formal And Informal Credit Providers. The Formal Financial Institutions Have Extensive Infrastructures And Systems And Access To Funds. On The Other Hand, Informal Financial Institutions Operate Close To Entrepreneurs, Possess Good Information And Enforcement Mechanism And Are Typically More Flexible And Innovative.

Wangwe Argued That The Formal Financial Sector In Most Developing Countries Have Failed To Serve The Msmes And Rural Communities Due To Collateral, Credit Rationing, Preference For High Income Clients, And Lengthy Procedures Of Providing Credit[26]. One Advantage Of Synergy Is The Reduction Of High Information And Enforcement Problems That Increase Transaction Cost Especially Among Entrepreneurs. In The Study Of Asian Market, Gallardo Et Al Showed That Alliances And Partnerships Enabled The Informal Credit Institution To Access Significant Capital For On-Lending To Small Businesses Which Enabled Them Acquired Technical And Managerial Skills As Well As Expand Range Of Products And Services[27]. Moreover, Varghese Using Descriptive Statistics Concluded That If Formal Bank Could Link With Money Lenders, Credit Seekers Can Have Access To Further Bank Loans. Synergies Could Potentially Improve Upon The Monopoly Power Of Bank And Banking Competition[28]. The Result Of The Study Indicated That Msmes Could Still Prefer Synergies To Competitions In The Banking Sector.

Theoretical Literature

The Traditional Approach To Financial Development Can Be Characterised By Its Concentration On The Formal Financial Sector And Relative Neglect Of The Informal Sector[29,30]. This Tendency Stems From The Fact That The Proponents Of Financial Repression Approach Do Not View Informal Credit Market As An Alternative Source Of Financing In Developing Countries. They Further Hold The View That Informal Credit Market In Developing Countries Grow Under Conditions Of Financial Repression And That Liberalization Is Regarded As Accomplishing Two Desirable Outcomes: Financial Deepening And Reducing The Activities Of Informal Finance In Developing Countries. The Informal Sector Has However Proved More Resilient Than The Financial Repression Approach Had Assumed. Even In Liberalized Financial System, Along With The Formal Sector, There Continues To Exist A Heterogeneous And Dynamic Informal Sector[31].

This Shortcoming Of The Financial Liberalization Approach Has Been Addressed By The New Institutional Economics. The Complementary Hypothesis Implies That The Formal Financial Institutions Concentrate On Prime Risk And Leave The Large Vacuum In The Credit Market For The Informal Financial Section To Fill. The Asymmetric Distribution Of Credit By The Two Sectors Is Explained In Differences In Comparative Cost Advantages Between The Two Sectors. These Comparative Cost Advantages Also Explain The Need For Synergies Between The Sectors. The Existence Of Synergies Between The Sectors, In Turn Provides An Explanation For The Continuity And Persistence Of Informal Credit Market In Most Countries.

The New Institutional Economics Approach Is Based On The Premise That Market Forces Are Pervasive In The Economy. The Basic Forces Leading To Market Failure In Their Perspective Are Costly And Imperfect Information. The New Institutional Economies Have Contended That Alternative Credit Institutions

In Informal Financial Markets, Such As Interlinked Contract, Operating On The Basis Of Personalized Relationships Can Reduce These Information Problems

III. Methodology And Data

This Survey Was Conducted In The South-South Geo-Political Zone Of Nigeria. This Study Adopted A Multi-Stage Sampling Procedure. Data Were Collected Via Three Structured Set Of Questionnaires From Total Of Fifty Four Informal Financial Institutions, Identified Through National Poverty Eradication Offices In The Local Government Areas, Forty Five Formal Financial Institutions And One Hundred And Seventy Micro, Small And Medium Enterprises. Basic Analytical Tools Used Include Simple Percentages, Binary And Principal Components Models.

