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Effect of Financial Liberalization on the Performance of Informal Capital Market

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Abstract

This study examines the effects of financial liberalization on the corporate performance of informal capital market in Nigeria {Unity (IFE) NUT Cooperative Investment and Credit Society as a case study}. It employs the Ordinary Least Square method of multiple regression analysis for the period of ten years (2001-2010). Three models were formulated, the first, proxied financial liberalization variable (saving rate) with loan granted by informal capital market in Nigeria and saving mobilized by the market. The second, revealing a relationship between financial liberalization variable (lending rate) with deposit mobilised by informal capital market in Nigeria and loan granted by the market while the last, depicting relationship between financial liberalization variables (saving and lending rates), deposit mobilised with loan granted by informal capital market in Nigeria and net surplus of the market (being non-profit making institutions). This work concluded that financial liberalization has significant effect on deposit mobilised and loan granted by the market but did not have significant effect on their net surplus. It therefore, recommends that the market should be supervised, formulate policies that would enhance the performance of informal financial sector in Nigeria coupled with the reduction of the gap between lending and saving rates of banks.

Keywords: Financial Liberalization, Informal Capital Market, Unity (IFE) NUT Cooperative Investment and Credit Society, Ordinary Least Square (OLS) Method

1. Introduction

The financial system in any economy plays significant role in stimulating economic growth and development. It channels fund to various economic agents that need them for productive uses. This function is very imperative for any economy that intends to be viable with respect to economy growth and development because it creates and make links between the surplus and deficit units of an economy (Adam, 1998; Osabuohien and Duriji, 2005). This account for why it becomes necessary to formulate policies for the sector. In vary degrees; these policies are aimed at achieving macro-economic objectives, stability, efficiency and soundness of the financial system, to the neglect of the informal capital market (Adeusi and Familoni, 2004).

Structural Adjustment Programme (SAP) was one of the major reforms or policies embarked upon by various countries especially the developing countries in the 1980's with the aims of rectifying the prevailing macro-economic and structural imbalances in the economy, to restructure and diversify the productive base of the economy, lessen dominance of unproductive investment and to achieve fiscal and balance of payment viability. As expected, the financial sector reform was a major aspect of the programme in 1986 when it was introduced in Nigeria. Financial deregulation or liberalization became the hallmark of the financial sector reform since it is one of the conditionalities of SAP.

Oloyede and Afolabi (2004) opined that, picking the financial sector reform or financial sector liberalization as the hallmark in the new policy, could be best ascribed to two main factors. The first was predicated on then primary role of the financial sector in national economic development. The second factor could be related to the historical evolution of the financial system in developing economies.

The Nigeria financial system like other countries especially developing countries is characterised by the existence of two types of financial intermediaries operating side by side, a situation refer to as financial dualism (Oloyede, 2008). The financial sector encompasses financial institutions, financial markets and financial intermediaries that help direct financial resources from the owners of these resources (savers) to those who use them to finance productive activities (investors). The two types are; the formal financial sector and the informal financial sector. The major difference between them is that the formal is regulated while the latter is not.

The operators in the informal financial sector include professional money lenders, part-time money lenders such as estate owners, traders, small-holder farmers, relations and friends, Esusu or isusu collectors, credit union, cooperative societies etc. Their operations are flexible and sometimes contracts are unwritten. Other characteristics common to these institutions are free entry, free exist, lending is done mainly on personal recognition. Also, deposit taking and lending are often done among kit and kinsmen with a lot of peer pressure to maintaining compliance (Iganiga and Assemot, 2008). The activities of the informal capital market or informal financial market are mostly underground, unofficial, irregular, informal, shadowy and parallel. Though there are different types of this institutions but the most predominant type in Nigeria is the Esusu. Among the Yoruba, it is called either 'Esusu' or 'Ajo'. Among the Igbo, it is called 'Isusu' or 'Utu' while the Edo calls it 'Osusu'. The Hausa call it 'Adashi', the Nupe 'Dashi', the Ibibio 'Etibe', while the Kalabari call it 'Oku' (Ekpo and Umoh, 2011). The Esusu or the rotating savings association is the predominant while the cooperative societies as well as credit unions operate in more formalised ways than the other types. They are mostly registered under the Cooperative Association Act. Credit societies often come together to form larger units called Credit Union. These unions are members of a larger body known as Cooperative Federation of Nigeria (CFN).

