DETERMINANTS OF BANKING CHOICE AMONG RURAL HOUSEHOLDS IN EKITI STATE, NIGERIA

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Abstract

The banking choice of rural households has being noticed to be the informal banking method where they source for finance to improve their productivity and income. This has necessitated the study for the determinants of banking choice among rural households in Ekiti State. One hundred and twenty respondents were randomly selected in the study area. Descriptive statistics was used to describe the socio-economic characteristics of rural households while probit regression analysis was used to analyze the relationship between the socio-economic characteristics and the choice of banking methods. The results showed that the mean age was 48.9 years, the majority of the respondents were female (76.7%) with relatively high household size (6-12). As a State known for academic excellence, high literacy rate (91%) was recorded. Most (48.4%) of them engaged in trading of agricultural produce. The main method of banking in the area was the informal mainly the daily collectors (Alajos). It was recorded that rural households saving was low. From the probit analysis, it was gathered that the determinants of the choice of banking choice were household size, years of formal education, amount saved and income. Based on the results of this study recommendations were suggested in order to enable rural households make proper banking decisions, some are- government should invest more on social infrastructure, quality birth control, macroeconomic policies aimed at reducing consumption price index.

Key words: Rural, households, informal banking choice, socio-economic characteristics.

Introduction

Banking institutions and other financial agencies are imperative to the financial source for agricultural agents (farmers and marketers) in Nigeria. Rural banking is responsible to ease the financial burden of rural households in the midst of their various socio-economic challenges. Given that about 70% of the poor in the developing world still live in rural areas and they live less than US$1.25 per day (IFAD, 2011) agricultural development is crucial for achieving the Millennium Development Goals. The role of finance cannot be over emphasized as it aid the rural dwellers to cater for their basic human needs and investment opportunities.

Rural banks develop special commercial skills in fostering agribusiness. Kibet, *et al.*, (2009) noted that some banks 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.

Nigeria's economic peculiarity has being observed to be financial dualism (Adeyemo and Bamire 2005). The Ministry of Finance, the Central Bank of Nigeria (CBN), banks, commercial banks, Nigerian Stock Exchange (NSE), etc., constitute the formal financial sector, while the informal financial sector include esusu, daily contributions and cooperative organizations which allow people to lend and borrow directly from each other.

Informal financial establishments have strong influence on agricultural related activities because of the inadequacy of formal institutions in the rural areas and their unwillingness to meet the credit demand of the rural households, low literacy level among the rural dwellers, loss of confidence in the formal banking system due to distress, complex banking practices among others (Adebayo and Adeola 2008; Adeyemo and Bamire 2005).

The limited financial resources which are meant for optimization of agricultural production and other related rural activities has being noticed to have being mete out for unprofitable activities, which is as a consequence on the households. Rural households are characterized by down-trodden hardship which is mainly due to insufficient finances for agricultural production and businesses.

Despite the inadequacies in the informal financial institutions, it is worthy to ascertain the choice patterns and the factors determining banking choice among rural households. Thus, this study provided answers to the following questions

(i) what are the socio-economic characteristics of the rural households?
(ii) what are the methods of banking in-use?
(iii) what are the determinants of banking choice among rural households?

The main objective of this research work is to establish the determinants of banking choice among rural household in Ekiti State, Nigeria.
Specifically to:

(i) describe the socio-economic characteristics of rural households in the study area.
(ii) identify banking methods of rural households in the study area.
(iii) examine the determinants of banking choice among rural households.

Methodology

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). It is characterized with good agricultural soil, which made majority to be involved in agriculture and other agricultural related activities.

Sources of Data

A multi-stage random sampling technique was used for this study, it enables every citizen to be selected. 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 selected randomly in each community, in total 120 respondents were used for the study.

Socio-economic characteristics which include age, gender, marital status, years of working experience, religion, household size, source of primary income and educational background were retrieved from the respondents through well-structured questionnaire. Furthermore, information on the choice of banking and amount saved were elicited.

Analytical Techniques

Descriptive statistics was used to analyze the households' socio-economic characteristics while Probit regression technique was used to establish the determinants of the choice of banking method. The posited model showing the relationship between the dependent variables and independent variable was expressed as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_{u7} + \beta_8 X_8 + \beta_9 X_9 \ldots\ldots\ldots\ldots 1$$

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

Results and Discussion

Socio economic Characteristics of the respondents

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

Source: Field Survey, 2015.

Age Distribution of the Respondents

The study revealed that majority (55.8 percent) were between 41-60 years, this indicates that they will be able to make better choice of banking methods. There is rural-urban migration of the youths as the they prefer to get white-collared jobs which they believe is more lucrative than agriculture, this is not an encouraging situation as it tends to threaten food security in the study area.

