OPEN ACCESS
Global Journal of Research in Business Management
ISSN: 2583-6218 (Online)
Volume 04 | Issue 03 | May-June | 2024
Journal homepage: https://gjrpublication.com/gjrbm/
Research Article

Microfinance Banks and Informal Sector Financing in Rivers State Nigeria

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DOI: 10.5281/zenodo.12209007 **Submission Date:** 28 April 2024 | **Published Date:** 22 June 2024

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Abstract
The paper evaluated the effect of microfinance bank on informal sector financing in Rivers state Nigeria. Data were collected from microfinance banks' customers through a well designed structured questionnaire. Survey design was employed for the study. Independent sample test was used for the analysis. The findings showed that microfinance banks have made a significant difference on the level of income of informal sector in Rivers state, microfinance banks have made a significant difference on business growth of informal sector in Rivers state and microfinance banks have made a significant difference on financial independence of informal sector in Rivers state. The researchers therefore recommend that: adequate awareness campaign and supports should be given to microfinance bank by the regulatory authorities, CBN and the NDIC as engine of economic development targeted at poverty eradication and improvement of informal sector financing; microfinance banks should assist the informal sector with business ideas, replicate good business idea, institutionalize business and ensure global success report on financing in development of their business, therefore microfinance banks should be allowed to issue and clear cheque to ensure better performance on service delivery to the informal sector; since microfinance banks has been proved by IMF and others as the institution that facilitates financial inclusion, alleviate poverty, improve health, income level, education level, business growth etc., government should as a matter of urgency provide funds for the informal sector at a bearest minimum cost in which microfinance banks will provide the platform for the on-lending and poor individuals and persons in the informal sector with latent capacity for entrepreneurship should be given training by the government such as workshop, symposium, seminars and as well be funded to be self reliant, engaged in economic activities, enhance household income, create wealth and improve standard of living in which microfinance banks will be in a better position to provide the platform for the exercise.

Keywords: Microfinance bank, Informal sector, Business growth, Level of income, financial independence etc.

Introduction

Empowering the economically active but credit crippled individuals and liberating them from the shackle of poverty is the major reason for the establishment of Micro finance institutions. Unfortunately, 61% of this category comes from informal sector (Ogunde 2019; Nnabuife, Okoli & Anugwu 2020). According to Ehigiamusoe (2005), access to financial services enable active poor to move from everyday surviving to planning for the future, investing in better nutrition, their children's education, health care and empowering women socially.

Empowering them as the leading movers of the economy, will not only help to accelerate economic growth but also will reduce poverty and unemployment in Nigeria (Ehigiamusoe, 2005). In order to achieve this, federal government of Nigeria introduced National Economic Empowerment and Development Strategy (NEEDS) to pilot this responsibility (CBN 2005). The NEEDS aimed at improving the effectiveness and efficiency of these active but credit crippled entrepreneurs by providing funds that will help to stimulating their business in particular and economic growth in general which will ultimately enhance value of life of the Nigerian people.

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As a stratagem for achieving the above, the federal government provided funds through deposit money banks. The informal sector cannot access funds from Deposit Money Bank as a result of the stringent conditions of the bank. The bank needs collateral security before granting loan which the informal sector cannot provide, therefore, they are excluded from accessing loan. This problem was created by wrong swiftness and progression of the monetary and economic system reform, principally, at the early years of the reform (Soyibo 1996).

As a result of the non accessibility of the funds by this sector, there is therefore the need to establish and design an institution that can handle this problem that arises, Microfinance bank appear to fill this gap in the financial system delivery in the economy. Sculpted after the Grameen bank of Bangladesh poverty eradication enterprise, microfinance bank arbitrates the release of small, low interest and non-collateralized loan to the rural and urban people, relying on social-collateral and joint liability (Aryeteey 2005; Olomola 2000).

Microfinancing is not a recent occurrence in Nigeria as seen by such cultural, economic activities as Esusu, Adashi, Otataje, etc. which has been in the practice with the practical purpose of offering credits for the owners in our local areas. What is recent nevertheless is the attempt of federal governments of Nigeria to update it in local and city areas to improve the creative capability of the local and city poor, improve their financial and monetary standing which promote the level of their public economy (Onyeneke & Iruo, 2012).

