

INFORMAL MICROFINANCE AND ECONOMIC ACTIVITIES OF RURAL DWELLERS IN KWARA SOUTH SENATORIAL DISTRICT OF NIGERIA

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Abstract

Rural areas, like urban areas have increasing demand for credit because such credit reduces the impact of seasonality on incomes. However, formal financial institutions have maintained low presence in the rural areas. This has affected the rural dwellers' access to deposit savings and credits that can improve their economic activities. This study examined the influence of informal microfinance on economic activities of rural dwellers in the selected rural areas of Kwara South Senatorial District. Using a multiple regression analysis, six hundred (600) questionnaire was administered on members of informal microfinance institution in the study area, the study found that fund provided as credit facilities for transaction purposes, funds for housing and combating diseases have significant influence on the economic activities of the rural areas. The study recommends group savings and group lending in order to increase savings and credits to the rural dwellers. Government should also provide improved infrastructural facilities that would enable rural dwellers have more access to their economic activities

Key Words: Microfinance, Informal, Economic Activities, Rural, Kwara

1.0 Introduction

Africa's development challenges go deeper than low income, falling trade shares, low savings and slow growth. They also include inequality and uneven access to productive resources, social exclusion and insecurity especially among the women (Pitamber, 2003). However, more specific concern is raised in Nigeria due to rural-urban disparities in income distribution, access to education and health care services, and prevalence of ethnic or cross-boundary conflicts. In particular, the most outstanding factor is the rural access to productive resources such as credits, which are needed to improve the welfare of the rural people. Credit creates opportunities for self-employment rather than waiting for employment to be created, and also liberates the poor and women from the clutches of poverty. When rural people have access to credit under an appropriate institutional structure and arrangement, it enables them to do whatever they do best and earn money for it. Thus, credit improves the welfare of the rural poor and brings them into the income stream (see Iheduru, 2002; Latifee, 2003).

Yet formal financial intermediaries have neglected the rural people, because of their low population densities, poor infrastructure, policy and institutional problems, remote difficult terrain, lack access to collateral, and the small value of individual savings and loan transaction which raises the cost of providing services to them (see Garba, 1988; World Bank, 1989; Ravicz, 1998; Ukpong, 1998). As a result of this neglect, banks and other formal financial institutions have systematically kept low-income household outside their credit delivery networks, forcing them to resort to informal and non-conventional systems of mobilizing credit. In Nigeria, rural dwellers have long been identified to account for a large share of the economic activities in developing countries and they need financial support for effective economic management and the process of economic development (see Babalola, 1991; Umoh and Ibanga, 1997). Thus, better credits may lead to a higher volume of economic activities and consequently increase employment and wages than would be attainable with a less developed or less efficient credit system in the rural areas.

Thus, the development and promotion of a financial institution like the informal microfinance that are prominent and peculiar to the people living in the rural areas, that enjoys a reduction in cost of transaction due to its access to local information and social capital, physical proximity to clients, regular face-to-face contact with clients, and peer-group lending system where clients cross-guarantee each other's loans etc is needed in the rural areas. The desire of this paper therefore is to examine the contribution of the existing informal microfinance on the economic activities of rural dwellers in Ekiti, Irepodun and Offa Local Government Areas of Kwara South Senatorial District.

2.0 Conceptual Clarification: Microfinance

2.1 Microfinance: Meaning, Types, Characteristics and Importance

Wilson (2001) defined microfinance as the provision of financial services that may include credit, savings, insurance and payment services that are intended to benefit low-income women and men.

Microfinance is also seen as a relief and strategy in the immediate wake of disaster and a tool for peace and reconciliation where it provides credits and savings to clients affected by the disaster, such clients that have access to these products, are less likely to restore to distress sales of assets after disaster strikes (see also Okafor, 2000; Parker and Nagarajan, 2000). Aderibigbe (2001), Akanji (2001) and Wilson (2001) classified microfinance institutions into formal, semi-formal and informal. For instance, Wilson (2001) opined that formal microfinance includes services provided by public and private banks, insurance firms and finance companies which are subject to central banking regulations and supervisions. Examples includes: Peoples Banks, Small Scale Industries Credit Scheme, Community Banks in Nigeria etc; Financiera calpia in El Salvado, Prodem in Bolivia, Women World Banking in Malawi, Badan Kredit kecamatan (BKK) in Indonesia etc. On the other hand, semi-formal microfinance is defined as financial services that fall somewhere in-between formal and informal microfinance. It is usually not regulated by banking authorities but is subject to supervision by government agencies where government department supports them with funds, technical assistance, and policy guidance.

