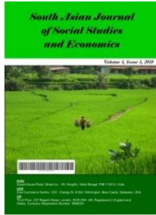

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Informal Financial Institution and Sustainable Development Goal of Poverty Reduction in Kogi State, Nigeria

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Authors' contributions

This work was carried out in collaboration between both authors. Author OJT designed the study, performed the statistical analysis and manages the analyses of the study while author AP managed the literature searches. Both authors read and approved the final manuscript.

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ABSTRACT

Among the various SDGs, Poverty reduction which is the foremost goal is fundamental, strategic and crucial to the achievement of the other goals in which can be achieved among other ways with an efficient, effective, diverse, indigenous and innovative financial market. With a dualised financial market inherent in Nigerian economy as obtainable in most developing countries, the study seeks to study the role of the informal financial institution on the sustainable goal of poverty reduction in Nigeria with particular reference to Kogi State using the Moneylender theory as its theoretical Framework. The study sampled 600 respondents using stratified sampling technique carried out by dividing the population into 3 subsets based on the senatorial districts (East, West, Central) 4 local government areas are randomly selected from each of the senatorial districts, 10 wards were selected from each of the local government area to give a total of 120 stratum. 10 respondents were selected from each of the wards concluded whose response was analyzed using descriptive statistics and Ordinary Least square hence the result showed that Non financial institution is a

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potential voyage toward the actualization of the Sustainable goal of poverty reduction in Kogi state, Nigeria and recommended that Institutional and legal framework be structured to enable non financial institution to perform the role of money lender while serving as intermediary between the complex financial institution and the unorganised low income earners alias the masses and those in the social recesses of the society.

Keywords: Informal financial institution; poverty; SDGS.

1. BACKGROUND OF THE STUDY

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

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

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

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

Also, Poverty as a social problem is a deeply embedded wound that permeates every dimension of culture and society. It includes sustained low levels of income for members of a community, a lack of access to services like education, markets, healthcare, financial institution, lack of decision making ability, and lack of communal facilities like water, sanitation, roads, transportation, and communications [1].

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

The orthodox Western views of poverty, reflected in the Vicious circle hypothesis stating that a poor person is poor because he is poor, and may remain poor unless the person's income level

increases significantly enough to pull the person in question out of the poverty trap.

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

One of the major economic goals of Nigeria is a satisfactory and sustainable economic growth [2]. Economic growth depends in part on the efficient financial market. A financial market is efficient to the extent it brings about efficient allocation of resources including credit [3].

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

The Nigerian financial market is dualised, like many other developing markets. It consists of both formal and informal subsectors. The formal subsector is made up capital, money, foreign exchange, insurance, commodity and derivative markets, among others while the Informal Sector typically consists of unregulated, unsecured, unorganised, small, short-term savings and loans activities largely in the rural areas, households or small entrepreneurial ventures. It describes those financing activities that are often unrecorded but take place outside official financial institutions, and consequently unregulated. Informal finance activities predate the formal financial systems. They are as old as various communities, and their activities take place outside the functional regulatory sphere of the monetary authorities but they are often legal activities Adegoke, 2014.

Therefore, informal financial markets are seen as the heterogeneous residual of the financial sector that comprises different bodies, such as unregistered money lenders, unorganised and non-institutional sources.

Informal financial institutions are often called different nomenclature by different tribes and societies: "*Esusu"* or *"Ajo"* (Yoruba), "*Isusu*" or „*Utu'* (Igbo), "*Osusu*" (Edo), "*Etibe"* (Ibibio), "*Adashi"* (Hausa), "Dashi" (Nupe), "Oku" (Kalabari) in Nigeria. Other developing countries also called it different names: "*Susu*" in Ghana, "*Tortine*" in Niger, "*Dajanggi"* in Cameroon, "*Tontine"* in Benin "*Gamiayah*" in Egypt, "*Chilemba"* in Uganda and Cameroon, "*isusu'* in the West Indies, and "*Bangalore"* in India.

