# Do Informal Financial Institutions in Nigeria Matter for Savings, Investment and Growth?

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***Abstract***
*Finance is the process of channeling funds in the form of credit, loans or invested capital to those economic units that most need them or can put them to the most productive use. On the other hand, investment connotes the accumulation and commitment of funds to an economic project with expectation to earn a higher return over time. For there to be economic growth, capital in form of physical or human must be accumulated overtime by growing the income and downsizing consumption. For finance to facilitate investment in order for growth to take place, financial institutions must pool savings and direct them to viable investments. How informal financial institutions in Nigeria have fulfilled this role in our distressed economy is the crux of this paper. Primary data were sourced from 250 customers and workers of informal financial institutions and analyzed using the Statistical Programme for Social Sciences (SPSS) version 20.*

## 1.1 Introduction

Informal financial institutions are those that are not amenable to control by key monetary and financial policy instruments. Modern financial institutions which include commercial banks, merchant banks, savings bank, insurance companies etc, are the statutory financial intermediaries that channel funds from surplus economic spending units to deficit economic spending units, within the framework of legality.
In the pre-banking era, traditional financial institutions served and are still serving Nigerian communities relatively well. At some quarters, they perform some of the functions of modern banks, though in esoteric and recondite manner. They tend to be ubiquitous, though there are no records which show their numbers in any Nigerian rural 'town'. In spite of the array of banks and other financial intermediaries, traditional financial institutions continue to exist side by side with the modern financial system in the cities (Onoh, 2002).

According to Obadeyi (2015), the informal financial institutions are specialized to promote grass root banking towards achieving rapid integrated rural development and entrepreneurship development. The rapid growth of the informal sector in the recent years in most developing countries like Nigeria, has a number of implications for activities in this sector. For instance in the financial aspect, the strident condition attached to loan by the formal financial institutions e.g (commercial banks) and the inability of funds made available by existing banks to reach the poor segment of the population (which constitutes the largest proportion of the total population) have increased the relevance of the informal financial institutions which includes the activities of money lenders, pawn brokers and rotating savings credit association that provide credit services to meet the needs of borrowers (usually members) in short notice and with little or no control and restriction in the use to which the loans can be put (Noah, Gafar & Muftau, 2009).

Informal financial institutions contribute enormously to encouraging thrift, communal development and the promotion of education, general business and industry. Communities with many traditional financial institutions manifest a higher level of development due to high volume of savings and investment that are encouraged. In the absence of commercial banks and other financial institutions, they have constituted the only sources for the harnessing of funds of the relatively surplus economic units of the rural and urban areas (Onoh, 2002). 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 association, town union, local money-lenders and social clubs, etc.

Other forms of informal financial institutions that are well recognized are fixed fund associations and rotating savings and credit associations. The fixed fund associations are the ones in which each participant gives saving at regular interval to a treasurer who in turn, holds them for safe keeping and then returns the lump sum at the end of the year, or whatever period the group has decided on, while rotating savings and credit association (ROSCAS) known as Isusu in Nigeria are the ones whose members regularly (eg weekly or monthly) contribute a fixed amount that is allocated to each member in turn.

The rapid development and growth of any nation is determined by the level of capital accumulated (Solomon, 2016). Savings mobilization ensures that the deficit sector of the economy are adequately funded to stimulate growth and returns. Savings are defined as that portion of after tax income which is not spent on consumption of goods and services. Savings is regarded as residue or that part of income, which is not devoted to the purchases of household and firm (Nnebedum, 2008). On the other hand, investment is seen as the expenditure of funds leading to the creation of net addition to the stock of physical capital. Thus, adequate savings ensure that investment activities take place and without savings there can be no investment hence no increase in output to meet with increase in demand. The role of investment and access to credit in development process cannot be over emphasized as they perform so many functions (Mushtaq, 2016).

It is therefore pertinent to state that the development of any nation's economy is dependent on the value of savings, hence investment by citizens or foreigners resident in the country (Solomon, 2016). Nnebedum (2008) asserted that increase in savings was the result in a general curtailment in expenditure. If savings increase, investment will increase and economic development will be stimulated. Again, with increased investment, employment is bound to increase which will in turn increase demand, prices, profit and production, leading to economic growth of a country. Investment results as a consequence of capital accumulation which in turn depends upon savings, thus the relevance of the informal financial institutions as intermediaries for savings mobilization for investment purposes.

