Informal Capital Markets and Integrated Rural Development in Nigeria

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Abstract

The study examined the effects of informal capital markets on people-oriented development at the grassroots level in Nigeria. It was motivated by the prevalent speculations and differences of opinion in the literature about the effects of the markets on rural development in most third world countries, including Nigeria. The study adopted the exploratory survey research design and used mean score and Mann-Whitney U test in analyzing the data. The outcome of the analysis, among others, shows first, that all the benchmarks for rural developments, such as poverty reduction, women empowerment and housing development, were significantly related to informal capital market participation. Second, the utilization of micro credits was a major factor in the profitability and growth of business in the rural areas. It is recommended that the monetary authorities and other policy-makers recognize the cooperative finance efforts of this group of financial institutions, and devise appropriate means of integrating it with the formal financial sector for improved financial intermediation and wellbeing of the rural poor as well as sustainable growth of the national economies.

Keywords: Micro credits, informal capital markets and integrated rural development

A. INTRODUCTION

The informal capital markets have been severally appraised in different studies (Chipeta and Mkandawire, 1990; Yaron, McDonnald and Piprek, 1997; Ayreetey, 2008; Onoh, 2002 and Ojo, 2010). However, the literature is divided over their role on the socio-economic development of developing countries, including Nigeria. Ojo (2010), noted that informal rather than formal capital markets provide the bulk of small enterprises financing, especially in the lesser developed countries, in the smaller-sized categories of enterprises and in rural areas everywhere. Like the formal banking system, the informal financial intermediaries (such as friends and relatives, local moneylenders, social clubs, revolving loan associations, and daily funds collectors) engage in the mobilization and allocation of savings from surplus to deficit economic subjects. These functions span through activities with low social returns to those with high returns in both the rural and urban areas, as well as in the informal and formal sectors of the economy. The financial intermediaries are agents of development and growth, providing funds for business undertakings and property developments. They help in bridging the gap in financial needs, and correct the imbalance in income distribution and standard of living of their members. In fact, the prominence of the informal capital markets in Nigeria stems from the financial opportunities the informal financial intermediaries offer to the most vulnerable population such as the rural poor and women.

Before the introduction of modern banking in Nigeria, the informal financial sector was solely responsible for the savings and credit needs of the people and businesses in both rural and urban areas. Today, the formal and informal financial intermediaries play complementary roles in financial intermediation. The major distinction between the formal banking system and the informal capital market is the extent of their attention to small-scale enterprises and households, particularly in the rural areas. The banking sector has been criticized for restrictive and repressive financial policies. As a result, the informal capital markets have been boosted following the formal banking system unwillingness to serve small-scaled enterprises, and meeting less than 3 percent of their overall financial demands (SMEDAN, 2008).

The reason advanced for this is that small-scale enterprises are either unable to provide collateral securities or withstand the cumbersome and discriminating loan granting process of the banks (Ekpo, 2015). Incidentally, most enterprises to whom the informal capital market renders credits and investment functions are those to whom the formal banking sector had denied such requests. This is more so at the grassroots level, because banks in Nigeria are urban bias, concentrating their networks in the metropolitan areas in the pretext of insecurity and poor infrastructural facilities. In order to bridge the gap in financial needs of the rural areas, a variety of informal and semi-formal lenders provide credit at non-regulated rates to individuals and businesses. Consequently, Nigeria has a growing informal financial sector, with quite a number of intermediaries compared to the formal financial sector, though with limited range and volume of financial services. Onoh (2002), suggested that although there are no records which show their numbers, as many as five or more can be found in a village of less than 500 people, and as many as 20 or more in a Nigerian rural town. These market intermediaries target specific groups, such as women, wholesale and retail outlets, cooperatives and farmers. They also provide credit facilities at relatively lower transaction costs for the lower-income households, small-scale business owners and civil servants in urban areas (Babajide, 2011; Technoserve, 2015). By implication, the informal capital market facilitates rapid capital formation and encourages efficient allocation of resources through mobilization of savings and credits, which in turn promote economic growth and development.