Examples include credit unions, group lending, cooperatives etc. While informal microfinance is the financial services provided by organizations and individuals, but generally not by institution, they are created by people themselves without external intervention and with no legal status. Examples of informal microfinance institutions include: Accumulated Savings and Credit Associations (ASCRA), Rotating Savings and Credit Associations (ROSCAs) known as “esusu”, ‘adashi’, ‘otataje’ etc. in Nigeria, moneylenders, trade creditors, self-help groups, personal loans from friends, saving collectors etc (see Braverman and Guasch 1989; Aryeetey, 1991; Yaron, Benjamin and Piprek 1997; Zeller *et. al* 1997, Doyle 1998; Ravicz, 1998; Goodland, Onumah and Amadi 1999; Akanji, 2001 Richardson and Lennon, 2001; Wenner, 20. 01; Okafor, 2000; Pitamber, 2003; Iganiga, 2008; Ijaiya, 2010).

Discussing the characteristics of microfinance institutions, Baydas, Graham and Valenzuela (1997) provided a summary of the principal characteristics of microfinance institutions most especially informal microfinance as follows: Short-term working-capital loans; Lending based on character rather than collateral; Sequential loans, starting small and increasing in size; Group loan mechanism as a collateral substitute; Quick cash-flow analysis of business and households, especially for individual loans; Prompt loan disbursement and simple loan procedures; Frequent repayment schedules to facilitate monitoring of borrowers; Interest rates considerably higher than those for larger bank customers to cover all costs of microfinance programmes and with short term repayment periods; Prompt loan collection procedures; Simple lending facilities, close to clients; Staff drawn from local communities with access to information about potential clients, which allowed loan officers to conduct their loan screening and monitoring efforts efficiently because they are familiar with the local clientele and their activities. Coupled with this, there is also high repayment rate because borrowers are more than the institutions hence borrowers are well and carefully selected, so if a borrower does not repay, he or she is not likely to obtain another loan (see also Edgcomb and Barton 1998, Ravicz, 1998, Clark 1999, Goodland *et.al* 1999, Parker and Nagarajan 2000, Naylor *et. al* 2002, Ijaiya, 2010).

On the role of microfinance most especially the informal type, Goodland, Onumah and Amadi (1999) reiterated that it helps in poor vulnerability by providing consumption credit. The poor, they argued, often experience periods of consumption shortfalls, which are generally manifested, by periods of food insecurity when access to food is reduced. Majority of the rural people depend largely on Natural Renewable Resources (NRR) for their livelihood. The seasonal natures of these resources lead to fluctuating labour and capital demands, and to uneven production and income flows. The high risks in agricultural production with the attendant uncertain incomes contribute to vulnerability and threaten consumption. (The shortfalls may occur seasonally and regularly (for instance prior to the harvest period); or may be longer term (as, for instance, with environment degradation and soil erosion); or may be unforeseen and sudden (as with external shocks such as drought, flood or a sharp decline in wage levels or the prices of commodities sold by the people).

During such periods, consumption credit is needed to make up the temporary shortfalls. Thus, access to informal microfinance played an important role in reducing the vulnerability of food of the rural people. Besides, informal microfinance also plays an important role in the achievement of livelihood promotion and livelihood protection. Livelihood promotion is concerned with improving standards of living principally through increase in incomes that enhances increased productivity, while livelihood protection is essentially social security which concerned maintaining living standards and incomes at a given level and defending livelihoods against unexpected shocks, thus encouraging productivity. Productivity on the other hand, increases income generating activities like investment and working capital in the long-term (see also Dreze and Sen 1989; Zeller, *et. al* 1997; Morduch, 1998; Goodland, *et. al.* 1999; Ruthford, 1999; Zaman, 1999, Ijaiya, 2010).

