

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 the informal financial institution on*
11 *the sustainable goal of poverty reduction in Nigeria with particular reference to Kogi State*
12 *using the Money lender theory as its theoretical Framework. The study sampled 600*
13 *respondents using stratified sampling technique carried out by dividing the population into 3*
14 *subsets 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 to 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. BACKGROUND OF THE STUDY**

26 The Sustainable Development Goals (SDGs), otherwise known as the Global Goals, adopted
27 on September 25th 2015 is 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 have become a household problem in Nigeria over the
46 past decades despite the abundant human and material resources inherent in the 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 a 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, healthcare, financial
63 institution, lack of decision making ability, and lack of communal facilities like water,
64 sanitation, roads, transportation, and communications [25]

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 [22]. Economic growth depends in part on the efficient financial market. A
85 financial market is efficient to the extent it brings about efficient allocation of resources
86 including credit [29].

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 [9]
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 [24].
122 Nevertheless, informal financial markets contribute around 85 percent of the total rural
123 savings and credits in Nigeria, including money-lenders, daily-collectors, traders and
124 indigenous credit institutions based on cooperative principles called „*Esusu*“(Adegoke,
125 2014)
126 Interbank competition can exert an effect on a borrower's decision to apply for a loan.
127 Recent contributions show that in a dual system with formal and informal finance, poor
128 borrowers are more likely to access the formal sector when bank competition increases
129 (Madestam, 2014). In addition, competition can affect the demand for loans by reducing
130 the costs of credit through its impact on interest rates or on other elements of loan
131 contracts such as collateral requirements (Hainz et al., 2013).

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

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

145 The informal financial sector provides an avenue for savings and credit facilities for
146 farmers in rural areas and low-income householders and as well as small and medium
147 enterprises (SMEs) in urban areas informal sector. Informal financial sector is made up of
148 the institutions that are not integrated with the formal financial sector and virtually out of
149 the control of the legal framework. They are poorly developed and managed to the extent
150 that they are limited in reach. [9]

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

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

157 Iganiga and Asemota [17] identifies NGOs, money lenders, friends, relatives, savings
158 collectors, rotating savings and credit association, credit unions and cooperative societies
159 as main providers of rural finance in

160 Oloyede [24] identified the informal financial providers as the rotating savings and credit
161 association, money lenders, daily contribution scheme, social club and cooperative, thrift
162 and credit association

163 Berko [7] investigated that the primitive means of informal financing institutions were the
164 slavery, forced human labour, child Marriage and the practice of "Iwaga" in Yoruba area
165 in which a borrower uses his own wife or daughter as collateral for the loan. According to
166 him, these dehumanizing of human race practices had been phased out in Nigeria because
167 of religion and civilization. Umehali [28] sees informal credit institutions to include all
168 classes of credit, savings associations and markets operating outside the formal financial
169 system guidelines. They gained their popularity as a result of non-cooperative attitudes of
170 some conventional banks and other non-banking financial institutions in giving loans to
171 the less privileged or poor. These institutions are often made up of heterogeneous savers
172 and lenders which include but are not limited to Local Savings Scheme.

173 Informal finance programme has been viewed as a unique programme for the reduction of
174 vulnerability, and hence the achievement of the Millennium Developmental Goals [1].

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

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

186 **2. LITERATURE REVIEW**

187 **2.1 Feature of Informal Finances Market**

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

- 190 (i) **Organizational Structure:** The organization structured is not stereotyped, not
191 uninformed and it is indigenously based on the goals sought to be achieved.

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

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

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

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

219 vi) **Loan Approvals and Disbursement:** The procedure and eligibility of loan are
220 commonly agreed upon. Sometimes it is done immediately members contribute on the
221 meeting day, or it may be Deferred to some other days, after determining the total balance
222 available for lending. The approval is usually done by the President and disbursed by the
223 Treasurer with financial records kept by the Financial Secretary. Some of these
224 associations have bank accounts, to avoid keeping money at home. When informal
225 financial institutions have a functioning bank account, the money mobilized is a part of

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

232 **Vii) Credit Rationing:** The players in the informal financial sector do not have adequate
233 loanable funds with which to satisfy and meet the demand of the many borrowers. In the
234 case of too many prospective borrowers contending for limited funds, the lenders are
235 under pressure to ration the available magnitude for them. [9]

236

237 **2.2 Various Forms of Informal Financial Institution**

238 **a. Susu or Esusu Collectors:** They provide access to credit as well as the possibility to
239 save and withdraw money for a small fee. In the susu arrangement, a saver agrees to
240 deposit a specific amount determined in consultation with the collector for an agreed
241 period of time (usually a month). At the end of the period, the Susu collector renders the
242 accumulated savings to the client, keeping one day's savings as commission. [9].

