

1 **Informal Financial Institution and Sustainable**
2 **Development Goal of Poverty Reduction In Kogi State,**
3 **Nigeria**

4 **Abstract**

5
6 *Among the various SDGs, Poverty reduction which is the foremost goal is fundamental,*
7 *strategic and crucial to the achievement of the other goals in which can be achieved among*
8 *other ways with an efficient, effective, diverse, indigenous and innovative financial market.*
9 *With a dualized financial market inherent in Nigerian economy as obtainable in most*
10 *developing countries, the study seeks to study the role of informal financial institution on the*
11 *sustainable goal of poverty reduction in Nigeria with particular reference to Kogi State using*
12 *the Money lender theory as its theoretical Framework. The study sampled 600 respondents*
13 *using stratified sampling technique carried out by dividing the population into 3 subsets*
14 *based on the senatorial districts (East, West, Central) 4 local government areas are*
15 *randomly selected from each of the senatorial districts, 10 wards were selected from each of*
16 *the local government area to give a total of 120 stratum. 10 respondents were selected from*
17 *each of the wards concluded whose response was analyzed using descriptive statistics and*
18 *Ordinary Least square hence the result showed that Non financial institution is a potential*
19 *voyage toward the actualization of the Sustainable goal of poverty reduction in Kogi state,*
20 *Nigeria and recommended that Institutional and legal framework be structured to enable*
21 *non financial institution perform the role of money lender while serving as intermediary*
22 *between the complex financial institution and the unorganised low income earners alias the*
23 *masses and those in the social recesses of the society.*

24 *Keyword: Informal Financial Institution, Poverty, SDGS*

25 **1.0 Background of the Study**

26 The Sustainable Development Goals (SDGs), otherwise known as the Global Goals, adopted
27 on September 25th 2015 are a universal call to action to end poverty, protect the planet and
28 ensure that all people enjoy peace and prosperity as part of a new sustainable development
29 agenda. Each goal has specific targets to be achieved over the next 15 years. These 17 Goals
30 were built on the successes of the Millennium Development Goals, while including new areas
31 such as climate change, economic inequality, innovation, sustainable consumption, peace and
32 justice, among other priorities. The goals are interconnected – often the key to success on one
33 will involve tackling issues more commonly associated with another. The SDGs are an

34 inclusive agenda. They tackle the root causes of poverty to make a positive change for both
35 people and planet. (UNDP, 2015)

36 Among the various SDGs, Poverty reduction which is the foremost goal is fundamental,
37 strategic and crucial to the achievement of the other goals. Eradicating poverty in all its
38 forms and dimensions, including extreme poverty, is the greatest global challenge and an
39 indispensable requirement for sustainable development, the first and fundamental goal
40 among the SDG. Its seven associated targets aims, among others, to eradicate extreme
41 poverty for all people everywhere, reduce at least by half the proportion of men, women
42 and children of all ages living in poverty, and implement nationally appropriate social
43 protection systems and measures for all, including floors, and by 2030 achieve substantial
44 coverage of the poor and the vulnerable.

45 Nonetheless, Poverty and hunger has become an household problem in Nigeria over the
46 past decades despite the abundant human and material resources inherent in Nigerian
47 economy. The prevalence of poverty in the country, which has attained an endemic nature
48 is becoming worrisome. Poverty has made Nigeria to attain an unenviable status such that
49 no Government (no matter the level), Organisation, Community, Clan or Family can
50 survive effectively without introducing one kind of poverty reduction effort (Oluwoyo, et
51 al, 2016)

52

53 Furthermore, Poverty can be structural (chronic) or transient. The former is defined as
54 persistent or permanent socio-economic deprivations and is linked to a host of factors such
55 as limited productive resources, lack of skills for gainful employment, endemic socio-
56 political and cultural factors and gender. The latter, on the other hand, is defined as
57 transitory/temporary and is linked to natural and man -made disasters. Transient poverty is
58 more reversible but can become structural if it persists

59

60 Also, Poverty as a social problem is deeply embedded wound that permeates every
61 dimension of culture and society. It includes sustained low levels of income for members
62 of a community, a lack of access to services like education, markets, health care, financial
63 institution, lack of decision making ability, and lack of communal facilities like water,
64 sanitation, roads, transportation, and communications (Phil, 2010)

65

66 However, Various causes of poverty in Nigeria abound in various empirical literature
67 among which include low or negative economic growth, inappropriate macroeconomic
68 policies, deficiencies in the labour market resulting in limited job growth, low productivity
69 and low wages in the informal sector, and a lag in human resource development. Other
70 factors which have contributed to a decline in living standards and are structural causes or
71 determinants of poverty include increase in crime and violence, environmental
72 degradation, retrenchment of workers, a fall in the real value of safety nets, and changes in
73 family structures and lack of access to capital (Ajakaiye and Adeyeye, 1999; Ogwumike,
74 2002 and NPC, 2004).

75

76 The orthodox Western views of poverty, reflected in the Vicious circle hypothesis stating
77 that a poor person is poor because he is poor, and may remain poor, unless the person's
78 income level increases significantly enough to pull the person in question out of the
79 poverty trap.

80 Hence to achieve poverty reduction, an inclusive and sustainable developmental strategy is
81 not negotiable. A development is sustainable only if it can continue into the future. This is
82 the reason for the adoption of various poverty reduction measures in all policy blue print.

83 One of the major economic goals of Nigeria is a satisfactory and sustainable economic
84 growth (NEEDS, 2004). Economic growth depends in part on efficient financial market. A
85 financial market is efficient to the extent it brings about efficient allocation of resources
86 including credit (Yaron, 1994).