## 1.2 Statement of the Problem

Output can only grow through increased accumulation of capital and or technical progress. Informal financial intermediaries are, however replete with sophistications and limitations. The absence of rules and legislations relating to their operation has made it difficult to harmonize them. Although informal financial institutions roles in savings mobilization cannot be over emphasized, non-availability of accounting records and auditing process has made it relatively difficult for monetary authorities to assess their impact on savings accumulation in Nigeria. It is therefore imperative to find out what role informal financial institutions play in savings mobilization in Nigeria. Investment does not take place in obscurity. Basic ingredient needed is availability of capital. The savings mobilized by informal financial institutions are usually large to encourage borrowing and investment. However, one noticeable feature of these institutions is high interest charged on borrowings. Such interest rates are usually higher than the limit set by CBN and could range from 40-60%. This has led more borrowers to default in repayment, discourage borrowing, lowering returns on investment of the investors who are mainly low income earners and the poor.

The financial intermediation theory recognizes financial intermediaries such as informal financial institutions as catalyst for economic growth owing to their grassroots reach. While these institutions have thrived for years, their actual impact on the economy remains contested by past studies within and outside Nigeria. This is due to the poor record keeping and difficulty of the monetary authorities to regulate and control their activities. Distress or death of a thrift collector can lead to loss of the savers accumulated funds which could run into hundreds or thousands of Nigeria's naira while loss of investment incurred by an informal financial institution can bring about loss in the savers funds. Informal financial institutions generally have limited outreach due to their nature and primarily to paucity of loanable funds and as such contribute little to rural development. Their limited outreach also reduce the volume of savings mobilized and investment embarked upon by the institutions thus making less significant impact in savings mobilization and increased investment in the society. These factors and many more has raised more questions than answer on whether these institutions have impacted on Nigeria's economy.

## 2. Review of Related Literature

### Conceptual Framework

Savings is a sacrifice of current consumption that provides for the accumulation of capital which in turn, provides additional output that can potentially be used or consumption in the future (Gersouitz, 1998). In other words, savings is the difference between current earnings and consumption (Nwaobi, 2003). It has also been defined as 'deferred consumption" or part of income, which is not spent. Savings in an economy can assume one of several forms. These include personal savings, corporate or business savings and government savings. The major determinant of the amounts people save is the level of their income (Adekanye, 1986). The volume of saving is much higher in developed countries than in developing countries because they have a national income. Other factors which affect the level of savings include taxation, government policy towards savings, the availability of credit and the expectation of price changes.

### Investment

Investment can mean the deposit of savings in the form just described or it can mean the acquisition of new capital assets like plant, equipment and machinery, which provide for production of goods and services. According to Adekanye (1986), investment is regarded as an injection into an economic system. The majority of funds spent on investment come from money saved within the economy. Eboh and Osuji (2002) defined investment as the amount of current output that adds or replaces the national stock of real production assets. Investment takes the form of either domestic fixed investment or inventory investment. Domestic fixed investment is value of spending made on newly produced durable physical capital goods. The most familiar kinds of domestic fixed capital formation is producer's durable equipment, machinery, factories construction, commercial construction etc. Another kind of domestic fixed capital formation is investment in the construction of residential housing for rent or sale by either individuals or businesses. Other forms of investment included in national income accounts is inventory investment. This is the addition to the stock of goods which have not yet been sold to final buyers. Examples of inventory investment include: unsold finished goods, work-in-progress, stock of raw materials, etc (Eboh & Osuji, 2002). Investment has been seen as a component

**Financial Institutions:**

Financial institutions can be grouped into two namely; formal and informal financial institutions.

**1. Formal Financial Institution:** These are institutions that specialized in financial resources mobilization and make certain arrangement that encourages and mobilizes savings on one hand and channel such savings to productive investment. These institutions are generally set up under the rule governing financial institutions as implemented by the government's law and supervised by government apex financial institution such as the Central Bank.

**2. Informal Financial Institutions:** Informal financial institutions are financial institutions established by two or more persons with the purpose of mobilizing savings, providing financial aids or loans to members, governed by the rules establishing the institution and not under the purview of government regulation. Informal financial institutions are institutions that embraced all financial transactions that take place beyond the functional scope of various countries' banking and other financial sector regulations (Aryeetey, 1998). Informal financial institutions are also considered as financial institutions that are not directly amenable to control by key monetary and financial policy instruments (Chipeta & Mkandawaivre, 1991). According to Noah, Gafar and Muftau (2009), these institutions are usually created by organizations and individuals and are usually with no legal status. The informal financial entities are mostly created by individuals to meet up with financial purposes. These entities include money lenders, traders, estate owners, grain millets, small holder farmers, self-help groups, and other businessmen are institution. Nwaobi (2003) had earlier observed the great bulk of the African population makes little or no use of formal savings and lending institutions as they offer relatively low returns.

**Types of Informal Financial Institutions in Nigeria**

There are generally three types of informal financial institutions found in Nigeria which are:

**1.** Savings mobilization units that do little or no lending;

**2.** Lending units that seldom engage in savings mobilization

**3.** Units that combine deposit mobilization with some amount of lending albeit to members of distinct associations or groups mainly.

