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Rural Households' Income and Savings Pattern in South-Western Nigeria

Gabriel A. Shitu
Department of Agricultural Economics and Extension Services,
University of Ado-Ekiti, Ekiti State, Nigeria

Abstracts: This study examined income and savings pattern among 300 rural households in South-Western Nigeria. Data were collected using structured questionnaire. Data were analyzed using descriptive statistics and probit regression technique. Results showed that majority of the respondents were still within the active age range with mean age of 40.7. Also, 75.2% of the respondents had their annual income <₦54,750 while 17.1% of the respondents earned between the range of ₦54,751 and 109,500. About 5.5% earned between the range of ₦109,501 and 219,000 while 2.2% earned annual income >₦219,000. Also 54.7% of the respondents had annual savings of <₦10,000 while 23% of the respondents had their savings ranging between ₦10,001 and 20,000 annum^{-1}. Also 16.5% claimed that their savings were between ₦20,000 and 52,100 and 5.8% savings were than ₦52,100. However, different socio-economic factors influenced the savings pattern of rural households. These are households' income, gender of the households head, marital status and years of formal education. The study therefore recommended that financial institutions in the rural areas should be less formal in their operation so as to meet the financial needs of rural households and there should be accessible loan with proper monitoring.

Key words: Rural households, income, savings pattern, socio-economic characteristics, earned, Nigeria

INTRODUCTION

There is no gainsaying in the fact that savings has become a vital means by which human race can be sustained for a viable development. The relevance of rural savings cannot be overemphasized in that it forms the backbone for rural economic development. Miracle (1980) described savings as significant way of improving well-being, insuring against times of shocks and providing a buffer to help people cope in times of crisis. Savings are of great importance in a developing economy like Nigeria. This is because of the direct bearing it has on the level of economic activity of the nation (Adeyemo and Bamire, 2005). For instance, the degree of progress attained within the Agricultural sector will largely depend upon what the farmers do with the additional incomes generated from year to year from their farm activities. This suffice from the fact that the growth rate in the farming economy largely depends on the stock of capital built in a farm organization and the ploughing back of such stocks in form of savings for further improvement of the farm organization. If these increments are spent on household expenditure, without building up the necessary infrastructure, the future economic development of the nation will be hampered. Adequate integration of saving and investment programmes into development strategies is capable of improving resource allocation, promoting equitable distribution of income and reducing credit delivery and recovery costs.

According to United Nations (1981), capital accumulation is a major prerequisite of economic development and if the volume of savings was inadequate to meet investment requirements, major bottlenecks were likely to develop in the process of capital formation and the drive for development. The volume of investment has been found to depend on income, cost of procuring investible fund and entrepreneur's expectations on the trend of the business in future. Ayanwale and Banire (2000) claimed that the saving behaviour of farmers in developing countries is less dependent on the absolute level of aggregate income and more dependent among other factors on the relationship between current and expected income, the nature of business, household size, wealth and demographic variables like age. Information on the determinants of saving patterns among rural households could help policy makers and credit agencies for effective targeting and efficient credit service delivery of financial lending schemes that could increase agricultural production as well as the general well-being of rural households.

William describe rural households as families that settled and dwelled in rural areas which have overtime continue to function in a predominantly conservative style. They are those households living in places with <20,000 residents or what has been called open countryside. In Nigeria, poverty level of rural households has been described as pathetic. Despite the plentiful resources and oil wealth, poverty is wide spread beyond measure. To worsen the whole situation, rural poverty tends to be evenly distributed across the country rather than concentrated in specific geographical areas. About 70% populations of rural households are classified as poor while 35% of them are living in absolute poverty. Sanusi affirms that 70% (about 105 million) of the population lives below poverty line. Poor population possesses the capacity to implement income generating activities but the main limitation to their initiative is the lack of access to capital to boost their productivity.

