



Determinants of Banking Behaviour among Rural Households in Ibarapa East Local Government of Oyo State

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Abstract

The roles of banks either formal or informal cannot be over emphasized in that they perform intermediate functions between savers and those in need of credits. Despite the widespread popularity of traditional financial institutions in the rural sector of Nigeria, studies on rural households' behavior toward banking are scanty. Therefore, this study was carried out to determine the banking behaviour of rural households in Ibarapa East Local Government of Oyo State. Random sampling technique was used to select 200 respondents for the study and questionnaire was used to elicit information from the respondents. Descriptive statistics and Probit regression tools were used to analyze the data. The results show that there were more male (61.5%) respondents, the average age was 45 years, 75.5% were married and the average householdsize was 7 persons. Result of Probit regression shows a positive correlation between income of respondents and their participation in conventional banks. Also, literate people tend to participate less in unorganized banks such as mobile and cooperative banks. However, participation of the respondents in Bank of Agriculture (BOA) is very low due to their poor awareness of the program. It was revealed that high interest rate of banks especially the conventional banks was ranked 1st among the challenges to banking. Also, distance to conventional banks, collateral and high interest rate hampered the respondents' access to loan. The study recommends that microfinance banks should extend their operational unit to rural areas to bridge the gap between the formal and informal rural financial institutions. The convectional banks as well, should extend their operation unit to rural communities.

Keywords: Banking behaviour, Conventional banks, Financial institution, Probit regression, Rural household,

Introduction

Poverty is generally seen from the angles of low or no income, poor infrastructure, poor industrial activities, poor agricultural output, increase in crime and rural-urban migration. All these are referred to as aspects of under development, to develop therefore would mean improvements on them (Anyanwu *et al*, 2012). Increase in income from economic activities supported by loans and advances or credit from the banking industry, especially the rural banks could solve a significant part of the causes of poverty (Olashore, 2010). The Central Bank of Nigeria (CBN) regulations to ensure success for its rural banking policy specifies that commercial banks should open branches in the rural areas. The whole

idea of rural banking stems from a realization of the abundant untapped resources available in the rural areas. The creation of an institution (banking) that can afford the rural dwellers access to financial resources is seen as a strong motivating factor for job opportunities. An increase in investment as a result of provision of loans and advances will increase output level, which will in turn raise consumption level as many goods can be purchased at lower prices (Oloyede, 2010). This is because financial system enhances individual and group economic activities, which in turn promotes overall economic activities.

Rural banking is seen as an engine of growth for the rural economy. Awosika (2009) perceived rural banking as the

arrangement for mobilization of finance for investment in the rural areas. One of the major constraints to rural development is the problem of the inadequate financial capital which has a greater influence on the level of productivity and general well-being of the rural household. Adebayo and Adeola, (2007) reported that the relevant of the financial institution (banks) in the rural areas is to enhance productivity and promotes standard of living by breaking the vicious cycle of poverty in the rural areas. Over the years, government had made frantic efforts to address the issue of agricultural financing and improve rural households' standard of living with a view to increase agricultural productivity. This attempt gave birth to so many agricultural policies, and one of these policies is the Central Bank of Nigeria's Rural Banking Policy which was meant to bring banking services to rural household whose main economic activities are agricultural based. All banks are concerned mainly with making and receiving payments on behalf of their customers, accepting deposits and making loans to private individuals, companies, public organizations and governments. Banks also provide money transmission and other monetary intermediation services to their customers (Okoye and Opkpata, 2008). The roles of banks either formal or informal cannot be over emphasized in that they perform intermediate functions between savers and those in need of credits (Smiths, 2002). Rural household are characterized with various methods of banking, this involves process of saving their money and lending for improvement of their standard of living and general well-being.

Despite the widespread popularity of traditional financial institutions in the rural

sector of Nigeria and other developing countries, it is generally accepted that formal financial institutions are critical in the development of the rural areas. Formal financial institutions monetize transactions and facilitate socio-cultural, political and technological developments. Unfortunately, they do not cover the rural sectors adequately in most developing economies. Thus, many developing countries have therefore felt the need to increase banking facilities in rural areas through special programmes. These include creating quasi-cooperative banks, independent rural banks, and quasi-commercial banks in the rural areas (Okorie, 2008). Quasi-cooperatives are based on regional cooperatives; examples of this are found in China, Kenya, India, and Pakistan. In Tanzania and Zambia, state-run development banks made deliberate efforts to extend their branches to rural areas.

