ESUT Journal of Accountancy (EJA) 200
ISSN: 2251-032X Volume 15, Issue 2, Pages 200 - 219: 2024


# Impact of Informal Financial Institutions on Socio-Economic Development in Nigeria

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## Abstract

**Research Objectives:** The study examined the impact of Informal Financial Institutions (IFIs) on Socio-Economic Development in Nigeria. Specific objectives include: determine if Informal Financial Institutions have impacted on poverty reduction in Nigeria; ascertain if Informal Financial Institutions have access to credit facilities in Nigeria economy; find out the level of investment of Informal Financial Institutions in the Nigeria economy.

**Methodology:** The study adopted a descriptive survey design with a sample of 200 respondents. Questionnaires were used to collect data from members and non-members of Informal Financial Institutions unions. Data collected were analysed using frequency, percentage and mean score. Chi-square was employed in the test of hypotheses using a statistical program for Social Sciences (SPSS).

**Findings:** Informal Financial Institutions were more effective in reducing poverty among members in unions than non-members. Furthermore, members of Informal Financial Institutions in unions access credits more easily than non-members. Lastly,Informal Financial institutions were more effective in promoting investments among members than non-members.

**Conclusion:** IFIs have capacity in promoting socio-economic development in Nigeria.

**Recommendations:** Government should encourage and empower IFIs to reduce poverty level in Nigeria through credit availability which will increase the level of investments among the Informal Financial Institutions operators.

***Keywords***: *Informal Financial Institutions, Poverty Reduction, Investments, Credit facilities.*

## 1.0 Introduction

A healthy and well functioning economy requires an efficient and effective financial intermediation process that will integrate both the functions of the formal and informal sector of the Nigeria financial system so that the needs of the poor and the rich will be met for socio-economic development.

It is understandable that economies of third world countries such as Nigeria operate with dual financial institutions. On one hand, are groups which function through direct government control known as formal financial institutions such as commercial banks, Insurance companies, mortgage banks ,etc. On the other hand, are those financial institutions which are not directly controlled by the government, called Informal financial Institutions such as local money lenders, cooperative societies, thrift and loan societies, Age grade association, Rotating savings and credit associations (ROSCAs), social clubs, etc.

The Interdependence of both the formal and informal financial institutions in development and growth of any economy cannot be over emphasized as the contributions of the informal financial institutions in employment creation, savings and investment, poverty alleviation, income generation and credit facilities to members are overwhelming compared to the contribution of the formal financial institutions. The sudden growth in the structures and operations of informal financial institutions (IFIs) in African countries especially Nigeria is as a result of gaps created by the formal financial institutions in their inability or failure to provide adequate financial services as expected by the poor masses. According to Gulongi (2012), the introduction of the informal financial institutions by individuals and groups is to cushion or bridge the gap created by the formal sector in providing necessary financial succour to the poor. The informal financial institutions are created by the indigenous people with the aim of making credit/loan facilities more accessible to the people so as to help solve their socio-economic problems. In almost all the organisations, there seems to be the existence of informal financial institutions established for specific or general purposes which allow people to contribute funds periodically which are given to members as loan or credit.

People prefer to operate with these Informal Financial Institutions as their conditions for credit are soft, coupled with faster administration of loans with low interest rate compared to formal financial institutions. In most rural areas where the majority of the citizens are farmers, traders, business men/women, government workers, private sector workers and transporters, there is no formal banking system and as such, most people depend on IFIs existing in the area for their financial transactions. Although, these IFIs which contribute so much in economic growth operate outside government regulatory control. They belong to the informal sector or irregular economy that compromise operational standards and guidelines necessary to achieve a healthy and functional financial system. The absence of rule and legislation relating to their operations has made it difficult to harmonise them. The fear expressed in regulating them is that their operations may be shifted as a good number of the associations may not be able to conform to the minimum conditions, which such rules or legislation may impose (Onoh, 2002).

