

Appraisal of Informal Finance as a Tool for Rural Economic Growth: A Case of Abia State, Nigeria

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Article DOI:

10.48028/iiprds/ijsrhlir.v7.i1.06

Keywords:

Informal finance,
Rural economic
growth, Loan
repayment

Abstract

Informal finance predates formal finance as there existed the surplus and deficit unit before emergence of the formal finance sector. The poor and low classes of people see informal finance as available source of fund as they hardly qualify for the formal finance conditions. This study was on the Appraisal of Informal Finance as a Tool for Rural Economic Growth: A Case of Abia State. Informal finance which is the predictor variable was proxied as interest rate, adequacy of informal finance and level of loan repayment. Rural economic growth which is the dependent variable was proxied as level of turn over. The objectives of the study were: to determine the relationship between the adequacy of informal finance and economic growth of rural areas; to determine the relationship between the interest rate charged by informal finance and economic growth of rural areas; to determine the relationship between the level of loan repayment and economic growth of rural areas. The study adopted survey design and modified correlation/regression model was used for the analysis. From the result, informal finance has significant effect on rural economic growth as shown in the results of the analyzed hypotheses. The study recommended the inclusion of informal finance in the regulatory ambit of the monetary authorities. Conventional financial institution should also be made to provide more inclusive finance that will reduce the patronage of the informal finance.

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Background to the Study

The late emergence of formal financial institution in Nigeria did not imply that there was no form of financing in the country in the earlier times. Even before the existence of the formal financial sector, there existed the surplus and deficit units in the economy, so there was the need to finance the deficit unit using funds from the surplus unit. Financing of economic activities before the emergence of formal or conventional financial institution was the function of the informal financial sector. The activities of the informal financial institutions are more pronounced in the rural and semi urban areas due to certain characteristics: one, a lot of the Nigerian population is made of people that are predominantly poor, who are subsistence farmers, petty traders and artisans. Two, these poor classes of people are mainly illiterates. Three, the poor live mainly in rural areas where there are little or no facilities for formal finance. Four, being illiterates, the poor do not keep good records of their business activities. Five, the poor see loans from formal finance institution as their own share of national cake, so when they borrow, they hardly think of paying back. Six, the poor have no good title to property that may serve as collateral security for lending. Due to the factors enumerated among others inherent in the poor class, conventional banks shy away from finance sources for financing of their business.

One importance of the informal finance is its flexibility and liquidity when compared with formal sector (Ebo, 2011). Informal finance also flourishes due to the fact that it requires no rigorous in form of perfecting of title documents to be used as collateral securities. In most cases informal lending is based on personal relationship with little or no personal relationship with little or no documentation and at times it comes with guarantees. With informal finance farmers and other craftsmen have been able to obtain modernized equipment's for production and storage facilities. Both the informal finance lenders and borrowers are hardly trained in the area of financing and this makes their activities crude. Prominent among these primitive ways of financing are "Adesha" and "Gayya: in the north; "Ajo" and "Esusu" in the south west of Nigerian. "akawo" in the south east of Nigerian. Outside Nigeria there are the "Gamiayah in Egypt, "susu" in Ghana and a "Tortine" in Niger and Cameroon, among others (Hoff and Strhliz, 1990). A major problem of the informal finance is the associated high interest rate. It is obvious that the informal finance sector cannot be ignored in the Nigerian economy; this is due to the fact they serve the micro, small and medium size enterprises which form the bedrock of the economy. Attention should rather be shifted to how to create the enabling environment through the provision of laws, regulation, infrastructures and train manpower for them to flourish.

Statement of the Problem/Justification

Studying the formal finance sources has always been difficult due to the scarcity of data and analysis on both informal savings and informal lending. Still the study of informal finance becomes more important as conventional sources hardly learned to rural dwellers so many of them who are not served continue to access their capital from the informal finance sources often described to as "loan sharks".