Naylor, Bielen and Burkes (2002) also argued that informal microfinance finance, micro and small businesses, consumer purchase, education of children, and purchase of land, facilities and equipment leasing. While Okafor (2000) said that informal microfinance accelerates the flow of credit to small-scale enterprises. This serves as a new engine of sustaining small-scale enterprises growth and balance development, as well as provides a significant source of employment and income to the household (see also Wilson, 2001). Furthermore, Versluysen (2000) reiterated that informal microfinance also plays an informed and constructive role in responding to disease like HIV/AIDS epidemic, because it provides small loans for income-generating activities to families that adopt HIV/AIDS orphans. These credits ensure that orphans are brought up in a supportive environment, instead of an orphanage where living conditions are awful, thus providing a holistic approach in response to the HIV/AIDS epidemic (see also Versluysen, 1999).

Bolnick and Mitlin (1999) also asserted that microfinance is also used to improve the housing conditions of the poor. Clients are usually requested to save prior to the beginning of the housing loan programme. Loans are later extended to clients and are asked to make monthly repayment to their housing savings programme along with their savings. Most of the loans are used to finance finished houses. The microfinance institutions use group-base collateral to secure sure loan. Successful repayment of the microfinance serves as a precondition for large-scale credit. Besides, Bolnick and Mitlin (1999) also observed that credit schemes developed for housing finance use some of the traditions of informal sector-finance and Non-Government Organizations (NGOs) micro-enterprises credit programmes. The strengths of such institution in being able to deliver small loans with little delay have long been recognized (see Remenyi 1991; Adams and Ghate, (1992), cited in Bolnick and Mitlin, (1999)). Discussing the empirical evidence of microfinance institutions in developing countries, the World Bank (1989) asserted that informal microfinance in about 398 village households in rural Niger Republic accounted for 84 per cent of total loans in these villages and was equal to 17 per cent of agricultural income of the farmers. In the same trend, the microfinance provided rural dwellers in Pakistan have increased the productivity of their rural farmers, because it has enabled them to acquire new farming technologies which have resulted in improved high-yielding products (see also Yaron, 1994; Kislev *et. al* 1989; Yaron *et. al* 1997; Quresh *et. al* 1996).

Bolnick and Mitlin (1980) also observed that informal microfinance provide members with housing loans. For instance, the Grameen Bank in Bangladesh provided over 330,000 housing loans to its saving -scheme members, while the *Self-Employment Women Associations (SEWA)* in India also provide housing loans to their members. The *Fundacion Carvajal* in Latin America also initiated a housing programme which benefitted members substantially (see Anzorena, 1996). Donahue (2000) reported that microfinance institutions in Uganda have assisted communities seriously affected by HIV/AIDS. For instance, Foundation for International Community Assistance (FINCA) lends extensively to women and 75 percent of these women care for AIDS orphans. Also, microsaves – Africa studies covering Uganda, Tanzania and Kenya reported that the majority of the thirteen (13) microfinance institutions in these countries cater for HIV/AIDS clients. Besides, 45 percent of the informal microfinance institutions in Burkina Faso, Ghana, Kenya, Malawi, Mozambique, Namibia, Rwanda, Somalia, South Africa, Tanzania, Togo, Uganda, Zambia and Zimbabwe participated in HIV/AIDS education and prevention programmes primarily through partnerships with health organizations, hospitals and religious bodies with the aim of reducing the HIV/AIDS scourge (see also Manje 2000; Parker (2000) Winship and Earner 2000; Versluysen, 2000).

3.0 Study Area and Methodology

3.1 The Study Area

This study focuses on some selected rural areas in Ekiti, Irepodun and Offa Local Government areas of Kwara South Senatorial District. Ekiti Local Government Area (LGA) was carved out from Irepodun LGA in 1991 with Araromi-Opin as the headquarters. The LGA has a land mass of about 747 square kilometers and a population of 54,399 people according to 2006 population census. The LGA is located on latitude 7° 45' North, and Latitude 7° 45' in the Southern part; longitude 5° 30' south and 5° East in the Eastern reach. It shares common boundaries with Ifelodun and Edu LGAs to the North, and Kogi State to the East, Oke-Ero and Irepodun LGAs to the West, and in the South with Ondo State. The major towns and villages include Araromi-Opin, Osi, Eruku, Obo-Ille, Obo-Aiyegunle, Oke-Opin, Isapa, Isare, and their major occupation is farming. On the other hand, Irepodun LGA has Omu-aran as its headquarters. The LGA was carved out from Igbomina/Ekiti LGA in 1976. The LGA has a land mass of about 1,095 square kilometers, located between latitude 8° 8' N and 8° 30' N, longitude 40° 35' E and 4° 8' E. The annual rainfall ranges from 800 mm to 1,500mm or more and temperature of 30^{oc} – 35^{oc}. The population of the LGA according to the 2006 population census is 147,594. The major occupation of the people is farming and the major towns and villages include Omu-Aran, Omupo, Ajase-Ipo, Oro, Arandun, Samora, Ilala, Igbonla, Aran-Orin, Ijumu- Oro, etc. Offa LGA on the other hand, was also carved out from the present Oyun LGA in 1992.

