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ARTICLE INFO

Isaac B. Oluwatayo (2014). Towards assuring households’ financial security in rural part of southwestern Nigeria: the role of mobile bankers. *Public and Municipal Finance*, 3(1)

RELEASED ON

Thursday, 31 July 2014

JOURNAL

"Public and Municipal Finance"

FOUNDER

LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

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Towards assuring households' financial security in rural southwestern Nigeria: the role of mobile bankers

Abstract

The growth in the number of informal financial institutions in recent years has been indicated to have some implications especially for poor households. This is because many of these households rely on credit from these institutions to meet their financial obligations. Meanwhile, assuring households' financial security is one of the major challenges the residents of these countries at face and this is connected with the dwindling incomes, rising unemployment and poverty levels coupled with the emerging threat of climate change. The result presented here relies on data collected from a random sample of 200 respondents in rural part of southwestern Nigeria. Analysis of data reveals that average age of respondents is 43 years. The respondents' mean household size was 7. Educational analysis of respondents showed that about one-third had no formal education, only about one-quarter having tertiary education. Respondents' distribution by occupation revealed that 33.5% had farming as their main source of income. This was closely followed by trading with about 29.7% while about one-quarter (24.8%) were artisans. However, the result of the logit model of employed ascertain the determinants of respondents' participation in mobile banking activities revealed age, gender, educational status, occupation, income, poverty status and membership of association as important. It is therefore suggested that efforts should be intensified at building capacity of respondents through education because education enhances the earning potential of people which will in turn improve their wellbeing. Awareness creation on family planning will help in checking population growth and hence reduce poverty through increase in per-capita income of respondents. This will also reduce overreliance on credit from these mobile bankers to meet households' shores.

Keywords: Financial security, mobile bankers, rural households, Southwest Nigeria, wellbeing

JEL Classification: D14, E26, G02, G21.

Introduction

The rapid growth of the informal financial institutions in recent years in most developing countries like Nigeria has a number of implications for the activities in the informal sector (World Bank, 1989; Sparks and Barnett, 2010; Gulong, 2012). Developing countries across the globe constantly face a number of problems ranging from poverty, widening inequalities, food insecurity, environmental hazards to insecurity of lives and properties just to mention a few. Still worse, a number of measures reducing the effects of these problems implemented by national government of these countries have yielded little or gave no appreciable results. The effect of these abnormalities is manifested in the generally low level of wellbeing among the inhabitants of these countries.

However, participation in these informal financial institutions has been described as a veritable way of circumventing some of the stringent conditions often imposed by formal financial institutions (banks), which have kept credit out of the reach of poor people for years (Sambe et al., 2013). Thus, the stringent conditions attached to loan acquisition from formal financial institution (e.g. commercial banks) and the inability of these funds to reach the poor segment of the populace (which constitutes the

largest proportions of the population) have increased the relevance of the informal financial institutions such as the money lenders, pawn brokers and rotating savings and credit associations that provide credit services to meet the needs of borrowers (usually members) in short notice and with little or no control and restriction in the use of the money (Ayree-ty, 1997).

In Nigeria for instance, because of the dearth of banking services in rural areas, the rural banking scheme was introduced in 1979 and commercial banks were required under it to open rural branches. A total of 776 rural branches were opened by commercial banks in three phases which expired in 1989 (Balogun, 2007). These were complemented by the establishment of People's Bank of Nigeria (PBN) in 1989 and the private sector corollary of PBN is the community banks (CBs) in 1990. The PBN and CBs were required to eliminate the problems of collateral lending, high interest rates, promotion of adequate spatial distribution of rural bank branches and to inculcate bank habits in rural areas. Though there was a significant improvement in banking services during these periods but the economic recessions experienced in Nigeria in the late eighties arose increased interest in credit cooperatives. Thus, the loans from credit society were considered as viable alternatives to those from those formal financial institutions (Osayanwen, 1995; Sambe et al., 2013).

Thus, informal financial institutions are people-based and value based economic enterprises founded upon well-defined ethics and principles, which include “concern for community”. This dual (social + economic) characteristics is unique and makes them the ideal and in fact, the only vehicle to ensure equitable distribution of wealth. They are the only means to bring the poorest segments of society into an organizational fold, legally recognized entities, providing opportunities for employment and better income along with the needed support services (Parakash, 1984; Jerome, 2007).

