

## Informal Financial Institution and Poverty Reduction in Ukum Local Government Area, Benue State

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### Abstract

*This paper is anchored on the informal financial institution and poverty reduction in Ukum local government area of Benue State. The study used primary data collected with the aid of structured questionnaire, personal interview and field survey as well as extensive use of descriptive statistics in analyzing data collected. Percentages and mean scores were employed in determining informal financial institution and poverty reduction. It was found that despite the fact that informal financial institutions are of great importance to the local government in the aspect of providing social services, there also exist a number of problems faced by the informal financial institutions. These problems include; low income, loan disbursement, problem of paying back the loan, loan diversion among others. Thus, informal financial institutions are the bedrock for survival and a mechanism for poverty reduction. Therefore, we recommend that all necessary efforts for the achievement of the targeted goals of poverty reduction to make informal financial institutions have broad impact on the peoples' wellbeing be sustained. Some of the problems that have hindered member's effective contribution to the growth of the association should be addressed. The fear of default can be taken care of if members can institutionalize the concept of social capital that places emphasis on trust, information sharing, and the reduction of opportunistic behavior and facilitation of collective decision making. Since majority of the sample population are farmers, the government should make available markets where the farm produce can be sold. This can help in increasing the income level of those living in such areas as saving can be mobilized if income is high. The government should therefore encourage greater funding at educational institutions and skill acquisition in order to train the people living in these areas become more self-reliance.*

**Keyword:** Informal; Financial Institutions; Poverty Reduction.

### Introduction

The persistence of poverty in a large number of developing countries that have been recipients of development assistance from international community has led to increased emphasis on poverty reduction by the international community. The increased focus on poverty reduction is further motivated by the incidence, depth and severity of poverty, especially in sub-Saharan African, where a large number of countries including those embraced the path of economic reforms and stabilization programs, continue to face decline standard (Fofack, 2002 and Andohol and Gisaor, 2018).

The glowing incidence and dynamics of poverty in Nigeria has stratified and polarized the society between the haves and have not and have between the north and south between the educated and under educated. The struggle for poverty eradication or alleviation is a lifelong plan and objective of the government more especially when analyzed against the benefits of a poverty free society. As poverty persist, so must the strategies for its reduction be always prescribed. Informal financial institutions are enormous important from a wide range of perspectives. A lot of emphasis is placed on informal financial institutions as a means of affecting desired changes in the life of the proletariat (Andohol and Gisaor, 2018).

The potential impact of informal financial institutions on poverty reduction and economic growth has been recognized. There is evidence to show that the activities of the informal financial institutions dominate the rural sector of the Nigeria economy (Okwonko, 1973 and Gisaor, 2018). It plays a silent but crucial role in the economy of the rural people and people living in urban areas as well. These informal financial institutions are the "Bedrock" of many people depending on it for their survival and accelerating the adoption of the modern production patterns through their lower interest rate and without or with small collateral requirement loans.

The informal financial institutions are also key source of social protection especially in areas with limited access to the formal financial institutions. In fact, in many countries the informal financial institutions are much larger than the formal financial institutions. The informal financial institution which includes transactions such as gifts and loans from relatives, friends, and neighbours may overcome barriers to the formal financial institutions (Fitri, 2006). It

also mobilizes rural savings and small savings from urban household. Simple and direct processing of loan request allows for prompt approval and minimum disbursement rejections of people demand on loan are two rare. Collateral requirement of loans is of two kind-borrowers' contributions and borrowers' capacity. The condition may be precise knowledge of farm size and/or crops harvested to determine the borrower's capacity to pay.

The financial institutions have two special arrangements, the informal and formal financial arrangement are bank licensed by a government. It constitutes of merchant banks, community banks, commercial banks, insurance companies, central banks and many others (Cole and Esan, 2008). The informal financial arrangement according to Okonkwo (1973) is the voluntary association of free and independent persons for the betterment of their economic conditions. They are savings and lending done outside the formal arrangement. These includes fixed deposit associations known as "Bam" in Tiv speaking community and "Ugeggha" among the Idoma people of Benue State and the rotational fund association known as "Adashi" in Tiv and Hausa, in Idoma "Otata-Jeh", "Esusu" in Yoruba, "Isusu, in Igbo, "Dashu" in Nupe, and among others (Oluwatoyin, 1999).

This has offered a tremendous opportunity for informal financial institutions to fill the demand for credit in such situations. The poor often use individual and household saving for most investments such as micro enterprises, other business ventures in the informal sector or for personal use such as children's education. Often these resources are insufficient, so the poor must also rely on informal credit sources available through informal financial institutions. Informal financial institutions are not regulated and operate independently of government contracts. These informal sources have provided desperately needed credits when no other credit alternatives are available through formal financial institution. Therefore, a cursory look at these problems inspired the researcher to find out the role played by informal financial institutions in reducing poverty in Ukum local government area of Benue State.