Many researchers have carried out studies on the impact of IFIs on economic growth both in Nigeria and outside Nigeria. Many studies saw IFIs as a catalyst for economic growth owing to their grass roots orientation towards the massive poor and the vulnerable in the society. However, while these IFIs have thrived for years, their actual impact on the economy remains contested by some past studies within and outside Nigeria. This is due to the poor record keeping and difficulty of the monetary authorities to regulate and control their activities. Distress or death of a thrift collector can lead to loss of the saver’s accumulated funds. Informal financial institutions generally have limited outreach due to their nature and primarily to paucity of loanable funds and as such, contribute little to rural development. Their limited outreach also reduces the volume of savings mobilised and investment embarked upon by the institutions, thus, making less significant impact in savings mobilisation and increased investment in the society. The rate at which the IFIs is increasing and gathering patronage of the rich and poor in Nigeria is interesting and encouraging even when the government financial and monetary authorities are placing some hurdles in their roads of progress by some restrictions. Some past studies leveraged on the weakness of the IFIs to rate their operational performance very low and inefficient in contributing to economic growth of Nigeria. On the other side of the society, many saw strength and resilience in IFIs in positive contribution to Nigeria economic growth. However, this present study which has taken note of the strengths and weaknesses of the IFIs as expressed by the previous studies, would take into consideration gaps arising from the methodology of their study, including data analysis in evaluating the impact of the IFIs in socio-economic development of Nigeria in the areas of poverty reduction, access to credit facilities and investments.

### 1.1 **Statement of the problem**

Economic growth and development of countries require a functional financial system with an efficient intermediation process that would capture the interest of all classes and levels of the citizens. In most economies around the world in which Nigeria is one, the poor and the vulnerable are mostly excluded from the formal financial system credits. Sequel to this, the poor and less privileged have developed a wide variety of informal financial arrangements to meet their financial needs (Oleka, 2014). The conventional financial institutions have not been helping the issues either as they equally discriminate against the poor in credit extension. In Nigeria, banks prefer lending to medium and large enterprises which are supposedly regarded as being rich and creditworthy. These conventional banks avoid extending credits to the poor because of the relative high cost and risk associated in doing so. Okezie (2009), opined that throughout the world, poor people are excluded from the formal financial system and that exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in which Nigeria is one of them. Since the rich and the poor have needs in the society to take care of, it becomes imperative that the excluded poor in the formal financial arrangement seek alternative means of getting credits for business and investment purposes. In doing so, various forms of informal financial institutions are encouraged to spring up to fill the financial gap created by the formal financial structures of the government. Interestingly, these need driven informal financial institutions have developed firmly in strong competition with the formal structures in proving financial credits to those seeking for it, creating employment, alleviating poverty, generating income and savings in the Nigeria economy. Since the informal financial institutions (IFIs) are providing complementary services with the formal financial institutions in socio-economic development, the government should try to look into their conditions in order to assist them improve, harmonise and upgrade their services and ensure they operate within acceptable financial policy and legal framework guiding financial institutions.

1.2 **Objectives of the study**

The broad objective of this study was to examine the impact of the informal financial institutions (IFIs) in socio-economic development of Nigeria. The specific objectives of this study were as follows to:

(i) Determine if informal financial institutions have impacted on poverty reduction in Nigeria.

(ii) Ascertain if informal financial institutions have access to credit mobilization in Nigeria economy.

(iii) Find out the level of investment position of IFIs in the Nigeria economy.

1.3 **Research Questions**

(i) Has IFIs impacted on poverty reduction in the Nigeria economy?

(ii) To what extent has IFIs impacted on credit mobilization in the Nigeria economy?

(iii) How far has IFIs investments impacted on the Nigeria economy?

1.4 **Research Hypotheses**

The following hypotheses have been formulated for this study.

Ho1: There is no significant effect between IFIs and poverty reduction in the Nigeria economy.

Ho2: There is no significant impact of IFIs on credit mobilization in the Nigeria economy.

Ho3: There is no significant contribution of IFIs on the growth of investments in the Nigeria economy.

## 2.0 Review of Related literature

### 2.1 Conceptual Review

#### 2.1.1 Financial Institutions:

Financial institutions can be grouped into two namely formal and informal financial institutions.

**Formal Financial Institutions:**

These are institutions that are regulated and supervised by the government authorities that specialize in financial resource mobilization. They make certain arrangements that encourage and mobilize savings and channel such savings to productive investments. These institutions are generally set up under the rule governing financial institutions and implemented by government regulatory authorities.

