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Informal financial sector, savings mobilization and rural development in Nigeria: Further evidence from Ekiti state of Nigeria

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Abstract

This paper addresses two critical but interrelated issues namely, to what extent has informal financial sector been able to mobilize rural savings, and to what extent has the savings resulting there from been channeled to productive investment that engendered rural development in Nigeria? It, thus, appraises the effectiveness of the informal financial institutions in mobilizing rural savings for productive investment and development in Nigeria, focusing on Ekiti State as a case study. A critical analysis of primary data collected from field survey and questionnaires administered on about one thousand and one hundred respondents in Ekiti State shows the relative importance of the informal financial sector over its formal financial institutions in mobilizing funds for rural development. It, however, found that myriads of problems still beset their effective performance and therefore, suggests that if these problems are realistically addressed by radical re-orientation of the sector with appropriate policy reforms put in place, the sector will continue to play prominent role in harnessing the much needed rural finance for sustainable development in Nigeria.

Introduction

That financial intermediation involves mobilization of savings of an economy and their channelizing into productive investment projects in the economy is a settled issue in the literature (Oloyede (1998) Adewumi and Ojo (1982). Financial intermediaries which act as catalysts in the mobilization process between savings and investment needs of the people are of two varieties, namely: the informal financial intermediaries which evolve through cultural practices tailored to the local need of its citizens, and the formal financial intermediaries like

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banks which, are fashioned after the well developed formal financial tradition of the Western Nations. The Nigerian financial system like that of many developing countries is characterized by the existence of these two types of financial intermediaries operating side-by-side, a situation usually referred to as financial dualism. In spite of the recent upsurge in the number and increased activities of formal financial institutions and the subsequent high competition resulting there from, the informal financial intermediaries still remain prominent. This is arguably attributed to the fact that the informal institutions have been able to provide savings facilities and credit at cheaper cost and on more favorable terms than that of formal institutions, which tend to benefit the poor and average people more and are, thus, more common in rural areas and among low and middle-income groups in the cities.

A typical example of rural environment where the activities of the informal institutions are prominent is Ekiti State. Ekiti State is one of the States that split from the old Western State of Nigeria and consist of purely Yoruba speaking, low income rural dwellers. Most of the dwellers are predominantly subsistent farmers, traders, cottage industrialist, educationists, but now mixed with some skilled workers and civil servants. In terms of settlement, though the people of the State live mostly in small towns and villages with a mix of some modern comfort and unadulterated rustic life in corrugated iron-roofed and mud-walled houses, many can be in purely rural settings on farms and huts, unaffected by the trappings of modern technology.

The major types of informal financial institutions found in Ekiti State of Nigeria include the rotating savings and credit associates (Esusu), the daily contribution scheme (Ajo), the moneylenders, traders associations, social clubs, youth clubs, town unions, religious organizations and cooperative thrift and credit societies. It is argued that these institutions usually assist the State rural dwellers in providing effective savings opportunities and offering of loans to its market participants at relatively cheaper or no cost than what the financial institutions offer. The relevance of these institutions to the rural setting of the State and partly to relatively smallness of bank branches in the State are argued to be partly due to the fact that these banks majorly extend financial assistance to businessmen and individuals in the society, who are able to satisfy their stringent requirements for bank loans.

Despite the acclaimed beneficial effects of these institutions especially at the

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grassroots, however, their optimal contribution to rural development are argued to still be bedeviled by a number of problems such as smallness of their financial capability, absence of standardized laws and lack of appropriate framework for its regulatory operations and activities of participants, inability to repay loan on time, management problem and poor and inadequate book-keeping system.

That notwithstanding, it has been clearly established that informal institutions assists in mobilizing savings for rural development. What appears unsettled, however, concerns such issues as the degree of relative effectiveness of the two types of financial systems in mobilizing funds for development and, the effectiveness of the strategies and mechanism of credit mobilization, allocation and utilization for clearly defined objectives. Though some of these issues have been addressed somehow in such studies as Akanji (1994), Aluko (1980), Chandanvaker (1985) and Falegan (1987); their findings are still inconclusive and requires further investigation and findings on more recent data.

Two relevant questions worth investigating at this juncture and which form the focus of this study are: How effective is the informal financial sector in attracting rural finance compared to her formal counterparts in Ekiti State? And to what extent are the savings mobilized by the informal sector channeled effectively to productive investment capable of propelling rapid rural development of the State?

The main hypothesis, therefore, which this paper intends to investigate and thereby making a modest contribution to the literature is on the informal financial economy, is that the informal financial sector has not made significant impact on savings and investment and the overall development of the rural economy in Ekiti State.

Literature Review

Nature and Role of Informal Financial Sector

The concept of informal financial market has been defined in various ways in the literature as in such studies as Ojo (1976), Osunlogun and Adeyemo (1981), Chandavarkar (1985), Akanji (1994) among others.

According to Chandavarkar (1985), the informal financial market refers to the non-

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institutional financial market that covers all financial activities outside the armpit of the institutional finance. He described the financial sector as being a heterogeneous residual sector comprising of different entities such as moneylenders, traders, landlords, pawnbrokers, friends and relatives. In this vein, the informal rural financial markets consist of "unregistered money lenders" and "informal lenders", "non-institutional sources and unorganized sources", which operated largely outside the banking system and which are majorly unregulated, and are more loosely monitored than formal sources. Akanji (1994) added that in most cases, they are not regarded as part of the business of rural financial intermediation but engage largely in savings and credit schemes either as an integral part of their major business or source of income, or based either on contractual relationship or social and kinship ties.

