DETERMINANTS OF RURAL HOUSEHOLD SAVINGS POTENTIAL IN IJUMU LOCAL GOVERNMENT AREA, KOGI STATE

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ABSTRACT

The study investigated the effect socio-economic characteristics of rural households on saving capacity in four villages of Ijumu Local Government Areas of Kogi State. The primary data used for the investigation were generated through copies of a questionnaire administered to a hundred and tweenty randomly selected household heads. Result showed that income was more equitably distributed than savings. Current asset, gross income, age of household heads and years of experience in farming had positive correlation with the value of savings while household size had poor correlation with savings. On the other hand, gross income, age, household size and years of experience in farming were significant at 1% level of probability, while current asset was not statistically significant. The major constraint to saving mobilization was limited income. It was recommended that farmers should be encouraged to expand their production capacity through credit.

Key words – savings, socio-economic, productivity

INTRODUCTION:

Savings are important in capital accumulation for improvement in the standard of living and investment. The increase in capital requirements for various investment profiles call for use of more credit. Any analysis of the role of credit in agricultural developments needs to be time, place and farmer specific if it is to be helpful to the farmers and policy makers. Therefore, the issue of amount of savings in peasant societies is important in Nigeria since the rural sector represent about 80% of the country's human and natural resources (CBN, 1996). According to Adeyemo and Bamire (2005) savings are of great importance in a developing economy like Nigeria because of the direct bearing on level of economic activity of the nation. Similarly, within the agricultural sector, the degree of progress attained will largely depend upon what the farmers do with the additional incomes generated annualy from farm activities. On the other hand according to Akpan (1994), mobilizing 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. Given the many benefits (both to the individual and society as a whole) that savings can bring, Ononugbo and Nwosu (2006) identified the following as barriers to savings in Nigeria: (i) many people feel that the risks and difficulties of saving outweigh the risks and difficulties of not saving (ii) people often do not seem to understand how and why they should save when their income barely solve their problems (iii) lack of confidence in the financial institutions (iv) high incidence of poverty and low nominal disposable income (v) conspicuous consumption (vi) unfavorable economic environment characterized by high unemployment and inflation (vii) finding savings boring and difficult. Researchers in Less Developed Countries (LDCs) attest to the fact that savings research has been on estimations of rural saving functions, capacity and econometrics studies of rural savings bahaviours. There seems to be confusion with regards to the exact nature of the relationship between amount saved and dependency ratio, family size, education and age of household (Bello, 1992; Ngang, 1992; Yinusa, 1991 and Ram, 1982) The main objective of the study is to determine factors influencing savings capacity; while the specific objectives are to: determine the coefficient of variation between income and amount saved by households , determine the effect of socio-economic characteristics on the value of savings in the study area and identify constraints to savings mobilization.

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

$$S = Y - C$$

Where S = Savings
Y = Income
C = Consumption

This equation implies that saving is the art of abstaining from consumption for future satisfaction. This notion about saving is the consensus in literatures (Bhagwatti, 1966 and Keynes, 1936). Poor people can and do save, contrary to general misconceptions. However, owing to the inadequacy of appropriate savings opportunities and products, savings have continued to grow at a low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows. A variation from this is the use of the traditional financial institutions known by various names among different ethnic groups in Nigeria, *esusu* or *ajo* among the Yorubas, *isusu* or *otutu* (at times *utu*) among the Ibos and *adashi* among the Hausas. These clubs according to Adebayo (2004) are regarded as an indigenous system of savings in which a group of people come

together in an informal or semi-formal setting to contribute fixed amounts at fixed intervals and assign the total amount contributed to an individual member in rotation. They are also known to offer credit to members and share their accumulated savings at certain times of the year rather than on rotation.

METHODOLOGY

The study was conducted in Ijumu Local Government Area of Kogi State. The state is in the Southern Guinea savanna ecological zone of Nigeria. The study area is located in the western part of the state and lie between latitude 7^0 30 and 8^0 N and longitude $5^0$3 E and 6^0 0E (Aiyeku, 1993). The state has an estimated population of 3,278,487 out of which Ijumu Local Government Area accounts for 119,929 (National Population Commission,2006).

A multi-stage sampling technique was adopted for this study. Four villages namely Iyah – Gbede, Aiyetoro, Iyara and Araromi were randomly selected. Random sampling technique was used to select thirty household heads from each village giving a total sample size of a hundred and tweenty household heads. Descriptive statistics and Pearson correlation analysis were used to analyse the data. The co-efficient of variation is expressed as

$$CV = \frac{S}{X} \times \frac{100}{1}$$

Where CV = coefficient of variation, S = standard deviation,
X = arithmetic mean.

The basic tool of correlation analysis is the correlation coefficient (r). The correlation coefficient measures the degree of linear association between too jointly distributed random variables. Two variables may have a positive correlation, a negative correlation or may be uncorrelated. Positive correlation occurs when two variables tend to change together in the same direction or they tend to increase or decrease together. Negative correlation occurs when two variables change in opposite direction that is, one increase while the other decrease and vice versa. No correlation occurs when two variables tend to change with no correlation to each other.

The correlation coefficients were calculated using the formula:

$$r_{xy} = \frac{\Sigma(x_i-x)(y_i-y)}{{}^n\Sigma\sqrt{(x_i-x)^2\ (y_i-y)^2}}$$

Where x, and yi are the observations on x and y respectively, n is the sample means of variables, Y = savings, Xi = explanatory variable (current assets, gross income, age of household head, household size and years of experience).