Informal finance preys on the poor borrowers due to their high lending rates, making it usurious. One may think that there are feature of the informal finance that those that patronize it seen to be better than that of the formal finance. Due to the Risk associated with informal finance it is usually short term in nature. The risk mainly stems on micro enterprises. The major problem that faces the people is the struggle to come out of poverty, still the level of poverty continues to soar in the Nigerian economy. For instance, the life expectancy rate which is a major attribute of poverty move slightly from 47.56 years to 51.9 years in the human development report of 2011 of the United Nations development programme. Again in 2011, Nigeria was ranked 156 out of 185 countries in the global index with gross domestic income (GNI) per capita put at 2.069 and the least among OPEC countries (Adejoa and Akosile, 2011). The high patronage of the informal financial institution is mainly due to high level of poverty in our society. The International Centre for the Alleviation of Poverty (2013), gave the following as “poverty fact sheet” about a billion people live on less than US\$1 per day; women are the poorest, as 70% of world poor are women; over 50% of African population today live below poverty line. The number of African poor people has almost doubled; over the last 15 years the life expectancy in African has fallen to 46 years (15 years below India and Bangladesh); African per capital income has declined by 13% since 1980s while the number of Africans living in extreme poverty have doubled; over nine million people die world over each year due to hunger; about 1.2 billion people suffer from hunger; poverty leads to hunger and so poverty must be taken care for hunger to be quenched; more than 11 million children die from preventable causes before their fifth birth day; every three seconds, an African child dies from some preventable disease or malnutrition; conditions of poverty or economic inequality stimulate the spread of HIV/AIDS, the poorer regions of the world bear the brunt of the pandemic: although there are numerous factors in the spread of HIV/AIDS, it is largely recognized as a disease of poverty, biting more where people are marginalized and suffering economic hardship. HIV/AIDS creates huge drain on the resources of the nations which deepens the existing poverty (International Center for the Alleviation of Poverty, 2013). One will then wonder the extent informal finance has contributed in improving the performance of the poor in the rural areas and that is what this study tried to establish.

Objectives of the Study

The broad objective of this study is to ascertain how significant informal finance lending has affected business performance proxied as business turnover. The specific objectives were:

1. To determine the relationship between the adequacy of informal finance and economic growth of rural areas.
2. To determine the relationship between the interest rate charged by the informal financial institutions and economic growth of the rural areas.
3. To determine the relationship between the level of loan repayment and economic growth of the rural areas.

Hypotheses of the Study

The following hypothesis were drawn from the objectives of the study:

- H₀₁: There is no significant relationship between the adequacy of informal finance and economic growth of rural areas.
- H₁₁: There is a significant relationship between the adequacy of informal finance and economic growth of rural areas
- H₀₂: There is no significant relationship between interest rate charged by the informal finance and economic growth of rural areas.
- H₁₂: There is a significant relationship between the interest rate charged by informal finance and economic growth of rural areas
- H₀₃: There is no significant relationship between the level of loan repayment and economic growth of rural areas.
- H₁₃: There is significant relationship between the level of loan repayment and the economic growth of the rural areas

Literature Review

Concept of Informal Finance

According to Tanakak and Molnar (2008), informal finance, with its informal status is not regulated by the financial regulatory agency. Though it is informal it may not be seen to be illegal so borrowing from private persons in general is permitted.

Allen (2019), constructive informal finance such as trade credit and family borrowing relies on information advantages or an altruistic relationship associated with good firm performance which is prevalent in regions where access to conventional bank loans is difficult and unavailable. Nguyen and Nguyen (2020), Informal Finance is defined as small and unsecured source of capital funding with short term maturity good examples are private money lenders, the relatives and friends of business owners. Informal Finance usually affect business growth hand performance positively and is good source of funding in developing countries. It is obvious that the importance and awareness of Informal Finance are not in doubt but little or nothing has been said about the mechanism for inclusion of informal finance in the main stream of regulation.

Fisher and Karlan (2013), it is known fact that informal finance dominates the financial lives of the poor people, yet there is dearth of data and analysis on the informal finance sector. The policy issue of the study was to bring out the understanding of many long outstanding puzzles about the demand and supply of informal finance. Many poor people still resort the informal finance sector or money sharks for their business capital due to their inability to access such capital from the conventional banks. On the part of savings, poor households always report of having access to savings as their greatest need, Fisher and Karlan (2013) informal savings are usually of short term in nature due to the high risk involved.

Problems of Informal Finance

Adetiloye (2006), Lack of basic education of the operators in the business: Usually the

operators only have such basic knowledge or education to make entries into the books in a very simple way without professional impact again, they don't have the basic knowledge of lending and borrowing.

Another problem is that of Maladin instruction in conducting the business. For instance, different groups act as leader for cooperative societies and these leaders are usually elected because of their popularity and charisma instead of their capability in handling the work. Again, confidence which plays significant role in the business of financing is lacking on both the operators and the contributors. This has resulted to most often operators running away with contributor's money.