The operations of the informal financial market are not regulated but policies formulated by the monetary authorities affect them indirectly whether adversely or favourably, since there is a link between both sub-sectors and the informal financial market is view as a complement to the formal financial market as viewed by earlier works (Hoff and Stiglitz, 1998). In spite of the overwhelming presence of the informal financial market in Nigeria, researchers have focused on the relationship between financial liberalization and formal financial market while investigations on link between the policy and the informal formal sector have been relatively limited, furthermore, there is need to study to sector to establish its role, and whether it should be upgraded to the formal sector (i.e., formalized) or integrated with it (Seibel, 1986).

Financial liberalization as resulted to higher prices charged by banks and neglect of some sectors paving way for the expansion of the informal financial market but still the sector have been in a 'black box' which can only be brought out through research. In the words of Hyuha, Ndanshau and Kipokola (1993), through research, informal financial sources will not remain in the 'black box'. Therefore, the main focus of this study is to examine the effects of financial liberalization on the performance of informal capital market. Limitation of the study is that, when it comes to data collection and analyses only the cooperative and credit union data will be used because it is the most formalized institution in the market. Also, the study would use Unity (IFE) NUT Cooperative Investment and Credit Society as a case study. Furthermore, data covering the period of 10 years (2001-2010) would be collected.

This research work is organised into five sections. Following this introductory section, section two will cover the literature review. The research methods, where the research design and analysis procedure among others will be presented in chapter three, chapter four will examines the analysis and interpretation of results while the last chapter deals with summary, conclusion and recommendation.

2. Literature and Empirical Review

The modern economic analysis of financial policy in developing countries started with the seminal works of Mckinnon (1973) and Shaw (1973). Both authors drew attention to the widespread 'financial repression' (as they termed it) in developing countries. According to Williamson (1998), such repression occurred in six dimensions:

1) The government, not market, determined who received credit.
2) The government, not market, determined interest rates.
3) The government determined whether new institution would be allowed to enter the financial sector.
4) The government laid down details of banks' operations such as who they hired and what salaries were paid.
5) The government owned financial institutions.
6) The government decided who would be allowed to borrow and lend abroad, and on what terms.

In 1987, authorities in Nigeria commenced an extensive reform of the financial system as part of a structural adjustment programme (SAP). It involved liberalizing interest and exchange rates, promoting a market-based system of credit allocation, enhancing competition and efficiency in the financial system, and strengthening the regulatory and supervisory framework but to the neglect of the informal capital market.

Financial liberalization which is also known as financial sector liberalization, financial deregulation and financial sector deregulation is view by McKinnon as the 'only game in town' as far as successful economic development is concerned (McKinnon, 1989). The concept of deregulation has not witnessed a general accepted definition. Very many scholars have made several attempts to define the concept (Akinmelegun, 2004).

McKinnon (1973) and Shaw (1973) in their works discussed liberalization as a concept that enables the investment of interest rate that equate the demand for and supply of saving. They are of the opinion that financial liberalization would encourage savings and investment. They focussed on interest rate neglecting other aspects like credit allocation.

Aluko (1980) conceptualized liberalization to be a process of enthroning private enterprises and market forces as the main determinants of resource allocation and abandonment of regulative role of government. Akhamiokor (1994) defines it as a process of enthroning market forces as the determinant of resources allocation at the expense of government control. Both definitions above relate deregulation to mean freeing factors of production from unnecessary government control. In relating it to the economy, Ojo (1994) is of the opinion that, deregulation is a deliberate and systematic removal of regulatory control and structure, and complex organisational guideline in the administration and pricing system of the economy.