Informal financial sub sector plays a complementary function to its formal counterpart by servicing the lower end of the market, including community based organizations such as cooperatives, microfinance institutions, rotatory savings and credit associations (ROSCAS), self-help groups and other similar institutions. Informal financial institutions face stiff competition from the financial institutions in the formal sector particularly the microfinance banks [4].

Though the precise size of informal financial market relative to the formal financial system is unknown, the informal financial market is still crucial given that it is principally the major source of financing for the poor and low-income rural populace [5].

Nevertheless, informal financial markets contribute around 85 percent of the total rural savings and credits in Nigeria, including money-lenders, daily-collectors, traders and indigenous credit institutions based on cooperative principles called „Esusu" Adegoke, 2014.

Interbank competition can exert an effect on a borrower's decision to apply for a loan. Recent contributions show that in a dual system with formal and informal finance, poor borrowers are more likely to access the formal sector when bank competition increases Madestam, 2014. In addition, competition can affect the demand for loans by reducing the costs of credit through its impact on interest rates or on other elements of loan contracts such as collateral requirements Hainz et al. 2013.

The failure of formal financial institutions such as banks to serve poor borrowers is due to a combination of high risks, high costs and consequently low returns associated with such businesses. To lower these risks, banks screen potential borrowers to establish the risk of default; they create an incentive for borrowers to fulfill their promises to repay; and they develop various enforcement strategies to encourage repayment, to the extent of available information. Scarcity of information results in information asymmetries between borrowers and lenders Varghese, 2005. In order to address this

problem, banks often attach collateral requirements to loans. Unfortunately, conventional collateral requirements usually exclude poor borrowers, who seldom have sufficient forms of conventional title.

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

The informal financial sector provides an avenue for savings and credit facilities for farmers in rural areas and low-income householders and as well as small and medium enterprises (SMEs) in the urban areas informal sector. Informal financial sector is made up of the institutions that are not integrated with the formal financial sector and virtually out of the control of the legal framework. They are poorly developed and managed to the extent that they are limited in reach [4].

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

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

Iganiga and Asemota [6] identifies NGOs, moneylenders, friends, relatives, savings collectors, rotating savings and credit association, credit unions and cooperative societies as main providers of rural finance in Oloyede [5] identified the informal financial providers as the rotating savings and credit association, money lenders, daily contribution scheme, social club and cooperative, thrift and credit association.

Berko [7] investigated that the 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 dehumanizing of human race practices had been phased out in Nigeria because of religion and civilisation. Umebali [8] sees 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 poor. These institutions are often made up of heterogeneous savers and lenders which include but are not limited to Local Savings Scheme.

Informal finance programme has been viewed as a unique programme for the reduction of vulnerability, and hence the achievement of the Millennium Developmental Goals [9].

From the foregoing, each financial institution has several strengths and weaknesses. There is no unique financial institution that can provide adequate financial services to the borrower.

Hence, it is on this backdrop that the study seeks to study the role of informal financial institution on the sustainable goal of poverty reduction in Nigeria with particular reference to Kogi State while proving response to the following research question;

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

2. LITERATURE REVIEW

2.1 Feature of Informal Finances Market

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

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

They typically have an arrangement that facilitates mobilization of savings and giving of credits as well as implementation of compliance among members. This may be based on the

association constitution, whether written or unwritten. The leadership of the institutions is generally by election. The positions that members usually contest for are President, Vice-President, Secretary, Assistant Secretary, Treasurer, Financial Secretary and Public Relations Officer, among others. These officers are usually tenured and are not paid salaries, but they enjoy some benefits such as the ability to influence credits for their friends and associates. This is, particularly important during the period when there is a shortage of loanable funds USAID, 1989 and Adegoke, 2014.

