RURAL SAVINGS AMONG INDIVIDUALS AND SAVINGS MOBILIZATION BY FINANCIAL INSTITUTIONS IN EPE LOCAL GOVERNMENT AREA OF LAGOS STATE

BY

W A S I U O L A D I M E J I B E L L O

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DECLARATION

I, BELLO WASIU OLADIMEJI, declare that to the best of my knowledge, the data contained in this Thesis has not been submitted to any other university for examination. All references in this work have also been duly acknowledged.



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CERTIFICATION

The Thesis entitled RURAL SAVINGS AMONG INDIVIDUALS AND SAVINGS MOBILIZATION BY FINANCIAL INSTITUTIONS IN EPE LOCAL GOVERNMENT AREA OF LAGOS STATE: by BELLO, WASIU OLADIMEJI meets the regulations governing the award of the degree of Master of Science (Economics) of Ahmadu Bello University and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

TO

MY PARENTS

ALHAJI AND ALHAJA SALMAN BELLO,

MY BROTHER

MR. LIAFIS BABATUNDE BELLO,

AND TO

ALL WHO APPRECIATE AND CONTRIBUTE

TO THE ACQUISITION OF KNOWLEDGE

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ABSTRACT

This study examines Rural Savings Among Individuals and Savings Mobilisation by Financial Institutions in Epe Local Government Area of Lagos State. The work sets out to ascertain the relationships between the savings of individuals and socio-economic variables, which include income, age, education, family size, inflation, interest rate and proximity to banks. The operations and activities of banks in the rural area toward saving mobilisation were also examined.

A - Priori expectations on socio-economic characteristics of respondents vis-a-vis their savings indicated that the income of respondents and the rate of interest had tremendous impacts on their savings. With the exception of the level of education and family size, both of which ran contrary to expectations, other variables confirmed the a-priori expectations. Whereas, there was considerable growth in the volume of deposit liabilities of the banks, there was no commensurate growth in the loans granted the rural folks. The M.P.S. and Income Elasticity of savings were (25.60) and (1.69) respectively.

This outcome justifies the hypothesis and also confirms the existence of savings in the rural areas.

In view of the overwhelming influence of savings in the development process, its mobilisation by government and their agencies seems, rather unwieldy. It is suggested for policy considerations that the surging rate of inflation be stemmed if incomes of individuals would have any meaningful effects both on consumption and savings. The speculative era pervading all spheres of the economy in favour of the productive sector deserved an urgent attention and appraisal by appropriate authorities.

The government could in this regard resuscitate the economy with the provision of adequate credit facilities to rural industrialists with viable projects.

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CHAPTER ONE

INTRODUCTION

INTRODUCTION

1.1 BACKGROUND

In most developing countries domestic resources particularly Savings have been identified as the bedrock of development. There is a growing consensus among majority of the third world countries that the enhancement of a virile development of a section of the world and its people requires urgent attention. In earnest, significant attention needs to be accorded to the mobilisation of savings in order to integrate it into the overall realm of development strategies, such attention would undoubtedly contribute to a reduction in credit delivery and recovery costs and to a more equitable income distribution. Besides, it helps in breaking the cycle of poverty, low productivity and stagnation.

Problems of underdevelopment and backwardness of the Less Developed Countries (LDCs) emerged out of poor plan implementation and overall misplacement of priorities. Policy makers and authorities in the third world countries have been accused of neglecting the rural areas. However, when attention is focused on the problems of the rural folks, concentration would be on the effects rather than the cause; which include social and economic problems without exception to political intrigues and the food crisis ravaging the developing countries. Low productivity resulting from an unimproved technology coupled with the archaic and improvised methods of farming constitute major problems to development. Furthermore non-availability of capital which in itself was being dampened as a result of low credit termed as "Credit Trap" posed a serious setback to rural development. Besides, this is also responsible for the very low per-capita income earned by majority of the rural

population of the Less Developed Countries (LDCs). This is a result of the subsistence nature of agriculture embarked upon and the subsequent subsistence income earned of which only a small proportion is available for savings. Thus, the vicious cycle of low level of output, low level of income, low level of savings and low level of investment clearly indicates an urgent need for credit assistance in aid of rural investment. The food crisis in Africa and the Less Developed Countries (LDCs) in general has further called to question the problems of development in these countries. The situation has deteriorated further in the past two decades forcing them to make a recourse towards food importation. A large chunk of domestic resources which could have been saved were spent in the importation of foods from abroad. A report on the food situation in Africa showed that in 1983/84 nearly 8m tons of grains were imported at a cost amounting to some 30% of agriculture export earnings (F.A.O., 1986). Ragazzi (1981) also observed that agricultural production increased very little and per capita food output declined. He stated further , that agriculture export stagnated in many African Countries, thus forcing many of them to increase food imports.

Financing development requires capital and capital formation conditions adequate mobilisation of savings. The need for development and accelerated growth in the Less Developed Countries forced many of them to make considerable recourse to borrowing (F.A.O. 1984). In Nigeria, for example, Otiti (1979) observed that past and present development plans are financed through international assistances or loans supplemented by domestic

resources. Burden of repayment of past loans currently faced by the developing countries and the non-availability of new credit have constrained seriously the growth of the Less Developed Countries. Hence many of them are grappling with the problems of debts. The worsening situation in these areas has been further exacerbated by the budgeoning debt servicing confronting them. Public debts during the past decades have grown faster than the G.D.P. and export earnings of many African Countries (F.A.O, 1984).

Stagnation in the supply of external resources to finance growth and development in the less developed countries justifies the call for a satisfactory and greater mobilisation of domestic savings. This is because it has become a sine-qua-non for the achievement of satisfactory growth and development both in the medium and long terms. Furthermore, the mobilisation of domestic resources ought to facilitate healthier growth in the developing countries. The case for a healthy economic growth in the LDCs enhanced through effective savings mobilisation offers the advantage of greater autonomy to a nation. The financing of development from domestic resources helps to loosen the powerful constraints imposed by variations in both the size and the cost of international capital markets (U.N. 1984).

Mobilising rural savings viewed from an individual family level accords people a measure of independence and authority over their existence on earth which otherwise would have been difficult if all incomes had been consumed. Furthermore, savings mean capital, augmenting agricultural production through the purchase or

provision of adequate implement and tools. Beside on a not too rigid stance, saving behoves an individual to meet such necessary expenditures e.g. emergencies which otherwise would have been difficult or at best be a burden.

Most LDCs embattled with a plethora of problems which encompasses as an end in themselves - better education, higher standard of health and nutrition, less poverty, a cleaner environment, more equality of opportunity; greater industrial freedom and richer cultural life (Chhibbar, 1992)-economic development in this regard, generally calls for a higher income resulting from an adequate savings mobilisation strategy through encouraging the habit of postponed consumption and most essentially in the rural areas by discouraging the habit of keeping funds in unproductive hands.

1.2 STATEMENT OF THE PROBLEM

Savings mobilisation in the rural areas has become increasingly difficult despite its latent but potential volume. This is because savings in the developing countries have mainly taken the traditional forms and patterns. Mobilisation becomes difficult as they are kept often in various forms. In most cases, a substantial part of the total household savings remain in non-monetary (physical goods) form. These forms of savings include agricultural procedures; the keeping of cattles or valuables through such items as jewellery, gold for personal prestige. Importantly they could form part of the household savings. However, they are beyond the mobilizable forms of savings the formal institutions are obliged to undertake since they are in non-monetary forms (Mrak, 1989).

Channelling of these domestic resources which are not of immediate use from the rural dwellers to other areas where they could be of immense use, have become a serious problem altogether as a result of lack of an effective financial intermediaries in the rural areas. Financial intermediation, whose capacities and overall strength are enough to facilitate effective financial mobilisation of funds for the development of the rural areas have also helped in siphoning money from the rural areas to the urban areas. Continuous transfer of funds from the rural areas is explained to a large extent by the high marginal rates of return on capital in urban areas and by the tendency of the landowners to seek investment opportunities in these areas (U.N. 1984).

In an Integrated Rural Development Programme (I.R.D.P.) It was noted that, the most significant and viable approach to mobilizing the needed resources is the fostering of rural savings. Thus facilitating the rural community self sufficiency in goods production as well as furthr generating necessary internal resources for financing current needs and future development (Ojo A.T. 1990).

Government and its various agencies have embarked on several programmes for developing rural areas, this include among others, increasing the provision of credit to small producers. However, the importance and contribution of effective mobilisation of household savings for development have been generally ignored. The performance of the successive Nigerian Government in the mobilization of rural savings are quite unsatisfactory. The reason is that programmes promoted in this regard were not pursued with all seriousness and vigour.

The rural banking programme was initiated in 1977. It had as one of its objectives the mobilisation of savings and credits in the rural areas. The programme has failed to live up to expectations, because at the end of 1989, only a total of 765 branches could be established during the three phases to the programme (Ojo A.T. 1990). Government, conscious of the deficiencies in the existing banking system and the need to further accelerate the pace of providing the desired banking services to the rural areas of the country established the People's Bank in 1989 and the Community Bank in 1990. The People's Bank has as one of its objectives the channelling of credits to the low income persons. A gap which the existing commercial banks have failed to fill in the rural areas.

The above scenario thus show that important aspect of savings mobilisation has been neglected. A close observation of the same experience in other parts of the world shows that the Grameen projects in Bangladesh, the People's Banks of China and India suggest a positive mobilisation of savings from the rural areas through their deposit schemes.

It is imperative, as part of the efforts to mobilise savings from rural folks, that effective presence of a virile financial mobilising intermediaries exist. In essence, it would avail the rural inhabitants the opportunity to engage in modern day financial transactions as against the archaic and traditional methods of savings. The government and its agencies responsible for rural development would now as more than before be able to transform the rural areas through funds mobilized from these areas.

1.3 OBJECTIVES OF THE STUDY

This research work examines the mobilisation of rural savings in Epe Local Government Area (L.G.A.) of Lagos State.

1. One of the pre-occupations of the study is to find out the existing relationships between savings and socio-economic characteristics. They include,; income, interest rate, family size, level of education, proximity or nearness to banks and inflationary effects.
2. Besides, the research ventured into the saving propensity of individuals in order to ascertain the proportions respondents saved from incomes earned and the extent to which this has been mobilised in the study area.
3. The study would also assess the roles and contributions of the formal and informal financial institutions in the mobilisation of savings in the study area. An assessment of the level of deposit liabilities in each bank as a proportion of total banks' deposits as well as the total deposits and total credits of the banks in the study area was also carried out.

1.4 HYPOTHESES

The following null hypothesis were tested:-

(i) That there is a high potential of savings in the rural area.

(ii) That there exists a strong relationship between rural savings and income in the study area.

(iii) That there is no correlation between rural savings and loans granted by the commercial banks in the area.

1.5 JUSTIFICATION

This work becomes essential in its attempts to verify the existing notions of paucity of savings in the rural areas. Judging from our discovery, an inference could then be made on the notion and eventually proffer a solution which would aid development agents and authorities towards formulating a strategy for mobilising savings from the rural areas.

An incursion into the activities of the informal sector becomes paramount in this regard since they constitute the main conduit through which funds are mobilised.

1.6 ORGANISATION OF THE STUDY

The first chapter serves as the background to the analysis. Therein development problems in the rural areas of third world economies are discussed. In chapter two, the existing literature on rural saving mobilisation is reviewed. Chapter three discusses the methodology adopted in the study.

Our pre-occupations in the fourth and fifth chapters are the analyses of the results. While chapter four deals with results from individuals findings, chapter five deals with the results from the banks operating in the area of study.

Chapter six summarizes and concludes the work.

CHAPTER TWO

LITERATURE REVIEW

2.1 LITERATURE REVIEW

Theoretically savings is defined as that part of disposable income (yd), that is not spent on current goods and services. Symbolically it is written thus:-

$S = Y - C$

where S = Savings

Y = Income

C = Consumption

This equation implies that savings is the art of abstaining from consumption for future satisfaction. This notion about savings forms major consensus in the literature (Keynes, 1936), (Villard 1966) and (Bhagwatti 1966). A contrary definition offered by (Pischke, 1978) suggests that it is neither an abstention from consumption nor a residual. He viewed savings as a normal and continuous activity, because the definition of saving as an abstention from consumption did not in itself prescribe any minimum period over which funds must be held. Moreover, conventional economic analysis speaks only of time periods and treats funds carried over from one period to the next as savings. Thus any income not disbursed the instant it is received may be regarded as saved until such time it is disbursed.

Savings emanates from different sources. The two main sources known include, foreign savings and domestic savings. Foreign savings is derivable either through investment or by foreign aid of varying types. Foreign savings is therefore clearly the excess of import expenditure over export earnings. Domestic savings on the other

hand occurs from various sources which include the individual or household and corporate bodies. Individuals' savings are generated from the difference of current income and current consumption. Corporations also save. This type of savings usually comes from the difference between profits or earnings and expenditure. Savings of the households constitute the focus of this study. This is evident from the fact that savers in the Less Developed Countries rely heavily on households savings relatively than other saving groups. This is important because it helps to reduce the debt burden most LDCs have found themselves. Moreover, an increasing domestic savings brings a welcome relief to many a country in the third world which often seek aids and loans from industrialised nations to finance developments. Besides it upgrades and increase the level of investment finances and development.

2.2 DETERMINANTS OF SAVINGS

There is a pervasive consensus by economists on a single variable determining savings in the literatures. This is most prevalent amongst the Keynesian Economists whose vehement belief and stance on the potency of the variable clearly and unambiguously remain unwavering. This stance has been criticized based on the fact that a single variable or factor can not unilaterally determine the saving pattern of several household in the world at large (Yusuf and Peters 1984). There are other variables of immense importance which are responsible for the behavioural patterns of people concerning their savings. These vary from place to place and among factors which include socio-cultural values.

Considering the determinants of savings several hypothesis have been put in place by some authors. The level of income as a determinant of savings was the major idea by Keynes. His submission indicates that saving has a positive inclination towards income. That is, once there is a rise in income people tend to consume less and rather save more (Dasgupta, 1974). Undoubtedly this formulation is of vital importance and magnitude of most aggregate savings functions. However, its considerable explanatory powers - the level of income is but one of many variables influencing the decision to save (Yusuf and Peters 1984). Obviously, since income is but one of several variables other alternative explanations must be sought. One of such hypothesis is the so-called "ratchet effect". Since habit is second to nature, individuals' spending or consumption are consciously spent based on their current income. This shows in essence that individuals' consumption grow slowly relative to the growth or increase of their income. Hence an increasing trend in income brings about an increasing savings in an economy (Yusuf and Peters, 1984).