Oladipo (2000) defines financial liberalization as less or loss administered interest rate structures, more competition among financial intermediaries, more market-based activity, more openings to cross border capital flows, less 'repression' in the sense of McKinnon. To Gibson and Tsokolotos (1994), it is a process of reducing quantitative control in an attempt to allow financial intermediaries greater control over the use of their liabilities subject to certain minimum control maintained for prudential supervision. These two definitions above, unlike the rest, did not advocate for outright removal of control in the financial sector but a lesser control. In other words, government as the protector of investors should only police and serve as umpire.

The informal capital market is a sub-sector of the informal sector which is a term first coined by Keith Hart in 1973. He defines it as 'one where income is derived from self-employment. Adeusi and Familoni (2004) opined that the conceptualization is clearly defective in that, the application on the definition does not show clearly the demarcation between formal and informal activity sector which is regulatory status. The informal sector refers to economic activities in all sectors of the economy that are operating outside the purview of government regulation (Magbagbeola, 1996). This sector is categorised into three principal subsectors, namely; productive, service and financial (Umoh and Ekpo, 2011).

The financial sub-sector has been defined by Chandavarkar (1985) as non-institutional financial market that entails all financial activities outside the perimeter of the institutional finance. In the same vein, Aryeetey and Hyuha (1991) defined it as highly heterogeneous market consisting of financial transactions that take outside the functional scope of various countries banking and financial regulation. The above definitions show that the market consist of 'unregistered money lenders' and 'informal lenders', 'non-institutional sources and 'unorganised sources', which operated largely outside the banking system and which are majorly unregulated, and more loosely monitored than the formal sources. Iganiga and Asemota (2008) are of the opinion that they are flexible in their operations, while enforcement of contracts, which in most cases are "unwritten", is usually based on group trust and other indigenous legal and social institutions. Some mobilize savings while others mobilize savings and do lending too. Some are engaged in only lending.

2.1 The Informal Capital Market In Nigeria

Although the existence of informal finance units in Nigeria has long been known, the sector has not been featured prominently in research on economic policy issues. The activities of this market are mostly unofficial, underground, informal, irregular, shadowy and parallel but they play important roles in the economy (UNDP, 1997). The sector complement the formal sector because they equally engage in mobilization process and lending of fund particularly among those that are not accessible to the formal financial market and those that find their requirement too cumbersome to complied with.

In Nigeria in particular, there are different types of institutions in this market. According to Oloyede (2008) who carried out a study on the market in Ekiti state, the institutions are five (5). They are as explained below:

1) ROTATING SAVINGS AND CREDIT ASSOCIATIONS (ESUSU)

It is the most accepted and practised informal financial institution. It is commonly referred to as 'Partners', 'Susu', and 'Isusu' in the West indies and 'Esusu', 'Susu', 'Dashi' and 'Awiko' in various parts of Nigeria. Among the Yoruba, it is called 'Esusu'. Among the Igbo, it is 'Isusu' or 'Utu' while the Edo calls it 'Osusu'. Hausa calls it 'Adashi', the Nupe 'Dashi', the Ibibio 'Etibe' while the Kalabari calls it 'Oku' (Miller, 1977). The institution brings together group of people for the purpose of saving, through the contribution of fixed amount of money on fixed days of the week, month or year. It operates as a revolving scheme that continue until each member has benefited and is seen as capable of offering a more promising solution to people's financial problem than do the commercial banks (Falegan, 1987). The whole or part of the amount contributed by all members would be handed over to each member in a predetermined order of rotations. As explained by Bascom (1982), many Esusu groups hold no meetings and members are not frequently known to one another.

