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Gap thesis and the survival of informal financial sector in Nigeria

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Abstract
The study investigated the gap thesis and survival of informal financial institution in Nigeria. The study made use of descriptive survey. The study also found that for survival of informal financial institution need external intervention or support. Descriptive research design was used with correlation analysis. The result indicates that that informal financial sector in Nigeria have much influence on poverty alleviation in Nigeria. The study also indicates that informal financial institutions encounter so many problems which hinder their operations drastically. This is because the members are mainly women, not highly educated, and are mainly farmers, artisans and few local traders and the loanable fund to the institutions are very meagre, hence the informal financial sector still find it difficult to survive. We therefore recommend that, In order to have a sustainable informal financial institutions intervention, the government should also keep infrastructures in place especially good motor-able roads that link more remote areas to markets. The government should create special fund to be manage by CBN, towards supporting the operation of the informal financial institutions in Nigeria. Finally, the CBN should use part of its special fund for SMEs to support the operations of informal financial institutions in Nigeria.

Keywords: Gap thesis, Informal, Financial, Institution, CBN, Factor Analysis.

Introduction
Informal financial sector provides avenue for savings and credit facilities for farmers in rural areas and for low-income householders and as well as small and medium enterprises (SMEs) in urban areas informal sector. Informal financial sector is made up of the institutions that are not integrated with the formal financial sector and virtually out of the control of the legal framework. They are poorly developed and managed to the extent that they are limited in reach. These informal financial players include the local money lenders, thrift and credit associations, and cooperative societies, among others.
In general terms, there are different types of informal finance providers in the world; some of these operate in groups as associations and unions within a particular community, profession, clan and companies. The informal finance providers in India are the traditional money lenders, pawn brokers and trade specific lender (Singh, 2004). Nathan (2004) reported that the informal finance providers in Uganda include cooperative and credit societies, government credit scheme, NGO, money lenders, commercial firms employers, relatives and friends. These informal finance providers provide their savings and loan services on favourable terms and at cheaper cost (Oloyede, 2008) [11].
World Bank (2000) [9]. and Akingunola and Onayemi (2010) identify informal rural finance providers in Nigeria to include: trade and input supply financing, cooperative societies, non-governmental organisations (NGOs), esusus, families, friends and money lenders. Informal finance providers as identified by Buckley (1997) include supplier's credit, money lenders and rotational savings scheme. Iganiga and Asemota (2008) [3]. identifies NGOs, money lenders, friends, relatives, savings collectors, rotating savings and credit association, credit unions and cooperative societies as main providers of rural finance in Nigeria. Relatedly, Oloyede (2008) [11]. identified the informal financial providers as the rotating savings and credit association, money lenders, daily contribution scheme, social club and cooperative, thrift and credit association.
In developing countries, about 70% of adults have no access to financial service (Richter, 2011) and this could be higher in rural areas, while about 90% of the rural sector financial needs are satisfied by informal rural finance providers (World Bank, 1994). The report specifies that the informal sources provide the bulk of rural dwellers' financial needs for five active occupational groups, namely: farmers, artisans, market women, traders and local manufacturers.
These informal financial institutions do not have defined relationship with the formal financial institutions to the extent that their funding is critically curtailed coupled with high rate of defaults in repayment by the borrowers, which makes their survival uncertain. Above all these informal financial institutions face stiff competition from the financial institutions in the formal sector particularly the microfinance banks.

Objective of the Study
The objective of the study is to identify the reasons for the weak position of the informal financial institutions in Nigeria and viable strategies that can ensure their survival building on the results and research gaps of the past studies.

Literature Review
Conceptualization of informal financial institutions
Informal finance is a broad concept that encompasses the wide range of financial activities and services that take place beyond the scope of a country's formalized financial institutions and lie outside financial sector regulations. Informal finance is common in both urban and rural contexts and is usually based

on personal relationships and socioeconomic proximity. In contrast to formal finance, most informal providers focus on one service - savings, credit, money transfers, or insurance - rather than offering a bundle of services. Informal finance arrangements in Africa range from West and Central Africa's deposit collectors known as susu or esusu collectors and tontines, to the hawala cross-border money transfers, which are commonplace in North & East Africa, and stokvels, which have long been a feature of South African financial life.

Types of informal financial institutions

In West Africa, there are peculiar types of informal financial institutions such as identified and discussed as follows.

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

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

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

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

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

Characteristics of informal financial institutions

The peculiar characteristics of the informal financial institutions, compared to the formal financial institutions, are as follows.

1) Loan Transactions

A loan involves the exchange of current resources for future resources. It therefore involves a promise. If a loan transaction occurs in a risky environment and if a complete set of markets for contingent commodities does not exist, then the promised transfer of future resources may not be certain. The character of the loan transaction will then be influenced by the risks faced by the parties involved, and by their knowledge of each other and the activities they undertake.