Ojo (1976) explained that the informal financial sector has the same basic characteristics as the modern financial system, save that, the former is unorganized or non-institutional, though there are organized institutions in the informal financial system, which provide avenues for regular savings and offer some rudimentary credit facilities, including the provision of some lender-of-last resort facilities by the moneylenders.

In the view of Osuntogun and Adeyemo (1981), the informal financial market is an indigenous system of saving in varying forms which can be broadly summarized as a situation in which a group of people come together, contribute fixed amount at fixed intervals and assign the total amount contributed to an individual member on rotational basis or offer credit to members and share their accumulated savings at certain time in the year rather than on rotation.

In terms of the role of the informal financial markets in rural development, two divergent schools of thought are notable: one perceives the informal financial markets (also known as *curb* or *fringe* markets) as evil phenomenon characterized mainly by usury and 'conscienceless loan shark' who extort the poor for selfish reasons without much contribution to the overall development of the rural society while the other sees it as providing solution to the great credit problem of small farmers, tenants and other small holder enterprises which directly or indirectly increases the level of savings and investment for rural economic transformations (Akanji 1994). This second view underscores the argument that the informal market is related to the formal financial market in the sense of its savings mobilization and

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credit provision role. This is also corroborated by the view of Steel and Aryeetey (1994) that informal financial market plays important role in mobilizing savings in rural economies of Africa through their daily collection of deposits. Clifford (1965) buttressed this position by claiming that the unique merit of the informal sector is its adaptation to different individual needs and possibilities well fitted into community patterns and aiming at encouraging planned and goal directed savings.

In this vein, Von Pischke (1983) argued that a well functionary rural financial market should mobilize rural savings as well as disburse credit; it should grow to meet expanding opportunities without continually requiring subsidized inflow and outflow of funds; it must have an expanding array of mechanism for attracting savings and offer varied and flexible lending terms and conditions. The intermediary institutions should be healthy, while there should be an active competition among both formal and informal borrowers and lenders.

Relevance of Informal Financial Sector in Rural Development

As stated earlier, the Nigerian financial system consists of both the formal and informal sectors, a feature which is mostly associated with many developing countries. This is attributed to the underdeveloped nature of these countries and the various structural rigidities in their economies that tend to constrain growth, savings and investment necessary for engineering developmental process. A situation that is also often traceable to misuse of funds, misguided consumption, reckless spending, fraudulent activities and bad orientation and misconceived ideas and other vices in these economies.

Informal sector in Nigeria comprises all economic activities existing in all sectors of the economy that are functioning outside the framework of governments' regulatory and supervisory activities. Such economic activities include a wide range of small-scale, largely self-employment activities which are mostly traditional occupations and methods of production (Adamu, 1996). This sector is categorized into three principal sub-sectors, namely productive, service, and financial. The informal productive sub-sector consists of all economic endeavors involving the production of tangible goods of subsistence nature such as small-scale agro-allied production, small-scale manufacturing, cottage mining, etc. The informal service sub-sector involves rendering of intangible economic activities such as informal education services, health services, repairs and maintenance, counseling services, etc.

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The informal financial sub-sector, which is the focus of this study, refers to unofficial and parallel financial intermediation endeavors of subsistence nature.

The activities of the informal market, as evidenced by Ojo (1976), appeared to be more pronounced in the non-urban areas than in the urban areas of the country. Economic indicators showed that over 70 percent of the Nigerian populace lived in rural areas and most of them had been denied access to banking facilities. The significance of this lack of access to banking facilities is better appreciated when one realizes that the bulk of the rural population engaged in agriculture, handicraft and other basic small-scale enterprises. Apart from the lack of access to bank credit to promote these essential sectors of the economy in which the rural population engages, the stock of money in their hands is kept outside the banking system (Olashore, 1988). Some rural dwellers are not inclined to save their money in banks and consequently sizeable amount of money is lost when their owners prefer to keep them in sacred places or informal safe havens such as under mattress, pillows and in holes, under trees or shrines. Among the functions of the banking system in any economy is the mobilization of capital resources for socio-economic development. It must be noted that less than 60 percent of the money supply in the economy circulates within the banking system.

As rightly remarked by Ojo and Adewumi (1982), a major obstacle to effective rural banking in the country relates to lack of banking facilities which necessitates the patronage of such institutions as *"Ajo"*, *daily savings contributions, Esusu* and *money lenders*. This is supported by the argument of Aluko (1980) which claimed that formal institutions have almost wholly abandoned the rural areas and advised that no community with a population of five thousands ought to lack a bank branch. Evidence abounds that in most rural areas where banking facilities are deficient, informal credit and savings markets are predominant; farmers patronize money-lenders for both consumption and investment credit during land preparation and planting season.

As shown by Igben (1977), informal credit accounts for more than 85 percent of the total rural credits in Nigeria between 1960s and 1990s. He noted that prior to the advent of rural bank branches, many farmers depended solely on informal financial market for both savings and credit. Even where a few bank branches existed, it was patronized by less than 5 percent of rural financial markets' credit and savings beneficiaries. This position was

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confirmed by Ijere (1986), which shows that about 95 percent of the rural credit beneficiaries patronize informal sources such as money-lenders, traders or merchants and indigenous credit institutions based on cooperative principles called 'Esusu'. He also proved that over 25 percent of farmers sampled got their loans from supervised credit schemes while less than 5 percent from banks. This is also supported by studies like that of Mbat (1985). Falegan (1987) corroborated the above position by arguing that the size of the informal sector vis-à-vis the formal sector of the financial system is unknown, what is important about the informal market is that it is largely the source of capitalization for the poor and low income rural dwellers.