The definition of informal finance institutions in Nigeria pulls in such schemes as the operations of the Savings and Credit Associations (SCA), known all over Nigeria and Africa; professional money lenders; part time money lenders such as estate owners, traders, grain millers, small holders formers, employers, relations and friends; mobile bankers generally known as susu or esusu collector (also known a thrift collectors who visits shops, work places, market stalls and homes at agreed time on each day and collects funds towards a savings plan. Following this plan, a saver agrees to deposit a specific amount determined by himself/herself in consultation with the collector for an agreed period of time – usually a month –after which period, his/her deposits are returned less a day's deposit), credit unions, co-operative societies, etc. These have been observed in both urban and rural areas in West Africa and very popular amongst self employed and staff of small scale businesses in the community. Savings collectors fall under the first category of deposit mobilizers while money lenders, including relations and may be placed in the second category. SCAS, credit unions/credit cooperatives takes in deposits and also lend in rather varied forms (Aryeetey &

Udry, 1995).

The variation in the types of informal financial institutions derives from the fact that such institutions are purpose – oriented. Thus, depending on the socio-economic goals of communities, these institutions are developed to meet the demand for specific financial purposes and therefore respond to the demand of a distinct clientele defined by themselves, using various geographical and/or socio-economic criteria. While these institutions names and size may differ their mode of operation remains having a common principle of stepping into a particular niche in the market whenever possible. Studies (Aryeetey, 1994; Bagochwa, 1994; Chipeta & Mkandawire, 1994; Soyibo, 1994) have shown that informal financial institutions' activity thrives under both repressive and liberal financial sector policies. Study by Aryeetey and Udry (1995) also indicated that the performance of these informal financial institutions increases as long as the level of economic activity within the economy calls for increasing financial services from groups that cannot be reached by existing financial institutions.

**Classification of Informal Financial Institutions**

Traditional financial intermediaries may be classified into the following groups.

**1. Age Grade Associations:** Age grade associations commonly referred to as Isusu in Southern Nigeria, Esusu in the Niger Delta, are the most popular and most widespread of traditional financial institutions because they engage in savings, loan and mutual aid schemes. Traditional financial units which operate loan, savings and mutual aid schemes are popularly known by the above names. This institution is traditionally a revolving scheme (Onoh, 2002).

**2. Diaspora:** This is a financial institution set up by citizens of communities who reside outside the shore of the country with the purpose of providing the necessary funds that will cater for the socio-economic needs of the communities such as health care centres, road rehabilitation and construction, provision of boreholes, construction of schools, provision of scholarship schemes and many.

**3. Men and Women's Revolving Loan Associations:** These are set up by men and women alike and involves revolving loan schemes for members who are normally friends or closely related. This operates through monthly contribution made by members. The revolving scheme continues until each member has benefited from the scheme (Onoh, 2002).

**3. Family Fund:** This is an institution set up by family heads or members with the purpose promoting the well-being of the members of the family. In Nigeria, the family is usually an insurance corporation as noted by Onoh (2002). These funds cater for the education, business, building infrastructure and up bring of the family members.

**4. Town Union:** This is closely related to Diaspora, however, the difference is that they existed before Diaspora and comprises of indigenes residing in and outside the local community. This union is usually formed by indigenes residing outside the community for the purpose of identifying individuals from such community and rendering financial aid when necessary to the members. People who were originally from the same town, but were now living in remote urban centers, far from home meet at least once a month to exchange news and provide avenue for savings, loan scheme and grants. Business are known to have been financed from such funds while any support from the fund is refundable with interest (Onoh, 2002).

**5. Local Money Lenders:** This is one of the most common and much recognized informal financial institution at the grassroots in Nigeria. These group of people are easily accessible and provide loans to borrowers based on direct recognized or through third party serving as referee. The major problem with this type of financial institution is that the provide one of the costliest loans ranging from 30-70% interest rate and can easily embarrass borrowers who defaults since they have easy access and reach to homes of the borrowers. The main sources of money lenders' funds are their personal savings or fund set up by a union of money lenders.

**6. Social Clubs:** This institution is closely related to town unions, but the difference is that they comprise diverse ethnic groups coming together to provide recognition, avenue for savings, render financial aids and loans to members. Onoh (2002) considered them as a form of mutual insurance association who also provide fund to alleviate hardship during death of individual or his/her parents. They tend to provide a condolence purse to the dependent of deceased members, take over burial expenses such as the purchase of coffin, entertainment costs of mourners, conveyance of the corpse of the deceased member to the place of burial.