### **Literature Reviews**

The Nigeria Informal Financial Institution Act 1935 which was authored by Strickland as commissioned by the Nigerian colonial master was concluded in these words. "Not only a matter of increase or improve crops nor increase credit to cultivators who wish to change the farming methods but it was also a question of rural thrift of co-operation". Government policy to alleviate the living standard of members of the society witnessed a proliferation of many types of co-operative societies in Ukum Local Government.

Oluwatoyin (1999) and CBN (2010) defined informal financial institution as a cooperative thrift and credit that functions by encouraging members to save regularly part of their earnings and, members are provided with credit facilities at reasonable interest rate. Members concerned agreed to make regular contributions on an agreed amount, which will be given to each contributor in rotation. In Nigeria, he said the thrift and credit organization comes in various forms.

### **Sources of Funds for Informal Financial Institution**

According to Aderibigbe (2001), the government does not subsidize these institutions nor do they receive grants or other form of support from donor agencies, hence they raise their funds through the following ways.

#### **Registration**

Registration of members is one of the sources of finance for informal financial institutions. According to this source, members who intends to belong to the association of his/her choice. As a registration requirement, a fixed amount of money is agreed upon, on registration of membership.

#### **Contribution made by Members**

This is the main source of finance for informal financial institutions. The members of the existing associations contribute daily, weekly, twice a month or monthly depending on the arrangements of the associations. It is pertinent to not that those contributions from the major source of financing informal financial institutions.

#### **Fees charge on Application of Loans made**

This is the amount of money paid by members of the association as application fees for a loan. These funds may serve as investment in a given association or be reissued as loans to other members of the association.

### **Discount Deducted from Issuing out Loans**

This is another remarkable area of financing informal financial institution. This serve as a substantial source of financing the organizations when loans are to be issued out to members, 5% or 10% of the principal amount of the loan issued will be deducted as discount, as these monies may be reissued or invested in a given economy for further benefits.

### **Renewal of Application**

If a member who collected loan from the organization is not economically ready for repayment, he/she is allowed to buy more days.

### **Limitation of Informal Financial Institutions**

According to Aryeetey (1998) and Fefa (2016), there is poor culture of book-keeping by the officials of the informal financial institutions. In most cases, only the leadership knows the level of interest generated. Members hardly know the position of the accrued interest. Their concern is mostly on their savings. In fact, they do not ever care to know profits that are declared most especially when there is enough money to buy cows or pay the dividend in monetary term. This poor culture of book-keeping is a pre-required to poor organization and management of these cooperative societies. The management sometimes embezzles funds of the association thereby crippling the entire organization. In a similar development, poor management may occur because of illiteracy and little or no business acumen or experience from the leadership.

### **Benefits of Informal Financial Institutions**

The analysis confirms the finding of the cross-sectional data analysis of the 1991 and 1992 as contained in Ghazala (2006) that micro credit programs or informal financial institutions have positive suggest that micro-financial (thrift societies) help reduced poverty. Women with access to credits take a greater role in house hold decision making and have greater access to financial and economic resources. Greater social networks, greater bargaining power vice versa, their households and greater freedom of mobility (Fitri 2006). From the finding; members seem to benefiting much from the thrift saving dividends from shareholding business, purchases of agricultural inputs (fertilizers, pesticides, insecticides, herbicide and other essential commodities). It is much easier to obtain loans for agricultural expansion from thrift societies than individual base. In addition, members of Informal Financial Institution and the public have appreciated economic activities in the study area. This is because some members invested their loans in transport business for that; there are many automobiles in Ukum Local Government that can transport people of the area to different location. This has greatly established confidence in members, stimulated development in the local government, cooperative tried so much to discourage habit of frugality, and saving among members what make them to appreciate much is that funds made available to co-operative through savings and loaned out to members at rates of interest much lower than those prevailing in the financial market for the purpose of investment in productive business.

### **Concept of Poverty**

The Webster's Third International Dictionary (1994) defines poverty as a state or condition characterized among other things, by lack of material possession, existing without the luxuries and often the necessities of life; being in a position to excite compassionate regard or pity, inferior in quality and having little distinction. Valves or worth poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihood; hunger and malnutrition; ill health; limited or lack of access to education and basic services; increased morbidity and mortality from illness; homeless. UNDP (2000) in world summit on social development "The Copenhagen Declaration" described poverty as a condition characterized by deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. When people are unable to eat, go to school, or have any access to healthcare, then they can be considered to be in poverty, regardless of their income.