It is however unfortunate that in spite of the enormous contributions of rural areas to the national economy in Nigeria, empirical data are lacking on their banking behaviour, and the fold and scope of their involvement in banking activities have not been ascertained.

Therefore, this study sought to determine banking behaviour among rural households in Ibarapa East Local Government Area of Oyo State. Previous studies on banking behaviour of rural people were based on secondary data which do not adequately capture the behavior of the respondents. Conversely, this study used primary data to obtain direct information from the households.

Methodology

Area of the study

The study was carried out in Ibarapa East

Local Government of Oyo State with its headquarters located in Eruwa. It has a population of 164,600 (CP, 2016). The region is homogeneous in culture and populated by the Yoruba ethnic group and hence, Ibarapa East is characterized with low land tropical forest types with distinct wet and dry seasons which favour the growth of varieties of food and cash crops. Culturally, Ibarapa people are known for its quality in traditional arts and crafts such as pottery, calabash, carving, hair plating, and basket weaving. The major occupation of the people is farming as well as other agricultural related activities such as livestock farming, crop farming e.t.c. along with trading and craft specialization.

Sampling technique, sample size and method of data collection

A simple random sampling was used to select the respondents. Politically, there are ten wards within Ibarapa East Local Government. These wards are:- Isale Togun, Aborerin, Oke Otun, Oke Tabo, Sanngo, Anko, Isaba, New Eruwa, Oke Imale and Oke Oba. Each ward has ten districts. Two districts (units) were randomly selected from each ward. From each districts (unit), 10 household heads were randomly selected and interviewed using a structured questionnaire, thus making a total of 200 respondents. Primary data was collected using semi-structured questionnaires. The information gathered includes socio-economic characteristics of the respondents, choice of banking methods and attitude of respondents towards their banking method.

Analytical technique

The data obtained from the respondents were subjected to descriptive statistics such

as mean, media, mode, and percentage. Probit model was also employed to analyze the relationship between the social economic characteristics and choice of banking method. Probit was applied since the dependent variable is a binary outcome i.e (participation=1, non-participation=0).

The general probit model is stated below

$$\text{Pr. (y=1)} = F(\beta_0 + X_1\beta_1)$$

Pr. = probability function.

X_i = n by k matrix of explanatory variable

B_i = k by 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 therefore given as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + ?_1$$

Where,

Y is participation in choice of banking (participation=1, non-participation=0).

X_1, \dots, X_n are independent variables (socio-economic characteristics).

X_1 = Gender (if male=1, and 0 otherwise)

X_2 = Age (years)

X_3 = Households size (number)

X_4 = Marital status (if married=1 and 0 otherwise)

X_5 = Years of formal education (years)

X_6 = Number of Spouse

X_7 = Annual income (naira)

X_8 = Years of working experiences

X_9 = Membership of social organization (if yes=1 and 0 otherwise)

X_{10} = Leadership position held.

X_{11} = Number of dependents

X_{12} = Religion
 β = Coefficient
 ε_1 = error term.

Results

Socioeconomic status of the respondents

The result in Table 1 revealed that 61.5% are male and 38.5% are female; 46.0% of the respondents were within ages 21- 40; 40% were within 41 - 60, the mean age was 45 years and about 75.5% were married. The average household size of 7 persons is

relatively large (Table 1). Large family size leads to low savings, because larger share of their income is spent on consumption and other households needs such as health and education (Obayelu, 2013). Membership of respondents in any social organization also influences their banking habit, 61% of the respondents belong to at least one social organization while 37.5% did not belong to any social organization. This agrees with work of Obayelu (2013).