**7. Fixed Fund Associations:** The fixed-fund associations are the ones in which each participant gives savings at regular intervals to a treasurer who, in turn, holds them for safe keeping and then returns the lump sum at the end of the year, or whatever period the group has decided on. In this organization, there is no borrowing as it serves only for savings functions. Under more complicated arrangements the aggregate deposit of a group, or some portion of it may be earmarked to buy something, or finance a project of benefit to the entire group. Participants in these informal banking arrangements seem to believe that they save more than they would because of the discipline of having to regularly meet with the rest of the group and make a deposit. The association can provide members of variety of other economic benefits such as a means for organizing beneficial joint action, exchange of economic intelligence and assistance in technical and managerial aspects of their business (Nwaobi, 2003).

**8. Rotating Savings and Credit Associations**

Rotating savings and credit associations (ROSCAS) known as Isusu in Nigeria, Susu in Ghana, KO in Japan is defined by the World Bank (2004) as associations whose members regularly (eg weekly or monthly) contribute a fixed amount that is located to each member in turn (according to lottery, bidding or other system that the group establishes). Aredo (1993) inferred from this definitions that in ROSCAS each members agrees to pay periodically a small amount to a common pool so that each, can receive one large sum. If a member's turn comes early, it is credit mechanisms, if it comes later, it is a saving mechanisms (i.e. early recipients realize a real net gain, those later a real net loss).

The World Bank (2015) identified three types of ROSCAS common ROSCAS where the leader receives no special consideration (other than possibly getting the first fund); commission ROSCAS which pays their leaders and who in turn assume liability for defaults; and promotional ROSCAS which are used by merchants to sell their goods, especially consumable durables.

**Savings Transmission Processes by Informal Financial Institutions**

It has already been noted that most savings, especially by the relatively poor, are held in the form of real assets. This equilibrium portfolio allocation results both from the poor performance of financial assets and from the strong demand for owing the real assets which are used directly in production. These, in turn, are both consequences (in large part) of information asymmetries (Aryeetey and Udry, 1995). The poor performance of financial assets is not particularly surprising, because financial "saving" is subject to precisely the same information and enforcement difficulties as "lending". As a result, much of the financial savings which do occur is held within close social groups in order to circumvent the moral hazard and adverse selection problems associated with entrusting assets to strangers.

Group saving schemes of one sort or another are known to operate in about half of all African countries (Aryeetey, 1994). Common to virtually all these schemes is the fact that the groups tend to be socially homogeneous. These groups help build what Besley and

Coate (1991) call ‘social collateral” by increasing information flows, providing benefits (which could be cut off) to members, and serving as a focal point for social interaction. Informal financial institution, therefore, in addition to its direct role in mobilizing savings, may serve to ameliorate the information and enforcement difficulties associated with other financial transactions (Aryeetey & Udry, 1995). The two broad categories of traditional financial institutions mobilizing savings are rotating and non-rotating. Rotating saving institutions provide a means of accumulating savings for the purchase of indivisible goods more quickly than can be done in autarky.
Non-rotating savings associations serve a different purpose, because savings are accumulated in the fund rather than distributed with each collection. These institutions provide the obvious benefits of reducing saving transactions costs and providing for inexpensive safekeeping of savings. In addition, however, a key properly of non-rotating saving institutions is the availability of a fund of savings which can be disbursed as loans to members in the case of emergencies. These savings institutions, therefore, play a role in providing insurance against the idiosyncratic risks faced by members of the group (Aryeeetey & Udry, 1995).

**Investment/ Lending Process by Informal Financial Institutions**
ROSCAS continue to play significant role in Nigeria but because of their rudimentary nature and ability to serve their members without boundary as these functions are performed in a crude manner (Nwaobi, 2003). Among the roles which ROSCAS have played in Nigeria, the provision of credit is perhaps most important as noted by Jerome (1991). Informal Financial Institutions such as ROSCAS provide institutional credit, which serves as an important means of channeling funds. In the process of mobilizing domestic savings, they are in a better position to tap the savings and spare money balances of the greater part of the community and are important intermediaries bridging the gap that would have existed borrowers and savers (Nwaobi, 2003).