**Informal Financial Institutions:**

These are financial institutions established by two or more persons with the purpose of mobilising savings, providing financial aids or loans to members, governed by the rules establishing the institution and not under the direct supervision or control of the government regulatory authorities. Aryeetey (1998) defined Informal Financial Institutions (IFIs) as institutions that embraced all financial transactions that take place beyond the functional scope of various countries' banking and other financial sector regulations.

#### 2.1.2 Types of Informal Financial Institutions in Nigeria

Oleka(2014) in Berko(2001) noted that the earliest but most primitive means of informal financing institutions were the slavery, forced human labour, child marriage and the practice of "Iwaga" in yoruba area in which a borrower uses his own wife or daughter as collateral for the loan. According to him, these dehumanising of human race practices had been phased out in Nigeria because of Christianity and civilisation. Umebali(2002) regards informal credit institutions to include all classes of credit, savings associations and markets operating outside the formal financial system guidelines. They gained their popularity as a result of non cooperative attitudes of some conventional banks and other non-banking financial institutions in giving loans to the less privileged or the poor. These institutions are often made up of heterogeneous savers and lenders. We have professional money lenders and part time money lenders such as estate owners, traders, grain millers, smallholders farmers, employers, relations and friends, credits unions, cooperative societies, mobile bankers generally known as 'Susu or Esusu' collectors or thrift collectors who visit shops, work places, market stalls and homes at agreed time on each day and collect funds towards a saving plan. Following this plan, a saver agrees to deposit a specific amount determined by himself/herself in consultation with the collector for an agreed period of time- usually a month, after which period, his / her deposits are returned less than a day's deposit. These have been observed in both urban and rural areas in Nigeria and very popular among self employed and staff of small scale businesses in the community.

Previous studies conducted by Aryeetey et al (1994) have shown that IFIs' activities thrive under both repressive and liberal financial sector policies. Study by Aryeetey and Udry(1995) also indicated that the performance of these informal financial institutions increases as long as the level of economic activities within the economy calls for increasing financial services from groups that cannot be reached by existing formal financial institutions.

**Classification of Informal Financial Institutions**

Traditional financial intermediaries may be classified into the following groups: Social clubs/Age Grade Association, Cooperatives, Diaspora, Town union, Rotating Savings and Credit Associations (ROSCAs), Local Money Lenders, etc.

**SOCIAL CLUBS/AGE GRADE ASSOCIATION**

This group exists in many African communities to cater for the financial and other social needs of members either when alive or at death. If at death, the benefits should go to the relatives of the deceased member. In most cases, it takes the form of a high breed of village meeting as most of them are registered with the local government authorities who keep proper books of account and have elected officials that help pilot their affairs (Ugwuanyi,2012). These groups are in the same age-range and they hold their meetings periodically, usually monthly, quarterly or semi-annually. Their main sources of funds are dues paid by every member and the levies paid by the defaulters of one rule or the other.

**COOPERATIVES**

These are voluntary associations or groups of people coming from the same socio-economic background who pull their resources together for the purpose of solving their common problems through self-help and mutual trust. Cooperatives have been the indigenous mechanism and techniques employed by the people to identify their felt needs, choose what they want and take cooperative actions to satisfy their needs (Okonkwo, 2012). In Nigeria, cooperative societies are classified into producers, consumers and financing cooperatives.

**DIASPORA**

This is a financial institution set up by citizens of communities who reside outside the shore of the country with the purpose of providing the necessary funds that will cater for the socio-economic needs of the communities such as health care centres, roads rehabilitation and construction, provision of bore holes, construction of schools, provision of scholarship schemes, etc.

### TOWN UNION

This is closely related to Diaspora, however, the difference is that they existed before Diaspora and comprises indigenes residing in and outside the local community. This union is usually formed by the indigene residing outside the community for the purpose of identifying individuals from such community and rendering financial aid when necessary to the members. People who were originally from the same town, but were now living in remote urban centres, far from home meet at least once a month to exchange news and provide avenues for savings, loan schemes and grants. Businesses are known to have been financed from such funds while any support from the fund is refundable with interest (Onoh, 2002).

