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CONTRIBUTIONS OF RURAL FINANCIAL INSTITUTIONS IN RURAL DEVELOPMENT OF AKWA IBOM STATE: A PARSIMONIOUS DESCRIPTION USING THE PRINCIPAL COMPONENT ANALYSIS

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Abstract

The study was conducted in the three senatorial districts of Akwa Ibom State. A total of One thousand eight hundred (1800) respondents were selected for the study. Its main objectives were to identify the contributions of rural financial institutions in the development of rural areas of Akwa Ibom State as well as determine the major components of these institutions in the state. Information for the research were gathered with the use of structured questionnaire and personal interview.

Major findings of the study included:

- (i) That rural financial institutions are playing a major role in mobilising finances for rural development of Akwa Ibom State.
- (ii) That there is a high level of patronage of some rural financial institutions. Specifically, that the rural people of Akwa Ibom State are seriously patronising Osusu, rotating savings (single collector) and credit and savings clubs.
- (iii) That commercial lending (money lenders) have not received much patronage by the people.
- (iv) That rural financial institutions have played a major role in the employment of the ruralites.
- (v) That there are some safeguards to risk: traditional Oath taking, court litigation and heavy fines.
- (vi) That unlike the orthodox perception, the rate of interest charged is relatively low (only a day's savings).
- (vii) That the rural people of Akwa Ibom State prefer to collect their 'pots' on monthly basis for short-term development programmes.

Introduction

Early economic development according to Olowu Dele, et al (1991:37) have linked low savings to problems confronting underdeveloped nations. Low savings according to him means low domestic capital

investment especially in the absence of large and sustained extended capital. Furthermore, some economists have argued that the Third World Countries lack domestic capital because of low per capita income and as a result of the non-readiness of the populace to save a proportion of the income that exists. These countries have also been accused of lacking in institutions and mechanisms necessary for facilitating capital redistribution (Olowu, Ayo and Akande, 1991:36-38). Three ways of capital formation are identified:

- (a) Through an increase in the volume of real savings.
- (b) By channelling savings through a finance and credit mechanism.
- (c) Through the art of Investment itself.

In the same vein, sociologists advocate for a change in the propensity to save on the part of individual members of the Third World population. After all, evidence abounds to show that there is an array of self-organised institutions in the Third World countries especially Nigeria, which make successful efforts in capital formation and redistribution. It is also observed that these efforts have served as complementaries to those financial institutions strictly controlled by government. This means that the financial structures in developing countries are dualistic in nature. As observed by Hyuha et al. (1993:1-4), this dual financial structures (formal and rural) have existed side by side for a long time. The formal financial structures are those financial institutions strictly controlled by government or legally regulated part of the financial system which is predominant in the urban areas and which consists of institutions such as banks (Central and Commercial), near banks, Insurance companies, development banks etc. which by law are under the direct control of the Central Bank.

On the other hand, there exists the indigenous private sector which consists largely of households and small-scale enterprises that operate outside the formal financial system. They are self-organised institutions which make successful efforts in capital formation and redistribution. Analysts refer to this sector as rural financial institutions.

Thus, 'rural financial institutions' refer to all transactions, loans and deposit occurring outside the regulation of a central monetary or financial market (Adama and Fitchett, 1992). It consists of those economic realities and their financial transactions which are not directly amenable to control by key monetary and financial policy instrument (Chipeta, 1991:1-3). Rural financial Institutions include:

- (a) Proprietary informal financial entities such as money lenders, traders, estate owners, small holders, farmers and other businessmen who trade in money or inputs within the rural areas (Chandavarka.1985).

- (b) Mutual aid entities such as rotating savings and credit association (Roscas) e.g. Osusu. Roscas are membership groups in which all members pay in set amounts at regular intervals to a common pot, which goes to each member in turn.
- (c) Rotating Savings (Single Collector). Here a person on a daily basis or intervals moves from person to person and collects a stipulated amount which is contributed to a common pot and given to owners at a stipulated date or month.
- (d) Savings and Credit Clubs (SCC). Unlike ROSCAS, savings and credit clubs are registered with the local government and as such represent a more formal form of union based on share capital. Since it is not controlled by the central bank, it is often seen as a rural financial institution (Chipeta and Micandowire, 1991).
- (e) Staff and welfare associations, such as those run by friends, relatives, neighbours and religious affiliates.
- (f) Money Keepers: this is a very common method of accumulating and safeguarding savings in some rural areas of Akwa Ibom State. Before now, people used to hoard their money in the ground. But as time went on, they decided to save their money with the money keepers. Money keepers are people who receive money to keep for their owners with very little interest.

