



## INFORMAL CAPITAL MARKET AND ENVIRONMENTAL FACTORS IN NIGERIA

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### ABSTRACT

*Our environments are closely institutionalized with collections of human and material resources for the purpose of economic production and profitability. It was based on this premise that, this study sought to examine the effect of environmental factors on informal capital market in Nigeria. In doing this, Chi-square method was employed. The result revealed the existence of a significant relationship between the environmental factors and the informal capital market performances. The study therefore recommended that the operators of the informal capital market should be accorded the safety of their deposit and a high profitability should be given a priority in order to enhance the performances of the market.*

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**Keywords:** Capital market, Informal market, Formal market & Environment.

### 1. INTRODUCTION

The financial system is one of the most important creations of modern society. Its primary task is to move funds from surplus economic units to deficit economic units' spenders to produce goods and services and to make investment in new equipment and facilities so as to facilitate growth of the economy and improve the standard of living of its citizens (Dabwor, 2009). He further stated that, both money and capital markets playing a pivotal role in economic growth across countries to the quantity and quality of services provided by financial institutions.

Based on the view of Oloyede (2008), capital Market served the purpose of allocating savings efficiently to the ultimate users in the economy. Capital Market ensures that the ultimate investors in real assets and the ultimate savers are brought together at the least possible cost and convenience. He further posited that Capital Market is made up of two markets, which are Formal and Informal Capital Market. The Formal Capital Market comprises of the organized financial institutions that accept deposit and savings from the customers, while the Informal Capital Markets are the unstructured institutions that have unrecorded activities. Over the years, focus was only

drawn on formal capital market with little or no regard for informal capital market. In view of (Olowu *et al.*, 1991) informal capital market was referred to as a sector which is parallel, non structured, underground as well as unrecorded sector of the economy.

Moreover, the effective performance of informal capital market can be influenced by its environment. It is not a gainsaying that environment plays a vital role towards the success and performance of informal capital market. Environment as defines by Phillip (1999) as the totality of forces and entities that is external or potentially relevant to the particular agent or matter. Lyanda and Bello (1981) stated that environment are closely institutional, a collective of human and material for the purpose of economic production at a profit. Therefore, the study is to critically analyze the effect of environmental factors on the performance of informal capital market in Nigeria.

### 1.1. Problem Statement

The informal financial sector is better placed to absorb and utilized resources which the public sector and the organized private sector are not willing or able to use. While our environment are closely institutionalized with a collections of human and material resources for the purpose of economic production that will enhance profitability, hence a business environment as stated by Lyanda and Bello (1981), is a totality of forces and entities that are external or potentially affecting the marketing of a particular product or services. It is based on the above premise that the study sought to examine how major environmental factors affect informal capital market in Nigeria.

### 1.2. Research Objective

This paper is premised to:

1. Analyze the various environmental factors and how it affects informal capital market operators' activities
2. Examine the role of informal capital market towards economic development.
3. Examine the extent to which environmental factor has hindered or foster informal capital market's performance.
4. Provide possible solutions to environmental factor so as to foster informal capital market performance towards economic development.

### 1.3. Research Hypothesis

The following hypotheses were tested:

- H<sub>1</sub>: Environmental factor have no significant effect on informal capital market performance.  
H<sub>0</sub><sub>1</sub>: Environmental factor has no impact on the disbursement and repayment of loans on informal capital market performance.

## 2. REVIEW OF LITERATURE

Financial intermediation which act as a catalysts in the mobilization process between savings and investment needs of the people are of two varieties, namely: the informal financial intermediation which evolve through cultural practices tailored to the local need of its citizens, and the formal financial intermediaries like banks which, are fashioned after the well developed formal financial tradition of the western Nations (Oloyede, 2008). Aryeetey and Hyuha (1991) also defines informal capital market as a highly heterogeneous grouping, a residual incorporating all financial transactions that takes place beyond the functional scope of various countries' banking and financial regulation. In the view of Olowu *et al.* (1991), informal capital market activities include:

1. Savings mobilization units that do little or no lending.
2. Lending units that seldom engage in savings mobilization.
3. Units that combine deposit mobilization with some amount of lending to members.

