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The Nexus between Informal Financial Sector and Poverty Alleviation in Nigeria: a Multivariate Panel Data Approach

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Abstract

The concept of Economic growth can be accompanied by an increase in informal employment. Informality may support growth by reducing labor cost and improving competitiveness. However, a well-functioning and regulated informal economy will be a critical prerequisite to achieve sustainable growth. And also, a widespread informality with regard to employment, enterprise and productive activities is frequently perceived as a barrier to full participation in the economy and as a hindrance to long-run economic development and poverty alleviation. This is because the link between, informality, poverty alleviation and growth is not fully understood. This paper seeks to investigate the Nexus between informal financial sector activities and poverty alleviation in Nigeria. A multivariate panel data approach was used with data from 150 informal sector operators in Gwagwalada area council-FCT. Data was collected using structured questionnaire and analyzed with appropriate technique in order to identify the perception of socio-economic impact of Informal sectors on poverty alleviation in Nigeria. The findings revealed that informal financial sector operators has a positive and significant impact on poverty alleviation in Nigeria; while poverty-mentality, illiteracy, high inflation, low infrastructure, access to credit, social safety nets and information dissemination 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, infrastructural development and favorable government policies so as to make the sector becomes relevant.

Keywords: *Informality, Financial Sector, Poverty Alleviation, Economic Growth*

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Background to the Study

The issue of poverty has since attained a global attention and has been a major concern to many nations particularly the developing countries which Nigeria is one of them. Nevertheless, the developed nations are not excluded in the phenomenon. Poverty has been defined as a situation where a population or a section of the population is unable to meet its subsistence essentials such as basic food, clothing and shelter, including basic education in some economies especially the developed ones. According to the World Bank Development Report (1990), a country could be described as being poor if the per capita income is below US $370 or very poor if it is below US $275 at any point in time. In other words, the poor lacks basic necessities of life such as exposure, funds, security, social recognition, hence limited chances of advancement in life in all ramifications.

Nigeria economy has been characterized with the Small and Medium scale Enterprises (SMEs) and its development will enhance the country's sustainable growth and development. The inability of the formal financial institutions to provide financial services to the urban and rural SMEs, coupled with the non-sustainability of government to finance development programs and projects contributed to the slow growth of private sector-led financial institutions in Nigeria. Before the emergence of formal financial institutions, informal microfinance activities flourished all over the country in areas of job creation and poverty alleviation. (Yelwa et al., 2015).

Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names: 'esusu or ajo' among the Yorubas of Western Nigeria, 'etoto' for the Igbos in the East and 'adashi' in the North for the Hausas (CBN, 2000). The key features of these informal schemes are savings and credit components, informality of operations and lower interest rates in relation to the formal banking sector. The informal associations that operate traditional microfinance in various forms are found in all the rural communities in Nigeria (Otu, et al, 2003). The Central Bank of Nigeria survey (2001) indicated that the operations of formal microfinance institutions in Nigeria are relatively new, as most of them were registered after 1981. Most of the MFI were also registered from 1982 as non-governmental organizations (NGOs). They operate in both urban and rural areas.

The bulk of credit beneficiaries were women, as most of the MFIs began as NGOs that had the promotion of female welfare as the basis for their establishment. Apart from the general belief that rural women are marginalized in terms of economic opportunities and should therefore have separate promotional agenda, the MFIs are of the view that women perform better than men in managing meager resources and promoting micro enterprises. Other reasons were that the ego problem of men makes it difficult for them to solicit for small sums of money; and that cultural practices prevent men from engaging in certain businesses, such as petty-trading, hair-dressing, etc. Unlike in the money deposit banks, asset based collateral is de-emphasized by the IFIs. Lending is done on group basis and a group is made up of between 5 and 10 clients. The collateral is the collective pledge of the group to repay, based on community recognition. In addition, the IFIs concentrate on short term financing, owing to the large demand for loans and their limited assets. High percent of their financing was for trading activities. Credit to the service sector was very minimal and the IFIs gave no loans for consumption. All the clients were low-income individuals, operating micro enterprises. The disproportionate coverage of commerce in the loan portfolios of IFIs is attributed to the quick and high returns that come from investments in the sector, compared with the long gestation periods and lower returns that are associated with businesses in agriculture and manufacturing.

