Socio-Economic Determinants Of The Choice Of Informal Bankers Among Rural Households In Southwest Nigeria.

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Abstract

There is no gainsaying in the fact that rural finance serves as the cornerstone for rural economy development in that there could not be smooth sailing of economy activities without the continuing flow of money and credit. This shows the relevance of financial institutions in the economy development of any nations which cannot be overemphasized. The study however assessed the socio-economic factors that determined the choice of informal bankers among rural households in south-western Nigeria. A multi-stage random sampling procedure was used in the course of the study. Two states were randomly selected out of the six states of the zone of which a total of 300 rural households were selected. A well structured questionnaire was employed to collect data from the respondents. Descriptive statistics such as frequency count, percentage distribution and probit regression were used to analyze the data collected. The result shows that socio-economic characteristics such as age, sex, income and traditional leadership were the most prominent factors that affect the choice of informal bankers. It was discovered that rural households are seriously faced with constraints such as low level of income, access to financial credit as well as fear of fraudulent bankers that is common to informal financial sector. It was recommended that formal bankers should extend their services to rural households through the activities of the informal financial institutions so as to boost rural micro enterprises.

Introduction

World Bank (2008) reported that three out of every four poor people in developing countries live in rural areas. It was further estimated that over 70% of Africa population resides in rural settings which are poverty stricken. 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. Empirical study over the years revealed that rural households are the major recipient of this phenomenon called poverty. Awotide (2007) affirmed that per capital cost of meal for the average households was below the recommended $1 per day suggesting that most rural households are not only poor in theory but are poor in reality. According to Narayan et al (2000), most rural households are crumbling under the weight of poverty. 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. This menace of poverty has greatly affects the savings rate of rural households as well as their general well being. This has over the years impinged on their Agricultural pursuits and other livelihood activities. Major factor that have contributed to rural household poverty is inadequate financial capital to carry out their livelihood activities along side with their inability to secure loan from formal financial sector. This overtime creates ample opportunity for the indigenous banking system to advance in meeting rural financial needs. The patronages of this banking system are encouraged in other to boost Agricultural productivities and other related activities of rural households.

Adebayo and Adeola, 2008 reported that the relevant of the financial institution (banks) in the rural areas are to enhance productivity and promotes standard of living by breaking the vicious cycle of poverty in the rural areas. In Nigeria, like in many African countries, successive governments have implemented various agricultural and rural credit schemes as a means to address perceived shortage of rural credit, stimulate rural employment and productivity. In spite of the above efforts with less than expected achievements, rural borrowers still encounter difficulties in accessing credit from formal financial institutions (Iganiga and Asemota, 2008). This is because the institutions were not designed to function as "true" financial intermediaries that mobilize deposits to make loans, they had no obligation to operate under financial viability constraints, and neither were they driven by commercial financial performance criteria. Iweka, 1990 affirms that orthodox banks merely open

rural branches in order to accrue more deposit to supplement cash needs in their urban branches. Moreover, several factors including the chronic dependency on government funds, the lack of competition, bureaucratic obstacles and limited accountability contribute to bring about bad loans, extremely inefficient operations, loan recovery problems, political patronage and eventual collapse of sustainability of their credit facilities (Yaron, 1992). This problem of inappropriate approach led to the poor result of most of all the programmed established by the government which in due time led to their untimely death.