The LGA has an estimated population of 88,975 people according to the 2006 census. Offa is the headquarters of the LGA and is located 58 kilometers away from Ilorin the headquarters of Kwara State, 250 and 500 kilometers away from Lagos and Abuja (Federal Capital city of Nigeria) respectively. Offa lies on latitude 8° 09'N and longitude 4°44'E of the Equator. It covers an area of about 14,922sq km. and lies in the southern part of Ilorin. The LGA is located in the guinea savannah region with an annual rainfall of about 60cm and temperature of about 80^of. The major occupation of the people is farming. The major villages include Kere-Aje/Oga-Kunrin, Adeleke, Igbonla and Igbo-odun (see FGN, Official Gazette, 2009; Kwara State, 2000).

Data Sources and Collection Procedures

In addition to the use of secondary data (i.e. textbooks, journals, periodicals etc.), primary data through in-depth interview and questionnaire were gathered between the periods covering April 2008 and March 2009. These months covers the pre-harvest, harvest and post harvest periods which is the pick of economic activities in the rural areas. The period also covered the time when the rural dwellers need credits to sustain them and prepare for the new planting season. The questionnaire modified for this research was the one prepared by the Institute for Development Policy and Management on Microfinance Study in Sri Lanka. The choice of this questionnaire was based on its flexibility and comprehensiveness.

Sample Selection Method

The selected Local government areas of Ekiti, Irepodun and Offa represent the three major cultural boundaries of Ekiti, Igbomina and Ibolu spoken dialects in Kwara South Senatorial District. The rural areas selected for the study includes Isapa, Isare, Oke-opin, and Oboile in Ekiti Local Government Area; Ilala, Ijumu-oro, Samora and Igbonla, in Irepodun Local Government Area; and Igbo-Odun, Oga Kunrin/Kere-aje, Adeleke, and Igbonna in Offa Local Government Area. Their choice was based on their proximity, social-cultural and economic variations. A multi-stage random sampling method was used to select the respondents. In order to have an unbiased selection of respondents, the rural areas were divided along the three spoken dialects of Ekiti, Igbomina and Ibolu. Each dialect comprises two Local Government Areas, one local government area each was selected randomly from each dialect. In each of the selected local government, four villages (a village with small population usually between 2000 and 5000 people) each were selected from the lots of the villages in each Local Government Area through random sampling. Each of these villages served as our sample unit. A pre-field work visit was conducted to each of the selected villages to identify the members of the informal microfinance.

In accordance to this sample unit, a structured questionnaire was distributed to 50 members of the informal microfinance in each village, thus bringing the total number of respondents per LGA to 200 respondents which gave a total of 600 respondents in all the three LGAs selected for the study. The major economic activities considered were farming and non-farming activities, which include petty trading, black and goldsmith, tailoring, bicycle repairs-work, handicrafts, commercial motorcycling, black soap making, etc. The issues raised in the questionnaire include the socio-demographic characteristics of the respondents (e.g. gender, age, marital status, household size, and education), type of enterprises, ownership structure, main sources of income and secondary sources of income. Their relationship with the facilities provided by the existing informal microfinance e.g. credits, savings, insurance, leasing, warehouse receipt, housing, combating of diseases, relief materials, donor funding and social services, like healthcare, clean water, and education, and the amount the rural dwellers collected from the informal microfinance within the last 12 months.

