INFORMAL FINANCIAL INSTITUTIONS' CREDIT AND POVERTY ALLEVIATION IN NORTH CENTRAL-NIGERIA: A BINOMIAL LOGIT REGRESSION APPROACH

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ABSTRACT

This study seeks to investigate the link between Informal Financial Institutions' Credit and Poverty Alleviation in North Central States Nigeria. A Binomial Logit Regression approach was employed with data from structured questionnaires having IFIs credit and SMEDEV as variables. The finding revealed that there is a significant impact of Informal Financial Institutions' Credit and poverty alleviation in north central-states-Nigeria. The study therefore concluded that there exists a significant relationship between IFIs credit and poverty alleviation in north central-Nigeria. The study recommends among others that education of the rural poor to embark on viable projects, disbursement of fund through Informal Financial Institutions (IFIs) and favorable government policies so as to make the sector becomes relevant.

Keywords: IFIs Credit, Economic growth, Poverty Alleviation and SMEs

1. Introduction

Poverty reduction has been receiving increasing global attention and the challenges are becoming more daunting. It is, however, encouraging to note that research findings and empirical evidence have shown that significant poverty reductions are possible and have, indeed, occurred in many developing countries with appropriate policy put in place. In particular, it has been established that economic growth and poverty reduction go hand- in- hand. For example, studies have revealed that the absolute number of people living in poverty has dropped in all the developing countries that have experienced sustained rapid economic growth over the past few decades. (Adam, 2015).

Evidences have shown that Small and Medium scale Enterprises (SMEs)

provides an effective means of stimulating indigenous entrepreneurship, enhancing greater employment opportunities per unit of capital invested and aiding the development of local technology. (Yelwa et al., 2012).

Poverty in both relative and absolute terms is 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 (Adeyemi, 2014).

In Nigeria, Narayan, (2009) is of the view that about 80 percent of Nigerians finds it extremely difficult to maintain a minimum standard of living that meets up with the above variables. In other words, majority of Nigerians are living below poverty line, showing that the level of poverty in Nigeria is very high. This is alarming and surprising; it ought not to be as Nigeria is naturally endowed with enough mineral resources including oil and gas coupled with the fact that she has earthquake and tsunami-free environment. (Anyanwu, 2014).

Presently, it has become very difficult if not impossible for many Nigerians to live above the poverty line. Accessibility to credit facilities is also very difficult for women and men, farmers and people who are poor. The increase rates of inflation and exchange rate have made businesses difficult to operate in the north east-Nigeria which has also increased the rate of unemployment and hence, poverty rate (Adeyemi, 2014).

In relation to the above, the failure of most programmes by successive governments in Nigeria to tackle the menace of poverty among the general population is due to political instability, corruption, bureaucratic bottleneck, lack of sincerity of purpose, elitist orientation of the programmes and the inability of the formal financial institutions to grant loans/credit facilities to the poor resulting from non-provision of collateral security have been responsible for this situation.

The percentage of the population that was poor grew from 15% to about 70%. Furthermore according to the World Bank and UNDP 2011 statistics revealed that Nigeria which impressively ranked 6th in petroleum export in the world with huge revenue is surprisingly classified as the 25th poorest nation in the world, World Bank Report, (2014). This shows that the money have not effectively channels towards the right direction on poverty alleviation.

However, the inability of the Former Financial Institutions (FFIs) to grant loan (credit) to the Small and Medium scale Enterprises (SMEs) which are mostly the poor, because of the stringent conditions such as collateral has brought the need for Informal Financial Institutions (IFIs).

It is on this basis that development of SMEs through effective channels such as the Informal Financial Institutions is paramount important so as to be able to increase output which has a direct effect on the entire economy. On this note, the study seeks to investigate the link between IFIs' Credit and poverty alleviation in north central states-Nigeria.

2. Literature Review

2.1.1 Concept of Poverty in Nigeria

Central to the quest for policies and programmes that will reduce poverty is the issue of the conceptualization of poverty. Conceptually, three dominant views are identified as the meaning of poverty in the literature. The first view sees poverty as a severe deprivation of some basic human needs at the individual or household level, (Obadan, 2009). Put differently, poverty is a material deprivation and this can be assessed in monetary terms. (Aliyu, 2012).

The second view defines poverty as the failure to achieve basic capabilities such as being adequately nourished, living a healthy life, possession of skills to participate in economic and social life, permission to take part in community activities to mention a few. This conceptualization forms the basis for the belief that 'poverty is multi–dimensional' (Senn, 2009).

