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Influence of Informal Financial Institution on Poverty Reduction in Enugu State – Nigeria

Aniagu Lauretta Ngozi, Nwankwo Frank

Department of Cooperative Economics and Management,
Faculty of Management Sciences, Nnamdi Azikiwe University, Awka, Nigeria

ABSTRACT

Informal financial institutions are those financial institutions found in the rural areas through which rural dwellers save their money on a short term basis and also source funds when they are in need. This paper examined the influence of rural informal financial institutions in achieving poverty reduction in the area of the study. It was observed that rural dwellers are handicapped when it comes to financing any meaningful project. It is equally very difficult for them to raise enough funds, especially from formal financial institutions to make small scale investments hence the vicious circle of poverty. The data used were from primary and secondary sources. Two hundred and fifty (250) respondents were chosen using Random Sampling Technique and two hundred and thirty-five (235) answered and returned their questionnaire. The analysis was done using descriptive statistics. The result revealed that for all the informal institutions, their main source of fund constitute the monthly due contributed by members, that the majority of rural dwellers save between N6, 000 – N10,000, that the majority of the rural institutions disburse loans on providing an acceptable surety and it constitutes 64%. The study concluded that informal financial institutions have a great influence on poverty alleviation in Enugu State-Nigeria. Among others, it was recommended that the institutions should strive to increase savings to disburse more loans to the applicants for meaningful projects.

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INTRODUCTION

Poverty in developing countries, especially in Nigeria which is ranked by the World Bank as the poverty capital of the world is an existential threat to the livelihood of its citizens. In line with this, Oleka and Eyisi (2014) aver that the issue of poverty has since attained a global height and has been a major concern to many nations particularly the developing countries of which Nigeria is part. This is the reason poverty alleviation/reduction programme was introduced in Nigeria in the year 2000 to help reduce the suffering of the poor masses. According to the blueprint on Poverty eradication, poverty is defined in either absolute or relative term. Absolute poverty refers to a condition in which a person or group of persons are unable to satisfy their most basic and elementary requirements of human survival in terms of good nutrition, clothing, shelter, education, foot-wear energy transport, health and recreation. On the other hand, relative poverty is the inability of an individual or some sections of the community to satisfy their basic need.

One of the easiest ways to reduce poverty is to provide finance for individuals to start small scale businesses through financial institutions. There are two basic financial institutions, the formal and informal institutions. The formal institutions are those institutions that are regulated by the government and or its agencies while the informal institutions are unregulated and mostly formed by the people and found mostly in rural areas. The failure of the formal financial institutions to provide the necessary credit to the populace, especially those living in rural areas, due to stringent conditions, high interest rates and proximity issues gave rise to informal financial institutions.

Informal financial institutions are those that are not amenable to control by key monetary and financial policy instruments (Uruakpa, 2018). They are those financial institutions that are found in the rural areas through which the rural dwellers save their money and also a source for funds when they are in need. These institutions can also be called microfinance institutions. They help their members by providing quick, collateral-free and low-interest rate loan assistance to them. The rural dwellers usually save money on a short term basis through these associations and also source funds from them when they are in need. The associations give loans to their members for trading, paying school fees, paying hospital bills, learning a trade, opening /expanding workshops, funeral rites etc.

People prefer to operate with the informal institutions as their conditions for credit are soft, coupled with faster administration of loans with low-interest rates compared to Formal Financial Institutions (Sambe, Korna & Abanyam, 2013), and therefore, could be the easiest way for the government to channel finance to the people, especially those that are unbanked by the formal institutions. Singh (2020) asserted that "many researchers and policymakers believe that access to microfinance in developing countries empowers the poor (especially women) while supporting income-generating activities, encouraging the entrepreneurial spirit and reducing vulnerability and this access can easily be made possible by the informal financial institutions. This is because they are closer to the people and emanate from the people. Gulong (2012) posits that informal financial institutions are the 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. The introduction of informal financial institutions by individuals and groups is to cushion the effects of Formal financial institutions on the socio-economic wellbeing of the people (Sambe, Korna & Abanyam, 2013). Therefore, this study aims to look at the role these informal financial institutions have played in reducing poverty in Enugu State, Nigeria.

Statement of Problem

According to Nweze (2003), rural communities are provided with a lower proportion of infrastructures than their urban counterparts. Survey studies indicate that most Nigerians living in rural areas are still without basic infrastructures necessary for a decent level of a well meaningful life. These poor people go through so much hardship because they are unable to provide the most basic needs of life. Poverty has brought much hardship in that some families have suffered from high infant mortality because they cannot afford to go to hospitals for adequate medical attention. Another major problem is inadequately equipped hospitals and health centres. Most of the hospitals in rural areas lack facilities for effective treatment, especially in cases of emergency. Some families cannot afford three square meals per day, not to talk of a balanced meal. This brings about malnutrition, hence if one goes to the rural areas, children with protruding tummy and spindle legs abound. Malnutrition as we know can lead to death. Some families in rural areas are living in sub-standard houses due to poverty. Also, illiteracy abounds in the country. Some parents up till now cannot afford to educate their children despite the free basic education. Low income and unemployment lead to a vicious circle of poverty – low income, low savings, low investment and low capital formation. Poverty leads to a high level of crime. It is believed that accessibility to loans will enhance living standards and enable people to explore investment opportunities.