Another major problem is inadequate finance due to the small saving abilities of the contributors. It is also a known fact that adequacy of finance tends to be more during the harvest season than the cultivating season. Another problem is lack of registration by the government as the government has not been able to register these classes of finance providers and this has made to difficult control their activities. There is also the problem of high interest rate making the cost of fund way high, these rates are not market driven. The expensive cost of fund makes in unattractive to the uses. The high cost of fund weighs down the revenue of the borrowers which also affect their lives. Again, there may be associated default in repayment which affect the informal business and may even lead to its closure (Adetiloye, 2006).

Oluwafemi and Ibitoye (2014), in studying the problems and prospects of informal financial institutions in financing agricultural sector in Nigeria identified such problems as financial constraint, lack of storage facilitates and the use of crude tools. It was also observed that despite these problems, a well monitored informal finance will improve the productivity in agriculture.

Concept of Rural Economic Development

Rural Economic Development which is a result of rural economic growth is the process of improving the quality and economic well-being of the rural area dwellers such economic growth will be as a result of the exploitation of land intensive natural resources such as agriculture and forestry. (Mosley, 2003). In their view, Wad and Brown (2009) see economic growth is likely to come from rural activities as food production and job creation come from agricultural activities gsnetworks.org.

Theoretical Review

Financial growth theory

Financial growth theory was initiated by Berger and Udell (1998), for small business as it is presumed that the financial needs and financial operations of these business change as they grow and it becomes more experienced and less informative. According to the theory, firms should rely on insider finances at their stage. Then as the firm grows, it may gain access to other sources of medium term funding, like venture capital. At the final stage of a business it may seek for equity capital in the public markets or other long form

funds. From the theory, informal finance plays major roles at the formative stage of every business.

Pecking order Theory

Pecking order theory is another financing theory that is very familiar with the operations of the small business. This theory sheds more light on the incentive that drive SMEs capital structure decisions. This theory proposes that firms prefer to use internal or informal sources of capital first and will resort to external sources only if internal sources are inadequate. This theory has been found to be relevant to the financing of micro enterprises. Most micro enterprises start with internal financing before looking for external sources. Older firms, by definition, have had more opportunities to accumulate retained earnings than younger companies and thus more funds are available to finance operational growth (Babajide, 2011). Pecking order theory suggest that internal funds should be used before external capitals are sourced. Holmes and Kent (1991) found that small business experience a more intense version of pecking order in their decisions because access to appropriate external sources of capital is limited. It has been noted that small businesses differ in their capital structure but their intense reliance on pecking order is only one of the variables that makes small business financing decision unique. Small businesses rely on private capital markets, while larger firms are financed through public market. Less readily available than information on longer Information on small business is much less readily available than information on larger firms which can be picked up in the annual reports. Small business reliance on private markets limits the types of financing can receive; smallest businesses rely on commercial banks and finance companies to provide capital (Berger & Udell, 1998). In most cases the cost of capital for small business is usually higher than it is for longer firms. The size of the loan and lack of information on the quality of operation of the small firm's force lenders to protect their investments by demanding higher rates of return, which comes in the form of high interest rate and high cost of capital for the small firm. In an attempt to avoid higher cost of capital, smaller firms are then forced to use more short-term debt, which carries lower cost.

When loaning to small business, most financial institution requires the owner of the small business to personally guarantee the loan. These personal guarantees allow the institution resources against the personal wealth of the small business owners in the event of default (Berger and Udell, 1998). Availability of information is another factor that limits the financing ability of the small firm as small firms often do not have audited financial statements. The investors require this higher rate of return because the information is not available to establish the extent to which the small firm is likely to default. This actually limits small firms in accessing external fund (Babajide, 2012). From the theory, informal finance plays major roles at the formative stage of every business.

Empirical Review

Adeusi and Ibitoye (2013), carried out a research to examine the effect of informal finance on the activities of agriculture in Nigeria. The study applied descriptive design and data

were collected through the oral interview and questionnaire. Analysis of the data was done using percentage, chi-square and tables. Findings showed that informal finance has significant effect on agriculture. Also, agriculture does not only face financial problem but other problems like storage facility among others. In recommendations, government is encouraged to create the enabling environment for both the informal finance and agriculture or thrive. The informal finance is also encouraged to improve on their render effective service to agriculture. In any case the study fails to look at the adequacy of informal finance since it is obvious it is the major source to the rural areas.