The third conceptualization of poverty came into limelight in the 1990s and has a fundamentally different approach to the understanding of poverty: subjective poverty assessments. The core of this view of poverty is that poverty must be defined by the poor themselves or by the communities that poor people live in. (Streeten, 2008).

2.1.2 Concept of Informal Financial Institutions

In Africa, the vast majority of financial transactions occur outside the boundaries of the regulated banking sector (Aryeetey and Udry, 2007). It is estimated that 55 percent of the money supply in Nigeria is for instance outside the formal banking sector (Okezie, 2009). Informal lenders provide more credits and attract a larger volume of savings than the formal sector in sub-Saharan Africa (Nissanke and Aryeetey, 2013).

It is important to understand how the Informal Financial Sector works for effective policy making. Three types of informal units have been identified in Africa; including savings mobilization units with little or no lending; lending units that do not engage in any savings; and savings mobilization and lending units (Obadan, 2014).

The Informal Financial Sector is an unregulated market and hence highly flexible with respect to structuring credit arrangements. It is therefore not guided by stringent rules and regulations such as the formal sector. The informal sector is characterized by a strong working relationship between borrowers and lenders, and is more responsive to market conditions. It is also common to see individuals and businesses participating in both the formal and informal sectors. This is particularly true among enterprises, a number of which are controlled and managed by families, friends and relatives with full access to formal sector capital markets.

Berko (2010) noted that the earliest but most 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 inhumanizing of human race practices had been phased out in Nigeria because of Christianity and civilization.

Umebali (2012) 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.

According to Osuntogun and Adeyemo (2015), 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

Robinson (2001) defined microfinance as the supply of loans, savings and other basic financial services to the poor. IFI evolved as an economic development approach intended to benefit the low-income part of a given society, both men and women (Irobi, 2008). According to World Bank (2007), the term refers to provision of financial services (including saving and credit) to the poor.

2.2 Empirical Review

Yelwa, et al. (2012), carried out a research on the relationship between Informal Financial Sector and Financing of the Small and Medium scale Enterprises in Nigeria using descriptive analysis in Niger state. He concluded that Informal Financial market operators in Minna, Suleja, Bida and Kontagora have contributed largely to investment, job creation, income generation, and easy accessibility to credit facilities and supports the production and distribution of goods and services to the people of the towns.

Osuagwu (2012), found that the following four factors determine investment: The expected rate, the supply of funds, Absorptive capacity and the government policies adopting Ordinary Least Square (OLS) method. Based on the study, he concludes that the inadequacy of investment in the economy supply was caused by government policies, limited supply of investment fund i.e. micro- credit and slow rate of expansion of the absorptive capacity due to lack of innovation in the technological development.

Fowowe and Abidoye (2011) examine the effect of financial development as measured by private credit on the growth of poverty and inequality in Sub-Saharan African countries using Linear Probability Model (LPM). Their findings show that private credit has no significant influence on poverty in these countries. However, empirical results show that macroeconomic variables such as low inflation and trade openness engender reduction of poverty.

Ariyo, (2015), brought out the need to embark on SMEs development by pointing out the significance of Small and Medium scale enterprises on the economy of Nigeria using Multivariate Logit Model method. He posited that more than 50 percent of businesses in Nigeria are classified as small and medium scale. However, since most businesses are in this category, it is therefore necessary for the government to initiate policies and programmes that will promote the activities of the SMEs since it will have a positive impact on the overall economy such as job creation, improved standard of living, reduces prostitution and violence among youths.

2.2.1 Poverty and Economic Growth

The relationship between poverty and economic growth is that they are empirically needed in growth comparison: A nation without poverty or a reduced level of poverty is definitely having a consistent and reliable economic growth. Nigeria without economic growth and development cannot increase the welfare of the people and would definitely bring about the prevalence of extreme poverty.

Mwakapui, (2012) sees Economic growth as an increase in a country's productive capacity, identifiable by a sustained rise in real national income over a period of years. A country's annual growth, can be measured by taking the average percentage increase in national income over a long period of time, say five or ten years.

A growing labour supply enables a community to produce bigger combination of goods and services and so bring about an outward shift in it production possibility frontier. This in turn leads to an increase output per head and hence a potential improvement of the social welfare of citizenry. An expansion of a country capital stock through net investment, just like an expansion of its labour forces, increase the country Stock of productive resources and so represent another possible source of economic growth. (Tonge *et al.*, 2013).