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

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

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

v) Loan Approvals and Disbursement: The procedure and eligibility of loan are commonly agreed upon. Sometimes it is done immediately members contribute on the meeting day, or it may be Deferred to some other days, after determining the total balance available for lending. The approval is usually done by the President and disbursed by the Treasurer with financial records kept by the Financial Secretary. Some of these associations have bank accounts, to avoid keeping money at home. When informal financial institutions have a functioning bank account, the money mobilised is a part of the money supply and thus, can be influenced by monetary policy. However, some associations are wary of documentation processes at the bank and the possible delay in transactions as well as fear of bank failures. Therefore, they may not have a bank account, and decide to collect contribution and distribute or keep it at home. Under such situations, which are often the case, such activity is done outside the banking system and may hamper the effectiveness of monetary policy Adegoke, 2014.

Vi) Credit Rationing: The players in the informal financial sector do not have adequate loanable funds with which to satisfy and meet the demand of the many borrowers. In the case of too many prospective borrowers contending for limited funds, the lenders are under pressure to ration the available magnitude for them [4].

2.2 Various Forms of Informal Financial Instiitution

1) Susu or Esusu Collectors: They provide access to credit as well as the possibility to save and withdraw money for a small fee. In the susu arrangement, a saver agrees to deposit a specific amount determined in consultation with the collector for an agreed period of time (usually a month). At the end of the period, the Susu collector renders the accumulated savings to the client, keeping one day's savings as commission [4].

2) Tontines: These are another prominent means to pool resources, whereby a group of individuals agree to regularly pay small amounts into a common fund - the tontine – which is then loaned for a month, without interest, to one of the members. Typically, these people share similar interests or common relationships, which strengthen social control and ensure the functioning of the scheme [4].

3) Hawala: This is a traditional means of transferring funds across borders and within countries, whereby funds are transferred by means of a network of hawala brokers (hawaladars) who charge a fee or an exchange rate spread in exchange for their services. The strength of the hawala system is that it is fast, cheap, confidential and easily available [4].

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

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

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

2.3 Theoretical Literature Review

There is two major perspective to theory on micro financing which includes "the residual" and the dualism" paradigm.

2.3.1 Residual paradigm

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

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

Nevertheless, formal and informal finance may also compete with one another. In such a case the availability and terms on which financial services of the two types are available will determine the choice of sectoral source. If there is an improvement in one sector, one could expect clients to switch from the other source to this one. Thus, the quantity of credit in a particular informal sub-market is the difference between the total demand for loans of that type, and that part of total demand supplied by the formal sector. As formal loans of this type become more easily available on more favourable terms than those in the informal market, formal loans will displace informal loans [10]. Likewise, financial sector repression, as was the case in Mozambique, causes many market participants to move to the informal sector because the formal sector ceases to provide satisfactory services [11].

McLeod 1994 argues that formal finance should complement informal finance, except if it is better able to compete. As an economy evolves, individual incomes rise and medium and large-scale business activities begin to proliferate. Therefore, a demand for all sorts of financial services appears, which creates opportunities for establishing specialised FFI. Nevertheless, pre-existing demands for low-income households and small-scale businesses remain. New FFI might still not be able to serve this demand better than existing informal arrangements. Banks should simply be doing that what they are good at doing. Aryeetey 1992a confirms that the informal sector could play an

effective complementary role to services offered by established FFIs and new innovative credit schemes.

Thus, integration can only be achieved if various segments are linked in such a way that they complement each other on those aspects where they have a comparative advantage while having access to the resource base of the entire financial market as a result of functional linkages. If various segments fail to complement each other in the delivery of financial services, unrelated niches develop, which implies that large sections of the real economy are left with inadequate financial services. Such considerable gaps in financial services are detrimental for overall financial sector development [12].