Meanwhile in the case of ‘mobile bankers’, members pool money together by making periodic payment into a fund which is then shared among the members at the end of the month based on the amount contributed (Ayretey, 1997). This method provides a means by which individual access funds, provide avenue by which they can have access to inputs and improve technology from which productivity growth is accelerated (Chipeta and Mkandawire, 1991). The institution also helps to smoothen temporary shock in consumption by the poor who are members; improve income distribution and standard of living of most members (Yaron et al., 1997). Credit acquisition from the financial sector poses some specific problem for the poor whether rural or urban. The poor have little or no collateral to offer. Savings and credit amounts and installments are very small, raising transaction costs per unit (Zeller et al., 1997; Yoshino et al., 2012).

The informal financial sector has been and will for a long time remain the last hope for credit acquisition for inhabitants of developing countries. This is because of the ease of obtaining loan from this source and the less arduous and formal procedures involved in processing this loan and the collateral requirements. Informal financial sector in Nigeria is comprized mainly of village money lenders, agricultural produce merchants, friends, business associates and other sources of credit acquisition available to rural and urban dwellers apart from the organized/specialized formal financial sources. The informal financial sector provides important savings, credit, insurance, and social security services to the poor. However, the weakness of this sector appears to be the lack of medium and long-term loans for production and technology adoption and the lack of monetary savings options with real returns. Moreover, informal arrangements are often restricted to the community or district levels, and therefore may be seriously limited in their ability to pool covariate risks across regions and to mobilize capital and allocate it to different regions and economic sectors. Also, the high interest rate charged on loan obtained from the informal sector discourages investment in

agriculture. This directly or indirectly impacts on the attainment of food security in most of these developing countries. On the part of the borrower, the risk of non-repayment of loan is very high because of the familiarity involved and this further limits the amount of loan disbursed from these sources. Informal financial sector has very important roles to play towards the attainment of food security. This is due to the fact that increased agricultural production (a precursor to food security) is only achievable when there is availability of credit to enhance increased production from subsistence agriculture to large scale agriculture.

This study therefore examines the role of mobile banking services towards ensuring financial security of households in rural part of southwestern Nigeria and the extent to which their activities have assisted in enhancing livelihoods of these households.

1. Literature review

Informal financial institution is institution that embraces all financial transactions that take place beyond the functional scope of various countries banking and other financial sectors regulations (Ayretey, 1997; Yoshino et al., 2012). They are usually created by organizations and individuals and with no legal status. Informal financial institutions are people based and value based economic enterprises, founded upon well-defined ethnics and principles, which include concern for community. This dual socioeconomic characteristic is unique to informal financial institutions which makes them the deal and in fact the only vehicle to ensure equitable distribution. Chipeta and Mkandawire (1991) saw them as financial institutions that are not directly amendable to control by key monetary and financial policy instruments. These institutions in Nigeria comprized mainly of village money lenders, agricultural produce merchants, friends, business associates and other sources of credit acquisition available to rural and urban dwellers apart from the organized and specialized formal financial sources. It is also available as mutual and ethnics such as accumulating savings and credit associations and mobile bankers (Chandavakar, 1985). The institutions provide savings, credit, insurance and social security services to the poor.

Informal financial institutions are the only means to bring the poorest segment of society into an organizational fold as legally recognized entities, providing opportunities for employment and better income along with the needed support services (Parakash, 1999; Turvey and Kong, 2010). Informal financial institutions are people based and value based economic enterprises, founded upon well-defined ethnics and principles, which include concern for

community. This dual social and economic characteristics is unique to informal financial institutions which makes them the deal and in fact the only vehicle to ensure equitable distribution. Chipeta and Mkandawire, (1991) saw them as financial institutions that are not directly amendable to control by key monetary and financial policy instruments. These institutions in Nigeria comprized mainly of village money lenders, agricultural produce merchants, friends, business associates and other sources of credit acquisition available to rural and urban dwellers apart from the organized and specialized formal financial sources. It is also available as mutual and ethnics such as accumulating savings and credit associations and mobile bankers (Chandavakar, 1985). The institutions provide savings, credit, insurance and social security services to the poor. Informal financial institutions are classified firstly, to proprietary informal financial entities such as money lenders, trade estate owners, grain millers, smallholder farmers and other businessmen, secondly, to staff and social welfare schemes such as those run by employers, friends, relatives and neighbors and lastly to mutual aid entities such as accumulatory savings and credit associations and mobile bankers (Chandavakar 1985; Gooland et al., 1999; Luan et al., 1980).