To put micro-finance banks in a proper viewpoint, federal government of Nigerian initiated the micro-finance policy, regulatory and supervision framework on 15th December 2005. The policy seek out to: cover the greater part of the poor but efficiently active population by 2020, boost the share of microfinance credit mobilization as a percentage of overall credit of the country from 0.9% in 2005 to 20% in 2020, add to the share of micro credit as a % of GDP from 0.2 % in 2005 to at least 5% in 2020, advance the contribution of at least two third of states and local governments in micro credit financing by 2015, improve women's access to financial services by 5% annually and increase the number of linkages among universal banks, development banks etc by 10% yearly.

In order to achieve its mandate, microfinance bank started operation by mobilizing funds from the public, granting loan to the entrepreneurs of which, 61% were informal sector to encourage and boost their business. Informal sector employs about 85.5% of the labour force (Ogunde 2019). In Nigeria, informal sector has contributed greatly to economic development through job creation, capital saving and mobilization, efficiently providing link with other sector, use of local technology, training of young entrepreneurs etc (Fasanya & Onakoya 2012).

There are some assertions that microfinance can only facilitate the inclusion of the unbanked into the financial system and give them access to credit; it seems that such monies made available to them merely place them on sustenance level without necessarily liberating them from the shackles of poverty (Jaiyeola 2012), but rather, microfinance finance bank is a veritable tool for informal sector's development. It facilitates financial inclusion, poverty alleviation, promotion of universal education and also promote gender equality, reduce child mortality, improve maternal health, empower women, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability, develop a global partnership for development and achieve a millennium development goal.

Studies have been conducted by both national and international organization and individuals on how microfinance help in financing the informal sector by liberating them from the shackles of poverty for example, Alemu (2002) coducted research on the impact of micro-credit on the household income, Zaman & Hassan (2009) carried out study on the ability of microfinance to reach the poor vulnerable farmers, Asemelash (2003) carried out research on the impact of microfinance programmes in China using targeting and sustainability etc. but non of these researchers provided the necessary empirical evidence on microfinance bank and informal sector's level of income, business growth and financial independence before and after financing by microfinance bank. This gap created constitutes the central problem of the study.

OBJECTIVES OF THE STUDY

The general objective of the study is to ascertain the difference made by microfinance banks on informal sector financing in Rivers State Nigeria. The specific objectives are given as:

i) To ascertain the difference made by microfinance bank on the level of income of the informal sector in Rivers State.
ii) To determine the difference made by microfinance bank on the business growth of the informal sector in Rivers State.
iii) To evaluate the difference made by microfinance bank on the financial independence of the informal sector in Rivers State.

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STATEMENT OF HYPOTHESES

The researcher states the following null hypotheses for the study:

H_1: There is no significant difference made by microfinance bank on the level of income of informal sector in Rivers State.

H_2: There is no significant difference made by microfinance bank on the business growth of informal sector in Rivers State.

H_3: There is no significant difference made by microfinance bank on the financial independence of informal sector in Rivers State.

LITERATURE REVIEW

The researcher shall consider conceptual and theoretical framework

1) Conceptual Framework

The concepts relevant to the work are thoroughly examined:

a) Informal sector

The term informal sector is not synonymous with illegality such as prostitution, armed robbery, hostage taking, fraudulent business etc. It is just a legal business without government regulation (Etim & Daramola 2020). International Labour Organisation (2003) defined informal sector as both self employment and wages that were often not recorgnized, regulated or protected by legal or regulatory framework. They include self employment, wage workers, unregistered workers and employers (OECD 2009; Nnabuife, Okoli & Anugwu 2020). Informal sector produces goods and services in the economy, employ almost 90% people in the poorest developing countries and account for 65% of Nigeria's GDP (Omisakin 1999; IMF 2020). According to Oberay etal (2001) and ILO (2002), informal sector are classified into three categories:

a) Enterprises that have the potential of contributing essentially to national economy through wealth generation.
b) Individuals or households that engage in informal activities for the purpose of survival and
c) Individuals that engage in part time work as well as other works elsewhere because of low and irregular salaries (Onwe 2013)

b) Microfinance bank

According to CBN (2005), Microfinance bank/institution unless otherwise stated, shall be construed to mean any company licensed to carry on the business of providing microfinance services such as savings, loan, domestic funds transfer, and other financial services that are needed by the active poor, micro, small and medium enterprises to conduct or expand their businesses as defined by these guidelines.