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

2.3.2 Dualism paradigm

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

2.4 Empirical Literature

According to Khandker 1998 employed a statistical method to assess the impact of Informal finance among three Bangladeshi programs and found that every additional takas lent to a woman add additional of 0.18 taka to annual household expenditure. Similarly, in an updated study using panel data in Bangladesh, Khandker 2005 found out that each additional 100 taka of credit to women increase total annual household expenditures by more than 20 taka. These studies showed the overwhelming benefit of an increase in income and reduction of vulnerability. Hulme and Mosley, 1996 while acknowledging the role of microfinance can have in helping to reduce poverty, concluded from their research on microfinance that "most contemporary schemes are less effective than they might be". They stated that microfinance is not a panacea for poverty – alleviation and that in some cases the poorest people have been made worse-off by microfinance. Dunn and Arhucle [13] used an analysis of covariance to examine loans to micro entrepreneurs for 305 households in Peru. The study uses data at two points in time and looked at changes in borrowers relative to the control group who have not received micro-credit. 'The study suggests that there are significant differences between the borrowers and the control of group in terms of enterprise revenue, productivity, fixed assets and employment creation for other people.

Toh and Urata [14] examined how Japan's public and private sectors support small and medium-size enterprises (SME's). Their findings based on a survey of 107 firms revealed that it accounted for about 35-60 percent growths in the productivity of the (SME's). Similarly, Kim and Nuggent 1994 evaluated the effectiveness of private and collective technical, marketing and financial support systems for the Republic of Korea's small and medium-sized enterprises and entrepreneurs. They observed that financial assistance was the most critical form of support for Korean SME's and that government intervention in finance was very pervasive. The Korean government had made extensive use of parastatal finance institutions, targeted credit (micro-credits) and credit guaranteed schemes.

Ghazala [15] 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 microfinance 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 [16] 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. [17] also reported that IFI's contributed inequitable distribution and utilisation of local resources most especially in-come raw materials because credit taken was used to finance income generating activities with a return in excess of the loan taken, thus ensuring economic stability and reducing people among the people.

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

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

2.5 Theoretical Framework

The theory of Money lender will be adopted as a theoretical framework for the study. Specifically, a moral hazard at the investment stage prevents banks from extending sufficient funds. By contrast, the informal sector is able to monitor borrowers and induce investment by offering credit to a group of known clients where social ties and social sanctions prevent borrowers from deliberately misusing their loan. Banks have unlimited funds but are unable to prevent the opportunistic behaviour. Informal lenders can control the use of credit but may instead be capital constrained hence find that informal finance raises investment, disciplines borrowers, and facilitates banks' rent extraction. By ensuring prudent behaviour, informal lenders are able to extend funds when banks cannot. This advantage cuts three ways. The additional informal credit increases the investment of bank-rationed borrowers. Access to (agency-free) informal capital also improves borrowers' return to investment. Therefore, informal funds discipline borrowers by lowering the relative payoff following default, making it incentive compatible to increase bank lending (the disciplinary effect). Finally, by channelling bank funds, informal lenders allow banks to reduce agency costs arising from lending directly to borrowers. Specifically, when extending money to poor borrowers, banks share rent to avoid credit misuse. Lending through informal lenders that are sufficiently rich not to be tempted by diversion means that banks need not share any rent (the rent-extraction effect). In contrast to the previous argument, informal finance thus limits borrowers' access to bank capital. The extent to which the disciplinary or the rent-extraction effect dominates depends on the allocation of bargaining power in the bank market. If banks are competitive, informal finance acts as a disciplinary device and expands overall credit provision. Borrowers obtain capital from both financial sectors, with poor informal lenders accessing banks for additional funds. Intuitively, when the surplus of the bank transaction accrues entirely to the banks' clients, the residual return to an investment increases if banks extend credit to both the informal lender and the borrower. By contrast, informal finance serves as an instrument of rent extraction if the bank is a