The informal capital market is known all over Africa, to include, professional money lenders, part time money lenders, such as estate owners, traders, grain millers, small holder farmers, employers relations and friends. Informal unit observed in Ghana, for example, include money lenders, Savings and Credit Association (SCA) or *Susu* groups, Savings and Credit Corporation (SCC), *Susu* collectors, mutual assistance groups, landlords, neighbors, friends, family members etc (Aryeetey, 2003). Even, in Ethiopia, (Mauri, 1992) observed a number of informal organizations. The most important of these are the Mutual Assistance Associations called *Iddir* and the ROSCAs type units called *Iggub*. Many groups come together in order to provide wide ranging mutual assistance, but in the end these are dominated by the provision of financial service to members. The variation in types of informal financial units derives from the fact that such units are purpose oriented. This, depending on the socio economic goal of communities, institutions is developed to meet the demand for specific financial services. They respond to the demand of a distinct Clientele defined by themselves, using various geographical and socio economic criteria. He also posited that different units may have varied reasons for selecting a particular segment of the market for their operations, fundamental practice in the administration of credit tend to be quite similar. This recognition allows for uniformity in our analysis of informal finance across the region. Thus, Adams (1998) explained that informal finance is able to tailor constraints to fit the individual dimensions, requirements and tastes of a wide spectrum of lenders and borrowers; he also noted that this is limited to constraints from different types of lenders.

As opined by Iyanda and Bello (1981) that environment are closely institutions, a collective of human and material for those purposes of economic production at a profit, hence a business environment can then be defined as the totality of forces and entities that are external or potentially affecting the marketing of a particular product or services. A typical example of rural environment where the activities of the informal institutions are prominent is Ekiti State. Ekiti State is one of the States that split from the old Western State of Nigeria and consist of purely Yoruba speaking, low income rural dwellers. Most of the dwellers are predominantly subsistent farmers, traders, cottage

industrialist, educationist, but now mixed with some skilled workers and civil servants. In terms of settlement, though the people of the State live mostly in small towns and villages with a mix of some modern comfort and unadulterated rustic life in corrugated iron-roofed and mud-walled houses, many can be in purely rural settings on farms and huts, unaffected by the trapping of modern technology (Oloyede, 2008). He further posited that, the major types of informal financial institutions found in Ekiti State of Nigeria include the rotating savings and credit associations (Esusu), the daily contributions scheme (Ajo), the money lenders, traders associations. It is argued that these institutions usually assist the State rural dwellers in providing effective savings opportunities and offering loans to its market participants.

But, according to Adeusi *et al.* (2012), they argued that higher prices charged by banks and neglect of some sectors is one of the major reasons that pave ways for the expansion of the informal financial market. They also posited that informal capital market sector have been in a 'black box' which can only be brought out through research. Base on the view of Osamwonyi (2005), the failure of the capital market imperfections is basically lack of competitions such as monopoly or oligopoly situations. But on the part of Onyenechere (2010), lack of opportunities in formal sector tends to concentrate a large share of the population in the informal sector.

### 3. METHODOLOGY

The method of collecting data on the subject matter is the questionnaire/interview which serves as primary method. Hence, the researchers' method of writing is descriptive and analytical and therefore explained why certain techniques were used. The sample size of this write up is narrowed down on the various types of environmental factors which include economic, technology, cultural and political environment in Ekiti State. The instrument used was further analyzed with the use of Chi square ( $X^2$ ) for further statistical accuracy.

Chi square method of testing hypothesis is premised on the variance observed and it is expressed as:

$$X^2 = \sum \frac{(O - E)^2}{E}$$

$$X^2 = \text{Chi - Square}$$

O = Observed Frequency

E = Expected Frequency

$\Sigma$  = Summation

#### 3.1. Sampling Method

One thousand three hundred (1,300) respondents were selected for this study. This comprises members of various informal capital markets and the operators of the market across the state. The sample was randomly drawn from the population.

### 3.2. Instrumentation

Informal Capital Market and Environmental Factors in Nigeria Questionnaire (ICMEFQ) were used for data collection. This is to test the extent of effect of environmental factor on informal capital market in Nigeria. In all, 1,300 questionnaires were distributed, and only 1,180 completed and returned.

### 3.3. Pilot Test

A pretest or test-retest was carried out on the questionnaire and necessary adjustment made on it before it was finally administered on the sample population for Validity purposes.

### 3.4. Procedure for Administration of the Instrument

Effect of environmental factor on informal capital market questionnaires was administered personally to the respondents to ensure 100% return rate and to offer explanations where necessary. The questionnaire was divided into two sections: the first part (A) dealt with the respondents Bio-data, while second section (B) seeks to test the various environmental factors affecting informal capital market in Nigeria.