One's ability to save is equally guided or influenced by the influences or behavioural patterns and income distribution of others in the society. The demonstration effect or the idea of following the "Joneses" in the society has serious implications for saving especially in the developing countries. The savings ratio tend to be low in LDCs because of uncomparable or skewed distribution of income with the advanced world which the upper income class in the third world are wont to imitate. (Dasgupta, 1974). A variant of the consumption hypothesis offered by Friedman

indicates a trend in the past earning of people which enables them to observe their future incomes. These categories of earnings, he terms permanent income which seems a much durable aggregate than their actual earnings. Thus, saving or expenditure is determined by making reference to their permanent income (Dasgupta, 1974). However, saving occurs mostly from transitory income resulting from unexpected increase in income or a windfall (Yusuf and Peters, 1984). In an exploratory study carried out in Cross River State of Nigeria, it was discovered that households saved mostly from their transitory income received from friends and relatives who live in the urban centres (Mrak, 1982).

The life-cycle hypothesis postulated by Ando-Modigliani showed that a typical individual in his early life has low income stream resulting from low productivity and high during the middle of his life, which enables him to save in order to repay debt and provide for retirements (Branson, 1989).

Inflationary situation in a country has also been identified as a spurt towards an increase in savings. Inflation as a determinant of saving behaviour or trend has generated much controversy in the literatures. Theorist on the one hand could not discern the influence on the rate of influence in price and trade-off between current and future consumption (Yusuf and Peters, 1974). Empiricists argued however, that inflation affecting relative prices with its attendant macro effects on the country in terms of the precarious macro-economic effects on employment, income and reducing the value of financial assets, could lead to a spurt in savings. This is most probably witnessed where financial assets

occupy a large share in total household wealth (Lewis, 1970). Attitudinal responses by individuals to inflationary tendencies through unwarranted costliness of certain items generated by a reduction in purchases and oblivious of their future income growth would lead to a rise in savings (Yusuf and Peters, 1984) Inflation when it becomes persistent could be devastating on the saving pattern of individuals. People might be forced by persistent inflation to make an incursion into their savings in order to cushion the "effects" of future price hike (Yusuf and Peters) A "runaway" inflation favours always asset holders, such that they would prefer to invest in real estates items - apparently, savings would further be depressed (Yusuf and Peters, 1984). Savings potential is increased in a persistently inflationary trend when income is redistributed from non-savings towards the savings class (Lewis, 1970). Thriftiness of a section or a class of the society enhance the ability to save in an inflationary trend. At the same time it is noted that other classes dissave because of the effect of inflation on their real incomes (Lewis, 1970). An inflationary increase with a concomitant increase in the nominal interest rate erode the real value of household's wealth thereby reducing savings (Aghevli & Boughton, 1990). A higher rate of return poses a precarious note on the desire to save.

Arguments surrounding inflation and saving behaviour are many and continuous. However, opinions continue to differ. Empirical tests carried out in the Korea which experienced high inflationary rate implied a positive relation between inflation and saving (Yusuf & Peters, 1984). Surely work in other LDCs, particularly in Nigeria

are scanty and inadequate to verify the conclusion reached by Korea researchers. Hope (1982) however, argued that government should come to the aid of the small savers since the will to accumulate savings is undermined and eventually destroyed by the inflationary trend.

On the other hand, divergent views have emerged concerning the impact of interest rates on savings. Studies by two groups whose works were based on econometric analyses emerged with different results while savings are inflexible vis-a-vis the interest rate in the first study, the magnitude of interest rate significantly influenced the personal savings of household in the second study.

Giovannini (1985) cited in Ligetti (1989) raised doubts about the positive interest elasticity of savings, because generally an assessment of interest rate elasticity on savings in the LDCs is very difficult.

An assessment is made more difficult because data available for making an assessment are deficient. Thus examining savings, the aggregate savings are considered which include both personal, company and government savings. Furthermore, reliable distinction cannot be made between these categories because the propensity to save and the customs concerning savings are not uniform. Beside interest rates and other external factors are also different (Ligetti, 1989) .

Pischke (1978), suggested that savings is more service elastic than interest elastic in the LDCs. His opinion was predicated on notion that without a conducive atmosphere to save, the rural people would be more obliged to seek alternative means or modes of savings, for

example, keeping money in a mattress, tree, trunk, well or wall, the ground, rafter etc. There is a widespread faith among economists that the real interest rates should affect saving decisions by altering the trade-off between present and future consumption. Empirical support for this notion is rather difficult to come by. Boughton and Aghevli (1990) revealed that on balance modest changes in real interest rates that occurred in recent years had probably had only a very small effect on savings. However, Okun (1965) insisted that a high rate of nominal interest rates might not motivate people to save, since it was the real rather than the nominal value that was significant in explaining saving behaviour. Demographic factors affect aggregate saving rates because a major motivation for saving is to smoothen consumption overtime based on anticipated life-time income. Dependency ratio which is a proportion of the non-working population in the young age bracket (i.e. between the age group of 0 - 14 and in the older age group of 65+) to the total population, it was observed that with high consumption, resulting from large number of dependents have an adverse effect on income. Hence saving is retarded. In a multiple regression analysis for 74 countries dependency ratio was found to be statistically significant and quantitatively important (Ram, 1982). A contrary view based on a study of 121 countries with different specification, shows that there is no signigicant adverse effect of high ratio of aggregate savings in the less developed countries where the case is most prevalent (Ram, 1982).

2.3 REASONS FOR INADEQUATE SAVINGS AMONG RURAL HOUSEHOLDS IN THE LESS DEVELOPED COUNTRIES (LDCs)

A general consensus seems to prevail among authors on the capacity of savings in the rural LDCs. This has always been anchored on the low-level of per capita incomes which further borders generally on the subsistence income of household which is dismally low, thus discouraging savings by the individuals or households. Since savings so generated through a temporary halt to consumption which enables a future utility, the unbridled consumption attitudes or patterns in the LDCs have greatly hampered the savings of households in these countries. Moreover, there is an ample evidence to show that those in the mid and upper income strata who are more favourably obliged to save indulge in what Thorstein Veblen called "Conspicuous Consumption" _____ spending on current living expenses virtually everything they receive in income. To further strengthen the above analysis, the disparity in income in the LDCs has worsened the ability of the low income earners to save. Some income groups earn substantial real income which can sustain and adequately allow for savings. Pre-war study on income distribution in Indonesia showed significant inequalities (Higgins, 1968).

Less developed countries still in the throes of underdevelopment and in the search of development, upper groups often attach special recognition to conspicuous consumption. This propensity is corroborated by what Ragnar Nurske called the "demonstration effects". This indicates that people in the LDCs, especially the upper income groups try to emulate standard of consumption in economically advanced countries (Higgins 1968). In Philippines,

despite great disparities in income and wealth, the rate of savings and investments is still very low relative to national income (Higgins, 1968). A more detrimental and disadvantageous aspect of income disparity in the developing countries indicates that savings are rarely channelled into development or investment efforts (Higgins, 1968). Rather high interest rates of return on short term loans paid to consumers, farmers, traders and speculative gains from hoarded goods attract capital into these channels. Savings from the upper income groups can be rechannelled into development investment through appropriate savings mobilisation institutions which would avail worthy investors rather than consumers and speculators. Lewis (1970) argued that the ratio of voluntary savings to national income is a function not just of inequality of income distribution but of inequality of a particular kind. He maintained that voluntary savings have become a significantly large share of national income only where inequality of income distribution is such that entrepreneurial profits are a relatively large share of national income. Hence, unequal distribution of income exists and the society's upper income accrue to landlords or to traders. Lewis (1970) further argued that there is little chance of proving the significant amounts of voluntary savings to finance investments. Besides, the theoretical framework and evaluation of the foundation of savings in the LDCs have been called to questions. Miracle et al (1980) and Ligetti, (1989) found answers in that savings theories in the LDCs have been structured towards the framework in the developed countries. Hence for easy applications, savings theories require a modification that suit the prevailing socio-cultural values of these countries.

Inaccessibility of savings institutions constitutes a major stumbling block to savings in the rural areas. Accessibility of savings channels becomes important as it encourages the rural folks to participate in the modern sector. This however, depends on the availability of essential social amenities such as degree of good roads, rails, telecommunications, electricity etc. that would facilitate the functions of these savings institutions (Toluhi, (1966) and Lewis, (1970)). The prevailing high illiteracy rates among rural dwellers have not endeared them to the advantages and importance inherent in the existence of these institutions in their areas (Toluhi, 1966 and Lewis, 1970). Increasing knowledge of their functions and existence can only be achieved if the general level of education coupled with adequate publicity are put in place. This among others, contribute mainly to the concentrations of banks in the urban centres of many Less Developed Countries (LDCs). Hence, the rigidity of commercial banks to reduce the existing barriers for small savers and procedures. This suggests that the existing obstacles are rather treated as a welcome opportunity to discourage rural savers from the access to banks. Furthermore, from a micro-economic point of view, banks feel reluctant to accommodate small savers especially from the rural areas because of administrative inconveniences occasioned by high cost. Instead, small savers in urban and in the large rural areas stand more favourable chance from the financial houses. This is because the urban dwellers are well disposed to the functions and operations of modern sector. Moreover, facilities that enhance their operations are readily available in the urban centres. Funds mobilised by the

commercial banks in the rural areas were not used to finance rural development but rather transferred to urban centres.

In his own remarks, Fischer (1989) argued that decision of the commercial banks is rational if only, the projects yield higher rates of return in urban than in rural areas. Moreover, he added that without price or other distortions this transfer could also augment the overall allocative efficiency of the economy. Liquidity squeeze in Ghana was further exacerbated due to the lack of banking facilities in the rural areas which compelled rural folks to operate outside the banking institutions (Akaah et al 1987).

A cross country regression analysis on the pattern of saving formation concerning about fifty countries showed that the real export growth together with declining export concentration has a positive impact on the domestic savings ratio. Fischer (1989) observed however that this was not the case in LDCs, because rather than projecting real export growth they relied on development aid which discouraged private savings mobilisation.

Mrak (1989) gives a synopsis of the inadequacy of savings in the LDCs as comprising;

> Habit of hoarding caused by lack of investment opportunities, lack of banking facilities, fear of taxation, high rate of illiteracy and low level of education, need for secrecy, lack of confidence in formal financial institutions, lack of physical accessible banking facilities, very limited spectrum of formal savings facilities and instruments, persistence of traditional investments.

2.4 RURAL SAVINGS MOBILISATION

Several factors militate against the mobilisation of rural savings in the LDCs. Despite its potential for growth and development, it is still at its lowest ebb waiting to be harnessed. Raggazi, (1981) submitted that development institutions as well as planning authorities were partly responsible for the poor mobilisation of savings in the rural areas. This is because, rather than focusing attention on savings mobilisation, investment has always been accorded an exclusive focus. Whereas in a well balanced economy, the two phenomena are really two faces of the same coins; both are comparable. While it is impossible to finance a sound investment effort without adequate savings mobilisation, investment also generate savings.

In most developing countries policies relating to savings mobilisation have been discovered to lie more on the structure of the economy. Government savings which is the excess of current revenue over current expenditures is meagre and rarely exceed 2-3% of Gross Domestic Product (G.D.P) and often it is negative. Corporate savings on the other hand is hardly found to be significant because of the smallness of the sector. However, savings of the households sector have contributed crucially to the G.D.Ps of most middle and low income LDCs (Raggazi, 1981). Notwithstanding though, a large number of these countries potential savings of this sector are not mobilised because of lack of sound financial structures, structure of institutions and interest rates. Besides, there is a meagre and fragmentary empirical evidences on the magnitude and behaviour of personal saving in developing countries especially in Africa (Raggazi, 1981)

Akaah et al (1987) and G. Singh et al (1978) showed that paucity of data in LDCs has not permitted empirical research on the banking needs and preferences of rural LDCs households. Instead, saving research has tended to involve aggregate level of modelling saving behaviour. Adam (1978) citing an ECAFE study of seven countries in Asia invalidated this stance. In the survey, he confirmed that one half and two - third of total savings were found to be made up of household savings.

Fischer (1989) admitted that excessive administrative interventions into domestic financial markets like low interest rate policies, high reserve requirements and selective credit policies did not only hinder domestic savings mobilisation but also impeded an efficient allocation of scarce capital. Access to developmental aid also precluded and discouraged savings mobilisation in the LDCs. Germidis (1990) noted that non-availability of cheap funds and the halt in external capital flow towards the LDCs urged the mobilisation of domestic resources to finance development. Chandavarkar (1985) posited that disintermediation role or the effect of the informal sector impede or led to inefficient mobilisation and allocation of savings due to several factors which eroded the efficacy of the monetary policy and subsequent fragmentation of the money and capital markets.

Assumptions about low level of savings are many in the literatures. Proponents of these hypotheses are mainly Occidental economists, though third world economists also share in this opinion. Adams (1978) saw this stance as erroneous because substantial voluntary rural household savings capacities exist. In Nigeria for instance

Schatz (1975) stated that the tardiness in the process of economic development was as a result of scarcity of Capital Funds. Notwithstanding the various obstacle militating against the effective mobilisation of savings in the developing countries, coupled with the substantial amounts kept away in unproductive physical assets, it is believed strongly that the latent but potential savings in the rural areas can still be mobilised.

Fischer (1989) observed that regardless of the relatively high amount which were held in unproductive physical assets - especially by rural household - every indication pointed to the fact that potential savings institutions to stimulate financial savings had not yet been exhausted. Moreover, there has not been any indication to show so far that the propensity to save is significantly lower for rural than for urban households. Rather, on the contrary, there is a strong empirical evidence that the saving behaviour of all private households is highly sensitive towards attractive incentive to save. This notion is justified by the fact that incentive in various forms, high interest rates and improved access to credits could sensitize rural households to save especially in productive real assets or financial assets. Sustainable and successful mobilisation of financial savings from savers - especially in rural areas is achievable through appropriate offers from financial institutions via saving and credit instruments suited to the needs; educational level and customs of the poorer sectors of the population (Fischer, B 1989).

The issue of the amount of savings in peasant societies is important in Nigeria and other LDCs since the rural sector

represents a substantial proportion of the country's population and natural resources. Large amounts of capital are needed to help modernize the rural areas of the LDCs and it is worthwhile to investigate alternative means for encouraging rural savings and channelling them to help finance rural development. Savings mobilisation becomes very important to the LDCs considering the inflows of assistance in form of aids from donor countries. Since countries have now created the urge for furthering and enhancing the economic development programmes of their nations. It has become increasingly difficult to secure funds and recourse to such funds entails serious disadvantages and increases the burden of debt. It thus becomes fundamental and crucial in the light of the foregoing that policy makers especially in the LDCs understand the importance of domestic mobilisation of resources, particularly rural households savings.