Despite the growing body of literature upholding the merits of informal capital markets, their activities are not without criticism. Some commentators and analysts are contending that informal capital markets are anti-developmental, exploitative and promote consumption rather than investment (Seibel and Shrestha, 1988; Besley and Levenson, 1996 and Srinivas, 2016). Aryeetey and Udry (1995) also criticized certain aspects of the markets' operations, noting that they lack financial sophistication and are incapable of expanding to provide appropriate volume of businesses. Other areas of contention are the sector's poor accounting system, lack of good records, lack of accounting process and the security of the savings members which depend on the honesty and personal integrity of the promoters. It is also argued that the sector works with low degree of formalization on their transactions and are not regulated by the monetary authorities or any other public authority (Onoh, 2002; Mason, 2009,). These observations, no doubt, explain why the sector has been commonly associated with illicit activities which are carried out illegally to evade taxation and circumvent statutory obligations.

Aside the apparent division in the literature about the informal capital markets, the majority of studies referred to above are mainly qualitative, to the best of our knowledge. To corroborate this fact, Babajide (2011) regretted that not much is known about the informal capital markets in Nigeria except the much speculated. He expressed worry that the extent of the markets' contributions to the economy has remained largely unquantifiable because of the problem of measuring their performance. The continuous speculations about the activities of these markets and their role in economic development in the country can be misleading, particularly to the monetary authorities whose responsibility is to formulate inclusive financial policies, and design appropriate micro credit programmes targeted at low income households and businesses.

For the needed insight into the role of informal capital markets in Nigeria, and the part they play in the development of rural economy, thoroughly designed and carefully conducted empirical studies are required, preferably with reference to farmers which constitute over 70% of the Nigerian population at the subsistence level. It is against this background that this study is undertaken. To achieve this objective, it is hypothesized that: i). There is no significant difference between the mean profits of rural farmers who collected micro credits and non-collectors in Nigeria; ii). There is no significant relationship between participation in the informal capital markets and improvement of family income in the rural areas of Nigeria; iii) There is no significant relationship between participation in the informal capital market and rural women entrepreneurship in Nigeria; iv) There is no significant relationship between participation in the informal capital market and housing development in the rural areas of Nigeria.

The rest of the study is structured into sections “B” to “E”. Section “B” reviews the conceptual and extant empirical literature in informal capital markets, while section ‘‘C’’ discusses the research methods adopted in the study. Section ‘‘D’’ presents the results, and discusses the findings of the study, while section ‘‘E’’ draws conclusion and makes recommendations for development of the Nigerian informal capital markets.

B. CONCEPTUAL AND EMPIRICAL LITERATURE

B.1: Conceptual Framework

Informal capital markets relate to a network of traditional micro credit intermediaries which perform some of the functions of the licensed banks but are not themselves controlled or regulated by the central bank of the country in which they operate. The basis of distinction between the formal and informal capital market lies in the degree of regulation by government agencies through licensing or supervision. In this study, we concentrate on informal capital market association with integrated rural development.

The principal conceptual issues generally discussed in the capital market literature are efficiency, infrastructure, products and risk.

B.1.1 Efficiency Issues

The concept of efficiency in the context of informal capital market can be discussed under three major perspectives namely; operational efficiency, allocation efficiency and pricing efficiency. Operational efficiency relates to the manner in which the market intermediaries carry on their transactions. These market players, such as moneylenders, revolving loans associations and daily funds collectors serve their customers or members in business firms, service, industry and households. In an operationally efficient market, market players are expected to carry out their operations at the lowest possible cost and earn normal rather than abnormal profits. But this is not the case with informal capital markets where the intermediaries sometimes resort to unfair practices. Due to absence of regulations in their operations, their interest charges and rate of return are high. There is disconnect between the funds providers and the fund seekers which tend to increase transaction cost in the informal capital markets. In the absence of relevant information, all parties have to incur additional costs to locate themselves as well as their preferences and criteria for funds allocation. The mismatch arises because of the limited track record or profile of funds providers and that of their customers. Also, most of the individuals or businesses sourcing for funds may be anonymous or are newly established with limited or no track record. An efficient capital market is one where parties in the market can sufficiently access relevant information about themselves and do not have to be unnecessarily cautious or make much enquires to guard against regrettable outcomes.