According to Foster et al. (1984), the most frequently used measurements are the headcount poverty index given by the percentage population that lives in the households with a consumption per capital less than the poverty line; poverty gap index which reflects the depth of poverty by taking into account how far the average poor person's income is from the poverty line; and the distributional sensitive measure of squared poverty gap defined as the mean of the squared proportionate poverty gap which reflects the sensitivity of poverty. The importance of the measurement of poverty is to know who is poor, how many people are poor and where the poor are located. Levy (1991) stresses that in measuring poverty two tasks have to be taken into consideration. Firstly, a poverty line which is set at \$275 and \$370 per person a year for the extreme poor and moderately poor respectively must be determined. Secondly, the poverty levels of individuals have to be aggregated. The use of nutritional intake which is set at 2500 calories per head per day and the use of certain list of commodities considered essential for survival, for instance, food, housing, water, health care education vis-à-vis income are the two methods often employed to determine the poverty line. Recently, the use of income as a basic for determining the poverty line has lost much of its relevance since the method of calculation was not adapted to the new economic trends resulting from high rate of inflation and the prevailing high increase in interest

rate and exchange rate devaluation, thus consumption expenditure at household's held is now advocated.

According to Grootaert and Braithwaite (1998) total consumption expenditure is preferred to income because it is usually better reported in household's budget surveys. Furthermore, there is the important theoretical consideration that expenditure reflects better long term permanent income and life cycle consumption patterns because it's usually stable and devoid and short term fluctuations like income. Moreover, if expenditure data is used for welfare analysis, it has the compelling advantage that the poverty line can be derived from the data itself and need not to be adopted from other surveys. Recent studies by UNDP (1998) advocates the use of Human Development Index (HDI). According to UNDP (1998), HDI combines three components in the measurement of poverty life expectancy at birth (longevity) educational attainment and improved standard of living determined by per capital income. The first relates to survival vulnerability to death at a relatively early age. The second relates to knowledge being excluded from the world of reading and communication. The third relates to a decent living standard in terms of overall economic provisioning.

According to the World Bank (2001) poverty has various manifestations which can be linked to the lack of income and assets to attain basic necessities of life, such as food, shelter, clothing and acceptable levels of health and education; the sense of voicelessness and powerlessness in the institutions of the state and society; the subjects of poor readiness, humiliation, shame, inhumane treatment and exploitation in the heads of the people in authority; absence of rule of law, lack of protection against violence; exhortation and intimidation and lack of economic opportunities, threats of physical force; arbitrary bureaucratic power that makes difficult for the people to engage in public affairs; and vulnerability to cope with them. Example of such shocks and disruption are when people live and farm on marginal kinds with uncertain rainfall when people live in crowded urban settlement where heavy rain wipe out their houses, when people have precautions employment in the formal or informal sector, when people face high risk of diseases, such as malaria and tuberculosis, civil conflict and wars, when people are at risk of arbitrary arrest and ill-treatment at the hands of local authorities and when people especially women and the minorities are at risk of being socially excluded and victims of violence and crime.

In a bid to overcome poverty, government initiated different policies and programs such as Directorate of Food, Roads and Rural Infrastructure (DFRRI),

Better Life Employment (BLP), National Directorate of Employment (NDE), People's Bank of Nigeria (PBN), Community Bank (CB), Family Support Program (FSP), Family Economic Advancement Program (FEAP), Poverty Eradication Program (PEP), National Poverty Eradication Program (NAPEP), and National Economic Empowerment Development Strategies (NEEDS) between 1986 and 2004 to alleviate it. The aims of these programs were to ameliorate the suffering of the people by providing them employment opportunities and have access to credit facilities to enable them establish their own business. Poor macroeconomic and monetary policies, globalization, good governance, and corruption are some of the factors why poverty persists in the country. Faced with the problem of poverty in the country by successive governments in the past, the federal government under the present democratic dispensation put in place policies and programs to ameliorate the suffering of the people. These policies are initiated at home and received support from abroad including the World Bank that assisted the country in various projects. Since 1961, that Nigeria joined the World Bank, the country has received assistance on 120 projects worth \$187 billion (World Bank, 2006). These projects include: Micro Small and Medium Enterprises (MSMEs), the national FADAMA development project, and Local Empowerment and Environmental Management Project (LEEMP).

Mobile bankers as known in Nigeria are defined as associations whose members daily contribute a fixed amount that is collected by each member at the end of the month (according to the law establishing the associations) and this helps in mobilizing savings through the members' daily contributions. Credit provided by the bankers increase income and build assets of members. This method of mobilizing funds has not only provided a means by which individuals have access to credit, it has also provided avenue by which they can have access to inputs and improve technology from which productivity growth is accelerated and this has helped in smoothening temporary shock in consumption by the poor who are members, improve income distribution and the standard of living of most members (World Bank, 1989; Ayretey, 1997; Yoshino et al., 2012).