monopolist. Sufficiently wealthy informal lenders become borrowers' only source of credit, credit that the informal sector acquires from the bank. As high interest rates increase the monopoly bank's payoff and the borrowers' incentive to default, poor bank customers earn a floor surplus above their outside option to limit diversion of bank funds. When the informal lender's outside option exceeds the offered floor utility, the bank avoids sharing rent if it contracts exclusively with the informal lender [19]. These findings may explain evidence from China indicating that informal finance is more important as the bank market becomes less competitive (Cull and Xu [20]; Ayyagari et al. [21]; Cheng and Degryse, 2008. The theory's predictions are also in accordance with Gine's 2007 observation that poor borrowers in rural Thailand are ´ more likely to access the informal sector alone when bank market power increases. While financial sector coexistence increases efficiency, welfare is unequally distributed if informal lenders accumulate wealth. Informal finance lifts borrowers out of poverty if the disciplinary effect prevails, as richer informal lenders extend more funds and thus improve borrower incentives. Borrowers are worse off if the rent-extraction effect dominates, however, as they are left completely in the hands of informal lenders, rather than obtaining the bank's contractual rent. Meanwhile, poor lenders are better off disciplining borrowers, as they receive more bank funds and higher incentive rent, whereas richer lenders prefer the segmented outcome as it preserves their market power. If wealthy informal lenders and bankers have more 3 3 say over bank market structure than poor borrowers, these results are consistent with Rajan and Ramcharan's [22] finding that banking in the early twentieth century United States was more concentrated in counties with rich landowners who often engaged in lending to farmers. These landlords frequently had ties with the local bank and were, as the model predicts, against bank deregulation [19].

The theory is the coexistence of formal and informal finance in underdeveloped credit markets. Formal banks have access to unlimited funds but are unable to control the use of credit. Informal lenders can prevent non-diligent behaviour but often lack the needed capital. The model implies that formal and informal credit can be either complements or substitutes. The model also explains why weak legal institutions raise the prevalence of informal finance in some markets and reduce it in others, why financial market segmentation persists, and why informal interest rates can be highly variable within the same sub economy. The theory also establishes that entrepreneurial and informal lender assets are complements for low levels of wealth and substitutes when informal assets increase. Intuitively, when neither the informal lender nor the entrepreneur is not enough such that best investment is realised, the two complement each other in drawing on formal sector funds. If the informal lender debt capacity does not constrain investment, the entrepreneurís preference for formal funds implies that she substitutes away from informal to formal funds. Equivalently, formal and informal lenders complement each other in providing external finance for low levels of wealth, while acting as substitutes when the informal sector is wealthier [4].

3. METHODOLOGY

The study sampled 600 respondents using stratified sampling technique. This will be carried out by dividing the population into 3 subsets based on the senatorial districts (East, West, Central) 4 local government areas are randomly selected from each of the senatorial districts, 10 wards were selected from each of the local government areas to give a total of 120 stratum. 10 respondents were selected from each of the wards. Data collected was analyzed using descriptive statistics and Logit Regression Model. The Maximum Likelihood (ML) method is used to obtain estimates for the specified Logit probability model. The justification for using ML method is due to the fact that neither the ordinary least squares (OLS) nor the weighted least square (WLS) is helpful or adequate for estimating the Logit model. The parameter estimates of the specified Logit model are not directly interpretable with respect to magnitudes of effect but only interpretable with respect to the direction of effect on probability. The model is known to produce results that can be easily interpreted and the method is simple to analyze in economics applications. Furthermore, Logit model is one of the most popular binary response model used in empirical analysis.

The functional relation of the model is stated thus;

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

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

$$Pov = \delta_0 + \delta_1 Hs + \delta_2 Yr + \delta_3 Es + \delta_4 AIFI + \delta_5 AFI \quad (1.1)$$

$$IFIG = \beta o + \beta_1 LR + \beta_2 EDU + \beta_3 LFA + \beta_4 SFI + \beta_5 SR + \beta_6 RP \quad (1.2)$$

EDU : Level of education (This is measured by the total number of years the entrepreneur spent in educational attainment)
Hs : Household Size (this is the number of member in a household Unit)
Yr : Income of the respondents (This is measured in Naira monthly)
Es : Employment Status of the respondents (Binary : 1 if Employed 0 if otherwise)
AIFI : Access to informal financial institution (Binary : 1 if access is positive 0 if otherwise)
LR= : Lending Rate (This is the cost of capital borrowed)
EDU : Level of education (This is measured by the total number of years the entrepreneur spent in educational attainment)
LFA : loanable fund available (The is the amount of capital an IFI is willing and able to lend out)

