

## **The Influence of Rural Savings Mobilization on Economic Development of the Rural Areas: A Study of Akoko Region in Ondo State in Nigeria**

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**Abstract:** The study examined the influence of rural savings mobilization on the economic development of the rural dwellers. One hundred respondents were sampled with the aid of well structured questionnaire in Akoko North West and Akoko South East Local Government Areas of Ondo State. The study employed multistage sampling techniques. The study also covered Okada riders, petit traders, farmers, catering and food selling and tailoring associations. Result showed that age bracket 21-30 years participated most in rural savings mobilization followed by 31-40 years age bracket. The study also revealed that majority of the respondents had a minimum of primary education among other things, majority of the respondents are self employed. As for the purpose of loans obtained, 56% of total respondents used it to either improve or establish their businesses while 29 and 15% used it for human development (i.e., self and children education) and other unspecified purposes respectively. The regression results showed that saving mobilization in the rural areas is positively related to investment, asset acquisition, human development and personal income. Hence, these socio-economic variables will increase if savings mobilization through rural cooperative movement is encouraged among the rural dwellers. This is an indication that rural saving mobilization is an important factor in the economic development of the rural areas. Hence, rural dwellers should be encouraged to join atleast one rural cooperative society as this will empower them for better living.

**Key words:** Influence of rural savings, mobilization on economic development, rural areas, farmers, catering, petit traders

### INTRODUCTION

One of the basic features of the developing countries is financial dualism i.e., a situation where the formal and the informal financial sectors coexist. In many of such countries, the informal financial sector because of the ease of entry and financial benefits as at when required. Moreover, according to Ogunrinola *et al.* (2005) the high level of illiteracy and the financial underdevelopment of the economy accounted for the rapid growth of the informal financial sector. In a study conducted by Magbagbeola (2003) bank density was put at 64,000 people and 47,869, people per bank by branch in 1991 and 1999, respectively. The downward trend in the formal financial markets became heightened between 1989 and 1997 due to civil disturbances, industrial unrest, high inflation and low public confidence. The consequence of this development was the liquidation of many banks, loss of public confidence and therefore, a decrease informal banking habit. This situation led to increase in the size of the informal financial sector which hitherto has received little or no significance in rural development.

The importance of the informal financial sector can not be over emphasized. Different studies by Ukpong (1998), Oloyede (1998), Danold (2000), Anao (1989), Branligan (1991), Ogunrinola and Oladeji (1990) identified the role of the informal financial sectors as follows:

- Provides alternative external finance to meet investment needs.
- Help to improve the wellbeing of the rural populace.
- Mobilizes investible funds from the surplus sector to the deficit sector i.e., transfer of funds from savers to borrowers.
- Helps to achieve social advancement and economic betterment.

The result of the study conducted by Ogunrinola (2005) confirmed the above significance of the informal financial sector. The study showed that substantial amount is mobilized monthly through informal savings mobilization. The result showed a mean monthly

Informal savings of N3,830 per each of the 185 respondents, thus will amount to over 8 million naira

yearly. The study further showed savings by type of business. Those in Catering/food selling recorded the highest mean monthly savings of N5,712.5, followed by women in Tailoring (N4, 866.67). others included Trading and agro-processing with N3,000 each. The study also showed that income after joining the saving mobilization group grew tremendously over income before membership of such groups.

In Nigeria, the formal financial sector has not been able to have meaningful impact on the rural areas because of the high rate of loan defaults, illiteracy, fraudulent practices, lack of collateral securities and administrative bottlenecks. These problem seemed to pave way for the increase in the size of the informal financial sector. Generally, lack of accessibility to credit by the rural dwellers is a significant cause of poverty. Banks have concentrated their lending to the rich individuals and large enterprises with little or no attention to the needs of the poor, landless, assetless and voiceless in the remote villages. To solve this problem, the various Nigerian governments at different times designed credit facilities that are informal in nature and nearer the people. Examples included Rural Banking Scheme, People's Bank and Community Banks. Despite these facilities, the rural dwellers have not actually benefited due to their low levels of education, social attitude, lip service on the part of the government and some other financial and administrative bottlenecks. Hence, the rural sectors have restored to the informal financial sector for credit facilities normally used to finance small scale businesses, purchase of durable goods, education of children, purchase of vehicles and building of houses. Examples include; Ajo, Esusu and Thrift Societies. Therefore, for any meaningful development to take place in the rural areas, the informal financial sector must be empowered to harness resources in the rural areas. The aim of this study, is to examine the influence of membership of these societies on the economic well-being of the rural dwellers.

## **MATERIALS AND METHODS**

**The study area:** The study was carried out in Akoko North West and Akoko South East Local Government Areas of Ondo State. The people of the area have similar culture, tradition and custom. They are also noted for the cultivation of arable and permanent crops such as maize, cassava, yam, cocoyam, kolanuts, cocoa, palm oil and coconuts. Other occupations include trading and services.