87

88 An efficient, effective, diverse, indigenous and innovative financial market is critical in
89 any policy effort to pull a person, people and populaces out of the teeming poverty trap
90 caused by low income level among others. Revamping, restricted and localize financial
91 market is an engine for an emerging developmental strategy of the century. (Oluwoyo and
92 Audu, 2017)

93

94 The Nigerian financial market is dualized, like many other developing markets. It consists
95 of both formal and informal sub sectors. The formal sub sector is made up capital, money,
96 foreign exchange, insurance, commodity and derivative markets, among others while the
97 Informal Sector typically consists of unregulated, unsecured, unorganized, small, short
98 term savings and loans activities largely in the rural areas, households or small

99 entrepreneurial ventures. It describes those financing activities that are often unrecorded
100 but take place outside official financial institutions, and consequently unregulated.
101 Informal finance activities predate the formal financial systems. They are as old as various
102 communities, and their activities take place outside the functional regulatory sphere of the
103 monetary authorities but they are often legal activities (Adegoke, 2014)
104 Therefore, informal financial markets are seen as heterogeneous residual of the financial
105 sector that comprises different bodies, such as unregistered money lenders, unorganized
106 and non-institutional sources.
107 Informal financial institutions are often called different nomenclature by different tribes
108 and societies: “*Esusu*” or “*Ajo*” (Yoruba), “*Isusu*” or „*Utu*’ (Igbo), “*Osusu*” (Edo),
109 “*Etibe*” (Ibibio), “*Adashi*” (Hausa), “*Dashi*” (Nupe), “*Oku*” (Kalabari) in Nigeria. Other
110 developing countries also called it different names: “*Susu*” in Ghana, “*Tortine*” in Niger,
111 “*Dajanggi*” in Cameroon, “*Tontine*” in Benin “*Gamiayah*” in Egypt, “*Chilemba*” in
112 Uganda and Cameroon, “*isusu*’ in the West Indies, and “*Bangalore*” in India.
113 Informal financial sub sector plays a complementary function to its formal counterpart by
114 servicing the lower end of the market, including community based organizations such as
115 cooperatives, microfinance institutions, rotatory savings and credit associations
116 (ROSCAS), self-help groups and other similar institutions. Informal financial institutions
117 face stiff competition from the financial institutions in the formal sector particularly the
118 microfinance banks(Chude and Chude, 2016)
119 Though, the precise size of informal financial market relative to the formal financial
120 system is unknown, the informal financial market is still crucial given that it is principally
121 the major source of financing for the poor and low income rural populace (Oloyede,
122 2008).
123 Nevertheless, informal financial markets contribute around 85 percent of the total rural
124 savings and credits in Nigeria, including money-lenders, daily-collectors, traders and
125 indigenous credit institutions based on cooperative principles called „*Esusu*“(Adegoke,
126 2014)
127 Interbank competition can exert an effect on a borrower's decision to apply for a loan.
128 Recent contributions show that in a dual system with formal and informal finance, poor
129 borrowers are more likely to access the formal sector when bank competition increases
130 (Madestam, 2014). In addition, competition can affect the demand for loans by reducing
131 the costs of credit through its impact on interest rates or on other elements of loan
132 contracts such as collateral requirements (Hainz et al., 2013).

133 The failure of formal financial institutions such as banks to serve poor borrowers is due to
134 a combination of high risks, high costs and consequently low returns associated with such
135 businesses. To lower these risks, banks screen potential borrowers to establish the risk of
136 default; they create incentive for borrowers to fulfill their promises to repay; and they
137 develop various enforcement strategies to encourage repayment, to the extent of available
138 information. Scarcity of information results in information asymmetries between
139 borrowers and lenders (Varghese, 2005). In order to address this problem, banks often
140 attach collateral requirements to loans. Unfortunately, conventional collateral
141 requirements usually exclude poor borrowers, who seldom have sufficient forms of
142 conventional title.

143 Informal lenders have often, innovatively succeeded in limiting loan default. For instance,
144 by lending to Self Help Groups (SHGs), the joint liability and social collateral thus created
145 ensure strict screening and monitoring of members (Mosley 1996; Nathan, 2004).

146 Informal financial sector provides avenue for savings and credit facilities for farmers in
147 rural areas and for low-income householders and as well as small and medium enterprises
148 (SMEs) in urban areas informal sector. Informal financial sector is made up of the
149 institutions that are not integrated with the formal financial sector and virtually out of the
150 control of the legal framework. They are poorly developed and managed to the extent that
151 they are limited in reach. (Chude and Chude, 2016)

152 The informal sector brings to bear critical information on the creditworthiness of potential
153 borrowers and relationship with the community that can promote timely repayment. The
154 formal sector meanwhile can offer considerably more funds for lending than the informal
155 lenders –a symbiotic relationship.. (Adegoke, 2014)

156 Informal finance providers as identified by Buckley (1997) include supplier's credit,
157 money lenders and rotational savings scheme.

158 Iganiga and Asemota (2008) identifies NGOs, money lenders, friends, relatives, savings
159 collectors, rotating savings and credit association, credit unions and cooperative societies
160 as main providers of rural finance in

161 Oloyede (2008) identified the informal financial providers as the rotating savings and
162 credit association, money lenders, daily contribution scheme, social club and cooperative,
163 thrift and credit association

164 Berko (2001) investigated that the primitive means of informal financing institutions were
165 the slavery, forced human labour, child Marriage and the practice of “Iwaga” in Yoruba
166 area in which a borrower uses his own wife or daughter as collateral for the loan.
167 According to him, these dehumanizing of human race practices had been phased out in
168 Nigeria because of religion and civilization. Umebali (2002) sees informal credit
169 institutions to include all classes of credit, savings associations and markets operating
170 outside the formal financial system guidelines. They gained their popularity as a result of
171 non cooperative attitudes of some conventional banks and other non-banking financial
172 institutions in giving loans to the less privileged or poor. These institutions are often made
173 up of heterogeneous savers and lenders which include but are not limited to: Local
174 Savings Scheme.

175 Informal finance programme has been viewed as a unique programme for the reduction of
176 vulnerability, and hence the achievement of the Millennium Developmental Goals
177 (Adamu, 2007).

178 From the foregoing, each financial institution has several strengths and weaknesses. There
179 is no unique financial institution that can provide adequate financial services to borrower
180 Hence, it is on this backdrop that the study seeks to study the role of informal financial
181 institution on the sustainable goal of poverty reduction in Nigeria with particular reference
182 to Kogi State while proving response to the following research question;

- 183 1. What is the nature of financial inclusiveness in the subject area ?
- 184 2. What are the Constraint to Credit Facility in Formal Financial Institution?
- 185 3. How is the credit assessed from Informal Financial Institution utilized?
- 186 4. What is the cost of obtaining capital in the informal financial institution?
- 187 5. What is the route constraint to the growth of Informal Financial Institution in
188 achieving the sustainable developmental goal of poverty reduction ?

189 **2.0 Literature Review**

190 **2.1 Feature of Informal Finances Market**

191 The following are the feature of informal financial market in Nigeria as identified by
192 USAID (1989) and Adegoke, A (2014) and other literatures;

193 (i) **Organizational Structure:** The organization structured is not stereotyped, not
194 uniformed and it is indigenously based on the goals seek to be achieved.