The rural areas also suffer from a lack of formal financial institutions, hence, the rampant nature of informal institutions, which are unregulated and sometimes, do not stand the test of time. The formal institutions, where they exist in rural areas are faced with the challenge of getting those that will be eligible to get loans, given the stringent nature of the loans and high-interest rates. Hence, the rural dwellers mostly embrace informal financial institutions as their only hope to procure credit. The credit most times given out by these informal financial institutions are usually not enough to invest and grow businesses, thereby, perpetuating poverty. It is against this backdrop that this study was necessitated to look at how these informal financial institutions have played a role in alleviating poverty in Enugu State.

Objective of the Study

The broad objective of this research is to study the influence of informal financial institutions on poverty reduction in Enugu State- Nigeria. The specific objectives are to access the:

A. Sources of funds to the institutions in rural areas in Enugu State.
B. Volume of funds saved in rural areas in Enugu State
C. Conditions for disbursement of loans to the members in rural areas in Enugu State
D. Level of patronage to informal financial institutions in rural areas in Enugu State
E. Implication for poverty reduction in rural areas in Enugu State

REVIEW OF RELATED LITERATURE

Informal Financial Institutions

The economies of almost all developing countries like Nigeria operate with dual financial institutions; formal and informal financial institutions. Formal financial institutions function through direct governmental control such as Commercial Banks, Insurance Companies and Mortgage Banks while the informal financial institutions are not directly controlled by the government such as money lenders, cooperative societies, thrift and loan societies, local bankers, cooperatives etc Sambe, Korna and Abanyam (2013). Ugwuanyi (2002) notes that informal financial institutions dated back to the pie-evasion of Africa by foreign colonies. These institutions are deeply rooted and interwoven with the African culture and were as old as Africans themselves.

Adam, (2007) defined informal financial institutions as a voluntary association of a group of people united to encourage each other to save regularly part of their little earnings with a view of providing themselves with credit facilities at an affordable interest rate. Aryeetey (1995) saw them as those institutions that embrace all financial transactions that take place beyond the functional scope of various countries and other financial sector regulations. These institutions are not controlled directly through major monetary and financial policy instruments but are created by individuals and groups with no legal status.

Informal financial institutions emanate from the grassroots, bottom-up demand of the poor for an appropriate financial service (Sambe, Korna & Abanyam, 2013). Obadeyi (2015) states that informal financial institutions are specialized to promote grass-root banking towards achieving rapid integrated rural development and entrepreneurship development. They contribute enormously to encouraging thrift, communal development and the promotion of education, general business and industry (Uruakpa, 2018). Informal financial institutions that exist in Nigeria include Isusu, age-grade associations, village administration contribution and rural development, men’s revolving loan associations, married women’s associations, town unions, local money-lenders and social clubs, etc (Uruakpa, 2018).

Poverty Reduction

To appreciate the concept of poverty alleviation, we need to first treat poverty as a standalone concept. Poverty is the state of not having enough material possessions or income for a person's basic needs. Poverty may include social, economic and political elements. Absolute poverty is the complete lack of the means necessary to meet basic personal needs. Poverty can also be defined as the state of being poor, and it is one of the forces militating against the social and economic development of this nation.

Nweze (2001) defined poverty from two perspectives. First, it is defined by standard measures of income and expressed as the inability of a household to attain a level of income that is necessary to purchase the range of goods and services considered by the standards of those in a particular reference group to be sufficient for living. The other aspect reflects the non-material or intangible concept concepts of poverty such as health, vulnerability and risk, crime and violence, social exclusion etc which the poor themselves might highlight as consisting of poverty or ill-being.

Okeke (2001) asserted that “in whatever form poverty is defined, it conjures an ugly picture, symbolizing deprivation, a state of want, insufficiency and helplessness in which a person or group of persons are unable to provide the necessities of life such as food, shelter, clothing, education, employment and health. Poverty has been defined as a situation where a population or a section of the population is unable to meet its subsistence essentials such as basic food, clothing and shelter, including basic education in some economies especially the developed ones (Oleka & Eyisi, 2014). The World Bank Development Statistical Report (1990) explained that a country could be described as being poor if the per capita income is below the US $370 or very poor if it is below the US $275 at any point in time. Obadan (2009) quoting Adeyemi (2008) aptly summarized the meaning of poverty in both relative and absolute terms as a state where an individual is unable to cater adequately for her basic needs of food, clothing and shelter; meet social and economic obligations; lacks gainful employment, basic education, skills, assets and self-esteem; and has limited access to social and economic infrastructures with no recognition from any angle.

Poverty alleviation is lifting people out of poverty, making them escape from poverty. According to Singh (2020),” microfinance aimed at lifting the poor out of poverty is a predominant poverty alleviation strategy. Economic growth is one of the principal instruments for poverty alleviation and for pulling the poor out of poverty through productive employment. Borgen (2020) opines that “poverty alleviation aims to improve the quality of life for those people currently living in poverty”. The rural financial institution is helping to make life easier for its members thereby improving their standard of living by providing loans needed by the members to an extent. It is worthy to note that the institutions fail sometimes to provide the actual amount of loan required by their members even though they are not left with anything.