It helps in providing members with a lump sum that can be employed in businesses. Other advantages are; simple procedures, accessibility, flexibility and adaptability to many purpose. However, despite the apparent simplicity and other advantages, its practical operational modalities are fraught with a number of problems and limitations. Firstly, it can be somehow problematic to administer, especially when it comes to determining the order of recipients. Also, it carries a risk that members who receive these pools of fund early will not continue to contribute. Furthermore, the person in charge may run-away with the fund (Bonman, 1978).

2) DAILY CONTRIBUTION SCHEME/ INSTITUTION

It is in most cases referred to as 'Ajo Ojumo' (meaning daily contribution) in the Yoruba-speaking part of Nigeria. This institution is a special type of informal capital market where people unknown to themselves contribute unequal amounts which suit them daily to a collector which is the organizer. It targets the low-income, artisans and petty-traders (Iganiga and Asemota, 2008). In the Nigeria context, it is a thrift business where the collector of funds, referred to as 'Alajo', comes around daily to collect the funds from people who are interested in the scheme depending on the agreement (Okafor, 2000). The money is kept in a safe custody by the collector till the end of the month when he/she returns the amount contributes less a day's contribution as commission (Oloyede, 2008). In most cases, a fixed amount of money is safe daily.

This institution is advantageous in that the contributor can borrow against his accumulated savings even before the end of the month. Also, it assists in inculcating saving culture. Another advantage is that it makes savings easy since the amount contributed is usually small but will accrue to a fairly bulky amount later. On the other hand, its demerit is that the collector can be dubious by disappearing with the fund.

3) PROFESSIONAL MONEY-LENDING INSTITUTION (PML)

Professional moneylenders are individuals with enough capital mobilized from different sources including their personal savings to meet other people financial needs. Moneylenders in Nigeria in most cases are traders, farmers and timber merchants with surplus funds to lend. Iganiga and Asemota (2008) are of the opinion that, it is very common in semi-urban areas where civil servants habit with persist delay of salaries and constant strike. It is a typically sole-proprietorship in nature since the lender dictates the pace and term of the credit. The moneylenders in most cases have a greater knowledge of the market than the borrower, whom in most cases are more preoccupied with availability of loanable funds than with their interest cost. They often charge spurious rates of interest.

According to Oloyede (2008), its advantages are of two folds: first, it makes it easier for those who are not qualified to obtain loans under the formal banking system to obtain such loans and second, it ensures that loans are granted within a shorter time. However, it has some disadvantages which include; giving loan to wrong calibre of people, use of illegal means to retrieve loan from defaulters and lastly, charging extra ordinary interest rate as high as 50% to 100%.

4) PROFESSIONAL TRADERS ASSOCIATION

This is a special type of informal financial institution where practitioners or members of same business or co-workers or those operating in the same market place come together and make contribution as agreed upon whether weekly or monthly and the money collected is then given out to members in form of loan at concessionary interest rate repayable at the end of the year with the principal. The main objective of this institution is to protect the interest of their members.

5) COOPERATIVE THRIFT AND CREDIT SOCIETIES

It is the most standardized informal financial institution. The Rochdale Society of Equitable Pioneers, founded in 1844, is usually considered the first successful co-operative enterprise. From the report of the workshop held on 10th – 11th November 2008 during the 8th International Cooperative Association (ICA) Africa regional assembly at the international conference centre, Abuja. Mr Tom Tar -The Executive Secretary of Cooperative Federation of Nigeria, in his introduction of the movement in Nigeria, said the Cooperative Federation of Nigeria (CFN) was formed in

1945 and got registered in 1967. He traced the background of cooperatives in Nigeria to the traditional savings and loans system.

These institutions are expected to be registered under the Cooperative Association Act (Ekpo and Umoh, 2011) but not regulated. The Company and Allied Matters Decree (1990) stated that cooperative societies are expected to be registered to enjoy corporate and legal status. The objective of this institution is to provide saving facilities and lend short term loans to members and sometimes to businesses that yield quick return. The sources of funds include shares, special savings, entrance fees and dues. The main problem of the thrift and credit societies is inadequacy of fund, which prompt them to approach banks which would charge high interest. However, Credit societies often come together to form larger units called credit unions.