Data Analysis

This study used both qualitative and quantitative methods in analyzing the data collected for the study. The qualitative analysis based on perception of the rural dwellers, was used to determine the impact of informal microfinance on the economic activities of the rural dwellers in the study areas. The quantitative method comprises the use of descriptive statistics and a multiple regression analysis. Descriptive statistics such as, percentile was used in describing the socio-demographic characteristics of the respondents (who are people residing in the rural areas of Ekiti, Irepodun and Offa Local Government Areas of Kwara South Senatorial District) and in describing the types of the informal microfinance existing in the rural areas under study. The multiple regression analysis was used in determining the relative contribution of informal microfinance to economic activities in the study areas.

Following Zamani (1999) with some modification, the model for this study is stated as:

$$EAsi = f(RMfi, VHCsi) \quad (1)$$

Where EAsi = economic activities proxied by the income generated
by individual respondents from all economic activities(farm and non-farm).

RMfi = facilities provided by microfinance institutions.

VHCsi = vector of household characteristics of individual respondent.

It also follows that:

$$Rmfi = (CFi, SFi, IFi, LFi, HFi, CDFi, DFFi, MRFi, WRFi, SSFi) \quad (2)$$

$$\text{and } VHCsi = (Gdri, Edui, Occi, HHsi) \quad (3)$$

Substituting equations (2) and (3) into equation (1), the equation thus gives a multivariate relationship.

$$EAsi = f(CFi, SFi, IFi, LFi, HFi, CDFi, DFFi, MRFi, WRFi, SSFi, Gdri, Edui, Occi, HHsi) \quad (4)$$

With a multiple linear relationship as:

$$EAsi = \beta_0 + \beta_1CFi + \beta_2SFi + \beta_3IFi + \beta_4LFi + \beta_5HFi + \beta_6CDFi + \beta_7DFFi + \beta_8MRFi + \beta_9WRFi + \beta_{10}SSFi + \beta_{11}Gdri + \beta_{12}Edui + \beta_{13}Occi + \beta_{14}HHsi + U \quad (5)$$

Equation 5 is the equation we estimated.

Where:

CFi = the amount of credit facilities provided to an individual respondent by informal microfinance in the last 12 months.

SFi = the amount saved by an individual respondents with the informal microfinance in the last 12 months.

IFi = the insurance facilities based on the amount provided by the informal microfinance for the individual respondent in the last 12 months

LFi = the leasing facilities based on the value of capital equipment provided an individual respondent by the informal microfinance in the last 12 months.

HFi = the housing facilities based on the amount provided an individual respondent by the informal microfinance in the last 12 months.

WRFi = the warehouse receipt facilities based on the capacity or amount provided an individual respondent by the informal microfinance in the last 12 months.

CDFi=combating of diseases based on the medical support or the amount provided an individuals respondent by the informal microfinance in the last 12 months.

DFFi= the donor fund facilities based on the amount provided an individual respondent by the informal microfinance in the last 12 months.

MRFi= the relief material facilities based on the amount provided an individual respondent by the informal microfinance in the last 12 months.

SSFi = the social services facilities based on the nature of social services and the amount provided an individual respondent by the informal microfinance.

Gdri = gender of head of individual household (0 for female, 1 for male.)

Edui = education attained by individual head of household (0 for no school, 1 for primary, 2 for secondary, 3 for tertiary).

Occi = occupational status of individual head of household (0 for unemployed, 1 for farm activities, 2 for non-farm activities,).

HHsi = household size of individual household based on the number of people in a household.

Where:

β_0 = Intercept

$\beta_1, \beta_2, \dots, \beta_{14}$ = parameter estimates (or co-efficient) associated with the role of informal microfinance on economic activities of the rural dwellers under study.

U = error terms.

The a-priori expectations or the expected behaviour of the independent variables (CFi, SFi, IFi, LFi, HFi, CDFi, DFFi, MRFi, WRFi, SsFi, Gdr, Edu, Occ, HHs) on the dependent variables (EAsi) in the model are $Cfi > 0$., $Sfi > 0$., $Ifi > 0$., $Lfi > 0$., $Hfi > 0$., $WRfi > 0$ $CDFi > 0$., $DFFi > 0$., $MRfi > 0$., $SSfi > 0$., $Gdri < 0$., $Edui > 0$., $Occi > 0$., $HHi > 0$., an indication that the more the values of the independent variables the more the value of the economic activities in the rural area.