According to Alaye-Ogan (2008) poverty is defined as “a vicious circle that kept the poor in a state of destitution. Poverty affects many aspects of human conditions; good health and longevity, adequate education, access to land, credit or other productive resources, supportive families and communities, justices and freedom from discrimination, abuse and violence are all element often missing from lives of the poor”. In *Attacking Poverty*; World Bank (2001) accepted the view that poverty encompassed “not only material deprivation (measured by an appropriate concept of income or deprivation but also low achievements in education and health). Poverty is also usually defined in absolute or relative terms. Absolute poverty is the inability to provide for physical subsistence to the extent of being incapable of protecting human dignity. It implies limited access to food, clothing and shelter, portable water, health service, basic education, public transportation and employment, people in absolute poverty earn meager or no income which result in zero marginal propensity to save and a short lifespan.

The researcher also looked at poverty as a situation where people lacked their basic need such as food, cloths shelter, access to good health, education and portable water as a result of inadequate income. That is, considering poverty situation of people in the study area as “Poverty Stricken” this means extremely poor with very little money. Chronic/Structure Poverty: This describes a situation whereby poverty is persistence or long-term. According to Obadan (1997) its causes are more permanent and depend on a host of factors such as limited employment, location, disadvantages, or endemic social political and cultural factors and gender. Conjectural/Transitory Poverty: This refers to a situation in which poverty is temporary/transient or short term, and caused mainly by transient factors such as natural or man-made disasters such as war, environmental degradation or structural changes induced by policy reforms which result in loss of real income. Spatial/Location Poverty: This depends on geographical or regional spread and incidence. Two features are reorganized in literatures, viz; urban squalor or poverty typified by the existence of slums in metropolitan cities and characterized by environmental degradation, inadequate welfare services and social deprivation, low per capital income, overcrowded accommodation, and engagement in informal businesses. Rural poverty on the other hand, is characterized by poor disguised unemployment and poor state of economic and social infrastructure.

Aderigbigbe (2001) in his research work on “the role of financial sectors in poverty reduction” stated that, poverty reduction has been receiving increasing global focus and the challenges are becoming more daunting. He was of the view that significant poverty reductions are possible and has indeed, occurred in many developing countries with the help of financial sector. His major objective was to examine the role and challenges facing the financial sector in providing the necessary financing on appropriate terms, volume, and value and in a timely manner. He concluded that both the government and the financial sector have made efforts in micro financing, which is a major constraint to fight against poverty in Nigeria because; the poor do not have access to credit facilities. However, these efforts have yielded very little tangible results due to the strategies adopted in these micro-credit financing scheme. Yusuf *et al.* (2009) carried out 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. They used a set of household data, P-alpha poverty measure and a multiple regression analysis. Questionnaire was administered to informal sector operators who are members of ROCAS in Offa town. They concluded that the informal financial institutions play an important role in reducing poverty among the people.

Zeotehief (1999) in his research work “perspectives on informal rural finance” come with a view that needs of rural poor people who participated in a “penny economic” characterized by small scale transactions and risks. Informal finance is much better linked into the mini character of rural economies. Certain financial services are provided much more efficiently by informal financial systems than by formal intermediaries. Informal finance is provided to be flexible in adapting the changes convenient, characterized by high loan recovery rates and client oriented. He concluded that informal finance made a positive contribution to both production and consumption activities of moral people. This is linked with the ability to cultivate larger farms, getting higher crop yields and a better food security status than before. Fitri (2006) carried out a study on the topic informal finance and poverty alleviation”; A grassroots study of small farmers credit. The study explored credit and savings behavior of small farmers in rural areas, also it examines the relationship between credit and rural poverty among small farmers. The research analyzed the importance of informal credit systems to small farmers from economic, social, and cultural points of view. It

considers the influences of local culture and value on informal rural credit system. From works reviewed and many others, their source of data was only through questionnaire administered to the operators of informal financial institution where their concentration was only on the activities of Rotating saving and credit Association (ROSCA), some concentrated only in town and others concentrated only on small farmers in villages without combination of the activities of informal financial institutions in both town and village to ascertain the rate at which it has reduced the poverty level of the study area. Specifically, there are limited analyses on the members of the Informal Financial Institution benefit as measures to alleviate poverty. Therefore, the crux of this is to cover the gap whereby both questionnaires and interviews will be used to source accurate data, both Rotating saving, and fixed saving and credit association will be used examine the wide role of informal financial institutions in the study area.

## **Methodology**

### **Research Design**

This study adopted a survey design technique. Data were elicited from the targeted population with the use of questionnaire, personal interview, and indirect observation. Descriptive statistics and a logistic regression model are used for analysis of collected data.

### **Population of the Study**

Population of this study constitute of all the informal financial associations in Ukum Local Government, which are numbered about one hundred (100), and are actively involved in savings mobilization in the local area. Ukum Local Government consists of thirteen (13) council wards, we considered the informal financial institution of four (4) council wards namely; Tsaav, Lumbuv, Uyam and Mbayenge. The council wards are chosen because they are the most populous council wards in Ukum Local Government Area. Furthermore, two (2) informal financial institutions will be choose from each of the selected four (4) wards, ten (10) respondents will be issued questionnaire from each of the eight (8) informal financial institution chosen while five (5) officials will be interview from the selected informal financial association which draw up a sample size of eighty (80)

### **Sample and Sampling Techniques**

The sample techniques used in this research work was cluster sampling. It involves splitting the entire populations which are members of informal financial institution into their category of informal financial association in the study area (Osulala, 2005) and Gisaor (2016).

