Rural Households Banking and Financial Behaviours in Ekiti State, Nigeria

Femi Michael Oluwatusin and Oluwatosin Olofinsao
Agricultural Economics and Extension Department, Ekiti State University, Ado-Ekiti, Nigeria

Abstract
Rural households are faced with various banking methods, but they prefer the informal (unorganized) banking methods, where they source for finance to aid their farming activities and general family wellbeing. This necessitated the study of the financial and banking behaviours among rural households in Ekiti State. One hundred and twenty respondents were randomly selected in the study area. Descriptive statistics was used to ascertain the socio-economic characteristics of rural households while probit regression was used to analyse the relationship between the socio-economic characteristics and the choice of banking methods. The results showed that the mean age was 48.9 years while the minimum and maximum ages were 21 and 85 years respectively. Also, the majority of the respondents were women and had large household size. As a State known as fountain of knowledge, high literacy rate was recorded among the respondents. Most (48.4%) of them took trading as primary occupation while few of them were primarily into farming. The main method of banking in the area was the daily money collectors (Alajos). It was recorded that rural households had low savings with the conventional banks. From the probit analysis, it was gathered that the determinants of the choice of banking method in the study area were household size, years of formal education, amount saved with the conventional banks and Income. It was recommended that, in order to enable rural households make use of conventional banks, proper and adequate awareness was advocated. Also, government should invest more on infrastructural facilities especially power supply, to enable the conventional banks extend their services to rural areas.
Key words: Rural, households, informal banking methods, socio-economic characteristics.

1.0 Introduction

Development of agriculture in Nigeria is of no doubt need a great deal of financial resources which can be sourced from banks, credit agencies , cooperative societies and unions, professional money lenders among others. Rural banking traditionally should service the financial needs of people living in remote areas as they need finance for their socio-economic lives and also to improve their agri-business activities. Given that about 70% of the poor in the developing world still live in rural areas, agricultural development is essential for achieving the Millennium Development Goals. Finance has an important role to play as it helps rural households and enterprises in making productive investments, smoothing consumption, managing risks and coping with shocks.

Depending on the local and local business focus, some rural banks develop specialty commercial skills in areas of agribusiness. For example some operate solely within the farm credit system-a network of borrower-owned lending cooperatives and specialized organization specializing in business credit and funding for farming, ranching and other agricultural customers. (Kibet, et al., 2009).

Following the recommendations of the Okigbo Financial Review Commission of 1976, the Rural Banking Programme came into being in July 1977. The objectives of the Programme include cultivation of banking habits in rural areas, mobilization of savings and their use for profitable ventures in rural areas, development of agriculture and agro-based industries, reduction of the drift of young men to the cities and achievement of the national objective of self-sufficiency in food production.

Adeyemo and Bamire (2005) noted that one of Nigeria's economic peculiarities is financial dualism. There is a formal financial sector made up of the Ministry of Finance, the Central Bank of Nigeria (CBN), banks, other financial institutions, Nigerian Stock Exchange (NSE), etc. Beside this formal sector exists an informal financial sector with people lending and borrowing directly from each other through methods like esusu, daily contributions and through cooperatives.

Adebayo and Adeola (2008), noted that the absence of rural banks or their unwillingness to meet credit need of rural farmers largely account for the wide influence of informal lending institutions on agricultural production in the rural areas. Adeyemo and Bamire (2005) stated that there have been a large number of informal lending

institutions, borne down on low literacy level, loss of confidence in the formal banking system due to distress, elitist banking practices and absence of enough financial institutions in the rural areas. And this has significantly led to gross economic mismanagement.

The scarce financial resources which are allocated to rural households for optimum production purposes have been re-distributed to unproductive areas, which result from pressing domestic problems, as farm and family are inseparable. Rural households are characterized by down-trodden hardship. The major factor that has contributed to this hardship is insufficient finances for agricultural productions and businesses. And this has in-turn affected the country's economy in areas of Gross Domestic Product, high exchange rate, among others.