A critical assessment of the formal financial institutions engaged primarily to facilitate rural finance in Nigeria shows that very few of such institutions have any meaningful impact in mobilizing rural savings. For instance, the Nigerian Agricultural Cooperative Bank (NACB) does not engage in savings collection either for its own resource or operational support. The Federal Savings Bank and the Federal Mortgage Bank that engaged in deposit taking of the rural dwellers cover only very insignificant areas. The cooperatives societies designed to aggregate their members savings, in fact serve mainly as conduits for outside grants and loans. The commercial bank savings operations are diverted to urban areas for investment. Although some rural money lenders perform services of money custodianship, this activity falls far short of being a rural savings mechanism (Falegan 1987). The establishment of the People's Bank in 1989 and the introduction of the Community Banking Scheme in 1990 were informed by the need to improve the access of the nation's rural communities to banking and financial services. Specifically, these two specialized banks were designed to extend banking and enhancing the role of banks in the Nigerian economic development process.

The absence of collateral security gives the informal market an edge over its formal contributions as credit in most cases of the informal market is based on some mutually agreed pattern so that funds are assigned to those contributors with the most pressing needs first, unlike in the formal financial market, loans are granted on a more personal basis. This is in line with the views of Osuntogun and Adeyemo (1981) that organizationally and operationally, these societies are accessible, flexible and they provide multiple functions and

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that in contrast to formal institutions cooperative and rotational credit societies bring savings and credit facilities down to the most basic level.

It has also, however, been discovered that the informal financial institutions are not confined to only the people in the villages but are continuously forming a substantial part of everyday life of an average city man or woman. Apart form thriving in cities where most sophisticated modern financial services can be packaged, surprisingly too, the practice is no longer the preserve of the old and illiterate man; the elite too now find many, such financial services both fascinating and useful.

Informal Financial Institutions and Savings Mobilization Strategies

Informal financial institutions exist in different forms and are majorly distinguished by the specific features and savings mobilization strategies they adopt. Some of the common ones found in Ekiti State as already mentioned in the introductory part, are discussed in this section.

The first major type is the *Rotating Savings* and *Credit Associations (ESUSU),* commonly referred to as *'partners', 'susu'* and *'isusu'* in the West Indies and *'Esusu'*, *'susu', 'Dashi', and 'Awiko'* in various parts of Nigeria including Ekiti State. While in many other developing countries they are known by such names as *Bangalore* type of financial corporation in India, *Dajanggi* in Cameroon, *Tontine* in Benin and *Chilemba* in Uganda. This scheme brings together a group of people for the purpose of savings through the contribution of fixed amount of money on fixed days of the week, month or year. According to Okorafor (1988), *Isusu* clubs are association of like minds who come together and contribute stated amounts monthly and the contributions are handed to members in a determined order.

The *Esusu* system is a kind of savings mobilization in strategy which operates as a revolving scheme that continues until each member has benefited from the scheme and is seen to be capable of offering a more promising solution to people's financial problems than do the commercial banks (Falegan, 1987). The preference of many people to save through the Esusu scheme without any interest earnings is not so irrational as it would appear to those who do not understand the actual functioning of the benefit of the insurance element in the system, a ready access to the use of more funds in lump sums than individuals would have been able to

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make available on their own.

As explained by Bascom (1982), *Esusu* has features which resemble a credit union, an insurance scheme and a savings club, but it is distinct from all these. It is a fund to which a group of individuals make fixed contributions of money at fixed intervals. The total amount contributed by the entire group is assigned to each of the members by rotation. *'Esusu'* differs from a club in that many esusu groups hold no meetings and members are not frequently known to one another. *'Esusu'* thus refer to fund not members.

The *Esusu* arrangement is helpful in business finance since it provides members or contributors with a lump sum that can be employed in their businesses. As most of contributors are friends and workmates, it is usually easy to obtain one's collection well in advance of one's turn if there is an urgent need for business investment or other expenditure. Personal savings of loans and grants form parents, relations and friend are still a major source of finance in Nigeria. Most businesses do not qualify (due to size and bad organization) for commercial loans form the banking institutions and so have relied on the informal market for finance.

Bouman (1978) explained that the major benefits of the *Esusu* saving scheme include closeness, accessibility, simple procedures, flexibility and adaptability to many purposes. According to him, any village, hamlet or even family compound can form its own association. This easy access contrasts with the formal finance institutions to which large segments of rural population have no access at all while many others find access difficult. Thus, these attributes make it popular among many small savers in both the urban commercial environment as well as the rural areas but the modalities of operation vary from locality to locality (Akanji, 1994).

It is important to note that the reputation of an *Esusu* leader is an important consideration in forming the *Esusu* group. There are *Esusu* groupings limited to people in one household or unit in an establishment. The leader makes no profit other than mere request for and being the custodian of contributions. An initiator who serves as a leader periodically collects a given amount (a share) from each member. The money collected (the fund), is then given in rotation to each member of the group. The leader may receive no special consideration other than collecting the fund first, while others may receive commission that may represent only a small proportion of the fund collected. However, taking commission has

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its own disadvantages, as contributors will hold him liable for any default (Akanji, 1994).