The role of the microfinance banks can therefore be summarized to include the following:

i) **Deposit Mobilization and Promotion of Saving Culture:** One of the requirements of microfinance clients is a safe place to keep their savings so that they can build up large sums of money to meet several needs- payment for shops, tools, accommodation, school fees, medical expenses, marriages, burials, etc. These needs are met by the savings mobilization activities of the MFBs. Most micro enterprises find it difficult to leave their shops and business premises for banking transactions. The convenience of this role is that the staff of the banks goes to the customers at their houses, shops, etc. for daily collection of deposits and loan repayments. The microfinance banks usually pay interest on the amount saved. This role has helped to promote a healthy banking culture among the hitherto marginalized groups.

ii) **Credit Extension to Customers:** Credit delivery is perhaps one of the most important roles of microfinance banks, as the loans extended are the main source of funds used to expand existing businesses and in some cases to start new ones. The credit delivery system in the microfinance banks exclusively focus on the poorest of the poor, organize borrowers into small homogenous groups, and give loans to meet diverse development needs of the poor without emphasis on tangible collaterals. Many microfinance banks have a number of loans such as small business loans, small entrepreneur lending, loans for hardcore poor, partnership build up programmes, etc. Governments also encourage co-operatives to partner with the microfinance banks to raise bulk loans for on-lending to the beneficiaries.

iii) **Employment Generation:** MFBs also contribute immensely to job creation in the rural areas through the provision of skills acquisition and adult literacy programmes. It has therefore been acknowledged that the rural setting is an arena of many industries and self-employed micro-enterprises, which could be empowered to contribute significantly to the national economy. In some cases, the MFBs may pass on new skills and production techniques to a micro enterprise under a profit sharing agreement at the end of the production period. Most startup financing are aimed at job creation.

iv) **Promotion of Entrepreneurship:** The aim of microfinance is not only to extend credits to beneficiaries but to promote entrepreneurship and boost rural financial markets that will provide sustainable access to financial services by creating a relationship between those with financial resources and those who need them.

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The MFBs also facilitate economic development by providing ancillary capacity building to micro-enterprises in areas such as record keeping and small business management; collection of money or proceeds of banking instruments on behalf of their customers through correspondent banks; provision of payment services such as salary, gratuity and pension for the staff of micro-enterprises and various tiers of government; provision of loan disbursement services for the delivery of credit programme of government agencies, groups and individuals for poverty alleviation on non-recourse basis; provision of ancillary banking services to their customers such as domestic remittance of funds and safe custody; and investment of surplus microfinance funds in suitable instruments including placing funds with correspondent banks and in treasury bills, among others.

Other roles played by microfinance banks include; reorientation of the rural populace on sound financial practices, as well as issues such as partnering with other institutions to provide insurance services to clients, reproductive healthcare, girl child education and the granting of scholarship to children of clients up to secondary and university education (Ehgiamusoe, 2011). All these areas have a direct positive link with entrepreneurial capabilities of the rural people.

2) Theoretical Framework

Theories relevant to the work are:

a) Commercial Loan Theory

This was propounded by Adam Smith in 1776. The theory stated that short-term loans advanced to finance businesses are the most liquid loans that banks could make. These are self-liquidating loans because the goods being financed will soon be sold. The loan finances a transaction and the transaction itself provides the borrower with the funds to repay the bank. The goods move quickly from the producers through the distributors to the retail outlet and then are purchased by the ultimate cash-paying consumer. The essence of the theory is that short term loans are preferred by banks as they would be repaid from the proceeds of transactions they facilitated and financed.

