The Effects of Informal Financial Institutions on the Socio-Economic Development of Adikpo Town

Sambe, Ngutor
Department of sociology
University of Mkar
Mkar, Benue, Nigeria

Korna, Johnmark M.
Research Fellow
Banking and Finance Department
University of Nigeria
Nsukka, Nigeria.

Abanyam, Noah Lumun
Department of sociology
University of Mkar
Mkar, Benue, Nigeria

Abstract

This study was designed to examine the effects of Informal financial Institutions on socio-economic development of Adikpo town. Specific objectives were: to determine the effect of informal financial institutions on poverty reduction; to ascertain if informal financial institutions facilitate more access to credit facilities; and to ascertain whether informal financial institutions have affected the level of investment. The study randomly sampled 200 respondents as questionnaires were used to collect data. Chi-square was employed in the test of hypotheses using SPSS version 16.0. Dependency theory was used in analysing the study. 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 lastly, Informal Financial Institutions were effective in promoting 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. The study recommended for inclusion of the institutions in poverty reduction programmes of government, utilisation of the institutions in accessibility of credit by the masses and initiation of programmes that will enhance the multiplication and growth of Informal financial Institutions.

Key words: Informal financial Institutions, dependency theory, development, poverty reduction, investment

1. *Introduction*

The economies of third world countries such as Nigeria operate with dual financial institutions. On one hand are group which function through direct governmental control known as Formal Financial Institutions such as Commercial Banks, Insurance Companies and Mortgage Banks. And on the other hand are those financial institutions which are not directly controlled by government, called Informal Financial Institutions such as money lenders, cooperative societies, thrift and loan societies, local bankers, cooperatives etc. It should however be noted that statutory dominance of formal financial sector since independence is hinged on the thinking that the sector would stimulate the growth of the economy and ensure the upliftment of the socio-economic lives of the people. It has been contended that the Formal financial sector will promote savings and investment, improve opportunities for credit, and engender reduce poverty. But it has been observed that Formal financial institutions have seriously come short of the expectations as they have made things harder for Nigerians through stringent conditionalities for credit, poor customer services and high interest rates. The introduction of the informal financial institutions by individuals and groups is to cushion the effects of the Formal financial institutions on the socio-economic wellbeing of the people.

The institutions are creation of the indigenous people with aim of making credit/loan facilities more accessible to the people so as help solve their socio-economic problems (Gulong, 2012). Although not directly under the control government and its authorities, Informal Financial Institutions have pierced through government institutions and organisations, and variety of formal and informal organisations. In almost all organisations, there seems to be existence of Informal Financial institutions established for specific or general purposes which allow people to contribute funds periodically which are given to members as loans or credit. People prefer to operate with these institutions as their conditions for credit are soft, coupled with faster administration of loans with low interest rate compared to Formal Financial Institutions.

Adikpo is semi-urban area which is composed of varying population in terms of occupations as it is composed of government workers, farmers, traders and business men/women, private sector workers and transporters. However the area does not have formal banking system, as a result most people depend on informal financial institutions existing in the area for their financial transactions such as savings and loans. This paper is therefore aimed at determining the effect of informal financial institutions on the socio-economic development of Adikpo town in Benue state of Nigeria.

Objectives of the Study

The general objective of the study is to determine the effect of informal financial institution on socio-economic development of Adikpo town in Benue, Nigeria. Specific objectives are:

(a) To determine the effect of informal financial institutions on poverty reduction in Adikpo town.
(b) To ascertain if informal financial institutions facilitate more access to credit facilities.
(c) To ascertain whether informal financial institutions have affected the level of investment in Adikpo town.

Research Hypothesis

The following hypotheses have been formulated for the study;

1. H_0: There is no significant relationship between informal financial institutions and poverty reduction among members in Adikpo town.
   H_1: There is a significant relationship between informal financial institutions and poverty reduction among members in Adikpo town.
2. Ho: There is no significant relationship between informal financial institutions and access to credit among members in Adikpo town.
   H_1: There is a significant relationship between informal financial institutions and access to credit among members in Adikpo town
3. Ho: There is no significant relationship between informal financial institutions and investment in Adikpo town.
   H_1: There is a significant relationship between informal financial institutions and investment in Adikpo town.