SFI : Support from Financial Institution (Binary: 1 if Support is receive from Formal financial institution, 0 if otherwise)
RP : Repayment plan (Binary: I if repayment plan is convenience, 0 if otherwise)
Pov : Poverty Level
IFIG : Informal Financial Institution Growth

4. PRESENTATION AND INTERPRETATIONS OF RESULT

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

The Table 4.1 shows the socioeconomic characteristics of the respondents. The result shows that most of the respondents are within the age bracket of 20-29yrs with 30.8%. The sex distribution of the respondents' shows female has the modal frequency with 51%. The marital status of the respondent shows that 48% of the respondents are married. The educational qualification of the respondents portray that 53% of the respondents have no formal education. The occupation of the respondents also portray that a 22% of the respondents are in civil service. It further shows that 20.5%, 16.6%. 18.5% and 22.1% are involved in Farming, a private firm, artisan, SMEs respectively. Conclusively, the income distribution of the respondents shows an average monthly income of N18,025.

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

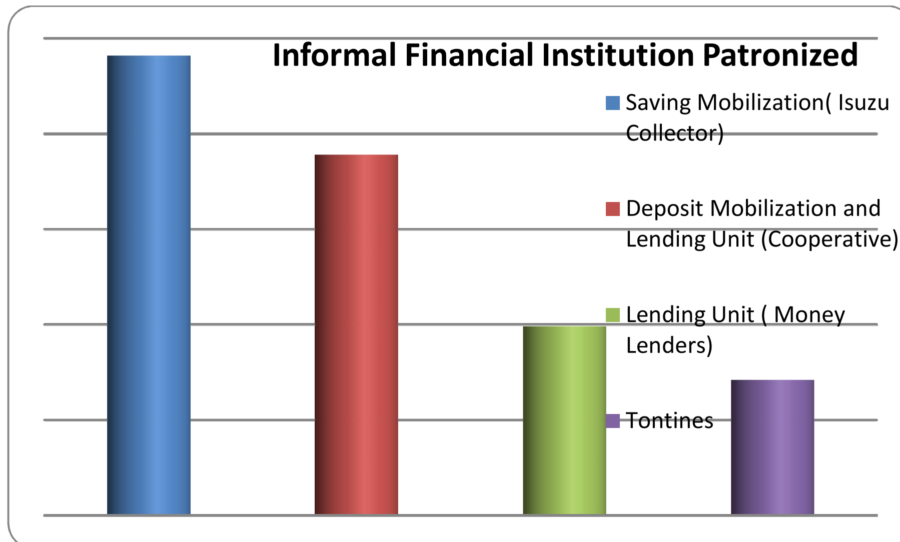

Fig. 4.1. Bar chart of informal financial institution patronized
Source; Field Survey, 2017

The Table 4.3 shows that Esusu (AJO) is the most adopted informal financial institution with 40% of the respondents being a participant, 31% being a participant of Cooperative societies, 16.5% patronising money lenders, Tontines with 11%.

Table 4.1. Socioeconomic characteristics of respondents

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

Source; Field Survey, 2017

Table 4.2. Access to financial service

Access to financial service	Frequency	Percentage
Informal Financial Institution	322	53.66667
Formal Financial Institution	278	46.33333

Source; Field Survey, 2017

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

Table 4.3. Informal financial institutions patronized

Informal financial institution	Frequency	Percentage
Saving mobilization (Isuzu Collector)	241	40.16
Deposit mobilization and lending unit (Cooperative, Association)	189	31.5
Lending unit (Money Lenders)	99	16.5
Tontines	71	11.83