 In the light of this, the rural banking methods needs to be identified, the behavioural pattern and the factors responsible for the behaviour of rural households towards the methods needed to be ascertained. To this extent this research work answered the following questions
   (i)   What are the socio-economic characteristics of the ruralites?
   (ii)   What are the banking methods in-use?
   (iii)   Is there any relationship between banking methods and the socio-economics characteristics of the respondents?
The core objective of this research work is to evaluate the banking and financial behaviour of rural households in Ekiti State, Nigeria.
The specific objectives are to:
   (i)   Ascertain the rural households' socio-economic and demographic characteristics.
   (ii)   Identify banking methods of rural households.
   (iii)   Examine the determinants of banking behaviour among rural households.

2.0 Materials and Methods
2.1 The Study Area
This study was carried out in Ekiti State, Nigeria, located between $7^0 40^1$N and $7^0 67^1$N latitude and between longitude $5^0 15^1$E and $5^0 25^1$E. It has a total population of 2,737,186 (NPC, 2007). The total land area is 6,353 Km^2 (2,453 sq Mile). The state consists of three (3) senatorial districts. The major occupation of the people is farming and other agricultural related activities.

2.2 Sources of Data
A multi-stage sampling technique was used in this study, as it gives the total population opportunity to be adequately represented. The first stage involves the random selection of two (2) Local Government Areas in each senatorial district, the second stage involves the random selection of two (2) rural communities from each Local Government Area, and in the final stage, ten (10) rural households were again selected randomly in each community making a total number of 120 rural farmers selected for the study. A community is rural when it has less than 20,000 people.
Primary data were sourced through the use of well structured questionnaire. For more accuracy and reliability, interview and physical observation were used in addition to the data. Information retrieved from the respondents includes household characteristics such as: age, gender, marital status, year of working experience, religion, household size and educational background. In addition, information on methods of banking, savings, attitude of respondents towards conventional banking and primary source of income were collected from the respondents.

2.3 Analytical Techniques
Descriptive statistics such as frequency, percentage, minimum, maximum and mean were used to analyse the households' socio-economics characteristics while Probit regression technique was used to ascertain the determinants of choice of banking method. The socio-economics characteristics were the explanatory (independent) variables, while banking method was the dependent variable. The postulated model showing the relationship between the explanatory variables and dependent variable is expressed as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 \dots\dots\dots\dots 1$$

Where,
Y = Banking method (Daily money collector = 1; otherwise = 0)
$X_1 \dots X_9$ = Independent variables (socio-economic characteristics)
X_1 = Age (years)

IISTE

X_2 = Sex (Male = 1, Female = 0)

X_3 = Household size

X_4 = Marital status (married =1, otherwise =0)

X_5 = Educational status (years)

X_6 = Cash crop production (cash crop producer =1, otherwise = 0)

X_7 = Amount saved in conventional banks (₦)

X_8 = Livestock production (livestock producer =1, otherwise = 0)

X_9 = Income (₦)

β_s = Variable coefficients

e_i = Error term

3.0 Results and Discussion

The socio-economic characteristics of the respondents considered include age, sex, marital status, educational status, household size, years of working experience, religion, primary occupation, choice of banking methods and the amount saved.

Table 1: Distribution of Rural Households by Socio-economic Characteristics

Variables	Frequency	Percentage (%)
Age (years)		
21-30	**16**	**13.3**
31-40	**17**	**14.2**
41-50	**32**	**26.7**
51-60	**35**	**29.1**
61-70	**14**	**11.7**
Above 70	**6**	**5**
Sex		
Male	**28**	**23.3**
Female	**92**	**76.7**
Marital Status		
Single	**14**	**11.7**
Married	**104**	**86.7**
Widow	**2**	**1.6**
Educational status		
No formal education	**11**	**9.2**
Primary school	**33**	**27.5**
Secondary school	**42**	**35**
Tertiary school	**34**	**28.3**
Household size		
1-5	**45**	**37.5**
6-12	**73**	**60.8**
Above 12	**2**	**1.7**
Years of working experience		
0-5	**49**	**40.8**
6-10	**37**	**30.8**
11-20	**27**	**22.5**
Above 20	**7**	**5.9**
Religion		
Christianity	**94**	**78.3**
Islamic	**17**	**14.2**
Traditional	**9**	**7.5**

3.1 Age Distribution of the Respondents

It is observed from this study that 13.3 percent of the respondents were within the age bracket of 21 -30 years, 14.2 percent were within the age bracket of 31- 40 years, 26.7 percent were between 41and 50 years while 29.1

percent fell within the age bracket of 51 -60. Also, 11.7 percent of the respondents were within the age bracket of 61- 70 years while 5 percent constituted the age bracket of 70 years and above. The minimum and maximum ages were 21 and 85 years respectively, while the mean age was 48.9 years. This result shows that majority of the respondents are within their productive ages.