## 4. DATA PRESENTATION AND ANALYSIS

A total of One Thousand Three Hundred (1,300) respondents were administered the questionnaire, however, only One Thousand One Hundred and Eighty (1,180) respondents comprising male and female completed and returned the questionnaire representing 91% which serves as the population size.

**Table-1.** Sex of Respondents

<b>Sex</b>	<b>Responses</b>	<b>Percentage</b>
Male	858	72.7
Female	322	27.3
Total	1,180	100

**Source:** Field Survey, 2013

Table 1 show that majority of the respondents were male, but this does not necessarily imply that males partake in informal capital market operation than the female. It was just that at the time of this research, male respondent dominated the highest frequency. Therefore efforts should be made to encourage both male and female to be involved in the market and in aspect of daily contribution to foster effective performance of the market.

**Table-2.**Marital Status of Respondents

<b>Status</b>	<b>Responses</b>	<b>Percentage</b>
Married	760	64.4
Divorced	152	12.9
Single	268	22.7
Total	1,180	100

**Source:** Field Survey, 2013

Table 2 implies that most respondents are married but does not mean most of the operators of the market fall within this category but larger proportions of them are married. Therefore, through the involvement of married people in the market, the success and effective performance will help them in achieving their needs as quick as possible.

**Table-3.**Ages of the Respondents

<b>Age</b>	<b>Responses</b>	<b>Percentage</b>
21 – 30years	421	35.7
31 – 40years	560	47.5
41 – 50years	107	9.0
51 and Above	92	7.8
Total	1,180	100

**Source:** Field Survey, 2013

In table 3, the respondents fall within active labour force which implies the informal capital market activity is practiced efficiently without age as barrier or hindrance. Therefore, the participants falling within active labour given room for more and effective savings so as to cater for their needs should in case of urgency occur which implies that informal capital market goes a long way in achieving personal goals of participants.

**Table-4.**Academic Qualification of Respondents

<b>Qualification</b>	<b>Responses</b>	<b>Percentage</b>
WASC/GCE/NECO	86	7.3
ND / NCE	380	32.0
HND / B.A / B.Sc	620	52.5
M.Sc / MBA	94	8.0
Total	1,180	100

**Source:** Field Survey, 2013

From the above table (Table 4); It was discovered that the informal capital market operators are formally educated and serve as booster in the effective operation of the market to foster a healthier performance. In the modern world, education is the best legacy therefore the academic qualification of participants of the market goes a long way to foster effective performance and makes customer deposit secured and well utilized. If the knowledge acquired is well exploited, it

will be an impetus to affect and contribute towards the development of the capital market and in turn advance the immediate environment where they operate.

**Table-5.**Nature of Informal Capital Market

<b>Nature</b>	<b>Responses</b>	<b>Percentage</b>
<i>Ajo</i>	420	35.6
Cooperative	702	59.5
<i>Esusu</i>	58	4.9
Total	1,180	100

**Source:** Field Survey, 2013

Table 5 shows that as at the time of the research, the most respondents were operators of the Cooperative Society in the location of the study. This implies that the informal capital market is practiced everywhere and needs proper administration and regulation to foster growth and performance of the market.

**Table-6.**Responses that Environmental Factor affects Performances

<b>Options</b>	<b>Responses</b>	<b>Percentage</b>
Yes	867	73.5
No	313	26.5
Total	1,180	100

**Source:** Field Survey, 2013

Table 6 shows that majority of the responses choose YES. This indicates that environmental factors have effect on the performance of informal capital market. Informal capital market will perform better in a conducive environment, that is, an environment which is devoid of political instability and economic crisis. Therefore, efforts should be made to create a conducive financial environment and to correct rate of inflation to give room for effective performance.

**Table-7.** Responses on the Relationship between Environment and Operations

<b>Options</b>	<b>Responses</b>	<b>Percentage</b>
Yes	998	84.6
No	182	15.4
Total	1,180	100

**Source:** Field Survey, 2013

The above table (Table 7) reveals that majority of the respondents are of the view that there is a relationship between environmental factors and their operations. This implies that the effective operations of informal capital market depend on the environmental characteristics within which they operate for example; the social system practiced in an environment dictates whether the people will value the operation of the informal capital market. Their taste for financial market will also affect the existence of the informal capital market.