243 **2) Tontines:** These are another prominent means to pool resources, whereby a group of
244 individuals agree to regularly pay small amounts into a common fund - the tontine – which
245 is then loaned for a month, without interest, to one of the members. Typically, these
246 people share similar interests or common relationships, which strengthen social control
247 and ensure the functioning of the scheme. [9].

248 **3) Hawala:** This is a traditional means of transferring funds across borders and within
249 countries, whereby funds are transferred by means of a network of hawala brokers
250 (hawaladars) who charge a fee or an exchange rate spread in exchange for their services.
251 The strength of the hawala system is that it is fast, cheap, confidential and easily available.
252 [9].

253 **4) Stokvel:** This is a common group saving scheme in South Africa, is similar to the
254 Tontines schemes: members meet monthly and deposit a certain amount of money into a
255 common fund. The accumulated amount is then paid out to one of the members on a
256 rotating basis. The First National Bank in South Africa offers special stokvel bank

257 accounts for group savings and as of 2002, about 12 percent of the population was
258 member of a stokvel. [9]

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

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

273

274 **2.3 Theoretical Literature Review**

275 There is two major perspective to theory on micro financing which includes “the residual”
276 and the dualism” paradigm.

277 **2.3.1 Residual Paradigm**

278 The residual paradigm believed that the inefficiencies generated within the formal
279 financial system and the improper way of adaptation of world,,s formal financial condition
280 led to the existences of informal finance. They argue that informal finance stems from the
281 excessive regulation of the Formal Financial Institution through the use of direct credit
282 policies, interest rate ceilings and preferential allocation of credit which created distortion in
283 the economy. This paradigm originated from the works of MCKinnon (1973) and Shaw
284 (1973). The distortion led to high cost of fund to the poor, rural dwellers, small scale
285 entrepreneurs and other disadvantaged groups thereby accentuating the development of the
286 Informal Financial Institutions.

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

293 Nevertheless, formal and informal finance may also compete with one another. In such a
294 case the availability and terms on which financial services of the two types are available
295 will determine the choice of sectoral source. If there is an improvement in one sector, one
296 could expect clients to switch from the other source to this one. Thus, the quantity of
297 credit in a particular informal sub-market is the difference between the total demand for
298 loans of that type, and that part of total demand supplied by the formal sector. As formal
299 loans of this type become more easily available on more favourable terms than those in the
300 informal market, formal loans will displace informal loans [12]. Likewise, financial sector
301 repression, as was the case in Mozambique, causes many market participants to move to
302 the informal sector because the formal sector ceases to provide satisfactory services [19].

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

313 Thus, integration can only be achieved if various segments are linked in such a way that
314 they complement each other on those aspects where they have a comparative advantage
315 while having access to the resource base of the entire financial market as a result of
316 functional linkages. If various segments fail to complement each other in the delivery of
317 financial services, unrelated niches develop, which implies that large sections of the real

318 economy are left with inadequate financial services. Such considerable gaps in financial
319 services are detrimental for overall financial sector development [3].

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

329 **2.3.2 Dualism Paradigm**

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

341 **2.4 Empirical Literature**

342 According to Khandker (1998) employed a statistical method to assess the impact of
343 Informal finance among three Bangladesi programs and found that every additional takas
344 lent to a woman add additional of 0.18 taka to annual household expenditure. Similarly, in
345 an updated study using panel data in Bangladesh, Khandker (2005) found out that each
346 additional 100 taka of credit to women increase total annual household expenditures by
347 more than 20 taka. These studies showed the overwhelming benefit of an increase in
348 income and reduction of vulnerability. Hulme and Mosley, (1996) while acknowledging

349 the role of microfinance can have in helping to reduce poverty, concluded from their
350 research on microfinance that “most contemporary schemes are less effective than they
351 might be”. They stated that microfinance is not a panacea for poverty – alleviation and that
352 in some cases the poorest people have been made worse-off by microfinance. Dunn and
353 Arhucle [11] used an analysis of covariance to examine loans to micro entrepreneurs for
354 305 households in Peru. The study uses data at two points in time and looked at changes in
355 borrowers relative to the control group who have not received micro-credit. ‘The study
356 suggests that there are significant differences between the borrowers and the control of
357 group in terms of enterprise revenue, productivity, fixed assets and employment creation
358 for other people.