2: Literature Review and Theoretical Underpinning

The concept of Informal Financial Institutions

The concept of informal financial institutions has been defined by variously by researchers and thinkers. According to Aryeetey (1995) Informal Financial Institutions (IFI's) could be conceptualised as those institutions that embrace all financial transactions that takes place beyond the functional scope of various countries and other financial sector regulation. These institutions are not controlled directly through major monetary and financial policy instruments but are created by individuals and groups with no legal status. To Chipeta and Nkandawaivr (1991) IFI's refers to institutions that are not directly amendable to control by key monetary and financial policy instruments. In the contention of Bouman (1988) Informal Financial Institution's are institutions that carry out contract or agreement conducted without reference or recourse to the legal system to exchange cash and present for promise of cash in future. To him, these institutions emanate from the grassroots, bottom up demand of the poor for an appropriate financial service. In this study Informal Financial Institutions could be defined as those associations that substitute formal financial institutions, facilitating savings and ensuring easy access to credit to members and operating without direct control of the governmental financial authorities.

The concept of development

The concept of development has been defined variously by scholars, corporate institutions and development experts. according Congressional Budget Office (1997) development is the process of economic and social transformation within a country and both economic growth and economic development as well as improvement in human welfare, such as rising education levels, improvement in health care and life expectancy, and increase in household food consumption. It usually includes a concept of equity (the income level of the median household increase along with economic growth) and may include sustainability (a process of development that does not make future generations worse off through environmental damage). The Congressional Budget Office (1997) maintains that development also cover a long-term trend of growth in GNP per capita, rising education levels, improving health conditions, low to moderate population growth, sustainable use of natural resources and the environment, and secure access to adequate amounts of food. To Rose (2000) development implies a process of increasing productivity and improving standard of living of people in an area. Unites Nations (2001) on their part defined development as the relationship between economic activity and social life. In this study development could be defined as the process where there is an increase in output in terms of production of goods and services with a concomitant improvement in social welfare and standard of living.

The Dependency theory

The theory was propounded Gunder Frank using from Marx's ideas. It is a reaction to modernization theorist's assumption that behavioural traits and structures/institutions in the third world are impediments to actualising economic growth and development and that imitating structures and institutions of the advanced capitalist countries is the only way to achieve development. Rather dependency theorists argue that it the contact with western structures and institutions have been central in the discussion of poverty and backwardness in the third world countries. The theory sees internal factors as not being central to underdevelopment but sees indigenous institutions as capable of engendering development. Foreign institutions have failed to live up to their billings in terms of improving the economy and socio-economic lives of the people as their sole aim is profit maximization, exploitation of the masses and foreign capital transfer. Informal financial institutions which creation of indigenous people in third world have been found to have gained more popularity in terms of improving the standard of living of the people. Based on the emphasis placed on the efficacy of indigenous institutions promoting development by dependency theorists, informal financial institutions, which are indigenous creation, may be seen as playing a critical role in ensuring development in third world countries. The theory has rejected the assumption that foreign structures and institutions represent a developmental blue print for third world countries, stressing the need to cut off from the west and western model of development.

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

A study by World Bank (1989) found an increasing patronage of IFI's in Bolivia and Niger, highlighting their importance to the socio-economic lives of the people in the two countries. It reported that adults in Bolivia participated much in IFI's by putting on the average contribution of one sixth of their salaries. Also, in rural Niger, about 389 village households in 1986 indicated that credit especially from ROSCA accounted for 84% of the total loans they collected. Goodland et al (1999) also reported that IFI's contributed in equitable distribution and utilisation of local resources most especially in-come raw materials because credit taken was used to finance income generating activities with return in excess of the loan taken, thus ensuring economic stability and reducing people among the people.

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

They keep money on behalf of their members which is a function that is vital for capital creation, and also give credit to members to facilitate investment. Tsai (2004) assert that informal sector represents a major source of finance for traders and farmers which invariable ensure socio-economic development. IFAD (2001) study in China found that Informal Financial Institutions provided more access to credit than Formal Financial Institutions as much as four times more. Another study by Tsai (2002) on small business owners in showed that IFIs were responsible for up to three-quarters of private sector financing during the first two decades of reforms. A study AIDIS (1992) in India revealed that nearly 40% of rural household continue to rely on informal institutions such as professional money lenders and agricultural money lenders for credit.