Allocation efficiency pertains to the judicious allocation of funds to their best uses. That implies that funds must be given to individuals and firms with the greatest potential for optimal investment. Studies (Lumme, Mason and Suomi, 1996; Stevenson and Coveney, 1994; Van Osnabrugge and Robinson, 2000) have shown that many firms in the informal sector are unproductive, in the sense that quite a number of them are new, and were established without adequate idea of the business and experience of the environment. In the more developed economies, such as the US, informal investors often feel disappointed as they have a number of uncommitted funds available for investment but can hardly find suitable investment proposals (Zoetermeer, 2006). In Nigeria, local money-lenders are only concerned about the borrowers' ability to pay the agreed interest on borrowed funds and the eventual refund of the capital sum. What the funds would be used for is of no primary consideration.

In regards to a price efficient market, the informal investor (say a money lender) is expected to earn merely a risk-adjusted return from an investment (say a borrower) as interest rates and associated conditions, respond instantaneously without bias to any market information. Again, this is a near impossibility in the Nigerian situation because of lack of physical information channels and the anonymity of both the informal funds providers and funds seekers' profile.

B.1.2 Informal Capital Market Infrastructure

The relevant infrastructures which facilitate interactions and transactions in the informal capital market include communication channels, distribution networks and ''rules of the game''. These informal rules allow participants to conduct their business in predictable and somewhat efficient manner. Participants use business introduction services, associations, social clubs and angel networks as communication channels to connect with each other (Farrell, Howorthb and Wright, 2008).

Typically, it is difficult to identify participants in the informal capital market, although the networks used by funds providers are not too different from those used by entrepreneurs and enterprises seeking for funds, given that their activities are not always recorded. Thus, the markets suffer from the problem of unreliable market data and frequent changes in business regulations.

Transactions in the informal capital markets is like investing in unquoted entities. Operators in these markets prefer to remain anonymous. Their numerical strength notwithstanding, the markets remain largely unorganized with no common access point. As a result, the apparent difficulties in identifying the investor and the investee result in increased transaction costs in the market. This situation brings to mine the importance of institutionalized networks that promote trading, including mobilization and allocation of facilities in the intermediation process.

B.1.3 Products and Innovations of the Market

Traditionally, financial instruments used in sourcing for funds in the informal capital markets vary with the kinds of intermediaries operating in the markets. There are variants of products used as instruments over time. The advancement in human society and constant refinement in culture and religion as well as government policies, to a greater extent, influence the financial instruments in the informal capital markets. Human labour and child marriages were the early crude products of the market. Today, these means of financial intermediation are considered antihuman and contrary to public policy because of their debasement of human dignity. Onoh (2002), observed that these forms of financial products are still prevalent and disguised as ‘’housemaid’’ and ‘’apprentice’’ in some parts of the country.

Other financing instruments used to source for funds in the informal market are farm lands, economic trees, academic or professional certificates, household equipment and appliances, clothing and assets of various kinds. Most of these instruments are used as collateral security for cash to enable the borrowers meet their personal or business funds’ need. Supposing the borrower eventually defaults in servicing the debt instrument or refund the principal sum at the end of the loan tenor, the individual or entity forfeits the pledged item. But in the case of farmlands and economic trees the lender continues to cultivate the land or harvest the economic tree until the loan is completely repaid. Sometimes men of high repute with better credit rating in the community are required as guarantor for a prospective borrower and/or collateral security.

B.1.4 Risks

Risks in the context of informal capital market generally relate to possibility that participants (funds providers, borrowers, etc.) in the capital markets who are involved in the financial intermediation process will not live up to expectation. The term is used to explain the behavior of financial intermediaries and other players in the informal capital markets as pertaining to uncertainties surrounding monetary losses.