2) Information asymmetry

In this context, the possibility that lenders do not have perfect information regarding the characteristics of potential borrowers. There is a great deal of heterogeneity among farmers in any village. While lenders might have a good idea about the average characteristics of the pool of potential borrowers, they may not have complete information concerning the characteristics of any particular borrower. This may lead to problems of adverse selection.

3) Credit rationing

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

4) Financial market fragmentation

Information asymmetries is responsible for financial market fragmentation. There is the interaction between well-informed local lenders who face a high opportunity cost of capital (perhaps due to highly seasonal demands or highly covariate risks within the region) as one segment of the market. There is the poorly-informed (perhaps institutional) lenders who have access to capital at a lower opportunity cost as another segment of the informal financial markets.

5) Adverse selection

Information asymmetries is also responsible for adverse selection of borrowers who are either members of the institutions or non-members. The lenders may not have enough information about the borrowers who would provide inadequate information towards securing loan facilities from the lenders. This scenario leads in most cases to moral hazards on the part of the borrowers who, more often than not, default in repayment.

Empirical Review

Iganiga and Asemota (2008) [3]. examine the Nigerian unorganized rural financial institution and operations: A framework for improved rural credit schemes in a fragile environment using correlations. Empirical results shows that traditional savings and credit associations (TRASCAs) are prevalent in semi-urban and rural areas among semi-skilled and unskilled workers and traders, while daily Saving Enterprises (DSEs) and Professional Money Lending Scheme (PMLs) strive in semi-urban and urban centers among artisans, traders and skilled workers. The performance analysis of these unorganized financial markets possibly reflects strong savings propensities and more robust lending activities.

Noah, Gafar and Muftau (2009) [2]. examine the relationship between informal financial institutions and poverty reduction in the informal sector of Offa Town, Kwara State. The paper is a report of an empirical study on the extent of poverty in the informal sector of Offa town, Kwara State, Nigeria and the role of an informal financial institution (Rotating Savings and Credit Associations ROSCAs) in reducing poverty among the people. Using a set of household data, P-alpha-class poverty measure and a multiple regression analysis. The findings shows that money received from ROSCAs and spent on food, housing (e.g. rents), health care, business activities have the expected signs, thus fulfilling our a-priori expectations, while those spent on asset accumulation, education and insurance are inversely related to poverty reduction in the informal sector of Offa town, thus contradicting their a-priori expectations.

Babajide (2011) [7]. investigated the effects of micro-financing on Micro and Small Enterprises (MSEs) in South-west Nigeria. The study examined how micro-finance and non-financial micro-financing activities and features such as group membership, pre-loan training, cross guaranteeship, loan size, technical and managerial training, among others, impact on the survival, growth, productivity and performance of Micro and Small Enterprises in Southwest Nigeria. The validity and reliability of the instrument were measured using Cronbach‟s alpha which gave a result of 0.72, while predictive form validity was 0.84. Four hypotheses were raised and tested at 0.05 significant levels. The findings revealed that micro finance and micro-financing enhance survival of Micro and Small Enterprises (MSEs) but not sufficient for growth and expansion of such Micro and Small Enterprises. The result also revealed that microfinance has positive effects on productivity and performance of local entrepreneurs. The findings from the interview sessions revealed that micro financing is not effective and substantially being practiced in Nigeria as many MFBs grant more individual loans than group based loans, thereby increasing their running cost and putting their portfolio at risk. Sambe, Korna and Abaniyan (2013) in a study of the effect of informal financial institutions on socio-economic development in Nigeria. The study made use of randomly sampled 200 respondents as questionnaires. Chi-square was employed in the test of hypotheses. Dependency theory was used in analysing the study. Findings showed that Informal Financial Institutions were more effective in reducing poverty among members than non-members. Furthermore, the institutions guaranteed more access to credit than non-members and lastly, Informal Financial Institutions were effective in promoting investment among members as compared to non-members.

Oleka and Eyisi (2014) [1]. ascertain the effect of informal financial institution on poverty alleviation in Nigeria. Data collected were analyzed using simple percentage and descriptive statistics. Findings revealed that informal financial institutions has no significant effect in alleviating poverty in Nigeria; while poverty-mentality, illiteracy, low infrastructure and cultural loan-defaults are the major problems encountered by these institutions. The paper recommends among other things the education of the rural poor to embark on viable projects so as to reduce loan defaults arising from unviable ventures.

Nwakanma, Ikechukwu and Godfrey (2014) [4]. investigate rural to microfinance banking: contribution of micro credit to Nigerian economic growth. Autoregressive Distributed Lag (ARDL) technique was employed in analyzing the time series data. The study finds significant long-run relationship between Nigeria's economic growth and micro credits disbursed, while causality runs from economic growth to micro credits (unidirectional). Accordingly, increase in the quantum of micro credits as well as development of long tenured micro credit products are recommended as strategies to enhance the contributions of micro credits to Nigeria's economic growth.