However, despite the apparent simplicity and other advantages of the scheme, its practical operational modalities are fraught with a number of problems and limitations. Firstly, the rotating savings and credit associations can be somehow problematic to administer, especially when it comes to determining the order of recipients. Secondly, it carries the risk that participating members who receive the pool early will not continue to contribute. Thirdly, it yields no interest for participating members and that the person in charge may be dubious by disappearing with the fund (Bouman, 1978). These arguments are debunked by the fact that most pre-industrial societies were quite homogenous as everybody knew each other so that detecting defaulters did not create any problem as his kinsmen are held accountable for a member's misdeeds.

Another type of informal financial institution used as savings strategy which is prominent in Ekiti State is the *Daily Contribution Scheme* that is often referred to in the Yoruba-speaking part of Nigeria as '*Ajo Ojumo*' (meaning daily contribution). It is a scheme where people unknown to themselves contribute varying amounts daily to an organizer (collector). The money is kept in safe custody for the contributors (from which the collector can grant short-term loan) till the end of the month when he returns the amount contributed less a day's contribution as commission that is equivalent to about 3 percent of the monthly contribution.

In the Nigeria context, the collector of funds, referred to as *'Alajo'*, comes around daily to collect the funds of the people who are interested in engaging in this scheme. The monies collected are determined by the amount of money that can be spared by the contributor, although the initial contribution determines the amount that will be contributed daily. This means that if the contributor decides to contribute an initial sum of ₦50.00, then the amount contributed daily after that will have to be ₦50.00 as determined by the initial contribution.

According to Steel and Aryeetey (1994), a market woman typically sees her 'banker' every day to deposit as little as 10 percent of her daily income. At the end of the month, she get back her accumulated savings, with which she replenishes her stock or buys something that she could not afford out of one day's profits. She often requests an advance of the

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month's expected proceeds, but her banker may avoid lending because he lacks cash reserves or access to credit in case repayment is delayed.

This scheme is advantageous in that the contributor can borrow against his accumulated savings even before the end of the month. This is one of the important roles of informal financial market in filling the gap created by orthodox banks. Whether or not the accumulated savings can be collected the same day, like banks depends on where the request is made, the amount involved, and the safe-custody the '*Alajo'* uses. Most coordinators or collectors nowadays in order to beat high incidence of burglary and theft keep the proceeds at the bank. Another advantage of the scheme is that it makes savings easy since the amount contributed is usually small, though the contributions can accrue to a fairly bulky amount later; and that it requires no waste of time and substantial transportation cost. On the other hand, the scheme is not without its limitations and demerits. One is that no interest is earned on the funds saved. Rather, a commission of a day's contribution is paid to the collector. Also, there is a high risk of the collector absconding with the funds collected. Steel and Aryeetey (1994) further pointed out that the collectors differ from a community bank and group-based organizations in that they are individual entrepreneurs who perform financial service without any capital of their own. They could intermediate more fully – use the fund as they are obtain from savers to end borrowers – if they had access to temporary liquidity.

The third strategy used by informal financial institutions to mobilize rural savings is the *social or professional money-lending scheme*. This can either be through social-non-commercial lenders or professional money lenders, close associate lenders who for reasons of discharging their responsibilities either as family heads or distinguished persons in the locality, gives loans to close relations. Such loans given to justify the confidence repose in them by the borrower include those given by friends, brothers, uncles, etc. There is also the "family cooperative fund" which is used to help needy members of the family. They have no interest charge and needs no collateral security. The professional *money lenders* are individuals who specialize in money lending and those coming together to form a money lending union. *Money lenders* in Nigeria in most cases are traders, farmers and timber merchants with surplus funds to lend. Their main source of capital is their personal savings and in some cases, funds from credit institutions, since they have enough properties to use as

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security.

The *money lenders* in most cases have a greater knowledge of the market than the borrowers and the moneylenders often take advantage of this against the borrowers, who in most cases, are more pre-occupied with availability of loanable funds than with their interest cost. The secrecy often involved in transactions with the moneylenders further makes it difficult for borrowers to know much about these lenders and the different terms obtainable. There is hardly any competition among the lenders mainly because of this secrecy and the heterogeneous nature of the major types of lenders. The need to know the borrowers properly is another factor that has tended to confine the operations of a lender in the market to the small geographical district in which he resides; thus, most borrowers with whom they have some socio-economic ties than loans from the formal capital market. Seeing himself, therefore, as operating virtually as a monopolist in the type of lending in which he is engaged, and seeing the risk involved in his lending operations, the money-lender often charge spurious rates of interest – a reflection of risk premium and the realization that he is faced with an interest-inelastic demand curve in his operation in the informal market.

The *money lenders* perform some important economic functions in the community, at least to the extent that they render some financial services that satisfy the demand of some sections of the community for loanable funds. For loans to be made available by the moneylenders, especially those who have organized themselves into a union, the borrower must produce a guarantor who will be jointly responsible and severally to the payment if the borrower should default. Inability to repay on time may involve penalties.

The advantages of this scheme are majorly two-fold: first, it makes it easy for those people who are not qualified to obtain loans under the formal banking system to obtain such loans and second; it ensures that loans are granted within a shorter time span than what obtains in the formal banking system. On the other hand, its disadvantages are, one, loans are usually made to the wrong caliber of people. That is, loans are granted to people who may use such funds to the detriment of the development of the economy, two, and the use of illegal methods to recover funds from defaulters. Such illegal methods involve beating, physical abuse and seizure of the property of the borrower when they default, and three, the interest charged is normally as high as 50 to 100 percent.

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The fourth major type of informal savings strategy is the *professional traders association.* Members of the traders association are those sellers, dealing in the same types of business or those operating in the same market place. Their main objective is to help members in the time of needs and protect the interest of their members. Members make contribution weekly or monthly and the money collected is disbursed to members in form of loan at concessionary interest rate. The loan must, however, be repaid together with its interest at the end of the year.