However, this paper therefore will establish the need to empower the poor, which has been estimated to be on the increase through the operation of informal financial institutions as a strategy for poverty reduction. Presently, it has become very difficult if not impossible for many Nigerians to live above the poverty line. Accessibility to credit facilities is also very difficult for women and men, farmers and people who are poor. The inability of the formal financial institutions (FFI) to make funds available to reach the poor segment of the population, due to the stringent conditions attached to loan has increased the relevance of the Informal Financial Institutions (IFIs) such as money lenders, Rotating Saving and Credit Associations (ROSCA), cooperative societies and so on, that provide credit service for the needy in short notice with little or no restriction, Adeyemi, (2008).

In relation to the above, the failure of most programmes by successive governments in Nigeria to tackle the menace of poverty among the general population due to political instability, corruption, bureaucratic bottleneck, lack of sincerity of purpose, elitist orientation of the programmes and the unwillingness of the formal financial institutions to grant loans/credit facilities to the poor resulting from non-provision of collateral security have been held responsible for this situation. The concerns generated by the prevalent situation have brought the need to focus attention on the operations of Informal Financial Institutions.

However, it is on this basis that the research questions were formulated:

1. Is there any relationship between Informal Financial Sector and Small and Medium scale Enterprises in Nigeria?
2. Is there any relationship between Informal Financial Sector and Income generation in Nigeria?
3. Is there any contributions of the Informal Financial Sector to employment generation in Nigeria?

The main objective of this paper is to assess the nexus between informal financial sector and poverty alleviation in Gwagwalada area council. This study will be of paramount importance to economic decision-makers, as it will guide them with the knowledge and skills needed to tackle the pressing issue of capital inadequacy for the SMEs in Nigeria.

Literature Review

Informal finance programme has been viewed as a unique programme for the reduction of vulnerability, and hence the achievement of the Millennium Developmental Goals (Adamu, 2007). Berko (2001) came up that the primitive means of informal financing institutions were the slavery, forced human labour, child Marriage and the practice of "Iwaga" in Yoruba area in which a borrower uses his own wife or daughter as collateral for the loan. According to him, these dehumanizing of human race practices had been phased out in Nigeria because of Christianity and civilization. Chukwu (1990) described this type of finance as a kind of insurance coverage for the members of the family both extended and immediate. In such case, common purse exists into which every well-to-do family members is expected to contribute his or her own quota and the funds so contributed can be used to give financial support to any members of the family that is not well-to-do.

Cooperatives are voluntary association or group of people coming from the same socio-economic background who pull their resources together for the purposes of solving their common problems through self-help and mutual trust. Cooperative has been the indigenous mechanism and technique employed by the people to identify their felt needs, choose what they want and take cooperative action to satisfy their needs, (Okonkwo, 2012). In Nigeria, cooperative societies are classified into producers, consumers and financing cooperatives. It is traditionally required that members of any of these informal financial forums should have common economic or social goals which they purse for the betterment and improvement of their standard of living.

In the views of Osuntogun & Adeyemo (1981), the informal financial market is an indigenous system of saving in varying forms which can be broadly summarized as a situation in which a group of people come together, contribute fixed amount at fixed intervals and assign the total amount contributed to an individual member on rotational basis or offer credit to members and share their accumulated savings at certain time in the year rather than on rotation. Irobi (2008) defined microfinance as the provision of financial services such as credits (loans), savings, micro-leasing, micro-insurance and payment transfers to economically active poor and low income household to enable them engage in income generating activities or expand/grow the small businesses. Microfinance is sectionally defined as a financial intervention that focuses on the low-income group of a given society. The intervention primarily involves credit services and may also include savings, insurance on credits and savings. Irobi (2008). However, Paul Streeten, (1998) was opined that poverty can only be defined by the poor themselves because it is only the poor that truly understand the meaning of poverty. Poverty in Gwagwalada area council is highly severe, it is an environment dominated by Gbari indigenes in which the poor lack access to basic amenities.

