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The Journal of ARSYM (JARSYM) is a refereed journal published bi-annually by the Faculty of Business Studies & Finance, Wayamba University of Sri Lanka. The aim of the JARSYM is to disseminate high-quality research findings on a variety of timely topics generated by undergraduate and postgraduate researchers at the Wayamba University of Sri Lanka. Furthermore, it opens up avenues for the undergraduates involved in the industry to share their inventions, state-of-the-art discoveries and novel ideas. The main philosophy behind the JARSYM is to enhance the research culture within the faculty, thereby within Wayamba University. All research articles submitted are double-blind reviewed prior to publishing. Views expressed in the research articles are not the views of the Faculty of Business Studies and Finance, the Wayamba University of Sri Lanka or the Editorial Board.

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The Journal of ARSYM (JARSYM) is a refereed bi-annual journal committed to publishing undergraduate research papers of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka. The JARSYM publishes theoretical and empirical papers spanning all the major research fields in business studies and finance. The aim of the JARSYM is to facilitate and encourage undergraduates by providing a platform to impart and share knowledge in the form of high-quality and unique research papers.

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- Priority is given to novelty, originality, and to the extent of contribution that would make to the particular field.

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- Economics
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Factors Affecting People's Reliance on Informal Financial Sector in Sri Lanka (Special Reference to Northwestern Province)

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ABSTRACT

unorganized financial sources, which consist mainly of friends and relatives, moneylenders, traders, pawnbrokers, and landlords engaged in lending activities and borrowings from such sources. Though there are a number of research conducted on the informal financial sector in other countries, the empirical and theoretical gaps justified that it is rare to find literature related to informal finance in Sri Lanka. Thus the objective of the study is, to investigate factors associated with reliance on the informal financial sector and to examine different informal financial sources that which Sri Lankan community mostly use.

This research sought to investigate the impact of financial knowledge, financial behaviour, attitude towards personal finance and weak laws and regulations on people's reliance on the Informal Financial Sector which were selected based on a literature review. This research was conducted according to the quantitative research methodology. The population for this study was all people who are dealing with the Informal Financial sector in Sri Lanka. A sample of 384 people who are dealing with the Informal Financial sector in Northwestern province was used for this study. This study was based on the primary data and a self-administrated questionnaire was developed by applying a five-point Likert scale. The research hypotheses were interpreted based on the results of the multiple regression analysis.

Although the literature revealed that there is a significant impact of financial knowledge, financial behaviour, attitude towards personal finance and weak laws and regulations on people's reliance on the Informal Financial sector, the findings of this research verified that the impact of financial knowledge on people's reliance on Informal Financial sector is statistically insignificant. Overall, there is an impact of all factors on reliance on Informal Finance. But the significance level varies according to the factor.

Keywords: Informal Finance, Financial Knowledge, Financial Behavior, Attitude towards Personal Finance, Laws and Regulations

1. INTRODUCTION

The informal sector is a worldwide phenomenon. There is no clear and established definition for the informal sector, be it related to financial or any other types of activities. The "informal financial sector," is known as the "unorganized money market," which is a highly heterogeneous financial sector that deals with all financial activities that occur outside of the institutional and regular financial framework. It includes loans and borrowing transactions involving various types of individuals and intermediaries. As a result, it's impossible to give a precise description of this industry (Chandavarkar & Anand, 1977). Even though formal finance institutions are fairly spread and located across Sri Lanka, people still tend to rely on informal finance. Informal financial instruments are mainly used among people who do not have access or cannot supply formal systematic savings and credit facilities (Edirisinghe & Ariyawansha, 2015).

All informal financial agreements are depending on negotiation and there are no set standards for informal financial instruments to measure up to when the financial services are needed because they can provide flexible services according to personal needs. Even though formal finance institutions are fairly spread and located across Sri Lanka, people still tend to rely on informal finance. Stynwand (2008) has revealed that easy access, the ability to obtain funds speedily and the absence of collateral requirements play a key role in motivating households to use informal sources.

Here researcher stated the research problem with the support of survey results and new paper articles as follows.

The Statistics Department of the Central Bank of Sri Lanka published "Economic and Social Statistics of Sri Lanka (ESS)" in 2020 with the objective of providing a single source of information that contains economic and social statistics related to Sri Lanka and neighbouring countries. The distribution of a number of loans obtained by households during the reference period revealed that 12.2%of loans were from the informal financial sector.