As justified by the used of scientific formula of Taro Yamen (1994), the formula is stated as:

$$n = \frac{N}{1+N(\alpha)^2}$$

The solution of Taro Yamene Formula above supported the selection of 80 respondents as the sample size

### **Sources of Data**

Basically, there are two sources of data namely, primary and secondary data. This study used primary data which were collected from members of informal financial institutions in Ukum Local Government through administering the questionnaire to them. Personal observations and interviews.

### **Method of Data Collection**

The major tools used in collecting data for this study area are questionnaire, personal interview, and indirect observation. The questionnaires were distributed to the sample population which are members of the selected eight (8) informal financial institutions in four (4) council wards of the study area meanwhile officials were interviewed. Information on the benefits of informal financial institutions to her members, their mode of loans disbursement, uses of loan and contribution of members of informal financial institutions were gathered.

### **Method of Data Analysis**

Both qualitative and quantitative methods of data analysis shall use. In summary, both descriptive and inferential statistics are used for analyzing data in this research work.

### **Model Specification**

This study adopted the logit regression model analyses the relationship between informal financial institutions and poverty reduction in Ukum Local Government Area of Benue State. Logistic regression is a mathematical approach that is used to describe the relationship of several explanatory variables (X’s) to a dichotomous variable (Dietz, Gail, Krickerberg, Tsiatis and Samet 2002) as quoted in Ahemen (2011). The logit model was selected over discriminate and linear probability model because of its simplicity of estimation, its capacity to provide a more flexible framework for analyzing poverty and that its probability lies between zero (0) and one (1) (Ahemen, 2011).

The implicit form of the model is specified as;

$$\ln Z_i = \frac{P_i}{1-P_i} = \beta_0 + \beta_k X_{ki} + U_i$$

Where

$\ln Z_i$  = Natural log of the dichotomous dependent variable.

$\frac{P_i}{1-P_i}$  = Odds ratio.

$\beta_0$  = Intercept of the model.

$\beta_k$  (k = 1,2,3...9) = Parameters of model.

$X_{ki}$  = A set of respondents characteristics

$U_i$  = Error term.

Thus, the model is explicitly expressed as;

$$Z_i = \beta_0 + \beta_1 LM + \beta_2 NL + \beta_3 SL + \beta_4 PBT + \beta_5 UFD + \beta_6 YOT + \beta_7 HHS + U_i$$

Where

$Z_i$  = Poverty status. (1 if household earn less than US &1.5 per day (naira equivalent))

LM = Length of membership (1 if the length is one and above and 0 if length is less than one year)

NL = Number of loans (1 if the number of loans given or enjoy are one to five and 0 if otherwise).

SL = Size of loans (1 if size of loans covers 70% of members and 0 if it covers less than 70%)

PBT = Payback time (1 if it is within one year and 0 if above one year).

UFD = Use of funds (1 if the funds are use for Agric Production, Housing, Healthcare, Feeding, Education, business and 0 if otherwise).

YOT = Income outside loan

HHS = Household size.

### A Priori Expectation

This refers to the expected behaviour which the independent variables are to exert on the dependent variable. Thus, we have;  $LM < 0$ ,  $NL < 0$ ,  $SL < 0$ ,  $PBT < 0$ ,  $UFD < 0$ ,  $YOT < 0$  and  $HHS < 0$

### Decision Rule

The likelihood Ratio (LR) statistic was used to test the null hypothesis that informal financial institutions do not reduce the probability of being poor. If the LR statistic is greater than its probability (P) value we reject the null hypothesis and conclude that informal financial institution has reduce the poverty in Ukum Local Government Area. On the other hand, if the LR statistic is less than its P value we will accept the null hypothesis and conclude that informal financial institutions have not reduced the poverty status in Ukum Local Government Area of Benue State.

### Data Presentation and Analysis

Questionnaire Administration. A total of eighty (80) questionnaires were administered in the four (4) council wards selected in the study area. Out of the questionnaires administered in these council wards, seventy-three (73) were dully completed and returned. The breakdown of the questionnaire administration and retrieval is presented in Table 1:

**Table 1: Questionnaire Administration and Retrieval in the Study Area**

Council Wards	No of Questionnaire Administration	No of Questionnaire Retrieved	No of Questionnaire not Retrieved	Percentage of Questionnaire Retrieved
Lumbuv	20	19	1	23.8

Tsaav	20	19	1	23.8
Mbayenge	20	17	3	21.3
Uyam	20	18	2	22.5
<b>Total</b>	<b>80</b>	<b>73</b>	<b>7</b>	<b>91.4</b>

**Source: Field Survey (2019)**

Results in Table 1 show that in each of the four (4) council wards selected, twenty (20) questionnaires were administered to the randomly members of the sampled informal financial institutions, this total eighty (80) questionnaires. However, out of this total, seventy-three (73) representing 91.4% of the questionnaires administered were retrieved in the order of 19 from Lumbuv, 19 from Tsaav, 17 from Mbayenge and 18 from Uyam council ward.