Lastly, *Cooperative thrift and credit societies* that appear to be the most standardized informal financial institution with well-organized savings mobilization strategy in the informal market is also prominent in the rural economy of Ekiti State. The objective of this category of institution is mainly to provide savings facilities and granting short-term loans to members in various firms. The sources of funds of the cooperative include shares, special savings, entrance fees and dues. Entrance fees and weekly dues are used for the administration of these societies. Shares held by members represent the main source of the loanable funds. The special savings may be shared at a particular time or distributed in rotation, while loans are given to members on personal recognition and, or, guarantors could be demanded if the members total financial holding in the society is inadequate. Many of these societies give loans for business that yield quick return. It is administratively easy and cheaper for banks to deal with large group, transaction costs tend to vary little with size of loans, though they are proportionately higher for all small borrowers. Similarly, farmers within a cooperative union are able to put forward viable projects that would be acceptable to the banks.

Cooperative thrift and credit societies have proved to be good vehicles for the mobilization of funds at the grassroots. As a group, farmers can help themselves by mobilizing savings from the societies. As individuals, once indebtedness is eradicated, they will be able to take large steps to bring about technical changes on their farms. Increases in the volume of productivity which will result in surplus funds being mobilized will have economic impact not only on the farmers alone but also on the society, because credit plays an important role in agricultural development but owing to low margin of savings, most farmers are unable to accumulate capital.

The main problem of the thrift and credit societies is inadequacy of funds, since the

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sources of funds available to them amount to very little, while the cooperative banks which were expected to help have been forced to operate as commercial banks due to the banking act of 1969. The rates charged by the commercial banks are usually too high for cooperative societies which need loans with low interest rates to grant to their members. The economic, social and educational advantages to be derived from cooperation between individuals with limited resources are generally taken for granted. Currently, there is almost no developing country that does not consider cooperation as a fundamental and indispensable element of rural development. Cooperation is one of the factors that are generally considered to be the basic prerequisites for rural development through their facilities for providing needed credit in the rural areas.

Method of Analysis

The effectiveness of the informal sector in mobilizing savings for investment and rural development in Nigeria using Ekiti State as a case study is investigated descriptively in this section.

The study adopted random sampling technique in sourcing data on the informal institutions and their operations in all the 16 local government areas of Ekiti State through questionnaires that were analyzed descriptively. That is, relevant data extracted from the questionnaires were coded; frequency of occurrence obtained, analyzed and interpreted. A sample of thirty-two villages and towns were randomly chosen from all the 16 local governments of the State. In collecting the data, well structured and pre-coded questionnaires were administered on 1120 subjects. Specifically, 70 questionnaires each were distributed in each of the 16 towns and villages. In all, 1100 questionnaires were recovered from respondents, representing about 98.2% of the total questionnaires administered.

As shown in Table 1, the required personal data of the respondents concerns three variables namely: age, sex and occupational distribution. The age distribution were grouped into five brackets, namely (10 – 20), (21 – 30), (31 – 40), (41 – 50), and (Above 50) while the number of respondents were 72, 256, 164, 368 and 240 with a total of 1100 with their percentage of total as 6.55, 23.27, 14.91, 33.45 and 21.82 representing 100% respectively.

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Table 1

Distribution of Respondents by Age, Sex and Occupation in Ekiti State

Panel A: Age Distribution		
Age Groups	No. of Respondents	Proportion in %
10 - 20	72	6.55
21 - 30	256	23.27
31 - 40	164	14.91
41 - 50	368	33.45
Above 50	240	21.82
Total	1100	100.00
Panel B: Sex Distribution		
Sex	No. of Respondents	Proportion in %
Male	470	42.73
Female	630	57.27
Total	1100	100.00
Panel C: Occupational Distribution		
Occupational	No. of Respondents	Proportion in %
Farming	512	46.55
Trading	298	27.09
Self Employed	160	14.55
Civil Service	112	10.18
Others	18	1.64
Total	1100	100.00

Source: Complied for Questionnaires

About seventy-two percent of the respondents fall within the active labor force, that is 21 – 50 years. The proposition of respondents above the active labor force is 21.82 percent and below is 6.55 percent. This shows that a significant proportion of the active labor force in the area surveyed have confidence in the informal financial sector.

The sex distribution of respondents reveals 470 for male and 630 for female, making a total of 1100 showing percentage of total as 43.73 and 57.27 percents respectively making a total of 100%. From this evidence, the percentage of over 57 percent shows that women were largely more involved in the informal financial sector compared to men. Complementary

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interview further confirmed that more women belonged to one form of informal financial institutions or the other than men.

On the occupational distribution of respondents, the groups examined are Faming, Trading, Self Employed, Civil Service and Others and while the numbers of respondents obtained are 512, 298, 160, 112 and 18 making a total of 1100 respectively with percentage proportion of total as 46.55, 27.09, 14.55, 10.18 and 1.64 making 100% respectively. This shows that most of the respondents are farmers who engage in secondary occupations like trading or self-employment. This confirms our earlier argument that Ekiti State engages largely in cottage industry of all sorts. The respondents in the self-employed bracket are mostly carpenters, tailors, goldsmith, etc.

Discussion and Findings

Our discussion in this section is focused on providing answers to the prior research questions: how effective are informal financial institutions in harnessing rural finance, and how are the accumulated funds been disbursed for productive investments that promote rural economic development?

