Rural Savings Institutions and Economic Empowerment in Nigeria: An Analysis

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ABSTRACT
In today's rural areas of Nigeria, untapped and idle savings do exist that could trigger economic empowerment in achieving economic growth and development. Funds mobilized by rural saving institutions are below expectations due to poor banking habits and cultural orientation of the people. It is against this background that this study analyzed rural savings institutions and economic empowerment in Nigeria. For the study, a descriptive research approach was adopted and regression analysis was used in testing the formulated hypotheses. The findings of the study showed that rural savings institutions have a significant impact on economic empowerment in Nigeria through giving the people an opportunity to save and giving out loans for personal investment purposes. Based on the findings of this paper, it is therefore recommended that there should be more functional rural saving institutions to mobilize rural savings in order to enhance economic empowerment in Nigeria.

Key words: Economic empowerment, Economic growth, Rural savings and Rural institutions,

1. Introduction

Savings are as important to the corporate world and the general government, as they are to households. This is because, savings provide independence and allow the savers to plan for the future, as well as secure investment for enhanced production and growth. In most economies all over the world, households' savings constitute a substantial proportion of aggregate national savings and they play two key roles. First, they offer potential benefits to savers such as security, if things go wrong and comfort in old age, as well as independence and opportunity throughout the savers lives and secondly, households' savings are an important source of capital to fund investment and growth in the economy (Alade, 2006). From the above, one can rightly say that savings are important in the economic growth of any nation which is equally important to households that exist in the rural areas.

According to Frimpon-Ansah (1992), the growth of the developing countries is essential to their economic and social progress. He further suggested that growth depends largely on the availability of the funding. In this connection, it appears that the mobilization of domestic savings has an increasingly decisive role to play in an economy because of the series of global financial crisis. Furthermore, the developing countries do have idle and untapped savings potential.There is the need for policy makers in Nigeria to concern themselves with how to attain the highest level of long-term savings which in turn would properly service investment needs particularly the type of investment that would perfectly enhanceempowerment as outlined in the National Economic Empowerment and Development Strategy (NEEDS) programme.

Globally, the importance of savings cannot be overemphasized, in that countries with high level of savings tend to have high level of investment, economic growth and lower inflation rate. Despite widespread poverty in the rural areas in Nigeria, there still exists untapped savings potential. The level of funds mobilization by rural savings institutions are quite below expectations due to a number of reasons ranging from low savings deposits to poor banking habits or culture of the people which could have enhanced economic empowerment in Nigeria. It is against this backdrop the study analyses rural savings institutions and economic empowerment and to make recommendations on how to encourage savings in rural areas for economic empowerment in Nigeria.Other specific objective is to appraise the effectiveness of the existing rural savings institutions on economic empowerment in Nigeria.

To achieve this objective, the following hypotheses are formulated to guide the study:

H_{O1}: Rural savings Institutions have no significant impact on economic empowerment in Nigeria.

H_{A1}: Rural savings Institutions have significant impact on economic empowerment in Nigeria.

2. Literature Review

2.1 *Conceptualizing Savings Institutions*

Savings Institutions are financial intermediaries that raise funds mainly through time and checkable deposits and use the funds to provide loans principally for investment, home mortgages etc. Savings Institutions play very crucial role in savings mobilization. They intermediate by making funds available to all economic agents. The intermediation process involves moving funds from surplus sectors/units of the economy to deficits sectors/units (Uremadu, 2006).

The extent to which this is achieved depends on the level of development of the financial sector and also the savings habit of the people within the economy. The study of the various savings institutions is as important as the savings.For the purpose of this study, the savings institutions are divided into two – Formal and Informal savings Institutions.

a. Formal Savings Institutions

They are legally registered institutions established to carry out financial functions in Nigeria under a regulated central monetary or financial market authority. Here we refer to Commercial banks, Micro finance banks and other development institutions which major two functions are:

- the acceptance of deposit; and
- the loan of money.

These two functions are crucial to the development of any nation. By accepting deposits, they help draw money from small and large savers; and by lending the money, they help put the money in the hands of investors.

Savings institutions are indispensable tools for attracting savings and investments. The level of funds mobilization by them are quite low due to a number of reasons, ranging from low savings deposits rates to poor banking habits or culture of the people (Nnanna*et al.*, 2004). They also pointed out that the attitude of banks toward small savers as another disincentive to savings mobilization. Most savings institutions target corporate and government deposits paying little or no attention to small savers. Most rural people do not have access to banks because most of the banks are located in urban or semi urban areas. Apart from the above two functions they perform another major function known as capital flow system or remittances.