**Socio-Economic Characteristic of the Sampled Members**

This section provides the information on the socio-economic characteristic of the member of the sampled information financial institutions such as sex, age, educational level, occupation type of association and household size.

**Table 2: Socio-Economic Characteristics of the Respondents**

<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
Sex		
Male	40	54.8
Female	33	45.2
Age		
15-19	8	10.9
20-24	18	24.7
25-29	30	41.1
30 and Above	17	23.3
Education		
No Formal Education	10	13.7
Primary School	16	21.9
Secondary School	30	41.1
High Education	17	23.3
Occupation		
Farming	33	45.2
Fishing	5	6.9
Civil Servant	12	16.4
Trading	15	20.6
Others	8	11.0
Type of Association		
Rotating Saving and Credit Association	27	37.0
Fixed Saving and Credit Association	25	34.2
Association of Self-help-groups	21	28.8
Household Size		
1-4	10	13.7
5-7	15	20.6
8-10	18	24.7
11 and Above	30	41.1

**Source: Field Survey (2019)**

Results in Table 2 show that 40 or 54.8% of the respondents were male while 30 or 45.2% were female. This clearly means that male dominates the sample. This is agreed with Agbebi (2011) who also found that males dominate method or measures of reducing poverty because of rigorous activities that are involved in it. Majority of the respondents 41.1% were between 25 and 29 years old while minorities of the respondents, 10.9% were aged between 15-19 years. About 24.7% of the respondents were aged between 20 and 24, whereas those within the age bracket of 30 and above constituted 23.3%. This result implies that, the people that fall within the age limit 25 – 29 years play

essential role in social economic life and constitutes the highest number of members of the informal financial institution than other age brackets. They are vibrant, advanced, and engaged in key economic activities; hence, the working population is high. With regards to level of education, the result showed that majority of the respondents 30 representing 21.1% had secondary school; 17 (23.3%) had higher education; 16 (21.9%) had primary education. This implies that the members of the informal financial institutions in the study area are literate since only 10 (13.7%) of them had no formal education. The result compares favorably with those of Akwu and Acheneje (2011) who observed that the level of education attended by farmer and businessmen to a large extent determines the strategies he/she may use to adopt new innovation without difficulties that could increase his/her profit.

The results in the Table 2 further show that 45.2% respondents are farmers, 6.7% are fishers, 16.4% of the respondents are civil servants, 20.5% respondents are traders while 11.0% respondents are those that engage in handcraft, cosmetology, hairdressing and tailoring. This implies that majority of the sampled population are farmers. This study agrees with Asuquo (2010) who reported that 70% of the Nigerian's are farmers. The predominance of farmers in this area explains why Benue State is title "Food Basket" of the nation. The result above shows that 34.2% respondents of the sampled population are members of fixed saving and credit associations, 37.0% of the respondents are members of rotating saving and credit associations while 25.8% of the respondents are members of the self-help-groups. This indicates that more respondents across the sampled population prefer the rotating saving and credit associations usually called Adashi in Tiv and Hausa.

The results in Table 2 also show that 10 or 13.7 had a household size of between 1-4 members, 15 or 20.6% respondents with a household size of 5-7 persons, 18 or 24.7% respondents had a household size of 8-10 persons where as those with a household size of 30 or 41.1% of the respondents had a household size bracket of 11 persons and above. This large household size characterizes a typical rural African society with large blood relations and household size has a great role to play in family labour as most of the respondents are farmer.

**Table 3: Distribution of Minimum Contribution Per Member**

Amount Contributed (₦)	Frequency	Percentage of Respondents
100	30	41.1
200	14	19.2
300	13	17.8
500	10	13.9
1000 and above	6	8.2
<b>Total</b>	<b>73</b>	<b>100%</b>

Source: Field Survey (2019)

The results in Table 3 show that 30 respondents or 41.1% contributes ₦100 weekly, 14 respondents or 19.2% contributes ₦200 weekly, 13 respondents or 17.8% contributes ₦300 weekly, 10 respondents or 13.9% contributes ₦500 weekly while 6 respondents or 8.2% contributes ₦1000 and above. This also attest to the fact stated earlier that, they were low income earners.