Informal capital markets are the leading source of external risk capital fueling entrepreneurial start-up and small business growth (Gaston, 1989). Although the informal capital market is characterized by variety of risks, this class of risk is primarily the major class for most entrepreneurs once their capital requirements exceed family resources. However, risks associated with uncertainties and default in credit is minimal. With no legal premise to sue loan defaulters due to absence of regulations, operators of the market are usually very circumspect in their operations. Loan providers would ensure that items accepted as collateral are many times worth the amount of money borrowed, such that in the event of default the lender would not have any stress in selling the item. The borrower on his part, would not want the pledged item seized considering what he or she would lose.

The risks associated with the informal capital markets are unique and often vary with circumstances. For example, in the rural communities the collateral securities are often in the form of farmlands. The loan provider is expected to make fortunes from the farmland until such a year the borrower returns the borrowed funds. Whatever the borrower makes out of the farmland serves as interests on the borrowed funds. However, risk sets in where the borrower or in certain cases both parties to the transaction die in the course of time while the agreement subsists. The worst case is where the agreement was merely verbal. In that case, the family of the lender may forfeit the mortgaged property as part of their inheritances. In some cases, the two families may resort to subjecting themselves to native oath, in which case the community elders are consulted and an oath is given to either of the families who is ready to take and claim the farmland. If at the expiration of the specified tenor from the time for which the oath was taken the family representative who took the oath is not death, then the farmland automatically becomes the bona fide property of the oath taker's family.

B.1.5 Integrated Rural Development

The concept of integrated rural development relates to a holistic approach to development. It is a modern concept that is premised on the fact that improvement in the socio-economic wellbeing of disadvantaged areas can best be brought about by recognizing and animating the collective resources of the territory itself. The emphasis is on what rural areas can do and support themselves and ensure the local economic growth. It is a comprehensive approach to rural development intended to raise the income-generation capacity of target groups among the poor. It is consistent with the Millennium Development Goals (MDGs) which provide a framework for integrated development. The aim is to improve the wellbeing of people living in the developing world.

It would be recalled that MDGs contained eight benchmarks. The first being the eradication of extreme poverty and hunger, particularly those that are in abject poverty, living on less than a dollar per day (currently estimated at 1.2 billion), and those suffering from hunger (800 million). The second emphasizes universal primary education for boys and girls, while the third calls for gender equality and empowerment of women. The fourth aims at reducing infant mortality rate of children under five by at least two-third.

The fifth is to reduce maternal mortality rate by three-quarter, while the sixth calls for renewed efforts to reverse the spread of HIV/AIDS as well as malaria and other diseases. The seventh emphasizes issues of environmental sustainability, with the aim of reducing the proportion of people lacking safe drinking water and those living in slum areas by half, while the eight calls for the growth of global partnership for development.

From the foregoing, it can be clearly understood that all the eight MDGs are predicated on an integrated approach to development. The eight goal summarizes it all, advocating an inclusive efforts. For development to be sustainable, it must be inclusive, both for the administrators of development programmes and the intended beneficiaries. In reference to the 1.2 billion people living in abject poverty, 75 percent live in rural areas. This explains why rural development is undoubtedly necessary for the achievement of MDGs.

B.2: Empirical Review

There are two opposing views about the role of informal capital markets, traditional view and modern view. Proponents of the traditional view are of the opinion that informal capital markets are anti-developmental, exploitative and promote consumption rather than savings and investment. Initial efforts of government have been to stop this group of financial institutions from operating on the grounds that they affected the functioning of the economic, monetary and fiscal policies, and promote illegality or ‘’black’’ market monetary activities. Subsequent regulations suggest government attempt to either restrict the activities or effect outright termination of their existence.

The government has initiated several monetary policies that would ensure increase banking activities and favourably credit delivery networks, particularly in the non-urban areas. These policies include the Revised Microfinance policy, the National policy on MSMEs, the introduction of Partial Credit Guarantee Schemes (PCGS), and Credit Bureaus and Registries to ease information asymmetries of MSMEs’ loan applications.