Sex, Marital and Household Distribution of Respondents

As reported in Table 1, 76.7 percent of the respondents were female, this may be as a result that female are more involved in agriculture and its related activities (FAO, 2016) and also females are more disposed to savings than males. More also, majority (86.7 percent) were married with relatively large household size of 6-12. This implies that the children will assist the family head in agriculture and its related activities, but this has led to the low savings culture exhibited among the rural households, because a rational rural household will firstly endeavour to be food secured.

Educational Distribution of Respondents

There is high literacy rate (90.8 percent) in the study area as indicated in Table 1, as opposed to Ayinde *et al.*, (2012). This support the emblem of Ekiti State as the Fountain of Knowledge where there is a graduate of tertiary institution from every family. This high literacy rate is believed to aid the choice of banking method of the respondents.

Years of Working Experience Distribution of Respondents

It is observed that 53.3 percent of the respondents are experienced in their chosen occupation, this will positively aid their saving culture and furthermore help in the adoption of new innovations and technology targeted at guiding them in their choice of banking method.

Religion Distribution of Respondents

The state is a Christian state, as revealed in Table 1 that the majority (78.3 percent) of the respondents were Christians.

Distribution of Respondents by primary source of income

Table 2 reveals the primary source of income of the rural household. The result indicates majority (63.4%) are engaged in agricultural related occupation, 36.6% are related in non-agricultural occupation.

This indicates that rural households engage in agriculture and agribusiness, this could because they have the main resource-good soil, at their disposal.

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

Rural Households Main Banking Methods

Table 3, reveals that the respondents abide by the non-formal banking methods as indicated (74.2%), while only 25,8% chose formal banking methods. This may be so because informal methods reduces pressure on free cash, enabling access to fund, low or no collateral needed, it encourages community participation (Srinivas, 2016).

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

Saving of the Respondents

Majority (80.8%) of the respondents save below ₦5,000 monthly as indicated by Table 4. This implies that rural households have low savings and they have higher marginal propensity to consume (MPC), which has resulted in lower propensity to save (Obayelu, 2012; Nayak, 2013).

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

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

Table 5 shows the result of the probit regression analysis indicating the relationship between the socio-economic characteristics (independent variable) and the choice of banking method (dependent variable). It can be noted that variables sex, age, household size, cash crop production, livestock production and savings were negatively correlated.

The negative relationship between sex and the choice of banking method implies that females tends to save more than their male colleagues, this is evident as majority of the daily money collectors are females. The negative correlation of age indicates that, the older the respondents, the lower their propensity to save with the informal institutions. This could have being as a result that aged rural dwellers prefer to produce only for their households, thus have little or none to save. This is in conformity with the study of Amu, 2012.

Rural households are characterized with large size, which will lead them to consume majority of the produce, thereby having little for sale. This is indicated in Table 5, showing a negative relationship between household size and banking method. Amu, 2012; Obayelu, 2012 comply with the statement. Also, the negative relationship noticed between cash crop and livestock production and the dependent variable shows that the producers prefer the formal banking method. This is because production is capital intensive and there is need for loan and subsidies which could be available through the formal banking institutions.

Marital status, years of formal education and income had positive relationship with the choice of methods of banking. This implies that married household heads have higher aptness to save, as to be able to cater for their future production, sales and other needs. Also, education of the respondents is positively related with the choice of banking method. The higher the income of rural households, the higher their propensity to save. Furthermore, amount saved was significant at 1%, household size, years of formal education and income were significantly different from zero at 10%. This indicates that the determinants of the choice of banking method in the study area are household size, years of formal education, amount saved and income.

Conclusion and Policy Recommendations

Rural households need banking systems to boost their production, sales and other activities, therefore it is imperative for them to save in the institutions to be able to cope with future challenges. Based on the discovery of this research work, it was revealed that rural households preferred informal banking methods to conventional banking methods. The determinants of the choice of banking method are household size, years of formal education, amount saved and income.

The following are the recommendations of this research work:

- Informal rural banking institutions should be more organized to function effectively.
- The Marginal Propensity to Consume (MPC) is higher than Marginal Propensity to Save, the government should review her macroeconomic aimed at decreasing the rural consumption price index.
- Health policies should focus more on birth control in the rural areas as to ensure their social safety nets and thus increase their aptness to save.
- Since the producers prefer to bank with the formal institutions, the government should provide adequate social infrastructure in the rural areas to encourage the formal banking sectors in the rural areas.

- Rural dwellers should be encouraged to go into production, as this is the only escape route from food insecurity.

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