RESULTS AND DISCUSSION

Table 1 shows that the average income and savings were N163,597 and N33,393 respectively while maximum income and savings were N558,100 and N260,000 respectively.

Table 1: Sample Statistics for Household Income and Savings Distribution.

Sample Statistic	Gross Income (N)	Savings (N)	APS
Mean	163,597	33,393	0.216
Mean deviation	162,234.075	35,098.15	0.216
Maximum	558,100	260,000	0.466
Minimum	19,400	1,152	0.059
Standard deviation	104,970	41,497	0.395
Coefficient of variation (%)	64.16	117.24	-

Source:Field Survey Data,2004

Two indices of inequality, mean deviation and coefficient of variation were computed for income and savings. The higher the indices, the greater are the dispersion and therefore the greater the inequality among households. As shown in table 1 the gross income was more equitably distributed and stable than savings because its coefficient of variation (64.16%) is lower than that of savings (117.24%). The result of the Pearson Correlation analysis as shown in table 2 which was used to determine the effects of socio-economic characteristics on value of rural savings; shows that current asset was positively correlated (r = 0.899) with value of savings. The correlation coefficient was however not significant. The explanation for this is that respondents with less current asset save more. Although this finding is against the a priori expectation, it clearly highlighted the fact that having more current asset may not always be a factor in the value of savings.Table 2 also shows that the correlation coefficient of savings with gross income from both farming and non farming activities was significant (at 1 % level of probability) and positive (r = 0.52318). It implies that household heads with higher income tend to save more. The result confirms a priori expectation, that the higher a respondent's income, the more the likelihood that he will save more. The relationship between gross income and current asset was significant. This means that the higher the income, the more the current asset that is likely to be acquired.

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The age of household head was positively correlated ($r = 0.57609$) with value of savings. The correlation coefficient was significant ($p=0.001$), this was however contrary to the a priori expectation. It is expected that the older the household head, the less his physical abilities and savings capacity; hence his savings will gradually fall as he grows older. Thus, a negative coefficient of household head age appears to be consistent (Table 2).

The result in table 2 shows that household size was weakly correlated with savings ($r = 0.35986$) and statistically significant at 1%. This finding does not conform to the general expectation. Large households consume more and save less out of their gross income, which leads to a negative coefficient. An explanation for the positive correlation of savings with household size according to Yinusa (1991) may be due to the fact that, larger households have higher level of family labour and consequently a substantial amount is saved from farming expenditure.

The years of experience in farming was positively correlated ($r = 0.50623$) and significant with savings. This is in agreement with the apriori expectation that the more experienced the respondent is in farming, the more he will be able to produce, which may influence his desire to save more.

Table 2: Correlation Coefficients between Saving and Socio- Economic Characteristics.

	Value of Savings	Current Asset	Gross Income	Age	Household size	Years of Experience
Value of Savings	1.0000					
Current Asset	0.08994	1.0000				
Gross Income	0.52318*	0.41160*	1.0000			
Age	0.57609	-0.01733	0.26295*	1.0000		
H/Hold Size	0.35986	-0.06195	0.24627*	0.47466*	1.0000	
Years of Experience	0.50623*	-0.09538	0.14010	0.48819*	0.43874*	1.0000

Computed from Field SurveyData, 2004
*Coefficients significant at 1% level of probability.

Table 3 highlighted the major constraints to savings mobilization in the study area, these are: limited savings capacity ranked first representing 38% of respondents. This means that majority of respondents economic activities are at a subsistence

level, therefore income from these activities cannot meet their basic needs not to talk of having surplus to save. This adversely affected their savings capacity.

Distance and cumbersome procedures of banks ranked second and third respectively. Banks network in the area is sparsely distributed, 22 % of respondents have to travel long distances to have access to banking facilities. On the other hand, about 20% of respondents shy away from banking because of the delay and red-tapism that often accompanies bank transactions. Nigerian did not save because of the impact of inflation in the economy. A situation where high rising inflation is the norm, savings is endangered as the value of the sum saved is depreciated, hence most respondents would not embark on such a venture as the little interest for saving is lost to inflation.Price instability was ranked fifth and accounted for about 9% Of the respondents. All respondents participated in one form of farming or the other. Prices of their farm produce fluctuate due to the forces of demand, supply and glut in the market during harvest. The resultant effect is price instability, irregular income and savings.

Table 3: Constraints to Savings Mobilization

Constraints	Number of Respondents	Percentage	Rank
Limited savings capacity	45	37.50	1st
Distance to banks	26	21.66	2nd
Cumbersome procedures	24	20.00	3rd
Low interest rate	14	16.66	4th
Price instability	11	9.16	5th
Total	120	100	

Source:Field Survey Data, 2004

CONCLUSION

The study has shown that the relationship between savings, current asset and household size was weak, while gross income, age of household heads and years of experience in farming were found to have moderate relationship with savings at 1% level of probability. Constraints to savings mobilization were limited saving capacity, long distance of bank to clients, cumbersome procedures, low interest rate and price instability of farm produce. There is therefore the need to grant farmers credit

on easier terms to help them expand their production and their savings capacity in the area.

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