Onoh (2002), explained that the institution is characterized by poor accounting system, lack of good records, lack of accounting process and the security of the savings members depend on the honesty and personal integrity of the promoter. The sector works with low degree of formalization on their transactions and are not regulated by the monetary authorities or any other public authority. Seibel and Shrestha (1988), as cited in Ojo (2010) identified three common shortcomings associated with rotating savings and credit institutions in Nepal as: (1) members having in the process of bidding, to forego sizeable portions of the sum which would be contributed without bidding; (2) investment planning being made difficult by the fact that the time when the fund is obtained cannot be calculated; and (3) a member being unable to have recourse to additional loans in case of emergency, once he has obtained the fund.

In the contrary, proponents of the modern view are of the opinion that informal capital markets work directly in the community and has simplified application procedures, prompt credit administration, concentrates on the local market, provides larger loans based on successful repayments, charges high rate of interest, addresses the needs of the poor clients and considers the reputation in the community more important than collateral. Diaz-Moriana and O'Gorman (2013), in their study on ''Informal investors and the informal venture capital market in Ireland'' addressed the question of how informal investment activities affect small economies, such as Ireland. They found that friends and colleagues provided at least £195 million to new businesses in 2011, and Business Angels invested £80 million; and that for every £1 of formal venture capital funding, there was approximately £5 of informal capital funds.

In a similar development, Alawaiye-Adams, Oluwafemi and Anthony (2014) have examined the relationship between informal capital markets and the development of small-scale enterprises without giving much analytical perspective on rural development. The authors found out that the informal capital markets play an active role in small scale industries development and thereby help in the development of the economy at large. Karlsson (2001), in his study on ''generating opportunities: case studies on energy and women'' addressed the question of how informal capital markets triggers rural development. They found that informal capital market intermediaries know their customers well and closely monitored their business payment records vis-a-vis formal lenders and overall prosperity, integrity and cash position of their customers.

Adeusi and Ogunmakin (2014), investigated the effect of environmental factors on informal capital markets in Nigeria and concluded that environmental factors positively correlate with the informal capital markets performance. Ijaiye, Lawal and Osemene (2012), stressed that formal sources of finance are inaccessible for households, they resort to the informal form of housing finance to provide a home where they and their families can live in security and comfort. The informal capital markets have the advantages of convenient location, a minimum of delays, availability of credit at any time of the year, flexible term structure and flexible loan security requirement. Besides there are no application forms to fill out, reference to submit and line to stand in. the lender accepted or rejected the request immediately. The informal capital markets provide valuable services that are not adequately met by modern financial institutions (Ijaiye, *et al*, 2012). Tshuma and Jari (2013) corroborated these views by advocating the promotion of informal sector activities through the elimination of regulations and restrictions to open up a source of income which the poor rural and urban households can use to escape poverty.

Also, Gupta (1997), developed a three-sector static model of a small open economy, with special consideration to the urban informal sector and the informal capital markets. He observed that informal capital is mobile between the rural sector and the urban informal sector, while the effect in the model appears to be different from those analyzed in other three-sector model. Adeusi, Azeez and Olanrewaju (2012) in their study, employed the Ordinary Least Square method of Multiple Regression Analysis over the period of ten years to examine the effects of financial liberalization on the corporate performance of informal capital markets in Nigeria. The study concluded that financial liberalization has significant effect on deposit and loans granted by the markets but did not have significant effect on their net surplus.

C. RESEARCH METHODS

In this research, the exploratory survey design was adopted while both descriptive and inferential statistical analysis were carried out using mean estimates, standard deviation and Mann Whitney U test. Sixteen (16) farming communities were selected through simple random sampling technique and 310 rural farmers purposively selected from Adavi Local Government Area of Kogi State; Mbaitoli Local Government Area of Imo State and Yewa North Local Government Area of Ogun State, as well as Uyo Local Government Area of Akwa Ibom State over the period of February to June, 2016. It is noteworthy that Hausa, Ibo and Yoruba tribes constitute about seventy percent of Nigeria’s population. Thus, to ensure that the three major tribes were proportionately represented, it was necessary to use simple random technique to select a State from each of the tribes. For sake of fairness, the rest of the minority tribes were combined and Akwa Ibom State was randomly selected. We made use of our graduating business students who were posted for their National Youth Service in those States to contact and administer interviews on the respondents.