Table 1: Socioeconomic characteristics of respondents

Variable	Frequency	Percentage
Gender		
Female	77	38.5
Male	123	61.5
Total	200	100.0
Age		
0-20	3	1.5
21-40	92	46.0
41-60	80	40.0
61 above	25	12.5
Total	200	100
Mean		45.38
Marital Status		
Single	124	67.8
Married	151	75.5
Divorced	6	3.0
Window	10	5.0
Total	183	100.0
Household Size		
1-5	80	40.0
6-9	92	46.0
1-14	19	9.5
15 above	9	4.5
Total	200	100.0
Mean		6.68
Membership in Social Organization		
Undecided	3	1.5
Yes	122	61.0
No	75	37.5
Total	200	100.0

Source: Field Survey, 2018

Table 2: Frequency distribution of Participation in different Banking Methods

Banking Methods	Frequency	Percentage
Conventional	81	40.5
Microfinance	23	11.5
Bank of Agriculture (B.O.A.)	5	2.5
ROCSAs (Esusu)	9	4.5
MOBILE (Ajo Ojojumo)	44	22
Cooperative bank	38	19
Total	200	100

Source: Field Survey, 2018. Note: the most preferred type of banking was captured in this section.

Participation in different banking methods, household saving and income summary

Table 2 shows frequency distribution of the respondents' participation in different banking method of their choice. 40.5 percent of the respondents participated in conventional banks, 22 percent of the respondents choose mobile banking (Ajo) as their banking method, 4.5 percent choose Rotating Savings and Credit Associations (ROSCAs also called esusu), while 2.5 percent choose Bank of Agriculture (BOA) as their banking methods, 38 percent of respondents patronize Cooperative banks. Here the most preferred banking method was assessed.

Constraints faced in choice of Banking

Table 3 below shows that 48.5 percent of the respondents have the problem of collateral security and 17.5 percent of the respondents have the problem of high interest rate on loan has the major constraint in their choice of banking method while 20.5 percent has the problem of insufficient fund that could cater for their lending activities. This shows that majority of the respondents do not have collateral security to obtain loan from banks. Consequently, 7.5% of the respondents are undecided

about higher volume of loan released by conventional banks (Table 3). This implies that they do not know much about proportion of loan released as a result of low level of patronage. Also 70.5% of the respondents agree that savings in conventional banks are secured. 50.5% disagreed about loan accessibility without stress in conventional banks. Also 15 percent are undecided about the attitude of conventional banks staffs to customers. 79.0% of the respondents strongly agree that conventional banks are far away from rural households. Also, 81.0% of the respondents strongly agree that interest rate on loan in conventional bank is high.

The socioeconomic factor that are likely to affect rural households participation in various banking activities were examined using Probit regression. The result shows that income contributes positively to participation in conventional banks; this was significant at 5%, which implies that as the income of the respondents' increases, they are likely to save more in conventional banks. Years of education was significant at 10% and has positive relationship to their participation in conventional banks which shows that most elite in the region are likely to participate more in conventional banks (see Table 4).

Table 3: Attitudinal Statements on constraints facing households in choice of banking method

STATEMENT	SA	A	U	D	SD	Mean scores	Rank(s)
Conventional banks release higher volume of loan at a time	16(8)	86 (43)	15 (7.5)	56 (28)	27(13.5)	3.04	9 th
Saving in conventional banks is secured	47(23.5)	141(70.5)	1(0.5)	9(4.5)	2(1)	4.14	1 st
Loan in conventional bank is accessible without stress	5(2.5)	29(14.5)	26(13)	101(50.5)	39(19.5)	2.26	11 th
Conventional bank staffs are friendly	4(2.0)	125(62.5)	30(15)	39(19.5)	2(1)	3.47	8 th
Form filling in conventional banks is discouraging	5(2.5)	85(42.5)	16(8.0)	86(43.0)	8(4)	2.99	10 th
Conventional banks are far away from rural household	18(9.0)	158(79)	8(4.0)	14(7.0)	1(1.0)	3.87	5 th
Conventional loan attracts higher percentage of interest	34(17.0)	162(81.0)	2(1)	2(1)	0(0)	4.14	1 st
Request for loans in rural unorganized financial institution is easy	14(7.0)	150(75.0)	15(7.5)	20(10.0)	1(0.5)	3.79	6 th
Unorganized financial institution are trustworthy	18(9.0)	143(71.5)	21(10.5)	15(7.5)	3(1.5)	3.77	7 th
Unorganized financial institution are near to households	16(8)	169(84.5)	3(1.5)	12(6.0)	0(0)	3.93	4 th
Savings are easy in unorganized financial institution	26(13.0)	167(83.5)	7(3.5)	0(0)	0(0)	4.09	3 rd

Note: SA- Strongly Agree, A-Agree, U-Undecided, SD-Strongly Disagree, D-Disagree. Figures in parenthesis () are percentage.