The organization always emphasized the need for self help, individual effort and solitarily and are held to be particularly adopted to the need of rural populace and also tend to have the widest coverage. It has been observed by Aryeetey and Udry (1995) that attempts by various countries to liberalize their financial sectors has not reduced credit flow from informal institutions. In Nigeria and other countries such as Ghana, Malawi, South Africa, Cameroon, they have been steady growth in the flow of loan applications to informal lenders, and these have been matched by steady increases in the numbers of loans granted by various informal lenders (Aryeetey, 1994; Soyibo, 1994). A major characteristics of informal lending is that, whereas, credit from an individual lender to any set of borrowers may vary in terms of what credit package the borrower actually receives, the more significant variation is in terms of what package different types of lenders are able to put on the market. Adams (1992) noted that informal finance is able to tailor contracts to fit the individual dimensions, requirements, and tastes of a wide spectrum of lenders and borrower. While informal lenders are often perceived to have “outrageously high” interest rates, in contrast with formal lenders, there appear to be considerable variation in the rates of different informal lenders in many countries. It is noted that most informal lenders grant loans with maturities that lie anywhere between 1-12 months, but with 3-6 months loans dominating when others informal lenders made out loans to persons other than their traditional clientele, (who may be found indistinct groups), their lending rate were no different form those of money lenders. It would normally be expected that if informal lenders attached different interest rates. This has been found not to be the case in many cases (Aryeetey, 1994; Chipeta & Mkandawire, 1994). Rural interest rate were usually not much different from urban rates. Annualizing such rates is often not realistic since annual loans are seldom considered and the rate determination process differs when annual loans are been made. It is obvious that there is not a clear pattern to informal interest rates determination.

On collateral, it may be noted that, while the need to secure loans granted among money lenders and credit unions may be common practice, it is often not the case for other informal lenders security is taken for granted, in view of the nature of association. Similarly, savings collectors would require security only when they lend to non deposit clients. Even those lenders who require collateral are reluctant to foreclose in the event of loan nonpayment as collateral usually remains in the hands of the lender as the loan is renegotiated (Aryeetey & Udry, 1995; Nissanke & Aryeetey, 1995).

It is evident that investment in the form of credit from each segment of informal financial institution has been packaged to satisfy demand from specific groups. The loans from money lenders may be more expensive than formal loans, they are usually the only easy source of credit open to the general public. Moreover, they do not usually require that borrowers satisfy specific social obligations, such as membership of a group, hence, the high interest rate represent partly a risk premium for the lender giving up a sanctioning authority that is inherent in other informal arrangements that involve membership of a group. Money lending is also unique in the sense that, apart from ROSCAS, it is the only source from which borrowers are assured of a high probability of having their loan request met which makes borrowing from money lenders more acceptable.

The unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the in sustainability of government sponsored development financial schemes contributed to the growth of the private sector – led traditional institutions which have flourished all over Nigeria.

Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names; “esusu” among the Yoruabs of western Nigeria, ‘etoto’ for the Igbos in the East and ‘adashi’ in the North for the Hausas (CBN, 2000). The key features of these informal schemes in Nigeria are savings and credit components, informality of operations and higher interest rates in relation to the formal banking sector. The informal associations that operate traditional microfinance in various forms are found in all he rural communities in Nigeria (Otu, 2003). They also operate in the urban centers (Anyanwu, 2004). Their mosaic nature arises from the fact that they are not nationally standardized as there are not statutory previous regulating their organizational forms and mechanics of operations with more and more proliferation of the traditional financial units, it becomes all the more difficult to group them into main and sub units (Onoh, 2002).

Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of traditional financial institutions to enable them engage in economic activities and be more self-reliant, increase employment opportunities, enhance household income and create wealth (Nwaobi, 2005). The traditional financial institutions provide access to credit for the rural, low-income earners. They are identified as informal self-help groups or rotating savings and credit association’s types. The activities of the traditional financial institutions operators should be studied as they have implications on monetary policy.

**Problems of Informal Financial Institutions in Nigeria**

Inspite of their positive contributions, they have a number of short-comings, which became more and more obvious in the increasingly sophisticated economic environment in which they operate. The absence of rule and legislation relating to their operations has made it difficult to harmonize them. The fear is real, however, that if any attempt is made to regulate them, their operations may be stifled as a good number of the associations may not be able to conform to the minimum conditions, which such rules or legislation may impose (Onoh, 2002).

**1. Many of them have no accounting or administrative procedure**. Most informal financial institutions are privately owned or operated by a group who are note usually registered and recognized by law. Thus, their operations are neither guided by good accounting procedures or accountability except to officials where such exists (Solomon, 2016).

**2. Informal financial associations often resorts to unfair practices**. Informal financial institutions though may be the easiest source of loans, they are however known to be notorious in adopting unfair tactics to raise interest on loan funds during renegotiations or in the handling of the properties of defaulters which are worth may folds the amount of money borrower. Onoh (2002) laments that the seizure of a family land in the even of default, has very often led to feuding which may spread over many generations.

**3. High Interest Rate:** The high interest rate charged by the traditional financial institutions has also been criticized, providers of credits charge between 50% to 100% interest on borrowed funds and tend to embraces borrowers who default from repayment. It has also been observed that few days to the maturity date of loan repayment, lenders go to the home and office of the borrowers (Solomon, 2009). Money lenders are the biggest culprits in the arena of traditional finance. Their interest rate- charges are in same case over 100 percent of the actual value of the credit provided.