Moreover, the gap between the rich and the poor masses are getting wider every day, the rich people are getting richer while the poor households are getting poorer. This in turn affected greatly the savings attitude of the rural households. Rural households savings are not encouraging in that greater percentage of their income are expended on food which are now becoming too expensive to purchase in rural market. According to Narayan (2000), most rural households are crumbling under the weight of poverty. World Bank (1990) defined poverty as the inability to attain a minimum standard of living. According to German governments description, poverty is a condition in which poor people were not having enough to eat, a high rate of infant mortality, a low life expectancy, low educational opportunity, poor water, inadequate health care, unfit housing and a lack of active participation in the decision making process. Poverty defies objective definition because of its multi-dimensional nature. It has no geographical boundaries; it is present in the North, South, West and East. While some households are able to remain intact many others disintegrate as men, unable to adapt to their failure to earn adequate incomes under harsh economy circumstances have difficulty accepting that women are becoming the main bread winners that necessitates a redistribution of income within the households. However, breaking the circle of poverty and attaining sustainable development has eluded the developing countries for several decades due to the continued failure to integrate all segments of the society especially the low income people in the production process. The system has not provided the majority of poor people with secure access to credit for investment in economically productive ventures. This menace of poverty has greatly affects households' income as well as the savings rate of rural households which consecutively has unprecedented effect on their well being at large.

Behavioural pattern of rural household's savings over time are characterized with their involvement in different banking practices. Rural populace interviewed in the course of this study described their saving behaviour as vary depending on their socio-economic characteristics. This involve saving in both formal and informal rural households financial institutions. These are the convectional banks (e.g., First bank, UBA bank, WEMA bank, etc.), microfinance and micro credit banks, Nigerian Agricultural Co-operatives and Rural Development Banks (NACRDB), Rotating Savings and Credit Associations (ROSCAS), Non-Rotating Savings and Credit Associations (Non-ROSCAS), Daily savings enterprise or Mobile bankers, Co-operatives society and credit union associations and self or home savings. Recent studies have revealed that socio-economic characteristics are the major factors that determine the savings patterns of rural households. Several factors like age, gender, marital status, years of working experience, household income, types of occupation, years of banking experience, households size, level of illiteracy (years of formal education), religion and loan repayment. Studies showed that in most cases income, loan repayment and amount borrowed for the farm business were the significant variables that influenced savings pattern (Aluko, 1972; Ayanwale and Banire, 2000). Adeyemo and Akala (1992) reported that average annual savings in South-Western Nigeria was ₦31,572 with Ondo state having the largest (₦40,788) while Oyo state recorded the least (₦22,980). The average savings per month was found to be proportional to the mean annual incomes from farm production operations and other rural activities like trading, artisan civil service etc. As the annual income increases, the average amount of savings/month in each state and in all the states also increases. Thus, these factors are of necessity and need to be considered in designing strategies aimed at improving the savings pattern of rural households in South-West Nigeria.

MATERIALS AND METHODS

The study was carried out in South-Western geopolitical zone of Nigeria. The zone has 6 states which are Ekiti, Oyo, Osun, Ogun, Ondo and Lagos. A multi-stage random sampling technique was used in the course of the study. It involved division of entire population progressively into smaller groups according to principles of randomness until the final sampling unit was reached (Osuagwu, 2002). It is done in a greatly heterogeneous population where it is difficult to determine the random samples in stages. Random selection of 2 states from the zone (Ekiti and Oyo states) was the 1st stage. The 2nd stage involved the division of the states into senatorial districts and selection of 2 local governments areas in each senatorial district of the 2 states. The 3rd stage involved random selection of 2 rural communities in each local government area. At the final stage, 10 rural households were selected in each rural community. A total number of 300 copies of the questionnaire were administered (i.e., Ekiti = 120, Oyo state = 180) and 274 copies were used for analysis. The well structured questionnaire was used to obtain information on the socio-economic characteristics such as households' income, age of the respondents, gender of the respondents, marital status of the respondents, religion of the respondents, educational status of the respondents, household size, years of working experience, occupations of the respondents, choice of banking methods of the respondents, amount saved in each of the banking choice and so on. The data collected were analyzed using descriptive statistics such as frequency counts, percentages and tables. The simple regression was used to analyze their relationship between estimate of savings and socio-economic characteristics of the respondents. The socio-economic characteristics were the explanatory variable while households' savings was used as the dependent variable. The postulated model expressing the relationship between the explanatory variables and the dependent variables is expressed as:

$$Y = B_o + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 .....B_nX_n + E_i$$

Where:

Y	=	Rural households savings (dependent variables)
$X_1 ..... X_n$	=	Independent variables (socio-economic characteristics)
X_1	=	Households income
X_2	=	Gender (male =1, female = 0)
X_3	=	Age (years)
X_4	=	Marital status (married = 1, non-married = 0)
X_5	=	Year of formal education (in years)
X_6	=	Cash crop production
X_7	=	Farming households
X_8	=	Non farming households
X_9	=	Year of working experience
B_o	=	Coefficient
E_i	=	Error term

RESULTS AND DISCUSSION

Socio-economic background of the respondents

Age distribution: The result of age analysis shows that the majority of the respondents were still within the active age range. Table 1 shows that the mean age was 40.7, 11.7% of the total respondents were within the age bracket of 16-25, 35.8% of the respondents were within the age bracket of 26-35, 21.5% of the respondents were within age bracket 36-45 while 14.6% are in the age bracket of 46-55 years. This reveals that larger percentages of the respondents are still economically active and this may deduce high productivity, ceteri paribus. This will influence their level of income as well as their savings pattern.

Table 1: Frequency distribution of socio-economic characteristics of the respondents

Variables	Frequency	Percentage
Age		
16-25	32	11.7
26-35	98	35.8
36-45	59	21.5
46-55	40	14.6
56-65	25	9.1
≥66	20	7.3
Marital status		
Single	40	14.6
Married	228	83.2
Divorced	-	-
Widow	6	2.2
Educational status (years)		
Never attended	36	13.1
Primary	58	21.2
Secondary	100	36.5
Tertiary	80	29.2
Households' size		
1-5	158	57.7
6-12	102	37.2
≥12	14	5.1
Years of working experiences		
0-10	139	50.7
11-20	51	18.6
21-30	42	15.3
31-40	15	5.5
41-50	25	9.1
≥50	2	0.7

Field survey (2010)

Educational distribution of the respondents: Findings shows in Table 1 that 13.1% of the respondents never attended any formal school, 21.2% attended primary school, 36.5% attended secondary school while 29.2 were tertiary institutions graduates. This implies that about three-quarter of rural households has low formal education, i.e., 70.8% of the total populace has education up to secondary school level. This shows that level of illiteracy in rural households is high and this may affect their level of adoption of new technology as well as affecting their income level and savings pattern.

Respondents households size: Per capital expenditure of a given households is tends to be affected by households size and this will in turn affect households' income and saving patterns. Table 1 shows that 57.7% of the respondents had household size ranges between 0 and 5, 37.2% of the respondents had household size ranges between 6 and 12 while 5.1% has households size >12.

This shows that almost half of the respondents have a fairly large family size. This negates the a priori expectation that rural households tends to have a larger households size.

Banking methods of rural households: Table 2 shows the frequency distribution of the respondents by banking method of their choice, 33.2% of the respondents choose mobile bankers (Ajo) as their banking method, 19% choose ROSCAS (esusu) while 11% choose non-ROSCAS (Awidodun) as their banking methods. This implies that higher percentage of the respondents has informal/unorganized banking methods as their banking methods and is the most preferable banking system in rural households.

Income and savings pattern distribution of rural households: Table 3 shows income level of the rural households as well as their savings pattern. From the Table 3, 75.2% of the respondents have their annual income <₦54,750 while 17.1% of the respondents earn between the range of ₦54,751 and 109,500, 5.5% earn between the range of ₦109,501-219,000 and 2.2% earn annual income >₦219,000. This reveals the poverty level of rural households as the World Bank bench mark for poverty is 1 US$ day^{-1} and people below this level is categorized as been poor. This exhibits that larger percentage of rural households are poor and living in poverty considering their annual income <₦54,750 (i.e., ₦150 day^{-1}×365 days = ₦54,750 $annum^{-1}$). This estimate is justified on the ground that it submits to World Bank

Table 2: Banking methods of rural households

Banking methods	Frequency	Percentage
Conventional banks	51	18.6
Microfinance banks	22	8.0
NACRDB	-	-
ROSCAS (esusu)	52	19.0
Non-ROSCAS (Awidodun)	30	11.0
Mobile bankers (Ajo)	91	33.2
Professional Money Lenders (PML)	-	-
Cooperative society and credit union	28	10.2
Total	274	100.0