359 Toh and Urata [27] examined how Japan’s public and private sectors support small and
360 medium-size enterprises (SME’s). Their findings based on a survey of 107 firms revealed
361 that it accounted for about 35-60 percent growths in the productivity of the (SME’s).
362 Similarly, Kim and Nugent (1994) evaluated the effectiveness of private and collective
363 technical, marketing and financial support systems for the Republic of Korea’s small and
364 medium-sized enterprises and entrepreneurs. They observed that financial assistance was
365 the most critical form of support for Korean SME’s and that government intervention in
366 finance was very pervasive. The Korean government had made extensive use of parastatal
367 finance institutions, targeted credit (micro-credits) and credit guaranteed schemes.

368 Ghazala [13] found positive effects of informal financial institutions such as micro-credit
369 programmes on the welfare of the people. The study showed that the programme reduced
370 poverty through microfinance and thrift societies. It also increased women empowerment,
371 improved savings and purchase of agricultural inputs and ensured easy access to loans
372 with considerably lower interest rates.

373 Zaman [31] emphasised the importance of Informal Financial Institutions on socio-
374 economic development with reference to Rotational Savings Credit Association (ROSCA).
375 He found that loans provided by the ROSCA increased people’s income and stimulated
376 building of assets. It also improves the economic condition of subsistence rural farmers
377 through easy availability of finance for adequate storage facilities to protect their farm
378 products from seasonal price dangle. This enables the farmers to store their product until
379 the prices are reasonable enabling farmers to reap the reward of high profits.

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

386 Goodland et al [14] also reported that IFI's contributed in equitable distribution and
387 utilisation of local resources most especially in-come raw materials because credit taken
388 was used to finance income generating activities with return in excess of the loan taken,
389 thus ensuring economic stability and reducing people among the people.

390 According to Khandker [18], in his studies using the statistical method on assessment of
391 impact of Informal finance among three Bangladesi programs found that every additional
392 takas lent to a woman add additional of 0.18 taka to annual household expenditure.

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

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

400 **2.5 Theoretical Framework**

401 The theory of Money lender will be adopted as theoretical framework for the study.
402 Specifically, moral hazard at the investment stage prevents banks from extending
403 sufficient funds. By contrast, the informal sector is able to monitor borrowers and induce
404 investment by offering credit to a group of known clients where social ties and social
405 sanctions prevent borrowers from deliberately misusing their loan. Banks have unlimited
406 funds but are unable to prevent the opportunistic behaviour. Informal lenders can control
407 the use of credit but may instead be capital constrained hence find that informal finance
408 raises investment, disciplines borrowers, and facilitates banks' rent extraction. By ensuring
409 prudent behaviour, informal lenders are able to extend funds when banks cannot. This
410 advantage cuts three ways. The additional informal credit increases the investment of