2.5 NATURE, PATTERNS AND CHARACTERISTICS OF SAVINGS IN RURAL AREAS OF LESS DEVELOPED COUNTRIES (LDCs)

Savings in the rural areas of LDCs takes different forms and patterns as dictated by the socio-cultural and working relationships of the households. The patterns adopted suggest that they are based on a rotating and cycle format depending on the rural area the research is carried out. They are known by different names all over the world; viz; contribution club, slate mutual, lending society,polling clubs, thrift groups, friendly society, rotating credit association, temporary loan associations and tontine (Shanmugam 1989).

Each country or society has a peculiar name by which savings in the rural areas are called. In Ethopia, they are known as Equbs, Chit Fund in India, partner system in Jamaica. Tontine in Togo. Susu union in Korea and meeting in China. In Nigeria the name varies among tribes. Hausas call it Adashi, the Yorubas call it Esusu or Esu. In the Igbo land, it is known as Isusu, while the Ibibio call it Etoto. (Miracle et al 1980).

Patterns and nature of savings in the Less Developed Countries (LDCs) are characteristically similar based on a simple non-complex organisation which gives easy access to members or participants. Its flexibility and mutual understanding also scores a plus for the savings among rural households. The organisation of saving patterns in the rural LDCs differs from place to place. Eligibility of members of a household rural saving club depends on a number of factors. This includes regular earnings, credit worthiness, age and class in which one belongs in the rural society. A common precondition amongst the saving and credit clubs in the rural areas is the fixed number of people in the system. Superficially, there seems to be no hindrance to membership as barriers to age, kinship groups, status and occupation are relaxed. A closer look, however, shows that a careful process of selection is very much in evidence. Each grouping enlists for memberships, villagers with like interest, of similar financial resources and common forms of employment and standing come together (Fernando, 1989 and Shanmugam 1989). Contribution by members to the fund which forms the basis of the club as a saving society, also varies among different strata of the rural society. For instance, in Malaysia contribution depend on

social stratification. Contribution in Malay households ranges between M$50 to M$300 (Shanmugam 1989, Fernando 1989). Mrak (1989) disclosed an unspecified fixed amount as contribution to the fund. The duration of contribution by members which rotates among every member in circular form, depends on the number or composition of participants in a fund or savings union. At times, depending on the particular area, it takes 2 - 5 members. In Malaysia, under the simple "ROSCA system", membership ranges between 10 - 20 persons. Contribution which is called a "hand" in Jamaica's "partner" is given in a lump sum to members through lots (Shanmugam 1989, Fernando 1989) and Peart (1986), or other methods adopted by the union until it goes round the members. As one duration ends, another begins. Normally a new round is started quite possibly with new comers and different amounts.

A quite interesting phenomenon amongst the indigenous savings organisation in the LDCs is the way and manner the system is organised. Penalties are spelt out for defaulting members. In Sri-lanka, Cheetu practise in rural communities has over a long period of time evolved its own mechanism for dealing with the problems of risks and defaults. In most cases defaults arise when a member of the fund after having drawn his lumpsum refuses to meet his contractual obligations. Likewise, defaults occur as a result of unforeseen calamities e.g. death or other serious incidents. When a member can not meet his obligations and has not drawn from the funds, he collects or retrieves his former contribution. A replacement through substitution is made to fill the place of the defaulting members. When defaults take a general phenomenon and

subtitutes could not be found for the withdrawn members, the cycle is liquidated.

The merit emanating from the indigeneous savings system are many. The case whereby members undertake the responsibilities of others at a critical point e.g. death is well noted. Members swap allotted months among one another to facilitate liquidity (cash) flow among members who are in dire need of cash. The simple and straight forward nature of the system is also commendable. All the paraphernalia requirements of modern day credit and saving institutions which often create bottleneck and bureaucratic set-backs are absent. This makes the system less costly to run. Payment of interest on loan advances to members are waived to give members a sense of belonging.

When interests are charged on loan, it is negligible and incomparable to those charged by money lenders. Shanmugam (1989) stated that while money lenders claim an interest of 10% or more per month "ROSCAS" organisers tend to charge approximately 5% (at the most) per month for loan made to participants. However, it must not be thought that everything in the thrift and loan societies is regular and smooth. In the consumption societies in general and even some investment societies there are no returns on the savings and the interest rates in certain investment thrift and loan societies might be as excessive as they sometimes are twice as high as official bank rates (Mraks 1989).

2.6 THE INFORMAL FINANCIAL STRUCTURE

The non-institutional financial sectors in the Less Developed

Countries are referred to severally in the literature as the unorganised sector or informal sector. Chandavarkar (1986) stated that by its very nature, heterogeneous residual comprising several of different individuals might be difficult to have a logical definition of the sector. Hence he submitted that identifying the sector by its characteristics, such as ease of entry and exit, indicated that the term informal was arguably more logical and descriptive than unorganised or non-instituional. Okonjo (1982) in his own definition, without going into polemics, saw the rural financial markets or the informal sector as those networks of financial institutions and practice that deal with the mobilisation of rural savings, the channelling of credit and other financial transaction for rural people or in rural areas.

From a statutory point of view, Situmbeko et al (1990) using the Money Lender Act as example recognised the presence of the informal sector within the legal framework of the land, even though in practise many operators choose to ignore the provision laid down in the act. In Nigeria the informal sector was often ignored and in some cases helped and in other aspects harassed by the authorities Ekpeyong, D.B. and Nyong, M.O. (1990). The informal sector was grouped under three distinguished headings, individual money lender, groups of individuals organised mutually, partnership forms (Germidis 1990). Individual money lenders include friends, neighbour, relatives, landlords, professional money lenders who give loans and sometimes accept deposits. Credit arrangements could be non-commercial that is, interest free or commercial. In the case of the latter, the credit transactions may be money - based

(professional lenders), land based (farmer lenders) or commodity - based (trader - lenders) (Germidis 1990). Informal financial activity may also take the form of a bonded mutual agreement which is subject to rules and regulations. Two main types of informal associations coupled with a function of social protection, are saving arrangements only (fixed fund association, saving clubs) combined saving and credit arrangements.

Finally, partnership firms include the indigenous bankers and pawnbrokers primarily found in India. Also included are other non-bank financial intermediaries whose activity are more or less not under the ambit of the Central Bank. They finance investment leasing and hire purchase.

The size and flow in the informal sector in the measurement of the national accounts of developing countries have continuously been a great problem because of its unstable character and nature. Besides, even if rough estimate or orders of magnitude could be made for some base year, it would be difficult still to gauge the subsequent annual movement. This notion corroborates a survey carried out in Africa, Asia and the Latin America which suggests that the relative size of this sector is inversely related to the levels of development in the LDCs (Chandavakar 1985). However, financial activity of the informal sector thrives generally more in the rural sector of some third world countries.

Empirical data in the Zambia rural areas indicate that subsistence sector showed a co-efficient of 10% to the G.D.P. relative to other sectors with about 90% (Mrak 1989). Rural dwellers disposition

toward the formal sector has been put to test in Ethopia where 80% of the population live in the rural areas. The few banks and credit association that were then operational were limited to urban areas. (Aredo 1990). Similarly the result of the empirical study by O.E.C.D in the non-monetized sector in developing countries from 1975 showed a co efficient of monetization in Zambia at 93% at the end of the sixties and it was at that time, the highest in Africa. This outcome is considered very high not only for Africa, but also for other third world economies. However, Zambia's case resulted from the very high share of urban population and relatively low share of agriculture in the country's G.D.P. (Mrak 1989).

Despite its low contribution to G.D.P due to its informal status and characteristics, the rural financial market if well organised can play a significant role in the development process of the LDCs where agriculture is the predominant activity.

2.7 THE FORMAL SECTOR

Theoretically, the formal sector is an urban oriented institutional and organised system. It caters for the immediate financial needs of the monetized or modern sector of the economy. It has two main distinguished features. It is a regulated financial sector subject to an extensive government control and intervention over the activities of financial institutions. This, in most cases is done at the expense of the development of financial markets. Secondly, it could be a liberalised financial sector, where financial institutions have a greater advantage in carrying out their intermediation (Germidis D 1990). This sector is represented under

three clear headings; the Central Bank takes the prime position. The banking and non-banking institution follow closely. Lastly, is the capital market. The bank and non-bank financial sector in the LDCs are of various types and functions they include; commercial banks, merchant banks, development banks, saving banks and building societies.

A large number of the African population have failed to avail themselves of the use and presence of the formal savings and lending institutions. Rather they have found a greater disposition towards the informal financial savings and loan association e.g. fixed fund association and rotating credit associations as the main channel for credit and savings (Miracle et al 1980) and (Akaah 1987). Miracle et al (1980) outlined reasons for this shortcoming. Firstly, that 70% of the African population dwell in the rural areas, but banks are found exclusively in the urban centres. Although, location is part of the problems only a few of the population in the urban areas utilized or patronise the formal financial sector. Aredo (1990) noted that:

> In a country where three - fourth of the rural population live a day's walk from the nearest all-weather roads, it can be said that savings in Ethopia are only mobilized from urban populations and organisations.

Akaah (1987) stated further that lack of convenience of banking institution in terms of location coupled with the poor nature of the transportation system of most developing countries made these institutions alien to the rural population.

Among other things rural dwellers still prefer the informal to the formal sector given the relatively low-return offer by the latter. Thus the low nature of the nominal interest on bank deposits or savings relative to the rate of inflation in most LDCs has discredited the formal financial institutions as saving conduits even if conveniently located (Akaah et al 1987). Despite the great desire of many LDCs governments to make the low interest rate regime more attractive and thereby ensuring affordable credit to the masses of small borrowers, it was observed, Miracle et al (1980), yield a negative effect of attracting the economically and politically powerful while repelling small borrowers. Furthermore, if the small borrowers are given the advantage, official bureaucracy and red-tapeism characterising the formal sector could be a greater deterrent. On the same scenario, Raggazi (1981) observed that credits are granted based on the provision of security as against the investment opportunities. Hence credit flows to large-scale industries rather than to the small-scale one; to expatriates and immigrants rather than to the local industrialists; (emphasis mine). Akaah (1987) also observed that communal nature of property ownership e.g. (Land and Homes) in rural LDCs impedes the ability of small borrowers to meet collateral requirements for bank credits.

Formality in the modern financial institutions which is characterised by the keeping of detailed records, often detracts from the attractiveness of banks as saving institutions (Miracle et al 1980). Of importance here is the extended family obligations in the LDCs especially in Africa where the prosperous ones in the

family are obliged to share part of their wealth with the rest of the clan. The situation is more serious, because records of one's bank account may be revealed by bank staff who have the potential to collect bribes (Miracle et al 1980). Moreover, rural dwellers are also fretful of bank saving records being used by government revenue officials to scrutinize saver's financial dealings and activities. A research study, undertaken by Akaah (1987) indicated that most rural dwellers lacked formal education which further detracted from their ability to understand formal banking procedure. Notwithstanding, formal financial institutions play significant roles in mobilising savings in the LDCs. An organised and well developed financial intermediary is essential to mobilise savings. However, the use to which the mobilised savings are put by the institutions is also a crucial point here, because it determines the appropriateness of these institutions as a link between savings and investment (Raggazi 1981). Adams Dale et al (1978) suggested that despite the wide illusionary stance of some economists, it has been concluded that proper financial policies provided some fundamental and developmental roles. Moreover, they have been able to strenghten local services and bridge the institutional gaps.

2.8 LINKAGES OF THE INFORMAL SECTOR WITH THE FORMAL SECTOR

Linkages of the two sectors constitute one of the major strategies by which effective mobilisation of savings in the rural areas is achieved. On the one hand, it is believed that the formal sector is organised and has the wherewithal to accommodate the formal sector

based on its crude, archaic and rudimentary approach to savings. Experiences from various countries that have adopted these strategies could be cited as case models for harnessing savings. The Grameen Bank projects in the Bangladesh and the model case from the Philipines are cited as example; (F.A.O. 1986). In either case, the informal systems of mobilising rural savings are institutionalised and fully integrated into the financial system.

The objective condition of launching a viable rural savings mobilisation campaign should be tied to the availability of sustainable agricultural policy which ensures increased productivity and income of the rural people. On the other hand, branch network in the rural areas should be strengthened to cater for areas which hitherto have not had access to modern institutions.

In Bangladesh where the idea of rural savings mobilisation has been well instituted, hitherto scattered and unorganised small credit societies were consciously developed under the guidance of the bank such that when credit societies shall have accumulated a sizeable amount of funds, they could be reconstituted in similar fashion under which the Grameen project was converted into a full branch (F.A.O. 1986). In Korea, an apex organisation within the depositary banks could be credited, take the organisational control and manage the collection of funds of independent credit societies. In another manner, as it is operational in China, the credit societies are integrated into the depositary bank acting as the latter's agent, but maintaining independence for accounting purposes and with sole responsibility for profits and losses. In Sri-lanka, a different

but similar approach is adopted (F.A.O 1986). The credit societies may be encouraged with active support from the societies and operating their own co-operative rural banks.

From the foregoing, it was observed that beyond the controversies surrounding the definitions, determinants and the inadequacies of savings in the literatures, empirical evidences showed that there were quite a large volume of potential saving yet untapped in the rural areas of the LDCs. The lukewarm attitudes of many governments in the LDCs to mobilise and formulate strategies by which savings could be mobilised have hindered the growth of savings in the rural areas of these countries. As a departure from the erroneous notions about the paucity of saving in the LDCs, this study investigates and affirm the potentiality of savings in the area of study. Besides, financial institutions in the area could also play greater role in mobilizing the abundant savings waiting to be tapped.

CHAPTER THREE

METHODOLOGY

3.1 METHODOLOGY

AREA OF STUDY:

Lagos State is a former Federal Capital and has an area of about 3,577sq km. It is the most populated state in the federation. Prior to the regionalisation of the Federation, Epe district was administered along with Lagos Central, Ikeja and Badagry by the colonialists. With the regionalisation, it lost the status to the western region. The creation of 12 states from the former regions in May 1967 restored Epe to the status of one of the divisions of Lagos State.

Epe Local Government is about 75km from Lagos business district. It is located to the east of Lagos Central and Mainland via Ikorodu and to the north via Ijebu-ode, a major town in Ogun State. It is naturally endowed in terms of the seas and beaches surrounding its landscape. The town could pass for a peninsula. It also has a high reserve of timber.

The inhabitants of the town are predominantly fishermen, although they engage in other farming or agricultural activities such as the growing of cassava, plantain and cocoa nut etc. The only existing industry in the town, Epe Plywood Industry, is owned by Odua Investment Company Limited.

Economic activities in the L.G.A. dates back to the colonial days. This is accounted for also by the natural endowment of the area. Trade links with neighbouring states and adjoining towns have been boosted by the Atlantic ocean linking these states and towns.

Before the introduction of banks in the area, commercial and economic activities were conducted under informal atmosphere.