195 They typically have arrangement that facilitates mobilization of savings and giving of
196 credits as well as implementation of compliance among members. This may be based on
197 the association constitution, whether written or unwritten. The leadership of the
198 institutions is generally by election. The positions that members usually contest for are
199 President, Vice-President, Secretary, Assistant Secretary, Treasurer, Financial Secretary
200 and Public Relations Officer, among others. These officers are usually tenured and are not
201 paid salaries, but they enjoy some benefits such as ability to influence credits for their
202 friends and associates. This is, particularly important during the period when there is
203 shortage of loanable funds (USAID, 1989 and Adegoke, 2014)

204 (ii) **Membership:** There is typically no barrier to entry and exist. The frequency of
205 contributing periodically is usually the basis of sharing proceeds and the yardstick of
206 measuring commitment to the association. membership of informal financial institutions is
207 usually purpose-based and driven by collective interest. This interest could be
208 professional, communal or trade related. Hence, ownership is collective and the leadership
209 rotates among key active members

210 (iii) **Modus Operandi:** Commonly, many informal financial institutions have explicit
211 basis of admitting members. It is either the prospective member belongs to the profession,
212 community or trade association. The schedule of meeting is regularly agreed upon. The
213 procedure of accessing loan and eligibility criteria are often clearly stated. This also
214 includes the nature and method of sanctions for a contributor and loan defaulter, and their
215 guarantors. Interest on loan as well as sharing formula for surplus are commonly agreed
216 upon. The tenure and procedure of becoming a leader is also known among members
217 (Adegoke, 2014).

218 (v) **Savings Mobilization:** This is typical flexible to suit the relative income level of its
219 members. It could be on daily, market days, weekly, fortnightly or monthly as the case
220 may be. Different members might have different schedule of savings mobilization
221 depending on the agreement and convenience

222 vi) **Loan Approvals and Disbursement:** The procedure and eligibility of loan are
223 commonly agreed upon. Sometimes it is done immediately members contribute on the
224 meeting day, or it may be Deferred to some other days, after determining the total balance
225 available for lending. The approval is usually done by the President and disbursed by the
226 Treasurer with financial records kept by the Financial Secretary. Some of these

227 associations have bank accounts, to avoid keeping money at home. When informal
228 financial institutions have functioning bank account, the money mobilized is a part of
229 money supply and thus, can be influenced by monetary policy. However, some
230 associations are wary of documentation processes at the bank and the possible delay in
231 transactions as well as fear of bank failures. Therefore, they may not have bank account,
232 and decide to collect contribution and distribute or keep it at home. Under such situations,
233 which are often the case, such activity is done outside the banking system and may hamper
234 effectiveness of monetary policy (Adegoke, 2014)

235 **Vii) Credit Rationing:** The players in the informal financial sector do not have adequate
236 loanable funds with which to satisfy and meet the demand of the many borrowers. In the
237 case of too many prospective borrowers contending for limited funds, the lenders are
238 under pressure to ration the available magnitude for them. (Chude and chude, 2016)

239

240 **2.2 Various Forms of Informal Financial Institution**

241 **a. Susu or Esusu Collectors:** They provide access to credit as well as the possibility to
242 save and withdraw money for a small fee. In the susu arrangement, a saver agrees to
243 deposit a specific amount determined in consultation with the collector for an agreed
244 period of time (usually a month). At the end of the period, the Susu collector renders the
245 accumulated savings to the client, keeping one day's savings as commission. (Chude and
246 chude, 2016)

247 **2) Tontines:** These are another prominent means to pool resources, whereby a group of
248 individuals agree to regularly pay small amounts into a common fund - the tontine – which
249 is then loaned for a month, without interest, to one of the members. Typically, these
250 people share similar interests or common relationships, which strengthen social control
251 and ensure the functioning of the scheme. (Chude and chude, 2016)

252 **3) Hawala:** This is a traditional means of transferring funds across borders and within
253 countries, whereby funds are transferred by means of a network of hawala brokers
254 (hawaladars) who charge a fee or an exchange rate spread in exchange for their services.
255 The strength of the hawala system is that it is fast, cheap, confidential and easily available.
256 (Chude and chude, 2016)

257 4) **Stokvel:** This is a common group saving scheme in South Africa, is similar to the
258 Tontines schemes: members meet monthly and deposit a certain amount of money into a
259 common fund. The accumulated amount is then paid out to one of the members on a
260 rotating basis. The First National Bank in South Africa offers special stokvel bank
261 accounts for group savings and as of 2002, about 12 percent of the population was
262 member of a stokvel. (Chude and chude, 2016)

263 5) **Cooperative Societies:** These are group of people coming together with a common
264 interest in which they mobilize deposit among each other based on the financial capacity
265 of the individual members. The member who request for loan will pay with a reduced
266 interest while the total money accrued from all the interest annually is shared to member
267 based on their financial stake or contribution. It is one of the commonly accepted means of
268 saving in the informal sector. Most cooperative societies are duly registered with the local
269 authorities. It differs from Tontines in that the contribution of members is not uniform.
270 They give out both short term loan usually called emergency loan with repayment period
271 less than two quarter while and medium term loan of less than 2 years.

272 6) **Funeral insurance arrangements:** These are a common product of community-based
273 informal insurance associations within what is called a burial society, aimed at ensuring
274 that sufficient funds are available to cover funeral expenses. An estimated 28 percent of
275 the population in South Africa and 21 percent in SACU is part of a burial society based on
276 the contributions of its voluntary subscribers.

277

278 **2.3 Theoretical Literature Review**

279 There are two major perspective to theory on micro financing which includes ‘‘the
280 residual’’ and the dualism’’ paradigm.

281 **2.3.1 Residual Paradigm**

282 The residual paradigm believed that the inefficiencies generated within the formal
283 financial system and the improper way of adaptation of world,,s formal financial condition
284 led to the existences of informal finance. They argue that informal finance stems from the
285 excessive regulation of the Formal Financial Institution through the use of direct credit
286 policies, interest rate ceilings and preferential allocation of credit which created distortion in

287 the economy. This paradigm originated from the works of MCKinnon (1973) and Shaw
288 (1973). The distortion led to high cost of fund to the poor, rural dwellers, small scale
289 entrepreneurs and other disadvantaged groups thereby accentuating the development of the
290 Informal Financial Institutions.