The Model Is Given As: $\%Sn = Sn_i x / S_i t \text{ X } 100$……………………………………………(1)

Where $Sn_i x$ = Total Number Of Areas That Financial Institutions Synergize; $S_i t$= Total Number Of Areas Considered For Synergies. Synergy Was Therefore Manifested Through A Variable Sn Such That If Sn=1, The Number Of Areas An Institution Is Linked To Another Is ≥ P. If However Sn=0, The Number Of Areas An Institution Is Linked Is ≤P. Where P Is The Cut-Off Point Of 50 Percent.

To Ascertain The Area Of Synergies Of Financial Institution And Institutional Factors That Facilitate The Availability Of Credit To Msmes, The Binary Response Model Was Used. The Generalised Model For The Financial Institution Is Empirically Stated As:

$Pr\ (Sn = 1) = F\ (B_1 X_1) + E$ …………………………………………………. (2)

$Pr\ (Sn = 0) = 1 - F\ (B_1 x_1)$

Where F = Standard Normal Distribution Function; $B_1, B_2, B_3 \ldots B_k$ = Model Coefficient Parameters; $X_1, X_2, X_3, \ldots X_k$ = Explanatory Variables That May Facilitate Synergies. This Applies To Formal And Informal Financial Institutions[32]. For The Formal/ Informal Institutions, X_1= Years Of Business Experience With The Informal, / Years Of Business Experience With Formal Institutions; X_2 = Interest Rate On Loan To Informal Financial Institution/ Number Of Years Business Operation; X_3 = Repayment Performance (Rate Of Loan Recovery)/ Number Of Bank Branch Network; X_4 = Number Of Bank Branches In The Area/Having Joint Consultation/Workshop With Formal Institution; E = Error Term

The Principal Component Model Was Used To Determine The Constraint/Strategies To Financial Institutions' Synergies, This Is Presented As:

$$P_i = A_{11}x_1 + A_{12}x_2 + A_{1k}x_k \ldots \quad (3)$$
$$\vdots \quad \vdots \quad \vdots \quad \vdots$$
$$P_k = A_{k1}x_1 + A_{k2}x_2 + **A_{kk}x_k \ldots \quad (4)$$

Where P_1, P_2 And P_k = Principal Components Of Major Constraints Or (Strategies) For Effective Synergies; $A_1 - A_k$ = Factor Loading Or Correlation Matrix; X_1, X_2, X_k = Independent Variables Or (Constraints To) Or Strategies For Synergies.

IV. Results

Sources Of Start –Up Funds By Msmes

Table 1: Sources Of Start-Up Funds By Msmes

	Formal Banks	Informal Banks	Personal Savings	Relation/Friends	Total
Akwa Ibom	11	39	08	8	66
Bayelsa	10	22	05	10	47
Rivers	11	30	10	6	57
	32	97	23	24	170

Source: Field Survey Data 2017

Table 1 Above Shows That 53.5 Percent Of Msmes Rely On Informal Financial Institutions For Start-Up Funds, 13.52 Percent Depends On Personal Savings, 14.11 Percent Depend On Relatives And Friends. While Only 18.99 % Have Access To Formal Institutions' Funding. This Confirms The Study By Ekpenyong[6] That Very Little Financial Support Has Been Provided By The Traditional Financial Institutions (Commercial Banks) To Msmes.