### ROTATING SAVINGS AND CREDIT ASSOCIATION

Rotating Savings and Credit Associations(ROSCAs) known as ISUSU in Nigeria, SUSU in Ghana and KO in Japan is defined by the world Bank (2004) as associations whose members regularly (e.g weekly or monthly) contribute a fixed amount that is allotted to each member in turn (according to lottery, bidding or other system that the group establishes).

The world Bank (2015) identified three types of ROSCAs: Common ROSCAs where the leader receives no special consideration (other than possibly getting the first fund); Commission ROSCAs which pays their leaders and who in turn assume liability for defaults; and Promotional ROSCAs which are used by merchants to sell their goods, especially consumable durables.

### LOCAL MONEY LENDERS

This is one of the most common and much recognised informal financial institutions at the grass root level in Nigeria. These groups of people are easily accessible and provide loans to borrowers based on direct recognition or through a third party serving as referee. The major problem with this type of financial institution is that they provide one of the costliest loans ranging from 30-70% interest rate and can easily embarrass borrowers who default since they have easy access and could reach homes of the borrowers. The main source of money lenders funds are their personal savings or funds set up by a union of money lenders. The borrowers are usually required to produce a guarantor, pledge his land or both to serve as collateral before the extension of the loan facilities. Interest is charged on loans granted but not as high as those charged by the conventional banks (Ugwuanyi, 2012).

## 2.2 PROBLEMS OF INFORMAL FINANCIAL INSTITUTIONS

The Informal financial institutions are associated with common problems ranging from lack of basic education, maladministration, inadequate finance, lack of registration, relative high interest rate, high risk, persistent crisis to shorter period of survival (Adetiloye, 2006)

(i) Lack of Basic Education:

Most of the operators of informal financial institutions (daily collectors, ROSCAs, etc) lack basic knowledge of accounting and bookkeeping methods. In most cases, rules of thumb are commonly used in the administration of finances and handling of credits in a convenient manner.

(ii) Maladministration:

Leaders who are running the affairs of the informal financial institutions are appointed on the basis of popularity and charisma rather than capability and experience. In a business involving financial intermediation, confident leaders are needed to manage the business in order to gain people's trust to bring money for savings.

(iii) Inadequate Finance:

The cooperative societies at most times have problems of inadequate finances because of the misappropriation of funds by the members who are invested in business ventures that are of interest and beneficial to leaders but detrimental to other members. This act causes inadequate finances for members to borrow money from the cooperative association.

(iv) Lack of Registration:

Most informal financial institutions are not registered by the government and those that are registered are not properly supervised. This creates an opportunity for operators to run the institutions recklessly and abuse funds.

(v) Relative High Interest Rate:

The cost of borrowing from money lenders is high relative to conventional bank loans. This results in high default credit risk.

(vi) High Risk:

The operators run the institutions as their own and can easily abscond with depositors' money. Such an act may cause serious financial pains to depositors especially when they have large savings with a cooperative institution.

(vii) Persistent Crises:

Frequent crises are common in ROSCAs. This is because a member may be reluctant or unwilling to contribute money for others after he/she might have benefited. This might create unhealthy development whereby those cheated could cause trouble.

(viii) Shorter Period of Survival:

Most informal financial institutions like ROSCAs do not last more than two years. This is because members continue to lose trust in other members who failed to honor financial pledges. This act might discourage trusted ones and they start withdrawing their membership, thus, leading to the collapse of the institution.

## 2.3 Prospects of Informal Financial Institutions

The successes of informal financial institutions include the following:

(a) Promotion of welfare and reduction of poverty level of members: Informal financial institutions such as cooperatives societies and ROSCAs increase the wellbeing of members and reduction of poverty level through provision of micro credits.

(b) Promotion of socio-economic status: they empower members to invest in new ventures and the purchase of agricultural inputs through easy access to loans with considerably lower interest rates.

(c) Saving mobilisation:The institutions help to mobilise savings from those members that have surplus to those that need it for consumption and investment purposes.

(d) Capital accumulation. ROSCAs help members to accumulate capital as a result of increment in income level after collecting money contributed jointly by members. This money is used to acquire assets by a member who is an entrepreneur.

