



CAPITAL FORMATION, SAVINGS AND FUND UTILIZATION AMONG THE RURAL HOUSEHOLDS IN SOUTH WEST NIGERIA.

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Abstract

The study investigated the savings and capital accumulation methods available among households, examined the uses of the fund by the households, and determined the effects of socio-economic factors on amount saved and accumulated among the households. Multistage random sampling method was used in selecting one hundred and twenty respondents from three villages. Questionnaire was used in data collection. Descriptive Statistics and multiple regression models were used in data analyses. Forty eight percent of the respondents saved in form of stocks such as agricultural and non-agricultural produce. Of the estimated average sum of ₦4,882,020 accumulated per annum by the respondents, only about 23% was accumulated and saved in micro-finance and commercial banks. The independent variables contributed about 96% and 93% respectively of the variations in the savings and capital formation of the respondents. There is need to orientate the respondents on the need to patronize more of the formal financial institutions for the safety of their funds.

Key words: Capital Formation, Savings, Funds Utilization, Rural Households

Introduction

Traditionally, it has been recorded that African Societies have developed their own way of raising fund for their problems which could be in form of organizing credit unions, contribution, storage of palm oil or other valuables (Amogu, 1995). For example, Beroff (2003) reported that Africans have the reputation of being good savers, working to secure their savings by all means by creating rotating, savings and credit associations among neighbors, and when needed by soliciting the expensive services of deposit collectors. He maintained that various economic crops and livestock are counted as wealth among the African people. People in rural Nigeria prefer in-kind savings that seems more liquid, cheaper to maintain and sometimes more preferable to monetary savings. Savings are of great relevance in Nigeria because of its direct bearing on the level of economic activity of the nation which is predominantly agrarian; its households are primary, food producers, processors, distributors, marketers and keepers of livestock (Azikiwe, 1992; Orebiyi et al., 2012).

There are various forms of savings and savings help to generate capital which could be used to assist the rural inhabitants (Sanusi, 2002; Ukoha et al., 2014). The accumulation of savings initially serves the purpose of creating sufficient nominal capital to become credit worthy. Capital accumulation governs the rate of development if domestic savings is encouraged (Central Bank of Nigeria, 2002).

In developing countries such as Nigeria, lack of adequate domestic savings is a problem because of high unemployment, low wages, and the engagement of a large proportion of the population in the informal sector. One of the challenges of these countries therefore center around the need to ensure popular participation in economic activities which could generate income for the vast majority and thus enhancing savings and investment that would accelerate the pace of economic development and welfare of the people (United Nations, 1995; Kadiri et al., 2015). Capital formation and its utilization have been constrained by the inability to save arising from the low capital base of rural economic operators



and which does not improve the welfare of the rural dwellers . This is attributable to negative changes in environmental, socio-cultural, political and economic conditions of the households which have entangled them in the vicious cycle of poverty often exhibited as food insecurity and poor livelihood condition(F.O.S. 1999; Kadiri et al ., 2015). Rural households earn low income because of poor marketing facilities, poor storage and preservation technique, bad road networks , poor health facilities, unfavorable and inconsistent government policies as well as lack of technological know-how and these negatively affects capital formation (Economic Commission for Africa, 2001).

Capital formation and savings in Nigeria is hampered by inefficient financial sector. The institutional set up of the financial market is important in the transmission of monetary and credit policy which has effect on investment. Most commercial Banks in Nigeria are located in the urban centers to the neglect of rural areas hence the undeveloped, inefficient and inaccessible nature of these banks to rural savers. Even the microfinance banks meant to be rural based are merely surviving due to high cost of doing business in these areas. Money lenders, community savings organizations and non-institutional forms of savings and credit arrangements, therefore, take advantage of this to tap the savings potential of Nigerians who dwell and operate in the rural areas. It has previously been recognized (United Nations ,1995) that lack of an organized framework to link the informal financial intermediaries with formal financial institutions deprives rural households in Nigeria of an important source of savings for domestic investment. This study was therefore conducted to examine capital formation, savings and fund utilization among rural households in southwest Nigeria by examining: socio-economic characteristics of the respondents, the various savings forms prevalent in the area and the extent of their patronage by the respondents, the uses into which the funds accumulated or saved are put into and the influence of socioeconomic characteristics on capital formation and savings of the respondents. The hypothesis tested was that there was no significant effect of socio-economic factors on capital formation and savings respectively.