Informal Sector Activities and Economic Growth in Nigeria

The concept of growth demands analysis of how employment opportunities arise and change with growth process. Economic growth can be enhanced by the increase in the activities of informal economy or employment. For example, in Nigeria the role of informal economy activities is quite commendable even though, there are bottlenecks in terms of size and measurement, because the sector contributed in the areas of job creation, poverty alleviation and enhanced GDP in Nigeria. In order to enhance productivity there is need to integrate labour out of low-quality employment into more productive activities. This could also mean there is a reduction in the proportion of people informally employed would constitute an important element of an employment focused approach to inductive growth. (Aryeeteey, 2015)

Empirical Review

Recent studies have shown evidence of positive impact as it relates to first six out of seven Millennium Goals (Adamu, 2007; Irobi, 2008; Wrigth, 2000; Zaman, 2000; McCulloch and Baulch, 2000), all subscribed to the believe that informal finance is an effective and powerful tool for poverty reduction.

According to Khandker (1998), in his studies using statistical method on assessment of Informal finance among three Bangladesi programs found that every additional takas lent to a woman add additional of 0.18 taka to annual household expenditure. Similarly, in an updated study using panel data in Bangladesh, Khandker (2005), found out that each additional 100 taka of credit to women increase total annual household expenditures by more than 20 taka. These studies showed overwhelming benefit of increase in income and reduction of vulnerability.

On the other hand, some authors have challenged the positive effects of Informal Financial Sector on poverty alleviation. For instance, Hulme and Mosley, (1996) while acknowledging the role of microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be”. They stated that microfinance is not a panacea for poverty alleviation and that in some cases the poorest people have been made worse-off by microfinance.

Dunn and Arhucle (2001), used an analysis of covariance to examine loans to micro entrepreneurs for 305 households in Peru. The study uses data at two points in time and looked at changes in borrowers relative to control group who have not received micro-credit. 'The study suggests that there are significant differences between the borrowers and the control of group in terms of enterprise revenue, productivity, fixed assets and employment creation for other people. Toh and Urata (1994), examined how Japan's public and private sectors support small and medium-size enterprises (SMEs). Their findings based on a survey of 107 firms revealed that it accounted for about 35-60 percent growths in the productivity of the (SMEs). Similarly, Kim and Nuggent (1994), evaluated the effectiveness of private and collective technical, marketing and financial support systems for the Republic of Korea's small and medium-sized enterprises and entrepreneurs. They observed that financial assistance was the most critical form of support for Korean's SMEs and that government intervention in finance was very pervasive. The Korean government had made extensive use of parastatal finance institutions, targeted credit (micro-credits) and credit guaranteed schemes.

The Relationship between Formal and Informal Financial Institutions

Generally most intellectual debate on informal finances has been viewed from two perspectives namely 'the residual' and 'the dualism' paradigm. The residual paradigm believed that the inefficiencies generated within the formal financial system and the improper way of adaptation of world's formal financial condition led to the existences of informal finance. This paradigm originated from the works of MCKinnon (1973) and Shaw (1973). They argue that informal finance stems from the excessive regulation of the Formal Financial Institution through the use of direct credit policies, interest rate ceilings and preferential allocation of credit which created distortion in the economy. The distortion led to high cost of fund to the poor, rural dwellers, small scale entrepreneurs and other disadvantaged groups thereby accentuating the development of the Informal Financial Institutions.

Furthermore, Bouman and Houtman as cited in Fischer (1994) argue that the rural economies of many Asian and African countries require the financial system to generate turnover of small loans with low risk and low transaction cost, but the banks of formal institutions do not have the managerial capacity to small loans since the local lenders (informal institutions) are already involved in providing such services. In line with this position, Ardener and Fitchette (1992) believed that informal institutions are better than the formal institutions in supplying short term credit/loans to the poor, more closer to their client and are thus in a better position to give recipe to changing financial needs than the formal.