(e) Financing SMEs:They are a major provider of finances to SMEs owners. This is because many small businesses get financed through provision of credits by ROSCAs and daily contribution collectors in many developing nations like Nigeria, Indonesia, Mexico and so on.

(f) Employment generation: Cooperative societies have invested in new business ventures like hotels, shopping malls, schools, block industries and so on. The investment in new business ventures has created employment opportunities to unemployed youths in most developing nations like Nigeria.

## 2.4 Theoretical Review

Various approaches have been used by different experts to illustrate the informal sector. Chen(2004) delineates three of these core approaches.

(a) The Dualist School Approach: The informal sector in this approach consists of marginal activities that provide wage for the poor in times of difficulty (Hart, 1973; ILO, 1972; Sethuraman, 1976; Tokman, 1978). In this school of thought, the informal sector workers are separated from contemporary economic advantageous chances because of the unevenness between the growth rates of the number of people and of modern individual employment.

(b) The Structuralist School Approach: The informal sector is regarded as a subsidiary economy supplementing the ‘real’ economy. According to the structuralist school of thought, they see the “ informal economy as subordinated economy units (micro-enterprises) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms" (Moser, 1978; Castells and Portes ,1989).

(c) The Legalist School Approach:Those who work in the informal economy are considered to be 'audacious' by the legalist school, this is because they took it upon themselves to operate in the 'shadow'(informal) economy in order to escape taxation and costs to the government (De soto,1989,2000). The unfavorable and harsh legal system allows the self-employed to function informally with their own informal extra legal rule.

In yet another approach that is associated with developing countries, the informal economy is considered to be illegal, underground, shadow, irregular, black and subterranean. This is because the economic activities of the informal workers are concealed from the authority (United Nations Statistical Commission, 1993).

**Impact of Informal Financial Institutions on Socio-Economic Development**.

Studies on the Impact of informal financial institutions on socio-economic development have been conducted by researchers. Ghazala(2006)found positive effect of informal financial institutions such as micro-credit programmes on the welfare of the people. The study showed that the programme reduced poverty through micro-finance and thrift societies. It also increased women empowerment, improved savings and purchase of agricultural inputs and ensured easy access to loans with considerably lower interest rates. Zaman (1999) emphasised the importance of informal financial institutions on socio-economic development with reference to Rotational Savings Credit Associations (ROSCAs). He found that loans provided by the ROSCAs increased people's income and stimulated building of assets. It also improves the economic conditions of subsistence rural farmers through easy availability of finance for adequate storage facilities to protect their farm products from seasonal price fluctuations. This enables the farmers to store their products until the prices are reasonable, thus, enabling farmers reap the reward of high profits.

**2.5 Empirical Review**

Sambe, et al (2013) conducted a study on the effect of informal financial institutions on the socio – economic development of Adikpo Town. The study randomly sampled 200 respondents. Questionnaires were used to collect data. Chi-square was employed in the test of hypotheses using SPSS version 16.0. Findings showed that informal financial institutions were more effective in reducing poverty among members than non-members. Furthermore, the institutions guaranteed more access to credit than non-members and promoted investment among members as compared to non-members. It was therefore concluded that informal financial institutions have been effective in promoting socio-economic development of the town. Oleka and Eyisi (2014) conducted a study on the effect of informal financial institutions on poverty Alleviation in Nigeria. The study adopted a descriptive survey design comprising a population of 800 respondents. Data collected were analysed using simple percentage and descriptive statistics. Findings revealed that informal financial institutions have no significant effect in alleviating poverty in Nigeria; while poverty-mentality, illiteracy, low infrastructure and cultural loan-defaults are the major problems encountered by these institutions. The study recommends among other things the education of the rural poor to embark on viable projects so as to reduce loan default arising from unviable ventures. Uruakpa (2018) conducted a study by asking 'Do informal financial institutions in Nigeria matter for savings, investment and growth'? The study adopted surveys by using both primary and secondary data where 250 questionnaires were administered to customers and workers of informal financial institutions in Umuahia and Okigwe LGA in Nigeria. Data were analysed using frequency and mean score while the t-test was carried out using t-test from SPSS software. Findings revealed that informal financial institutions encourage savings by households and the ability of thrift collectors to go from house to house and shop to shop makes savings easy. It was also found that savings mobilised by informal financial institutions form part of deposits in financial institutions such as banks.