411 bank-rationed borrowers. Access to (agency-free) informal capital also improves
412 borrowers' return to investment. Therefore, informal funds discipline borrowers by
413 lowering the relative payoff following default, making it incentive compatible to increase
414 bank lending (the disciplinary effect). Finally, by channeling bank funds informal lenders
415 allow banks to reduce agency costs arising from lending directly to borrowers.
416 Specifically, when extending money to poor borrowers, banks share rent to avoid credit
417 misuse. Lending through informal lenders that are sufficiently rich not to be tempted by
418 diversion means that banks need not share any rent (the rent-extraction effect). In contrast
419 to the previous argument, informal finance thus limits borrowers' access to bank capital.
420 The extent to which the disciplinary or the rent-extraction effect dominates depends on the
421 allocation of bargaining power in the bank market. If banks are competitive, informal
422 finance acts as a disciplinary device and expands overall credit provision. Borrowers
423 obtain capital from both financial sectors, with poor informal lenders accessing banks for
424 additional funds. Intuitively, when the surplus of the bank transaction accrues entirely to
425 the banks' clients, the residual return to an investment increases if banks extend credit to
426 both the informal lender and the borrower. By contrast, informal finance serves as an
427 instrument of rent extraction if the bank is a monopolist. Sufficiently wealthy informal
428 lenders become borrowers' only source of credit, credit that the informal sector acquires
429 from the bank. As high interest rates increase the monopoly bank's payoff and the
430 borrowers' incentive to default, poor bank customers earn a floor surplus above their
431 outside option to limit diversion of bank funds. When the informal lender's outside option
432 exceeds the offered floor utility, the bank avoids sharing rent if it contracts exclusively
433 with the informal lender. [20] these findings may explain evidence from China indicating
434 that informal finance is more important as the bank market becomes less competitive (Cull
435 and Xu [16]; Ayyagari et al. [5]; Cheng and Degryse, 2008). The theory's predictions are
436 also in accordance with Gine's (2007) observation that poor borrowers in rural Thailand
437 are ' more likely to access the informal sector alone when bank market power increases.
438 While financial sector coexistence increases efficiency, welfare is unequally distributed if
439 informal lenders accumulate wealth. Informal finance lifts borrowers out of poverty if the
440 disciplinary effect prevails, as richer informal lenders extend more funds and thus improve
441 borrower incentives. Borrowers are worse off if the rent-extraction effect dominates,
442 however, as they are left completely in the hands of informal lenders, rather than obtaining
443 the bank's contractual rent. Meanwhile, poor lenders are better off disciplining borrowers,
444 as they receive more bank funds and higher incentive rent, whereas richer lenders prefer

445 the segmented outcome as it preserves their market power. If wealthy informal lenders and
446 bankers have more say over bank market structure than poor borrowers, these results
447 are consistent with Rajan and Ramcharan's [26] finding that banking in the early twentieth
448 century United States was more concentrated in counties with rich landowners who often
449 engaged in lending to farmers. These landlords frequently had ties with the local bank and
450 were, as the model predicts, against bank deregulation. [20]

451 The theory is the coexistence of formal and informal finance in underdeveloped credit
452 markets. Formal banks have access to unlimited funds but are unable to control the use of
453 credit. Informal lenders can prevent non-diligent behaviour but often lack the needed
454 capital. The model implies that formal and informal credit can be either complements or
455 substitutes. The model also explains why weak legal institutions raise the prevalence of
456 informal finance in some markets and reduce it in others, why financial market
457 segmentation persists, and why informal interest rates can be highly variable within the
458 same sub economy. The theory also establishes that entrepreneurial and informal lender
459 assets are complements for low levels of wealth and substitutes when informal assets
460 increase. Intuitively, when neither the informal lender nor the entrepreneur is not enough
461 such that best investment is realized, the two complement each other in drawing on formal
462 sector funds. If the informal lender debt capacity does not constrain investment, the
463 entrepreneur's preference for formal funds implies that she substitutes away from informal
464 to formal funds. Equivalently, formal and informal lenders complement each other in
465 providing external finance for low levels of wealth, while acting as substitutes when the
466 informal sector is wealthier. [9]

467 **3. METHODOLOGY**

468 The study sampled 600 respondents using stratified sampling technique. This will be
469 carried out by dividing the population into 3 subsets based on the senatorial districts (East, West, Central) 4 local government areas are randomly selected from each of the
470 senatorial districts, 10 wards were selected from each of the local government areas to
471 give a total of 120 stratum. 10 respondents were selected from each of the wards. Data
472 collected was analyzed using descriptive statistics and Logit Regression Model. The
473 Maximum Likelihood (ML) method is used to obtain estimates for the specified Logit
474 probability model. The justification for using ML method is due to the fact that neither the
475 ordinary least squares (OLS) nor the weighted least square (WLS) is helpful or adequate
476

477 for estimating the Logit model. The parameter estimates of the specified Logit model are
 478 not directly interpretable with respect to magnitudes of effect but only interpretable with
 479 respect to the direction of effect on probability. The model is known to produce results
 480 that can be easily interpreted and the method is simple to analyze in economics
 481 applications. Furthermore, Logit model is one of the most popular binary response model
 482 used in empirical analysis.