The second perspective which relates to the dualism paradigm believes that IFI exist as a result of other motives beyond the purely economic. According to this school of thought, IFI exist due to subordinate role it plays to the FFI thus creating market segmentation. In their view the occurrence of market segmentation is not due to regulation but because of the fact that the IFI serve in redistributing income among community members and provide a form of social security by meeting their fluctuating liquidity needs (Hugon, 1990 as cited in Soyibo, 1996). While it is costly in formal institution to acquire information about clients, informal utilizes local personal information resulting into a weak legal system which inhibits contract enforcement thereby results in credit rationing of potentials borrower without collateral. The market segmentation can be filled by informal agent as the collateral is replace by reputation, group responsibility and interlinked transaction.

Ardener and Burman (1995) argued further that informal finance is efficient in responding to the socio economic conditions of the poor as a result of the availability of resources without depending on market segmentation. Hill as cited by Ardener and Burman (1995) pointed out that rural poor need not to be learned on the saving habit since they have already engaged in the activities among themselves and need not to resemble any formal institution using the West African economies experience. He continued his argument in 1970s and 1980s with the Indian case study and later concluded that informal credit market evolved faster in rural areas especially where agriculture predominate and there is concentration of formal finance. In such situation, informal institutions compete with formal institution and still survive the competitiveness, financial viability and low cost of operation (Bouman, 1995).

Informality exist due to inefficiencies caused by market segmentation which prevents the formal institution to enter into the market since the informal cannot help but be replaced by formal one which is tends to eliminate the segmentation as the informal financial system develops and are less efficient in conducting financial transaction. An increasing body of analytical work has attempted to give an explanation to the functioning of credit markets using the new theoretical developments. Challenging paradigms of competitive equilibrium have tried to explore the implication of incomplete market on market segmentation and imperfect information for the operation of credit market in developing countries thus providing a theoretical foundation for policy intervention.

Theoretical Framework

The theoretical framework for this study is rooted to the model by Ravallion and Chen (1997), Deininger and Squire (1998) and Birdsall and Londono (1997), which reported that growth has a positive impact on reducing income poverty. This was also buttressed by Nafziger (2006), in his analysis of poverty alleviation and income distribution propounded that economic growth is the most important factor influencing poverty reduction. However, poverty level for a given country at a given period *t* depends on the economic growth. The model is specified as:

$$Povt = f\,(y, \varepsilon) \text{---} (1)$$

Where:
Povt = Poverty
y = the economic growth,
ε = other factors influencing poverty other than economic growth.

From eq. (1), holding error term(ε) constant, it then holds that all variables that influence economic growth are likely to have influence on poverty level, Hence,

$$Povit = f\,(y) \text{---} (2)$$

Following the economic growth strategy of the analytical framework underpinning poverty reduction which holds that economic growth is a necessary but not a sufficient condition for poverty reduction Nemedia (2001), Obadan (2001) and DFID (2004). Thus, equation (1) above is modified as follows:

$$Povt = f\,(y, O, \varepsilon) \text{---} (3)$$

Where:

O = other variables required to complement economic growth in modeling poverty.

Methodology

Nature and sources of Data

This study relied on both primary and secondary data. The primary data was obtained via the administration of questionnaire. A total of 150 questionnaires were distributed across Gwagwalada in FCT to register/operators of informal financial institutions and SMEs, using systematic random sampling procedure; our choice of this technique is to reduce the chances of error which a small population size may cause. In addition, Personal interview was conducted to enable the researcher obtain more information from those who could not express themselves clearly in writing.

However, the secondary data were obtained from the Central bank of Nigeria (CBN), National Bureau of Statistics (NBS) and World Bank data.

Model specification

Based on the model specified by Ravallion and Chen (1997), Deininger and Squire (1998) and Birdsall and Londono (1997), which reported that growth has a positive impact on reducing income poverty. The model was adopted with little modification which is specified as:

Povt = f (y, ε)-- (1)

Where:
Povt = Poverty
y = the economic growth,
ε = other factors influencing poverty other than economic growth.