291 Thus, the informal sector plays a role as provider of residual finance. The net impact that
292 the two sectors will have on the national economy will depend on the volume of residual
293 financing done by the informal sector in relation to total financing requirements. Residual
294 finance can be seen as additional finance available to investors in excess of what is offered
295 by the formal sector. Therefore, increased demand for informal credit is the result of a
296 growing use of formal credit, due to a growing economy

297 Nevertheless, formal and informal finance may also compete with one another. In such a
298 case the availability and terms on which financial services of the two types are available
299 will determine the choice of sectoral source. If there is improvement in one sector, one
300 could expect clients to switch from the other source to this one. Thus, the quantity of
301 credit in a particular informal sub-market is the difference between the total demand for
302 loans of that type, and that part of total demand supplied by the formal sector. As formal
303 loans of this type become more easily available on more favourable terms than those in the
304 informal market, formal loans will displace informal loans (Ghate, 1990). Likewise,
305 financial sector repression, as was the case in Mozambique, causes many market
306 participants to move to the informal sector because the formal sector ceases to provide
307 satisfactory services (Larson *et al.*, 1994)

308 McLeod (1994) argues that formal finance should complement informal finance, except if
309 it is better able to compete. As an economy evolves, individual incomes rise and medium
310 and large-scale business activities begin to proliferate. Therefore, a demand for all sorts of
311 financial services appears, which creates opportunities for establishing specialised
312 FFI. Nevertheless, pre-existing demands for low-income households and small-scale
313 businesses remain. New FFI might still not be able to serve this demand better than
314 existing informal arrangements. Banks should simply be doing that what they are good at
315 doing. Aryeetey (1992a) confirms that the informal sector could play an effective
316 complementary role to services offered by established FFIs and new innovative credit
317 schemes.

318 Thus, integration can only be achieved if various segments are linked in such a way that
319 they complement each other on those aspects where they have comparative advantage,
320 while having access to the resource base of the entire financial market as a result of
321 functional linkages. If various segments fail to complement each other in the delivery of
322 financial services, unrelated niches develop, which implies that large sections of the real
323 economy are left with inadequate financial services. Such considerable gaps in financial
324 services are detrimental for overall financial sector development (Aryeetey *et al.*, 1997).

325 Furthermore, Bouman and Houtman as cited in Fischer (1994) argue that the rural
326 economies of many Asian and African countries require the financial system to generate
327 turnover of small loans with low risk and low transaction cost, but the banks of formal
328 institutions do not have the managerial capacity to small loans since the local lenders
329 (informal institutions) are already involved in providing such services. In line with this
330 position, Ardener and Fitchette (1992) believed that informal institutions are better than
331 the formal institutions in supplying short term credit/loans to the poor, more closer to their
332 client and are thus in a better position to give recipe to changing financial needs than the
333 formal.

334 **2.3.2 Dualism Paradigm**

335 The dualism paradigm believes that IFI exist as a result of other motives beyond the
336 purely economic. According to this school of thought, IFI exist due to subordinate role it
337 plays to the FFI thus creating market segmentation. In their view the occurrence of market
338 segmentation is not due to regulation but because of the fact that the IFI serve in
339 redistributing income among community members and provide a form of social security
340 by meeting their fluctuating liquidity While it is costly in formal institution to acquire
341 information about clients, informal utilizes local personal information resulting into a
342 weak legal system which inhibits contract enforcement thereby results in credit rationing
343 of potentials borrower without collateral. The market segmentation can be filled by
344 informal agent as the collateral is replace by reputation, group responsibility and
345 interlinked transaction.

346 **2.4 Empirical Literature**

347 According to Khandker (1998) employed statistical method to assess the impact of
348 Informal finance among three Bangladesi programs and found that every additional takas

349 lent to a woman add additional of 0.18 taka to annual household expenditure. Similarly, in
350 an updated study using panel data in Bangladesh, Khandker (2005) found out that each
351 additional 100 taka of credit to women increase total annual household expenditures by
352 more than 20 taka. These studies showed overwhelming benefit of increase in income and
353 reduction of vulnerability. Hulme and Mosley, (1996) while acknowledging the role of
354 microfinance can have in helping to reduce poverty, concluded from their research on
355 microfinance that “most contemporary schemes are less effective than they might be”.
356 They stated that microfinance is not a panacea for poverty – alleviation and that in some
357 cases the poorest people have been made worse-off by microfinance. Dunn and Arhucle
358 (2001) used an analysis of covariance to examine loans to micro entrepreneurs for 305
359 households in Peru. The study uses data at two points in time and looked at changes in
360 borrowers relative to control group who have not received micro-credit. ‘The study
361 suggests that there are significant differences between the borrowers and the control of
362 group in terms of enterprise revenue, productivity, fixed assets and employment creation
363 for other people.

364 Toh and Urata (1994) examined how Japan’s public and private sectors support small and
365 medium-size enterprises (SME’s). Their findings based on a survey of 107 firms revealed
366 that it accounted for about 35-60 percent growths in the productivity of the (SME’s).
367 Similarly, Kim and Nugent (1994) evaluated the effectiveness of private and collective
368 technical, marketing and financial support systems for the Republic of Korea’s small and
369 medium-sized enterprises and entrepreneurs. They observed that financial assistance was
370 the most critical form of support for Korean SME’s and that government intervention in
371 finance was very pervasive. The Korean government had made extensive use of parastatal
372 finance institutions, targeted credit (micro-credits) and credit guaranteed schemes.

373 Ghazala (2006) found positive effects of informal financial institutions such as micro-
374 credit programmes on the welfare of the people. The study showed that the programme
375 reduced poverty through microfinance and thrift societies. It also increased women
376 empowerment, improved savings and purchase of agricultural inputs and ensured easy
377 access to loans with considerably lower interest rates.

378 Zaman (1999) emphasised the importance of Informal Financial Institutions on socio-
379 economic development with reference to Rotational Savings Credit Association (ROSCA).

380 He found that loans provided by the ROSCA increased people's income and stimulated
381 building of assets. It also improves the economic condition of subsistence rural farmers
382 through easy availability of finance for adequate storage facilities to protect their farm
383 products from seasonal price dangle. This enables the farmers to store their product until
384 the prices are reasonable enabling farmers to reap the reward of high profits.