Microfinance banks give loans on a short term period to their customers (entrepreneurs), who invest the money, grow their business, boast their income and return the capital and interest back to the bank. The research work is anchored on this theory because microfinance banks give loan to the informal sectors to finance their business so as to boost their income, improve their educational level and become self reliant.

b) The Financial Intermediation Theory

This theory was propounded by Gurley and Shaw in 1960. They said that if there was information asymmetry in the financial system, it would result into high cost of transaction, lack of complete information in useful time and in method of regulation, problem of adverse selection, concomitant moral hazard and market imperfection. The theory advocates that there should be a financial institution that would act as an economic agent to link those with surplus economic funds and deficit economic funds together to avoid information asymmetry in the system.

Microfinance banks perform this role. They provide a non collateralized fund at a low cost to informal sector to develop their business and become financially independent and also provide timely and useful information that they need to boost their level of income and education.

METHODOLOGY

Research design is the framework for collecting and analyzing data (Ihenetu 2008). The researcher adopted survey design for the study because the data were collected purely from the field. Twenty five (25) customers of eighteen (18) microfinance banks in Rivers state that collected facilities were chosen through purposive sampling method. The choice was based on the nature of business, years of experience, number of times facilities were granted etc. Structured questionnaire was use as the instrument for data collection. It is design on five (5) point scale such as **very adequately (5), Adequately (4), Moderately Adequately (3), Below Average (2) and Not Adequate (1)**. The researcher employed t-test of difference for independent sample to analyze the data.

The model specification is given as:

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{S_1^2 + S_2^2}{n_1 + n_2}}}$$

Where $\bar{x}_1 = mean\ of\ after\ MFB\ customer$

$\bar{x}_2 = mean\ of\ before\ MFB\ customer$

$n_1 = sample\ size\ of\ after\ MFB\ customer$

$n_2 = sample\ size\ of\ before\ MFB\ customer$

$S_1^2 = variance\ of\ after\ MFB\ customer$

$S_2^2 = variance\ of\ before\ MFB\ custome$

t = calculated value

PRESENTATION AND ANALYSIS

To affect a comprehensive presentation of the data in this study, questionnaires were administered to the customers of the banks. Four hundred and fifty (450) copies of questionnaires were distributed to them structured "Before and After Becoming Micro Finance Customers" (BABMFC), a total of three hundred and eighty (380) copies were returned for Before Becoming Microfinance Bank's Customers and also the same copies were returned for After Becoming Microfinance Bank's Customers. These therefore means that 84.44% of the questionnaire were retrieved where as the remaining 15.56% were not collected.

The banks, number of questionnaires distributed, number returned and their percentages are presented below.

Table 1 Questionnaire distributed to Bank's customer.

S/N	Name of banks	*Questionnaires Distributed*		Total	*Questionnaires Retrieved*		Total
		Before	After		Before	After	
1	U & C MFB	25	25	50	20	20	40
2	Maxi trust MFB	25	25	50	20	20	40
3	Premium MFB	25	25	50	18	18	36
4	Comsmopolitan MFB	25	25	50	22	22	44
5	Iwoama MFB	25	25	50	22	22	42
6	Royal MFB	25	25	50	19	19	38
7	Aheato MFB	25	25	50	21	21	42
8	Diobu MFB	25	25	50	20	25	45
9	Moneywell MFB	25	25	50	18	18	36
10	Levite MFB	25	25	50	20	25	45
11	Golden Choice MFB	25	25	50	21	21	42
12	Surelife MFB	25	25	50	19	19	38
13	UST MFB	25	25	50	25	25	50
14	Minjise MFB	25	25	50	20	20	40
15	Rima Growth Pathway MFB	25	25	50	25	25	50
16	Blueprint Investments MFB	25	25	50	15	20	35
17	Midland MFB	25	25	50	15	20	35
18	Hope Alive MFB	25	25	50	20	20	40
	Total	450	450	900	380	380	760

Source: field survey 2023.