Remittances are incomes sent to developing countries from migrant workers through wire services or banks. They represent the second largest sources behind foreign direct investment (FDI), of development financing (Dilip, 2003). Though the extent of remittances flows are difficult to accurately assess because a great portion is sent through the informal channels (Puri and Ritzema, 1999). It is estimated that in 2003, $88 billion was sent to developing countries from migrant workers (UNCDF and ILO, 2004).Remittances are also a source of savings and also used for investments purposes, consumption, housing construction, land purchase; children school fees, medical bills and etc.

In its efforts to improve the rural areas, the federal government of Nigeria in 1977 ordered all the commercial banks in the country to establish their branches in the rural areas. This was done through the CBN with the aim of extending banking services and improving banking habits of the vast majority of the people especially in the rural areas. Government policy in this broad order was pointed towards the approach of commercial banks to rural banking as regards:

i. Mobilization of rural savings,
ii. The allocation of credit among productive activities.
iii. The institution of commercial bank as a back-up for newly introduced government programmes,
iv. The linkage of money markets in these fields especially in the rural areas, with capital markets of the rest of the economy; and
v. The efficient allocation of resources among areas and regions.The main goal was to transform the economy into a viable one and to empower the people economically.

b. Informal Savings Institutions

These are unorganized, non-institutional and local markets carrying out financial services outside the regulation of a central or financial market authority (Adams and Fetched, 1992). The concept of informal financial sectors refers to those financial activities that are often not recorded and take place outside institutions, and consequently not regulated. Some mobilize savings and do lending while some engaged only on lending. (Aryeetey, 1994; Soyibo, 1994; Bagachwa, 1994; and Akanji, 1998). The activities of informal savings institutions cover all financial transactions that take place outside the functional scope of banking and other financial sector regulation in the country. These activities are often unrecorded and unregulated but legal (Soyibo, 1994).Yusuf ,Gafar and Ijaiya,(2008), found that informal savings institutions play an important role in poverty reduction and improving standard of living of the people. This was as a result of savings mobilization and provisions of loans to the members of the association which were used for investment purposes which in turn improved their living condition. Thirlwall, (2009), agreed with this finding

In Nigeria, most of these informal institutions are voluntary organizations. Members are admitted on a voluntary basis. All transactions are based on mutual agreement andtrust among members. Financial transactions involve the exchange of money in the present for a promise to pay in the future. The ability to ensure these contracts is crucial for the survival of financial intermediaries. Unlike the formal institutions, transactions in the informal rarely involve legal documentations.These informal savings institutions perform the following functions:

a. Collect savings.
b. Finance transactions on mutual agreements; and
c. Mediate between savers and borrowers. This study shall be restricted to the following:

2.2 ***Concept of Economic Empowerment***

Economic empowerment is recognized as one means for reducing poverty and economic growth improvement. It is a term that needs clarification because it has different meanings depending on the socio-economic, political and cultural context in which it is presented. It can be perceived as a process or as outcome/goal and can take place at different levels (individual and community) Mayoux (2000). In discussing the relation between empowerment and poverty reduction, it is the expansion of freedom of choice and actions and increasing one's authority and control over the resources and decisions that affects ones' life (World Bank, 2001). Similarly, it is seen as processes through which one gain the ability to take ownership and control of their lives, the key elements here are the expansion of choices and the ability to make strategic life choices (Kabeer, 2001).

It should be noted that, the process of empowerment depends on individual involving consciousness raising, participation, and organizing himself. It can also be facilitated through education, capacity building, training and other measures, but change has to happen in the structures and legal frameworks (family laws, property rights, etc) in order to make the self-transformation process of empowerment sustainable (Kabeer, 2001, and World Bank 2001). From the point of view of Mayoux (2000), empowerment is a process of change in power relations that is both multidimensional and interlinked.

Many studies have recognized the importance of economic empowerment in improving the status of impoverished people (Mayoux, 2000; Ashe and Parrott, 2001; Kabeer, 2001; World Bank, 2001; Allen, 2005; Murray and Rosenberg, 2006; Ritchie, 2007; and Mayoux, 2008). There are a number of approaches used to empower people economically, the most prominent is microcredit, but there are debates about the effectiveness of microcredits in lifting the poor out of poverty, including the concern that it traps low income people, but the evidence suggests that it has had a positive effect in many contexts around the world (ILO, 2007).According to Mayoux (2002), access to financial services can lead to economic empowerment by enabling an individual to make decisions about savings and credit use, enabling him or her to invest in an economic activities and assets and have more controlling role in economic activities. This would lead to increase productivity and the income under the person's control and increase his engagement in the market.