**4. Other associated problems:** There are various parallel problems that make informal financial institutions less attractive. Ostentatious living, pump pageantry characterize the origination. The professed objectives of providing succor to the needy and services to the communities are a cover-up of their main intention, because about two-thirds of the provisions of the 'constitutions' of the social clubs are devoted to mutually obligations (Onoh, 2002). Lack of trust and fear of default presents difficult problems to the members. The problems identified are the problem of saving mobilization, death of a member, lack of participation in decision making by most members and leadership problem (Noah, Gafar & Muftau, 2009).

## 3.1 Methodology

The research adopts the exploratory research known also as survey research design. Both primary and secondary data were used. Questionnaires were administered to 250 customers and workers of informal financial institutions in Umuahia and Okigwe LGAs in Nigeria. Secondary sources included other levels of information. Cluster and random sampling methods were used in determining the sample. The population for this study is all customers and staff of informal financial institutions in Umuahia and Okigwe LGAs.

**Analysis of Data**

Data was analyzed using frequency and mean score while the t-test was carried out using T-test from SPSS software.

To test the relationship between informal financial institutions and savings mobilization, we hypothesize in the null form that:

**Informal financial institutions do not play significant role in encouraging savings mobilization in Nigeria**.

**Table 3:1 Assessment of the relationship between Informal financial institutions and encouraging savings mobilization in Nigeria.**

| S/N | Item statements | X | SA 4 | A 3 | D 2 | SD 1 | Totals | Mean score $\bar{X}$ |
|---|---|---|---|---|---|---|---|---|
| 1. | Informal financial institutions encourage savings by households | F | **102** | **78** | **30** | **20** | | 722 / 230 = 3.14 |
| | | FX | 408 | 234 | 60 | 20 | **722** | |
| 2 | The ability of thrifts collectors to go from house to house and shop to shop makes savings easy | F | 89 | 91 | 27 | 23 | | 706 / 230 =3.07 |
| | | FX | 356 | 273 | 54 | 23 | **706** | |
| 3 | Informal financial institutions through their intermediation help to mobilize savings in Nigeria | F | 91 | 67 | 47 | 25 | | 684 / 230 =2.97 |
| | | FX | 364 | 201 | 94 | 25 | **684** | |
| 4 | Contributions made through associations are form of important savings | F | 97 | 87 | 29 | 17 | | 724 / 230 =3.15 |
| | | FX | 388 | 261 | 58 | 17 | **724** | |
| 5 | Savings mobilized by informal financial institutions form part of deposits in financial institutions such as bank | F | 99 | 67 | 39 | 25 | | 700 / 230 = 3.04 |
| | | FX | 396 | 201 | 78 | 25 | **660** | |

**Table 3.1** shows Assessment of the relationship between Informal financial institutions and encouraging savings mobilization in Nigeria. Responses on whether Informal financial institutions encourage savings by household's show that 102 strongly agreed, 78 agreed, 30 disagreed while 20 strongly disagreed. The average mean score was found to be 3.14 which implies that Informal financial institutions encourage savings by households.

Responses on whether the ability of thrifts collectors to go from house to house and shop to shop makes savings easy show that 89 strongly agreed, 91 agreed, 27 disagreed while 23 strongly disagreed. The average mean score to the response was 3.07 which indicates that the ability of thrifts collectors to go from house to house and shop to shop makes savings easy.

Responses that informal financial institutions through their intermediation help to mobilize savings in Nigeria shows 91 strongly agree, 67 agree, 47 disagree while 25 strongly disagree. The average mean score is 2.97 which implies that Informal financial institutions through their intermediation help to mobilize savings in Nigeria

Responses on contributions made through associations are form of important savings, 97 strongly agreed, 87 agreed, and 29 disagreed while 17 strongly disagreed. The average mean

score of 3.15 which indicates that contributions made through associations are form of important savings.
Responses that savings mobilized by informal financial institutions form part of deposits in financial institutions such as bank shows that 99 strongly agreed, 67 agreed, 39 disagreed while 25 strongly disagreed. The average mean score of 3.04 is which indicates that savings mobilized by informal financial institutions form part of deposits in financial institutions such as bank.