4. Research Methodology

4.1 Area of the study

Adikpo town is headquarters' of Kwande is a Local Government Area of Benue State, Nigeria. The indigenous inhabitants are the Tiv tribe of North Central Nigeria. The place has existed for decades but developed into a town when it became the headquarters of the Local Government Area the same year the local government was created in 1976. The area is surrounded with locations that are bounded with physical features such as mountains and small rivers. The area usually has cold weather which makes it very conducive to traders and investors. The local government also has very big rivers which could adequately take care of agricultural and industrial needs.

People in the area are predominantly farmers, civil servants, traders and business men/women. Food and cash crops are grown in Adikpo on small scale and include yam, rice, cassava, and beans. Other crops like vegetables, pepper, tomatoes are produced in the area. Rice and peanuts are also produced in commercial quantity and these provide opportunities for investment in the rice milling and groundnut processing small scale industries. The strategic location of Adikpo on a Trunk 'A' federal road that runs from the North through the area to the extreme South has made it easy for both traders and transporters to shift their goods from and to Adikpo with little or no problem.

4.2 Research Design

This study adopted quantitative research design. Under the quantitative design, survey research method was employed.

4.3 Sample and Sampling procedure

The study sampled 380 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.

4.4 Technique of Data Collection

The study adopted questionnaire in the collection of data.

4.4.1 Questionnaire

In the process of administering questionnaires, the researcher engaged and trained a research assistant who could help him in the distribution of the questionnaire forms. After the completion of the training, the researcher and his assistant started the distribution. The forms were distributed for maximum on three (3) day. Respondents were required to complete their form at the instance while those who were busy were given grace period of one (1) day for completion. The researcher and his assistant, after the expiry of the grace period, went around and collected the completed questionnaires form for computation and analysis.

4.5 Method of data analysis

The analysis of data for the study was done using simple percentages and analytical tables for the survey while test of hypotheses involved the application of chi-square using computer software programmes known as statistical package for social sciences (SPSS version 16.0).

5: Findings and Discussion

Table 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
Sex		
Male	117	58.5
Female	83	41.5
Marital status		
Single	72	36
Married	121	60.5
Divorced	07	3.5
Educational level		
No Schooling	03	1.5
Primary	14	07
Secondary	98	49
Tertiary	85	42.5
Occupation		
Farming	34	17
Government worker	63	31.5
Business	95	47.5
Student	08	04

Source: Field survey, 2013

Table 1 above presents socio-demographic characteristics of respondents in relation to age, sex, marital status, educational level and occupation. The Table shows that majority of the respondents fall within the age range of 49-40 with 37 percent while those in the range of 60 and above were the least with 6.4 percent. Further, respondents in the age range from 20-29 had 11.5 percent; 30-39 had 18.5 percent while 50-59 had 26.5 percent. With regards to sex distribution, male were the majority with 58.5 percent while females were minority with the percent of 41.5.On marital status, married respondents constituted the bulk of the study with 60.5 percent while divorced respondents were the fewest with 3.5 percent. Still, respondents who were single had 36 percent. With respect of educational level, respondents with secondary level had most percentage with 49 percent while those with no schooling had the least with 1.5 percent. Further, respondents with primary education had 07 percent while those with tertiary education had 42.5 percent. In consideration of occupation, Business men/women had most percentage with 47.5 while students were the least with 04 percent. Furthermore, government worker's had 31.5 percent while farmer's had 17 percent.

Table 2: Informal Financial Institutions patronised by people in Adikpo

IFIs	Frequency	Percentage
Local Bank	49	37
ROSCA (Adashi)	35	26.5
Cooperatives	12	09
Mobile Bankers	06	04.5
Thrift	21	16
Money lenders	09	7
Total	**132**	**100**

Source: Field survey, 2013

Table 2 presents existing informal financial institutions patronized by respondents in Adikpo. The table indicates that Local bankers had the highest percentage of 37, while mobile bankers had the least with 04.5 percent. Rotational Savings and Credit Associations (Adashi) had 26.5 percent; Cooperatives had 09 percent while money lenders 07 percent. Lastly, Thrift has 16 percent of the respondents who were members of IFIs.

Table 3: Utilisation of loans accessed from IFIs

Response	Frequency	Percentage
Invest	97	74.5
Build a house	08	06
Health Bills	04	03
Educational fees	13	9.8
Farming	10	7.5
Total	**132**	**100**

Source: Field survey, 2013

Table 3 above is meant to access how loans acquired from the institutions are used by members. The Table show that of the 132 respondents who were members of the IFIs, 97 (74.5 percent) said they used to facility to invest, 08 (06 percent) acknowledged using the loans for building a house, and 04 of them (3 percent) used it to pay for their health needs. Further, 13 of the respondents (9.8 percent) used the credit on education, while 10 (7.5 percent) utilised the loans for farming activities.