Distribution Of Formal And Informal Financial Institutions By Areas Of Synergies

Table 2: Distribution Of Financial Institutions By Areas Of Synergy

S/N	Areas Synergies	Formal (Yes)	No	Informal (Yes)	No	Remarks (S/Ns)
1.	Deposit And Savings	36(86)	4(14)	35(87.5)	5(12.5)	S
2.	Access To Credit Before Savings	5(12)	37(88)	8(20)	32(80)	Ns
3.	Access To Credit After Savings	38(90.5)	4(9.5)	31(77.5)	9(22.5)	S
4.	Loan Disbursement	30(71.4)	12(28.6)	24(60)	16(40)	S
5.	Loan Monitoring Services	25(60)	17(40)	22(55)	18(45)	S
6.	Training Of Staff Of Informal Institution On Financial Management	17(40)	25(60)	14(35)	26(65)	Ns
7.	Joint Workshop With Staff Of Informa Institution	17(40)	25(60)	12(30)	28(79)	Ns
	Employing Esusu Clerks To Collec Savings For Formal Institution	28(66.7)	14(33.3)	25(62.5)	15(37.5)	S
8.	Screening And Referring Ifi Members T Banks For Loan	25(59.5)	17(40.5)	23(57.5)	17(47.5)	S

Source: Field Survey (2017)

Table 2 Shows That Financial Institutions Are Linked To Each Other By Savings/Deposit As Shown By The Affirmative Of 86 Percent And 87.3 Percent For Both Formal And Informal Institutions Respectively. This Finding Is In Line With The Views Of Isuwa,[33] Who Supported The Use Of Minimum Savings Or Deposit By Noting That Volume Of Savings Mobilised Gives Credibility To Institutions As Deposits Can Be Used To Repay Loans. Savings Mobilisation Is Critical For Financial Sector Integration And Development. The Reason For The Failure Of Many Credit Projects In The Real Sector Is That Savings Has Been Neglected. Integration Of Savings Scheme Contributes Substantially To Msmes Funding Programmes. The Problem Of Loan Default However, Still Persists Amidst The Minimum Deposit Requirements. For Instance, Reportedly Low Repayment Rate Of 38 Percent Among Group Loan Beneficiaries, Their Initial Savings Notwithstanding[34]. The Financial Institutions (Formal And Informal) Reported No Synergy In The Area Of Having Access To Credit Before Savings. Majority Response Scores Of 88 And 80 Percent For The Formal And Informal Institutions Respectively Were Reported. On Access To Credit After Savings, Both Sectors Indicated That They Have Synergy. This Followed Majority Response Scores Of 90.5 Percent For Formal Financial Institutions And 77.5 Percent For The Informal Sector. This Finding Is In Line With Alam[35] Who Observed That Half To Two Third Of Rural Informal Loans In Bangladesh Originated From The Banks And Was Relent By Informal Lenders To Farmers. In Thailand, About 22 Percent Of Informal Rural Credit Funds Can Be Traced To Bank Credit.[36] On Loan Disbursement, The Table Further Shows That 71.4 Percent Of The Formal And 60 Percent Informal Institutions Reported Strong Synergies. The Institutions Are Also Linked Through Monitoring Service. This Follows The Majority Response Of 60 Percent And 55 Percent For Formal And Informal Financial Institutions Respectively.

Institutional Factors That Influence Synergies

Table 3.Probit Regressions For Formal Financial Institutions

Factors That Facilitate Synergies (Variables)	**Regression Coefficient**	**Standard Error**	**T-Statistic**	**Prob.**
Years Of Business Experience With Informal Financial Institutions	1.286681	0.544879	2.361329	0.0133
Interest Rate On Loans To Informal Financial Institutions	-1.433931	0.467931	-3.064407	0.0003
Rate Of Loan Recovery	1.756097	0.538107	3.263471	0.0003
Joint Workshop With Staff Of Informal Institutions	0.183518	0.468209	0.391958	0.6951
Number Of Years Of Business Operation	-0.02678	0.455512	-0.058792	0.9531
Constant	0.405429	0.0808155	0.501672	0.6159

Number Of Observations = 42; Dependent Var = Sn

Source: Extracted From Eviews Probit Analysis Of Survey, 2017

In Order To Determine The Institutional Factors That Facilitate Synergies, Two Separate Probit Analysis Were Carried Out In Tables 3 And 4. Table 3 Shows That Five Variables Conformed To A Priori Expectations With Signs While Three Of Them Were Statistically Significant. The Positive And Significant Effect Of The Number Of Years Of Business Experience Suggests That As The Variable Increases, Synergies Also Increase. This Result Was Expected As Long Relationship Between Institutions Encourages Ties Or Partnership. Interest Rate On Loan To Informal Financial Institutions Had The Expected Negative Sign And Was Significant At 0.03 Level Of Significance. Thus High Interest Rate On Loans To Informal Financial Institution Will Discourage Synergies. This Is Also In Line With The Findings Of Mkpado,[37] That High Interest Rate Decreases The Likelihood Of The Informal Sector Obtaining Credit From Formal Sources.