3.2 Sex Distribution of Respondents
The result shows that 23.3 percent of the respondents were male while 76.7 percent were female. This implies that women are more than men in the rural areas. This may be so, because women are more engaged in the rural areas than men.

3.3 Marital Distribution of Respondents
The result shows that 11.7 percent of the respondents were single, 86.7 percent were married, and 1.6 percent were widows. This corroborates the researches that say that youths prefer to live in the urban than rural areas. Also the married people are more involved in farming, as children help their parents in farming activities.

3.4 Educational Distribution of Respondents
The result explains that 9.2 percent of the respondents never attended formal school while 27.5 percent went to primary school. Also, 35.0 percent attained secondary school education and 28.3 percent had tertiary education. This implies that the rural areas have high literacy level. It is so in this study because Ekiti State is known as fountain of Knowledge where you hardly see a house without a graduate of tertiary institution.

3.5 Household size Distribution of Respondents
This result establishes that, 37.6 percent of the respondents had household size of 1 -5 while 60.8 percent had between 6 and 12 members.   1.6 percent had household size of greater than 12. This shows that, relatively large household size characterized the rural areas. Large family size may be necessary in the rural areas because members of the family do assist household heads on the farms.

3.6 Years of Working Experience Distribution of Respondents
It is observed that 40.8 percent of the respondents had 5 years or below working experience, 30.8 percent had between 6 and10 years of working experience while 22.5 percent had between 11 and 20 years of working experience. But, 5.9 percent had 21years and above working experience.   This shows that the majority of the rural households are well experienced. It has been emphasized that experienced people are better at adopting new innovations.

3.7 Religion Distribution of Respondents
The result explains that the majority (78.3 percent) of the respondents were Christians while 14.2 percent were Muslims. The traditional worshippers were just 7.5 percent. This shows that in the study area Christianity is popular.

3.8 Distribution of Respondents by primary source of income
Table 2 shows the main source of rural households' income. The results indicates that 20 percent of the respondents were civil servants, 15.8 percent were artisans, 48.3 percent were traders, cash crop and livestock producers had 7.5 percent each, and 0.8 percent represents other income generating activities. This reveals that, the majority of the rural households engage primarily in trading as a means of generating income for their families than farming. This may be due to the fact that little attention is paid by the government to agriculture. Also majority of the respondents are women.

Table 2: Distribution of Respondents by Primary Occupation

Activities	Frequency	Percentage (%)
Cash crop farming	**9**	**7.5**
Livestock farming	**9**	**7.5**
Civil service	**24**	**20.0**
Artisanship	**19**	**15.8**
Trading	**58**	**48.4**
Others	**1**	**0.8**
Total	**120**	**100**

3.9 Rural Households Main Banking Methods

Table 3, reveals that 25 percent of the respondents mainly patronized conventional banks, 0.8 percent used micro finance banks, 15.8 percent used Rotating Savings & Credit Associations (ROSCAs) (ESUSU), 3.4 percent used Non-ROSCAs, 35 percent used daily money collector and 20 percent mainly used cooperative societies and credit unions. This implies that the majority of the rural households prefer informal banking methods. This may be so because it is easier to bank with most of these non-convectional banks than the convectional ones. The daily money collectors are always available to collect and give money to their customers. Also, due to bank distress, most rural people have lost confidence in the formal banking system. In addition, branches of most of these conventional banks are not in the rural areas.

Table 3: Distribution of Respondents by Main Methods of Banking.

Banking Methods	Frequency	Percentage (%)
Conventional banks	**30**	**25.0**
Micro finance banks	**1**	**0.8**
ROSCAs (ESUSU)	**19**	**15.8**
Non-ROSCAs (Awidodun)	**4**	**3.4**
Daily Money collector (Alajo)	**42**	**35.0**
Cooperative society & credit union	**24**	**20.0**
Total	**120**	**100**

3.10 Saving of the Respondents with Conventional Banks

Table 4 shows that per month, 40.8 percent of the respondents saved below ₦1000 while 40 percent saved between ₦1000 and ₦5000. Also, 19.2 percent were able to save above ₦5000 per month. The minimum savings was ₦700 and the maximum savings was ₦10000. The mean savings was ₦5600 per month. This implies that rural households have low savings with the conventional banks.