Ndugbu, Ojiegbe, Lawrence and Okere (2015) [6]. in a study of the relationship between bank and non-bank financial institutions and the development of the Nigerian economy. The data collected were analysed using the E-views econometric software under the ordinary least square (OLS) regression analysis. The study as confirmed by the result of the joint test revealed that the financial institutions play prominent role on the growth and development of the Nigerian economy. However, it was further revealed that individual contributions of the explanatory variables varied. For example, the Deposit Money Banks were revealed to have impacted very insignificantly to the growth and development of the Nigerian economy. This may not be unconnected with the unwholesome practices in the banking sector such as granting of loans/advances to "ghost" applicants, diversion of loans and advances granted, high incidence of moral hazards.

Theoretical Framework

The Supply - leading Finance Theory

This research work is also anchored on the supply – lending Theory. To the theory finance should be supplied in advance of the demand for it. This theory came as a result of both Keynesian economic thinking and of the post war view that developing countries must get through some stages to get to where developed nations are. Among other things governments were to accumulate capital for economic development. The supply – leading finance theory emerged between 1940s and 1950s (Robinson, 2001) [10].

The three basic ideas of this theory were: that the governments of developing countries were responsible for their economic growth; that high yielding agricultural technologies were needed for economic growth; and that most farmers cannot afford inputs needed for the new technologies. In other words farmers need subsidized credit inform of cash or inputs like fertilizer for them to contribute to economic growth. A subsidized credit will make the allocation of credit effective so as to promote an enhanced economic growth, (Robinson, 2001) [10]. The theory saw the rural areas of developing nations very crucial for economic development and as such needed a lot of credit subsidies, the farmers who were poor could not be able to save. Secondly, they may not be able to pay for high cost of market oriented credits and also provided the required collateral securities. Government subsidies and donor funds were seen to be very important as convential institutions hardly lend to rural dwellers or the poor. So such subsidized credits will help in income redistribution. There was-de-emphasis on savings as the poor had little or nothing to save, (Robinson 2001) [10]. Out of this, in the 1960s and 1970s, large scale subsidized credit institutions sprang all over the developing nations (Robinson, 2001) [10].

Theory of a Moneylender

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

Methodology

This work is based on contextual investigation relying on the past studies and available literature in the subject of informal financial institutions' performance, areas of weakness, and strategies that are amenable for their survival in the Nigerian context. The study also made use of descriptive survey.

Results

The Findings of this study was presented in tables using simple percentage for the analysis.

The personal characteristics of the study sample are presented in this section in tables 1 to 5 as follows:

Table 1: Frequency Distribution of Sex

Sex	Frequency	Percent	Cumulative Percent
Male	78	55	55
Female	63	45	100
Total	141	100	

Source: Authors Computation 2015.

From table 1: 55% of the respondents were male, while 45% were female.

Table 2: Frequency Distribution of Age

Age	Frequency	Percent	Cumulative Percent
25-25	34	24	24
26-30	26	18	42
31-35	38	27	69
36 & above	43	31	100
Total	141	100	

Source: Authors Computation 2015.

Judging from table 2 above, 24% of the respondents were between the ages of 18-20years, 18% of the respondents were between 21-30years, 27% were between 31-40years, while 31% were between 50years and above.

Table 3: Frequency Distribution of Education Qualification

Level	Frequency	Percent	Cumulative Percent
Fslc-Waec	48	34	34
OND/HND	40	28	62
B.Sc & above	53	38	100
Total	141	100	

Source: Authors Computation 2015.

From table 3 above, 34% of the respondent have between First School Certificate and West African Examination Council, 28% have between Ordinary National Diploma and Higher National Diploma certificates, while 38% have Bachelor of Science or its equivalents and Masters of Science/Masters of Business Administration and Ph.D.

Table 4: Frequency Distribution of Occupation

Occupation	Frequency	Percent	Cumulative Percent
Student	46	33	33
Civil/Public Servant	33	23	56
Business Men	10	07	63
Professional bodies	52	37	100
Total	141	100	

Sources: Authors Computation 2015.

Table 4, indicated that 33% of the respondents were directors, 23% were secretary, 07% were senior staff, while 37% of them were junior staff.

Presentation of Results

As stated in above, the relationships between gap thesis and survival of informal sector in Nigeria were analyzed using mean, variance, standard deviation, coefficients of variation and factor analysis.