However, before the inception of conventional/formal financial institution, rural households have been involving in saving, borrowing and lending activities which form the bases for informal rural financial institutions (Shitu, 2010). Informal rural financial institutions have always been an integral part of the traditional economy of Nigeria. The concept of Informal Rural Financial Institutions (IRFIs) describes those financial activities often unrecorded but takes place outside official financial institutions and consequently unregulated. They are as old as various communities and popularly describes as indigenous financial systems. Their activities cover all various transactions that take place beyond the scope of formal banking regulatory body in the country (Aryeetey, 1998). Moghaddas et al (2008) saw them as financial institutions that are not directly amenable to control by key monetary and financial policy instruments. They are created by individual or organization with no legal status. The lack of formal banking facilities undermines the development of rural areas to a very large extent. This has serious implications for a country like Nigeria where the economy is largely characterized by Micro Scale Enterprises (MSEs). The frustrations of accessing credit facilities from formal systems compel the poor and informal business enterprises to resort to different non-banking and informal arrangements to access funds for their operations. The informal financial systems commonly assist rural households particularly, market traders, house wives and artisans to accumulate funds through daily or weekly deposits that are returned at the end of a specified period minus a small fee (World Bank, 1994). Informal financial institutions that operate outside the scope of banking laws and regulation in Nigeria include traditional savings and credit association (TRASCAS) which are sub divided into rotating savings and credit association (ROSCAS) popularly known as "Esusu" and Non-rotating savings and credit association (Non-ROSCAS) popularly known as "awidodun" in southwest region of Nigeria, Mobile bankers (MBs) popularly known as "Ajo ojoojumo" meaning daily savings enterprises, Professional money lenders and Co-operatives and credit union.

Materials And Methods

The study was designed to evaluate the socio-economic determinants of the choice of informal rural financial institutions among rural households. The study was carried out in south-western geopolitical zone of Nigeria. The zone has six (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 because it gives opportunity for the entire population to be truly represented. It involved division of entire population progressively into smaller groups according to principles of randomness until the final sampling unit was reached (Osuagwu, 2002). The first stage of the sampling involved random selection of two (2) of six states (Ekiti and Oyo states). The second stage involved the division of the States into senatorial and selection of two (2) Local Governments areas in each senatorial district of the two states. The third stage involved random selection of two (2) rural communities in each Local Government Area. At the final stage, Ten (10) rural households were selected in each rural community. A total of 300 questionnaire were administered (i.e. Ekiti = 120, Oyo state = 180) and 274 questionnaire were returned. A well structured questionnaire was used to obtain information on the socio-economic characteristics such as 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 probit regression was used to analyze the relationship between the choice of mobile bankers (Ajo) and socio-economic characteristics of the respondents. The socio-economic characteristics were the explanatory variable while the choice of informal Bankers was used as the dependent variable. The postulated model expressing the relationship between the explanatory variables and the dependent variables was expressed as:

The general probit model is stated below
$Pr\ (y=1) = FB_o + X_1B_1$
Pr = probability function.
X_i = nxk matrix of explanatory variable
B_i = k x 1 vector of parameter to be estimated
F = cumulative probability distribution
Therefore, the probability of choice of banking method is a function of the vector of unknown parameters.
The specified choice of mobile bankers' model for the study is as follows.
$Y= B_o + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 \ldots.. BX_n + E_i$
Where,
Y = choice of unorganized/informal bankers (dependent variables)

X_1……. X_n are independent variables (socio-economic characteristics).
X_1 = Gender (male =1, female = 0)
X_2 = Age (years)
X_3 = Households size
X_4 = Marital status (married = 1, non-married = 0)
X_5 = Year of formal education (in years)
X_6 = Cash crop production
X_7 = Arable crop production
X_8 = Savings in convection bank
X_9 = Livestock production
X_{10} = Traditional leadership
X_{11} = Artisan
B = Coefficient
E_i = error term.

Results And Discussions

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. Findings in table 1 shows that the mean age was 40.7, 11.7 percent of the total respondents were within the age bracket of 16-25, 35.8 percent of the respondents were within the age bracket of 26-35, 21.5 percent of the respondents were within age bracket 36-45 while 14.6 percent 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.

Educational distribution of the respondents: Findings shows in table 1 that 13.1 percent of the respondents never attended any formal school, 21.2 percent attended primary school, 36.5 percent 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 percent 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 reveals that 57.7 percent of the respondents had household size ranges between 0 and 5, 37.2 percent of the respondents had household size ranges between 6 and 12 while 5.1 percent has households size greater than 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 percent of the respondents choose mobile bankers (Ajo) as their banking method, 19.0 percent chooses ROSCAS (esusu), while 11.0 percent choose non-ROSCAS (Awidodun) as their banking methods. This implies that higher percentage of the respondents has informal banking methods as their banking methods and is the most preferable banking system in rural households.