To estimate the model, a multiple regression analysis of the Ordinary Least Square type was used to test the validity of the impact of the role of the informal microfinance on the economic activities of the selected individuals in the rural areas. In order to determine whether or not the estimates are meaningful and statistically significant to our investigation, the model was verified under the following major criteria: (i) the priori criteria which are based on the signs and magnitudes of the co-efficient of the variables under consideration and (ii) statistical criteria which is based on statistical theory usually referred to as the First Order Least Square Test. The following statistical criteria were used: R-square, F-statistic and t-test. The R-square (R^2) is concerned with the overall explanatory power of the regression analysis and the t-test is used to test the significant contribution of each of the independent variables. (see Koutsoyiannis, 1977; Charemza and Deadman, 1992; Oyeniyi, 1997; Asika,2002; Araoye, 2003; Ogunbameru,2004; Greene,2008).

4.0 RESULTS AND DISCUSSION

Socio-demographic Characteristics of the Respondents

The socio-demographic characteristics of 486 respondents in the selected rural areas of Ekiti, Irepodun and Offa Local Government Areas of Kwara South Senatorial District are presented in Table 1.

Table 1: Socio-demographic characteristics of the Respondents

	Characteristics	Percentage %
1.	Gender Male Female	49.4 50.6
2.	Age of Respondents Below 20 21-30 31-40 41-50 Above 50	4.9 32.0 24.9 23.4 14.8
3.	Marital status of respondents Married Single Divorce	71.6 27.2 1.2
4.	Household size of respondents 1-5 6-10 Above 10	62.9 34.6 2.5
5.	Educational status of respondents Tertiary Secondary Primary No school	6.1 19.8 66.7 7.4
6.	Occupational status of respondents Farming Activities Non Farming Activities (e.g. Petty Trading, Black soap making, Black smiting, Transporters Civil servant (Teachers)	64.2 25.9 9.9

Source: Author's Computation, 2009.

The survey conducted on the socio-demographic characteristics of rural dwellers in Ekiti, Irepodun and Offa Local Government Areas of Kwara South Senatorial District shows that 49.4 percent of the respondents were male while 50.6 percent of the respondents were female. The survey also showed that respondents below the age of 20 years were 4.9 percent, while those whose ages fall between 21 and 30 were 32 percent. Respondents with ages between 41 and 50 years, and above 50 years old were 23.4 percent and 14.8 percent respectively. The survey also indicated that 71.6 percent of the respondents were married, while 27.2 percent and 1.2 percent of the respondents were single and divorced/separated respectively. The percentage distribution of the size of households of the respondents showed that 62.9 percent of the respondents had a household size that ranged between 1 and 5; household size between 6 and 10 had 34.6 percent and households with more than 10 persons had 2.5 percent. The percentage distribution of the educational status of respondents shows that 6 percent of them had tertiary education while 7.4 percent, 66.7 percent and 19.8 percent of them had secondary, primary and no education respectively. The survey also indicated that 64.2 percent of the respondents were farmers, while 25.9 percent and 9.9 percent of them were engaged in non-farming activities and civil service (mostly teachers) respectively. This result is a confirmation that the typical occupation in rural areas is farming.

The Nature of Informal Microfinance in the Local Government Areas under study.

This study also identified certain features typical of the informal microfinance in the study area. These features as indicated in Table 2, include types of membership of informal microfinance; average monthly savings, utilization of credit, and average amount received since becoming a member of informal microfinance.

Table 2: The Nature of the Informal Microfinance in Ekiti, Irepodun and Offa Local Government Areas as at March, 2009

	Variables	Percentage (%)
1.	Types of Membership of Informal Microfinance	
	Individual Savings Collector (Esusu)	51
	Rotating savings and Credit Associations	43
	Savings and Credit Clubs	6
2.	Average monthly savings	
	a) below – N1000	74
	b) N1001 –N 5000	13
	c) N5001 – N10,000	12
	d) above N10,000	1
3	Average monthly received as loan since becoming a member	
	a) below –N 5,000	60
	b) N5,001 – N10,000	18
	c)N10,001 – N15,000	16
	d) above N 20,000	6
4	Utilization of credit	
	a) Working capital only	57
	b) Fixed capital only	8
	c) Consumption only	2
	d) Working and fixed capital only	18
	e) Consumption and working capital only	14
	f) Consumption and fixed capital only	1

Source: Author's Investigation, 2009.