Rate Of Loan Recovery From Informal Financial Institutions Was Directly Related To Synergies At 0.03 Percent Probability Level. This Result Is In Line With The Opinion Or Expectations That High Rate Of

Loan Recovery Is An Indication Of Good Business Performance And Hence Makes For Partnership Between Business Sectors. Number Of Bank Branch Network Had The Expected Positive Relationship With Synergies. This Variable Is Statistically Insignificant Yet It Conformed To A Priori Expectation Which Takes Priority Over Statistical Significance. Having Joint Workshop With Staff Of Informal Sector Had A Positive Coefficient But Was Insignificant. Number Of Years Of Business Operation Was Found To Have A Negative Correlation With Synergies.

Table 4: Probit Regressions For Informal Financial Institutions

Factors That Facilitate Linkages (Variables)	Regression Co-Efficient	Standard Error	T-Statistics	Prob.
Years Of Business Experience With Formal Financial Institutions	2.001898	0.651042	3.074913	0.0021
Numbers Of Years Of Business Operation	-1.686188	0.614382	-2.744527	0.0110
Number Of Bank Branch Network	1.410503	0.570842	2.470917	0.0121
Provision Of Security(Insurance) Services To Informal Financial Institutions	0.157634	0.600314	0.262586	0.7929
Receiving Training Service From Formal Institutions	1.309905	0.674996	1.940613	0.0523
Constant	-0.644419	1.048646	-0.614525	0.4389

Dependent Variable = Sn, Number Of Observations = 40
Source: Extracted From Eviews Analysis Of Survey, 2017

The Result Of The Probit Model For Informal Financial Institutions As Presented In Table 4 Shows That Synergy Between Financial Sectors Is Significantly Facilitated By Years Of Business Experience With Formal Institutions, Years Of Business Operation And Number Of Bank Branches In Rural Areas. The Variables: Having Joint Consultation/Workshop With Formal Institutions, Interest Rate On Loan To Borrowers, Provision Of Security (Insurance) Services To Informal Financial Institutions And Receiving Training From Formal Institutions Were Statistically Insignificant Yet Conformed To A Priori Expectations In Terms Of Sign, Which Has Priority Over Statistical Significance. Years Of Business Experience With Formal Financial Institutions Had A Positive And Significant Impact On Synergies. This Result Is Supported By The Fact That The Higher The Number Of Years Of Business Relationship Between Sectors, The More The Confidence That Is Built Vis-À-Vis The More Cooperation Between These Institutions. The Finding Is Consistent With The Assertion Of A Study That Noted That Years Of Business Dealings Encourage Synergies.[38]

Years Of Business Operations Was Found Inversely Related To Synergies. This Implies That Informal Institutions With High Number Of Years Of Business Operations Are Less Likely To Want To Be Linked To Formal Institution. This Is Expected As Old Informal Institutions May Have Gained Enough Grounds, Experience And Resources And As Such May Likely Be Comfortable Remaining On Their Own. The Number Of Bank Branch Network Had A Positive Coefficient. Having Joint Consultations/Workshops With Formal Financial Institutions, Interest Rate On Loan From The Formal Sector, Provision Of Insurance Services And Receiving Training From Formal Institutions Were Insignificant To Synergies.