Relative Importance of Informal Sector (IFS)

The prominence of the patronage of informal sector over the formal banking sector is evidenced in Table 2; showing that 58.64 percent of the total respondents patronize the informal sector.

Table 2

Respondents who Patronize Formal and Informal Institutions

Sex	No. of Respondents	Proportion in %
Banks only	455	41.36
IFS only	645	58.64
Total	1100	100.00

Source: Complied for Questionnaires

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More so, in assessing the relative prominence of the informal sector, we first examined the respondents' preferences for different types of informal financial institutions.

From Table 3, the listed groups are *Ajo, Esusu, Cooperatives, Moneylender* and *Others* with number of respondents representing 565, 260, 195, 12 and 68 totaling 1100 with percentage proportion of total respondents representing 51.36, 23.64, 17.73, 1.09 and 6.18 totaling 100% respectively. It is noteworthy that the number of respondents outnumbered the total questionnaires administered due to the fact that an individual can possibly join more than one group if he or she so desires. In fact, some respondents claimed that they belonged to as many as four informal groups. It is obvious that the most popular informal financial institutions in the area under survey are the *periodic contribution (Ajo) group.* Out of the total 277 people interviewed orally and through questionnaires, about 74 percent belongs to this group. The *Esusu group* and the *Thrift society* are also famous means of savings and credit in the State while the moneylenders surprisingly have relatively low importance in the area. Of all people interviewed, none accepted belonging or having any association with any moneylenders through the questionnaire, but during oral interview, two respondents accepted that some institutional money lenders did lend out money to them at some cost. Two other respondents said they have borrowed money from moneylenders sometimes in the past. The remaining 24 respondents belong to other IFS that are outside the scope of this study.

Table 3

Distribution of Respondents among Various IFS

IFS	No. of Respondents	Proportion in %
Ajo	565	51.36
Esusu	260	23.64
Cooperative Thrift	195	17.73
Moneylender	12	1.09
Others	68	6.18
Total	1100	100.00

Source: Complied for Questionnaires

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Table 4

Duration of Membership of Respondents in Informal Financial Institutions

Duration	No. of Respondents	Proportion in %
Below 1 year	40	3.64
1 - 3 years	487	44.27
3 - 5 years	350	31.82
Above 5 years	223	20.27
Total	1100	100.00

Source: Complied for Questionnaires

Next, as shown in table 4, we examined the duration of membership of respondents in the informal financial institutions they belong to. The groups examined are (Below 1 year), (1 – 3 years), (3 – 5 years) and (above 5 years) with the number of respondents representing 40, 487, 350 and 223 totaling 1100 and the proportion of the total representing 3.64, 44.27, 31.82 and 20.27 totaling 100% respectively. Of all the respondents, about 75 percent claimed to have joined the informal society between 1 and 5 years ago. This is likely due to the fact that about 70 percent of total respondents belong to the 31 – 50 years age bracket. As the IFS was described in the literature as an age-long tradition, one would expect the analyzed data to reveal a high proportion of respondents to have been members for over 5 years. A likely explanation for this anomaly is probably that only about 22 percent of total respondents belong to the 50 years above bracket. Further investigation of the data available, revealed that 97 percent of the total 22 percent of respondents of 50 years and above claimed to have become members of the IFS for over 5 years. So, if more old people have been interviewed, the data is likely to have revealed more 5 years and above membership of IFS.

However, we analyzed further the reasons why respondents preferred the informal financial institutions. The reasons given and number of respondents respectively are shown in Table 5 as Easy access to borrowing 532, Easier to operate 376, Kinship/family ties 74, Safer than banks 36, Closeness and personal relationship 82 with their proportion given as 48.36, 34.18, 6.73, 3.27 and 7.45 respectively.

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Table 5

Respondents Reasons for Preferring Informal Financial Institutions to Banks

Reasons	No. of Respondents	Proportion in %
Easy access to borrowing	532	48.36
Easier to operate	376	34.18
Kinship/family ties	74	6.73
Safer than banks	36	3.27
Closeness and personal relationship	82	7.45
Total	1100	100.00

Source: Complied for Questionnaires

Table 6

Respondents Reasons for Patronizing Formal Financial Institutions

Motive	No. of Respondents	Proportion in %
Safe custody of money	183	58.65
Possible loan consideration	32	10.26
Better than IFS	63	20.19
To identify with modern institutions	21	6.73
Others motives	13	4.17
Total	312	100.00

Source: Complied for Questionnaires

However, as evidenced in Table 6, about 183 and 32 out of the 312 respondents who claimed to have account in banks for the purpose of ensuring safe custody of funds and possibly to obtain loans from them respectively.

Savings Mobilization by the Informal Financial Sector

Besides assessing the prominence of informal institutions, we also assessed the extent to which rural savings were actually mobilized by these institutions. The major sources of

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funds mobilized by informal financial institutions are shown in Table 7. The evidence confirms the argument that most of the funds available to the informal financial sector come from members' contributions. About 498 respondents representing about 64.84 percent of the sample size claimed that informal institutions obtained funds majorly from members' contributions. This is quite high when compared with only 2 respondents representing less than 1 percent of the sample, which claimed that their institutions got funds from external sources like the government. Next in importance to the members' contribution is return from investment, which essentially represents the income charged on loans given to participants. Here, close to 182 respondents representing about 24 percent claimed that income from investment is a source of finance to the informal institutions. The loans on which interest accrued to the institutions also come from members' contribution at the disposal of the organization. It is also evident that some informal financial institutions borrow money from its members in form of advance payment of contributions and direct borrowing from members.