3. Research Methodology

For the purpose of this study, the descriptive research method was adopted in order to describe and interpret exiting conditions, because it gives a clear picture of a situation or population. Secondary source of data were used for this study. In collecting secondary data, the researcher relied on both published and unpublished documents from CBN bulletins and bullions, journals, books and other relevant publications which have been duly acknowledged in the bibliography.

For this study, regression analysis was used for data analysis and hypotheses testing. To run the regression, the econometric technique was employed to estimate the parameters in the model using the ordinary least square (OLS) regression and the econometric views (e-views 5) package.

3.1 *Model Specification for hypothesis*

The functional form of the regression equation is given as

$$LOANS = F(DEP, INT, RIS)\text{...}1$$

The stochastic form of the equation is of the form

$$LOANS = a_0 + a_1 DEP_t + a_2 INT_t + a_3 RIS_t + u_t\text{...}2$$

Where

LOANS = loans obtained from the rural branches of deposit money banks

DEP = deposit of rural branches of deposit money banks

INT = interest on loans

RIS = rates of interest on savings

U = error term

a_0 = the intercept of the equation

$a_1 - a_3$ = the slope of the equation

t = time series data

The decision rule guiding the test of hypothesis is that where there is no significant difference between the t calculated value and the t table value we accept the null hypothesis. In other words, if the t calculated value is less than the t table value, we accept the null hypothesis and reject the alternative. On the contrary, where there is a significant difference between the t calculated value and t table value we accept the alternative hypothesis and reject the null hypothesis. Put in other words, where the t calculated value is greater than the t table value we accept the alternative hypothesis and reject the null hypothesis.

4. Discussion Of Results

This section analyses the data on rural savings institutions and economic empowerment in Nigeria using table the information as contained in table 4.1 below.

Table 4.1: Deposits andLoans of Rural Branches and Weighted Average Deposits and Lending Rates of Deposit Money Banks in Nigeria

YEAR	DEPOSITS	SAVINGS INT.	LOANS	LOANS INT.
1997	19,047.6	4.8	11158.6	23.32
1998	18,513.8	5.49	11852.7	21.34
1999	15,860.5	5.33	7498.1	27.19
2000	20,640.9	5.29	11150.3	21.55

2001	16,875.9	5.49	12341	21.34
2002	14,861.6	5.08	8942.2	29.70
2003	20551.8	4.15	11251.9	22.47
2004	64490	4.44	34118.5	20.62
2005	64439.1	3.75	78639.7	19.47
2006	163103.4	3.05	90549.6	18.43

Source: Generated by the author from Statistical Bulletin of Central Bank of Nigeria, Vol.17, December, 2006

Table 4.1 above shows the deposits and loans of rural branches of deposit money banks between 1997 and 2006. It also shows rate of interest on deposits and savings. Total deposits stood at N19, 047.6 (m) in1997, N18, 513.8 (m) and N15, 860.5(m) in 1998 and 1999 respectively. It was N20,640.9 (m) in 2000 and decreased to N16,875.9(m) in 2001, N14,861.6(m) in 2002, it increased to N20,551.8(m) in 2003 and down to N64,490(m) and N64,439.1 in 2004 and 2005. It was N16, 3103.4 in 2006, this shows a significant increase.

The total loans for the periods were N11, 158.6(m) in 1997, N11, 852.7(m) in 1998 and N7, 498.1(m) in 1999. It was N11, 150.3(m) in 2000, N12, 341.0(m) in 2001, down to N8, 942.2(m) in 2002 and up to N11, 251(m) in 2003, N34, 118.5(m), N78, 639.7(m), and N90, 549.6(m) in 2004, 2005 and 2006 respectively. From the table it is visible that interests on savings are low while that of loans are higher for all the years under observation.If the savings Institutions improve on their savings collection capacity, the level of savings will rise and if same find investment outlets and effectively and efficiently utilized, it will reflect in the economic growth and development and hence economic empowerment of the people. For there to be effectiveness and efficiency in mobilizing the largest possible rural savings; there must be institutions that can effectively and efficiently collect these savings and ensure that they find investment outlets. Their presence would go a long way in ensuring that more savings are mobilized for economic empowerment.

In line with the above, the hypothesis was tested using regression analysis. We used data on deposits, loans and interest rates on deposits and loans from CBN statistical bulletin (2006) and obtained an estimated result through the application of OLS regression technique.