4.4 Major Constraints To Synergies Between Financial Institutions

Based On The Clustering Of Loadings (Component Validity) And The Critical Value For Significance Of Pearson Correlation Coefficient (0.417), The Formal Sectors' Major Constraints In Partnering With The Informal Sector Were: Weakness Of Regulatory And Operational Framework (Component One), Inefficient Communication Of Transactions (Component Two), Weak Technical Capacity (Component Three) And Poorly Defined Property Rights (Component Four) As Shown In Tables 5 And 6.

Extracts Of The Various Components And Constraints Items Substantially Loaded On Them Show That Components One And Two Had Six Items Each; Component Three Had Five Items While Component Four Had Four Items. The Weakness Of Regulatory Environment Has Been Blamed For Being Inadequate To Provide Conducive Environment For Synergies. The Above Result Has Given Credence To Sanmfi,[39] Who Noted That Efficient Financial Intermediation Is Constrained By Two Critical Barriers: Institutional Environment And Policy Environment. Institutional Rigidities Are Constraining The Formal Sector's Ability To Develop A Suitable Implementation And Delivery Mechanism Or Product To Deal With Small Business' Preferences. On The Other Hand, An Archaic Regulatory Framework In Maintaining An Environment Is Inimical For Secured Transactions And Thus Market Integration.

Table 5: Results Of Varimax Rotated Constraints To Linkages As Perceived By Formal Financial Institutions

Factor 1: Weakness Of Regulatory And Operational Framework		**Factor 2**:Ineffective Communication Of Transaction	
Constraints	**Loading**	**Constraints**	**Loading**
Poor Implementation Of Regulatory Policies By Government	646	Poor Reporting Of Operations In The Informal Sector	601
Irregular Savings Activities By The Informal Sector	593	Poor Record Keeping	552

Lack Of Umbrella Organisation Union	642	Poor Information Management In The Informal Sector	541
Problems Of Identifying Reliable Audit Firm	549	Poor Registration Of Informal Financial Institution	518
Poor Adaptation Of Banks To Socio-Cultural Environment Of The Informal Financial Institutions	638	Non Provision Of Annual Audited Balance Sheet	650
Inefficient Second Tier Regulatory Authority	500	Networking Among Ifis Not Facilitated	660
Factor 3: Weak Technical Capacity		**Factor 4:** Poorly Defined Property Rights	
Constraints	**Loading**	**Constraints**	**Loading**
Rules Of Viable And Sustainable Financial System Are Not Observed	500	Poor Regulatory Environment For Protecting Property Rights	553
Low Quality Of Administrative Staff	514	Non Availability Of Acceptable Collateral	561
Non Provision Of Consultancy Services To Ifis	511	Poor Asset Bases Of The Informal Sector	594
Poor Response Of Sector To Government Reform Policies	633	Lack Of Interest In Linkages	615
Low Grading Of Informal Financial Sectors	500		

(Decimal Points Omitted)
Source: Field Survey, 2017

Communication Of Business Operation Is A Prerequisite For Confidence And Growth. Widened, Stabilised And Sustained Dialogue And Communication Which May Involve The Use Of Information And Communication Technology (Ict) Will Help To Establish Trust And Confidence And Reach Common General Agreement Between Sectors. With The High Penetration Of Cell Phones And Internet Facilities, Even Within The Remote Rural Areas, Efficient Communication Vis A Vis Synergies Can Be Achieved. Anything That Is Not Promoting Mutual Understanding And Efficient Communication Between Sectors May Have Negative Effect On Synergies.

Weak Technical Capacity Especially On The Part Of The Informal Financial Institution Constitutes A Major Hindrance To Financial Institution Synergies. This Deficiency Makes It Difficult For The Informal Partners To Effectively Perform The Core Duties Of Savings Mobilisation, Allocation And Monitoring Of Credits In Synergies. The Constraints That Loaded Factor Four Was Poorly Defined Property. In Most Developing Countries, Legal Framework Are Not Well Defined, There Is Inadequate Law Protecting Property Rights And Issues Of Adequacy, Ownership Rights Are Conflicting With The Desires To Secured Synergies.