Specifically savings and other financial transactions by businessmen were made either with the daily collectors or with saving clubs or co-operatives.

The presence of banks has however, redirected their focus and reshapened their awareness. There are three conventional banks and a branch of the People's Bank in the area. They are strategically located, based on population distribution and availability of government establishment. First Bank Plc operates a branch at Epe Central, while African International Bank (A.I.B.) has a branch in Agbowa - Ikosi. A branch of the Societe Generale Bank could also be found in Eredo. However, a branch of the People's Bank is located in Epe Central with cash centre in some parts of the L.G.A.

3.2 SAMPLING PLAN

A sample of the population in the L.G.A. was taken. Of the 300,000 population resident in the L.G.A. only 300 people or 0.1% were sampled for the study.

Of the 300 questionnaires completed and returned only 257 were found most satisfactory to the analysis.

Epe Central with the largest population was administered with 75 or 25% of the questionnaires. Agbowa-Ikosi, another town with a considerably large population had 40 or 13% of the questionnaire. Eredo and Noforija with smaller population distribution were issued with 7 or 2.3% and 6 or 2.1% of the questionnaires respectively.

To cover a wider spectrum of respondents whose accessibility in their residences is problematic and difficult, a direct contact approach was adopted in the distribution of the questionnaires. The

respondents, majority of whom are fishermen, farmers and traders do not stay at home but could only be reached at their various places of work. Thus, they were contacted directly at their shops, at markets, on the farms and at the wharfs. Civil Servants and teachers in the survey area were also administered the questionnaires. Furthermore, to combat the poor reception accorded enumerators in the rural areas, the researcher adopted the strategy of contacting the head of the villages prior to carrying out the survey. Cluster sampling method was adopted in order to single-out respondents to be interviewed or administered the questionnaire in a particular area of the village.

Civil servants comprising of workers in government offices and establishment, teachers in both primary and secondary schools received 165 or 55% of the questionnaires. Farmers received 45 or 15%, traders got 55 or 18.3% and while others comprising of artisans, welders, mechanics, masons and seamstresses, tailors and beauticians received 25 or11.7% of the questionnaires.

3.3 PROFILE OF THE THE RESEARCH QUESTIONNAIRES

The questionnaires were designed to reflect or to know the response of individuals to savings mobilisation in the Local Government Area. Moreover, it was intended to gauge the extent to which savings have been mobilised for development in the study area. Among other factors affecting savings of individuals, mode and patterns of saving adopted were also modelled in the questionnaire. The questionnaires were categorised as follows:

3.1.1 PERSONAL DATA

Personal information about the respondents in the questionnaire include the following: place of residence; This is important because, it is believed that proximity of financial institutions or savings channels influence individual's savings. Occupation of respondents was also sought. This is imperative as income is derived from occupation and income itself plays a significant role in savings.

3.3.2 SOURCES OF INCOME

Income is a major and most important determinant of savings. In essence the monthly and annual earnings of respondents were solicited for in the questionnaire. Most importantly permanent income and transitory incomes in form of gifts or physical goods were distinguished as each has its effects on saving patterns of individuals. Enquiries were also sought on mode of saving. This was anchored on the saving habits of individuals.

In this sense respondents were asked if their surplus earnings were saved with the banks or not.

3.3.3 MOTIVATING FACTORS

Respondents were asked what influenced their savings decisions. Along the same line, purposes for which they saved were sought. Among other factors they were asked, how, a higher interest rate, nearness or proximity to financial institutions and enlightenment campaigns by the government and its agencies would affect their savings. In other words, they were asked how they were motivated to

patronise the banks. The last two sections reflect the characteristics and nature of the informal and formal sectors. Therein, proportion of income saved in either sector by individuals and their preference for the sectors were among questions asked.

3.3.4 MAJOR QUESTIONS FOR THE FINANCIAL INSTITUTIONS

The level of customers patronage of the banks in the area on a yearly basis from 1981 - 1990 (Covering a period of ten years) was required. Customers growth or increase in the banks is necessary as this would reveal the extent of banking habits of the people in the area towards the modern sector.

Information on the volume of deposits received from customers either in the form of time/saving deposit or demand/current account deposits were sought from the banks. It would reveal the extent to which these banking services have influenced the savings of individuals during the period. Furthermore it reveals how many people operate the saving or current accounts in the study area.

Questions were also raised on the number of customers who applied for loans in the banks. How many of them were given and the overall total of money granted as loans and advances during the period of study. The rates of interest on deposits and lending were requested. This is important as a higher interest rate could motivate or influence further individuals' savings, while at the same time a higher lending rate has a negative impact on loans and advances. This could also distract potential investors from embarking on identified projects. Other questions include the possibility of linkages of the informal sector with the formal sector.

3.4 ANALYTICAL TECHNNIQUES

3.4.1 DESCRIPTIVE STATISTICS

Descriptive statistics such as percentages, means and frequency distribution were used to analyse the data.

3.4.2 REGRESSION ANALYSIS

The multiple regression analysis was adopted to examine the relationship between variables. In addition an elimination series was run to test the effect of each independent variable in the multiple regression on the dependent variable. This experiment reveals the magnitude of the importance and variation of a particular variable on the dependent variable. The experiment eliminates at a particular time an independent variable while others were held constant.

The degree of correlation between the level of deposit liabilities in each bank to total banks' deposits in the study area was established using the product moment formula i.e.

$$rxy = \frac{Exy}{\sqrt{EX2.}\ \sqrt{EY2}}$$

Where:

x = Total deposits of bank

y = Deposit liabilities of individual banks.

Equally the total deposits of the banks were regressed on the total loans in order to ascertain the relationship which exist between the amount of loans granted and the deposits received by the banks.

i.e. $y = a + bx$

where:

y = Total deposits or savings

x = total loans or credit liabilities

a = constant.

3.5 THE VARIABLES

Two dependent variables were used in the analysis. They are; the personal savings of individuals, depicted as S1 and the propensity to save denoted as S2. The independent variables include the income of individuals and other socio-economic variables such as interest rate, inflation, age of respondents, family size and proximity to banks. The relationships of the independent variables with the dependent variables were explained using the ordinary least squares to estimate their parameters.

The propensity to save is defined as the proportion of income not spent on consumption. It is derived as the ratio of personal savings to the individual income:

e.g. S1 /X1 = S2.

3.6.1 CHOICE OF FUNCTIONAL NOTATIONS

Three different functional models were used in this analysis. These include the linear, double - log and semi - log models. The best of the three functions was used for further analysis. The model which had the highest co-efficient of multiple determination (R2) was considered the best fit. However, the significance of the coefficients with respect to their t-ratios was also considered.

3.6.2 MODELS SPECIFICATION

S1 = F1 (X1,X2,X3,X4,X5,X6,X7,U1).....(1)

S2 = F2 (X1,X2,X3,X4,X5,X6,X7,U2).....(2)

where:-

S1 = Annual personal savings.....(3)

S2 = Propensity to save.....(4)

X1 = Annual Income.....(5)

X2 = Age of respondent (in Years).....(6)

X3 = Educational level (Nos of years spent in school).....(7)

X4 = Family size.....(8)

X5 = Influence of interest rates (Dummy).....(9)

X6 = Inflationary effects (also in Dummy).....(10)

X7 = Proximity to banks (in km).....(11)

U1,2 = Error terms.....(12)

3.6.3 THE EQUATIONS

The following functional equations were tested for each of the models.

LINEAR MODEL

$$S1 = a0 + a1\ X1 + a2\ X2 + a3\ X3 + a4\ X4 + a5\ X5 + a6\ X6 + a7\ X7 + U1 \quad \ldots(13)$$

$$S2 = b0 + b1\ X1 + b2\ X2 + b3\ X3 + b4\ X4 + b5\ X5 + b6\ X6 + b7\ X7 + U2 \quad \ldots(14)$$

SEMI - LOG MODEL

$$S1 = c0 + c1 \log X1 + c2 \log X2 + c3 \log X3 + c4 \log X4 + c5 \log X5 + c6 \log X6 + c7 \log X7 + U3 \quad \ldots(15)$$

$$S2 = d0 + d1 \log X1 + d2 \log X2 + d3 \log X3\ d4 \log X4 + d5 \log$$

$$X5 + d6 \log X6 + d7 \log X7 + u4 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots (16)$$

DOUBLE - LOG - MODEL

$$LS1 = e0 + e1 \log X1 + e2 \log X2 + e3 \log X3 + e4 \log X4 + e5 \log X5 + e6 \log X6 + e7 \log X7 + U5 \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots (17)$$

$$LS2 = f0 + f1 \log X1 + f2 \log X2 + f3 \log X3 + f4 \log X4 + f5 \log X5 + f6 \log X6 + f7 \log X7 + u6 \quad \ldots (18)$$

3,7 A - PRIORI EXPECTATION

Each of these variables is expected on a-priori grounds to emerge with either positive in which case it conforms with expectation or negative, which means it runs contrary to expectation. Therefore, on a-priori grounds, these factors are expected to influence savings according to the preferences individuals accorded savings. On the other hand the propensity to save of each individual saver is directly related to his income.

Income plays a vital role in the saving decision of individuals. A positive and strong relationship is expected between income of individuals and their savings.

Interest rate also acts as an inducement to save. Its empirical potency is yet to be concluded because it has continued to generate lots of controversy in the literature. However, it is expected to have a strong and positive relationship with savings of individuals.

Age of respondents is expected on a-priori to have an inverse relationship with savings. Ando-Modigliani stated in their analysis that people in their early life and older age dissave or borrow, but save during the mid-years when they are still very active.

High illiteracy rate among the rural folks have not endeared them to the modern financial institutions. It is thus envisaged that a high literacy level enhances and influences savings of individuals. A positive relationship is expected. High dependency ratio occasioned by large family size would have serious impact both on family's savings and their propensity to save. This is because a large family size poses a great burden on the family's income, thus affecting the proportion saved from income. A negative expectation is envisaged.

Inflationary situation occasioned by high prices discouraged thrift habits. This is because much of the funds which would have been saved were spent on consumption resulting from high prices. Thus a negative result is expected.

The distance between savings institution or channels and savers place of residences influence savings either positively or negatively. If the saving channel is placed or located at the door steps of individuals, they are more obliged to save rather than when they are far away.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4. PRESENTATION AND ANALYSIS OF DATA

4.1 RURAL SAVINGS AMONG INDIVIDUALS

This chapter forms the core of the research study. It analyses various factors which influence rural savings among individuals in the study area. Variables such as income, age, level of education, family size, interest rates, inflationary level and the proximity to banks were tested using the multiple regression. The purpose of this analysis is to examine the impact of these socio-economic variable on the savings and savings propensity of individuals.

4.2 CORRELATION MATRIX RESULTS

The correlation matrix shown below (table 4.1) depicts the results from the linear regression equation. The discussion is based on the signs and magnitudes of co-efficients.

Findings from the matrix table below (table 4.1) conveyed a positive relationship between personal annual savings and the level of income of individuals (X1). The positive inclination of income to savings confirms empirically the importance of incomes as an explanatory variable of savings. It further confirms the belief that once an individual experiences increase in income "c'eteris paribus", he tends to save an increasing percentage of his income.

The negative relationship between age of individuals (X2) and personal annual savings (S1) confirms the a-priori expectation. This result has shown that individuals dissave. The majority of respondents were relatively old people whose ages range between 50 and 60. They live mainly on subsistence farming in the rural area. Thus, they are more preoccupied with consumption as against saving to invest.

TABLE 4.1

CORRELATION MATRIX OF THE STUDY VARIABLES
CORRELATION CO-EFFICIENTS BETWEEN SAVINGS AND

	PERSONAL ANNUAL SAVING	PROPENSITY TO SAVE	ANNUAL INCOME	AGE OF RESPON-DENTS	LEVEL OF EDUC-ATION	FAMILY SIZE	INTEREST RATE	INFLATION
	S1	S2	X1	X2	X3	X4	X5	X6
PERSONAL ANNUAL SAVING	1							
PROPENSITY TO SAVE	0.827	1						
ANNUAL INCOME	0.701	0.349	1					
AGE OF RESPONDENTS	- 0.123	- 0.153	- 0.160	1				
LEVEL OF EDUCATION	0.187	0.153	0.421	- 0.480	1			
FAMILY SIZE	0.012	- 0.024	- 0.019	0.589	- 0.287	1		
INTEREST RATE	0.313	0.329	0.300	0.313	0.306	- 0.132	1	
INFLATION	- 0.248	- 0.194	- 0.167	0.021	- 0.022	- 0.006	- 0.125	1
PROXIMITY TO BANKS	- 0.061	- 0.000	- 0.041	0.010	- 0.012	0,041	0.076	0.065

The correlation between the propensity to save and the age of respondents (X2) also exhibited a negative outcome - (- 0.153). This showed that respondents in the old age bracket saved a little proportion of their income. This confirms the a-priori expectation. That the level of education (X3) attained by individuals and a person's annual savings is positive is highly expected. The positive outcome also gives credence to the relevance and importance of education as an explanatory variable with its attendant influence on individual savings. An educated person is more enlightened and receptive to the many enlightenment campaigns embarked upon by the government and its agencies to encourage the habit of savings.

Contrary to expectation, family size (X4) showed a positive correlation with (S1). The result explains that a larger family may not necessarily preclude the individual from saving out of his income. However, the outcome of (X4) on (S2) is in line with the a-priori expectation. The negative outcome reveals that the individual with a high dependency ratio saves a smaller proportion of his income.

Variable (X5) or interest rate revealed a positive relationship with personal annual savings. The positive outcome shows that savings have a positive inclination with interest rate. Besides, the result further revealed that respondents, based on the data collected would be obliged to save more with a higher interest rate. S2 also maintained a positive relationship with interest rate.

(X6) or the level of inflation and (S1) the personal annual savings

have a negative co-efficient. The negative result is in harmony with the a-priori expectation. This is because an inflationary situation occasioned by price increases dampens or reduces the ability of the individuals to save. Besides, the proportion saved out of income is seriously affected by the surging increase in price.

There is a negative relationship between the proximity to banks (X7) and the personal annual savings (S1) of respondents. It is known that the farther the savings channels are to the rural dwellers the more the apathy to save. Thus, bringing the institutions or savings channels to the door steps of the rural populace would enhance the adoption of savings in the rural area.

4.3 RESULTS OF REGRESSION ANALYSIS

Three functional equation; linear, semi-log and double-log models were fitted into the data in order to establish relationship between the dependent and independent variables.

The choice of working functional equation is predicated on statistical measure of performance i.e. the R2 or the co-efficient of multiple determination, the t-ratios and the reasonableness of the signs of regression coefficients whether or not they are contrary to the a-priori expectations.