483 The functional relation of the model is stated thus;

484 $POV = F (HS, YR, ES, AIFI, AFI)$

485 $IFIG = F(LR, EDU, LFA, SFI, SR, RP)$

486 $Pov = \delta_0 + \delta_1 Hs + \delta_2 Yr + \delta_3 Es + \delta_4 AIFI + \delta_5 AFI \dots\dots\dots 1.1$

487
 488 $IFIG = \beta_0 + \beta_1 LR + \beta_2 EDU + \beta_3 LFA + \beta_4 SFI + \beta_5 SR + \beta_6 RP \dots\dots\dots 1.2$

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

489

490 **4. PRESENTATION AND INTERPRETATIONS OF RESULT**

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

493 **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

494

495 Source; Field Survey, 2017

496 The table above shows the socioeconomic characteristics of the respondents. The result shows that
497 most of the respondents are within the age bracket of 20-29yrs with 30.8%. The sex distribution of
498 the respondents' shows female has the modal frequency with 51%. The marital status of the
499 respondent shows that 48% of the respondents are married. The educational qualification of the
500 respondents portray that 53% of the respondents have no formal education. The occupation of the
501 respondents also portray that a 22% of the respondents are in civil service. It further shows that
502 20.5%, 16.6% . 18.5% and 22.1% are involved in Farming, a private firm, artisan, SMEs
503 respectively. Conclusively, the income distribution of the respondents shows an average monthly
504 income of N18,025.

505

506

507 **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

508 Source; Field Survey, 2017

509 Choice of financial service shows the spatial distribution of respondent with most (53%)
 510 of the respondent showing a preference for the informal financial institution as against
 511 46% show a relatively lower preference for formal financial institutions.

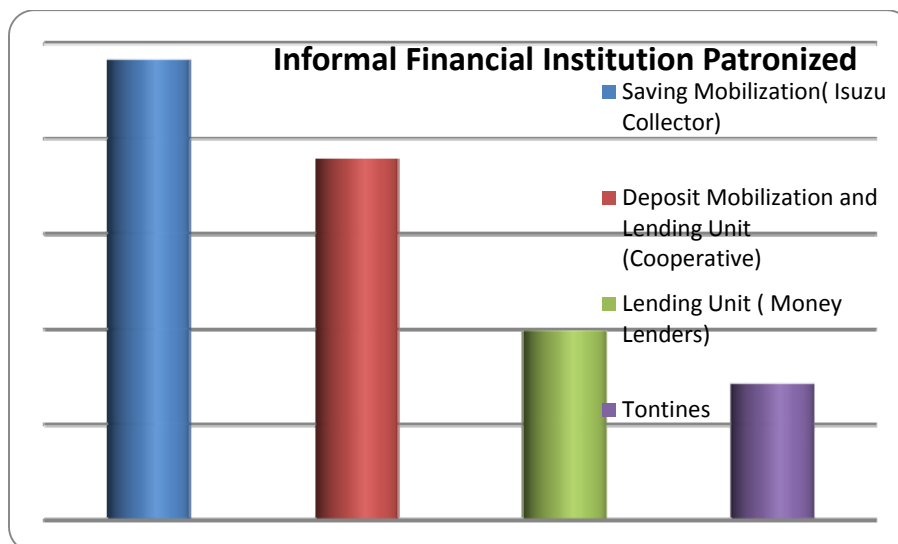
512 **Table 4.3: Informal Financial Institutions patronized**