On The Basis Of Component Validity Of Loadings (0.417) And Varimax Rotation, The Informal Sectors' Major Constraints In Partnership With The Formal Were Grouped Into Four Principal Components; Lack Of Confidence (Component One), Weakness Of Regulatory And Operational Framework (Component Two), Institutional Rigidity (Component Three) And Weak Technical Capacity (Component Four). Extracts Of The Various Components Of The Constraints Items Substantially Loaded On Them Show That Components One And Two Had Six Items Each. While Component Three And Four Had Eight And Four Items Respectively.

Table 6: Results Of Varimax Rotated Constraints To Linkages By Informal Financial Institutions

Factor 1: Lack Of Confidence		**Factor 2: Weakness Of Regulatory And Operational Framework**	
Constraints	**Loading**	**Constraints**	**Loading**
Rules Of Viable And Sustainable Financial System Are Not Observed	509	Inefficient Second Tier Regulatory Authority	823
Lack Of Permanence Of The Informal Sector	507	Inadequate Law That Permit A Wide Range Of Security Interest	671
Poor Information Management	685	Non Provision Of Legal Status For The Informal Sector	658
Non Provision Of Annual Audited Balance Sheet	851	Poorly Defined Property Rights	719
Inability To Identify Reliable Audit Firms	806	Poor Registration Of Ifis	871
Poor Asset Base Of The Informal Sector	500	Low Rate Of Expansion Of Banks In Rural Areas	669
Factor 3: Institutional Rigidity		**Factor 4: Weak Technical Capacity**	
Constraints	**Loading**	**Constraints**	**Loading**
Poor Response Of Sector To Government Reform Policies	812	Poor Record Keeping	908
Irregular Savings Activities Of The Ifis	723	Low Quality Of Administrative Staff	535
Poor Adaptation Of Banks To The Socio-Cultural Environment Of Ifis	784	Poor Reporting Of Operations Of Ifis	803
Non Adaptation Of The Accounting System Of Ifi	893	Poor Operational Upgrading	768
Low Grading Of The Informal Financial Sector	796		
Poor Business Dealings With Informal Financial Institution	865		

Networking Among Ifi Not Facilitated	673		
Lack Of Organisational Upgrading	919		

Source: Field Survey Data, 2016. (Decimal Points Omitted)

The Informal Sector's Major Constraint In Creating Synergy With The Formal Sector Was Again The Weakness Of Regulatory And Operational Framework. The Above Findings Have Given Credence To Yaron[40] Who Noted That The Key Constraints To Integrating The Financial Sectors Are An Overall Lack Of Confidence Among All Intermediaries. Poor Legal, Regulatory And Operational Framework, Problems Of Institutional Rigidity And Failure To Embrace Innovations And Products Combine To Undermine An Environment For Secured Transactions. In The Context Of Inconsistent And Other Non-Transparent Accounting Procedures As Well As Poor Understanding Of Standards That Indicate How Well Or Poorly An Agency Is Doing, Formal Sector Institutions Either Shy Away From Collaborating Due To High Cost Of Screening, Or Take Time Much Longer Than Necessary To Come To A Working Agreement Or Worst Still Adopt Other Non-Financial Method Of Screening And Finally Choosing Informal Financial Institution For Collaboration.[40] The Lack Of Confidence Among Market Players Generally Forces Formal Sector Institutions To Seek To Ensure The Safety Of Their Investments Through Demanding Collateral Or Security. Even Where Collateral Is Offered, Loan Approval Still Take Long Time Due To Difficulties In Registration, Difficulties In Establishing If The Title Is Good Or If There Exist Prior Changes Against The Property.