Following the economic growth strategy of the analytical framework underpinning poverty reduction which holds that economic growth is a necessary but not a sufficient condition for poverty reduction Nemedia (2001), Obadan (2001) and DFID (2004). Thus, equation (1) above is modified as follows:

Povt= f (y, O, ε) ---(3)

Where:
O = other variables required to complement economic growth in modeling poverty.
Other variables included are as follows:

$Povt = \lambda_0 + \lambda_1\,GDP + \lambda_2\,PRIVCRE + \lambda_3\,EDU + \lambda_4\,INF + \lambda_5\,EXR + \lambda_6\,LNR + \lambda_7\,REPL + \lambda_8\,GUAR + \lambda_9\,SMEDEV + \lambda_{10}\,EMPGEN + \varepsilon it$ -- (4)

Where:
Povt = P = 1 if loan reduces poverty and 0 if otherwise.
GDP = the Gross Domestic Product
PRIVCRE = Private Credit
EDU = Education of entrepreneurs
INF = Inflation rate
EXR = Exchange rate
LNR = Lending rate
REPL = Repayment plan
GUAR = Guarantor
SMEDEV = SME Development
EMPGEN = Employment Generation
ε = other factors influencing poverty other than economic growth.

Methods of Data Analysis

Ordinary least square (OLS) technique was employed in computing the numerical estimates of the constant and co-efficient of the variables in the specified model. The OLS method was chosen because of its optimal properties (best, linear, unbiased, estimate) (BLUE). Also it computation procedure is fairly simple and of course it is an essential component of most other estimation technique as it has the ability to capture the long term relationship between several variables especially economic variable.

Analysis of Results from primary data

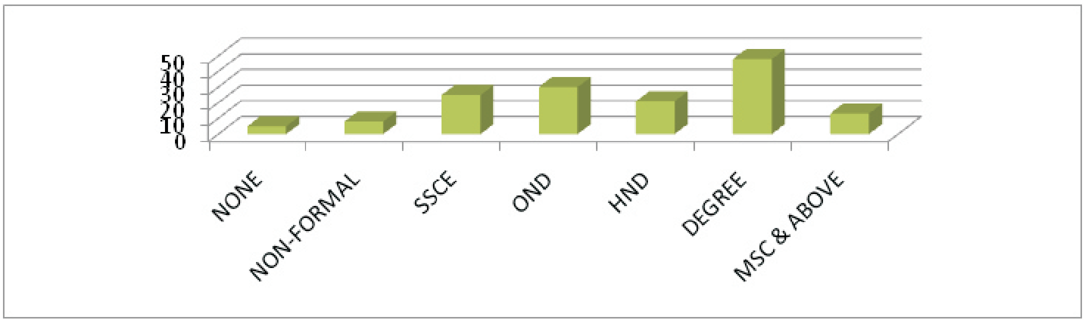
Characteristics of Respondents

Table: 4.1: Educational Qualification of the Respondents

Educational Qualification	NO. Of Respondents	Percentage (%)
None	5	3.3%
Non – formal	8	5.33%
School certificate	25	16.7%
OND	30	20%
HND	21	14%
Degree	48	32%
Master degree & above	13	8.7%
Total	**150**	**100%**

Source: Field Survey, 2016.

Fig. 4.1



Source: Field Survey, 2016.

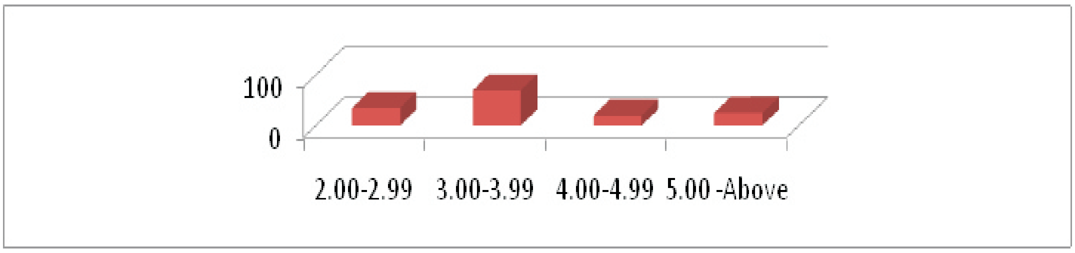
Table:4.1: shows that 5 respondents representing (3.3%) have no educational qualification, 8 representing (5.33%) are educated non formally, 25 respondents (16.7%) have obtained school certificate, 30 respondents (20%) have obtained OND, 21 respondents (14%) have obtained HND. 48 respondents (32%) are first degree holders while 13 other respondents representing (8.7%) have masters degree and above.