## 3.0 Methodology

The design of the study was the descriptive survey method and is ideal because the study involved collecting data from rural communities' members of traditional financing institutions. The researcher made use of personal observation, interview and questionnaires.

### 3.1 Area of Study

This study focused on the traditional institutions located in Udi Local Government Area of Enugu State Nigeria as agents of savings mobilization and distribution. This Local Government was selected for this study because it has the basic features of a typical rural setting in Nigeria. Udi is one of the seventeen (17) Local Government Areas in Enugu State, South-East geopolitical zone of Nigeria. The headquarters of LGA are in the town of Udi with the LGA bordered by the Igbo-Etiti, Enugu North and Ezeagu LGAs. The estimated population of Udi LGA is put at 370,0002 inhabitants as at 2015 Nigeria census, Udi is predominantly occupied by members of the Igbo ethnic group. The Igbo language is commonly spoken in the LGA while the religions of Christianity and traditionalism are practiced in the area.

Udi LGA sits on a total area of 897 square kilometers and has an average temperature of 26 degrees centigrade. The LGA's landscape is characterized by an abundance of hills with the average wind speed in the area put at 11km/h. Udi LGA is widely known for the "Aneke Achime" which is the local name of the area's high quality palm wine with a cluster of the area's residents engaging in palm wine tapping. Trade also flourishes in the LGA with the area hosting several markets such as the Orie Agu and the 9th mile modern market where a variety of commodities are bought and sold. Other important economic activities that take place in Udi LGA include farming and crafts making.

The following towns are in Udi LGA namely: Affa, Akpakwume-Nze, Okpatu, Awhum, Ukana, Abor, Umulungbe, Inuoka, Egede, Eke, Ebe, Nsude, Ngwo-Asa, Ngwo-Uno, Udi, Obioma, Abia, Amokwe, Agbudu, Nachi, Umuaga, Umuabi and Obinagu.

### 3.2 Population and Sample Size

Population of this study consisted of all the informal financial institutions (IFIs) in Udi LGA which numbered about 100 and were actively involved in savings mobilization in the local area. Udi LGA consists of twenty-three (23) towns. Based on convenience sake on the part of the researcher, the researcher chose the following towns that are close to each other. The towns were Nachi, Umuaga, Obinagu and Amokwe. The Study Sampled 400 respondents who were both members and non members of informal financial institutions in a random sampling technique. Random sampling is a probability sampling method that gives every case an equal chance of being selected for a study. The method ensures that all cases have equal chances for selection. A 30 items self-made questionnaire was used to elicit information from the respondents. A four-point linker format of Strongly Agreed, Agree, Disagree, and Strongly Disagree was used and numerical values of 4,3,2,I, were assigned to each of the four points respectively.

Accordingly, 210 questionnaires were distributed among members and non members of informal financial institutions (IFIs). 200 questionnaires were returned while 10 were not returned. The 200 returns were used in Demographics, Sex, Marital status, Educational level and Occupation analyses of the respondents. The analysis of data for the study was done using frequency, percentage and mean score while the t-test was carried out using t-test from SPSS software.

## 4.0 Results

The findings of this study were presented in tables using frequency and simple percentage for the analysis.

**Table 4.1 Socio-Demographic Characteristics of respondents**

| Demographics | Frequency | Percentage |
|---|---|---|
| Age | - | - |
| 20 – 29 | 23 | 11.5 |
| 30 -39 | 37 | 18.5 |
| 40 – 49 | 74 | 37 |
| 50 – 59 | 53 | 26.5 |

| | | |
|---|---|---|
| 60 and above | 13 | 6.5 |
| **Total** | **200** | **100%** |

| **Gender** | **Frequency** | **Percentage** |
|---|---|---|
| Male<br>Female | 117<br>83 | 58.5<br>41.5 |
| Total | 200 | 100% |
| **Marital Status**<br>Single<br>Married<br>Divorced | 72<br>121<br>07 | 36<br>60.5<br>3.5 |
| Total | 200 | 100% |
| **Educational Level**<br>No schooling<br>Primary<br>Secondary<br>Tertiary | 0.3<br>14<br>98<br>85 | 1.5<br>07<br>49<br>42.5 |
| Total | 200 | 100% |
| **Occupation**<br>Farming<br>Civil servants<br>Business<br>Petty trading | 34<br>63<br>95<br>08 | 17<br>31.5<br>47.5<br>04 |
| **Total** | **200** | **100%** |