Su and Sun (2010), studied on informal finance, trade credit and private firm performance, using a survey report. Findings showed that informal finance trade have positive effects on firms' performance. Tian (2014), carried out a study on financial regression, informal finance and Chinese economic growth. It was found out that informal lending in china has negative impact on the economic growth at a significant level. This is obvious that, they may have poor reflection on the well beings of the rural economies because the high interest and poor infrastructures tend to erode the gains. Sun (2012) did empirical study on the relationship between informal finance and economic growth in Wenzhou. The study applied ADF test, co-integration test and granger causality test. The outcome is that the informal finance development in Wenzhou promotes local economy.

Yusuf, Ijaiya and Ijaiya (2009) studied informal financial institution and poverty reduction in the informal sector of Offa Town, Kwara State: a case of rotating savings and credit association. The study used a set of household data, p-alpha-class poverty measure and a multiple regression analysis. The study found out that informal financial sector helps to alleviate poverty. To what extent are the borrowers fulfilling their repaying obligations so as to encourage further extension of credits to them? The high cost of funds among others has always been a cause of high rate of repayment delinquency.

Oluwafemi and Ibitoye (2014) conducted a research on the problems and prospects of informal financial institutions in financing agricultural sector in Nigeria using Ado-Ekiti and Oye Ekiti Local Government Areas of Ekiti State as case study. The objective was to examine the effect informal finance has on the activities of agriculture in Nigeria the study adopted descriptive method using oral interview and questionnaire for data collection. Chi-square was used as tool for analysis. The findings reveal that informal finance has significant effects on financing agriculture. The study recommended among others that government should give more financial support to the agricultural sector. The need for informal financial sector to improve on their services to the agricultural sector.

Yelwa, Omoniyi and Obansa (2017), the paper investigated the relationship between Informal financial sector activities and poverty alleviation in Nigeria, using a multivariate panel data approach with data from 150 informal sector operators in Gwagwalada Area Council of Abuja FCT. The questionnaires serve as means of data collection. The findings from the study review that informal finance positively and significantly impacts on

poverty alleviation in Nigeria. The study also recommend that there should be proper education on the rural poor in order to embark on viable projects and government should on their own part improve their policies and infrastructure that will help the informal finance sector to survive. The study identified such problems as poverty mentality, illiteracy, high inflation, low infrastructure, access to credit poor information as major problems facing the informal financial sector.

Khandker and Khan (1998), studied on the assessment of informal finance among three Bangladesh programmes. It was found out that for every additional takas lent to a woman an additional 0-18 taka is added to the income of the family. (Khandker, 2005), also in his study found out that for every 100 taka of credit made to a woman, the household expenditure increases by more than 20 taka which means informal finance increases both income and expenditure of the poor.

In their study, Dunn and Arhucle 2001 examined loans to micro entrepreneurs for 305 households in Peru. The study applied covariance in analysis. The study made use of two points in time by studying changes in borrowers in relation to control group that did not receive micro credit. The study showed significant difference between those that borrowed and those in the control group as those in the control group showed higher revenue productivity employment creation, etc.

Babagide (2011), studied on the relationship between the informal and formal financial sector in Nigeria: A case study of selected goods in Lagos metropolis International Journal of Research in Computer application and management vol. No. 1 Issue No. 10 The study looked at the relationship between the informal and the formal financial sectors in Nigeria. The objectives of the study were to ascertain the deposit and credit links between the informal and formal finance and also to determine the strength and significance that exists between the link of informal and formal finance institutions with regard to swings mobilization and the mechanism for credit dispersion in the informal financial sector. The study focused on money lenders and savings and credit association both in the formal and semi-formal financial institutions using primary data. The study review that there is strong link between the informal and formal financial sectors on the saving side a weak one on the saving side the study recommended that government should put in policies that will increase success to credit to the informal sectors and conventional banks should reduce their requirement for accessing credits.

Methodology

Research Design

This study adopted the survey research design using questionnaire instrument. the data was sourced from some informal finance beneficiaries in the seventeen local government areas of Abia State. The regression and correlation analyses results obtained SPSS 25 was used to bring out the relationship existing between adequacy of informal finance, informal finance interest rate and level of loan repayment to the informal rate and the level of economic growth and how significant such relationship is. The study made use of primary data from the seventeen Local Government Areas of Abia state.