Table 01. Distribution of Number of Loans by Formal and Informal Institutions

	2015	**2016**	**2017**	**2018**	**2019**
	Value (Rs. Million)				
Formal Institutions	4,620,046	5,438,604	6,318,684	7,542,263	7,922,853
Informal Institutions	795,844	962,672	1,057,097	1,137,046	1,102,738
Total	5,415,890	6,401,276	7,375,781	8,679,309	9,025,591
	Value (%)				
Formal Institutions	85.31	84.96	85.67	86.90	87.78
Informal Institutions	14.69	15.04	14.33	13.10	12.22
Total	100	100	100	100	100

Source: ESS 2020 Report

Department of Census and Statics Conducted a survey in Northern Province and they collected household income and expenditure data. The survey result shows the people's access credit rate as 62 per cent were from informal and 54 per cent were from the formal financial sector (News Survey - October/December 2015 | Central Bank of Sri Lanka, 2015).

In Kurunegala district 80% involved in pyramid scheme and it is noted that bank officials, teachers, police officers, private sector employees, member of the forces and many others who hold senior positions fall into this pyramid scheme and other 20 per cent people attend to brainwashing lectures conducted by the racketeers (Daily Mirror - Sri Lanka Latest Breaking News and Headlines, 2016).In Kurunegala District, over 5000 people were caught in a Pyramid Scheme and lost 1.5 billion. This was operated as a network marketing, but operate a pyramid scheme to violate the Banking Act. (Lankadeepa Online: Sri Lanka Latest Sinhala Breaking News and Live Updates, 2021). An illegal finance company in Kurunegala District defrauded Rs.10Bn from 944 depositors (Daily Mirror - Sri Lanka Latest Breaking News and Headlines, 2021)

Though there are a number of research conducted on the informal financial sector in other countries, the empirical and theoretical gaps justified that it is rare to find literature related to informal finance in Sri Lanka (Karunagoda,2007). Thus, the purpose of the study is, to investigate factors associated with reliance on the informal financial sector and to examine different informal financial sources that which Sri Lankan community mostly use.

2. LITERATURE REVIEW

2.1 Informal Finance

The informal financial sector is a broad concept that comprises a wide range of financial activities and services that occur outside of the financial sector's laws and regulations. It extends beyond the limits of a country's established financial institutions. Informal funding is popular in both urban and rural settings, and it is usually based on personal connections and socioeconomic proximity. The existence of unregulated financial markets is a global phenomenon. The informal financial sector, on the other hand, is critical in satisfying the financial needs of low-income societies (Adams & Hunter, 1992).

The "informal financial sector," is also known as the "unorganized money market," is a highly heterogeneous financial sector that deals with all financial activities that occur outside of the institutional and regular financial framework. It includes loans and borrowing transactions involving various types of individuals and intermediaries. As a result, it's impossible to give a precise description of this industry (Chandavarkar & Anand, 1977).

2.2 Financial Knowledge

According to Alessie, Lusardi and Rooij (2007) personal financial knowledge is important to avoid misunderstandings when making the right financial decisions and good financial literacy also helps people to achieve financial well-being.

Allgood and Walstad (2013) examined credit behaviors related to both objective and subjective financial knowledge by age group. According to author, credit usage is less costly when both types of financial knowledge are present. In a later article of Allgood and Walstad (2015) employ similar strategies to review the relationship between objective/subjective financial knowledge and a series of financial behaviors. The present research builds by bringing financial knowledge and credit card behaviors to the head of the analysis, while also taking it further by including a financial satisfaction component, a different approach to financial knowledge questions, and a comprehensive scale of credit card behaviors.

2.3 Financial Behavior

Financial behaviour is described as the management of a person's savings, expenditures, and budget (Perry & Morris,2005), but Xiao(2008) claims that human activities such as currency, savings, and credit are considered financial behaviour. In a broader sense, financial behavior encompasses broad topics such as short- and long-term investment behavior, savings behavior, credit usage, expenditure behavior, and so on.

The study of the influence of psychology on the conduct of financial practitioners and the resulting effect on markets is known as behavioral finance. Individuals' financial health will be determined by the nature of their financial activities. (Hilgert et al, 2003). The three facts that affect a person's financial behavior are psychology, sociology, and finance (Hasibuan, Lubis & HR, 2018). People who want to know about financial behavior must have an understanding of psychological, sociological, and financial aspects. Financial behavior is based on financial management techniques as an essential component of financial personal well-being. Individuals who apply positive financial behavior shown as a higher level of satisfaction on there is personal finances. Due to good financial behavior will encourage someone to be able to control better financial condition in the future (Hasibuan et al., 2018).