Materials and Method

The study was conducted in Ilesha West Local Government Area of Osun State, South West, Nigeria. South West, Nigeria is dominantly Yoruba and have homogenous characteristics. Ilesha West Local Government Area is one of the 30 Local Government Areas in Osun State. It is made up of five large communities namely Idominasi, Obokun, EsaOdo, Kajola and EsaOke. Agriculture is the dominant occupation of the people. Crops grown in the area include Cocoa, Yam, Cocoyam, Oil Palm, Maize, Cassava, Kolanuts, Plantain and Vegetables. Sheep, Goat and Poultry constitute important livestock reared in the area. A Multistage random sampling method was used in selecting the respondents. Stage 1 was the random selection of EsaOke, Edorninasi and Kajola Communities from a list of five Communities in the Local Government Area. One Village was again selected at random from each of the three communities earlier chosen. A random sample of forty (40) respondent households was then selected from each of the randomly chosen villages. This gave a total of one hundred and twenty (120) households selected from the three villages and were used for the study. Primary data were collected through the administration of structured questionnaire and interview schedule by the researchers. Data were collected between January 2015 and June 2015. Descriptive statistical tools such as means, frequency distribution and percentages were used. Ordinary least squares multiple regression model was used to determine factors influencing capital formation and savings respectively. The multiple regression model was expressed implicitly as follows;

$$Y_a = f(x_1, X_2, X_3, X_4, X_5, X_6, X_7) \quad (1)$$

$$Y_b = f(x_1, X_2, X_3, X_4, X_5, X_6, X_7) \dots\dots\dots (2)$$

where Y_a = Average capital Accumulated per annum (Naira) by respondents.

Y_b = Average savings of respondents per annum (Naira).

F = function of

X_1 = Age of respondents (years)

X_2 = Educational attainment (years)

X_3 = Household Size (Number of persons)

- X₄ = Occupation (full time farming=1, farming with other professions = 0)
- X₅ = Marital status (dummy = 1, single 0)
- X₆ = experience in economic activity (years)
- X₇ = gender (dummy = 1, female=0)
- X₁ — X₇ are same for both equations 1 and 2.

Four functional forms of linear, exponential, semi logarithmic and logarithmic functions were estimated. A lead functional form was chosen from these estimated models based on R², F-ratio, the number of significant variables, and conformity of the signs of the coefficients to a priori expectation. The parameter estimates were tested for significance at 5% level of significance.

Results and discussion

Table 1 show that the mean age of the household heads was 36 years, while majority of the household heads were between 21-30years of age. Eze and Ibekwe (2007) reported that age factor in traditional agriculture is significant in

increased productivity and rate of adoption of innovations. However, this result showed that age has positive implication on savings and capital accumulation because the people within this age bracket have the ability to work hard and earn higher income thereby encouraging more savings which will in turn lead to an increase in their purchasing power for goods and services. Table 2 shows that most household heads surveyed were females. This female gender preponderance has positive implication on their savings behaviour and capital formation as females are generally seen as thrifter and control more money than the males among rural households. - Table 3 shows that 66% of the household heads were married. This high percentage of married household heads could be attributed to the culture of the people to marry early coupled with the value and regard attached to the marriage institution. Moreover, marriage carries with it responsibility, hard work and ability to fend for the family through income generating activities.

Table 1 Age distribution of respondents

Age range (years)	Frequency	Percentage
21 – 30	49	42.83
31 – 40	42	35.00
41 – 50	15	12.50
51 – 60	8	6.67
61 – 70	6	5.00
Total	120	100

Table 2 Percentage gender distribution

Gender	Frequency	Percentage
Male	54	45
Female	66	55
Total	120	100

Table 3 Percentage distribution of respondents by marital status

Marital status	Frequency	Percentage
Married	79	65.83
Single	41	34.17
Total	120	100

Table 4 indicated that 35% of the respondents were engaged as full time farmers while two-third

do not depend only on farming as a source of livelihood. They depend on other occupations

such as trading, artesian services and civil service employment to supplement household income from farming. Dual occupation found among the respondents could be attributed to their rural residence and easy accessibility to farm lands which encourages active farming. Table 5 shows that over three-fourth of the respondents received

formal education at different levels of education. The modal class was 7-12 which implies that 42% of them attained secondary education. Attainment of higher education could lead to improved financial management skills, savings and capital formation.