2.3 Theoretical Framework

The theoretical framework for this study is rooted on the work of Mc Kinnon and Shaw (1973) Financial Repression Theory, which propounded that Informal Financial Institution came into existence because of excessive regulation of the formal sector with the use of policies of direct control such as interest rate ceilings and prescribed credit allocation to government and its parastatals.

This led to distortions in the economy resulting in crowding out of the financial needs of the informal sector by the formal financial institutions. In addition, the effective cost of funds to small and medium scale enterprises became excessively high. However, the imposition of interest ceiling often below market interest rates usually induces excess demand for loanable funds, thus leading to credit rationing by banks and other financial institutions and the existence of parallel financial markets with higher market clearing interest rates.

3.Methodology
3.1 Study Area

The study was conducted in the North Central, Nigeria. These areas consist of the selected three states situated geographically in the middle belt region of the country, spanning from the west, around the confluence of the River Niger and the River Benue. The region is made up of the following states: Benue, Kogi, Kwara, Nasarawa, Niger and Federal Capital Territory (Abuja).The region itself is rich in natural land features, and boasts of some of Nigeria's most

exciting scenery. The region is also home to many historical and colonial relics.

The selection of these states was based on the growing SMEs in these states because of their growing population. For instance, FCT used to be known as businesses headquarters, but recently, because of the growing population in the region with about 6 million people, the growth of SMEs have been on a high side. The same apply to Kogi and Niger state because of their proximity to the FCT.

3.2 Nature and sources of Data
This study relied on primary data. The primary data consisting of 850 questionnaires distributed which was determined by Krejcie and Morgan (1970); while 700 returned and valid was used for the analysis.

3.3 Analytical Framework
Logit Model
The ordered logit model in its modern form was proposed by McElvey and Zavoina (1969) for the analysis of ordered, categorical, non-quantitative choices, outcomes and responses. The model is used to describe the data generating process for a random outcome that takes one of a set of discrete, ordered outcome. Ordered choice models are appropriate for a wide variety of settings in the Social and Biological Sciences Dunn, & Archucle, (2011).

Since the variables for this study is based on the ordered Likert scale of "Strongly Disagree", "Disagree", "Unsure", "Agree" and "Strongly Agree", the ordinal logit regression model is appropriate in analyzing and testing the hypotheses of the study:

The logit regression is based on the logistic model given by:

$$Y = \alpha + \beta X + \mu \; \text{-----------------------------(3.1)}$$

$$E\left(\frac{1}{X}\right) = \alpha + \beta X = Pi \; \text{-------------------------(3.2)}$$

$$P = \frac{1}{1 + e^{-\alpha + \beta X + \mu}} \; \text{----------------------(3.3)}$$

The above equation (3.3) is a cumulative logistic distribution function and the probability ranges between 0 and 1.

$$\text{Let } Z \text{ be } \alpha + \beta X + \mu \text{------------(3.4)}$$

$$P = \frac{1}{1 + e^{-Z}} \text{------------(3.5)}$$

$$1 - P = 1 - \left[\frac{1}{1 + e^{-Z}}\right] \text{------------(3.6)}$$

$$P = \frac{1}{1 + e^{-Z}} = \frac{e^Z}{e^Z + 1} \text{------------(3.7)}$$

$$\frac{pi}{1 - pi} = e^Z = Odd\ Ratio \text{------------(3.8)}$$

Since Logit = Log of odd ratio

$$\text{Therefore, } Log\left[\frac{pi}{1-pi}\right] = Log\ e^Z \text{------------(3.9)}$$

$$Log\left[\frac{pi}{1-pi}\right] = Z\ Log\ e \text{ but } Log e = 1 \text{------------(3.10)}$$

$$\text{Therefore, } Log\left[\frac{pi}{1-pi}\right] = Z \text{------------(3.11)}$$

$$Log\left[\frac{pi}{1-pi}\right] = L = \alpha + \beta X + \mu \text{------------(3.12)}$$

Equation (3.12) is the Logit model framework.

3.4 Model specification

The models will be specified based on the hypothesis as follows:

H_{o2}: There is no significant contribution of IFIs credit on poverty alleviation in north central states-Nigeria which is specified as:

$$Log\left(\frac{P}{1-P}\right) = L = â_0 + â_1\ IFI\ CRE + â_2\ SMEDEV + \mu \text{------------(3.13)}$$

Where:

L = P=1, If IFIs alleviates poverty in Nigeria; (1-P), if otherwise.