Data relating to sources of microcredits and their effects on business performance, family incomes, food security and poverty alleviation among others were collected from the respondents using structured questionnaire which was classified and weighted using a 5 point Likert scale of 5 for Strongly Agreed (SA), 4 for Agreed (A), 3 for Disagreed (D), 2 for Strongly Disagreed (SD), and 1 for Undecided (UD). The attitudinal statements in the questionnaire were validated through face and content validation to ensure concordance of what they set out to measure. The instrument was given to two experts (a researcher and an entrepreneur) for scrutiny. The reliability of the test instrument was obtained using test-retest method procedure with a reliability coefficient of over 0.78, indicating a fairly positive strength.
Table I shows the States, Local Government Areas and sampled communities selected for study.

Table I: Number of rural farmers selected for interview by States, LGAs and Communities of origin

States	LGAs	Communities	No. of farmers interviewed
Kogi (Hausa)	Adavi	Ogaminana Kuroko Adai-eba Inoziomi	25 14 13 17
Imo (Ibo)	Mbaitoli	Ogbaku Isi Ogbaku Okwu Ogbaku Ogbujioma Ogbaku	30 25 24 22
Ogun (Yoruba)	Yewa North	Ohunbe Yewa Obelle Yewa Mosan Yewa Ijoun Yewa	18 17 23 14
Akwa Ibom (Minority Group)	Uyo	Afaha Offot Ekpri Nsukara Offot Ikot Okubo Offot Ikot Ntuen Offot	16 23 15 14
Total	4	16	310

Source: Field survey

After data editing, only 270(87%) questionnaires out of the 310 were valid and useful for analysis.

D. RESULTS AND DISCUSSION

The responses from the questionnaire form the basis of computation and analyses presented in this section. To ascertain the relative importance of each source of credits to rural farmers, respondents were asked to indicate their preferences on the five point scale (1= strongly disagree, 2= disagree, 3= undecided, 4= agreed, 5= strongly disagree). The data collected were analyzed using percentages and mean score. Table II provides empirical results on the relative importance of sources of credits to rural farmers.

Table II: Relative importance of sources of credits to rural farmers

S/N	**Major Research Questions**	**Strongly Agree**		**Agreed**		**Undecided**		**Disagree**		**Strongly Disagree**			
	Sources of credits	Frequency	Percentage %	Frequency	Percentage %	Frequency	Percentage %	Frequency	Percentage %	Frequency	Percentage %	Mean	Ranking
1.	Family	105	39	50	19	41	15	30	11	44	16	3.5	4th
2.	Friends	98	36	63	23	35	13	23	9	51	19	3.5	4th
3.	Thrift (Isusu)	127	47	48	18	21	8	35	13	39	14	3.7	1st
4.	Moneylenders	109	40	41	15	46	17	19	7	55	20	3.4	5th
5	Trade credits	110	41	38	14	48	18	50	19	24	9	3.6	3nd
6.	Associations	115	43	66	24	15	6	53	20	21	8	3.7	1st
7.	Comm. banks, Microfinance banks, etc.	54	20	59	22	23	9	73	27	61	23	2.9	6th

Source: Field survey

As depicted in Table II, rural farmers attached relatively high importance to informal sources of credit than the formal sources. Accordingly, thrift (isuau) and associations (meetings) rank first with mean score of 3.7 respectively. Low interest charges probably explains the reason for farmers' wide patronage of these sources of micro credits. These are followed by trade credits which ranked third with mean score of 3.6. Family and friends ranked 4th with mean score of 3.5 respectively, followed by moneylenders with mean score of 3.4. Commercial banks and other formal sources of credit ranked 6th with the least mean score of 2.9.