**Table 3:1a T-Test for Hypothesis One**
**One-Sample Statistics**

| | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|
| Informal financial institutions and encouraging savings mobilization in Nigeria | 5 | 2.7180 | .47325 | .21165 |

**One-Sample Test**

| | Test Value = 0 | | | | | |
|---|---|---|---|---|---|---|
| | t | Df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Informal financial institutions and encouraging savings mobilization in Nigeria | 12.842 | 4 | .000 | 2.71800 | 2.1304 | 3.3056 |

**Source:** SPSS 20.

The result shows that the mean is 2.7180 which is above 2.5 an indicated that the result is positive. The T-Statistics is 12.842 with a significance value of 0.000 thus, the alternative hypothesis is therefore accepted that Informal financial institutions play significant role in encouraging savings mobilization in Nigeria.
To investigate the power of the informal financial institutions in Nigeria to influence investment, we hypothesize in the null form as follows:

**Informal financial institutions do not significantly influence investment in the economy of Nigeria**.

**Table 3:2 Assessment of extent informal financial institutions influences investment in the economy of Nigeria**

| S/N | Item statements | X | SA 4 | A 3 | D 2 | SD 1 | Totals | Mean score X |
|---|---|---|---|---|---|---|---|---|
| 6. | Informal financial institutions provides loans with less stringent measures | F | **108** | **78** | **39** | **5** | | 749 / 230 = 3.26 |
| | | FX | 432 | 234 | 78 | 5 | **749** | |
| 7. | Informal financial institutions provide loan facilities to all form of customers | F | 123 | 88 | 9 | 10 | | 784 / 230 =3.41 |
| | | FX | 492 | 264 | 18 | 10 | **784** | |
| 8. | Easy access of loans from informal financial institutions raises investment in the community | F | 111 | 78 | 15 | 26 | | 734 / 230 =3.19 |
| | | FX | 444 | 234 | 30 | 26 | **734** | |
| 9. | High interest rate charged does not deter borrowing as long as the investment breaks even. | F | 102 | 101 | 13 | 14 | | 751 / 230 =3.27 |
| | | FX | 408 | 303 | 26 | 14 | **751** | |
| 10. | Informal financial institutions are more investment friendly | F | 141 | 81 | 6 | 2 | | 821 / 230 =3.57 |
| | | FX | 564 | 243 | 12 | 2 | **821** | |

**Table 3.2** shows extent informal financial institutions influences investment in the economy of Nigeria. Responses on whether Informal financial institutions provides loans with less stringent measures show that 108 strongly agreed, 78 agreed, 39 disagreed while 5 strongly disagreed. The average mean score was found to be 3.26 which implies that Informal financial institutions provides loans with less stringent measures.

Responses on Informal financial institutions provide loan facilities to all form of customers show that 123 strongly agreed, 88 agreed, 9 disagreed while 10 strongly disagreed. The average mean score to the response was 3.41 which is positive.

Responses on whether easy access of loans from informal financial institutions raises investment in the community show that 111 strongly agreed, 78 agreed, and 47 disagreed while 25 strongly disagreed. The average mean score is 3.19 which is positive.

Responses on whether High interest rate charged does not deter borrowing as long as the investment breaks even show that 102 strongly, 101 agreed, 13 disagreed while 14 strongly disagreed. The average mean score of 3.27 which indicates a positive response.

Responses on whether Informal financial institutions are more investment friendly shows that 141 strongly agreed, 81 agreed, 6 disagreed while 2 strongly disagreed. The average mean score of 3.57 which indicates a positive response.

**Table 3:2a T-Test for Hypothesis Two**

**One-Sample Statistics**

| | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|
| informal financial institutions influences investment in the economy of Nigeria | 5 | 3.3400 | .15133 | .06768 |

**One-Sample Test**

| | Test Value = 0 | | | | | |
|---|---|---|---|---|---|---|
| | t | Df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| informal financial institutions influences investment in the economy of Nigeria | 49.353 | 4 | .000 | 3.34000 | 3.1521 | 3.5279 |

**Source**: SPSS 20.

The result shows that the mean is 3.3400 which is above 2.5 an indicated that the result is positive. The T-Statistics is 49.353 with a significance value of 0.000 thus, the alternative hypothesis is therefore accepted that informal financial institutions significantly influence investment in the economy of Nigeria.

To determine the contribution of the informal financial institutions in promoting investment in Nigeria, we hypothesize in the null form as follows:

**Informal financial institutions do not significantly contribute to Nigeria's economic development.**

**Table 3.3: Assessment of the contribution of informal financial institutions in Nigeria's economic development**

| S/N | Item statements | X | SA 4 | A 3 | D 2 | SD 1 | Totals | Mean score X |
|---|---|---|---|---|---|---|---|---|
| 11. | The ability to reach the grassroots make informal financial institutions very important | F | 107 | 108 | 13 | 2 | | 780 / 230 =3.39 |
| | | FX | 428 | 324 | 26 | 2 | **780** | |
| 12. | Informal financial institutions process easy access and atimes cheaper loans | F | 97 | 87 | 29 | 17 | | 724 / 230 =3.15 |
| | | FX | 388 | 261 | 58 | 17 | **724** | |
| 13. | Informal financial institutions are integral in Nigeria's financial system | F | 103 | 88 | 23 | 16 | | 738 / 230 =3.21 |
| | | FX | 412 | 264 | 46 | 16 | **738** | |
| 14. | The activities of informal financial institutions have increased business development at grassroots communities | F | 111 | 69 | 15 | 35 | | 716 / 230 =3.11 |
| | | FX | 444 | 207 | 30 | 35 | **716** | |
| 15. | Informal financial institutions have made significant contribution to Nigeria's economy | F | 94 | 75 | 71 | - | | 743 / 230 =3.23 |
| | | FX | 376 | 225 | 142 | - | **743** | |