Probit regression analysis of choice of unorganized/informal bankers and social economic characteristics

Table 4 shows the result of the probit regression analysis of informal bankers as a choice of banking method and socio-economic characteristics is presented in the table below. The significant variables include sex, age and traditional leader. The result of the analysis shows that gender has a negative coefficient and significant. This shows that female has informal banks has their choice of banking method unlike male counterpart. The significance reveals that gender is one of the major socio-economic factors that determine the choice of financial institutions in rural communities. Also, age also has a negative coefficient as much as significant. This implies that older/aged respondents do not make unorganized/informal banks has their choice of banking method unlike the younger ones. That is the higher the age the lesser the tendency to prefer informal bankers as their banking choice. The factor is as well relevant in determine their choice. Marital status also has a positive coefficient. It implies that married respondents make informal banks has their choice of banking method unlike those that are single. Years of formal education has negative coefficient. This shows that respondents with higher level of education choose formal banking methods and those with lower level of education choose informal banks has their choice of banking method. This maybe so in that literate individuals will able to adapt to formal system of banking than illiterate counterpart.

Also, household's size has a negative coefficient. This implies that larger households size do not choose unorganized/informal banks has their choice of banking method. This implies that larger households have lesser tendency to saving due to higher households' expenditure. Artisan also has a positive coefficient. This shows that artisan readily patronize informal bankers than formal ones. This may be as a result of their variability in income which encourages savings with informal banks. Traditional leadership has a positive coefficient and significant. It implies that rural communities leaders make unorganized/informal banks has their choice of banking method. This may due to the fact that unorganized/informal has over the years a part of rural culture and are monitored n most cases by rural traditional leaders.

Conclusion

Conclusively, rural economy can be likening to a mast that can always be sustained by adequate financial services. This underscores the relevance of rural financial institutions towards achieving holistic development both at the local and national level. Based on the findings, it was revealed that informal rural households banking methods is the most preferred banking methods by the rural households. Households' size, marital status and years of formal education are not really socio-economic factors that determine the choice of informal bankers among rural households. On the other hand, socio-economic characteristics such as gender, age and traditional leadership are statistically significant related to the choice of informal bankers. This implies that they can be used to determine the choice of informal bankers among rural households in the study area.

Policy Recommendation

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

1. Informal rural banking methods should be strengthened through government intervention so as to guide their activities.
2. Microfinance banks should extend their operational unit to the rural areas so as to bridge the gap between the formal and informal rural financial institutions.
3. Policies that would encourage the formation and development of informal rural banking systems should be put in place by government
4. NACRDB should decentralize further to have at least a branch in each local government area so as to augment the activities of informal bankers in other to achieve holistic financial breakthrough.

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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 (yrs)		
Never attended (0.0)	36	13.1
Primary (6.0)	58	21.2
Secondary (12.0)	100	36.5
Tertiary ≥12.0)	80	29.2
Households' size		
1-5	158	57.7
6-12	102	37.2
≥12	14	5.1

Source: field survey 2010.

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 &credit union	28	10.2
Total	274	100

Source: field survey 2010.

TABLE 3: Probit regression analysis of choice of unorganized/informal bankers and social economic characteristic

Variables	Coefficients	t – values
Sex	-0.4162364**	-2.11
Age	-0.0204794**	-2.40
Households size	-0.00059178	-0.20
Marital status	0.2179524	1.09
Year of formal education	-0.0037909	-0.18
Artisan	0.0088629	0.04
Traditional leader	0.5984457*	1.69
Log likelihood = -143.45213		
Prob > chi 2 = 0.0000		

Source: Field survey 2010. ** Indicate significant at 5 percent, * indicate significant at 10 percent.
Variables
SOURCE: FIELD SURVEY 2010.