Table 7

Sources of Funds Mobilized by the Informal Financial Institutions

Source of Funds	No. of Respondents	Proportion in %
Members contribution	498	64.84
Loans from members	86	11.20
Loans from external sources	2	0.26
Returns from investments	182	23.70
Total	768	100.00

Source: Complied for Questionnaires

Although the foregoing appears to provide some measures of fund mobilization in rural areas by informal institutions, two critical questions are yet to be answered. One is what is the proportion of funds mobilized by IFS vis-à-vis the total funds available in the community and what is the relative size of the amount sourced with the amount sourced by

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IFS compared with the amount sourced by formal financial institutions? These questions are somehow answered by the data obtained from the questionnaires. Evidence shows that about 57.2 percent of the funds in the rural areas are with the informal institutions, 32.8 are with the formal institutions, while roughly 10% are still kept within private sources such as in private savers, shrines, etc. The informal institutions, thus, appears to be a veritable vehicle for mobilizing savings of private individuals and transforming them into usage-maturity form for investment purposes.

As noted earlier, in terms of the relative effectiveness of the informal financial institutions, over the formal institutions, evidence shows that about 68 percent of the respondents patronize informal institutions, while about 26 percent only patronize formal institutions. This implies that if IFS are given adequate attention and facilities, they are capable of effectively mobilizing adequate funds needed for the total transformation of the rural economy.

Rural Development through the Informal Financial Sector

The second of the two-fold research question is addressed here namely, what is the relative contribution of the IFS through savings mobilization to rural development? That is, relative contribution of the informal versus formal financial sector to rural economy of the sampled area is examined in this section.

Table 8

Respondents Means of Securing Start-up Capital

Means	No. of Respondents	Proportion in %
Borrowing from friends/relatives	46	18.62
Personal savings	101	40.89
Borrowings from IFS	94	38.06
Others means	6	2.43
Total	247	100.00

Source: Complied for Questionnaires

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The investments of the IFS from which they obtain substantial interest income are in form of loans to members and non-members alike. Such loans are easy to obtain and their interests are very attractive compared with the problems encountered in securing bank loans. Evidence in Table 8, shows that besides personal savings or borrowing from friends and relations, major means of securing initial capital to start any meaningful business in the rural areas is through loans sourced from the informal institutions, with little patronage of banks. The poor assistance of banks in this regard, however, may be due to high risk involved in advancing credit to largely agrarian community, and perhaps also due to high level of illiteracy and ignorance as majority of the populace may not be conversant with bank procedure and regulations for securing loans from the bank.

Table 9

Respondents Application for Bank Loan and Degree of Success

Response	No. of Respondents	Proportion in %
Have applied	49	37.98
Have not applied	80	62.02
Total	129	100.00
Degree of Success		
Response	No. of Respondents	Proportion in %
Suceeded	5	10.20
Failed	44	89.80
Total	49	100.00

Source: Complied for Questionnaires

To buttress this, as shown in Table 9, less than 40% have ever applied for a loan, out of which about 10 percent succeeded in securing the amount request for, due to such factors as stringent collateral conditions, high and exorbitant interest rate, loan ceilings, rigidity of bank operations etc. On the other hand, as shown in Table 10, over 70 percent of the sample had applied for one form of loan or the other from informal financial institutions out of which about 98 percent succeeded in obtaining the amount of loan applied for. This comparison of 95 percent rate of success for loans from the informal financial sector to the 8 percent rate from banks shows why rural populace preferred the informal institutions to banks.

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Table 10

Respondents Application for Informal Loan and Degree of Success

Response	No. of Respondents	Proportion in %
Have applied	209	75.45
Have not applied	68	24.55
Total	277	100.00
Degree of Success		
Response	No. of Respondents	Proportion in %
Suceeded	205	98.09
Failed	4	1.91
Total	209	100.00

Source: Complied for Questionnaires

Further investigations of the contributions of informal institutions in the rural areas require data on the uses or outlets to which the loans and financial assistance from the informal financial institutions are channeled as in Table 11. Ten categories of uses structured in the questionnaires are social activities, farming, trading, cottage industry, feeding, education and training of children, ceremony and others; with respondents figures of 32, 86, 178, 42, 4, 66, 183, 37 and 8 making a total of 705 representing 4.54, 12.20, 25.25, 5.96, 0.57, 9.36, 25.96, 9.79, 5.25 and 1.13 percents making 100% respectively.

Table 11

Utilization of Informal Loans for Rural Development

Uses	No. of Respondents	Proportion in %
Social Activities	32	4.54
Farming	86	12.20
Trading	178	25.25
Cottage industry	42	5.96
Feeding	4	0.57
Educational support	69	9.79
Business support	183	25.96
Ceremony support	66	9.36
No support at all	8	1.13
Other support	37	5.25
Total	705	100.00

Source: Complied for Questionnaires

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It is evident that the highest portion of the funds obtained from the IFS is channeled into trade. This does not imply that farming takes a subordinate position in the economic activity of the people. More funds are channeled into trade than agriculture because of the subsistence level of agricultural practice in the area. Most farmers do not pay for the land they use as land ownership is usually saved from the preceding harvest oral donation from friends and family members. Labor is usually free as it is provided by farmer's wife, children and relations; and where labor is paid for, it is normally at a very cheap rate because of the low income level characterizing the rural sector. When loans are contracted for agricultural purposes, it is usually to buy fertilizers, simple farm tools, etc. These are the reasons why only 12.20 percent of the total funds obtained from IFS are channeled into the agricultural sector. Some of the traded items in the area includes food items, beverage, cold drinks, cloth (both English and traditional clothe), light household materials, etc. During the time of plenty (harvest period) the traders buy large quantity of food items that are not easily perishable and sell when the price has hiked as a result of scarcity. This is a useful economic activity as it helps to even out the supply of these commodities. The traders approach their various financial societies to source for funds to engage in all these trading activities.