4.1 *Discussion of TheRegression Result And Test of Hypothesis*

The estimated results are presented below:

$$LOANS = 106977.9 + 0.34DEP - 1294.76INT - 13675.07RIS \quad \text{...4.1}$$

$$(2.70) \qquad (-4.78) \qquad (-3.29)$$

$R^{-2} = 0.80$

Durbin Watson test 2.30

t = table value = 1.94

The estimated results above showed an impressive outcome. This is because the coefficient of determination (R^{-2}) which was found to be 0.80 indicates that the independent variable have 80% influence on the variation in the dependent variable. In other wards R^{-2} showed that the independent variables in the model have 80 percent explanatory power of the variation in the dependent variable. The remaining 20 per cent is captured by the error term (u) in the model.

This outcome is a representation of a good statistical fit. The result also showed that there is no evidence of any serious serial correlation since the Durbin Watson statistical test is 2.26.

From the estimated result, deposits mobilized by the rural branches of deposit money banks (DEP) in Nigeria showed a positive coefficient (0.34). This simply suggest that a 100 percent increase in deposits mobilize by the rural branches of money deposit banks will result in 34 per cent increase in the provision of loans to members of the rural community for investment purposes, and hence economic empowerment of the rural people. Put differently, a 100 percent increase in deposits mobilized by the rural money deposit banks will have a 34 percent direct impact on the ability of the rural financial money deposit banks to give loans to members of the society. This result was expected in this study since it obvious that an increase in the ability of the rural banks to mobilized savings will increase the quantity of loans given to the members of the rural community for investment purposes. However, the estimated coefficient value of 0.34 for DEP is very low.

This concludes that the positive impact of DEP on loans is a sluggish one. The estimated result also showed that the rates of interest on savings (RIS) to members of the public that deposited money with money deposit banks have an indirect influence on loans provision. The estimated coefficient value of RIS (-13675.07) suggests that a 1 percent increase in the rates of interest on savings to the members of the society will lead to -13675.07 decrease in loans provision. This result was not expected in this study. This is due to the fact when interest rates on savings is high, more savings will be mobilized by the banks and this will increase the financial ability of the money deposits banks to provide loans for investment and hence economic empowerment of the rural members.

Based on the decision rule and given the estimated regression result above, the t calculated value of the respective variables were compared with the t table value. The estimated result showed that the t table value was 1.94 at 5 per cent level of confidence. This table value compared with the values in parenthesis for test of significance result indicated that all the values in the parenthesis were greater than the t table. The t calculated value of DEP was 2.70, while INT and RIS were found to be -4.78 and -3.29 respectively. This study shows that the result is statistically significant at 5 per cent level. Since the t calculated values were found to be greater than the t table value, we accept the alternative hypothesis (H_{A2}). The acceptance of the alternative hypothesis (H_{A2}) is the rejection of the null hypothesis (H_o).

This therefore, implies that, rural savings Institutions have significant impact on economic empowerment in Nigeria. This is because they mobilize savings and extends loans facilities for business startup and expansion which in turn improve the standard of living of the people. This result agreed with the findings of Nnanna*et al*, (2004),Mayoux, (2002) and Yusuf, Gafar and Ijaiye (2009).

5. CONCLUSSION AND RECOMMENDATIONS

The study analyzed rural savings institutions and economic empowerment in Nigeria. As the people are empowered economically, level of savings would also increase. This also means increase in investible funds and investments, economic growth and development. In essence we assumed that a substantial part of the mobilized savings is lent out for productive investments that reflected in the economic wellbeing of the people positively.In testing the hypothesis, we assumed that savings mobilized by the rural savings institutions are given as loans to the people; who in turn used these funds for investments purposes there by creating jobs and incomes for themselves and the community and improving their economic wellbeing. If this is achieved, there will be increase in investments, job creation, income, and hence economic empowerment.

In testing the hypothesis for this study, data on deposits, loans and interest rates on deposits and loans from the CBN statistical bulletin was used to obtain an estimated result through the application OSL regression technique. The regression analysis result showed that the t table value was 1.94 at 5 per cent level of confidence while the calculated value of DEP was 2.70, while INT and RIS were -4.78 and -3.29 respectively. The t table value compared with the value in the parenthesis for test of significance result indicated that all the values in the parenthesis were greater than the t table value. This therefore, led to the conclusion that, rural savings institutions have significant impact on economic empowerment in Nigeria

In the light of the issues raised in the study; we recommend for more functional rural saving institutions to mobilize rural savings in order to enhance economic empowerment in Nigeria, and ensure that these savings find investments outlets which will then translate to economic growth development and hence economic empowerment; so as to give more people access to financial services, open new perspectives and empowers people and enable them to finally carry out their own projects and ideas with their own resources and escape assistance, subsidies and dependence.

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