385 A study by World Bank (1989) found an increasing patronage of IFI's in Bolivia and
386 Niger, highlighting their importance to the socio-economic lives of the people in the two
387 countries. It reported that adults in Bolivia participated much in IFI's by putting on the
388 average contribution of one sixth of their salaries. Also, in rural Niger, about 389 village
389 households in 1986 indicated that credit especially from ROSCA accounted for 84% of the
390 total loans they collected.

391 Goodland et al (1999) also reported that IFI's contributed in equitable distribution and
392 utilisation of local resources most especially in-come raw materials because credit taken
393 was used to finance income generating activities with return in excess of the loan taken,
394 thus ensuring economic stability and reducing people among the people.

395 According to Khandker (1998), in his studies using statistical method on assessment of
396 impact of Informal finance among three Bangladesi programs found that every additional
397 takas lent to a woman add additional of 0.18 taka to annual household expenditure.

398 Using panel data in Bangladesh, Khandker (2005), found out that each additional 100 taka
399 of credit to women increase total annual household expenditures by more than 20 taka.
400 These studies showed overwhelming benefit of increase in income and reduction of
401 vulnerability. On the other hand, some authors have challenged the positive effects of
402 Informal Financial Sector on poverty alleviation.

403 Bauchi (2000) study in Gwer- West of Benue, Nigeria found that IFI's through ROSCA
404 promoted economic situation of its members and society at large.

405 **2.5 Theoretical Framework**

406 The theory of Money lender will be adopted as theoretical framework for the study.
407 Specifically, moral hazard at the investment stage prevents banks from extending
408 sufficient funds. By contrast, the informal sector is able to monitor borrowers and induce
409 investment by offering credit to a group of known clients where social ties and social

410 sanctions prevent borrowers from deliberately misusing their loan. Banks have unlimited
411 funds but are unable to prevent opportunistic behavior. Informal lenders can control the
412 use of credit but may instead be capital constrained hence find that informal finance raises
413 investment, disciplines borrowers, and facilitates banks' rent extraction. By ensuring
414 prudent behavior, informal lenders are able to extend funds when banks cannot. This
415 advantage cuts three ways. Additional informal credit increases the investment of bank-
416 rationed borrowers. Access to (agency-free) informal capital also improves borrowers'
417 return to investment. Therefore, informal funds discipline borrowers by lowering the
418 relative payoff following default, making it incentive compatible to increase bank lending
419 (the disciplinary effect). Finally, by channeling bank funds informal lenders allow banks
420 to reduce agency costs arising from lending directly to borrowers. Specifically, when
421 extending money to poor borrowers, banks share rent to avoid credit misuse. Lending
422 through informal lenders that are sufficiently rich not to be tempted by diversion means
423 that banks need not share any rent (the rent-extraction effect). In contrast to the previous
424 argument, informal finance thus limits borrowers' access to bank capital. The extent to
425 which the disciplinary or the rent-extraction effect dominates depends on the allocation of
426 bargaining power in the bank market. If banks are competitive, informal finance acts as a
427 disciplinary device and expands overall credit provision. Borrowers obtain capital from
428 both financial sectors, with poor informal lenders accessing banks for additional funds.
429 Intuitively, when the surplus of the bank transaction accrues entirely to the banks' clients,
430 the residual return to an investment increases if banks extend credit to both the informal
431 lender and the borrower. By contrast, informal finance serves as an instrument of rent
432 extraction if the bank is a monopolist. Sufficiently wealthy informal lenders become
433 borrowers' only source of credit, credit that the informal sector acquires from the bank. As
434 high interest rates increase the monopoly bank's payoff and the borrowers' incentive to
435 default, poor bank customers earn a floor surplus above their outside option to limit
436 diversion of bank funds. When the informal lender's outside option exceeds the offered
437 floor utility, the bank avoids sharing rent if it contracts exclusively with the informal
438 lender. (Madestam, 2009) These findings may explain evidence from China indicating that
439 informal finance is more important as the bank market becomes less competitive (Cull and
440 Xu, 2005; Ayyagari et al., 2008; Cheng and Degryse, 2008). The theory's predictions are
441 also in accordance with Gine's (2007) observation that poor borrowers in rural Thailand
442 are ' more likely to access the informal sector alone when bank market power increases.
443 While financial sector coexistence increases efficiency, welfare is unequally distributed if

444 informal lenders accumulate wealth. Informal finance lifts borrowers out of poverty if the
445 disciplinary effect prevails, as richer informal lenders extend more funds and thus improve
446 borrower incentives. Borrowers are worse off if the rent-extraction effect dominates,
447 however, as they are left completely in the hands of informal lenders, rather than obtaining
448 the bank's contractual rent. Meanwhile, poor lenders are better off disciplining borrowers,
449 as they receive more bank funds and higher incentive rent, whereas richer lenders prefer
450 the segmented outcome as it preserves their market power. If wealthy informal lenders and
451 bankers have more say over bank market structure than poor borrowers, these results
452 are consistent with Rajan and Ramcharan's (2008) finding that banking in the early
453 twentieth century United States was more concentrated in counties with rich landowners
454 who often engaged in lending to farmers. These landlords frequently had ties with the
455 local bank and were, as the model predicts, against bank deregulation. (Madestam, 2009)

456 The theory is the coexistence of formal and informal finance in underdeveloped credit
457 markets. Formal banks have access to unlimited funds but are unable to control the use of
458 credit. Informal lenders can prevent non-diligent behavior but often lack the needed
459 capital. The model implies that formal and informal credit can be either complements or
460 substitutes. The model also explains why weak legal institutions raise the prevalence of
461 informal finance in some markets and reduce it in others, why financial market
462 segmentation persists, and why informal interest rates can be highly variable within the
463 same sub economy. The theory also establishes that entrepreneurial and informal lender
464 assets are complements for low levels of wealth and substitutes when informal assets
465 increase. Intuitively, when neither the informal lender nor the entrepreneur is not enough
466 such that best investment is realized, the two complement each other in drawing on formal
467 sector funds. If the informal lender debt capacity does not constrain investment, the
468 entrepreneur's preference for formal funds implies that she substitutes away from informal
469 to formal funds. Equivalently, formal and informal lenders complement each other in
470 providing external finance for low levels of wealth, while acting as substitutes when the
471 informal sector is wealthier. (Chude and chude, 2016)

472 **3.0 Methodology**

473 The study sampled 600 respondents using stratified sampling technique. This will be
474 carried out by dividing the population into 3 subsets based on the senatorial districts (
475 East, West, Central) 4 local government areas are randomly selected from each of the

476 senatorial districts, 10 wards were selected from each of the local government area to give
 477 a total of 120 stratum. 10 respondents were selected from each of the wards. Data
 478 collected was analyzed using descriptive statistics and Logit Regression Model. The
 479 Maximum Likelihood (ML) method is used to obtain estimates for the specified Logit
 480 probability model. The justification for using ML method is due to the fact that neither the
 481 ordinary least squares (OLS) nor the weighted least square (WLS) is helpful or adequate
 482 for estimating the Logit model. The parameter estimates of the specified Logit model are
 483 not directly interpretable with respect to magnitudes of effect but only interpretable with
 484 respect to the direction of effect on probability. The model is known to produce results
 485 that can be easily interpreted and the method is simple to analyze in economics
 486 applications. Furthermore, Logit model is one of the most popular binary response model
 487 used in empirical analysis.