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

513 Source; Field Survey, 2017

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

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



518

519 Source; Field Survey, 2017

520

521 **Table 4.4 Utilization of Credit accessed from IFIs**

522

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

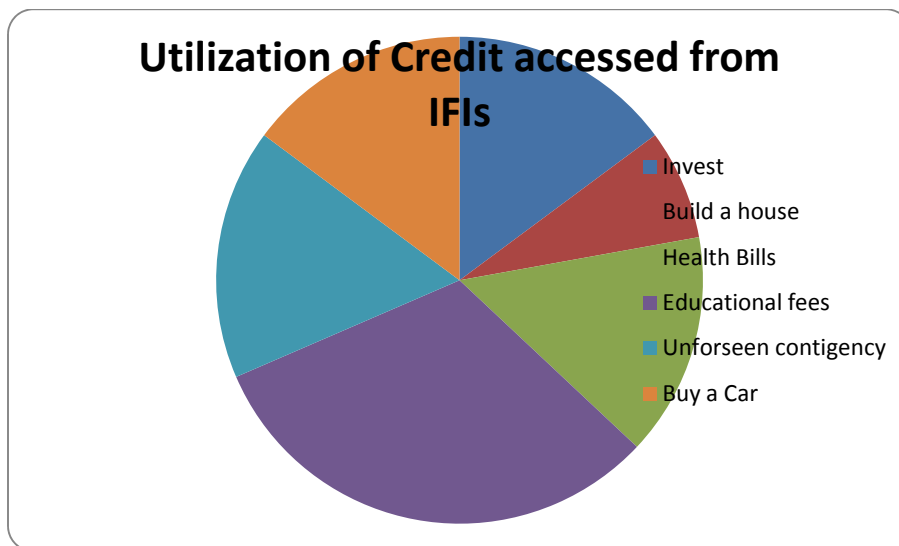
523

Source; Field Survey, 2017

524

525 **Figure 4.2 Utilization of Credit accessed from IFIs**

526



527

528

529 Source; Field Survey, 2017

530

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

535

536 **Table 4.3 Lending Rate of Respondents**

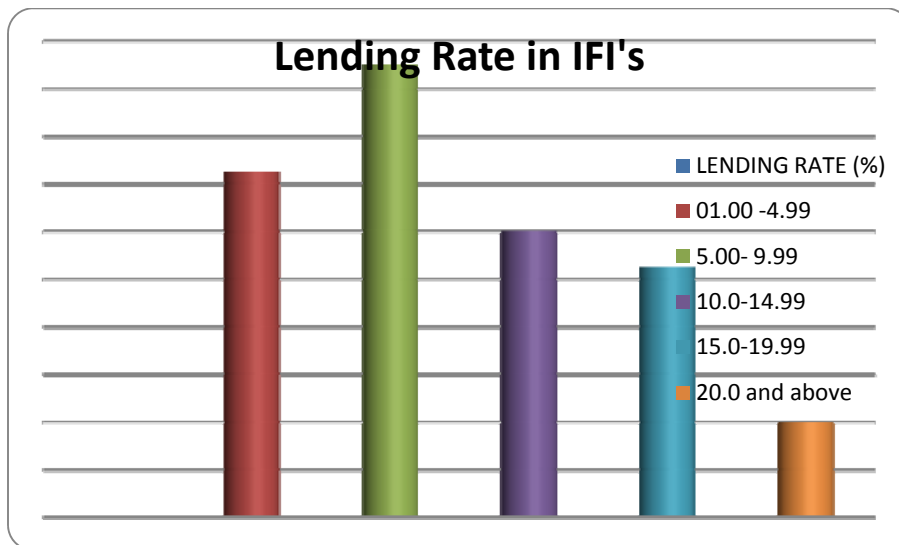
LENDING RATE	NO. OF RESPONDENTS	PERCENTAGE (%)
01.00 -4.99	145	24.16667
5.00- 9.99	190	31.66667

10.0-14.99	120	20
15.0-19.99	105	17.5
20.0 and above	40	6.666667
	600	

537 Source; Field Survey, 2017
538

539 The table above shows the cost of obtaining capital by various respondents. It shows that a
540 significant fraction constituting 31% of the respondent obtain capital between 5.00 to
541 9.99% interest rate, 24% of the respondents obtain loan at less than 4.99% while other at a
542 rate higher than10%. While Yelwa et al [30] observed that majority of the respondents in
543 the informal financial institutions got the soft loan between 3.00-3.99%.

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



545

546 Source; Field Survey, 2017

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

548

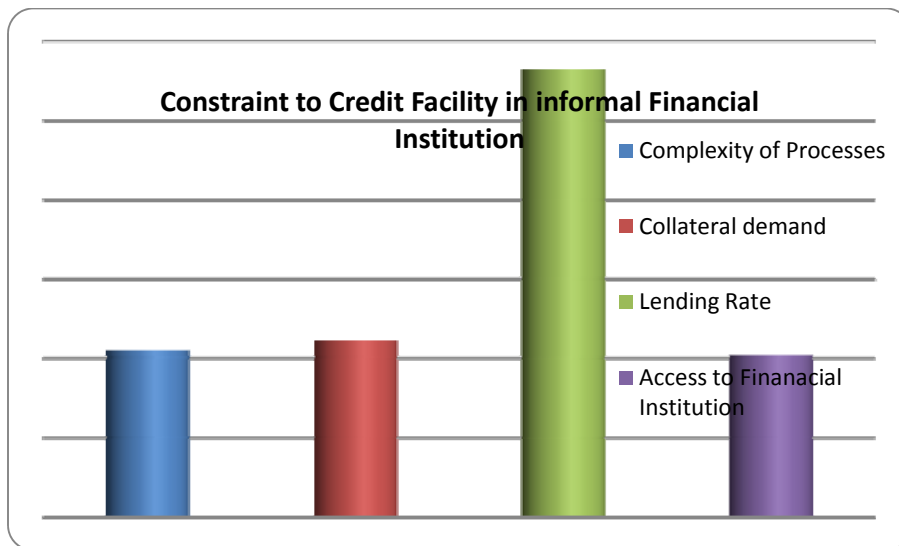
Respondents	Frequency	Percentage
Complexity of Processes	105	17.5
Collateral demand	111	18.5
Lending Rate	282	47
Access to Financial Institution	102	17