2.4 Attitude towards personal Finance

Financial attitudes are established by the economic and non-economic beliefs held by a decision-maker about the consequences of an attitude and are therefore a key factor in the personal decision-making process (Ajzen, 2002).Financial attitudes can be considered as a pronounced mental predisposition in assessing the recommended financial management practices with some degree of agreement or disagreement (Parrotta & Johnson, 1998). Financial attitudes change the way people spend, save, and waste money (Furnham & Thomas, 1984).

According to Ibrahimi and Alqaydi (2013) on the relationship between financial literacy, personal financial attitude, and the decision to carry personal debt, that there is no significant relationship between the average of financial literacy, personal financial attitude, and the decision to carry debt from bank loans or borrow from a friend/family member. However, they discovered that there is a strong statistical relationship between personal financial attitudes and credit card borrowing.

2.5 Legal and Regulatory Factors

In markets with weak legal institutions and low income levels, formal and informal finance coexist. (Germidis, Kessler & Meghir,1991; Aryeetey & Nissanke, 1998). Poor people either seek informal loans or borrow simultaneously from both banking sectors. Banerjee and Duflo (2007) showed that 95% of all borrowers living below $2 a day in Hyderabad, India access informal sources even when banks are present. Meanwhile, Das-Gupta et al. (1989) show details from Delhi, India, where 70% of all borrowers receive loan from both sectors at the same time. A number of challenges arise as a result of such financing arrangements.

Madestam, (2014) suggests that weaker legal institutions increase the prevalence of informal credit if borrowers obtain money from both financial sectors, while the opposite is true if informal lenders supply all funds. Using firm-level data for 26 countries in Eastern Europe and Central Asia, Dabla-Norris and Koeda (2008) show that the relationship between legal institutions and informal credit is vague, and that bank loan contracts are deteriorating as creditor protection worsens. More systematic evidence is offered in a recent study by Chavis et al. (2009) covering 70,000 small and medium-sized firms in over 100 countries. Improvements in creditor protection, as predicted by the model, have a positive impact on access to bank finance, particularly for young (and small) businesses.

3. METHODOLOGY

Based on the scope of the literature review following research model and hypotheses were developed for the study. The dependent variable is people's reliance on Informal Financial Sector. While Financial knowledge, financial behaviour, attitude towards personal finance and legal and regulatory factors are the independent variables of the research. These variables have been selected from previous literature of several authors (Karunagoda, 2007; Farazi, 2014; Edirisinghe & Ariyawansha, 2015).

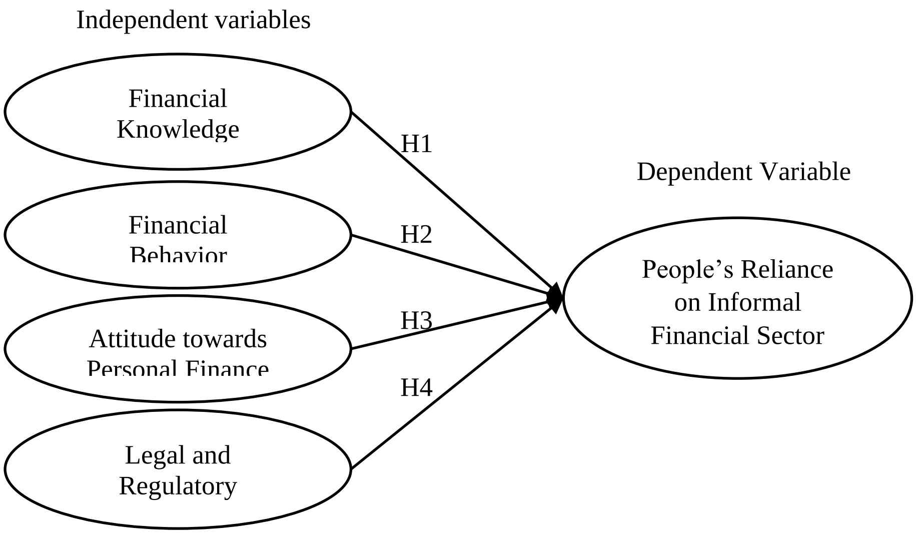

Figure 1**: Conceptual Framework**
Source: Author constructed based on previous Literature

Hypotheses

H1: There is a significant impact of financial knowledge on the reliance on informal finance.