2. Methodology

2.1. Study and data sources. The area of study is southwestern Nigeria. Southwestern Nigeria is composed of six states – Ekiti, Lagos, Ogun, Ondo, Osun and Oyo States. The region is where one of the major ethnic groups in Nigeria resides, i.e. the 'Yorubas'. Women of southwestern Nigeria are predominantly traders but men engage in farming. Southwestern Nigeria is predominantly agrarian

areas which main cash crop products are cocoa, tobacco, timbers, and palm produce. The staple food in this region includes cassava, yam, cocoyam, and grains such as maize and rice. Primary data was collected through administration of structured questionnaire on 200 respondents (mobile banking members) using random sampling technique covering two states (Ekiti and Oyo) in the study area. The information obtained includes socioeconomic status of respondents, size of the farm or business since they joined mobile banking activities, number of people employed before and after joining, what the money/credit obtained was used for, reasons for joining, actual time to repay the loan, how much they contribute daily, weekly, monthly or yearly, months or years they have spent in the thrift exercise.

2.2. Analytical techniques. Descriptive statistics and probit model were used to analyze the data. While descriptive statistics such as tables and frequencies were used in analyzing and describing respondents' socioeconomic characteristics, the probit model was employed in examining the effect of participating in mobile banking activity on household's financial security status in the study area. Thus, poverty status of respondents was used as a proxy for financial security status.

The probit model used takes the form:

$$Y = f(X_1 + \dots + X_8, u).$$

Where Y = dichotomous dependent variables, which can assume the value of 0 or 1.

$Y = 1$ if a participant is poor and 0 otherwise..

Also, $Y = Y_i = 1$ if $Y^* > 0$,

$Y_i = 0$ if $Y^* < 0$,

e_i = Independent distributed error term,

X_i = Vector of explanatory variables.

X_1 - X_8 = Explanatory variables,

β_1 - β_8 = Regressive coefficient of x_1 - x_8 ,

X_1 = Age (years),

X_2 = Marital status (married 1, unmarried 0),

X_3 = Educational Status (yrs),

X_4 = Household size,

X_5 = Gender (male = 1, female = 0),

X_6 = Membership of informal financial institution
Yes = 1, No = 0,

X_7 = Primary occupation (farming = 1, non-farming = 0),

X_8 = Income (Naira),

X_9 = Access to credit facility Yes = 1, otherwise = 0.

3. Results and discussion

3.1. Socioeconomic characteristics of the respondents.

The socioeconomic characteristics considered include age, sex, marital status, higher education attained.

As shown in Table 1, 92 percent of the respondents were females while only 8 percent were males. Women participate more in the activities of mobile bankers than men. Distribution of respondents by marital status revealed that married respondents (74 percent) participated more than single, divorced or widowed respondents. Age distribution of respondents showed that 17 percent of respondents were between 20-30 years of age, 37 percent were in the age group of 31-40 years, 31 percent were in the age group of 41-50, and 10.5 percent were in age group of 61-70 years. This indicates that 37.0 percent of respondents fall within the age group and this implies that higher percent of depositors were in working class when compared to the dependants' age class. Table 1 further showed that 10 percent of respondents had 1-6 years of formal education, 42.0 percent had 7-12 years of formal education and 48.0 percent of depositors had 13-18 years of formal education. This indicates that those people who spent more years in formal education are well educated and deposit more than those with low years in informal education. The table also showed that 17.5 percent of respondents were farmers, 23.5 percent were traders, 31.0 percent were civil servants, 13.5 percent were artisans while 14.5 percent were private salary jobs earners.

Table 1. Socioeconomic characteristics of respondents

Variable	Frequency	Percentage
1. Gender		
Male	108	54
Female	92	46
2. Marital status		
Single	37	18.5
Married	148	74
Divorced	8	4
Widow	7	3.5
3. Age		
20-30	34	17
31-40	74	37
41-50	62	31
51-60	21	10.5
61-70	9	4.5
4. Higher education attained		
Primary school	20	10.0
Secondary school	19	9.5
Modern school	71	35.5
N.C.E.	41	20.5
O.N.D.	21	10.5

Table 1 (cont.). Socioeconomic characteristics of respondents

Variable	Frequency	Percentage
Degree	17	8.5
Others	11	5.5
5. Primary occupation		
Farming	35	17.5
Trading	47	23.5
Civil service	62	31
Artisanship	27	13.5
Private salaried job	29	14.5
6. Secondary occupation		
Farming	32	16
Trading	65	32.5
Civil service	48	24.0
Artisanship	28	14.0
Private salaried job	27	13.5
7. Years spent in the Institution		
1-10	4	20
11-20	47	23.5
21-30	139	69.5
31-40	6	3.0
41-50	4	2.0

Source: Field survey data

3.2. Reason(s) for participating in mobile banking activities. On the reason(s) for participating in the activities of mobile bankers in the study area as shown in Table 2, the distribution revealed that 46.0 percent of the respondents joined the institutions so as to save and borrow, 21.5 percent for financial buoyancy and to improve their standard of living, 18.0 percent for their personal use and to meet their need while only 14.5 percent of respondents participated because of their business. This indicates that the majority of respondents participated in these activities to borrow and save.