The result which emerged from the functional model showed that the R2 for the linear models was 0.54 or 54% while R2 for the double-log model was 0.598 or 59.8%. The R2 for the semi-log model was 0.427 or 42.7% (see table 4.2).

Both the semi-log and the linear models had a maximum of four of

their t-ratios significantly different from zero i.e the t-ratios of the log of annual income (X1), log of age or X2, log of interest rate (X5) and the log of inflation (X6). The t-ratios of the linear models include the t-ratio of annual income (X1), the interest rate (X5), education (X3), inflation (X6). However, the double-log model had only two of its variables significantly different from zero i.e. the t-ratios of X1 or annual income and interest rate (X5) (see table 4.2)

All but one of the linear model co-efficient came out significantly different from zero i.e. the co-efficients of income (X1). The co-efficient of the double log model had only one of its coefficients significant i.e. the co-efficient of the annual income (X1). However, the semi-log model emerged with all its co-efficients significantly different from zero (see table 4.2).

Based on the above analysis, the linear model was chosen for further discussions because of its accuracy and consistency. In the linear model, the S1 and the S2 represent the dependent variable. S1 depicts the personal savings by individuals, while S2 represents the propensity to save by individuals. Both are anchored on the level of income and other major independent variables already highlighted.

The co-efficient of annual income (X1) on savings shows a positive outcome. This is highly expected. Income constitutes a major and most important variable among other variable affecting savings. It is also believed empirically, that without income savings could not possibly be contracted. Moreover, an individual with a higher income tends to spend a decreasing percentage or proportion of his income, whereas a low income earner might find it difficult to save.

TABLE 4.2

REGRESSION EQUATION EXPLAINING DETERMINANTS OF RURAL SAVINGS IN THE L.G.A.

EQUATION FORM	DEPENDENT VARIABLES		CONSTANT	ANNUAL INCOME X1	AGE X2	EDUCATION (IN YEARS) X3	FAMILY SIZE X4	INTEREST RATE (DUMMY) X5	INFLATION (DUMMY) X6	PROXIMITY TO BANKS (INkm)X7
LINEAR	S1	=	-0.81 +	0.26X1	-8.70X2+	-38.3X3	+12.2X4	+277X5-	372X6 +	23.3X7
			(-0.20)	(12.57)	(-1.09)	(-2.92)	(0.50)	(2.13)	(-2.38)	(0.75)
										R2 = 0.54
	S2	=	0.108 +	0.00009X1-	0.000944X2	-0.00123X3 +	0.00155X4 +	0.0449X5 +	0.0313X6 +	0.00151X7
			(2.45)	(3.72)	(-1.08)	(0.85)	(0.57)	(3.12)	(-1.82)	(0.44)
										R2 = 0.198
SEMI-LOG	S1	=	-11063 +	1490X1	-217X2	101X3	+ 43X4 +	125X5	-145X6 +	24X7
			(-6.04)	(9.61)	(-0.61)	(-2.72)	(0.33)	(2.61)	(-2.52)	(0.22)
										R2 = 0.427
	S2	=	-0.208 +	0.0509X1	-0.0236X2	0.00338X3	-0.018X4 +	0.0158X5	-0.0111X6 +	0.0030X7
			(-1.14)	(3.30)	(-0.66)	(-0.91)	(-0.14)	(3.31)	(-1.94)	(0.27)
										R2 = 0.183
DOUBLE-LOG	LS1	=	-4.60 +	1.35X1	-0.144X2	-0.0201X3	-0.0076X4 +	0.148X5	-0.0774X6 +	0.0231X7
			(3.67)	(12.69)	(-0.59)	(-0.79)	(-0.08)	(4.51)	(-1.97)	(0.30)
										R2 = 0.598
	LS2	=	-4.75 +	0.360X1	-0.131X2	-0.0168X3	-0.0271X4 +	0.132X5	-0.0643X6	0.0236X7
			(38.80)	(3.40)	(-0.54)	(-0.66)	(-0.30)	(4.03)	(-1.64)	(0.31)
										R2 = 0.213

Note (I) The figures in parenthesis represent the t-ratio
(II) R2 represents the co-efficient of multiple determination.

The regression co-efficient of age of respondents (X2) is negative. On a-priori grounds, this is expected. The result conforms with economic proposition which proffered that individuals in the earliest and later part of their lives dissave, while they save during their mid-age. The co-efficient for the level of education (X3) is negative. This is unexpected and goes contrary to expectation. Education attainment by an individual is expected to act as an impetus that motivates him not only to save, but inculcate in him the habit of saving with the bank (or financial institutions) rather than saving outside the system. The negative outcome may have resulted from the data collected from the rural area where majority of the respondents sampled were illiterate and had low inclinations towards the modern system.

The co-efficient of family size showed a positive result. A-priori expectation was predicated on a negative possibility. The result ran contrary to expectation and empirical evidence. A larger family constitutes an additional burden on the individual's income, thereby constraining his ability to save. It becomes more burdensome for the individual to save where dependents are in their infancy or older age. Saving in this case becomes increasingly difficult to carry out. The co-efficient for the level of interest rate came out as expected. It is strongly believed that savings can further be enhanced with interest rate as an inducement, even in the rural area.

The a-priori expectation also conforms with the co-efficient regression on inflationary level and its effects on savings.

This variable has been identified as a factor which implicitly

deterred the saving ability of individuals. Inflation occasioned by high prices reduce the saving potential of many an individual. Money or income that could have been saved was spent on consumer goods with exhorbitant prices. The co-efficient of the proximity to channels of saving or banks (X7) was positive. It is widely believed that easy access to saving channels enhances the saving ability of the rural dwellers. This would also lessen their apathy towards patronising the banking sector.

The R2 was 0.54. This is instructive and shows that 54% of the variation in S1 resulted from the variation in X1 to X7.

The t-ratio measures the level of significance and performances of the independent variables on the dependent variables.

The (12.57) outcome exhibited by the annual income of respondents showed a high level of significance of this variable on the dependent variable. Besides, it indicates that the decision to save by respondents is based strongly on their level of income. It also strengthened economic reasonings about the importance of income on savings.

The t-ratio of the age of respondents (X2) was (- 1.09). This refers to an insignificant outcome about age and its effect on respondents' savings. The level of education (X3) has a significant fit to the data, (-2.92). This result indicates that respondents' level of education plays a vital role in determining their savings. Moreover, it shows that the higher the level of education, the higher their level of enlightenment and subsequently their savings are enhanced.

The t-ratio on family size (X4) showed an insignificant outcome of

(0.50). Hence, the larger the family, the lower the personal annual saving of individuals. This also confirms economic analysis about the low saving rate among large family households.

The t-ratio of the interest rate (X5) was (2.13). [illegible] is significant and it indicates that respondents are more induced to save when interest is higher.

The significant outcome of the t-ratio on the level of inflation (2.38) justifies economic reasonings that saving is devastated as a result of increase in p[illegible]f commodities.

The t-ratio of the proximity to bank stand at (0.75). This is an insignificant outcome. It shows that the farther away saving channels are to the rural dwellers, the lower their ability or the greater their apathy to the modern sector.

4.4 LINEAR MODEL PROGRESSIVE INCLUSION TRIALS

To further show the significance of the explanatory variables on the dependent variables, gradual but selective elimination technique was adopted using the linear model.

This technique reveals the effect of a particular explanatory variable on the dependent variable, when it has been excluded from the regression equation while others are held constant.The personal annual savings of individuals (S1) is used as the dependent variable (see table 4.3).

A progressive withdrawal was carried out beginning with the proximity to banks (X7) (see table 4.3). The result showed that the R2 or the coefficient of multiple determination remained constant at 0.54 or 54%. This indicates that the variable has little or no impact on savings of respondents.

TABLE 4.3

LINEAR MODEL PROGRESSIVE INCLUSION TRIALS

S1 =	-11 (-0.03)	+ 0.259X1 (12.64)	-8.67X2 (-1.09)	-37.8X3 + (-2.89)	13.2X4 + (0.54)	289X5 (2.24)	-366X6 (-2.35) R2 = 0.54
S1 =	-364 (-1.00)	+ 0.266X1 (13.00)	-8.70X2 (-1.08)	-39.9X + (-3.02)	13.2X4 + (0.54)	317X5 (2.4) R2 = 0.54	
S1 =	-131 (0.37)	+ 0.276X1 (13.64)	-12.7X2 (1.60)	-36.9X3 + (-2.77)	16.2X4 (0.65) R2 = 0.513		
S1 =	-685 (4.58)	+ 0.255X1 (27.28)	-1.41X2 (-0.47)	726X5 (24.55) R2 = 0.875			
S11 =	-747 + (10.34)	0.255X1 + (27.77)	726X5 (24.59) R2 = 0.875				

* Note: I) The t-ratios are represented by the figures in parenthesis

II) R2 represents the co-efficient of multiple determination.

While (X6) or inflation level was dropped and X1,X2,X3,X4,and X5 were held constant, the R2 dropped to 0.527 from 054. This showed that the effect of inflation on savings is negative.

Furthermore, while X1,X2,X3, and X4 were held constant and X5 or interest rate variable was eliminated from the equation the R2 fell further from 0.527 to 0.513 or 51.3%. The R2 showed that the exclusion of interest rate from the regression equation reduced the influences of other variables, thus showing the in g significance of interest rate on savings.

However, when X5 was re-introduced as constant and X3 and X4 were excluded from the equation, the R2 rose from 0.513 to 0.875 or 87.5%. This phenomenal increase in R2 showed that while interest rate (X5), income (X1) and the age variable (X3) remained the only independent variables, a tremendous influence was recorded on savings. When the variable age (X2) was finally eliminated, the R2 remained constant at 0.875 or (87.5%) thus, showing, that, with or without any variables, the income and interest rate variables are very significant to individuals' savings.

The outcome of this experiment strengthened the argument in the literature that income and interest rates are the major variables which collectively determines the savings of individuals.

However, the potency of interest rate is still a controversial the LDCs because savings in rural LDCs are more service elastic than interest elastic. Moreover, only the rich or the affluent in the society have found interest rate more attractive to savings.

4.5 THE MARGINAL PROPENSITY TO SAVE (M.P.S)

The M.P.S is the variation in saving resulting from a unit change in income while other variables remain constant. This change is as a result of the first derivative of the regression equation.

i.e. dS1/dX1 = M.P.S

From the single regression on income (X1), the M.P.S = 0.256 (see Appendix C). This depicts the fact that with a marginal or ₦1 increase in the income of an individual, 25.6kobo is saved on the average by individual, having made provision for consumption.

The result of this analysis revealed an important fact which buttressed the ability or the tendency of the people in the rural areas to save. Moreso, it further strengthened economic analysis that an increase in income would relatively engender or bring about an increase in savings.

4.6 INCOME ELASTICITY OF SAVING

This is defined as the proportionate or percentage change in the personal savings of respondents resulting form a unit or proportionate change in the annual income of respondents.

It is calculated thus:

$$ES = dS1/dX1 \cdot X1/S1$$

where *X1 = the mean of individual annual income and

*S1 = the mean of the individuals personal savings

*X = 7168

*S1 = 1083.2

while:-

dS1/dX1 = 0.256 or M.P.S

$$ES = dS1/dX1 \cdot X1/S1$$

$$= \frac{0.256}{1} \cdot \frac{7168}{1083.2}$$

$$= 1.69$$

This result shows that elasticity co-efficent is greater than unity. This further indicates that there is a high percentage increase in savings as against the increase in income. In other words savings rise faster than income.

The result of the calculated elasticity showed that, if other explanatory variables remain constant at their mean values, an increase of one percent in respondents' incomes per annum will result in an increase of 16.9% of respondents' savings.

The result vindicates the hypothesis that the M.P.S is high in the rural area. It also testifies to the existence of savings in the rural areas of poor countries.

4.7 MODES AND PATTERNS OF SAVINGS OF RESPONDENTS IN THE L.G.A

This section reveals the modes and patterns of savings of respondents. Their habits enable us to know the forms of savings respondents adopt. Moreover, patterns of savings enhance the research to uncover the frequency at which saver patronise the forms of savings adopted.

The influences of the proximity and spread of financial institutions on the mode and patterns of savings of respondents

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*Note: that the mean of annual income and personal annual savings was calculated by computer from the raw data.

provoked serious thought. This is because they are strategically located based on population distribution and availability of government establishments. Economically this decision is rational, however, it is disadvantageous and discouraging to other rural folks located outside the banks' branches.

4.8 MODE OF SAVING ACROSS THE VILLAGE

Survey carried out in the sampled towns and village revealed that forty seven (or 18.3%) saved in the banks, ninety seven or 37.7% preferred the savings outside the banks. However, a total of one hundred and thirteen or (44%) combined both sectors (see table 4.4).

In Epe Central, a total of 75 respondents were sampled. Of this number only 13 or (17.3%) saved with the banks, while 18 or (24%) saved completely outside the banks. However, those who combined both the formal and informal sectors constituted the highest number of savers.

In Agbowa, a total of forty people were administered the questionnaire. Of this number, only five (or 12.5%) saved with the banks. Those who preferred savings outside the bank numbered fourteen (or 35%). A total of twenty-one (or 52.9%) adopted both sectors.

In Odomola more people saved outside the banks in preference to the banks, while only ten or (8.8%) saved in the two sector. Ironically, Epe Central which had a commercial bank and the main branch of the People's Bank had eighteen or (24%) people who saved outside the bank.

The least number of respondents who saved outside the bank was recorded in Eredo.

4.9 MODE OF SAVING BY OCCUPATIONAL DISTRIBUTION

Table 4.5 depicts the mode of savings of respondents across occupational distribution. Findings from the analysis about respondents' occupation and the mode of saving they adopt revealed that one hundred and sixty-two (or 63.3%) were civil servant. Twenty three (or 8.9%) were farmers while traders represented about thirty nine (or 15.2%). Others comprising artisans, welders, beauticians, drivers etc accounted for thirty-three (or 12.8%) of the total respondents.

In all twenty-nine civil servant or (17.9%) patronised the banks and thirty (or 18.5%) saved completely outside the bank. However, the highest number of civil servant - one hundred and three (or 63.4%) participated fully both in the formal and in the informal sector. People in other walks of life participated evenly both within and outside the banking system. In the same vein, eleven or (33.3%) combined both the formal and the informal sectors.

4.10 FACTORS WHICH INFLUENCED RESPONDENTS SAVINGS

Impediments to the effective mobilisation of savings and the ability of rural dwellers to save either in the informal sector or the formal sector, were among other factors identified as follows: lack of adequate enlightenment campaigns on the part of the government and their agencies; purpose for which respondents save and other relevant f. which influenced their savings decision.

Moreover, preferences or motives for savings outside the bank forms the focus of this section.

Saving decision of individuals as revealed from the findings are summarised as follows: Majority of the respondents summed up their savings decisions as being influenced by the desire to save for the rainy day or for the future when the y would not be well disposed to earn a living.