H2: There is a significant impact of financial behaviour on the reliance on informal finance.

H3: There is a significant impact of attitude towards personal finance on the reliance on informal finance.

H4: There is a significant impact of weak laws and regulations on the reliance on informal finance.

Table 02. Operationalization table

Variable	Indicator	Question	Measurement Scale	Source
People's Reliance on Informal Finance	Convenience Lack of documentation Short approval procedure	IF1, IF2, IF3, IF4, IF5	5 point Likert Scale	Adam,(1991)
Financial Knowledge	Investment Interest Savings Borrowings	FK1, FK2, FK3, FK4, FK5	5 point Likert Scale	Ibrahimi and Alqaydi (2013)
Financial Behavior	Spending Saving Future financial planning	FB1, FB2, FB3, FB4	5 point Likert Scale	Beby_Hasibuan (2017)
Attitude towards personal Finance	Risk Return Time duration	FA1, FA2, FA3, FA4	5 point Likert Scale	Azam et al. (2001); Turvey and Kong (2010); Yaldiz et al., (2011); Johnson & Nino-Zarazua (2011)
Legal and Regulatory Factors	Restrictive requirements Weak Regulations	L1, L2, L3	5 point Likert Scale	Steel et al. (1997); Tsai, (2004); Yaldis et al., (2011); Batini et al., (2010)

The researcher used a deductive research approach in this study. Furthermore, the researcher used a quantitative approach in this study. This research is purely based on primary data. The primary data means the data observed directly from the people. This study collects data through a self-administered questionnaire. The target population of this study consisted of a focused group of males and females who are dealing with the Informal Financial Sector in Northwestern province while a unit of analysis of this study is a person who is dealing with the Informal Financial Sector and living within the Northwestern province. And as the sampling technique of convenience sampling was used because the data was collected from people who were available at the time and were easily accessible. The researcher has selected 384 people from Northwestern province in Sri Lanka who are dealing with the Informal Financial Sector as the sample, to find out "Factors affecting People's reliance on the Informal Financial sector in Sri Lanka". Finally, the collected data were analyzed (descriptive statistics, multiple regression analysis) using SPSS 25 version. A self-administered questionnaire was used to collect primary data. The researcher used five points Likert Scale ranging from 'Strongly Disagree' to 'Strongly Agree' to measure the responses.

4. FINDINGS

Through frequency analysis of different sources of informal finance, the results show that the most preferable financing source is a loan from family/friends. 35.2% of the respondents prefer pawning in Informal. 37 of the respondents of the sample prefer to use personal borrowing. 2.9% of the respondents prefer to use other informal sources such as pyramid schemes.

4.1 Reliability and Validity Analysis

Reliability

In order to test the reliability of a data set, Cronbach's alpha can be used. If Cronbach's alpha is more than 0.7, it can be assumed that the collected data set is consistent and dependable.

Table 03. Conbrach's Alpha

Variable	Cronbach's Alpha	N of Items
People's Reliance on Informal Finance	0.731	5
Financial Knowledge	0.710	5
Financial Behavior	0.750	4
Attitude Towards Personal Finance	0.701	4
Weak Laws and Regulations	0.754	3

Validity

The validity of measures was evaluated based on the KMO and Bartlett's test. The test results are summarized in Table 04.

Table 04. Summary of Validity Analysis

Variable		Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Bartlett's Test of Sphericity	
			Approx. Chi Square	Sig.
Dependent Variables	People's Reliance on Informal Finance	0.620	406.921	0.000
Independent Variables	Financial Knowledge	0.665	450.492	0.000
	Financial Behavior	0.504	207.020	0.000
	Attitude Towards Personal Finance	0.560	157.401	0.000
	Weak Laws and Regulations	0.640	302.972	0.000

To consider the items used for collecting data as valid measures, the KMO statistic should be greater than 0.5. As shown above, the KMO values of all variables are greater than 0.5. And also, the significance values of Bartlett's Test of Sphericity for all variables are less than 0.05. Therefore, the researcher could determine that all variable measures are valid.