As indicated in Table 2, fifty one (51) percent of the respondents belong to individual savings collector, while forty three (43) percent belong to Rotating and Credit Associations and 6 percent belong to savings and credit clubs. This result is an indication of absence of formal and semi- formal saving mobilization mechanism in the rural areas, and the trust the people have for the type of saving mechanism predominantly practiced (which is based on personal contact) in the rural areas. The study also examines the monthly contributions of the respondents in the rural areas. On the average, it was discovered that 74 percent of the respondents contributed not more than N1,000 monthly, while 13 percent, 12 percent, and 1 percent of the respondents contributed between N1,001 and N5,000; N5,001 and N10, 000; and above N10, 000 monthly respectively. One of the reasons established for the low rate of contribution could be because most of the respondents are mainly farmers with occasional involvement in non farming activities mostly during the dry season.

The amount the respondents received monthly as loan is also captured. The study also shows that 60 percent of the respondents receives below N5,000, while 18 percent, 16 percent and 6 percent receives N5,001 to N 10,000; N10,001 to N15,000, and above N15,000 respectively. The fact that 60 percent of the respondents receives below N5,000 is a reflection of their average monthly savings which is low because they are mostly farmers who engage in occasional non-farming activities during dry seasons. The study also examines the purpose for which most of the credit collected from informal microfinance is used. For instance, 57 percent of the respondents used the credit collected as working capital, while 18 percent of them used the money collected for both working capital and purchase of fixed capital. Fourteen (14) percent of the respondents used the fund collected from informal microfinance for smoothing their consumption and as working capital, while 8 percent, 2 percent, and 1 percent of the respondents used the fund for the purchase of fixed capital, consumption alone, and consumption and fixed capital respectively. That the bulk of the fund collected from informal microfinance within the rural areas in the local government areas under study was used as working capital could be linked to economic activities which are predominantly farming.

Regression Results of Impact of Informal Microfinance on the Economic Activities of Rural Dwellers in Local Government Areas under study.

The results of the multiple regression analysis conducted at 5 percent level of significance are presented in Table 3. These results are confirmation of the relationship between informal microfinance and economic activities in the selected rural areas of Ekiti, Irepodun and Offa Local Government Areas of Kwara South Senatorial District.

Table 3: Multiple Regression Results of the Informal Microfinance and Economic Activities of Rural Dwellers in Ekiti, Irepodun and Offa Local Government Areas of Kwara South Senatorial District

Explanatory variables	Co-efficients	t-values	No of obs.	R ²	R ⁻²	F-Sta.
Intercept	193150.17	(4.71)*	486	0.60	0.34	19.11
CF _i	0.14	(3.90)*				
SF _i	-8000.64	(-0.93)*				
LF _i	-0.63	(-2.47)*				
HF _i	2.98	(8.76)*				
CDF _i	13.51	(6.80)*				
DFF _i	-2.000.57	(-1.63)				
MRF _i	-45452.87	(-1.68)				
SSF _i	-5.000.78	(-0.13)				
Gender _i	-19747.89	(-1.80)				
Edu _i	15564.18	(2.51)*				
Occ _i	-10040.63	(-4.21)*				
HH _i	-2291.96	(0.99)				
Age _i	-1868.27	(-2.86)*				
Mart _i	-32277.63	(-2.26)*				

* Statistically significant at 5 percent level

Source: Author's Computation, 2009.

The regression result shows that the estimated model is fairly good because it has an R² of 0.60. This shows that 60 percent variation in the dependent variable (economic activities proxied by the income generated by individuals' respondents) is explained by the explanatory variables (role of informal microfinance) and the vectors of household characteristics of rural dwellers of Ekiti, Irepodun and Offa Local Government Areas of Kwara South Senatorial District. At 5 percent level of significance, the computed F-statistic is 19.11 which is greater than the tabulated F-statistic valued at 2.26. This implies that the explanatory variables have significant influence on the dependent variable (i.e. economic activities). Holding the vectors of household characteristics constant, the co-efficient and the associated t-values of the components of the role of informal microfinance used in the study indicates that the amount provided as credit facilities for transaction purposes, funds provided for housing and for combating diseases have the expected signs. When viewed statistically, only the amount provided as credit facilities, for housing and for combating diseases are statistically significant to the economic activities of the rural dwellers' since they are significant at 5 percent level. The positive signs of these variables mean that the more the rural dwellers have access to them the more the level of economic activities in the rural areas.