Table 4.2: Lending Rate

Lending Rate (%)	No. of Respondents	Percentage (%)
2.00 -2.99	35	23.3%
3.00 - 3.99	70	46.7%
4.00 - 4.99	20	13.3%
5.00 – above	25	16.7%
Total	150	100%

Source: Field Survey, 2016.

Fig. 4.2



Field Survey, 2016.

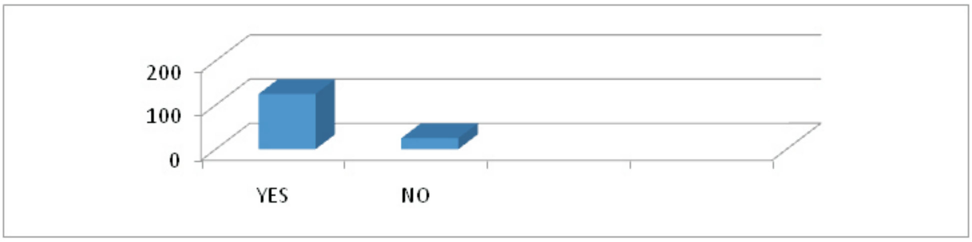
Table: 4.2: shows the distribution of lending rate of the respondents. 35 respondents representing (23.3%) got the loan at the rate 2.00-2.99%. 70 respondents representing (46.7%) had the loan at 3.00-3.99%. 20 respondents representing (13.3%) had it at 4.00-4.99% while 25 respondents representing (16.7%) had it at 5.00- above. This shows that the majority of the respondents got the soft loan between 3.00-3.99.

Table: 4.3: Mode of Repayment for SMEs operators

Repayment Plan	No. of Respondents	Percentage
YES	125	83.3%
NO	25	16.67%
Total	150	100%

Source: Field Survey, 2016.

Fig. 4.3



Field Survey, 2016.

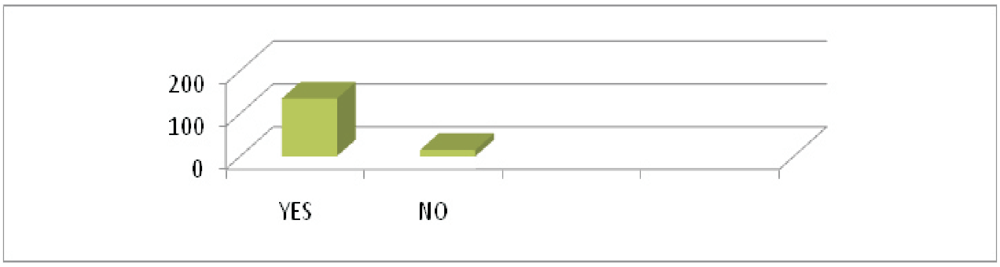
Table: 4.3: shows the conveniences of payment by the respondents. 125 respondents representing (83.3%) agreed to convenience repayment while 25 respondents representing (16.67%) disagreed. This show that majority of the respondents agreed that IFS loan repayment is convenience.

(ii) Guarantor's response
Table 4.4

	No. of Respondents	Percentage
Yes	135	90
No	15	10
Total	150	100

Source: Field Survey, 2016.