Table 4 Distribution of respondents according to occupation

Type of occupation	Frequency	Percentage
Full time farming	42	35.00
Farming and trading	29	24.17
Farming and artesian services	16	13.33
Farming and civil service	33	27.50
Total	120	100

Table 5 Percentage distribution of the respondents according to educational attainment

Educational attainment (years)	Frequency	Percentage
No formal school	18	15.00
1 -6	28	23.33
7 – 12	50	41.67
13 - 16	24	20.00
Total	120	100.00

Table 6 shows that the mean household size was 5 persons and a little over two-third of the respondents had dependent relatives of 1—5 persons (personal communication) stated in an unpublished work on capital formation, savings and fund utilization that high household size had

negative implication on savings and capital formation among non-farming households since the larger the member of dependents a person has, the higher would be the rate of consumption, but could be positive in a farming household since they constitute the farm hands.

Table 6 Percentage distribution of the respondents by house hold size

Household size range	Frequency	Percentage
1 -5	83	69.17
6 -10	34	28.33
11-15	3	2.50
Total	120	100.00

Table 7 Percentage distribution of forms of savings engaged by the respondents

Forms of savings	Frequency	Percentage
Cash form only	33	27.50
Stock form only	57	47.50
Combination of stock and cash forms	30	25.00
Total	120	100.00

Table 8 Percentage distribution of the Capital accumulated through stock forms of savings per annum

Stock form of savings	Amount accumulated (₦) ^a	Percentage
Crop produce	867,192	40
Livestock produce	997,270.80	46
Non-agricultural produce	303,517.20	14
Total	2,167,980.00	100

^aAt the time of the study US\$1 = ₦219

Table 7 shows that 28% of the respondents saved in form of cash while 25% saved combining stocks and cash. About 48% saved in form of stock such as agricultural produce and non-agricultural produce.

Table 8 shows that the average amount accumulated per annum in form of stocks was

₦2,167,980. About 40% of this was saved in form of crop produce such as palm oil, palm kernel, cocoa, rice, yams and kola nuts while 46% was saved in-form of livestock such as sheep, goat and poultry products. Others (14%) saved in form of wrappers, bicycles, pots, mats, and jewelry.

Table 9 Percentage distribution of the Capital accumulated through cash form savings mechanism per annum

Cash savings mechanisms	Amount accumulated (₦) ^a	Percentage
Micro Finance Bank	510,808.00	18.82
Commercial Banks	601,131.20	22.15
At home (holes, under bed Adajo clubs	925,686.80	35.98
Boxes	625,686.80	23.05
Total	2,714,040.00	100.00

^aAt the time of the study US\$1 = ₦219

Table 10 Percentage distribution of the Capital accumulated according to usage by the respondents.

Usage of Capital Accumulated	Frequency	Percentage
Farming operations (implements, planting materials, labour hiring etc	62	51.67
Expenditure on food, medicals and school fees	34	28.33
Emergencies (accidents), funerals etc	10	8.33
Marriage and title taking	6	5.00
Non-farm businesses and Acquisition	8	6.67
Total	120	100.00

Table 11 Regression estimate of linear function of factors influencing savings

Variables	Coefficient	Std Error	T-Value
Average savings (y_b) constant	-31.27	188.24	-0.70
Age of respondents (x_1)	9.10	4.26	2.13*
Educational Attainment (x_2)	159.96	20.85	7.67*
Household size (x_3)	-85.99	44.01	-1.95*
Occupation dummy (x_4)	9.91	61.66	0.16
Marital status dummy (x_5)	-124.34	58.87	-2.11
Years of occupational experience (x_6)	134.35	13.66	9.83*
Gender of respondent (x_7)	-7.78	3.78	-2.0

$R^2 = 0.956$, F value / ratio = 21.20, n = 120

* = significant($P < 0.05$)

Table 12 Regression estimate of linear function of factors that affect capital formation