**Sources and nature of data:** Data were sourced from secondary and primary sources. The secondary sources include relevant text books, journals and local government publications. Data from primary sources were collected

with the aid of well structure questionnaires. The following information were collected:

- Age measured in years.
- Level of education measured in years.
- Family size measured by number of heads per household.
- Annual income loans obtained and size of contribution measured in Naira.

### **Other information collected include:**

- Purpose for which loan is collected
- Sex, marital status.
- Occupation of the respondents.

**Sampling method and sample size:** The study was covered Okada rider's petit traders, farming, catering and food selling and Tailoring association. These seem to be the commonest associations in the area. The study employed a combination of sampling techniques in selecting the study areas and respondents.

Five villages were randomly selected from each of the two local governments while ten respondents were randomly selected per town.

### **The villages are:**

- Akoko South East: Epinmi, Ifira, Ipesi, Isua and Sosan.
- Akoko North West: Ajowa, Arigidi, Ogbagi, Okeagbe and Oyin.

From the 2 local governments, a total of 100 respondents were sampled.

**Method of analysis:** The data collected were analysed with the aid of descriptive statistics such as frequency distribution, tables and percentages. These were used to analyse the socio-economic characteristics of the respondents. The quantitative technique used is the ordinary least square multiple regression analysis. Others include the t-test, f-test and coefficient of determination. Model specification

The following model was specified for the study:

$$S = b_0 + b_1Y + b_2H + b_3I + b_4A + U \quad (1)$$

Where:

S = Total savings from Ajo, Esusu, Thrift/Cooperative

Y = Income

H = Human Capital development

I = Investment

A = Personal Assets

$b_0, b_1, \dots, b_4$  are parameters to be estimated

U = Random effects

**RESULTS AND DISCUSSION**

**Socio-economic characteristics of respondents:** The socio-economic characteristics of respondents are represented in Table 1-4.

Table 1 shows that age bracket 21-30 years participated most in rural savings mobilization through the informal sector only to be followed by age bracket 31-40 years. This is because ages 21-40 are the active economic years of an average man.

The level of education of respondents is represented in Table 2. The table shows that majority of the respondents had at least primary school education.

The occupational distribution represented by Table 3 shows that the occupation of respondents ranges between farming, trading, catering and food selling, Tailoring, Okada business and other unspecified occupations such as civil service, shoe repairs, tax operator which accounted for about 53% of total respondents. This was followed by petit trading accounting for 15%. The table further shows that respondents were majorly self employed.

Table 4 shows the purpose of individual's loan demand. Results showed that majority of the respondents (56%) used the loans obtained from the society to either

Table 1: Age bracket participated most in rural savings mobilization

Age bracket (Yrs)	Frequency	(%)
≥20	6	6
21-30	34	34
31-40	30	30
41-50	18	18
51-60	12	12

Table 2: Educational distribution of respondents

Educational status	Frequency	(%)
No education	1	1
Primary School	3	3
Secondary School	31	31
Technical School	14	14
University	30	30
Others	21	21
Total	100	100

Table 3: Occupational distribution of respondents

Occupation	Frequency	(%)
Farming	5	5
Trading	15	15
Catering and food selling	10	10
Tailoring	8	8
Okada operator	10	10
Others	52	52
Total	100	100

Table 4: Purpose of loan obtained

Purpose	Frequency	(%)
Man power development	29	29
Business development	56	56
Others	15	15
Total	100	100

Table 5: Results of regression analysis

Variable	Parameter	Coefficient
Constant	b <sub>0</sub>	-51.190 (74.568)
Income	b <sub>1</sub>	0.368 (3.13)
Human capital	b <sub>2</sub>	0.009 (2.352)
Investment	b <sub>3</sub>	0.707 (2.051)
Assets	b <sub>4</sub>	0.708 (115.08)

R<sup>2</sup> = 0.98, F = Statistics = 249.56, t-ratio are in brackets

establish or improve their business while 29 and 15% used it for human development (children education and self knowledge acquisition) and other unspecified purposes, respectively.

**Regression results analysis:** The results of the regression analysis are shown in Table 5. All the coefficient in the model carried positive signs showing that they are positively related to the level savings. The higher the level of savings, the higher the level of income, investment, asset acquisition and human development. Hence an increase in savings mobilization through the membership of informal financial sector will go a long way to improve the lot of the rural dwellers.

The R<sup>2</sup> of 0.98 shows the explanatory variables explained 98% variation in the dependent variable. Result also showed that the explanatory variables were statistically significant at the 5 and 10% significant levels. Furthermore, the F-test shows that the four explanatory variables significantly contributed to the variations in the dependent variable.

**CONCLUSION AND RECOMMENDATION**

The study examined the activities of the informal financial sector as a source of rural savings mobilization and their impacts in some socio-economic variables in the rural areas. Results showed that majority of respondents spent their savings through the informal sector on business and human development i.e. education of children. The study also revealed that certain socio-economic variables namely personal income, acquisition of assets, business investment and human development were positively related to savings and at the same time are significant determinants of membership of rural cooperative societies.

Hence, one could safely say that rural cooperative movement is a significant factor in the economic development of the rural areas. Hence, rural dwellers should be properly mobilized to join cooperative societies as this will improve their level of personal development.

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