Table 6: Mean, Variance, Standard Deviation and Coefficients of Variation of Questionnaire Responses

	Questionnaire Mean	Variance Deviation	Standard Variation	Coefficient of Items
1.	4.4	3.87	1.97	44.77
2.	16	51.2	7.16	44.75
3.	21.6	93.31	9.66	44.72
4.	20	80	8.94	44.70
5.	17.6	61.95	7.87	44.72
6.	8	12.8	3.58	44.75
7.	6.4	8.19	2.86	44.69
8.	8.8	15.49	3.94	44.77
9.	19.2	73.73	8.59	44.74
10.	13.6	36.99	6.08	44.71
11.	12.8	32.77	5.72	44.69
12.	15.2	46.21	6.80	44.74
13.	9.6	18.43	4.29	44.69

Author's Computation 2015.

In order to eliminate possible errors, data collected were edited, coded and tabulated base on their frequency distribution. Also the mean, variance, standard deviation and coefficient of variation of the distribution were determined as shown in table 5 above.

Using the 5-point likert scale of 5, 4, 3, 2 and I used in the questionnaire responses, means score of 3 and above were rated as positive while those below 3 mean score were rated as negative. From table 7 below, the dependent variables which is weakness (W) has a mean score of 0.804, standard deviation of 0.142 and variance of 0.020. Loan Transaction (LT_1), Information Asymmetric (IA_2) and Adverse Selection (AS_3) are the independent variables in the research. They are account for a mean score of 0.706, 0.823 and 0.799 respectively and standard deviation of 0.154, 0.169 and 0.159 respectively.

Table 7: Descriptive Statistical Analysis

Variables	Mean	Standard Deviation	Variance
W	0.804	0.142	0.020
LT	0.706	0.154	0.024
IA	0.823	0.169	0.029
AS	0.799	0.159	0.026

Author's Computation 2015

Table 7 above explains the descriptive statistical analysis between the dependent variable and the independent variables using mean, standard deviation and variance. The descriptive analysis shows above indicates strong positive relationships between the variables under review.

The researcher incorporates factor analysis as criteria for validity. Confirmatory factor analysis is used for the measurement criteria based on other studies related to survival of informal financial sector in Nigeria. The same method of analysis is conducted to identify the strongest underlying factor of the dependent variable which weakness.

The Eigenvalues and sum of squares loadings for the factors are displayed in table 8 below.

Table 8: Total Variance Explained

Variables	Initial Eigenvalues			Extraction Sums of Squared Loading		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
W	0.317	5.280	100			
LT	2.396	39.929	39.929	2.396	39.929	39.929
IA	1.112	18.526	58.455	1.112	18.526	58.455
AS	0.931	15.513	73.968			

Sources: Principle Component Analysis 2015

The results of principal component analysis indicate that, there are two factors whose Eigenvalues exceed 1.0. The Eigenvalue of a factor represents the amount of the total variance explained by that factor. The two factors identified in this study explain 58.45% of the total variance. The first factor explained 39.92% of this variance. Similarly, the second factor explained 18.52% of the total variance. The percentage of variance combines for succeeding variables to make up 100 % variance. The researcher incorporates Kaiser's criterion and Cattell's scree test to extract the first two factors. According to Kaiser's criterion, factors with Eigenvalues of 1.0 and greater than 1.0 are extracted for further investigation. Two factors are identified for the factor analysis using the Eigenvalue criteria.

(r=0.177). The variables hold a positive correlation at a significance level of 0.05. The value shows that adverse selection (AS) can help in survival of informal financial institution in Nigeria.

Based on the empirical result and works reviewed, we found out that informal financial sector in Nigeria have much influence on poverty alleviation in Nigeria. The study also indicates that informal financial institutions encounter so many problems which hinder their operations drastically. This is because the members are mainly women, not highly educated, and are mainly farmers, artisans and few local traders and the loanable fund to the institutions are very meagre, hence the informal financial sector still find it difficult to survive.

Conclusion

The study investigated the gap thesis and survival of informal financial institution in Nigeria. The study made use of theory of a moneylender and supply-leading theory of finance. Most of the economic scholars reviewed discovered that the traditional finance institutions are powerful forums that can positively improve the living standard of rural poor if properly empowered and that improper management of informal financial institution is the problem of its survival. The study also found that for survival of informal financial institution need external intervention or support.

Recommendations

1) Members of informal financial intuitions should be encouraged by way of organizing enlightenment program to educate them on how to increase and manage their monthly contribution for mega business and investment.
2) Government should arrange enabling environment of low tax rate and financial support for these institutions as to ensure that adequate amount is given to members as interest-free loans.
3) In order to have a sustainable informal financial institutions intervention, the government should also keep infrastructures in place especially good motor-able roads that link more remote areas to markets.
4) The government should create special fund to be manage by CBN, towards supporting the operation of the informal financial institutions in Nigeria
5) Finally, the CBN should use part of its special fund for SMEs to support the operations of informal financial institutions in Nigeria.

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