Variables	Coefficient	Std Error	T-Value
Average amount accumulated (y_a) constant	-195.39	177.39	-1.10
Age of respondents (x_1)	22.16	6.43	3.45*
Educational Attainment (x_2)	150.38	29.46	5.11*
Household size (x_3)	129.23	51.37	2.52*
Occupation dummy (x_4)	90.19	112.52	0.80
Marital status dummy (x_5)	395.34	116.19	3.40*
Years of occupational experience (x_6)	93.96	36.79	-2.55*
Gender of respondent (x_7)	56.17	33.25	1.69*

$R^2 = 0.928$, Fvalue / ratio = 57.64, n = 120

* = significant($P < 0.05$)

Table 9 indicates that the average amount of capital accumulated in form of cash using various savings mechanisms was estimated at N2,714,040 per year. Thirty six percent (36%) of this amount was saved in “Adajo clubs”. Adajo clubs are indigenous financial institutions as found, named, and operated in South West, Nigeria. The merits of these institutions are their adaptation to individual needs, which are well fitted into the community patterns and are aimed at encouraging planned and goal oriented savings (Ijere, 1990; Eze, 2006; Eze and Ibekwe, 2007). Twenty three percent (23%) was saved at home in holes dug in the rooms, bamboo, under the bed and boxes. Twenty two percent saved with banks. Nineteen percent (19%) saved in the micro finance bank in the area. Those who saved at home attributed this to ease in accessing their fund irrespective of the risk of theft, destruction by termites etc. These capital accumulated are put into several uses such as purchase of farming implements, planting materials and labour hiring as shown in table 10. Twenty eight percent used theirs for feeding, payment of medical and school

fees, only about seven percent was used on non-farm businesses and acquisition of assets.

Socio-economic characteristics of the respondent household heads were subjected to regression analysis using the ordinary least square model. The linear functional form was chosen as the lead equation for savings and capital formation respectively. The results of the linear functional forms were shown in tables 11 and 12 for savings and capital formation respectively and were found to give the best fit ($F = 21.20$ for savings) and ($F = 57.64$ for capital formation). The independent variables together contributed about 96% ($R^2 = 0.956$) and 93% ($R^2 = 0.928$) respectively of the variations in the respondents’ savings and capital formation. The age of the respondents (x_1) was positively correlated to the amount saved and capital accumulated and statistically significant at $p < 0.05$. This may be due to the fact that optimism, mental and physical energies required in entrepreneurship increase with increased age. The parameter number of years spent at school (x_2) was significant at $p < 0.05$ and positively correlated with the level of savings and capital



formation respectively. This conforms to a priori expectation that education and training produces quality labour force that are skilled and adaptable to the needs of a changing economy. Also education enhances the ability of a rural dweller to understand and evaluate production techniques that would translate into higher savings and capital formation. The parameter household size (x_3) was not significant and was negatively correlated with savings. This is not surprising since large household size leads to increased consumption and reduced savings. However, household size (x_3) was found to be significant at 5% level of significance and positively correlated with the level of capital formed.

The parameter occupation of the respondents (x_4) was found to be positively correlated with savings and capital formation respectively. The type of economic activities pursued by rural inhabitants for income generation is related to their level of savings, capital formation and investment opportunity. The parameter marital status, (x_5) was significant at 5% level of significance and positively correlated with capital formation. This could be attributed to the cultural and social responsibility attached to adulthood which bestows on the person the need to make efforts to enhance his capital base in order to meet these responsibilities. Marital status was found to be significant at 5% but negatively correlated to savings. The parameter, occupational experience (x_6) was significant at five percent level of significance and positively correlated with the level of savings. It is expected that the more experienced a person is in his profession, the more skillful and knowledgeable the person will be and this could increase his income potentials and hence his savings. Although the variable occupational experience was found to be significantly different from zero ($p < 0.05$) it was negatively correlated with the level of capital formation. This has its implication as to the level of capital the person could accumulate from investment activities. The coefficient gender (x_7) was significant at $p < 0.05$ but negatively correlated with savings. It was found not to be significant as 5% but is positively related with the level of capital formation. The implication of this result is that the gender of a person could determine the amount the person could save or accumulate. It was recommended that there is a need for the reorientation of the respondents on the importance

of patronizing more of the formal financial institutions for the safety of their funds.

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