488 The functional relation of the model is stated thus;

489 $POV = F (HS, YR, ES, AIFI, AFI)$

490 $IFIG = F(LR, EDU, LFA, SFI, SR, RP)$

491 $Pov = \delta_0 + \delta_1 Hs + \delta_2 Yr + \delta_3 Es + \delta_4 AIFI + \delta_5 AFI \dots\dots\dots 1.1$

492

493 $IFIG = \beta_0 + \beta_1 LR + \beta_2 EDU + \beta_3 LFA + \beta_4 SFI + \beta_5 SR + \beta_6 RP \dots\dots\dots 1.2$

| | |
|------|---|
| EDU | Level of education (This is measured by the total number of years the entrepreneur spent in educational attainment) |
| Hs | Household Size (this is the number of member in a household Unit) |
| Yr | Income of the respondents (This is measured in Naira monthly) |
| Es | Employment Status of the respondents (Binary : 1 if Employed 0 if otherwise) |
| AIFI | Access to informal financial institution (Binary : 1 if access is positive 0 if otherwise) |
| LR= | Lending Rate (This is the cost of capital borrowed) |
| EDU | Level of education (This is measured by the total number of years the entrepreneur spent in educational attainment) |
| LFA | loanable fund available (The is the amount of capital an IFI is willing and able to lend out) |
| SFI | Support from Financial Institution (Binary: 1 if Support is receive from Formal financial institution, 0 if otherwise) |
| RP | Repayment plan (Binary: I if repayment plan is convenience, 0 if otherwise) |
| Pov | Poverty Level |
| IFIG | Informal Financial Institution Growth |

494

495 **4.0 Presentation and Interpretations of Result**

496 This section entails the presentation of result gotten from the respondents in a logical
 497 manner to ensure easy conceptualization of findings.

498 **Table 4.1 Socioeconomic Characteristics of Respondents**

| AGE | Frequency | Percentage |
|--------------------------|-----------|------------|
| 20-29 | 185 | 30.83333 |
| 30-39 | 143 | 23.83333 |
| 40-49 | 132 | 22 |
| 50-59 | 101 | 16.83333 |
| 60 and above | 39 | 6.5 |
| Sex | | 0 |
| Male | 289 | 48.16667 |
| Female | 311 | 51.83333 |
| Marital status | | 0 |
| Single | 110 | 18.33333 |
| Married | 289 | 48.16667 |
| Divorced | 201 | 33.5 |
| Educational level | | 0 |
| No Formal Education | 322 | 53.66667 |
| Formal Education | 278 | 46.33333 |
| Occupation | | |
| Farming | 123 | 20.5 |
| Civil Service | 133 | 22.16667 |
| Private Firm | 100 | 16.66667 |
| Artisan | 111 | 18.5 |
| SMEs | 133 | 22.16667 |
| Income distribution | | 0 |
| less than N10,000 | 222 | 37 |
| N10,001-N20,000 | 120 | 20 |
| N20,001-N30,000 | 101 | 16.83333 |
| N30,001-N40,000 | 82 | 13.66667 |
| N40,000 and above | 75 | 12.5 |

499

500 Source; Field Survey, 2017

501 The table above shows the socioeconomic characteristics of the respondents. The result show that
 502 most of the respondents are within the age bracket of 20-29yrs with 30.8%. The sex distribution of
 503 the respondents' shows female has the modal frequency with 51%. The marital status of the
 504 respondent shows that 48% of the respondents are married. The educational qualification of the
 505 respondents portray that 53% of the respondents have no formal education. The occupation of the
 506 respondents also portray that a 22% of the respondents are in civil service. It further shows that

507 20.5%, 16.6% . 18.5% and 22.1% are involve in Farming, private firm, artisan, SMEs respectively.
 508 Conclusively, the income distribution of the respondents shows an average monthly income of
 509 N18,025.

510

511

512 **Table 4.2 Access to Financial Service**

| Access to Financial Service | Frequency | Percentage |
|--------------------------------|-----------|------------|
| Informal Financial Institution | 322 | 53.66667 |
| Formal Financial Institution | 278 | 46.33333 |

513 Source; Field Survey, 2017

514 Choice of financial service shows spatial distribution of respondent with most (53%) of
 515 the respondent showing preference for informal financial institution as against 46% show
 516 a relatively lower preference for formal financial institutions.

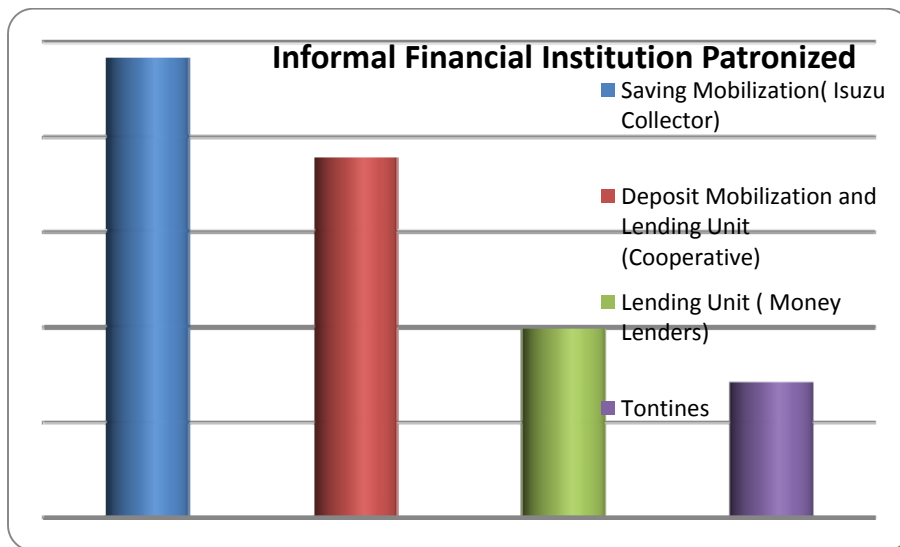
517 **Table 4.3: Informal Financial Institutions patronized**

| Informal Financial Institution | Frequency | Percentage |
|---|-----------|------------|
| Saving Mobilization(Isuzu Collector) | 241 | 40.16 |
| Deposit Mobilization and Lending Unit (Cooperative, Association) | 189 | 31.5 |
| Lending Unit (Money Lenders) | 99 | 16.5 |
| Tontines | 71 | 11.83 |