On the other hand, a large number of the respondents confided that their decisions were based on their incomes and the level of interest paid by the banks, However, a considerable number of the respondents also confessed that their decisions were predicated on the provision of daily needs to their wards.

On why savers or respondents deprive themselves of the opportunity of consumption to embark on savings. One hundred and eight (or 42.2%) of the respondents claimed that their saving was meant to cater for the upkeep of their children and to pay their childrens' school fees. Closely followed were respondents who saved purposely for the acquisition of durable household furniture such as television, stereo-set etc. This group constituted about sixty one or (23.7%). Others confessed that saving for them were geared towards the establishment of an industry or rather to enable them establish well on their farms and acquire implements that would enhance their business activities. This categories of savers numbered forty of (15.6%).

Twenty four respondents or (9.3%) each represent the group of those who would rather prefer to direct their savings towards running business or as working capital to enhance or facilitate the

day-to-day running of their business. The other group of savers belongs to the categories of those who would rather save to meet social needs such as house warming, naming and outing ceremonies.

TABLE 4.4

MODE OF SAVING ACROSS VILLAGES

	MODE OF SAVING						
	BANKS		OUTSIDE		BOTH		TOTAL
TOWNS	NO	%	NO	%	NO	%	
EPE CENTRAL	13	27.7	18	18.6	44	88.9	75
IRAYE	1	2.1	11	11.3	--	--	12
ODOMOLA	7	14.9	22	22.7	10	8.8	39
POKA	6	12.8	10	10.3	14	12.4	30
NOFORIJA	--	--	2	2.1	4	3.5	6
EREDO	4	8.5	1	1.0	2	1.8	7
ODORAGUSIN	3	6.4	7	7.2	3	2.7	13
MOJODA	6	12.8	9	9.3	9	7.9	24
IBONWON	2	4.3	3	3.1	6	5.3	11
AGBOWA	5	10.6	14	14.4	21	18.6	40
TOTAL	47		97		113		257
RELATIVE FREQ.	18.3%		37.7%		44%		

Compiled from responses to research questionnaire.

TABLE 4.5

MODE OF SAVINGS BY OCCUPATIONAL DISTRIBUTION

OCCUPATION	BANKS		OUTSIDE		BOTH		TOTAL
	NO	%	NO	%	NO	%	
CIVIL SERVICE	29	59.2	30	40.5	103	76.9	162
FARMING	4	8.2	14	18.9	5	3.7	23
TRADING	5	10.2	19	25.7	15	11.2	39
OTHERS	11	22.4	11	14.9	11	8.2	33
	49		74		134		257

Compiled from responses to research questionnaire.

4.11 ENLIGHTENMENT CAMPAIGNS TOWARDS SAVINGS MOBILISATION

Advertisement placed on television and other advertising media ranks highest amongst the motivating strategies that have been embarked upon by the governments and their agencies to mobilize savings in the Local government Area. One hundred and forty four or (56%) confirmed being influenced by adverts placed on television, radio and others while eighty eight (or 34.2%) agreed that enlightenment campaigns carried out in the area contributed toward mobilising them to save. Fifteen others or (5.8%) revealed that mobile banks either presently or in the past motivated them to save. On the other hand,ten respondents would not be bothered but rather would save based on personal decision.

4.12 PREFERENCES FOR SAVING OUTSIDE THE BANKS

Saving outside the banking sector was based on several reasons. Of the one hundred and forty nine who saved completely outside the banking sector, about sixty four (or 43%) of them agreed that money saved outside the bank was readily available. The easy access to the co-ordinators when money was urgently required formed part of this consensus. Seven (or 4.5%) of the respondents whose answers were independent of the designed questionnaire argued that their earnings were too small to be kept in the bank. Moreso, they revealed that banks do not operate on Saturdays or on public holidays, whereas one could gain access to either one's co-ordinators or collectors of savings on any day and at one's convenience. The far distance of the banks from their residence constituted the reasons why fifteen or (9.6%) of the respondents would not save with the banks. Convenience borne out of several

factors would rather motivate thirty four (or 21.3%) to save outside the bank. However, time wasting characteristics of the banks in terms of long queues and endless waits encouraged twenty seven or (17.3%) of the respondents to continue saving outside the banking sector. Absence of too much paper work or official bureaucracy in the informal sector motivated nine or (5.8%) of the respondents to remain in this sector. Fifty four or (29.5%) of the respondents saved privately within the confines of their rooms, while seventy seven or (42.1%) preferred the savings club. Closely related were those whose penchant was located in the age-long traditional institution i.e. Esusu or Esu. They constituted about fifty two or (28.4%). The remaining fifty four were co-operative and thrift society members. A total of 100 persons would prefer the informal sector for loans based on several factors. These ranged from relatively low rate of interest and less official requirements such as collateral security and other unaffordable demands. Forty respondents would as a result continue to save outside the banking sector. Twenty six respondents believed that inconvenient terms as stated by banks but absent in the informal sector encouraged them to seek for loans outside the modern sector. The remaining twenty would not give any reasons but showed preferences for the informal sector.

Other benefits enjoyed by the member of either the saving clubs or co-operative and thrift societies, include mutual benefits and understanding amongst members and solidarity during trying or emergency period.

As against the formal sector whose relationship with the customers

were purely official, the informal sector subsisted far ahead. For instance, among certain savings groups in the study area, interest rates on money contributed were shared equally among members.

Collection time of periodic savings by members of a savings club may be waived to allow any members who require funds for emergency purposes to have such funds.

Flexibility and sense of purpose exhibited by these associations would make them thrive perpetually in the rural areas for some time to come. This is because, they relate easily among themselves and set out penalties for those who go contrary against set down rules and regulations.

Besides the advantages derivable from patronising the informal sector, it is fraught with lots of risks. Individuals entrusted with large sums could abscond with the fund or become susceptible to armed robbers attacks. Although there are reported armed robbery cases and fraudulent acts by bank workers, customers' confidence in the sector are still assured because of their corporate entity.

Of the one hundred and fifty five who responded, forty or (25.8%) submitted that money kept with the co-ordinator might be stolen. Fifty eight or (37.47%) agreed that collectors' possibilities of absconding with the money contributed was very high. Thirty or (19.4%) were of the opinion that some members can scuttle the existence of the smooth running of the association by withdrawing their membership at the middle of the period. Improper record keeping as against the case in the formal sector was responsible for the failure of this sector. Twenty or (12.9%) admitted to this fact. Seven others ruled out the above possibilities and confessed of having enjoyed good relationships with their co-ordinators.

CHAPTER FIVE

THE ACTIVITIES AND OPERATIONS OF BANKS IN THE STUDY AREA

THE ACTIVITIES AND OPERATIONS OF BANKS IN THE STUDY AREA

5.1 MOTIVES FOR SAVING WITH BANKS

Motives for saving with banks vary. Of the respondents who saved with banks about one hundred and two or (59.3%) stated that they did so to ensure the security of their funds.

They further stated that keeping money at home to them, was fraught with a lot of risks such as loosing large sums hidden at home to armed robbers or thieves. It might also be destroyed by fire etc. It was believed among the rural dwellers that keeping money at home under different and uncondusive conditions had resulted in the mutilation of the currency. It could also be defaced or destroyed by ants and the likes.

Privacy was considered necessary by thirty three or (19.2%) of the respondents. This is to ensure that their savings are not opened to prying eyes of relatives and friends who are curious about their financial capacities. As against savings at home, the banks would not easily divulge such information.

The lure to earn higher interest rate on savings motivated twenty or (16.3%) of the respondents to save with the banks. They claimed that keeping money outside the banks was non-interest yielding as such they would prefer the bank.

The advantages of the loans and overdraft granted by the banks motivated six or (3.5%) of the respondents to save with the banks. Three others saved with the bank because it was obligatory to do so as dictated by their employers, to enable them earn their monthly incomes.

5.2 ANALYSIS OF INDIVIDUAL BANK OPERATIONS

A total number of three conventional banks operated full bank branches in the local government area. The People's Bank which was mainly a savings bank for the low income groups commenced operation in the L.G.A. in 1989. It has a central branch in the main town - Epe Central branch and cash centres in all parts of the L.G.A. The African International Bank , formerly , (B.C.C.I) situated at Agbowa, some 20 - 25km from Epe Central did not respond to the designed questionnaire. They found the information contained therein exclusive to the bank. The other banks are the First Bank and the Societe Generale Bank.

The First Bank commenced operation in the L.G.A. in 1978 with a total number of 1200 customers in 1981. By the year end 1985, the number of customers patronising the bank had risen to 4700. As at 1990, the bank had a total of 8000 customers. Currently the bank has a staff strength of about 21.

During the year 1981 - 1990, a total of 55,400 customers transacted business with the bank. On the average the bank had a total of 5540 customers yearly. A total amount of N1.1m was deposited with the bank in time/saving deposit in the year 1981 (see table 5.1). There is a progressive annual increase in saving until 1984 when a decline was recorded. However, the figure rose continuously until another fall was recorded in 1988. By 1990, a total amount of 3.9m had been saved.

TABLE 5.1

VOLUME OF DEPOSITS RECEIVED BY FIRST BANK

YEAR	TIME/SAVING DEPOSITS ₦	DEMAND/CURRENT ACCOUNTS ₦	TOTAL ₦
1981	1,100,000	900,000	2,000,000
1982	1,700,000	875,000	2,575,000
1983	2,300,000	1,400,000	3,700,000
1984	1,800,000	1,200,000	3,000,000
1985	2,500,000	738,000	3,238,000
1986	3,100,000	967,000	4,067,000
1987	3,700,000	1,600,000	5,300,000
1988	2,900,000	1,700,000	4,600,000
1989	3,400,000	1,500,000	4,900,000
1990	3,900,000	2,030,000	5,930,000
	26,400,000	12,910,000	39,310,000

Overall, a total sum of ₦26,400,000 was recorded during the (period) of analysis. This averaged about, ₦2,640,000 yearly. At the same time, the highest saving was recorded in the year 1990. There was a fluctuation in the demand/current account deposit (see table 5.1). In the year 1981, the demand deposit was ₦900,000. It rose considerably until a reduction was recorded in the year 1985. A further increase in deposit was recorded henceforth until 1989 when another decline was recorded. However, as at the end of

operation in 1990 the bank had increased its current account deposit to ₦2.03m.

Total deposits under the period in review stood at ₦39,310,000. It had risen from ₦2m in 1981. At the same time, the level of saving deposit at the end of operation in 1990 was ₦26.4m. The current account recorded a total of ₦12,910,000 for the same period. Thus, an average of ₦3,391,000 was either deposited in the current or savings accounts yearly.

5.3 VOLUME OF LOANS GRANTED BY FIRST BANK

A total of 4,652 applicants were received during the period 1981 - 1990. Of this number 1,424 were honoured (see table 5.2). This shows a total of (30.6%) of applicants. The highest number of applicants was recorded in 1986. Of this, 730 applicants were honoured while only 480 or 65% were granted. The least number of applicants granted loan was recorded in the year 1990.

In 1981, of the 460 applications received, 110 were granted a total sum of ₦600,000 or an average of ₦5,454.5. Also in the year 1985, 310 applicants were received but only 115 were granted a total sum of ₦50,000 or an average of ₦6,521.7. The highest amount of loan was granted in the year 1989. This averaged about ₦21875 per person per year. During this period, 480 applicants were received. Overall, only 40 or (8.33%) were given loan.

The above analysis revealed that the total amount of loans granted customers in the area were low when compared with the average amount granted individual customers.

TABLE 5.2

TOTAL VOLUME OF LOANS GRANTED BY FIRST BANK , EPE

YEAR	TOTAL NOS APPLICATION	NO. OF APPLICANTS GRANTED	PERCENT OF TOTAL %	AMOUNT GRANTED ₦	AVERAGE AMOUNT PER APPLICANT ₦
1981	460	110	23.9	600,000	5454.5
1982	530	90	16.9	450.000	5000.
1983	320	75	23.4	200,000	2666.7
1984	280	60	21.4	150,000	2500.
1985	310	115	37.1	750,000	6521.7
1986	730	480	65.8	680,000	1416.7
1987	640	290	45.3	325,000	1120.7
1988	590	140	23.7	418,000	2985.7
1989	480	40	8.33	875,000	21875.
1990	312	24	7.69	533,000	22208.3
	4652	1424		₦4,981,000	

Sourced from research questionnaire.

5.4 SOCIETE GENERALE BANK LIMITED, EREDO, EPE

The bank began operation in the year 1983 in the L.G.A with a staff strength of ten. It operated as a full branch and did not have any cash centre elsewhere in the area. As at the end of 1990 , its total number of customers stood at 2900. It commenced operation

with about 635 customers in the year 1983. During the period of analysis, 1983 - 1990, the bank had a total patronage of 10,802 customers. An average of 1350 accounts were opened both in the current account deposits and the saving accounts. The bank also increased its total customer patronage from 635 in 1983 to 2900 in 1990. This shows an increase of 2265. Table 5.3 showed total deposits received by the bank. A total of ₦8,815,640 was deposited with the bank at the end of operation in 1990. Of this sum, ₦5,334,510 represent time/saving deposits, while a total sum of ₦3,481,130 was lodged in the current account deposit of the bank. An average of ₦1,101,959 was deposited in both the saving and current account yearly.

TABLE 5.3

TOTAL VOLUME OF DEPOSITS RECEIVED BY SOCIETE GENERALE BANK

YEAR	TIME/SAVING DEPOSIT ₦	DEMAND/CURRENT DEPOSIT ₦	TOTAL ₦
1983	101,150	205,590	306,740
1984	451,150	196,250	647,400
1985	711,150	300,650	1,011,800
1986	575,900	435,680	1,011,580
1987	603,400	511,770	1,115,170
1988	803,990	760,800	1,564,790
1989	953,890	950,330	1,904,220
1990	1,133,880	1,120,060	2,253,940
	5,334,510	3,481,130	8,815,640

* Sourced from research questionnaire.

The time/saving deposits showed an increasing result during the period. At the end of 1983, the saving account stood at ₦101,150.By 1990, the savings account had a record of ₦133,880 showing an increase on ₦1,033, 730. The demand/current account on the other hand recorded a fluctuating result. In 1983, it stood at ₦205,590 and declined to ₦196,250 in 1984. However, since 1985, a surging increase in the current account was witnessed culminating In about ₦1,120,060 in the bank's current account.