**Table 4: Distribution of Length of Membership of the Association**

Duration	Frequency	Percentage of Respondents
1 years	7	9.6
2 years	5	6.9
3 years	13	17.8
4 years	23	31.5
5 years and above	25	34.3
<b>Total</b>	<b>73</b>	<b>100</b>

Source: Field Survey (2019)

The results in Table 4 show that 7 respondents or 9.6% are members that joined the association in their first year, 5 respondents or 6.9% are members that stayed in the association for two years, 13 respondents or 17.8% are members

that stayed in the association up to three years, 23 respondents or 31.5% enjoyed the association for four years, while 25 respondents or 34.3 are members that stayed from five years and above. “The longer you stay, the much benefits you enjoyed and this attest for the reason while members that stayed from five years and above are more than those that stayed only four years and likewise the members that stayed only three years.

**Table 5: Distribution of Savings by Respondents in the Last Fiscal Year**

Amount	Frequency	Percentage of Respondents
2000-5000	21	28.8
6000-10,000	15	20.6
11,000-20,000	16	21.9
21,000-40,000	11	15.1
41,000 and above	10	13.9
<b>Total</b>	<b>73</b>	<b>100%</b>

Source: Field Survey (2019)

The results in Table 5 show that in the last fiscal year, 21 respondents or 28.8% saved between ₦2000 - ₦5000, 15 respondents or 20.6% saved an amount between ₦6, 000 – ₦10, 000, 16 respondents or 21.9% saved an amount between ₦1, 000 – 20,000, 11 respondents or 15.1% saved an amount between ₦21, 000 – ₦40, 000 while 10 respondents or 13.9% saved an amount from ₦41, 000 and above. This clearly indicates that, the savings habit of the respondent has been good in the last fiscal year. The table below shows the comparison of the amount saved by members of informal financial institutions in last fiscal year to the other previous years.

**Table 6: Comparison of the Amount Saved by Previous Years**

Comparison	Frequency	Percentage of Respondents
Higher	40	54.8
Same	33	45.2
Lower	0	0
<b>Total</b>	<b>73</b>	<b>100</b>

Source: Field Survey (2019)

The results in Table 6 show that 30 respondents or 41.1% saved in the last fiscal year as compared to the other previous years, 28 respondents or 38.4% saved same in both the years while none of the respondents saved lower in the last fiscal year as compared to the other previous years. This result indicates that none of the respondents had reduced his/her level of savings; rather a greater number had increased their level of savings. This implies that informal financial institution has improved the respondent’s level of income through its activities.

**Table 7: Distribution of Benefits of Members**

Benefits	Frequency	Percentage of Respondents
Loan	20	27.4
Farm inputs	15	20.6
Food stock	13	17.8
House wares	15	20.6
Machines	10	13.9
<b>Total</b>	<b>73</b>	<b>100</b>

Source: Field Survey (2019)

The results in Table 7 show that 20 respondents or 27.4% of the members benefit from the loan issued by the institutions, 15 or 20.6% benefits from the farm inputs while 13 or 17.8% of the members benefits from the food stock, 15 or 20.6% of the respondents benefit from the house wares, and lastly 10 or 13.9% of the respondents benefit from the machines offered by the informal financial institutions.

**Table 8: Distribution of the Amount Borrowed by Members**

Amount	Frequency	Percentage of Respondents
10,000-20,000	20	27.4
21,000-40,000	15	20.6
41,000-60,000	10	13.7
61,000-100,000	21	28.8
101,000 and above	7	9.6
<b>Total</b>	<b>73</b>	<b>100%</b>

Source: Field Survey (2019)

The results in Table 8 show that 20 or 27.4% respondents borrowed from the amount ranged ₦10,000– ₦20,000, 15 or 20.6% respondents borrowed the amount bracket of ₦21,000– ₦40,000 last year, 10 or 13.7% members borrowed in the amount bracket of ₦61,000– ₦100,000 in the last year while 7 or 9.6 of respondents borrows last year in the amount bracket of ₦101,000 and above. This implies that because of low income of the members of informal financial institutions in the study area, 66 or 90.4% borrowed the amount that is not more than ₦100, 000, meanwhile only 7 or 9.6% borrowed amount above ₦100, 000. This indicates that all members borrowed according to their capacity to pay back.

**Table 9: Distribution of Income of Members Outside Loans**

Amount ₦	Frequency	Percentage of Respondent
less the 50,000	10	13.7
51,000-70,000	12	16.4
701,000-200,000	30	41.1
201,000-500,000	15	20.6
501,000 and Above	6	8.2
<b>Total</b>	<b>73</b>	<b>100%</b>

Source: Field Survey (2019)

The results in Table 9 show that 10 or 13.7% of the respondents had earned income per annum apart from loan that is less than ₦50,000, 12 or 16.4% had earned income outside loan in the range of ₦51,000– ₦100,000, 30 or 41.1% had earned in amount bracket of ₦101,000– ₦200,000, 15 respondents representing 20.6% had earned from ₦201,000– ₦500,000 while 6 or 8.2% of the respondents had earned their annual income from ₦501,000 and above.