Field survey (2010)

Table 3: Frequency distribution of rural households by annual income and savings pattern

Parameters	Frequency	Percentage
Households annual income (₦)		
<54,750	206	75.2
54,751-109,500	47	17.1
109,501-219,000	15	5.5
>219,000	6	2.2
Annual savings (₦)		
<10,000	150	54.7
10,001-20,000	63	23.0
20,000-52,100	45	16.5
>52,100	16	5.8

Field survey (2010); (₦150 = 1 US$)

(1990) report on the level of poverty in Nigeria which indicates that 70.2% of the country's population lives below the poverty line. Also Levy stress that in measuring poverty two tasks have to be taken into consideration; a poverty line which is set at $275 and 370 per person a year for the extreme poor and for the moderate poor respectively must be determined and the poverty level of individuals have to be aggregated. This also may be the reason for low saving attitude of rural households and the important determinant factor in their banking behaviour. In the same vein, 54.7% of the respondents have annual savings of <₦10,000 while 23% of the respondents have their savings ranges between ₦10,001 and 20,000 $annum^{-1}$. Also 16.5% claims that their savings is between ₦20,000 -52, 100 and 5.8% of them saved >₦52,100. This implies that larger percentage of the respondents has their savings as low as ₦20,000. This affirms the poverty status of rural households which is pathetic.

Regression estimate for determinants of saving among rural households: Based on the R^2, t-statistic and theoretical expectation of the variables, the linear function was chosen as lead equation. Table 4 shows the regression estimates for the determinants of saving of rural households. Table 4 shows that 77% of the variations in rural households savings were explained by the independent variables included in the model. The result shows that the coefficient of household income was positively related and also significant with saving. This is support the popular belief that household income is a strong determinant of saving. Also, the gender of the households head has a negative coefficient but not significant. Considering the gender dummy, researchers conclude that rural women save more than men counterpart since the dummy stipulate women as the reference group.

Moreover, age is as well has a negative coefficient, this implies that the higher the age the smaller the amount

Table 4: Regression estimate for determinants of saving among rural households

Variables	Coefficients	t-values
Households income	0.044	2.978*
Gender	-8.251	-0.325
Age	-0.499	-0.291
Marital status	-8.014	-0.279**
Year of formal education	1.993	0.838*
Farming households	-14.010	-0.439
Non farming households	56.748	1.550*
Year of working experience	1.749	0.994
Constant	50.562	-
R^2	0.770	-
Adjusted R^2	0.460	-

Field survey (2010). **Indicate significant at 5%; *Indicate significant at 10%

of saving. Marital status also has a negative coefficient as well as significant. This implies that married people saved small amount of money in compare with singles, this may be due to the fact that married people have a lot of responsibility and higher expenditure. Also, years of formal education is significant and has a positive coefficient. This shows that the higher the year of formal education the larger the amount saved. Also farming households and non farming households head are vice versa in their coefficients, farmers has negative while non farmer has positive coefficient. This shows that farmer saved small amount while non farmer saves larger amount. Also, year of working experience has positive coefficient meaning that the higher the experience the larger the amount saved.

CONCLUSION

The issue of rural households' income as well as their savings pattern can be regarded as a germane feature that impinges on rural community's development. This overtime has great implication on the rural households' standard of living as it forms the basis for vicious cycle of poverty which characterizes rural areas. The saving rates of rural households were diminutive and some socio-economic factors such as households' income, gender and year of formal education were significant and positively related. Also, rural households' income depicts poverty ravaging rural areas as greater percentage of them earns <1 US\$ day^{-1}.

RECOMMENDATIONS

From the forgone study, the following recommendations are made to address the problem of rural finance in the rural households:

- Accessible loans should be made available and there should be proper supervision and monitoring of funds for specified production
- NACRDB should decentralize further to have at least a branch in each local government area so as to render their mandate to rural poor in other to break the vicious cycle of poverty ravaging rural households
- Socio-amenities should be put in place so as to boost rural economy as well as improving their standard of living
- There should be awareness on the imperative nature of savings to holistic development
- Financial institutions in the rural areas should be less formal in their operation so as to meeting the financial needs of rural households

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