4.2 Model Efficiency

Before running Multiple regression, the researcher tested for assumptions of Normality of Data, Absence of Multicollinearity, Homoscedasticity, and Linearity of data. The results were as follows;

4.2.1 Normality

According to Ghasemi & Zahediasl (2012), *z* value ± 1.96 for skewness and kurtosis for the dependent variable is sufficient to establish the normality of the data. The Z-value for the skewness and kurtosis is derived as -0.44 and -1.28. Therefore, it is sufficient to establish the normality of the data.

Table 05. Descriptives of Dep. Variable

			Statistic	Std. Error
Informal Finance	Mean		4.25	.022
	95% Confidence Interval for Mean	Lower Bound	4.21	
		Upper Bound	4.29	
	5% Trimmed Mean		4.26	
	Median		4.20	
	Variance		.182	
	Std. Deviation		.426	
	Minimum		3	
	Maximum		5	
	Range		2	
	Interquartile Range		1	
	Skewness		-.055	.125
	Kurtosis		-.318	.248

Source: SPSS output

4.2.2 Absence of Multicollinearity

Table 06. Variance Inflation Factor

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.092	.183		.502	.616		
	Financial Knowledge	.036	.044	.028	.812	.417	.584	1.711
	Financial Behavior	.369	.056	.313	6.549	.000	.314	3.180
	Financial Attitude	.147	.053	.118	2.763	.006	.392	2.551
	Legal	.394	.038	.477	10.462	.000	.345	2.894

a. Dependent Variable: Informal Finance

Multicollinearity arises when there is a high correlation between the independent variables in the regression analysis, which impacts the overall interpretation of the results. It diminishes the power of coefficients and weakens the statistical measure to trust the p-values to detect the significant independent variables. Hence, we would not be able to study the individual explanation of the independent variables on the dependent variable.

If the Variance Inflation Factor (VIF) of the independent variable is more than 5, that independent variable has Multicollinearity. According to the above table, the Variance Inflation Factor (VIF) of all independent variables is less than 5. Therefore, no correlation between the above four independent variables was founded.

4.2.3 Homoscedasticity

When the error term (the "noise" or random disturbance in the relationship between the independent variables and the dependent variable) is the same at all independent variable values, the condition is referred to as homoscedastic.

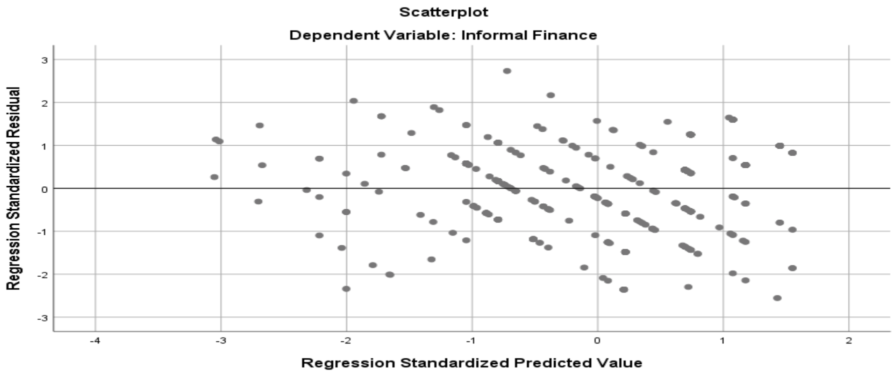

Figure 02. Scatterplot

Source: SPSS output

The scatterplot of the residuals does not have an obvious pattern; there are points equally distributed above and below zero on the X axis and to the left and right of zero on the Y axis. Therefore, it is said to have Homoscedastic.

4.2.4 Linearity

If residuals are normally distributed and homoscedastic, it is not required to test linearity.

**The assumptions of Normality of Data, Absence of Multicollinearity, Homoscedasticity, and Linearity of Data are fulfilled in the data set of the research, So the researcher could use the data set to produce good results.

4.2.5 Autocorrelation

Autocorrelation was assessed with the use of Durbin Watson (DW) statistics. That shows the error terms are correlated or uncorrelated to each other.

Table 07. Durbin Watson Value

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.853[a]	.728	.725	.224	1.974

a. Predictors: (Constant), Legal, Financial Knowledge, Financial Attitude, Financial Behavior

According to the above model summary table, Durbin Watson (DW) is 1.974. As a general rule, a Durbin Watson is near 2. If it is near two, that means error terms are uncorrelated to each other. Therefore, in this summary, error terms are uncorrelated to each other.