**Table 10: Distribution of the Number of Times Borrowed**

Number of Times Borrowed	Frequency	Percentage of Respondent
One Times	8	13.7
Two Times	14	16.4
Three Times	28	41.1
Four Times	15	20.6
Five Times and Above	18	8.2
<b>Total</b>	<b>73</b>	<b>100%</b>

Source: Field Survey (2019)

The results in Table 10 show that 8 respondents borrowed one time, 14 respondents borrowed two times, 28 respondents borrowed three times, while 15 respondents borrowed four time, lastly 18 respondents borrow from five time and above from the informal financial institutions, all with percentage of respondents as 10.9%, 19.2%, 38.4%, 20.6% and 24.7% respectively.

**Table 11: Distribution of Uses of Loans**

Uses	Frequency	Percentage of Respondent
Agriculture production	27	17.0
Businesses	23	31.5
Feeding/Education	7	9.5
Healthcare	3	4.1

Housing	13	17.8
<b>Total</b>	<b>73</b>	<b>100%</b>

Source: Field Survey (2019)

The results in Table 11 show that 27 respondent or 3.7% used their loan for agricultural production, 23 respondents or 31.5% used it in business, and 13 respondents or 17.8% used it in building houses or housework. Three (3) or 4.1% of the respondents has used it in treating themselves and 7 or 9.5% of the respondents used their loan to buy food stuff and educate their children even themselves. This implies that, most of the beneficiaries were wise enough to invest their loan in order to make profit, and probably increase their income.

**Table 12: Distribution of the Loan Used for the Intended Purposes**

Loan Fund Use for the intended purpose	Frequency	Percentage of Respondent
Yes	60	82.2
No	13	17.8
<b>Total</b>	<b>73</b>	<b>100%</b>

Source: Field Survey (2019)

The results in Table 12 show that 60 or 82.2% of the respondents used their loan for the intended purpose while only 13 or 17.8% of the beneficiaries used their loan on purpose other than their intended purpose as a result of uncertainties.

**Table 13: Distribution of Areas That Informal Financial Institution Helps**

Areas of Helps	Frequency	Percentage of Respondent
Feeding Household	10	13.7
Paying School fees	15	20.6
Improving Business	25	34.2
Paying Hospital Bill	5	6.9
Buying Assets	11	15.1
Getting Investment	7	9.6
<b>Total</b>	<b>73</b>	<b>100%</b>

Source: Field Survey (2019)

The results in Table 13 reveal that 10 or 13.7% of the respondents attested that, informal financial institutions helped them in the area of feeding household, 15 or 20.6% of the respondents were helped in the payment of school fees, 25 or 34.2% respondents were helped in area of improving business, 5 or 6.9% of the respondents were helped in the area of paying hospital bills, 11 or 15.1% of the respondents were helped in the area of buying assets while 7 or 9.6% of the respondents were helped by the activities of informal financial institutions in the area of getting investments. This shows that majority of the members of informal financial institutions used their financial loans in productive areas.

**Table 14: Distribution of Improvement in Members Welfare**

Improved Welfare	Frequency	Percentage of Respondent
SA	30	41.1
A	40	54.8
D	3	4.1
SD	0	0
<b>Total</b>	<b>73</b>	<b>100%</b>

Source: Field Survey (2019)

The results in Table 14 show that 30 or 41.1% of the respondents have strongly agreed that the loan received from informal financial institutions improved their welfare, 40 or 54.8% respondents have agreed that it improved their welfare while only 3 or 4.1% of the respondents disagreed that the loan benefited have not improved their welfare. This implies that the 3 or 4.1% respondents are those that don't used their loan in productive areas.

**Table 15: Distribution of Payback Period of the Loan**

Payback time	Frequency	Percentage of Respondent
Two months	8	11.0
Three months	13	17.8
Four months	15	20.6
Five months	17	23.2
Six months and above	20	27.4
Total	73	100%

Source: Field Survey (2019)

The results in Table 15 show that 8 or 11.0% of the respondents were able to pay back their loan in a duration of two months, 13 or 17.8% of the respondents were able to payback their loan in three months, 15 or 20.6% were able to payback in four months' time, 17 or 23.2% were able to payback in five months duration meanwhile 20 or 27.4% of the respondents were able to payback their loan in a period of at least six months. This result implies that the higher the period, the higher the number of respondents that payback their loan in such period. This attest to the fact that most of members used their loan to improve businesses that will be plugging back the profit to invest in current assets while paying a small amount for the loan, while other used it to improved agricultural production which its output in usually seasonal.