1) Status Before Becoming Banks Customers

Table 2 Level of Income

Description	VA	A	MA	BA	NA	Total
(i) Level of income and revenue	5	15	80	130	150	380
(ii) Earning, profit made	0	10	70	100	200	380
iii) Individual and Household savings	3	17	60	120	180	380
Total	**8**	**42**	**210**	**350**	**530**	**1140**
Average	**3**	**14**	**70**	**116**	**177**	**380**
Percentage	**0.70**	**3.68**	**18.42**	**30.71**	**46.49**	**100**

Source: Authors computation based on the survey 2023

From the above 0.70% said income level was very adequate, 3.68% adequate, 18.42% moderately adequate, 30.71% below average and 46.49% not adequate.

Table 3 Business Growth

Description	VA	A	MA	BA	NA	Total
i) Diversity of production	20	40	100	120	100	380
ii) Marketing opportunities	10	20	50	100	200	380
iii) Business investment opportunities	15	15	50	120	180	380
Total	**45**	**75**	**200**	**340**	**480**	**1140**
Average	**15**	**25**	**67**	**113**	**160**	**380**
Percentage	**3.95**	**6.58**	**17.54**	**29.82**	**42.11**	**100**

Source: Authors computation based on the survey 2023

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From the above 3.95% said business growth was very adequate, 6.58% adequate, 17.54% moderately adequate, 29.82% below average and 42.11% not adequate.

Table 4 Financial Independence

Description	VA	A	MA	BA	NA	Total
i) Improved livelihood	10	20	70	180	100	380
ii) Access to new market	0	10	50	170	150	380
iii) Increase in profit	5	25	70	80	200	380
Total	**15**	**55**	**190**	**430**	**450**	**1140**
Average	**5**	**19**	**63**	**143**	**150**	**380**
Percentage	**1.32**	**4.82**	**16.67**	**37.72**	**39.47**	**100**

Source: Authors computation based on the survey 2023

From the table above, 1.32% said financial independence was very adequate, 4.82% adequate, 16.67% moderately adequate, 37.72 below average, and 39.47% not adequate.

2) Status After Becoming Banks Customers

Table 5 Level of Income

Description	VA	A	MA	BA	NA	Total
(i) Level of income and revenue	180	150	50	0	0	380
(ii) Earning, profit made	170	140	40	25	5	380
iii) Individual and Household savings	150	160	60	10	0	380
Total	**500**	**450**	**150**	**35**	**5**	**1140**
Average	**167**	**150**	**50**	**11**	**2**	**380**
Percentage	**43.86**	**39.47**	**13.58**	**3.07**	**0.45**	**100**

Source: Authors computation based on the survey 2023

From the table, above, 43.86% said the level of income is very adequate, 39.47% adequate, 13.58% moderately adequate, 3.07% below average and 0.45% not adequate.

Table 6 Business growth

Description	VA	A	MA	BA	NA	Total
i) Diversity of production	180	150	40	10	0	380
ii) Marketing opportunities	200	100	70	7	3	380
iii) Business investment opportunities	180	120	50	20	10	380
Total	**560**	**370**	**160**	**37**	**13**	**1140**
Average	**187**	**123**	**53**	**12**	**5**	**380**
Percentage	**49.12**	**32.46**	**14.04**	**3.24**	**1.14**	**100**

Source: Authors computation based on the survey 2023

From the table above 49.12% said the business growth was very adequate, 32.46% adequate, 14.04% moderately adequate, 3.24% below average, 1.14% not adequate.

Table 7 Financial Independence

Description	VA	A	MA	BA	NA	Total
i) Improved livelihood	200	100	70	10	0	380
ii) Access to new market	180	120	80	0	0	380
iii) Increase in profit	150	150	50	20	10	380
Total	**530**	**370**	**200**	**30**	**10**	**1140**
Average	**177**	**123**	**67**	**10**	**3**	**380**
Percentage	**46.49**	**32.46**	**17.54**	**2.63**	**0.88**	**100**

Source: Authors computation based on the survey 2023

From the table above 46.49% said the financial independence was very adequate, 32.46% adequate, 17.54% moderately adequate, 2.63% below average and 0.88% not adequate.

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TEST OF HYPOTHESES

H1: There is no significant difference made by microfinance bank on the level of income of informal sector in Rivers State.