518 Source; Field Survey, 2017

519 The table above shows that Esusu (AJO) is the most adopted informal financial institution with 40%
 520 of the respondents being a participant, 31% being a participant of Cooperative societies, 16.5%
 521 patronizing money lenders, Tontines with 11%.

522 **Figure 4.1 : Bar chart Of Informal Financial Institution Patronized**



523

524 Source; Field Survey, 2017

525

526

527

Table 4.4 Utilization of Credit accessed from IFIs

| Items | Frequency | Percentage |
|------------------------|-----------|------------|
| Invest | 89 | 14.83333 |
| Build a house | 44 | 7.333333 |
| Health Bills | 89 | 14.83333 |
| Educational fees | 189 | 31.5 |
| Unforeseen contingency | 100 | 16.66667 |
| Buy a Car | 89 | 14.83333 |

528

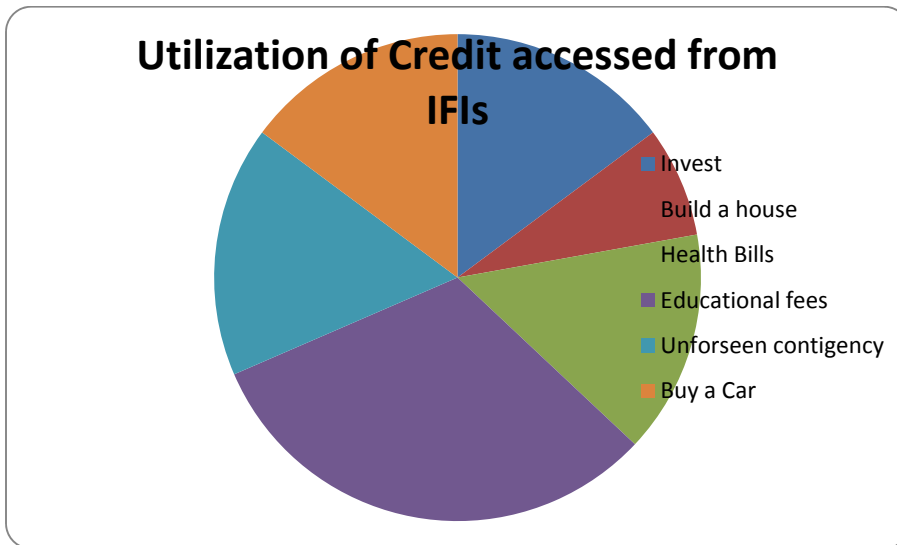
Source; Field Survey, 2017

529

530

531

Figure 4.2 Utilization of Credit accessed from IFIs



532
533
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541

Source; Field Survey, 2017

Result above shows that a significant fraction of the respondents used the loan accessed from informal Financial institution to invest 14%, 7% to build houses, 14% for health bills, 31% for educational fees, 16% for unforeseen contingency while only 14% purchases car with the loan.

Table 4.3 Lending Rate of Respondents

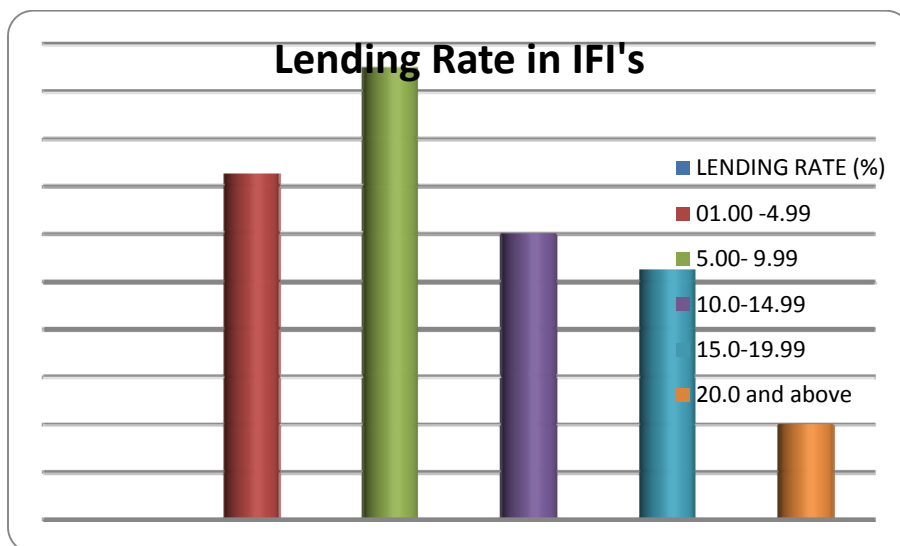
| LENDING RATE | NO. OF RESPONDENTS | PERCENTAGE (%) |
|----------------|--------------------|----------------|
| 01.00 -4.99 | 145 | 24.16667 |
| 5.00- 9.99 | 190 | 31.66667 |
| 10.0-14.99 | 120 | 20 |
| 15.0-19.99 | 105 | 17.5 |
| 20.0 and above | 40 | 6.66667 |
| | 600 | |

542
543

Source; Field Survey, 2017

544 The table above shows the cost of obtaining capital by various respondents. It shows that a
545 significant fraction constituting 31% of the respondent obtain capital between 5.00 to
546 9.99% interest rate, 24% of the respondents obtain loan at less than 4.99% while other at a
547 rate higher than 10%. While Yelwa et al (2015) observed that majority of the respondents
548 in the informal financial institutions got the soft loan between 3.00-3.99%.