Table 4: Distribution of Respondents by the Amount Saved Per Months

Amount saved (₦)	Frequency	Percentage (%)
Below 1000	**49**	**40.8**
1000 -5000	**48**	**40**
Above 5000	**23**	**19.2**
Total	**120**	**100**

3.11 Results of Probit Regression Analysis of Choice Of Banking System and Socio-Economic Characteristics

Table 5: Results of Probit Regression Analysis

Variables	Co-efficient	P>/Z/
Sex	**- 0.1886**	**0.557**
Age	**-0.0957**	**0.330**
Household size	**-0.4645**	**0.095***
Marital status	**0.1433**	**0.664**
Years of formal education	**0.1738**	**0.058***
Cash crop production	**-0.1121**	**0.799**
Savings	**-0.0031**	**0.000*****
Livestock production	**-0.1093**	**0.735**
Income	**0.1621**	**0.089***

Log likelihood = -56.058521 ; LR chi 2(10) = 34.66; Prob. > chi 2 = 0.0001; Pseudo R^2 = 0.6123 *** and * significant at 1% and 10% levels of significance respectively

The probit regression analysis in table 5 shows the relationship between the socio-economic characteristics of the respondents and the choice of banking method. It can be inferred that variables sex, age, household size, cash crop production, livestock production and savings had negative signs. This implies an inverse relationship

between these variables and their choice of banking method. The negative relationship between sex and the dependent variable implies that the tendency to bank with the daily money collectors (Alajos) is higher among the female headed households when compared with their male counterparts. This may be so because in the rural areas, most of the Alajos are women. Rural women believe it is saver to keep money with women headed banking institution. The negative correlation of age interprets that, the higher the age of the respondents, the lower the tendency of banking with the daily money collectors. This may be due to the fact that aged people are not energetic to carryout production and hence have little or none to save.

The results in table 5 also shows that the more the household members the less the tendency for the household to bank with the daily money collectors (Alajos). Also, the negative sign on the coefficients of cash crop and livestock production shows that the producers prefer other methods of banking to the Alajos. This may happen because both productions are capital intensive and there is need for loan which could be available through the other methods of banking. Most of the time loan is needed by the cash crops and livestock producers for the purchase of inputs needed for production and most of these Alajos do not give loan to their customers. In addition, the negativity of the coefficient of the amount saved with the conventional banks indicates that the more the households savings with these banks the less the tendency to bank with the daily money collectors.

Only variables marital status, years of formal education and income had positive relationship with the choice of methods of banking. This implies that married household heads are favourably disposed to banking with the Alajos while others preferred other methods. Also, the results show that education encouraged banking with Alajos. The more the years spent in formal school the more the tendency to bank with the daily money collector. Also, the higher the income, the more the willingness to bank with the Alajos and vice versa. In addition, the coefficient of variable, amount saved with the conventional banks was significant at 1% level of significance while the coefficients of household size, years of formal education and Income were significantly different from zero at 10% level of significance. This indicates that the determinants of the choice of banking method in the study area are household size, years of formal education, amount saved with the conventional banks and Income.

4.0 Conclusion and Recommendations

In any developing economy like Nigeria, the importance of banking can not be over emphasized. Rural banking has significant effect on agricultural production thus improving the rural household welfare. Based on the findings of this research work, it was revealed that rural households preferred informal (unorganized) banking methods to conventional banking methods. This is due to the fact that most of them are low income earners and they are faced with high transaction costs typically refer to time, effort, and money spent to reach a conventional bank. Based on the findings of this study and in order to improve the rural household welfare the following recommendations are hereby proffered:

- ❖ Informal rural banking methods should be more organized to discharge its functions to the maximum.
- ❖ Since rural households lack proper information about micro finance and conventional banks, there should be proper awareness and dissemination of information to rural households to enable them patronize the formal banking systems.
- ❖ Also in order to encourage banking with the formal financial institutions, banks should look for a way to collect deposits from the customers living in the rural areas. Also they should be ready to make money available to rural households when needed.
- ❖ The government should improve on the social infrastructural facilities in the rural areas. Special attention should be given to power supply as this constitutes a major cost to the smooth running of formal banking systems. This also encourages the youths to reside in the rural areas.
- ❖ In addition, the rural dwellers should be sensitized about the importance of farming and they should be encouraged to take farming as their primary occupation because fertile/agricultural lands are found in the rural areas.