**Table 16: Logistic Regression Results**

Variables	Coefficient.	Standard Error	Z-statistic	Probability
LM	-0.340	0.000185	-0.666677	0.50
NL	-0.0086	0.0113054	-0.664001	0.506
SL	-0.8095	0.810736	0.998484	0.0180
PBT	0.1678	0.346606	0.484045	0.628
UFD	-0.3774	0.733558	0.514495	0.007
YOT	-0.693	0.783194	-0.884872	0.376
HHS	2.45	3.27E-05	0.749079	0.453
C	-2.695	1.696471	-1.588838	0.11

$R^2 = 0.5934$       LR stat. = 14.04      Prob. (LR stat) = 0.039

Sources: Researcher's Computation Using E-views (2019)

The results in Table 16 show that length of membership (LM), number of loans (NL,) size of loans (SL), use of funds (UFD) and income outside loan (YOT) are negatively related to poverty with coefficients of -0.340, -0.0086, -0.809, -0.3774 and -0.693 respectively. This means that increases in length of membership, number of loans, size of loans, use of finds and increase outside loan reduces the likelihood of being poor.

All these variables meet a priori expectation. However, only size of loan and use of funds are statistically significant at 5% level while the other variables are not. Payback time has a positive relationship with poverty with a coefficient of 0.1677 this means that increase in payback time increases the likelihood of being poor. This is contrary to a priori expectation and statistically insignificant at 5% level. Household size has a positive relationship with poverty with a coefficient of 2.45 and is not in line with a priori expectation. The MC Fadden R-square of 0.5934 implies that 59.34% of variations in poverty are being explained by explanatory variables. Also, the Akaike and Schwarz statistic (That is 1.11 and 1.35 respectively) are relatively low which shows that the model behaves well.

### Discussion of Findings

The study has shown that most of the respondents are farmers and trader while the minorities are civil servants and other vocations such as handcraft customlogy, hairdressers, and tailoring. A great proportion of the farmers are male since most of the singles (males) has their farm without having wife. The researcher believes that because of the rural nature of the study area (Ukum Local Government) and low economic activities many people are engaged in farming and trading as a means of livelihood. The study also reveals that the working population is high; it is believed that the output level will also be high. But due to the low level of formal education, most of the youths are engaged in primary production with low level of productivity. Farming becomes the largest employer of labour while trading follows. The technique of farming is crude and most youths tend to marry early so as to increase their farm

hands. The study further shows that savings are been mobilized by the informal financial institutions in order to tackle and possibly reduce poverty. These institutions include the fixed saving and credit associations, and self-help-group, which are operating for the benefits of its members. The study also unveils that poor book-keeping, loan overdue, high level of illiteracy and embezzlement of monies as the major problems of this institutions. Nevertheless, the study covers the silent role played by this informal institution in reducing poverty in rural areas most specifically in Ukum Local Government Area of Benue State. This is possible through the loans offered by these organizations, food stock, farming or agricultural inputs and house wares. The researcher observed that most of the loans taken by members were used in building of house, stores, or shops for rent, enhancing their means of transportation, communication, electrification and digging wells for water accessibility and the like. All these are done in order to improve their standard of living.

### **Conclusion**

The research was conducted with the key objective of assessing the impact of informal financial institutions on poverty reduction in Ukum L.G.A of Benue State, examining the socio-economic condition of people who benefited from the informal institutions in the targeted council wards of Ukum Local Government. More so, assess the impact of informal financial institutions on standard of living of the beneficiaries in Ukum Local Government Area of Benue State. Also, to further, determine the factors or problems militating against the active performance of the informal financial institutions in the study area. The struggle for poverty reduction is a life process most especially when analyzed against the benefits of a poverty free society. As poverty persists so are the strategies for its reduction being always prescribed Informal financial institutions are enormous importance from a wide range of perspectives.

### **Recommendations**

The following recommendations are deemed necessary for the achievement of the targeted goal (poverty reduction) to make informal financial institutions have broad impact on the people's wellbeing. Some of the problems that have hindered member's effective contribution to the growth and operation of the association should be addressed. One of the problems that is associated with the institution is the problem of low-income earning of the members which has made savings mobilization difficult and the fear of default that is common among members. The government can augment the low-income earnings of members by making soft loans (with low interest) available to members through co-operative society that the members belong. The fear of default can be taken care of if members can institutionalize the concept of social capital that places emphasis on trust, information sharing, the reduction of opportunistic behaviour and facilitation of collective decision-making. Since majority of the sample population are farmers, the government should make available markets where the farm produce can be sold. This can help in increasing the income level of those living in such areas, more so, more saving can be mobilized if income is high. The study shows that majority of the people who are members of these institutions have no formal education, the government should therefore encourage greater finding of educational institutions in order to train the people living in these areas. These people can be motivated through free education system. This can also make most people who are not employed to have job opportunities. In addition, the skills learnt in these schools can make these people to be creative hence becoming self-reliant.

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