IFI CRE = Informal Financial Institutions' Credit

SME DEV = Small and Medium Scale Enterprises Development

3.5. Measurement of Variables

Table 3.1

S/N	Variable	Measurement	Expected Sign on impact	A priori
	POV = Poverty Alleviated by Informal Loan. Dependent Variable	1, if Informal loan reduces poverty, 0, if otherwise.	±	ë₁> 0, ë ₁< 0
	Indepe ndent Variables Owner's Characteristics Variables			
1.	IFI CRE	1, if IFIs have contributed positively to SMEs development in terms of business expansion; 0, if otherwise.	+/ Based on Adai, (2007) and Bamidele, (2011)	ë ₉> 0,

Source: Author's compilation, 2017

3.6 Sample Size Determination

The cross sectional data for this study was obtained using questionnaires. Based on the Krejcie and Morgan, (1970) table with a deterministic model as:

$$S = \frac{X^2 \, NP \, (1 - P)}{d^2(N - 1) + X^2 \, P(1 - P)}$$

Where:

S = Sample size X^2 = Value of Chi-square   N = Population size
P = Population proportion   d = Degree of accuracy

Based on this proposition by Krejcie and Morgan, (1970), a sample size of 850 questionnaires was recommended using 95% confidence interval. In addition, the minimum sample size would be determined on the basis of 30 cases per variable/item for an accurate representation of the first canonical root (Stevens, 2001). The Bowley's model of deriving objective, valid and reliable sample was used which reduced the chances of error.

3.7 Methods of Data Analysis

The Maximum Likelihood (ML) method is used to obtain estimates for the specified binomial 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. Moreover, that the Logit model is a nonlinear 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 (Patrick, A; Leonard S; Patricia M.Y and Ernest T; 1996).

3.5.4 Distribution of Questionnaires and Response rate

A total of eight hundred and fifty (850) copies of the questionnaire were administered across the two States and the FCT in the North Central covered by the study. The basis of distribution of the copies of the questionnaire was based on the population from each region which is in line with Krejcie and Morgan (1970). The details of the questionnaire distribution and response rate are shown in Table 3.2 below:

Table 3.2 Questionnaire Distribution / Response Rate of Micro & Small Enterprise Operator

	I	II	III	IV	V
States in North Central Zone	**No. of Registered SMEs**	**Percentage of the population (%)**	**No. of Questionnaire distributed**	**No. of questionnaires returned**	**Rate of Response (%)**
Abuja FCT	6000	48.8	415	342	49.0
Kogi	3800	30.9	263	216	30.9
Niger	2500	20.3	172	142	20.1
	12300	**100**	**850**	**700**	**100**

Source: Researcher's Analysis of Field Survey, 2017

As mentioned earlier, Table 3.2 shows the questionnaire distribution and response rate across the three regions in the North Central geopolitical zone. A total of 415 copies of the questionnaires, representing 48.8% of the total sample size were administered in Abuja, FCT. In Kogi State, a total of 263 copies of the questionnaire were distributed, representing 30.9% of the sample size. In Niger, 172 questionnaires representing 20.3% were distributed of the total sample size.

According to Saunders, Thornhill, & Lewis (2007), there are two methods of calculating a response rate: one is total number of responses divided by total number in the sample minus ineligible; the other active response rate, is total number of responses divided by the total number in the sample minus ineligible plus unreachable. Method one was used in this study. Out of the 415 copies of the questionnaire distributed in FCT area, 342 copies were adequately completed and returned. This represents 49.0% response rate. In Kogi State, 216 copies of the questionnaire were returned and that represents 30.9% response rate. In Niger state, 142 copies of the questionnaire were adequately completed and returned; these represent 20.1% response rate respectively.

In all, a total of 700 copies of the questionnaire were returned from the two States and the FCT out of 850 copies administered. This represents a total response rate of 82.4%. The high return rate achieved from the field survey can be attributed to the support received from the credit/field officers in the areas.