The reasons established for this result can be linked to the fact that the majority of the rural dwellers are too poor to secure the larger and expensive loans available from commercial banks, since they do not have collateral and cannot borrow against their future income because they do not have steady jobs or income streams that creditors can track. Besides, the formal financial institutions find it difficult dealing with small transactions which could not meet the cost of providing services to the rural dwellers. Thus, the informal microfinance provides small credits to individuals and groups for their small businesses, which they hope can expand production and generate income. This informal microfinance credit is also used to provide housing and to procure medicals for infections and nutritious food which sick patients need to make them productive for several years after recovery from their sickness. The informal microfinance thus serves as a 'better' alternative that deals with cumbersome procedures of formal financial banks by providing the immediate needs of the respondents.

Drawn from the perception of some of the respondents, their involvement in informal microfinance has assisted in expanding their businesses and generating more income. Some of the respondents appreciate its flexibility and reliability in financing their housing programmes and meeting their health challenges. A critical look at these assertions also conform with the views of Ravicz (1998), Zaman (1999), Okafor (2000), Naylor *et.al* (2002) and Ijaiya,(2010) who observed that informal microfinance provides small credits to finance micro businesses which serve as a new engine for sustaining growth and balanced development in developing countries. The informal microfinance is also used as working capital to restock supplies that enables the rural dwellers to earn a stream of profits. The informal microfinance provides a significant source of employment and income to the households (see also Steel and Aryeetey, 1994 Deck and Demircuc-Kunt, 2008).

Empirically, Pitamber (2003) opined that informal microfinance increased on-farms and off-farms investments through the provisions of microfinance. For instance, 60 percent of their loans go to the on-farm investments while 40 percent goes to the off-farm investment which improves economic activities in the rural areas of Ethiopia. The World Bank (1989) also asserted that informal microfinance in about 398 villages in rural Niger Republic accounted for 84 percent of total loans in these villages and was equal to 17 percent of income of these rural dwellers. On the contrary, facilities such as donor fund, relief material, and social services that are also provided by informal microfinance do not have the expected signs. Some of the reasons behind this can be linked to the belief of the respondents that provision of social services, relief material (at disaster period) and donor fund are responsibility of the government. In terms of the magnitudes, the result of the regression analysis also indicates that the funds provided by the informal microfinance in the rural areas of Ekiti, Irepodun and Offa LGAs are mostly used for combating diseases. This may not be far from the fact that the rural areas are prone to diseases like malaria, guinea worm, HIV/AIDS, malnutrition and other childhood diseases, on which the rural dwellers spend a lot of money (see Ijaiya, 2010).

4.0 Conclusion and Recommendations

Drawn from the above, it is important to note that low population densities, poor infrastructures, remote and difficult terrain, as well as the small value of individual savings and loan transactions, and the cost of formal institution of opening branches in rural areas present a formidable constraint on access to formal credit by the rural dwellers. However, the study argued that access to informal microfinance can help household achieve consumption smoothening goals and permit them to accumulate resources for investment purposes and allows them to reduce risks thereby contributing to their ability to make higher risk/return on investments. Besides, the study observed that informal microfinance provides services such as equipments financing, savings and payment, insurance, loans for housing, school fees (social services), emergencies, as well as fund for economic activities used as working capital loans. All of these enable the rural dwellers to increase their income and assets, and reduce their vulnerability to crises and meet obligations.

However, the informal microfinance loan is often too small that it could hardly help the rural dwellers have enough for their economic activities. The study therefore recommend an increase in loan size that would boost the economic activities of the rural dwellers through the introduction of group saving and group lending where a certain percent of loan to the group should be withheld as security, and when the loan is returned, the deposit withheld should be released to the borrowers. This innovative savings product will encourage individuals to increase their savings which would enable the rural dwellers to take bigger loan, and repayment would be made easier since new loan would be tied to repayment of old loan. The higher probability of credit would in turn raise the number of members and consequently improve the economic activities of the rural dwellers. There is also need for government to improve infrastructural facilities (roads, water supply, electricity etc.) in the rural areas. This improvement would attract people and economic activities into the rural areas. The attraction of people and economic activities into the areas would in turn improve the activities of the informal microfinance in the rural areas.

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