Another prominent use to which funds obtained from the informal financial sector is put is education of children and wards. This is a highly developmental activity as these children when gainfully employed divert some of the money they earn in the city into these rural areas. They build modern houses and help in the training and education of other children from the community. Another identified area from which funds from IFS is channeled is in cottage industry e.g. pottery, basket making, carpentry, tailoring, etc. Funds thus obtained are used in procuring the necessary tools and machineries used in the industry. From the information gathered from the respondent loans obtained from IFS is hardly used for feeding purpose because most of the dwellers of the area under survey are farmers of some sort. Even when an individual is engaged in another occupation, he/she still involves in farming as a supportive activity. This obviates the need to contract loan for feeding purpose in the area under survey. The respondent that claimed other uses for her use of loan stated that she used the loan to repay a past loan obtained from a community bank. The total number of respondents in the table above is more than the total number of people interviewed because some of the respondents chose more than one option. Some even ticked as many as four.

The last question is: In what ways do the investments of loans from the informal sectors on the various sources identified above affect the generality of the people and improve the rural community as a whole? Most of the respondents believe that the IFS help the community by providing funds to promote business activities. Another high percentage (consisting mainly of women) believes that the IFS are useful to the society especially during ceremonial periods. They stated that these societies provide both financial and moral supports to members who are involved in one form of ceremony or the other. Respondents who believe that the IFS help in meeting agricultural practices in the area are 12.20 percent of the total respondents. A proportion of 1.55 percent believes that the informal sector serves no useful purpose of any kind to the community in which they thrive, while 2 respondents claimed that the IFS serve some other purposes to the society than those identified in the options, but they failed to identify these other supports.

Summary of Findings and Conclusion

This study examined the extent to which the informal financial sector mobilized savings for rural development in Nigeria using Ekiti State as a case study. It discusses the nature and types of savings mobilization strategies of the various informal financial institutions, which are found to be the major dominant means of savings and obtaining credit among the populace of the State, in comparison with the formal financial institutions. The major attractions and functions of the former that are lacking in the latter were discussed. For instance, the informal financial system facilitates effective mobilization of small savings, granting of loans to many rural dwellers that are ill-equipped to obtain loans from formal financial institution and perform other developmental finance functions that benefits the generality of the people.

Analysis of the questionnaires randomly administered to 1,100 respondents in all the 16 local governments of Ekiti State during the study period revealed that:

i) *Ajo* appears to be the most prominent among the family of informal financial savings strategy, while money lending is declining in importance.

ii) Most rural dwellers still prefer informal institutions to banks.

iii) Funds mobilized are effectively allocated to such activities as trading, farming, financing of formal education, etc.

iv) Informal financial institutions help greatly in improving the rural community by providing funds for activities such as business, agriculture, that accelerate rural development.

v) The major problems besetting the effective performance of these institutions however, include utter neglect and lack of official recognition of their activities, poor or inadequate capital base for effective operation, poor record keeping or crude accounting systems and gross mismanagement or embezzlement of funds by the managers or leaders.

Based on the foregoing, the following concluding remarks can be made regarding better performance of the informal sector for savings mobilization and rural development in Nigeria, as well as in other developing countries:

Informal financial institutions should be given proper recognition and adequate consideration in the nation's financial system. To this effect, government should redesign her regulatory policies to formalize and standardize the operations of the major institutions in the informal financial sector. However, such regulations should not be framed in a way that will totally cripple or paralyze institutions' activities, but effectively enhance their performance for maximum contribution to development.

Massive awareness programs and campaigns should be conducted on the relevance of informal sector to rural savings and development. More members should also be encouraged to participate so as to increase the level of total savings attracted by these institutions. More enlightened people should also be encouraged to join these institutions, in order to utilize their superior skills to improve the sector.

Serious efforts should be made by both the government and relevant institutions concerned to reduce the level of mismanagement and loan default in the informal sector. This would be best done by showing more interest in the use to which loaned funds are put and in making sure that they are spent on profitable ventures and reasonably invested on projects that are capable of yielding long term returns. Furthermore, money lenders should be made to

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show more interest in the use to which their loans are put. Members of the cooperative thrift and credit societies can employ the services of experts like agriculturalists, lawyers, and investors etc. to advise members on their investments. Appropriate means should be devised to ensure loans given out by the informal institutions so as to reduce loan default.

The Nigeria Agricultural, Cooperative and Rural Development Bank (NACRDB) should be reorganized with a view to establishing a window for effective rural banking and finance. That is, the window will specifically cater for the '*Esusu'* and *'Ajo'* collected daily. The *Ajo* and *Esusu* collector will depend on the window for deposit of the funds mobilized. This implies that the working hours of the window will be quite informal while officer working in the window will have a local touch and commercial orientation. The link here is that the window generates funds from the rural sector through *Ajo* and *Esusu* to swell the deposit of formal bank, while commercial rates of interest are paid on the *Esusu* and *Ajo* mobilized-fund.

Finally, the existing community banks should take advantage of the rural setting in which they are located to operate differently from conventional commercial banks by switching their urban oriented banking procedures to using aggressive rural-oriented banking strategies. This step, if taking, will help in achieving a more reliable loan portfolio with greater loan productivity, leading in turn to a greater level of local deposits.

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