Fig. 4.4



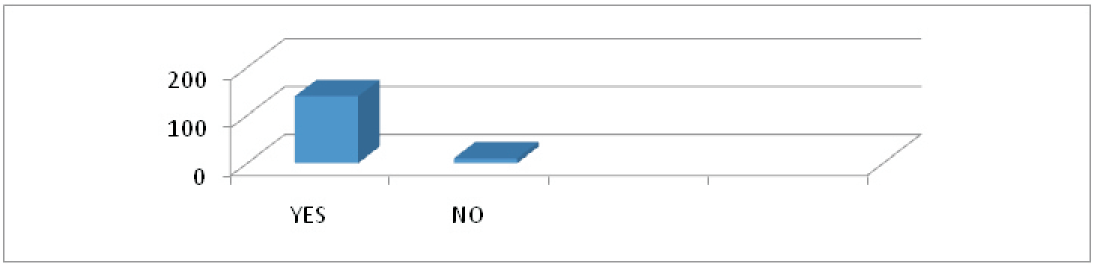
Field Survey, 2016.
Table: 4.4: shows that 135 respondents representing 90% have guarantors as demanded by the IFI while 15 respondents representing 10% did not. This shows that the demand or procedures in accessing IFI loan is highly relaxed compared to the formal financial institutions

Table: 4.6: contribution of IFS to SMEs

Response	No. of Respondents	Percentage
Yes	140	93.3%
No	10	6.7%
Total	150	100%

Source: Field Survey, 2016.

Fig. 4.6



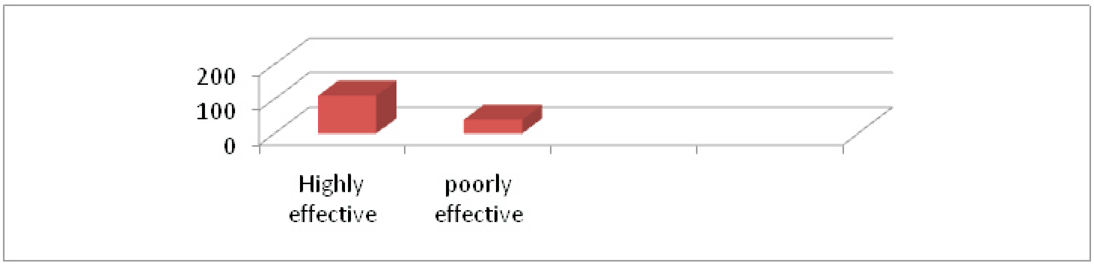
Source: Field Survey, 2016.
From table:4.6: 140 respondents representing 93.3% are of the opinion that IFS is capable of contributing to the development of SME's in North Central Nigeria while 10 respondents representing 6.7% are of the opinion that IFS is not capable of contributing to the development of SME's in North central Nigeria.

Table 4.7: Credit facilities to SMEs

Response	No. of Respondents	Percentage
Highly effective	110	73.33%
Poorly effective	40	26.67%
Total	150	100%

Source: Field Survey, 2016.

Fig. 4.7



Source: Field Survey, 2016.
Table: 4.7: shows that 110 respondents representing 73.33% are saying that IFS funding to employment generation is highly effective while 40 respondents representing 26.67% are of the opinion that IFS funding is poorly effective

Presentation of Results

The multiple regressions is to be estimated, where the coefficients $\lambda_{1,}$ $\lambda_{2,}$ $\lambda_{3,}$ $\lambda_{4,}$ $\lambda_{5,}$ $\lambda_{6,}\lambda_{7,}\lambda_{8,}$ λ_9 and λ_{10} to be estimated, are used to measure the contribution of independent variables to dependent variable.

The model is:

$Povt = \lambda_0 + \lambda_1$ GDP+ λ_2 PRIVCRE + λ_3 EDU + λ_4 INFL + λ_5 EXR+ λ_6 LNR + λ_7 REPL+ λ_8 GUAR + λ_9 SMEDEV+ λ_{10} EMPGEN + εit