4.1 Data Analysis
4.1.1 Characteristics of Respondents
Table 4.1: Credit from Formal/Info rmal Financial Institutions to SMEs

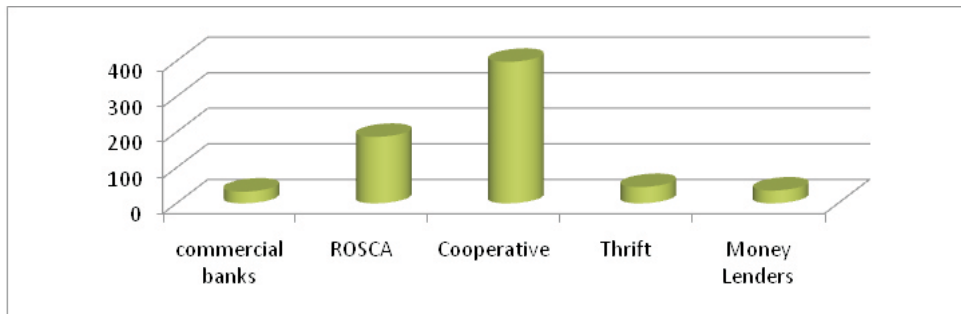| RESPONSE	NO. OF RESPONDENTS	PERCENTAGE (%)
Commer cial banks	33	4.71
ROSCA (Ajo , Etoto)	187	26.71
Cooperatives	398	56.86
Thrift	46	6.57
Mo ney Lenders	36	5.1
Total	**700**	**100**

Source: Field Survey, 2017

FIG 4.1: Credit from Formal/Informal Financial Institutions to SMEs Source: FieldSurvey, 2017

Table 4.1 shows that 33 respondents representing 4.71% got their loans from commercial banks, 187 respondents representing 26.71% made use of ROSCA, 398 respondents representing 56.86% got their credits from cooperatives, 46 respondents representing 6.57% made use of thrift collectors while 36 respondents representing 5.1% used money lenders. This shows that majority of respondents got their credit through Informal Financial Institutions.

Table 4.2: Contribution of IFS to SMEs

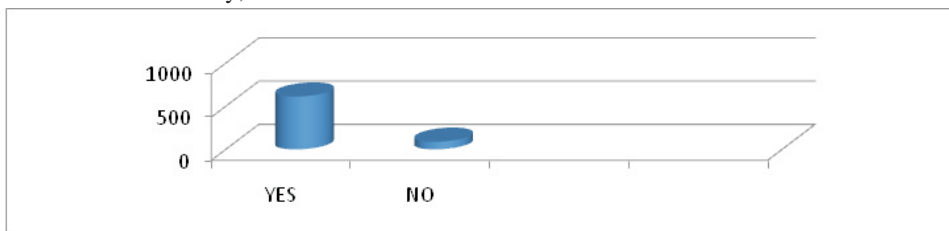| RESPONSE	NO. OF RE SPONDENTS	PE RCENTAGE (%)
Yes	612	87.43
No	88	12.57
Total	700	100

Source: Field Survey, 2017

FIG. FIG 4.2: Contribution of IFS to SMEs
Source: Field Survey, 2017.

From table 4.2, 612 respondents representing 87.43% are of the opinion that IFI is capable of contributing to the development of SMEs in North Central Nigeria while 88 respondents representing 12.57% are of the opinion that IFI is not capable of contributing to the development of SMEs in North central Nigeria.
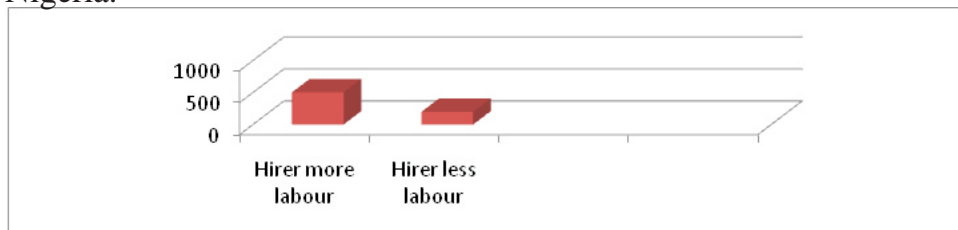

FIG. 4.3: IFI and Additional Labour
Source: Field Survey, 2017

Table 4.3 shows that 502 respondents representing 71.71% are saying that IFI funding to employment generation is highly effective while 198 respondents representing 28.29% are of the opinion that IFI funding is poorly effective.

Test of Hypothesis
Step One: Restatement of Hypothesis in Null Form
H_{o3}: Informal Financial Institutions Credit has no significant relationship with poverty Alleviation in north central states of Nigeria.
The binomial logit model is specified below:

$$Log \left(\frac{P}{1-P}\right) = L = â_0 + â_1 IFI\,CRE + â_2\,SMEDEV + \mu \text{----------------------(4.3)}$$

Step Two: Presentation of Regression Results
The multiple regressions is to be estimated, where the coefficients $â_1$ and $â_2$ to be estimated, are used to measure the contribution of independent variables to dependent variable.
The binomial logit model is stated below:

$$Log \left(\frac{P}{1-P}\right) = L = â_0 + â_1 IFI\,CRE + â_2\,SMEDEV + \mu$$

A binomial linear Lobit regression method of estimation was applied to our earlier outlined methods. The overall results are expressed below.