Apart from the above types, many non-governmental organizations (NGOs) exist, which engage in financial intermediation. Examples are; Community Development Trust Fund (CDTF) in Lagos, Live Above Poverty (LAPD) in Edo State, the Farmers Development Union (FADU) in Oyo State and so on. (Okafor, 2000; Umoh and Ekpo, 2011).

However, empirical studies on the relationship between liberalization and informal financial sector have been relatively low when compare to its formal counterpart. Ojo (1989) noted that, the Nigeria financial sector in the Pre-SAP period has witnessed rapid structural changes and regarded to have performed satisfactorily. Aryeetey and Gockel (1990) cited that in these days of financial liberalization, the informal capital market in most Africa countries have continue to perform relatively well. Also, Meagher and Yunusa (1996) opted that despite a lack of effective state support in a liberalized economy to the informal capital market, the market as continued to grow. Aryeetey (1998) found that financial sector liberalization has not been effective in improving credit delivery. He is of the opinion that, SAP adopted in many Africa countries resulted in an initial growth which was evidenced from a significant increase in the demand for finance by businesses, which the formal financial institutions failed to meet. Several works like Adebiyi (2002), Owolabi, Adebayo and Osekita (2004) and Oloyede and Afolabi (2004) also support the view that the policy has recorded limited success in developing countries. For instance Owolabi, Adebayo and Osekita (2004), found that there is no significant relationship between liberalization and performance of commercial banks in Nigeria.

Aryeetey (2003) argued that, high rates of interest might not considerably increase savings in an economy that is characterized by low level of income earners and an under-banked economy where majority of financial activities take place in the informal capital market. In Aryeetey (1992)'s view, people save where they think they can find credit and lend if they cannot invest their money elsewhere.

Aryeetey (1998) asserted that in searching for alternatives to formal financial institutions, some attention is increasingly being paid to informal capital market for meeting credit demand, especially small enterprises demand.

There has been increasing pressure on informal units to provide supporting finance. He further gave an example that in Ghana, Susu companies emerged soon after financial liberalization began, guaranteeing their depositors credit after six months of regular deposits.

3. Research Methods

The study adopts descriptive research of survey type of research design in evaluating and analysing the effect of financial liberalization on the performance of informal capital market (taking the case Unity (IFE) NUT Cooperative Investment and Credit Society limited in Osun State) for the period of ten years (2001-2010). The institution is an informal financial institution that has its headquarter located in lagere, Ife, Osun State, South-West, Nigeria on latitude 7^0 23' E and longitude 4^0 32' N. It has 64 member institutions spread across Ife central and Ife east local government areas the state. The secondary data utilized are obtained from Unity (IFE) NUT Cooperative Investment and Credit Society's 12th and 17th Annual Reports and various issues of CBN statistical bulletin. The Ordinary Least Square (OLS) estimation technique would be employed to assess the financial liberalization impact on performance indices (savings mobilized, loan disbursed and net surplus) of informal capital market.

In this study, the models adopted are based on the modification of the models in Owolabi, Osekita and Adebayo (2004). The models would be considering an underlying relationship between some financial liberalization variables and performance indices (savings mobilized, loan disbursed and net surplus) of informal capital market.

Model 1 specifies the relationship between financial liberalization and saving mobilized of informal capital market and it is expressed functionally below as:

$$SAV=f(SR, LOAN, \mu)\ldots\ldots\ldots\ldots\ldots (1)$$

The explicit form of equation (1) is shown below:

$$SAV= \beta_0+\beta_1SR+\beta_2LOAN\ldots\ldots\ldots\ldots\ldots (2)$$

The apriori expectations for Model 1 are $\beta_1, \beta_2>0$

Model 2 depicts the relationship between financial liberalization, and savings mobilized and loans of informal capital market (performance parameter) of informal capital market and it is expressed functionally below as:

$$LOAN=f(LR, SAV, \mu)\ldots\ldots\ldots\ldots (3)$$

The explicit form of equation (3) is shown below:

$$LOAN=\beta_0+\beta_1LR+\beta_2SAV\ldots\ldots\ldots\ldots\ldots (4)$$

The apriori expectations for Model 2 are $\beta_1, \beta_2>0$

Model 3 specifies the relationship between financial liberalization, savings, and loan and net surplus of informal capital market and expressed functionally below as:

$$SPS=f(LR, SR, SAV, LOAN, \mu)\ldots\ldots\ldots\ldots (5)$$

The explicit form of equation (5) is shown below:

$$SPS=\beta_0+\beta_1LR+\beta_2SR+\beta_3SAV+\beta_4LOAN\ldots\ldots\ldots\ldots\ldots (6)$$

The apriori expectations for Model 3 are $\beta_1<0$ and $\beta_2, \beta_3, \beta_4>0$.

Where:

SPS= Net Surplus of Unity (IFE) NUT Cooperative Investment and Credit Society.

SAV=Deposit mobilised by Unity (IFE) NUT Cooperative Investment and Credit Society.

LOAN=Loan disbursed by Unity (IFE) NUT Cooperative Investment and Credit Society.

LR= Lending Rate of Banks

SR= Saving Rate of Banks

μ= Stochastic Element (error term)

f= Functional Relationship

β_1- $\beta_{4=}$ Coefficient of each variable

$\beta_{0=}$ Intercept of the model

3.1 RESULT ANALYSIS AND DISCUSSION

As specified in the previous section, the Ordinary Least Square (OLS) estimation technique would be employed.

MODEL 1

The summary of OLS result of model 1 is shown in the table below:

Table 1: Summary of OLS result (model 1)

VARIABLES	COEFFICIENTS	T-STATISTICS
C	39844824	3.067
SR	-6885114	-2.819*
LOAN	0.283744	4.046*
R^2	0.9512	
F-STAT	68.174*	

(*) denotes significance at 95% confidence level

It can be deduced from the table above that a negative relationship exists between deposit mobilized by informal capital market and saving rate of banks, this is in conformity with apriori expectation and that a unit decrease in saving rate (SR) will boost deposit mobilized by informal capital by 6885114 units and vice versa. The implication is that as savings rate decreases, deposit mobilized by the market increases and this has been the case in Nigeria. The adoption of financial liberalization has led to the relatively downward movement of savings rate in Nigeria. For instance, in 1993, SR is 16.66% while as at 2010 is 2.89%.

The result also shows that there is a positive relationship between SAV and LOAN, and that a unit increase in LOAN will boost SAV by 0.283744 units. Also, loan granted by the market has led to increment in their mobilized deposit. This stem from the fact that members reciprocate by saving more as loan increases. The table also indicates that

95.12% of changes in SAV can be explained by SR and LOAN while the remaining 4.88% by the error term. Also, the two-tailed T-test at 95% confidence level shows that both SR and LOAN are statistically significant. The F-test indicates that the model is statistically significant.

MODEL 2

The summary of OLS result of model 2 is shown in the table below:

Table 2: Summary of OLS result (model 2)

VARIABLES	COEFFICIENTS	T-STATISTICS
C	-19426805	-0.685642
LR	2.061049	7.759446
SAV	839327.6	0.664689*
R^2	0.901888	
F-STAT	35.17352*	