**Table-8.**Responses on Effect of Environment on Profit Maximization

Options	Responses	Percentage
Yes	796	67.5
No	384	32.5
Total	1,180	100

**Source:** Field Survey, 2013

It is implied from table 8 above, that the higher percentage of the market operators largely depend on conducive environment for them to perform efficiently and effectively. This is in line with the previous findings on table 1 and 2. Therefore, a healthy environment must be created to enable the informal capital market perform effectively and foster improvement to compete with the formal capital market in the Nigerian financial environment.

**Table-9.**Responses on Effect of Political Environment on Productivity.

Options	Responses	Percentage
Yes	892	76
No	288	24
Total	1,180	100

**Source:** Field Survey, 2013

From Table 9, there is indication that the performance and productivity of the informal capital market is affected by political environment as implied from the response above. The menace that is caused by political instability is necessary to reduce its performance and productivity.

**Table-10.**Responses on the Effect of Economic Environment on Performances

Options	Responses	Percentage
Yes	809	68.6
No	371	31.4
Total	1,180	100

**Source:** Field Survey, 2013

Majority of the above responses from Table 10 are of the view that informal capital market performance is affected by economic environment. This implies that in periods of economic down – turn, their performance will be low. Especially during the period of inflation and financial repression. Therefore efforts should be made to provide a healthy economic environment so that the informal capital market can strive and perform effectively.



**Table-11.** Responses on Effect of Cultural Environment on Operations

Options	Responses	Percentage
Yes	941	79.7
No	239	20.3
Total	1,180	100

**Source:** Field Survey, 2013

Cultural variables such as believes, norms, value, taste and fashion determine the extent an informal capital market strives, because in most communities, they believe in keeping their funds in their houses. Therefore, for informal capital market to survive with these factors and believe efforts must be made to educate the occupants of these local environments to adopt modern saving practices.

#### 4.1. Testing of Hypotheses

In order to determine the authenticity of some of the decision carried out in the course of analyzing the data, it is necessary to test the results. The method to be employed is the chi-square ( $X^2$ ).

**$H_{01}$ :** There exist no significant relationship between environmental factors and informal capital market performance.

**$H_{02}$ :** Environmental Factors has no impact on the disbursement and repayment of loans in informal capital Market Performance.

Area Of Impact	Responses		Total
Effect of Environment on Performance	867	313	1,180
Relationship between Environment and Operation	998	182	1,180
Effect on Profit Maximization	796	384	1,180

**Source:** Field Survey, 2013

#### Computation of Chi – Square ( $X^2$ )

Observed Freq (O <sub>i</sub> )	Expected Freq.	(O – E)	(O – E) <sup>2</sup>	(O – E) <sup>2</sup> / E
867	887	-20	400	0.451
998	887	111	12,321	13.891
796	887	-91	8,281	9.336
313	293	20	400	1.365
182	293	-111	12,321	42.051
384	293	91	8,281	28.263
$X^2$				13.972

At 5% level of significance,  $X^2$  tabulated values is 5.99

#### 4.2. Decision Rule

If  $X^2$  calculated value is greater than  $X^2$  tabulated value, accept  $H_1$  and reject  $H_0$ . If  $X^2$  calculated value is lower than  $X^2$  tabulated value, accept  $H_0$  and reject  $H_1$ . From the table, it can be observed that the  $X^2$  calculated value of 13.972 is greater than the  $X^2$  tabulated value of 5.99,

therefore, the alternative hypothesis ( $H_1$ ) is accepted while rejecting the null hypothesis ( $H_0$ ). Therefore, this implies that there exist a significant relationship between environmental factor and informal capital market.

## 5. CONCLUSION AND RECOMMENDATIONS

During the course of this study, it was found out that environmental factors affect the performances of informal capital market in the country. The components or variable used are economic factor, political factors and socio-cultural factors. The operators' relation, policy, value and performances are used as a yardstick for the effective performances. However, it was found out that each of these factors affect the achievement of informal capital market.

This study therefore recommends that the operators of the informal capital market should be aware that the safety of customer deposits and profitability as a major objective which if given consideration will enhance informal capital market performance. Operators of the market should also ensure mutual relationship of the market and its immediate environment. They must critically study the behaviors of the community they localize to ensure survival of their operations.

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