Source: Field Survey, 2018

Table 4: Socioeconomic factors affecting respondents' participation in banks

Variable	Conventional	Microfinance	Bank of Agric.	Coop. Bank
Gender	-0.012	0.340	-0.178	-0.648**
Age	0.016	0.062	0.008*	-6.731*
Household size	-0.038	-0.167	-0.022**	0.003
Marital Status	-0.137	-0.025	6.650*	0.546**
Education	0.125*	-0.002	-0.276	-0.086**
Number of Spouse	0.038	-0.040	-5.530*	0.653**
Income	1.4e-06**	-1.2e-06***	-2.4e-07	-0.2e-06**
Work experience	-0.022	-0.002	-0.056**	0.065**
Membership	0.129	0.002	-0.255	-0.053
Leadership status	-0.086	0.0547	0.129	0.398*
Religion	-0.256	-0.002	0.115**	0.505***
Dependants	0.027	0.015	0.405	0.086
Constant	-1.805	-0.563	27.86	1.9773

Note: Significant at *** (0<0.01) ** (p<0.05) * (p<0.10)

Source: Field Survey, 2018

Respondents' age and participation in microfinance bank was positive and significant at 10 % which implies that old people are likely to participate more in microfinance banks, while household size was negative and significant at 5%, this implies that people with higher household size are less likely to participate in microfinance banks. Furthermore, marital status of respondents contributed positive to their participation in Bank of Agriculture at 10% while age, number of spouse, and membership in social organization were negative contributors, they were all significant at 10%.

In cooperative banking, number of spouse and leadership status of respondents contribute positively at 5% and 1% respectively while years of education was found to be negative at 5% level, this implies that the more the number of years spent in education, the less they are likely to participate in Cooperative banks. However, income was negative and significant at 10% which implies that as the income of the respondents increase, they are less likely to save in Cooperative banks. Also, the result shows that the number of years of education was negative and significant at 10%. This implies that the more of years spent in education, the less likely are they to participate in mobile banks while annual income of the respondents was negative and significant at 5%, this implies that as their annual income increases, they are less likely to participate in mobile banking or perhaps switch to other method of banking. However, years of working experience of respondents was found to be positive and significant at 5% (Table 4).

Discussion

The sex of the head of the household emphasizes the impact of saving as it is shown that the male populations are more.

Since, male is also belief to be the head of the family, they are expected to get involved in banking activities in order to sustain their family. The age range of most of the respondents implies that most of the respondents were economically active and are likely to participate highly in banking activities. The marital status of the respondents also determines the banking behaviour of the rural households. The married population is mostly involved in different business activities which make them to participate more in banking activities. The size of the family is also an important determinant of the banking behaviour of the rural households. In the past, large family size is very prominent in the rural areas but the case is different presently due to their exposure to western education. Also, the number of dependants also plays a major role in determining the banking behaviour of the rural households. If the dependants population becomes more than that of the income group then the probability of saving becomes low.

Income and saving summary of the respondents implies that high income earners prefer to save more in conventional banks though, their participation in conventional bank is still below average. However, there was a possibility of poor awareness about the Bank of Agriculture (BOA) and internet banking in the study area. Also, a considerable percentage of the respondents have better experience of the banking methods of their choice.

Conclusion and Recommendation

It is therefore concluded that the contribution of rural banking systems to the growth of the Nigerian economy is quite significant. Based on the findings, it was revealed that participation of the respondents in conventional banking is still

low as it was positively skewed to educated people in the area.

Based on the findings the following recommendations were made to address the problem of rural finance: Unorganized rural banking methods should be strengthened through government intervention so as to guide their activities, microfinance banks should extend their operational unit to the rural areas so as to bridge the gap between the formal and informal financial institutions, conventional banks should extend their operation unit to rural households by making use of the unorganized rural banking systems, Bank of Agriculture (BOA) should decentralize further to have at least a branch in each Local Government Area, there should be awareness in the rural areas on the relevance of Conventional banks so that they can bank with them, and adequate rural infrastructure should be put in place in rural areas so as to encourage the operation of Conventional banks.

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