549 **Figure 4.3 Lending Rate in IFI's**



550

551 Source; Field Survey, 2017

552 **Table 4.5 Constraint to Credit Facility in Formal Financial Institution**

553

| Respondents | Frequency | Percentage |
|---------------------------------|-----------|------------|
| Complexity of Processes | 105 | 17.5 |
| Collateral demand | 111 | 18.5 |
| Lending Rate | 282 | 47 |
| Access to Financial Institution | 102 | 17 |

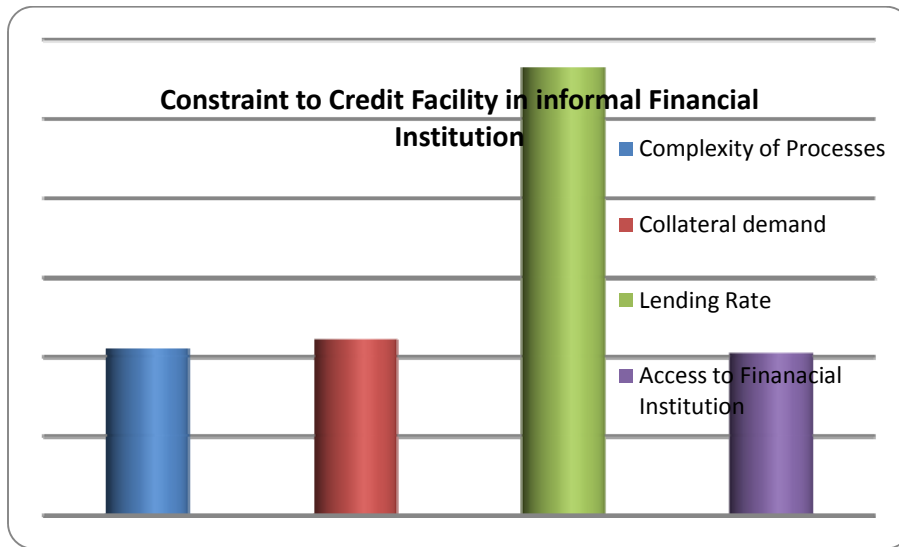
554

Source; Field Survey, 2017

555

556 The table above shows the constraint to the accessibility of credit facility in the formal
 557 financial institution. It revealed that the lending rate prevalent in the formal institution is the
 558 major detriment to the access to credit facility hence they opt to informal financial
 559 institution. The Monetary Policy Ratio in formal financial institution is higher compared to
 560 the average lending rate in informal financial institution.

561 **Figure 4.4 Constraints to Credit Facility Informal Financial Institution**



562

563 Source; Field Survey, 2017

564 **4.2 Logit Regression Output**

565 $Pov = 0.26 + 0.34Hs + 0.36Yr + 0.41Es + 0.39AIFI + 0.12AFI.....1.3$
 566 (0.1) (0.11) (0.12) (0.02) (0.03) (0.06)
 567 2.6 3.09 3.0 20.5 13.0 2.0

568

569 $R^2 = 0.65$

570

571 $IFIG = 0.02 + 0.89LR + 0.41EDU + 0.66LFA + 0.44SFI + 0.22SR + 0.66RP.....1.4$
 572 (0.002) (0.44) (0.012) (0.05) (0.02) (0.16) (0.02)
 573 10 2.02 34.1 13.2 22 1.375 33

574

575 $R^2 = 0.68$

576

577 **4.3 Interpretations of Result and Summary of Findings**

578 The result shows that household size as negative correlation with the poverty level among
 579 the respondents while income and employment Status of the respondent was also found to
 580 have a significant effect on the poverty level of the respondent. The result further shows
 581 that both accesses to informal and Formal institution loan reduce the poverty level. This is
 582 converse to findings of Oleka and Eyisi (2014) stating that informal financial institutions
 583 have no much influence on poverty alleviation in Nigeria but conforms to the findings of
 584 Yelwa et al (2015) who noted that informal financial sector operators has a positive and
 585 significant impact on growth in the region.

586 The education status of the respondent shows a negative influence on growth of IFI
587 against the prior expectation. It further shows that education status of the respondent has
588 no significant effect on IFI. This affirms the indigenusness of IFI to accommodate all
589 participants irrespective of education status and devoid of the regular ambiguity and
590 technicality inherent in the Formal financial institution. The result further shows a positive
591 and significant effect of stock of loanable fund on the growth of development of IFI. It
592 implies that the amount of loanable fund at the disposal of informal financial institution
593 has a great impact on the prowess of IFI to meet the financial obligation of its members.

594 The income of the respondents has a negative correlation with the growth of IFI. This
595 implies as the income of participant increase it lead to a decline in growth of IFI. This
596 means that IFI will strive more within a relative poor population. As household income
597 increases they tend to shift to FFI as source of financial needs. Hence IFI is seen as
598 substitute to FFI instead complementary.

599 Result shows that support from formal financial institution has no significant effect on the
600 growth of IFI in Nigeria. This might be due to no linkage or support of FFI and
601 dichotomy between the two. Saving rate affect the growth of IFI as the increase in mps
602 of the respondent increase stock of loanable fund available.

603 A conducive repayment plan was seen to have a positive effect on the growth of IFI as
604 found in the result presented above. His result also corresponds with the work of Mamudu,
605 (2013), which identified an inverse relationship between lending rate and SMEs
606 development in Ghana.

607 **5.0 Conclusion and Recommendation**

608 Based on the findings above it can hence be concluded that Non financial institution is a
609 potential voyage toward the actualization of the Sustainable goal of poverty reduction in
610 Kogi state, Nigeria if the following recommendation are duly and diligently taken into
611 consideration;

612

- 613 1. Institutional and legal framework should be structured to enable non financial
614 institution perform the role of money lender while serving as intermediary between the
615 complex financial institution and the unorganised low income earners alias masses.

- 616 2. The government should create special fund to be manage by CBN, towards supporting
 617 the operation of the informal financial institutions in Nigeria as this will serve go along
 618 way at boosting the productivity of those in the social recesses of the society who are
 619 major participant in the sectors
- 620 3. Effective use of micro finance banks as second-tier regulatory body charged with
 621 registration and supervision of viable informal financial institutions as this may result
 622 to organizational.
- 623 4. A carefully crafted reform policy should be aggressively undertaken in the sector to
 624 entail registration of IFI, supervision of its activities, compliance with international
 625 accounting standard and relative support from regulatory authority.

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