Societe Generale Bank, Eredo, received a total of 518 loan applications during the year of analysis. (see table 5.4)

TABLE 5.4

TOTAL VOLUME OF LOANS GRANTED BY THE BANK

YEAR	NO OF APPLICATION	NO OF APPLICANTS	% OF TOTAL	AMOUNT GRANTED ₦	AVERAGE AMOUNT PER APPLICANT ₦
1983	50	27	54	250,000	9259.3
1984	80	39	48.75	380,000	9743.6
1985	65	20	30.8	195,000	9750.
1986	77	23	29.9	265,000	11521.7
1987	45	15	33.3	137,000	9133.
1988	69	18	26.1	173,000	9611.
1989	52	17	32.7	146,000	8588
1990	80	22	27.5	190,000	8636.4
	518	181		₦1,736,000	₦77243

Sourced from research questionnaire.

About 181 or (34.9%) applications were treated and approved. The least number of applications and loans grant was recorded in 1987. Equal number of applications were received by the bank during the period 1984 and 1990. However, only 39 and 22 applications were approved respectively. In the first year of operation, a total amount of ₦250,000 was granted to about 27 customers or an average of ₦9,259 per applicant. The year, 1984 a total sum of ₦380,000 was granted to about 89 persons with an average of ₦9,743.6 per customer. The least amount of loan was given in the year 1987 with an average of ₦9,133 per person. On the whole ₦1,736,000 was given out as loans to customers during the period of analysis. This averaged about ₦9,591 per applicant yearly.

5.5 PEOPLE'S BANK EPE

The People's bank began operation in the local government, in the year 1989 with a central branch at Epe Central. Unlike the commercial banks, it has cash centres spread across the local government area. Some of them were however closed down as a result of poor patronage from the rural people and loan defaults. Its staff strength presently stands at 17. By the end of 1990, the bank could boast of 265 saving account holders. During the same period its total saving stood at ₦284,252.38. However, about 919 people were given loans summing up to about ₦834,850 by the end of 1990 or an average of ₦908.4 per person yearly.

5.6 CORRELATION CO-EFFICIENTS OF EACH BANK'S DEPOSIT LIABILITIES TO TOTAL BANKS' DEPOSITS IN THE STUDY AREA

The correlation co-efficient of First Bank's total deposit liabilities to the total deposits was 0.951 or 95% (see Appendix E). This result shows that there exists a strong relationship between the total deposits of all banks in the area with the total deposit liabilities of the First bank during the period 1981 - 1990

The outcome of the correlation co-efficient for the Societe Generale bank was 0.33 or 33%. This represents an insignificant or negative relationship between the total banks' deposits in the study area with the deposit received by the bank (see Appendix F).

5.6.1 REGRESSION RESULTS

The total amount of deposits received by the banks was regressed on the total loans granted customers in the study area. This enables an establishment of the relationship between the deposit liabilities and credit liabilities.

$Y = 2.14 + 3.80X$

(1.283) (1.572)

(1.66) (2.42)

$R2 = 0.422.$

correlation of Y and X = 0.650.

The result of simple regression showed that there was a strong relationship between the total deposits and total loans granted customers in the study area. The correlation of 0.650 or 65% exhibited a strong relationship.

The t-ratio also had a significant fit to the data with an outcome of (2.42). The R2 however, had a low result of 42.2%. This has serious implication for the banks in the study area. It shows that the variation or the growth in saving deposits of the banks do not have a commensurate growth in the amount of loans granted the customers in the area. The result further corroborates the notion often held about the lukewarm attitudes of banks operating in the rural areas to grant loans to small scale industries to enable them embark on small or cottage industries.

5.7 OTHER ACTIVITIES OF BANKS AS THEY AFFECT RURAL SAVINGS

This section looks at other activities of the banks which could influence the mobilisation of saving in the area. In this regard such factors as the interest rate, collaterals required for loans and a host of other relevant issues as they affect savings mobilisation are discussed.

5.7.1 INTEREST RATES

The rates of interest - both lending and deposits posted by the banks were different. This was not unconnected with the Central Bank's deregulation regime of the economy occassioned by the Structural Adjustment Programme (S.A.P). It was observed that the First Bank posted an interest rate of 17% on deposit and 28.5% lending rate. Societe Generale on the other hand lent at the rate of 20.5% and received deposits at the rate of 15%. The People's Bank gives loan at the rate of 15% and pay interest of 13.5% on its savings.

Interest rate has a serious implication on lending. It deprives and discourages potential rural investors or customers the ability to obtain loans from the banks. However, a higher interest on deposits, fosters an increase in savings of the individuals.

5.7.2 REQUIRED COLLATERALS FOR LOANS

It is customary of banks in the country to demand for collaterals from their customers before granting loans. Previous loan defaults by banks' customers resulted in bad debts to the detriment of the banks' balance sheets. Among the required collaterals as revealed by the banks were as follows:

i) building or landed property
ii) savings pass books
iii) life insurance policy
iv) share certificates.

However, it is worth noting that the People's Bank does not demand for collaterals. This is understandable because of the calibre of people who patronize the bank (e.g artisans, petty trader etc.) and the nature of loans granted. The collateral demanded by banks, discouraged many banks' customers the opportunity of obtaining, loans from the banks.

5.7.3 INFLUENCE OF TRADITIONAL/INFORMAL SYSTEM OF BANKS' SERVICES

The predominant influence of traditional savings on the modern sector, particularly in the study area, was envisaged would have serious effects on the banks' services. However, on the contrary, the banks observed that the influence was on the average, since

the deposits received by the banks in the rural area have been on the increase.

5.7.4 INCENTIVES FOR PATRONAGE OF THE FORMAL SECTOR

The banks rendered several but similar opinions on how the government or its agencies could mobilize savings in the rural sector.

The First Bank was of the opinion that interest rates should be pegged to a lower and reasonable level in order to enhance lending to the rural people. Societe Generale agreed with this stance but added that banks need to be flexible in their services to the rural people.

5.7.5 LINKAGES OF THE INFORMAL AND THE FORMAL SECTOR

As part of the strategies identified to foster and promote rural saving mobilisation, linkages of the two sectors were found to be very imperative. This is because once and for all the dualisation of the financial system shall be minimised or curtailed, and pave the way for effective policies by the monetary authority.

In this regard, the banks generally subscribed positively to the suggestion that the two sectors be interlinked for greater efficiency. This is because idle funds lodged in the rural sector could be mobilized and utilized for further investment.

SUMMARY, POLICY IMPLICATION AND RECOMMENDATIONS

6.1 SUMMARY

The low level of capital in the less developed countries has been anchored on the paucity of saving in the rural areas. The crude and traditional manner by which rural savings are characterised have continuously hindered meaningful mobilisation efforts of government and its agencies. Besides, it has created serious setbacks to capital formation in the LDCs.

In the course of the research in Epe L.G.A, efforts were made at verifying the socio-economic factors determining savings in the rural area. In all, 300 respondents were sampled in the study area, while a total of 257 respondents completed the questionnaire. The results are summarised as follows:

Respondents' incomes showed a high relationship both with personal annual saving as well as the propensity to save of individuals. Equally, interest rate played a significant role as an inducement to save. Other explanatory variables i.e. age of respondents, level of education, inflationary level, family size and proximity to banks, individually and collectively determine the savings of individuals in the study area. However, family size and the level of education had inverse relationships with the savings of respondents. The R2 or the correlation of multiple determination revealed that the variation, in savings is as a result of the variations in the explanatory variables.

The result of the marginal propensity to save (M.P.S)-25.6kobo and the Income Elasticity of Savings (ES)- 1.69 justify the existence of savings in the rural area. The study further showed that in the

area of study an average individual saved a considerable part of his annual income.

The survey in the L.G.A revealed that civil servants were more favourably inclined towards savings in the banks than any other group of respondents. At the same time, traders constituted the majority of respondents who patronised the informal sector for savings. However, privacy and safety were considered paramount than any other factor by individuals who saved in the banks. Insensitivity and inflexibility of the banks to the customs and problems confronting the rural people propelled or motivated many respondents to continue patronizing the informal sector. This sector was also characterised by lots of risks resulting from collectors absconding with money contributed.

Three conventional banks and a branch of the People's Bank operated in the L.G.A Findings from the co-efficient of correlation revealed a positive correlation of the deposit liabilities of the First Bank to total banks deposits. The regression result also showed that the variation in the total savings does not motivate the banks to increase their loans grants to the rural people. The R2 was 42.2%. Collaterals required by the banks still proved to be stumbling blocks to loan grants to the rural folks. At the same time, linkages of the informal and formal sectors received a commendable approval from the banks.

6.2 POLICY IMPLICATION AND RECOMMENDATIONS

In view of the overwhelming influence and factors militating against the mobilisation of savings, it is pertinent and imperative to proffer some remarks and recommendations.

Income is a strong factor which influenced savings and the decision to save. It was discovered that many would have been obliged to save more but would not because of the relatively low-level of income and unequal income distribution in favour of the few rich. This was occasioned by the downturn or depression being witnessed in the economy which did not allow for adequate consumption and indeed savings.

The inflationary situation in the economy which have been devastated by the deficit financing embarked upon by the successive administrations over the years and the unyielding increase in prices of essential goods, have jointly exacerbated and aggravated the plight of the low-income group. Besides, it has reduced tremendously the purchasing powers of savings.

Unfavourable income distribution in the economy has also worsened the standard of living of low-income earners and has further made savings irrelevant to this category of people. This situation is most prevalent in the rural LDCs.

The speculative era rearing its ugly head in the entire sector of the economy has dealt a deadly blow to the productive base of the economy. Instead of engaging in real productive sector which would contribute meaningfully to the G.D.P. and improve the position of the balance of payments, many business persons preferred the speculative business which does not require much efforts.

The earlier, the tendencies for quick money are eschewed the better for the economy and the populace.

The thrust of the policies formulated by the government on the productive sectors most especially, agricultural sector and the industrial or manufacturing sectors have not been implemented with all intents and purposes. These sectors constitute the major productive sectors in the economy. Thus, a vigorous pursuit of policies in respect of these sectors would enhance the productive base of the economy. Besides, the G.D.P is augmented, export earnings are increased and ultimately provide employment for the army of unemployed youths roaming the major streets of the federation. Moreover, per-capita income is increased, thus affording the individuals to save more. This would also aid the formation of capital in the economy. Besides, the government can encourage further farmers' co-operatives with the provision of fertilizers, tractors and other implements that would enhance farm produce at subsidized rates.

In line with the above, a re-orientation of the consumers' consumption patterns come to focus here. Consumers must be enlightened further about the patriotic fervour and virtue of patronising locally fabricated and produced goods in favour of the imported ones. The economy stands to gain tremendously as it conserve lots of foreign exchange which can be directed towards other viable projects.

Availability of credit facilities to low-income earners to say the least was dismally low. Many small-scale industrialists with good productive interests and intentions were disappointed as a result

of the non-availability and unfavourable criteria for advancing loans by banks. Government policies have always not been formulated in favour of this group of investors. The government and the banking sector can re-examine their policies towards granting soft loans to viable small scale industrial projects in our rural areas. They stand to contribute immensely to the G.D.P. increase employment in the rural areas and thereby re-oreintating and halting the ever-increasing multitude of able-bodied men and women deserting the rural areas for the urban centres.

As a corollary, provision of infrastructural facilities and strengthening or refurbishing the existing amenities is pertinent. Many investors have been discouraged as a result of lack of adequate and functional infrastructure in the rural areas. In earnest, the provision of such facilities as good motorable roads, pipe borne water and electricity that would facilitate the presence of these industries become fundamental.

It is also important to stress that any meaningful savings mobilisation requires equal participation of the teeming populace. Thus, enlightenment campaigns which would bring the financial institutions to the door steps of the savers should be encouraged. One of such is the mobile saving banks.

Furthermore, the activities of the new innovation in the financial system in the establishment of the People's Bank and the Community Banks which are mainly savings banks should focus more attention on the rural areas.

Concentration of the People's Bank and Community Bank branches nearer the urban in preference to the rural hinterland goes

contrary to their founding objectives of bringing banking services closer to the low-income people. Besides the Central Bank of Nigeria (CBN) could in its capacity as the monitoring authority ensure strict adherence to the objectives.

This is important if any meaningful benefits are to be derived from the schemes by the low-income group.

For an urgent policy consideration, the government and its agencies should develop means by which they would evolve the integration of the informal sector with the formal sector. For instance, saving in kind of rural households could be monetized by introducing pawning as an activity of multipurpose societes. It is also suggested that adequate research be embarked upon in order to appreciate the prevailing circumstances in the rural areas before embarking fully on their integration.

This could foster the growth of a viable and strong financial intermediation. Besides it affords the Central Bank the opportunity of monitoring closely the stock of money in circulation.

It is worth emphasising that a vibrant and sustainable economic growth can only be guaranteed if all necessary policies put in place to develop the rural areas are implemented with vigour and fervour.

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APPENDIX A

RURAL SAVINGS AMONG INDIVIDUALS AND SAVING MOBILISATION BY FINANCIAL INSTITUTIONS IN EPE LOCAL GOVERNMENT AREA OF LAGOS STATE
(INDIVIDUAL QUESTIONNAIRE)

SECTION A: PERSONAL DATA

1. VILLAGE/TOWN:.....

2. MAIN OCCUPATION:.....

3. OTHER OCCUPATION:.....

4. SEX (TICK)

25 or Younger ( ) 30 - 39 ( )

40 - 49 ( ) 50 - 59 ( )

50 - 59 ( )

5. HIGHEST LEVEL OF EDUCATION (TICK)

(a) None ( ) (b) Koranic ( )

(c) Adult Education ( ) (d) Primary ( )
(e) Secondary ( ) (f) University ( )

(g) Others (specify):.....

6. RELIGION (TICK)

(a) Islam ( ) (b) Christianity ( )

(c) Traditional ( )

7. FAMILY SIZE (TICK)

(a) Below 3 ( ) (b) 4 - 6 ( )
(c) 7 - 9 ( ) (d) 10 - 12 ( )
(e) 13 - 15 ( ) (of) 15 and above ( )

SECTION B: SOURCES OF INCOME

8. MONTHLY INCOME (TICK)

(a) ₦250 - 300 ( ) (b) ₦350 - 400 ( )

(c) ₦450 - 500 ( ) (d) ₦500 and above ( )

9. ANNUAL INCOME (TICK)

(a) Below ₦1,000 ( ) (b) Between ₦1,000 - 5,000 ( )
(b) ₦6,000 - 10,000 ( ) (e) ₦20,000 and above ( )

10. Do you have any surplus from your earning at the end of each day, week, month or year? (Tick).
    (a) Yes ( ) (b) No ( )

11. If 'Yes' do you save the surplus? (Tick)

    (a) in the bank ( ) (b) outside the bank ( )

12. Do you receive gifts (physical goods) or in form of money/cash from relatives who live in cities? (Tick).

    (a) Yes ( ) (b) No ( )

13. If 'Yes' what do they worth in monetary terms?

    (a) ₦250 - 300 ( ) (b) ₦350 - 400 ( )
    (c) ₦450 and above ( )

14. Based on questions 12 and 13 above, state amount saved out of gifts received from relatives:

    ₦.....