Dependent Variable: POVT
Method: Least Squares
Date: 02/21/16 Time: 23:18
Sample (adjusted): 1 44
Included observations: 44 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.140263	0.476348	-0.294455	0.7702
INF	0.000901	0.001979	0.455433	0.6517
GDPG	-0.002075	0.006482	-0.320180	0.7508
EXR	0.047110	2.011711	2.341321	0.0001
PRIVCRE	0.000165	0.007333	0.022520	0.9822
EDU	-0.128041	0.230514	-0.555457	0.5822
LNR	0.149598	0.091341	1.637805	0.1107
REPL	-0.158744	0.134503	-1.180227	0.2461
GUAR	-0.143129	0.235460	-0.607871	0.5473
EMPGEN	-0.607433	0.166413	-3.650151	0.0009
SMEDEV	-0.306848	0.288538	-1.063458	0.2951

R-squared	0.588439	Mean dependent var	0.818182
Adjusted R-squared	0.510967	S.D. dependent var	0.390154
S.E. of regression	0.304478	Akaike info criterion	0.656281
Sum squared resid	3.152033	Schwarz criterion	1.061778
Log likelihood	-4.438173	Hannan-Quinn criter.	0.806659
F-statistic	4.067087	Durbin-Watson stat	2.069706
Prob(F-statistic)	0.001304		

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

$Povt$ = -0.140263 - λ_1 0.002075GDP+ λ_2 PRIVCRE - $\lambda_3$0.128041 EDU + λ_4 0.0009INFL + λ_5 0.04711EXR+ λ_6 0.149598LNR - λ_7 0.158744REPL- λ_8 0.143129GUAR - λ_9 0.607433SMEDEV- λ_{10} 0.306848EMPGEN

Interpretation of Results

The regression result reveals that most of the variables have expected sign. However, the result shows that there is a positive but insignificant relationship between inflation rate, lending rate and poverty level in Gwagwalada area council as well as a positive and significant relationship between exchange rate and poverty alleviation. This result concise with the outcome of Adam et al., (2015) which says that inflation rate has a positive impact on poverty alleviation in Nigeria. However, the result revealed a negative relationship between Education of enterpreneur, GDP growth rate, private credit, repayment plan, guarantor availability, employment generation and SME development. From Nguyen, (2003) empirical findings revealed that education is the most important factor affecting household credit facilities.

Bhat et al. (1999) also acknowledged that entrepreneur need formal education in order to comprehend complex information, keep business records, conduct cash flow analysis and make the right business decisions. He concluded that borrower with higher level of education may be considered for higher repayment rates. (Bhat & Tang, 2002). Lending rate and repayment plans revealed negative impact on growth; the inverse relationship that exists between these variables means that low value of them leads to increase in growth, hence less poverty. This result also corresponds with the work of Mamudu, (2013), which identified an inverse relationship between lending rate and SMEs development in Ghana.

The result is also in relation with Ardener and Burman, (1995) that Informal Financial Sector plays a significant role on SMEs development, employment generation and income generation in Nigeria. The R-squared value of 0.510967 implies that about 51 percent of the change in the dependent variable was explained by the explanatory variables of the model. It also shows that the model has a good fit. Conclusively, the general findings of this study shows similarities with earlier studies but most important is that Informal Financial Sector (IFS) face unique problems among which are poverty-mentality, illiteracy, high inflation, low infrastructure and cultural loan-defaults; which affect their growth and profitability and hence, reduces their ability to contribute effectively to sustainable development.

Conclusion and Recommendations

The study examines the nexus between informal financial sector and Poverty alleviation in Nigeria using panel data approach. Based on the results it is evidenced that there are relationship between Informal Financial Sector and Poverty alleviation in Gwagwalada area council. We therefore reject all the null hypotheses that these independent variables [Earning after loan (YAL), SMEs development (SMEDEV) and Employment generation (EMPGEN)] has no significant relationship with poverty alleviation in Nigeria; while the alternative hypotheses be accepted.

However, the study recommends that education of the rural poor to embark on viable projects should be encouraged; infrastructural facilities should also be developed so as to reduce the overhead costs of the entrepreneurs which will also help to increase their revenue. The study also recommends favorable government policies so as to reduce loan defaults arising from unviable businesses while this will help to enhance more job creation. There is need for the government to institutionalized the operations of informal sector generally because they have the prowess to create jobs, serves as means of livelihood to rural and urban dwellers etc.

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