(*) denotes significance at 95% confidence level

The table above shows that both lending rate of Banks and deposit mobilized by informal capital market are positively related to loan granted by the market, so they are in conformity with apriori expectation. This corresponds with the assertion of Aryeetey and Gockel (1990) that, people save where they think they can find credit. Also, the positive relationship of lending rate to LOAN shows that as lending rate of banks increases loan disbursed by the market increases. But lending rate is not statistically significant, that is, does not play much role in LOAN. A plausible explanation to this is that, the introduction of financial liberalization apart from increase in lending rate has resulted into strict and rigorous processes of loan approval via high level of documentation coupled with high value for collateral security required for loan approval encouraging people to seek services from informal capital market whom falls back on its deposit mobilized and net surplus to provide loan to its members due high rate of lending in banks. This is further proved by the significance of SAV in determining LOAN. This finding is in line with the work of Aryeetey (1998), who observed that financial liberalization has not been effective in improving credit delivery and soon after the policy began, informal financial institutions emerged guaranteeing their depositors loan after six months of regular deposits. The R^2 is estimated at 90.19%, this indicates that 90.19% of variation in LOAN can be explained by deposit mobilized by the market and lending rate of banks while the remaining 9.81% can be explained by the stochastic element. The F-test indicates that the model is statistically significant.

MODEL 3

The summary of OLS result of model 3 is shown in the table below:

Table 3: Summary of OLS result (model 3)

VARIABLES	COEFFICIENTS	T-STATISTICS
C	-144708.8	-0.043891
LR	-21834.57	-0.379544
SR	-68629.81	-0.145726
SAV	0.048938	0.920642
LOAN	0.062903	3.734890*
R^2	0.9849	
F-STAT	81.27073*	

(*) denotes significance at 95% confidence level

The above table depicts that SAV and LOAN are positively related while SR and LR are negatively related to net surplus of informal capital (SPS). Also, only loan granted by the market is statistically significant. This could stem from the fact that it is the investment in which informal financial institution engages in that affect their net surplus; this is evident from the positive relationship and statistical significance of LOAN. The R2 shows that 98.49% of changes in SPS can be explained by the independent variables (SAV, LOAN SR and LR) while the remaining 1.51% can be explained by the error term. The F-test shows that the whole model is statistically significant.

4. Conclusion and Recommendation

The financial system of any economy remains the intermediary between the savers and lender units. In Nigeria, it is dichotomised into the formal and informal with links between them. This study was therefore done to empirically verify that policy changes, particularly, financial liberalization, introduced for the formal financial system has its effects on the activities and performance of informal capital market in Nigeria (a case study of Unity (IFE) NUT Cooperative Investment and Credit Society Limited).

However, based on the result obtained from the OLS, it can be deduced that the relatively low saving rate in this era of liberalization has boosted the deposit mobilised by the informal capital market in Nigeria but plays little role on their net surplus. This could be attributed to the fact that, it is investments that the market makes that affect its net surplus. This is proven with the result of loan granted that boosted their net surplus. Also, it can be concluded that the relatively high lending rate accompanying financial liberalization has played lesser role in net surplus of the market but has positive effect on the loan granted by the market. Aryeetey (1998) opted that, in searching for alternative to formal sector finance, some attention is increasingly being paid to the informal capital market for meeting their credit demand.

In addition, the explanatory powers of all the models are very high showing the goodness of fit of the models. In conclusion, financial liberalization has significant effects on deposit mobilised and loan granted by informal capital market in Nigeria but played little role in their net surplus.

The positive role played by informal capital market has been established in this work through its ability to provide residual finance objecting some doubt about the orthodox thinking and policy prescription which emphasises on the formal financial system. As noted by Oloyede (2008), informal financial institution should be given proper recognition and adequate consideration in the nation's financial system. Thus, this paper recommends that, a department should be establish in the apex bank to supervise and formulate policies that would formalise and standardise the activities of the major institutions in the market but these policies should improve and not jeopardise their performance. The apex bank should also encourage bank to reduce the rigorousness and strictness involve in loan approval process, and be considerate in their demand for collateral security. Also, the gap between saving and lending rate is too high, efforts should be made to bridge this gap and more importantly reduce the rate of lending charged by banks. Furthermore, micro-finance banks should be encouraged to change from urban oriented banking procedures to rural oriented ones. Finally, this work calls for further research on the topic using panel data, in order to incorporate more informal financial institutions.

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