After that, Correlation Analysis was used to investigate the relationship between the independent variable and the dependent variable. In this analysis, all independent variables (Financial Knowledge, Attitude towards personal finance, Financial Behavior and Weak Laws and regulations are positively correlated with the dependent variable, and all factors significantly affected the dependent variable (People's Reliance on Informal Finance).

4.3 Correlation Analysis

Table 08. Correlation Matrix

		Informal Finance	Financial Knowledge	Financial Behavior	Financial Attitude	Legal
Informal Finance	Pearson Correlation	1	.543**	.780**	.686**	.812**
	Sig. (2-tailed)		.000	.000	.000	.000
Financial Knowledge	Pearson Correlation	.543**	1	.504**	.559**	.610**
	Sig. (2-tailed)	.000		.000	.000	.000
Financial Behavior	Pearson Correlation	.780**	.504**	1	.747**	.763**
	Sig. (2-tailed)	.000	.000		.000	.000
Financial Attitude	Pearson Correlation	.686**	.559**	.747**	1	.667**
	Sig. (2-tailed)	.000	.000	.000		.000
Legal	Pearson Correlation	.812**	.610**	.763**	.667**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

***. Correlation is significant at the 0.01 level (2-tailed).*

According to the above table, Financial Knowledge, Attitude towards personal finance, Financial Behavior and Weak Laws and regulations are positively and significantly correlated with People's Reliance on Informal Finance.

4.4 Multiple Regression Analysis

The researcher tested the hypothesis by using multiple regression analysis.

Table 09. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.853[a]	.728	.725	.224

a. Predictors: (Constant), Legal, Financial Knowledge, Financial Attitude, Financial Behavior

From the regression analysis, the researcher has found that the Value of R Square is 0. 728. This means the dependent variable (people's reliance on Informal Financial Sector) can be explained or represent 72.8% by the independent variables of financial knowledge, Attitude towards personal finance, Financial Behavior and Legal and regulatory factors.

Table 10. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50.643	4	12.661	253.393	.000[b]
	Residual	18.937	379	.050		
	Total	69.579	383			

a. Dependent Variable: Informal Finance
b. Predictors: (Constant), Legal, Financial Knowledge, Financial Attitude, Financial Behavior

The overall regression model is statistically significant.

Table 11. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.092	.183		.502	.616
	Financial Knowledge	.036	.044	.028	.812	.417
	Financial Behavior	.369	.056	.313	6.549	.000
	Financial Attitude	.147	.053	.118	2.763	.006
	Legal	.394	.038	.477	10.462	.000

a. Dependent Variable: Informal Finance

According to Table 10, financial behaviour, attitude towards personal finance, and weak laws and regulations are statistically significant determinants that affect people's reliance on the informal financial sector (since significant value < 0.050). But financial knowledge coefficient is reported as statistically insignificant (Sig. Value > 0.050).

The regression equation model values of and ß in the result are as follows,

$$Y = 0.092 + 0.369FB + 0.147FA + 0.394L + \mathcal{E}\, i$$

Y = People's reliance on the informal financial sector

FB = Financial Behavior

FA = Attitude towards personal Finance

L = Weak laws and regulations

Here researcher is expected to show the results by comparing previous scholars and focus more on the hypothesis which is implemented for this study. When considering this study, it must agree with previous studies and further results.

H1: There is a significant impact of financial knowledge on the reliance on informal finance

The unstandardized coefficient B value of financial knowledge is 0.036. It indicates a positive impact and it says that if financial knowledge increases by 1 unit the people's reliance on the Informal Financial sector will increase by 0.036 units. Therefore, according to the results of multiple regression analysis the H1: hypothesis (Alternative hypothesis) was rejected since sig. value (.417) is greater than 0.05(5%). Hence the data illustrates that there is no statistically significant impact of financial knowledge on reliance on informal finance.

H2: There is a significant impact of financial behaviour on reliance on informal finance

The unstandardized coefficient B value of financial behaviour is 0.369. It indicates a positive impact and it says that if financial behaviour increased by 1 unit the people's reliance on the Informal Financial sector will increase by 0.369 units and it was significant at 5%. Therefore, according to the results of multiple regression analysis the H1: hypothesis (Alternative hypothesis) was accepted since sig. value (.000) is less than 0.05(5%). Hence the data support the hypothesis that there is a statistically significant impact of financial behaviour on reliance on informal finance.