    Is it saved in (a) traditional form or (b) in the banks?

    .....

15. Do you earn substantial income from occupation other than your main occupation? (Tick)

    (a) Yes ( ) (b) No ( )

16. If 'Yes' how much do you save from it? (Tick)

    (a) ₦250 - 300 ( ) (b) ₦350 - 400 ( )

    (c) ₦450 and above ( )

17. If answer to 15 is 'No' why? State reasons

    .....

    .....

    .....

SECTION C: BEHAVIOURAL PATTERNS AND MOTIVES

18. What influences your saving decision? Sate reasons.

    .....

    .....

    .....

10. Do you have any surplus from your earning at the end of each day, week, month or year? (Tick).
    (a) Yes ( ) (b) No ( )

11. If 'Yes' do you save the surplus? (Tick)

    (a) in the bank ( ) (b) outside the bank ( )

12. Do you receive gifts (physical goods) or in form of money/cash from relatives who live in cities? (Tick).

    (a) Yes ( ) (b) No ( )

13. If 'Yes' what do they worth in monetary terms?

    (a) ₦250 - 300 ( ) (b) ₦350 - 400 ( )
    (c) ₦450 and above ( )

14. Based on questions 12 and 13 above, state amount saved out of gifts received from relatives:

    ₦.....

    Is it saved in (a) traditional form or (b) in the banks?

    .....

15. Do you earn substantial income from occupation other than your main occupation? (Tick)

    (a) Yes ( ) (b) No ( )

16. If 'Yes' how much do you save from it? (Tick)

    (a) ₦250 - 300 ( ) (b) ₦350 - 400 ( )

    (c) ₦450 and above ( )

17. If answer to 15 is 'No' why? State reasons

    .....

    .....

    .....

SECTION C: BEHAVIOURAL PATTERNS AND MOTIVES

18. What influences your saving decision? Sate reasons.

    .....

    .....

    .....

19. For what purpose do you save? (Tick)

    (a) Capital outlay to start an industry, farm or to buy implements ( )

    (b) Working capital (for raw materials, to run my business, to pay the workers) ( )

    (c) Durable consumer goods (TV, Stereo Set, Sewing Machines) ( )

    (d) For payment of children's school fees ( )

    (e) Social ends (house warming, naming, wedding, outing, ceremonies) ( )

20. Would a higher rate of interest motivates you to save more with the bank?

    (a) Yes ( ) (b) No ( )

21. If answer to 20 is 'No' what other motives influence your savings? State.

    (a) .....

    (b) .....

    (c) .....

22. In what ways have the government or their agencies influence your saving with the bank? (Tick)

    (a) Through enlightenment campaigns ( )

    (b) Through advertisements of radio, TV, bill boards, etc ( )

    (c) Through mobile banks ( )

23. Do you save on a (Tick)

    (a) Daily basis? (b) weekly basis ( )

    (c) At irregular intervals when there is surplus earnings ( )

24. Do you save (Tick)

    (a) a fixed amount daily, weekly, monthly, yearly or irregularly ( )

    (b) the amount varies ( )

25. What effects have inflation (price increase) on your saving pattern? (Tick)

    (a) has increased ( ) (b) has decreased ( )

    (c) remain constant ( )

26. How far is the nearest bank to your house/village? (Tick)

    (a) Under 3km ( ) (b) Between 3 and 8km ( )

    (c) Between 9 and 14km ( ) (d) Between 15 and 20km ( )

    (e) Over 20km ( )

27. What effect has the long distance on your saving? State

    .....

    .....

SECTION D: INFORMAL/TRADITIONAL INSTITUTION

28. Why do you save outside the bank? (Tick)

    (a) The bank is too far away ( )

    (b) Saving with the bank wastes too much time ( )

    (c) It is more convenient ( )

    (d) Too much paper work ( )

    (e) Money saved outside the bank is readily available on demand ( )

    (f) Others (specify) .....

29. What mode of informal/traditional savings do you adopt? (Tick)

    (a) Private ( ) (b) Saving club ( )

    (c) Savings club ("ROSCAS", ESUSU, etc) ( )

    (d) Co-operative and Thrift Society ( )

    (e) Others (specify) .....

30. What proportion of your annual income is saved in the traditional financial institutions (e.g savings club, ESUSU)? (Tick)

    (a) Between 1 - 5% ( ) (b) 6 - 10% ( )

    (c) 11 - 15% ( ) (d) 16 - 20 % ( )

    (e) above 21% ( )

31. If you save with savings club or daily collectors, what are the risks involved? (Tick)

    (a) the money may be stolen from the co-ordinator ( )

    (b) some members may take their money and discontinue their contribution ( )

(c) Confusion may arise due to improper record keeping ( )

(d) The collector may run away with the money ( )

(e) Other reasons (specify) .....

.....

32. Do you earn any interest on the money saved with the savings club or daily collectors? (Tick)

(a) Yes ( ) (b) No ( )

33. If you save with the co-operative thrift and credit society, do you earn interest on the money saved? (Tick)

(a) Yes ( ) (b) No ( )

34. If 'Yes', what is the rate (specify)? .....

.....

35. Would you prefer the informal sector for loans? (Tick)

(a) Yes ( ) (b) No ( )

36. If 'Yes', why? (Tick)

(a) Because of relative low rate of interest ( )

(b) Less official requirements ( )

(c) Terms convenient ( )

(d) Others (specify) .....

37. What other benefits have you enjoyed from your savings club? State.

.....

.....

38. Have you ever obtained loan from your savings clubs? If No, why? give reasons:

(a) .....

(b) .....

(c) .....

39. Have you ever obtained loan from the co-operative thrift and credit society? (Tick)

(a) Yes ( ) (b) No ( )

40. If 'Yes', what was the rate charged? (specify)

.....

SECTION E: FORMAL FINANCIAL INSTITUTIONS (BANKS)

41. What motivates you to save with the bank? (Tick)

(a) Security reasons ( ) (b) Privacy reasons ( )

(c) To earn interest ( )

(d) To enable me obtain loan/overdraft ( )

(e) Others (specify) .....

42. What percentage of your annual income do you save per annum in the bank? (Tick)

(a) Between 1 - 5% ( ) (b) 6 - 10% ( )

(c) 11 - 15% ( ) (d) 16 - 20% ( )

(e) Above 21% ( )

b. Sate the average amount saved (in Naira) per annum:

₦

.....

43. Do you operate a bank account? (Tick)

(a) Yes ( ) (b) No ( )

44. If answer to 43 is 'Yes',

(a) Where did you open it? (Name of bank)

.....

(b) When did you open it? .....

45. What type of account do you operate in the bank? (Tick)

(a) Savings account ( )

(b) Current account ( )

(c) Both ( )

46. Have you ever sought for loans from your bank? (Tick)

(a) Yes ( ) (b) No ( )

47. Were you granted the loan/overdraft? (Tick)

    (a) Yes ( ) (b) No ( )

48. If 'No', why? (Tick)

    (a) Too much official requirements ( )

    (b) High rate of interest ( )

    (c) Terms of payment not convenient ( )

    (d) Others (specify) .....

49. If you have had access to loan/overdraft facilities between 1987 and now, what was the rate of interest charged? (specify).

    .....

    .....

SECTION F: MISCELLANEOUS

50. Do you adopt both the informal and the formal forms of savings? (Tick)

    (a) Yes ( ) (b) No ( )

51. Before the introduction of banks in the LGA, did you save with any bank outside the area? (Tick)

    (a) Yes ( ) (b) No ( )

52. If yes, where? State; (town and name of bank)

    .....

    .....

53. If No, what mode of savings did you adopt and why? State.

    .....

    .....

54. What in your opinion would encourage or motivate people in the LGA to save with the banks?

    (a) .....

    (b) .....

    (c) .....

    (d) .....

APPENDIX B

RURAL SAVINGS AMONG INDIVIDUALS AND SAVINGS MOBILISATION
BY FINANCIAL INSTITUTIONS IN EPE LOCAL
AREA OF LAGOS STATE

QUESTIONNAIRE (BANKS ONLY)

SECTION A:

1. Name of Bank .....

2. Location (Town) .....

3. Date of Establishment .....

4. Month and Year of Commencement of Business in the LGA .....

   .....

5. Present Staff Strength .....

6. Does your Branch Operate as:

   (a) a full branch, or (b) Cash centre/annex .....

7. If (b), give reasons .....

   .....

   .....

SECTION B:

8. Number of customers (all account holders) as at 31st December:

Year	Number of Customers (Total)
1981	
1982	
1983	
1984	
1985	
1986	
1987	
1988	
1989	
1990	

9. Volume of deposit received as at 31st December

Year	Time/Savings Deposit	Demand/Current Account ₦	Others
1981			
1982			
1983			
1984			
1985			
1986			
1987			
1988			
1989			
1990			

10. Amount of loan granted as at 31st December

Year	No. of Applications	No. of Applications Granted	Total Amount Granted ₦
1981			
1982			
1983			
1984			
1985			
1986			
1987			
1988			
1989			
1990			

11. What is your bank rate of interest on

(a) Lending? .....% (b) Deposit? .....%

12. What are the required collateral securities for loan?

(a) .....

(b) .....

(c) .....

(d) .....

13. How would you assess the extent or influence of traditional schemes/informal savings of the people on the services you provide? (Tick)

    (a) High ( ) (b) Average ( ) (c) Low ( )

14. To increase their participation and patronage of the formal financial sector, what in your own opinion could the government or its agencies do to mobilize rural savings?

    .....

    .....

    .....

15. Would you subscribe to the possibility of interlinking the rural/traditional institutions with the formal banking system? (Tick)

    (a) Yes ( ) (b) No. ( )

16. Explain your position .....

    .....

    .....

17. How would you assess your operational performance (profitability) since commencing business in the LGA? (Tick)

    (a) High ( ) (b) Low ( ) (c) Average ( )

18. Is the performance level reasonable when compared with an urban branch? Comment.

    .....

    .....

    .....

19. With the establishment of People's Bank and the Community Bank, do you think the rural banking programme be

    (a) discontinued ( )

    (b) continued ( )

    (c) continued but improved upon ( )

20. Comment on your decision: .....

    .....

    .....

APPENDIX C

SINGLE REGRESSION EQUATION OF THE INDEPENDENT VARIABLES ON THE DEPENDENT VARIABLE (S1)

$$S1 = -752 + 0.256X1^{*}$$

$$S1 = 1663 - 14.5X2$$

$$S1 = 704 + 40.1X3$$

$$S1 = 1057 + 4.7X4$$

$$S1 = 634 + 749X5$$

$$S1 = 1727 - 776X6$$

$$S1 = 1203 - 38.2X7$$

* 0.256 represents the marginal propensity to save (M.P.S.)

APPENDIX D

OVERALL DEPOSITS BY THE BANKS IN THE L.G.A

YEAR	FIRST BANK ₦	SOCIETE GENERALE	PEOPLES'S BANKS	TOTAL ₦	% INCREASE
1981	2,000,000	—		2,000,000	
1982	2,575,000	—		2,575,000	28.8
1983	3,700,000	306,740		4,006,740	55.6
1984	3,000,000	647,400		3,951,800	-1.4
1985	3,238,000	1,011,800		4,259,800	7.8
1986	4,067,000	1,011,580		5,078,580	19.2
1987	5,300,000	1,115,170		6,415,170	26.3
1988	4,600,000	1,564,790		6,164,790	-3.9
1990	4,800,000	1,904,220		6,804,220	10.4
1991	5,930,000	2,253,940	284,252	8,468,190	24.5
TOTAL	39,210,000	9,815,640	284,252	49,725,030	

* Sourced from responses to the research questionnaire.

APPENDIX E

STATISTICAL COMPUTERISATION

OVERALL DEPOSITS TO FIRST BANK'S DEPOSITS

1	X	Y	$\bar{X}$-X	$\bar{Y}$-Y	X2	Y2	X-Y
1	2.0	2.0	-2.9	-1.9	8.4	3.61	5.51
2	2.6	2.6	-2.3	-1.3	5.29	1.69	2.99
3	4.01	3.7	-0.89	-0.2	0.79	0.04	0.18
4	3.9	3.0	-1.	-0.9	1.	0.81	0.9
5	4.25	3.24	-0.65	-0.66	0.42	0.44	0.43
6	5.1	4.1	0.2	0.2	0.04	0.04	0.04
7	6.42	5.3	1.52	1.4	2.31	1.96	2.13
8	6.2	4.1	1.3	0.2	1.69	0.04	0.26
9	6.8	4.8	1.9	0.9	3.61	0.81	1.71
10	8.5	5.9	2.6	2.0	6.76	4.0	5.2
	49.78	38.74	0.22	-0.26	30.31	13.44	19.35

EY2 13.44 Compiled from Appendix (D)

X = 4.9 Where:- X = Total Deposits of Banks

$\bar{Y}$ = 3.9 Y = First Bank's Total Deposits

EXY = 19.35 The abridged figures were divided by ₦1000,000

EX2 30.31

Formula:

$$\frac{EXY}{\sqrt{EX2 \cdot EY2}}$$

$$= \frac{19.35}{\sqrt{30.3 \cdot 13.44}} = \frac{19.35}{5.3X \ 3.7}$$

$$= \frac{19.35}{20.35} = 0.951$$

$$= 95.1\%$$

APPENDIX F

TOTAL DEPOSITS TO SOCIETE GENERAL'S DEPOSITS

	X	Y	$X-\bar{X}$	$Y-\bar{Y}$	X2	Y2	XY
1	4.01	0.31	-1.59	-0.8	2.5	0.6	1.3
2	3.9	0.65	-1.7	-0.46	2.9	0.2	0.8
3	4.25	1.01	-1.35	-0.1	1.8	0.01	0.1
4	5.1	1.01	-0.5	-0.1	0.3	0.01	0.0
5	6.42	1.11	0.82	0.	0.7	0.	0.0
6	6.2	1.6	0.6	0.49	0.4	0.2	0.3
7	6.8	1.9	1.2	0.79	1.4	0.6	0.9
8	8.5	2.25	2.9	0.14	8.4	0.02	0.4
	45.18	8.84	0.38	-0.04	18.4	1.64	3.8

Compiled from Appendix (D)

$\bar{X} = 5.6$

$\bar{Y} = 1.11$

NOTE:- X = Total Deposits of Banks
Y = Societe Generale's Bank Deposits

EX2 = 18.4

EY2 = 1.64

EXY = 3.8

Formula: $\frac{EXY}{EX2 \quad EY2}$

$$\frac{3.8}{4.3 \times 2.7} = \frac{3.8}{4.5}$$

= 0.33 OR 33%