**Source:** Field survey, 2023

Table 4.1 above presents socio-demographic characteristics of respondents in relation to age, sex, marital status, educational level and occupation. The table shows that the majority of the respondents fall within the age range of 40 – 49 with 37% while those in the range of 60 and above were the least with 6.5%. Further respondents in the age range from 20-29 had 11.5%; 30-39 had 18.5% while 50-59 had 26.5%, With regards to sex distribution, male were the majority with 58.5% while females were minority with 41.5%. On marital status, married respondents constituted the bulk of the study with 60.5% while divorced respondents were the fewest with 3.5%. Respondents who were single had 36%. With respect to educational level, respondents with secondary level had 49% while those with no schooling had the least with 1.5%. Further, respondents with primary education had 07% while those with tertiary education had 42.5%. In consideration of occupation, Businessmen/ women had the most percentage with 47.5% while petty traders were the least with 0.4%. Furthermore, civil servants had 31.5% while farmers had 17%.

Table 4.2 Utilisation of loans obtained from informal financial institutions

| Response | Frequency | Percentage |
|---|---|---|
| Investment | 120 | 60 |
| Building a house | 20 | 10 |
| Health bills | 10 | 5 |
| Educational fees | 30 | 15 |
| Farming | 20 | 10 |
| Total | 200 | 100% |

**Source:** Field survey, 2023

Table 4.2 above is meant to assess how loans acquired from the institutions are used by members. The table shows that of the 200 respondents who were members of the IFIs, 120 (60%) said they used the facility to invest. 20 (10%) acknowledged using the loans for building a house and 10 (5%) used it to pay for their health needs. Further, 30 of the respondents (15%) used the credit on education, while 20 (10%) utilized the loans for farming activities.

**Hypothesis I**

There is no significant effect between IFIs and poverty reduction in the Nigeria economy.

Table 4.3 Chi-square results of effect between IFIs and poverty reduction in the Nigeria economy.

| Membership | Standard of living | | Total |
|---|---|---|---|
| | High | Low | |
| Membership of IFIs | 95 (76.6) | 37(55.4) | 132 |
| Non members | 21 (39.4) | 47(28.6) | 68 |
| Total | 116 | 84 | 200 |

$X^2$ calculated = 31. 102

$X^2$ Tabulated = 29.438

Degree of freedom = I

Level of significance = 0.01

The null hypothesis which states that there is no significant effect between IFIs and poverty reduction has been rejected because the $X^2$ calculated value (31.102) is greater than the $X^2$ tabulated (29.438).

Hypothesis 2

There is no significant impact of IFIs on credit facilities in the Nigeria economy.

**Table 4.4 Chi-square result of impact between IFIs and access to credit facilities**

| **Membership** | Access to Credit | | **Total** |
|---|---|---|---|
| | Yes | No | |
| Membership of IFIs | 91 (73.9) | 41(58.1) | 132 |
| Non members | 21 (38.1) | 47(29.9) | 68 |
| Total | 112 | 88 | 200 |

$X^2$ calculated = 26. 380

$X^2$ Tabulated = 24.859

Degree of freedom = I

Level of significance = 0.01

The null hypothesis which states that there is no significant impact between IFIs and credit mobilization has been rejected because the $X^2$ calculated value (26.380) is more than the $X^2$ tabulated value (24.859).

**Hypothesis 3**

There is no significant contribution of IFIs on the growth of investment in the Nigeria economy.

Table 4.5: Chi-square results of contribution of IFIs on investment

| **Membership** | Investment | | **Total** |
|---|---|---|---|
| | Yes | No | |
| Membership of IFIs | 97 (74.6) | 35(57.4) | 132 |
| Non members | 16 (38.4) | 52(29.6) | 68 |
| Total | 112 | 88 | 200 |

$X^2$ calculated = 45. 57

$X^2$ Tabulated = 43.560

Degree of freedom = I

Level of significance = 0.01

The null hypothesis which states that there is no significant contribution of IFIs on the growth of investment in the Nigeria economy has been rejected because the $X^2$ calculated value (45.570) is significantly greater than $X^2$ tabulated value (43.560).