These Findings Are Highly Revealing And Have Confirmed Earlier Studies That The Formal Sector Does Not Have Confidence In Synergising With The Informal Sector. In The Absence Of Confidence On The Informal Sector's Ability To Repay Loans, Formal Sector Shy Away From Synergies.[41] Where Property Right And Trust Are Unclear, Or Hard To Enforce, Synergies Between Sectors Becomes Difficult. Legal And Regulatory System In Many Developing Countries Including Nigeria Makes Attaching Collateral In Solving Adverse Selection And Moral Hazard Problems In Credit Market Hard.[42]

Major Strategies In Facilitating Synergies Between Formal And Informal Financial Institutions

The Forty Strategies Accepted By Both Formal And Informal Financial Institutions Were Further Grouped Into Major Strategies Using Exploratory Factor Analysis (Principal Components). The Result Of The Rotated Component Matrix Shows The Extracted Components Based On The Responses Of The Financial Sectors And Is Shown In Tables 7 And 8, Below:

Table 7: Varimax Rotated Strategies To Facilitate Synergies By Formal Financial Institutions

Factor 1	**Loading**	**Factor 2**	**Loading**
Provision Of Conducive Legal Policy Framework	-	Human And Organisational Upgrading	-
Encouraging Of Positive Response By Financial Sector To Government Reform Policies	579	Giving Training To Financial Sector On Financial Management	782
Provision Of Form Of Legal Status For Ifis	835	Educating Managers Of Formal Sector On The Potentials And Performance Of Ifis	778
Enacting Law That Permit Wider Range Of Collateral Interest	798	Identify Banks With Effective Financial Services In Rural Areas For Linkage	641
Providing Of Adequate Regulatory Framework For Informal Financial Institutions	770	Agreeing On The List Of Reliable Audit Firm For Ifis	575
Tax Relief On Profit Granted To Banks That Allocate Credit Through Ifis	759	Facilitating Access To Banks On Commercial Terms	519
Levying Punitive Taxes On Banks That Fail To Allocate Loans Via Ifis	628	Encouraging Regular Saving Activities By Ifis	549
Effective Implementation Of Government Financial Policies	617	Improving The Quality Of Administrative Staff Of Ifis	549
Factor 3	**Loading**	**Factor 4**	**Loading**
Flexibility Of Financial Institution	-	Efficient Communication Of Transaction	
Adapting Banks To Socioeconomic Environment Of Ifis	685	Regular Reporting Of Operations Of Financial Sector	748
Encouraging Expansion Of Banks Branches To Rural Areas	674	Networking Among Ifis To Form Federation Of Shgs	515
Provision Of Effective Communication Network For Financial Institutions	735	Proper Record Keeping Ifis	561
Incorporating Informal Banking Operations Within Regular Banking Operations	502	Strengthening Grass Root Organisation Of Ifis	777
The Use Of Informal Financial Institutions To Allocate A Given Percentage Of Bank Credit	578	Networking Of Ifis Through Joint Network Of Accreditation	690
Insuring Formal Financial Institutions Against Loan Default Through Compulsory Saving By Ifis	656		

Source: Field Survey, 2016. (Decimal Points Omitted.)

On The Basis Of Clustering Of Loading (Component Validity) And The Varimax Rotation, The Formal Sector Has Four Major Strategies That Will Facilitate Effective Synergy With The Informal Sector. The Major Strategies Are: The Provision Of Legal And Policy Frame Work, (Component One), Human And Organisational Upgrading Of Informal Financial Institutions (Component Two), Flexibility Of Financial Institutions (Component Three) And Effective Communication Of Transactions (Component Four). The Identified Major Strategies Confirmed Earlier Results On Constraints To Synergies That Boarded Among Other Factors, On Lack Of Confidence, Poor Technical Capacity Building, And Weakness Of Regulatory And Operational Framework As Well As Ineffective Communication Of Transactions.