549 Source; Field Survey, 2017

550

551 The table above shows the constraint to the accessibility of credit facility in the formal
 552 financial institution. It revealed that the lending rate prevalent in the formal institution is the
 553 major detriment to the access to credit facility hence they opt to informal financial
 554 institution. The Monetary Policy Ratio in a formal financial institution is higher compared
 555 to the average lending rate in informal financial institution.

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



557

558 Source; Field Survey, 2017

559 **4.2 Logit Regression Output**

560 $Pov = 0.26 + 0.34Hs + 0.36Yr + 0.41Es + 0.39AIFI + 0.12AFI \dots 1.3$
 561 $(0.1) \quad (0.11) \quad (0.12) \quad (0.02) \quad (0.03) \quad (0.06)$
 562 $2.6 \quad 3.09 \quad 3.0 \quad 20.5 \quad 13.0 \quad 2.0$

563

564 $R^2 = 0.65$

565

566 $IFIG = 0.02 + 0.89LR + 0.41EDU + 0.66LFA + 0.44SFI + 0.22SR + 0.66RP \dots 1.4$
 567 $(0.002) \quad (0.44) \quad (0.012) \quad (0.05) \quad (0.02) \quad (0.16) \quad (0.02)$
 568 $10 \quad 2.02 \quad 34.1 \quad 13.2 \quad 22 \quad 1.375 \quad 33$

569

570 $R^2 = 0.68$

571

572 **4.3 Interpretations of Result and Summary of Findings**

573 The result shows that household size as a negative correlation with the poverty level
 574 among the respondents while income and employment Status of the respondent was also

575 found to have a significant effect on the poverty level of the respondent. The result further
576 shows that both accesses to informal and Formal institution loan reduce the poverty level.
577 This is converse to findings of Oleka and Eyisi [23] stating that informal financial
578 institutions have no much influence on poverty alleviation in Nigeria but conforms to the
579 findings of Yelwa et al [30] who noted that informal financial sector operators has a
580 positive and significant impact on growth in the region.

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

589 The income of the respondents has a negative correlation with the growth of IFI. This
590 implies as the income of participant increase it leads to a decline in growth of IFI. This
591 means that IFI will strive more within a relatively poor population. As household income
592 increases they tend to shift to FFI as a source of financial needs. Hence IFI is seen as a
593 substitute to FFI instead of complementary.

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

598 A conducive repayment plan was seen to have a positive effect on the growth of IFI as
599 found in the result presented above. His result also corresponds with the work of Mamudu,
600 (2013), which identified an inverse relationship between the lending rate and SMEs
601 development in Ghana.

602 **5. CONCLUSION AND RECOMMENDATION**

603 Based on the findings above it can hence be concluded that Non financial institution is a
604 potential voyage toward the actualization of the Sustainable goal of poverty reduction in

605 Kogi state, Nigeria if the following recommendation is duly and diligently taken into
606 consideration;

607

- 608 1. Institutional and legal framework should be structured to enable non financial
609 institution to perform the role of money lender while serving as an intermediary
610 between the complex financial institution and the unorganised low income earners
611 alias masses.
- 612 2. The government should create special fund to be managed by CBN, towards
613 supporting the operation of the informal financial institutions in Nigeria as this will
614 serve to go along way at boosting the productivity of those in the social recesses of the
615 society who are major participant in the sectors
- 616 3. Effective use of micro finance banks as second-tier regulatory body charged with
617 registration and supervision of viable informal financial institutions as this may result
618 to organizational.
- 619 4. A carefully crafted reform policy should be aggressively undertaken in the sector to
620 entail registration of IFI, supervision of its activities, compliance with international
621 accounting standard and relative support from regulatory authority.

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