A close look at the table shows that the informal credit sources (family, friends, thrift, moneylenders, trade credit and associations) provide the bulk of finances required by the rural farmers. The formal sources which include commercial banks, microfinance banks and other financial institutions are of less preference to the rural farmers. As can be seen from the analysis, the formal sources of credit is the least in ranking, contributing the least to the credit needs of the farmers. This results are in conformity with the findings of Ojo (2010), who maintained that informal rather than formal capital markets provide the bulk of small enterprises financing, especially in the lesser developed countries, in the smaller-sized categories of enterprises and in rural areas everywhere. The findings are also in line with Diaz-Moriana and O'Gorman (2013), who investigated how informal investment activities affect small economies, such as Ireland and found that friends and colleagues provided at least £195 million to new businesses in 2011, and Business Angels invested £80 million; and that for every £1 of formal venture capital funding, there was approximately £5 of informal capital funds.

Table III (a) summarizes the descriptive statistics of business profits of two groups of rural farmers, informal credit collectors and non-collectors. The informal micro credit collectors (196) had mean business profit of 3.53, while the non-collectors (74) had mean business profit of 1.27. This reveals that the mean profit of the informal micro credit collectors nearly tripled that of the non-collectors.

Table III: Descriptive statistics of business profits of two groups of rural farmers

Micro credit collection	N	Mean	Std. Deviation	Minimum	Maximum
Collectors	270	3.53	1.495	1	5
Non Collectors	270	1.27	.447	1	2

Source: Field survey.

Statistical tests were further conducted to test the hypotheses earlier stated for the study.

Hypothesis 1: There is no significant difference between the mean profit of rural informal micro credit collectors and non-collectors in Nigeria.

Table IV: Independent sample test of mean profit difference

Micro credit collection	N	Mean Rank	Sum of Ranks	Mann-Whitney U-test	Z	P-value
Collectors	196	172.50	33810.00	0.000	-13.170	0.000
Non collectors	74	37.50	2775.00			

Source: Field survey

From table IV above, the micro credit collectors have the higher mean profit since its mean rank of 172.50 is higher than that of non-collectors with mean rank of 37.50. Also, since the z-statistic of the Mann Whitney U test equals -13.170 with corresponding p-value of $0.000 < 0.05$, it can be concluded that there is a significant difference between the mean profit of micro credit collectors and non-collectors.

In this wise, the null hypothesis of equality of mean profits of the two groups of rural farmers is rejected at a significance level of 0.0001. Consequently, we conclude that the mean profit of micro credit collectors is greater than the non-microcredit collectors. This finding is consistent with the findings of Alawaiye-Adams, Oluwafemi and Anthony (2014) who examined the relationship between informal capital markets and the development of small-scale enterprises and found that the informal capital market plays an active role in small scale industries development and thereby helps in the development of the economy at large.

Hypothesis II: There is no significant relationship between informal capital market participation and improvement of family income in the rural areas of Nigeria.

Table V: Relationship between informal capital market participation and family income

Correlations			Market participation	Improvement of family income
Spearman's rho	Capital market participation	Correlation Coefficient	1.000	.925**
		Sig. (2-tailed)	.	.000
		N	270	270
	Improvement of family income	Correlation Coefficient	.925**	1.000
		Sig. (2-tailed)	.000	.
		N	270	270

**. Correlation is significant at the 0.01 level (2-tailed).

From Table V, since the p-value = 0.000 < 0.05, it can be concluded that there is a significant relationship between informal capital market participation and improvement of family income. The correlation coefficient of 0.925 indicates that there is a very strong positive relationship between participation in the informal capital market and improvement of family income. The implication is that as more rural dwellers participate in the market, the improvement in income of families also increases, which in turn contributes toward the eradication of extreme poverty and hunger. The significance of the result is in agreement with the opinion of Tshuma and Jari (2013) that the promotion of informal sector activities or at least the elimination of regulations and stifling restrictions could open up a source of income which the poor households in the urban and rural areas could use to escape poverty. The results is also in agreement with the opinion of Luiz, (2002) that the rise in informal capital market participation plays an important role in job creation and labour absorption, which also impact the source of income to the rural and urban poor people.

Hypothesis III: There is no significant relationship between informal capital market participation and rural women entrepreneurship in Nigeria.