Table 8: Varimax Rotated Strategies To Facilitate Synergies By Informal Institutions

Factor 1	**Loading**	**Factor 2**	**Loading**
Conducive Legal And Policy Environment	-	Human And Organisational Upgrading	-
Providing Effective Judicial System For Protecting Rights	663	Educating Managers Of Informal Sector On The Performances And Potentials Of Ifis	553
Encouraging Positive Response By Financial Sectors To Government Reform Polices	878	Reaching Agreement With Ifis On Standard Of Accounting	628
Creation Of Lower Level Regulatory Banking Units For Ifis	720	Establishing Higher Apex Organisation For Ifis	500
Provision Of Form Legal Status For The Informal Financial Sector	629	Strengthening Grass Root Organisation Of Ifis	647
Providing Adequate Regulatory Authority For Ifis	739	Agreeing On A List Of Reliable Audit Firms For Ifis	697
Giving Training To Financial Sectors On Partnership Management	738		
Mainstreaming Informal Financial Institution Through Joining Network For Accreditation	522		
Factor 3	**Loading**	**Factor 4**	**Loading**
Institutional Flexibility	-	Efficient Communication Of Transaction	-
The Use Of Informal Institutions In Allocating A Given Percentage Of Bank's Credits	558	Proper Record Keeping By Ifis	644
Setting Up Special Micro Finance Bank For Shgs	570	Proper Financial Management Training For Reporting Financial Operations	500
Incorporating Informal Banking Operations Within Regular Banking Operations	828	Facilitating Registration Of Ifis	664
Identify Banks With Effective Financial Services In The Rural Areas	577	Facilitating Access To Banks On Commercial Terms	673
		Encouraging Expansion Of Banks Branches To Rural Areas	741
		Having Self-Help Groups (Shgs) Units In All Commercial Banks	663

Source: Computed Field Survey Data, 2016. (Decimal Points Omitted)

From Table 8, Four Major Strategies (Factors) Were Grouped Based On The Responses Of Informal Financial Institutions. The Major Strategies Are Conducive Legal And Policy Environment, Human And Organisational Upgrading, Institutional Flexibility And Efficient Communication Of Transaction. In The Absence Of Regulation, Economic Cost Imposed By Financial Market Failure Would Be High, So There Is Need For A Conducive Legal And Regulatory Environment. Prudential Regulation According To Sanmfi,[39] Will Impact Greater Transparency And Accountability Resulting To Credibility And Confidence In The Financial System. The Result On Strategies For Effective Synergies Between Financial Sectors Corroborates Seibel,[43] Who Stated That Enactment Of Laws That Permit Wider Range Of Security Interest Such As Chattel Paper Account Receivable, Inventory Etc., Including Regulating And Enforcement Framework That Can Engender Confidence Among Market Players Will Encourage Synergy.

In Summary, Formal And Informal Financial Institutions Grouped Major Strategies In Facilitating Synergies As: Provisions Of Conducive Legal And Policy Framework For Secured Transactions, Human And Organisational Upgrading And Institutional Or Structural Adjustment.

V. Conclusions

Micro Small And Medium Enterprises Funding In Nigeria Can Be Enhanced By The Regulatory Authorities Putting In Place Measures Through Legislation Which Provide Effective Judicial System For Protecting Property Rights With Official Recognition Of The Informal Financial Institutions And Their Inclusion In Regulated Reforms. Government Through Its Organs Must Support Synergies Through Improving The Ability Of Formal Financial Institutions To Reduce Loan Losses By Use Of Local Sanctions To Enforce Repayment, As A Way Of Ensuring Confidence, Ensuring Clear Responsibilities And Setting Interest Rates That Reflects Lending Cost.

Finally, There Is Need For Adapting Banks To The Requirement Of Cultural And Economic Environment Of The Local Informal Sectors. Banks Should Be Encouraged To Enter Into Closer Relationship

With Informal Agents, Such As Self Help Groups (Shgs), Etc As Mechanism To Mobilise Deposits From And Deliver Credit To Msmes.

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