Source; Field Survey, 2017

Table 4.4. Utilization of credit accessed from IFIs

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

Source; Field Survey, 2017

Table 4.5. Lending rate of respondents

Lending rate	No. of respondents	Percentage (%)
01.00 -4.99	145	24.16667
5.00- 9.99	190	31.66667
10.0-14.99	120	20
15.0-19.99	105	17.5
20.0 and above	40	6.666667
	600	

Source; Field Survey, 2017

The Table 4.5 shows the cost of obtaining capital by various respondents. It shows that a significant fraction constituting 31% of the respondent obtain capital between 5.00 to 9.99% interest rate, 24% of the respondents obtain loan at less than 4.99% while other at a rate higher than 10%. While Yelwa et al. [23] observed that majority of the respondents in the informal financial institutions got the soft loan between 3.00-3.99%.

The Table 4.6 shows the constraint to the accessibility of credit facility in the formal financial institution. It revealed that the lending rate prevalent in the formal institution is the major detriment to the access to credit facility hence

they opt to the informal financial institution. The Monetary Policy Ratio in a formal financial institution is higher compared to the average lending rate in the informal financial institution.

Table 4.6. Constraint to credit facility in formal financial institution

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

Source; Field Survey, 2017

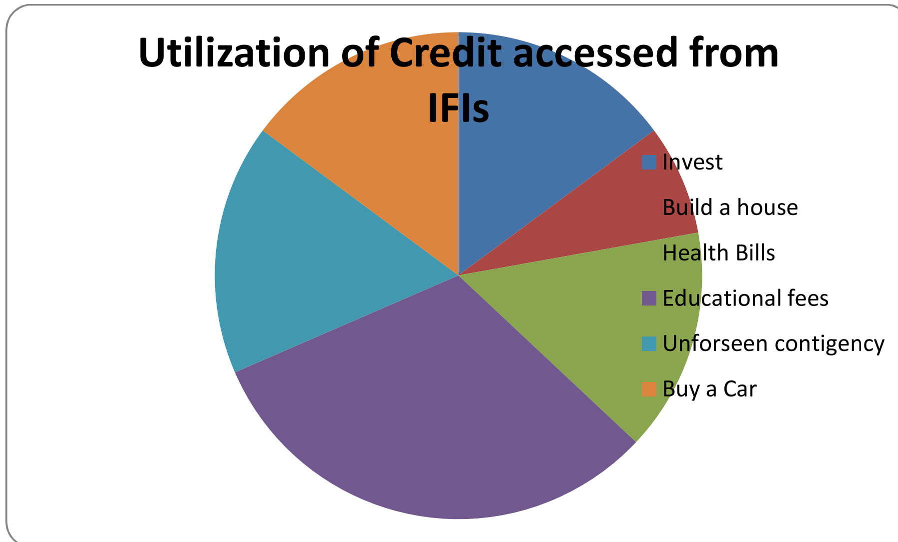

Fig. 4.2. Utilization of credit accessed from IFIs
Source; Field Survey, 2017

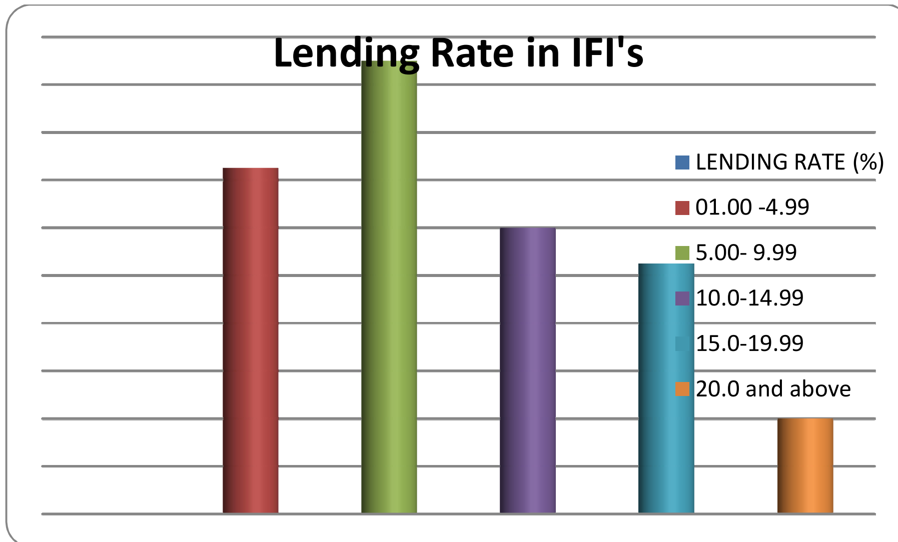

Fig. 4.3. Lending rate in IFI's
Source; Field Survey, 2017

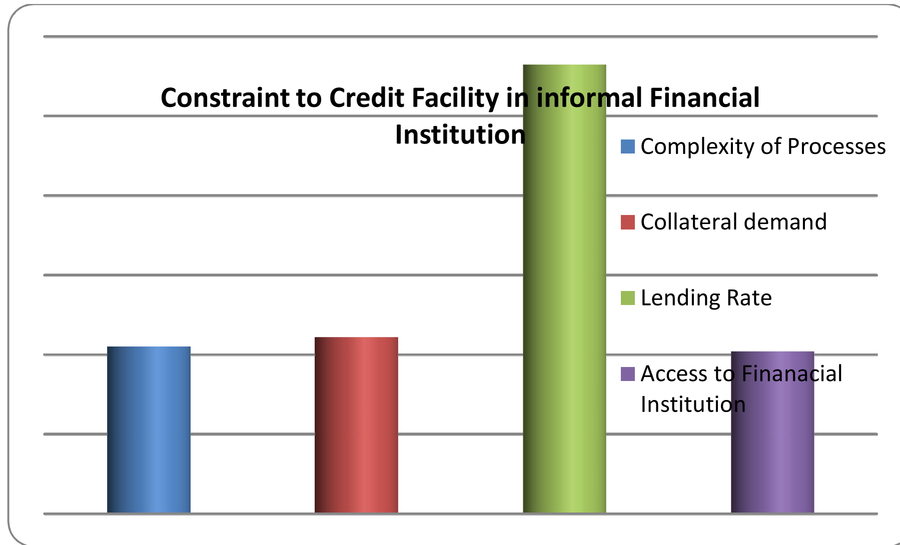

Fig. 4.4. Constraints to credit facility informal financial institution
Source; Field Survey, 2017

4.2 Logit Regression Output