METHODOLOGY

The study adopted a survey research design as a result of the nature of the research. It was conducted in Enugu State – Nigeria. Primary and secondary data were used but the study relied more on primary data. The primary data were collected through the use of a questionnaire. First and foremost, the researcher identified the informal financial institutions with the help of the leaders of women associations and age grades. Two hundred and fifty copies of questionnaires were randomly distributed to the institutions and two hundred and thirty-five were correctly filled and returned representing 94%. To ensure the validity and reliability of the data collection instrument, content validity and Cronbach alpha tests were conducted respectively. The collected data are analyzed using descriptive statistics and presented in tables for clarity.

ANALYSIS OF DATA

Table 1: Distribution of sources of funds for the institutions

Sources of fund	No of Respondents	% of Total
Fine	10	4
Registration fee	-	-
Monthly dues	210	89
Levy	6	3
Donations	9	4
Total	235	100

Source: Field survey, 2020

Table 1 shows that monthly dues, 210 (89%) constitute the major source of income for the institutions. This is followed by fine 10 (4%) and donations 9 (4%) then levy 6 (3%). This implies that most of these institutions raise funds from their monthly dues and this determines if one is qualified for benefits at the appropriate time.

Table: 2 Distribution of volume of funds saved by the respondents

Amount	No of Respondents	% of Total
N1,000 – N5,000	40	17
N6,000 – N10,000	170	72
N11,000 – N15,000	18	8
N16,000 – N20,000	7	3
Total	235	100

Source: Field survey, 2020

Table 2 shows that the majority of rural dwellers save between N6, 000 – N10,000 with the institutions they belong to per annum and it constitutes 72% of the money saved with the institutions. This is followed by those who save between N1, 000 – N5, 000 and they constitute 17%e while the rest constitute less than 9% each. It can be said that the rural dwellers are poor because the amount saved by the majority is very poor.

Table: 3 Distribution of conditions for disbursement of loan to the members

Condition	No of Respondents	% to Total
Collateral	5	2
Surety	150	64
Membership	80	34
Total	235	100

Source: Field survey, 2020

Table 3 reveals that the majority of the rural institutions disburse loans on providing an acceptable surety and it constitutes 64%. This is followed by being a member of the institution and it constitutes34%. Collateral constitutes 2%. This shows that there is a laid down condition for disbursing loans to the members and prefers surety for quick recovery of the loan in the face of default

Table: 4 Distribution of level of patronage (ie. loan applied for and disbursed)

Amount applied for disbursed	No. of respondents		% to total applied	% of Total
	Applied	Disbursed		
7	72	72	31	31
N10,000 – N20,000	20	30	9	12
N21,000 – N30,000	75	87	32	37
N35,000 – N55,000	60	40	25	17
N56,000 - N100,000	8	6	3	3
Total	235	235	100	100

Source: field survey 2020

Table 4 shows that the majority of the members applied for a loan between N21,000 – N30,000 and constitute 87% and the same range was disbursed, constituting37%. It constitutes the highest percentage disbursed. 25% applied for a loan between N35, 000 –N55,000, and the same range was disbursed constituting 17%. The rest constitute less than 10%. The above implies that most people applied and received loans between N21,000 –N30,000. Those who applied for higher amounts received less because of the insufficiency of the fund.

Findings

Rural informal institutions are rural-based institutions. The members save their money in such institutions and also apply for loans from these institutions in order to meet up with their economic responsibilities in their different households. We can comfortably say that by assisting the members, poverty is also reduced. These institutions not only provide credit assistance on low-interest rates to their members but they encourage them to save because it is what the members contribute for saving that is given out as loans. There are also some social benefits derived by the members of these institutions.

The result revealed that the major source of income for the institutions is the monthly dues and most members save below N10,000 per annum. Most of them apply for a loan between N21, 000 –N30,000 and it was given to them. Those who applied for bigger loans receive less. The major condition for disbursement was the presentation of surety. Given that the rural dwellers are unable to access loans from formal lending institutions, these rural institutions provide alternative sources for obtaining loans. These institutions have bye-laws and guidelines on loan transactions which enhance their effectiveness.

Conclusion

It has been discovered that group action is far better than individual action in terms of carrying out economic activities. These rural institutions assist the members, they indeed benefit them economically and socially, and the benefits go a long way in reducing poverty and enhance their standard of living. We can confidently affirm that informal financial institutions have a great influence on poverty alleviation in Enugu State-Nigeria.

Recommendation

The authors recommend that the institutions should strive to increase savings to disburse more loans to the applicants for meaningful projects. Studies have shown that increased loan disbursement leads to business expansion which in turn brings higher net returns although it is also based on efficient management of the economic activities.

The authors recommend the formation of more institutions. Furthermore, these institutions should link up with the Community Banks to procure higher loans on behalf of the members on an on-lending basis.

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