Table VI: Relationship between informal capital market participation and rural woman entrepreneurships

Correlations			Market participation	Rural women entrepreneurship
Spearman's rho	Capital market participation	Correlation Coefficient	1.000	.926**
		Sig. (2-tailed)	.	.000
		N	270	270
	Rural women entrepreneurship	Correlation Coefficient	.926**	1.000
		Sig. (2-tailed)	.000	.
		N	270	270

**. Correlation is significant at the 0.01 level (2-tailed).

From Table VI, since the p-value = 0.000 < 0.05, it can be concluded that there is a significant relationship between informal capital market participation and rural woman entrepreneurships. The correlation coefficient of 0.926 indicates that there is a very strong positive relationship between informal capital market participation and rural woman entrepreneurships. The implication is that as more rural women participate in the market, entrepreneurships is encouraged, and this in turn enhances gender equality and women empowerment. Atieno's (2010), earlier work supports this finding. The author had noted the factors which determine the involvement of women in entrepreneurial activities in Africa to include factors of production, information technology and credit. Of all these, credit appears paramount because of the crucial nature of finance in business undertaking. Kevane and Wydick (2001) also corroborated this finding by noting that while participation of females in wage employment has remained low compared to men's, the share of women in the labour force also shows that they are disproportionately concentrated in community, social and personal services.

Hypothesis IV: There is no significant relationship between informal capital market participation and housing development in the rural areas of Nigeria.

Table VII: Relationship between informal capital market participation and housing dev.

Correlations			Market participation	Housing development
Spearman's rho	Capital market participation	Correlation Coefficient	1.000	.924**
		Sig. (2-tailed)	.	.000
		N	270	270
	Housing development	Correlation Coefficient	.924**	1.000
		Sig. (2-tailed)	.000	.
		N	270	270

**. Correlation is significant at the 0.01 level (2-tailed).

From Table VII, since the p-value = 0.000 < 0.05, it can be concluded that there is a significant relationship between informal capital market participation and housing development. The correlation coefficient of 0.924 indicates that there is a very strong positive relationship between participation in the market and housing development in the rural areas of Nigeria. The implication is that as participation in the market increases, housing development also increases. This in turn, ensures environmental sustainability with the potential of reducing the number of rural people living in slums. This finding is in agreement with the finding of Ijaiya, Lawal and Osemene, (2012) that a positive relationship exists between informal microfinance and housing finance in Offa Local Government Area, Nigeria. The finding also lends clarifications to the concern of (Chirisa, 2008; Ubale, Martin and Wee, 2013) who argued that activities of the informal sector rejuvenate the development of informal housing like slums, blighted settlements, shanty towns, squats, squalor, ghettoes, homelessness and pavement dwellers. Moreover, the finding lends credence to the work of (Ferguson, 1999; Ijaiya, Lawal and Osemene, 2012) which revealed that the great bulk of home finance in Africa, Asia and Latin America and the Caribbean comes from outside commercial finance and institutions; households use their own savings, sweat, equity, batter arrangements and other sources to build their homes. Rural housing finance does not only alleviate poverty, but also enhances economic growth because of the important role the housing sector generally plays in the wider economy of a country (Vetrivel and Kummarmangalam, 2010).

D. CONCLUSION AND RECOMMENDATIONS

The study has established that rural farmers attached relative high importance to informal sources of credits (such as family and friends, thrifts and moneylenders) than the formal sources. Also, the study revealed that there exists significant difference between the mean profits of rural micro credit collectors and non-collectors, with the micro credit collectors making higher profits from their businesses. It is also evident from the findings of the study that there exists a significant relationship between all the benchmarks for integrated rural developments (including poverty reduction, women empowerment and housing development) and participation in the informal capital markets. The conclusion from these results is that the informal capital markets in Nigeria have the potential to improve the socio-economic lives of the people, particularly in the rural communities.

Based on the findings and conclusions drawn, the study recommends that the monetary authorities and other relevant policy-makers should recognize the cooperative finance efforts of this group of financial institutions and devise appropriate means of integrating them with the formal financial sector for improved financial intermediation, and the wellbeing of the rural poor, as well as the overall growth of rural and national economies. Efforts should be made to reform the institutions of the informal capital markets, as well as canvassing for the cooperation and commitment of the market operators for effective mobilization of savings and provision of micro credits to households and enterprises.

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