$$Pov = 0.26 + 0.34Hs + 0.36Yr + 0.41Es + 0.39AIFI + 0.12AFI \quad (1.3)$$

(0.1)	(0.11)	(0.12)	(0.02)	(0.03)	(0.06)
2.6	3.09	3.0	20.5	13.0	2.0

$R^2 = 0.65$

$$IFIG = 0.02 + 0.89LR + 0.41EDU + 0.66LFA + 0.44SFI + 0.22SR + 0.66RP \quad (1.4)$$

(0.002)	(0.44)	(0.012)	(0.05)	(0.02)	(0.16)	(0.02)
10	2.02	34.1	13.2	22	1.375	33

$R^2 = 0.68$

4.3 Interpretations of Result and Summary of Findings

The result shows that household size as a negative correlation with the poverty level among the respondents while income and employment Status of the respondent was also found to have a significant effect on the poverty level of the respondent. The result further shows that both accesses to informal and Formal institution loan reduce the poverty level. This is converse to findings of Oleka and Eyisi [24] stating that informal financial institutions have no much influence on poverty alleviation in Nigeria but conforms to the findings of Yelwa et al. [23] who noted that informal financial sector operators have a positive and significant impact on growth in the region.

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

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

seen as a substitute to FFI instead of complementary.

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

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

5. CONCLUSION AND RECOMMENDATION

Based on the findings above it can hence be concluded that Non-financial institution is a potential voyage toward the actualisation of the Sustainable goal of poverty reduction in Kogi state, Nigeria if the following recommendation is duly and diligently taken into consideration:

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

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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