Model Specification

It is evident that from the review, informal finance is influenced by several factors both at macro and micro levels. These factors constitute the cost incurred by the informal finance in extending their services and they vary directly with interest rate. These costs include interest rate on informal finance lending function, this study employed a modified model from one used by Punita and Somaiya (2006). Their model was used to examine the impact of monetary policy on banks' profitability in India and was specified thus:

Where: PT (dependent variable) is bank profitability. The independent variables include:

BR = Bank Rate,
LR = Lending Rate,
CRR = Cash Reserve Ratio,
SLR = Statutory Liquidity Ratio,
U = stochastic error term.

The model will be modified as follows for the purpose of the study:

EGR : $a_0 + a_1 IFA + a_2 IFI + a_3 IFR + \dots U$

Where: EGR= Economic Growth of Rural Areas- a proxy for turnover

IFA = Informal Finance Adequacy
IFI = Informal Finance Interest Rate
IFR = Informal Finance Repayment
U = Error term.

Research Instruments Administration

In order to get the data required for this study, a total of 1000 questionnaire were administered to respondents in the seventeen local government areas of Abia State. Out of this number, eight hundred were completed and returned. Again, observation method was used for a control group of ten person who were given grants in the form of cash and farm inputs.

Data Analysis and Discussion of Results

Descriptive Analysis of Responses

The responses obtained from the 5-points Likert-Scale questions of the questionnaire are summarized and their descriptive statistics are shown in Table 1 below showing their frequency distributions, percentages (put in parentheses), mean and standard deviation. The frequencies are used to calculate the mean and the standard deviation (SD).

Table 1: Descriptive Statistics of Responses of the Likert-Scale questions.

Questions	SD = 1 (%)	D = 2 (%)	N = 3 (%)	A = 4 (%)	SA = 5 (%)	Mean	SD
1	50(6.3)	86(10.8)	14(1.7)	400(50.0)	250(31.2)	3.89	1.146
2	21(2.6)	100(12.5)	18(2.3)	380(47.5)	281(35.1)	4.00	1.054
3	70(8.75)	97(12.14)	30 (3.8)	360(45.0)	243(30.4)	3.76	1.248
4	22(2.7)	130(16.3)	57(7.1)	390(48.8)	201(25.1)	3.77	1.082
5	132(16.5)	85(10.03)	53(6.63)	400(50)	130(16.3)	3.39	1.329
6	24(3)	114(14.3)	41(5.0)	371(46.4)	250(31.3)	3.89	1.092
7	180(22.5)	105(13.13)	15(1.9)	261(45.13)	139(17.4)	3.22	1.460
8	241(30.13)	260(32.5)	13(1.63)	117(14.63)	169(21.13)	2.64	1.548
9	63(7.9)	43(5.4)	23(2.9)	450(56.3)	221(27.3)	3.90	1.105
10	47(5.9)	24(3.0)	29(3.63)	540(67.5)	160(20.0)	3.93	0.939
11	85(10.63)	104(13.0)	78(9.8)	402(50.3)	131(16.4)	3.49	1.212
12	21(2.6)	63(8.0)	50(6.1)	466(58.3)	200(25.0)	3.95	0.929
13	32(4.0)	100(12.5)	42(5.25)	613(76.63)	13(1.63)	3.59	0.874
14	6(0.8)	24(3.0)	15(1.9)	591(73.8)	164(20.5)	4.10	0.633
15	13(1.62)	44(5.5)	61(7.62)	514(64.2)	168(21.0)	3.98	0.808
16	15(1.9)	36(4.5)	111(13.9)	421(53.13)	213(26.63)	3.98	0.869
17	27(3.4)	123(15.4)	25(3.13)	415(51.9)	210(26.3)	3.82	1.087
18	21(2.63)	63(7.9)	79(9.5)	519(64.9)	118(14.8)	3.81	0.874
19	14(1.8)	71(8.9)	22(2.8)	374(46.7)	319(39.8)	4.14	0.959
20	102(12.8)	227(28.4)	210(26.3)	200(25.0)	61(7.5)	2.86	1.154
21	73(9.1)	153(19.1)	16(2.0)	410(51.3)	148(18.5)	3.51	1.246

Source: Field Survey, 2020.

The results of table 1 shows that the mean values for the 21 questions in the questionnaire for the research questions lie between 2.64 and 4.14 of the 5-point Likert scale used in collecting the data. This indicates that the data obtained fall within the expected range of data required for this study. The associated standard deviation values lie between 0.633 and 1.548 which close to zero as expected.

Regression and Correlation Analyses for the three hypotheses

Regression and correlation analyses are used to test the three hypotheses as illustrated below.