Table 4: Chi-square results of relationship between IFIs and poverty reduction

Membership	**Standard of living**		**Total**
	High	**Low**	
Members 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 =1
Level of significance=0.01

The null hypothesis which states that there is no significant relationship between Informal Financial Institutions and poverty reduction has rejected because the X^2 calculated value (31.102) is greater than the X^2 Tabulated value (29.438).

Table 5: Chi-square results of relationship between IFIs and access to credit facility

Membership	**Access to credit**		**Total**
	Yes	**No**	
Members 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 =1
Level of significance=0.01

The null hypothesis which states that there is no significant relationship between Informal Financial Institutions and access to credit has rejected because the X^2 calculated value (26.380) is more than the X^2 Tabulated value (24.859).

Table 6: Chi-square results of relationship between IFIs and investment

Membership	Investment		Total
	Yes	No	
Member of IFIs	97 (74.6)	35 (57.4)	132
Non members	16 (38.4)	52 (29.6)	68
Total	**113**	**87**	**200**

X^2 Calculated=45.57
X^2 Tabulated = 43.560
Degree of Freedom =1
Level of significance=0.01

The null hypothesis which states that there is no significant relationship between Informal Financial Institutions and investment has rejected because the X^2 calculated value (45.570) is significantly more than the X^2 Tabulated value (43.560).

Discussion of Findings

The findings from the study show that Informal Financial Institutions existing in the Adikpo include Local Bankers, Rotational Savings and Credit Associations (Also known as Adashi in the area) Cooperatives, Mobile Bankers, Thrift and Money lenders and that these were influential in reducing poverty through their credit facilities, especially among members as compared to non-members with calculated chi-square value of 31.102 been greater than the tabulated chi-square value of 29.438 with 1 degree of freedom at 0.01 level of significance. The loans were used partly for building of houses, payment for health and 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 such as thrift and micro-credit programmes 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 possibility 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 1 degree of freedom at 0.01 level of significance. The finding agrees with Tsai (2004) who noted that informal Financial Institutions represents a major source of finance for traders and farmers in China. Tsai (2002) also found that those IFIs were responsible for up to three-quarters of private sector financing during the first two decades of reforms. IFAD (2001) study in China found that Informal Financial Institutions provided considerably more access to credit than Formal Financial Institutions.

Finally, the members of Informal Financial Institutions were found to have influenced investment among members than non members. The null hypothesis here was also rejected since the chi-square calculated value of 45.570 was greater than the chi-square tabulated value of 43.560 with 1 degree of freedom at 0.01 level of significance. Most of the respondents acknowledged that credit got from the institutions helped them to set up Small and Medium Scale Enterprises.

6. Conclusion and Recommendations

Conclusion

Based on the findings of the study, it can be concluded that Informal Financial Institutions existing in Adikpo town which include Local Bankers, Rotational Savings and Credit Associations (also known as Adashi) Cooperatives, Mobile Bankers, Thrift and Money lenders 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 and education bills, and farming activities.

This means that the institutions have considerably reduced poverty among its members as contrary to the situation of people who are not members found to be relatively poor. Furthermore, Informal Financial Institutions have been remarkably effective and efficient in providing members with access to credit facilities as members of the institutions have high possibility of accessing loans. This is not the case with non-members of the institutions who usually find it difficult to access short and medium term credit facilities from conventional formal financial institutions. Finally, the institutions have immense comparative influence on investment because most of the members used the loans to invest in some income generating activities whereas non-members have little or no income for investment. Informal Financial Institutions therefore have been effective in promoting socio-economic development of Adikpo town.

The study therefore confirms the assumption by dependency theory that indigenous institutions do not deter development in the third world countries.

Recommendations

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

- There is the need for the government to utilise Informal Financial Institutions in its poverty reduction programmes, since they have been found to be popular among the people in-terms of poverty reduction.
- Government development programmes aimed at boosting Small and Medium Scale Enterprises through micro credit should be implemented through Informal Financial Institutions since they have been effective in stimulating growth of small businesses with more favourable conditions for accessibility of credit by the masses.
- Authorities and non-state actors should initiate and implement programmes that will enhance the multiplication and growth of Informal financial sector as it has been dominant in ensuring socio-economic development among people in the area.

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