**Table 4.5** (a) t-test for Hypothesis 3 one –sample statistics

| | N | Mean | Standard deviation | Standard Error mean |
|---|---|---|---|---|
| IFIs and their contribution on investment growth in the Nigeria economy | 5 | 3.3400 | .15133 | .06768 |

one –sample Test

| | Test value = 0 | | | | | |
|---|---|---|---|---|---|---|
| | T | Df | Significance (2 tailed)` | Mean Difference | 95% confidence interval of the difference | |
| | | | | | Lower | Upper |
| IFIs and their contribution to investment growth in Nigeria's economy. | 49.353 | 4 | 0.000 | 3.3400 | 3.1521 | 3.5279 |

**Source:** SPSS 20

The result shows that the mean is 3.3400 which is above 2.5 an indication that the result is positive. The t-statistics is 49.353 with a significance value of 0.000 thus, the alternative hypothesis is therefore accepted that IFIs contribute towards investment growth in Nigeria economy.

### 4.1 Summary of Findings

In line with the objectives of the study the following findings were made:

1. IFIs contribute significantly in poverty reduction in the Nigeria economy.
2. IFIs have a great impact on credit facilities in the Nigeria economy.
3. IFIs contribute significantly to the growth of investment in the Nigeria economy.

## 5.0 Discussion on Findings

The findings from the study showed that informal financial institutions in Nigeria with reference to those operating in Udi Local Government Area of Enugu state were influential in reducing poverty through their credit facilities, especially among members as compared to non-members with calculated Chi-square of 31.102 been greater than the tabulated Chi-square value of 29.438 with I degree of freedom at 0.01 level of significance. The loans were used partly for building of houses, payment for health, education bills as well as farming activities. This finding is consistent with a proposition made by Ghazala (2006). He found positive effects of informal financial institutions on the welfare of the people as the loans acquired by members improved their living standard.

Further, informal financial institutions have been found to be effective in providing members with access to credit facilities as almost all members of the institutions have high possibilities of accessing loans. The null hypothesis was rejected as the Chi-square calculated value of 26.380 was greater than the Chi-square tabulated value of 24.859 with I degree of freedom at 0.01level of significance. The finding agrees with Tsai (2004) who noted that informal financial institutions represent a major source of finance for traders and farmers in China.

Informal financial institutions were found to have influenced investment among members more than non-members. The null hypothesis was rejected since the Chi-square calculated value of 45.570 was greater than the Chi-square tabulated value of 43.560 with I degree of freedom at 0.01level of significance. Most of the respondents acknowledged that credit gotten from the institution helped them to set up small and medium scale enterprises.

## 6.0 Conclusion

Based on the findings of the study, it could be concluded that informal financial institutions in Nigeria especially those operating in Udi Local Government Area have to some large extent helped their members to improve on their living standard and to overcome poverty as the loans given were used for investment, building of houses, payment for health, education bills and farming activities. This means that the Institutions have considerably reduced poverty among its members as contrary to the condition of people who are not members found themselves in a relatively poor state of life. Furthermore, Informal financial institutions have been remarkably effective and efficient in providing members with access to credit facilities as members of the institutions have a high possibility of accessing loans.

Finally, the Informal financial institutions have strong influence in investment because most of the members used the loans to invest in some income generating activities as non-members have little or no income for investment. Hence, Informal financial institutions therefore have been effective in promoting socio-economic development in Nigeria.

**6.2 Recommendation**

Based on the conclusions above, the following recommendations have been made.

1. There is a need for the government to integrate and utilize the services of the informal financial institutions in its poverty reduction programmes, since they have been found to be popular among the people in terms of poverty reduction.
2. Government should encourage and support the existence of Informal financial institutions since they are strong in credit mobilization which encourages investment in the economy.
3. Government should encourage savings mobilization to enhance investment by partnering with the Informal financial institutions by opening a direct window with the operators as they have easy links to the grassroots.

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