REFERNCES

Adebayo O.O and Adeola R.G, (2008). Sources and uses of Agricultural credit by small scale farmers in Surulere Local Government Area of Oyo State. *Journal of Anthropologist,*10(4), 313-314

Adeyemo R, and Bamire AS (2005). Saving and Investment Patterns of Cooperative Farmers in Southwestern Nigeria. *Journal of Social Sciences*.11(3):183-192.

Acha I.A. (2012). Microfinance Banking in Nigeria: Problems and Prospects. *International Journal of Finance and Accounting,*1(5): 106-111.

Agrawal, P., Sahoo, P., and Dash, R. K. (2007). Savings behavior in India: Co-integration and causality evidence. *The Singapore Eco-nomic Review, 55:* 273-295.

Ainsle, G. (1975). Specious reward: A behavioral theory of impulsive-ness and impulse control. *Psychological Bulletin, 82:* 463-496.

Al-Awad, M., and Elhiraika, A. (2003). Cultural effects and savings: Evidence from immigrants to the United Arab Emirates. *Journal of Development Studies, 39:* 139-151.

Ang, J. (2009). Household saving behavior in an extended life cycle model: A comparative study of China and India. *Journal of Devel-opment Studies, 45:* 1344-1359.

Angeletos, G. M., Laibson, D., Repetto, A., Tobacman, J., and Weinberg, S. (2001). The hyperbolic buffer stock model: Calibration, simulation, and empirical evaluation. *Journal of Economic Perspectives, 15:* 47- 68.

Ashraf, N., Karlan, D., and Yin, W. (2006). Tying odysseus to the mast: Evidence from a commitment savings product in the Philippines. *The Quarterly Journal of Economics, 121:* 635-6

Athukorala, P., and Sen, K. (2004). The determinants of private saving in India. *World Development, 32,* 491-503.

Bersales, L. G. S., and Mapa, D. S. (2006). *Patterns and determinants of household saving in the Philippines* (EMERGE Technical Report). Makati City: EMERGE.

Beverly, S., and Sherraden, M. (1999). Institutional determinants of saving: Implications for low-income households and public policy. *Journal of Socio-Economics, 28,* 457-473.

Beverly, S., Sherraden, M., Cramer, R., Williams Shanks, T., Nam, Y., and Zhan, M. (2008). Determinants of asset holdings. In S. M. McKer-nan, & M. Sherraden (Eds.), *Asset building and low-income families* (pp. 89-152).Washington DC: Urban Institute Press.

Burbidge, J. B., Magee, L., and Robb, A. L. (1988). Alternative trans-formations to handle extreme values of the dependent variable. *Journal of the American Statistical Association, 83,* 123-127.

Caskey, J. P. (1997). Beyond cash-and-carry: Financial savings, finan-cial services, and low-income households in two communities. Swarthmore, PA: Swarthmore College. Consultative Group to Assist the Poor (2010). *Financial access 2010 report.* Washington DC: CGAP.

Chemonics International (2007). Improving access to financial services in rural Uganda: Rural SPEED final report. Washington DC: Chemonics.

Kibet, L. K., Mutai, B. K., Ouma, D. E., Ouma, S. A., and Owuor, G. (2009). Determinants of household saving: Case study of smallholder farmers, entrepreneurs and teachers in rural areas of Kenya. *Journal of Development and Agricultural Economics, 1,* 137-143.

Meyer, R. and Nagarajan, G. (2005). Rural Finance. Recent Advances and Emerging Lessons, Debates and Opportunities. Reformatted version of Working Paper No. (AEDE-WP-0041-05), Department of Agriculture, Environmental, and Development Economics, The Ohio State University, Columbus, Ohio.

NPC (2007).Census Results of the 2006, Abuja Nigeria (April 2007).