Dependent Variable: L
Method: ML - Binary Logit (Quadratic hill climbing)
Date: 03/27/17 Time: 06:27
Sample: 1 700
Included observations: 675
Conver gence achieved after 5 iterations
Covariance matrix computed using second deriva tives

Var iable	Coefficient	Std. Error	z-Statistic	Prob.
C	9.263565	3.397716	2.726409	0.0064
IF I CRE	-0.840976	0.078501	-0.521976	0.0017
SMEDEV	-0.227095	0.317528	-2.762260	0.0057

McFadden R-squar ed	0.557388	Mean dependent var	0.660000
S.D. dependent var	0.518518	S.E. of regression	0.429820
Akaike info criterion	1.149006	Sum squared resid	8.683043
Schwarz criterion	1.263727	Log likelihood	-25.72514
Hannan-Quinn criter.	1.192692	Deviance	51.45029
Restr. Deviance	64.10355	Restr. log likelihood	-32.05177
LR statistic	12.65326	Avg. log likelihood	-0.514503
Prob(LR statistic)	0.001788		

Obs with Dep=0	222	Total obs	675
Obs with Dep=1	453		

Source: Author's Computation, E-views 7 (2017)

Table 4.5: Regression results-dependent variable, IFIs in alleviating poverty

IFIs in alleviating poverty	ODD RATIO	S.E	P-VALUE
IFI CRE	2.32[*]	2.762	0.0017
SMEDEV	1.26[**]	0.522	0.0057

*** 1% significance level, **5% significance level, * 10% significance level

A binomial linear Logit regression method of estimation was applied to our earlier outlined methods. The overall results are expressed below:

$$Log \left(\frac{P}{1-P}\right) = L = 9.263565 + 0.840976 IFI\ CRE + 0.227095 SMEDEV$$

$$Z = \quad (-2.726489) \quad (2.762268) \quad (0.521976)$$

$$McFadden\ R^2 = 0.557388 S.E = 0.429820$$

Step Three: Interpretation of Result

The regression above shows that the two explanatory variables (IFIs credit and SMEs Development) are statistically significant at 5 and 10 percent respectively. The result shows that the odds ratio of education (IFI CRE) against the IFIs chance of alleviate poverty is 2.32. This means that 68 percent of respondents pulled out of poverty as a result of IFIs credit; while 32 percent are not. The working hypothesis is that IFI CRE has a significant negative effect on IFIs in alleviating poverty. This implies that credit from the IFIs has really contributed to numerous people; which is due to the removal of the stringent conditions such as collateral and others.

However, the result also shows that the odds ratio of SMEDEV against the IFIs chance of alleviating poverty is 1.26. This means that about 70 percent of respondents agreed that IFIs credit brought about SMEs development and hence poverty alleviation in north central states-Nigeria; while only 30 percent disagreed. This is significant at 10 percent.

The finding agrees with the outcome of Yelwa et al. (2012) who noted that Informal Financial Market operators in Minna, Suleja, Bida and Kontagora have contributed largely to investment, job creation and income generation in the area. The result also agrees with the findings of Khandker, (2008) that every tekas lent to a woman in Bangladash for investment purpose generates extra 0.18 tekas to annual household expenditure.

The McFadden R-squared value of 0.5573880 implies that about 56 percent of the change in the dependent variable was explained by the explanatory variables of the model.

Step Four: Decision

Based on the significant relationship that exists between IFIs credit, SMEs development and the chance of being able to alleviate poverty, we therefore reject the null hypothesis and **accept** the alternative meaning that there is significant relationship between Informal Financial Institutions Credit and poverty alleviation in north central states-Nigeria

5. Conclusion and Recommendations

The findings revealed that informal financial institutions are an integral part of rural economic life and an alternative source of credit for rural people. Their existence in the north central states-Nigeria has contributed significantly towards poverty reduction through the disbursement of micro loans to their members for productive investment. However, the study recommends that education of the rural poor to embark on viable projects should be encouraged; infrastructural facilities should also be developed so as to reduce the overhead costs of the entrepreneurs which will also help to increase their revenue. The study also recommends favorable government policies so as to reduce loan defaults arising from unviable businesses while this will help to enhance more job creation.

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