**Table 3.3** assesses the contribution of informal financial institutions in Nigeria's economic development. Responses on whether the ability to reach the grassroots make informal financial institutions very important show that 107 strongly agreed, 108 agreed, 13 disagreed while 2 strongly disagreed. The average mean score was found which is a positive result.

Responses on whether informal financial institutions process easy access and a times cheaper loans show that 97 strongly agreed, 87 agreed, 27 disagreed while 17 strongly disagreed. The average mean score to the response is 3.15 which indicates a positive result.

Responses on whether informal financial institutions are integral in Nigeria's financial system show that 103 strongly agreed, 88 agreed, 23 disagreed while 16 strongly disagreed. The average mean score is 3.21 which implies a positive result.

Responses on whether the activities of informal financial institutions have increased business development at grassroots communities show that 111 strongly agreed, 69 agreed, 15 disagreed while 35 strongly disagreed. The average mean score of 3.11 which indicates a positive result. 180 which is above 2.5 an indicated that the result is positive. The T-Statistics is 67.042 with a significance value of 0.000 thus, the alternative hypothesis is therefore accepted that Informal financial institutions significantly contribute to Nigeria's economic development.

Responses on whether informal financial institutions have made significant contribution to Nigeria's economy shows that 141 strongly agreed, 81 agreed, 6 disagreed while 2 strongly disagreed. The average mean score of 3.23 which indicates a positive result.

**Table 3:3a T-Test for Hypothesis Three**

**One-Sample Statistics**

| | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|
| contribution of informal financial institutions in Nigeria's economic development | 5 | 3.2180 | .10733 | .04800 |

**One-Sample Test**

| | Test Value = 0 | | | | | |
|---|---|---|---|---|---|---|
| | t | Df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| contribution of informal financial institutions in Nigeria's economic development | 67.042 | 4 | .000 | 3.21800 | 3.0847 | 3.3513 |

**Source:** SPSS 20.

The result shows that the mean is 3.2

## 4.1 Discussion of Findings

Findings revealed that informal financial institutions encourage savings by households and the ability of thrifts collectors to go from house to house and shop to shop makes savings easy. Responses also showed that Informal financial institutions through their intermediation help to mobilize savings in Nigeria while contributions made through associations are form of important savings. It was also found that savings mobilized by informal financial institutions form part of deposits in financial institutions such as bank.

In the second analysis, responses show that informal financial institutions provides loans with less stringent measures and provide loan facilities to all form of customers. Moreover, easy access of loans from informal financial institutions raises investment in the community. However, it was found that high interest rate charged does not deter borrowing as long as the

investment breaks even with the respondents agreeing that informal financial institutions are more investment friendly.
In the third analysis, analysis showed that the ability to reach the grassroots make informal financial institutions very important, while informal financial institutions process easy access and a times cheaper loans. Informal financial institutions are integral in Nigeria's financial system and their activities have increased business development at grassroots communities.

## 4.2 Conclusion

Informal financial institutions encourage savings by households and the ability of thrifts collectors to go from house to house and shop to shop makes savings easy. Informal financial institutions through their intermediation help to mobilize savings in Nigeria while contributions made through associations are form of important savings. Savings mobilized by informal financial institutions form part of deposits in financial institutions such as bank. Informal financial institutions provides loans with less stringent measures and provide loan facilities to all form of customers. Moreover, easy access of loans from informal financial institutions raises investment in the community. However, it was found that high interest rate charged does not deter borrowing as long as the investment breaks even. The ability to reach the grassroots make informal financial institutions very important, while informal financial institutions process easy access and atimes cheaper loans. Informal financial institutions are integral in Nigeria's financial system and their activities have increased business development at grassroots communities.

To encourage savings mobilization, the CBN must work hand in hand with informal financial institutions by opening a direct window with the operators. Informal financial institutions should be partnered in the quest to raise the level of investment in Nigeria as they have the capital and customer base.  It is imperative that government give more recognition to informal financial institutions in its quest to fight against poverty as they have easy reach to the grassroots. From the study carried out. It is therefore pertinent to state that there is need to investigate the activities of informal financial institutions in various regions of Nigeria.

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