Table 2. Distribution of respondents by reasons for participating in mobile banking activities

Reason	Frequency	Percentage
Savings and borrowing	92	46.0
Financial buoyancy and standard of living	43	21.5
Personal use and to meet needs	36	18.0
Business	29	14.5
Total	200	100

Source: Field survey data

3.3. Employees before and after participating in mobile banking activities. Table 3 showed that 75.0 percent of the respondents had no work before participating in mobile banking activities, 9.5 percent of the respondents had one worker, 11.5 percent had two workers, 2.5 percent had three workers, 0.5 percent of the respondents employ over 6 workers after participating. This indicates that most of the respondents (75.0 percent) did not employ

any worker before engaging in these activities. Thus, participating in mobile banking activities had improved the business of respondents by creating jobs for more people because of availability of credit for business expansion.

Table 3. Distribution of respondents by number of employees before participating

Numbers employed before participating	Frequency	Percentage
None	150	75.0
1	19	9.5
2	23	11.5
3	5	2.5
4	1	0.5
5	1	0.5
6	1	0.5
Total	200	100

Source: Field survey data

Table 4 on the other hand shows that 49.0 percent of the respondents had no worker before participating, 21.0 percent employed only one worker after, 11.5 percent of the respondents employed two workers after, 5.0 percent employed three workers after, 7.0 percent of the respondents employed four workers after, 2.0 percent of the respondents employed five workers after and 4.5 percent of the respondents employed six workers after participating.

Table 4. Distribution of respondents by number of employees after participating

Number employed after the thrift	Frequency	Percentage
None	98	49.0
1	42	21.0
2	23	11.5
3	10	5.0
4	14	7.0
5	4	2.0
6	9	4.5
Total	200	100

Source: Field survey data

3.4. Effects of participation in mobile banking activities on households' financial security. Table 5 shows that result of probit regression model employed in analyzing the influence of socioeconomic characteristics of respondents and participation in mobile banking activities on respondents' financial security. The result shows that there is a positive relationship between age and respondents' financial security status. This means that as one ages and grows older, ability to explore more income earning opportunities increase and this invariably leads to financial buoyancy. Gender of respondents was found to be positively related to their financial security status and this might be unconnected with participation of more women in mobile banking activi-

ties in the study area. On educational status of respondents, there is a negative relationship found and this indicates that the higher the educational status of respondents, is the lesser they participate in mobile banking activities in the study area. Meanwhile, the years of formal education of respondents is positively related to the probability of respondents accessibility of usage of formal financial institutions and this indicates that the more the years of formal education they have, the more the level of awareness is. It was further revealed that primary occupation is negatively related to the likelihood of respondents using informal financial institutions.

Table 5. Result of probit regression model for participation

Variables	Coefficient
Age	0.00896 0.01274
Gender	-0.025814 0.20037
Years of formal education	0.10542* 0.06113
Primary occupation	-0.1267 0.12342
Secondary occupation	0.961139 0.11246
Year spent	0.02285 0.01680
Reasons for joining	0.10328 0.09312

Source: Field survey data

Number of observation = 200,

Log likelihood = -107.7256,

Prob-Chi = 0.01012.

Summary and conclusion

This study focused on examining the roles of mobile bankers in ensuring financial security of households in rural part of southwestern Nigeria. Over the past two decades informal financial institutions has been one of the leading strategies in the overall movement to end poverty. The informal financial institutions are people and value-based economic enterprises, founded upon well-defined ethics and principles which include concern for individuals and community. The findings show that participating of respondents in mobile banking activities in rural part of southwestern Nigeria has a multiplier effect in terms of employment generation and improvement in the standard of living of respondents.

Recommendations

Based on the major findings of the study, the following recommendations are suggested:

1. Efforts should be geared at building capacity of members through education since this will better enhance the earning potentials of participants.

2. Encourage more people to participate by giving interested individuals a sense of belonging – without discrimination.
3. Informal financial institution should be legislated so that it will be a sustainable program going by its contribution to participants' wellbeing in terms of easy accessibility to credit facilities.
4. Awareness creation or sensitization on family planning/birth control techniques to check population growth will help to reduce poverty and increase per capita income of respondents.

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