H3: There is a significant impact of attitude towards personal finance on the reliance on informal finance

The unstandardized coefficient B value of attitude towards personal finance is 0.147. It indicates a positive impact and it says that if the attitude towards personal finance increased by 1 unit the people's reliance on the Informal Financial sector will increase by 0.147 units and it was significant at 5%. Therefore, according to the results of multiple regression analysis the H1: hypothesis (Alternative hypothesis) was accepted since sig. value (.006) is less than 0.05 (5%). Hence the data support the hypothesis that there is a statistically significant impact of attitude towards personal finance on the reliance on informal finance.

H4: There is a significant impact of weak laws and regulations on the reliance on informal finance

The unstandardized coefficient B value of weak laws and regulations is 0.394. It indicates a positive impact and it says that if weak laws and regulations increased by 1 unit the people's reliance on the Informal Financial sector will increase by 0.394 units and it was significant at 5%. Therefore, according to the results of multiple regression analysis the H1: hypothesis (Alternative hypothesis) was accepted since sig. value (.000) is less than 0.05(5%). Hence the data support the hypothesis that there is a statistically significant impact of weak laws and regulations on reliance on informal finance.

5. CONCLUSION

The subject matter addressed in the study is exploring the factors affecting people's reliance on the Informal Financial sector in Sri Lanka (special reference to Northwestern Province). With reliance to the theoretical background created by the literature review, the conceptual model was developed to test the effect level of financial knowledge, financial behavior, Attitude towards personal finance and weak laws and regulations on People's reliance on Informal Finance. As analysis findings revealed, three of four independent variables (Financial behavior, Attitude towards personal finance and weak laws and regulations) have a significant impact on the dependent variable whereas financial knowledge does not have a significant impact on the dependent variable (People's reliance on Informal Finance). When considering the analyzed demographic information, it can be observed that there are 181 male respondents and 203 female respondents in the sample of 384 people who use informal finance. As female respondents represent 52.9% of the sample, researcher could reach a conclusion that the majority of the people who are dealing with Informal Finance in Northwestern province are Female. Also, most respondents in the sample are in their middle age (between 30-39). When moving to Income level of respondents, the majority earn income between 25001-50000. When moving to the education level of the sample, 43.8% has gained education up to O/L while a relatively high percentage of respondents have education up to A/L (38%). 35.4% of the respondents are private employees while 32.6% are self-employees. Considering different forms of Informal financing sources, it was revealed that 52.3% of respondents prefer to take loans from family/friends.

The value of R Square is 0.728. That means independent variables of financial knowledge, Attitude towards personal finance, Financial Behavior and Legal and regulatory factors have a 72.8% impact over the dependent variable (people's reliance on Informal Financial Sector).

Moreover, correlation analysis results indicated that all relationships between each independent variable and dependent variable move towards the same direction. As the Pearson correlation coefficient implies, all independent variables have positive relationships with the dependent variable. According to the study, the strongest positive relationship is existing between weak laws and regulations and Reliance on informal finance (0.812).

Researcher has performed multiple regression analysis in this study to test hypothesis. In this study, the variables that affect people's reliance on Informal Financial sector are represented by the hypothesis namely H1, H2, H3 and H4. Financial knowledge, Financial Behavior, Attitude towards personal finance and weak laws and regulations are among the elements to consider. It is necessary to demonstrate that these variables are supportive of the hypothesis by having a significance value of less than 0.05 for the co-efficient values stated before. It has been established that the significant value of three components is less than 0.05, as shown by the available data. In general, this implies that financial behavior, Attitude towards personal Finance and weak laws and regulations have a significant impact on people's reliance on Informal Financial sector. While there is no statistically significant connection between financial knowledge and people's reliance on Informal Financial sector.

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The research result provides several recommendations for peoples and the government. The government and the formal financial institutions must pay attention to find out the determinants that highly influence people's reliance on the informal financial sector and must take necessary actions to mitigate the risk by involvement in the informal sector. When considering the people's financial behavior, financial behavior, and attitude towards personal finance, the government should take necessary actions and regulations to protect the peoples. Even though people have good financial knowledge, people are still dealing with those informal financial sectors. So, the government and formal institutions can introduce various loan schemes with fair interest rates and less collateral because most of the people who have been involved in those societies are self-employees. With workshops, seminars will be able to change the personal financial attitudes of the people as well.

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