Group Statistics

	BeforeandAfter	N	Mean	Std. Deviation	Std. Error Mean
INCOME	1	380	4.23	.825	.042
	2	380	1.82	.915	.047

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
INCOME	Equal variances assumed	5.920	.015	38.266	758	.000	2.418	.063	2.294	2.542
	Equal variances not assumed			38.266	750.123	.000	2.418	.063	2.294	2.542

Source: SPSS version 23

From the result, we accept alternate hypothesis (Ha) and reject null hypothesis (Ho) because the p-value is less than the power of test, ie 0.000 < 0.05 hence conclude that microfinance banks have made a significant difference on income level of informal sector in River's state.

H2: There is no significant difference made by microfinance bank on the business growth of informal sector in Rivers State.

Group Statistics

	BeforeandAfter	N	Mean	Std. Deviation	Std. Error Mean
BUSINESS GROWTH	1	380	4.25	.903	.046
	2	380	2.01	1.104	.057

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
BUSINESS GROWTH	Equal variances assumed	6.178	.013	30.675	758	.000	2.245	.073	2.101	2.388
	Equal variances not assumed			30.675	729.392	.000	2.245	.073	2.101	2.388

Source: SPSS print out

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From the result, we accept alternate hypothesis (Ha) and reject null hypothesis (Ho) because the p-value is less than the power of test, ie 0.000 < 0.05 hence conclude that microfinance banks have made a significant difference on business growth of informal sector in River's state.

H3: There is no significant difference made by microfinance bank on the financial independence of informal sector in Rivers State.

Group Statistics

	BeforeandAfter	N	Mean	Std. Deviation	Std. Error Mean
FININDEPENDENCE	1	380	4.21	.880	.045
	2	380	1.91	.934	.048

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
FININDEPENDENCE	Equal variances assumed	.129	.720	34.963	758	.000	2.303	.066	2.173	2.432
	Equal variances not assumed			34.963	755.318	.000	2.303	.066	2.173	2.432

Source: SPSS print out

From the result, we accept alternate hypothesis (Ha) and reject null hypothesis (Ho) because the p-value is less than the power of test, ie 0.000 < 0.05 hence conclude that microfinance banks have made a significant difference on financial independence of informal sector in Rivers state.

The implication here is that microfinance banks is a veritable institution for poverty reduction, financial inclusion, business growth, economic growth and development etc. No wonder the establishment and the modernization of this institution in 2005 received great acceptance by both national and international communities.

SUMMARY AND RECOMMENDATIONS

Based on the findings, the following conclusions were made.

1. Microfinance banks have made a significant difference on the level of income of informal sector in River's state.
2. Microfinance banks have made a significant difference on business growth of informal sector in River's state.
3. Microfinance banks have made a significant difference on financial independence of informal sector in River's state.

Recommendations

- Adequate awareness campaign and supports should be given to Microfinance bank by the regulatory authorities, CBN and the NDIC as engine of economic development targeted at poverty eradication and improvement of micro, small and medium scale entrepreneurs
- Microfinance lending to the active poor and SMEs has helped to facilitate entrepreneur's business ideas, replicate good business idea, institutionalize business and ensure global success report on financing in development of small business. Therefore, Microfinance banks should be allowed to issue and clear cheque to ensure better performance on service delivery to the informal sector.
- Since microfinance banks has been proved by IMF and others as the institution that facilitates financial inclusion, alleviate poverty, improve health, income level, education level, business growth etc., government should as a matter of urgency provide fund for the informal sector at a bearest minimum cost in which microfinance banks will provide the platform for the on lending.
- Poor individuals and persons in the informal sector with latent capacity for entrepreneurship should be given training by the government such as workshop, symposium, seminars and as well be funded to be self reliant, engaged in economic activities, enhance household income, create wealth and improve standard of living in which microfinance banks will be in a better position to provide the platform for the exercise.

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Citation
Ihenetu H.I., & Gbomor M.G. (2024). Microfinance Banks and Informal Sector Financing in Rivers State Nigeria. In Global Journal of Research in Business Management (Vol. 4, Number 3, pp. 1–9). https://doi.org/10.5281/zenodo.12209007

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