Hypothesis 1, 2 and 3 are restated in the null below:

1. There is no significant relationship between adequacy of informal finance and economic growth of the rural areas
2. There is no significant correlation between interest charged by the informal finance and economic growth of the rural areas
3. There is no significant correlation between level of loan repayment to the informal finance and economic growth of the rural areas

The independent variables and the dependent variable for the analyses are operationalized using the questions of the questionnaire as stated below:

Adequacy of informal finance = Average

Interest charged by the informal finance = Average

Level of loan repayment to the informal finance = Average
 Economic growth of the rural areas = Average

The results of the regression analysis and that of the correlation analysis are summarized respectively in tables 2 and tables 3 below:

Table 2: Regression analysis of informal finance and economic growth of the rural areas.

Variables	Unstandardized Coeffic		t	p-value	Decision
	B	Std. Error			
(Constant)	3.220	0.354	9.108	0.000	Reject
Adequacy of informal finance	0.480	0.046	10.535	0.000	Reject
Interest charged by the informal finance	-0.297	0.023	-13.17	0.000	Reject
Level of loan repayment to informal finance	-0.048	0.121	-0.391	0.697	Accept

The result of table 2 shows that the effect of adequacy of informal finance on economic growth of the rural areas is 0.480 indicating that a unit increase in adequacy of informal finance causes 0.480 units increase in the economic growth of the rural areas. And this effect is significant as its test statistics equal to 9.108 is significantly far away from one and its p-value of 0.000 is significantly less than 0.05. This provides statistical evidence to reject the null hypothesis of no significant relationship between adequacy of informal finance and economic growth of the rural areas at 0.05 significance level. The effect of interest charged by the informal finance on economic growth of the rural areas is -0.297 indicating that a unit reduction in interest charged by the informal finance causes 0.297 units increase in the economic growth of the rural areas. And this effect is quite significant as its test statistics statistic equal to -13.174 that is far higher than 1 with a p-value of 0.000. So, the null hypothesis of no significant relationship between interest charged by the informal finance and economic growth of the rural areas is rejected at 5 percent significance level as the its p-value of 0.000 is significantly less than 0.05. The effect of loan repayment to the informal finance on economic growth of the rural areas is equal to -0.048 indicating that a unit reduction in loan repayment to the informal finance causes 0.048 units increase in the economic growth of the rural areas. And this effect is not significant as its test statistics value of -0.391 that is far less than 1 with a p-value of 0.697. Therefore, the null hypothesis of no significant relationship between loan repayment to the informal finance and economic growth of the rural areas is not rejected at 5 percent significance level.

Table 3: Correlation analysis of informal finance and economic growth of the rural areas.

Variables	N			p-value	Decision
Informal finance	800	0.911	0.830	0.000	Reject
Economic growth of rural areas	800				

Table 3 shows that the correlation coefficient between the three independent variables (Adequacy of informal finance, interest charged by the informal finance and level of loan repayment to the informal finance) and the dependent variable (economic growth of the

rural areas) is equal to 0.911 indicates that there is a positive linear relationship between the predictor variables and the economic growth of the rural areas. And the degree of the relationship is a strong relationship as it is far less than 0.70. and this correlation coefficient value is significant as its p-value equal to 0.000 is highly less than 0.05. The coefficient of determination, of 0.830 = 83.0% shows that the three predictor variables (Adequacy of informal finance, interest charged by the informal finance and level of loan repayment to the informal finance) accounts for 83.0% of the variation in the economic growth of the rural areas, which is significantly high.

Results from the control group also supported that informal finance has significant relationship with economic growth of the rural areas. With the grants, they borrowed little or nothing from the informal finance providers. This is basically because of the high interest rates the informal finance charges and other stringent conditions

Conclusion and Recommendations

The study analyzed the appraisal of the relationship between the informal finance and economic growth of rural areas in Abia State, using responses from some informal finance beneficiaries in Abia State. Major predictors of informal finance were used as proxies: informal finance adequacy, interest rates and level of loan repayment. From the analysis, the results showed that informal finance has a significant relationship with the economic growth of the rural areas, mainly with high variability in interest rates and finance adequacy.

It is therefore recommended that the regulatory bodies should put measures in place to bring the informal finance into the main stream financial system where they can regulate and reduce the interest rates they charge. Also, the conventional finance providers should be programmed such that they provide more inclusive finance. It is strongly recommended that the government should revisit the abandoned rural banking policy. This will no doubt reduce the patronage of the informal finance sub sector.

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