The basic feature of these institutions is that they participate in the savings and investment process on formal basis. Adams and Fitchett (1992) and Bouman (1995) have argued that most rural dwellers in Africa and Nigeria in particular patronize the informal financial institutions and small scale enterprises that operate outside the formal financial system. To them the institution is seen in many places in the rural areas. The church, market, at home, in the farm and amongst kinsmen etc. That though it does not have the same features in all the rural areas, most of them are characterised by the following:

- (a) The President or chairman who must be of good character and must be trustworthy.
- (b) Members must pay their deposits on stipulated date or days. The failure may attract some kind of fine or levy. That such amount is sent to a common pot.
- (c) Payment to members depends on agreed ranking/queue, either through balloting or depending on the gravity of one's problems.
- (d) That members are related by blood or common cultural heritage.
- (e) Risk of default is managed through traditional Oath taking, heavy fines and court litigations.

It is good to mention that in Akwa Ibom State, the bulk of the population live in the rural areas, and although commercial banks do operate in a few of these areas, their branch network is not extensive

and above all, patronage is low. Moreover, the argument advanced by the orthodox conviction is that the loans received from rural financial institutions are solely used for financing consumption expenditures.

This paper is therefore undertaken to generate empirical information on the rural financial sector in Nigeria and specifically in Akwa Ibom State with a view to improving our understanding of their functions and functioning vis-à-vis provision of loans and accumulation of large capitals to aid rural development.

Conceptual Clarification:-

Rural Development

Rural Development according to the report of 1972 Conference on regional Planning and Economic Development in Africa held at Ibadan was seen as "the outcome of a series of qualitative and quantitative changes occurring among a given rural population and whose converging effects indicate in time a rise in the standard of living and favourable changes in the way of life of the people concerned" (UNEC for Africa, 1982:19-22). According to this report, rural development involves a comprehensive development of the rural area.

Formal Financial Institutions

This is the legally regulated part of the financial system, and consists of institutions like the central and commercial banks, near banks, insurance companies and development banks. Normally, the rest of these formal financial institutions are by law under the direct control of the Central Bank.

Rural Financial Sector

This is used to describe participation in all commercial savings and lending activity taking place outside of formal or established financial institutions. In describing the activity as rural, the researcher is conversant with the widespread usage of the term in Nigeria. (informal, unconstitutional etc). This sector of the economy is neither different from what Chandaverkar (1985) calls the "non-institutional financial sector nor from what has been referred to as the "unofficial money market" (IPC, 1988).

Method of Study

The study was designated to cover the three senatorial districts of Awka Ibom State, Thus, Nsit Ibom Local Government Area representing Uyo Senatorial district, Abak representing Ikot Ekpene senatorial district and Okobo representing Ekct senatorial district were chosen. Thirty villages were randomly selected for the study. A total of six hundred respondents (five hundred members, fifty non-members and fifty leaders of rural financial institutions were identified and

interviewed in each of the local government areas, making a grand total of one thousand, eight hundred respondents in all. Out of which one thousand seven hundred and ninety-one (1,791) questionnaires were completed and returned.

Data collection was done with the use of pre-tested questionnaire and interview, especially as the targeted population comprises of the rural people, most of whom cannot read and write. Information mainly sought for in the questionnaire included the respondents' demographic characteristics, their experiences on the functions and functioning of rural financial institutions as well as the role of these institutions in rural development.

The researcher regressed financial institutions and their associated characteristics with some selected indices of rural development.

Dependent Variable	Indices of Rural Development
Y1	Beauty related enterprises e.g. Hair dressing, Hair plaiting, Barbing saloons etc.
Y2	Tailoring, fashion designing, weaving etc.
Y3	Small scale industries e.g. soap making, water proof cutting, etc.
Y4	Palm produce related business or enterprises
Y5	Confectionaries e.g. Bakery etc.
Y6	Auto mechanics and automobiles
Y7	Transportation e.g. motor cycle, taxi, pick-up, bicycle etc.
Y8	Fishing related business
Y9	Agricultural activities of private plantation, poultry etc
Y10	Restaurants and Drinking parlours.
Y11	Articles shops etc.

The above indices constituted the dependent variable. While the rural financial institutions and their associated characteristics constituted the independent variables were 54 in number (from X_1 to X_{54}).

Independent Variable	Rural financial institutions and associated characteristics
X1	Those who financed their business from Osusu lenders
X2	Those who financed businesses from money lenders
X3	Those who financed from Rotating savings (Single collector).
X4	Those who financed from savings and Credit Clubs.
X5	Those who financed from staff and social welfare
X6	Those who financed loans from banks.
X7	Those who financed from other sources.
X8	Those who had assistance from paid employees
X9	Those who had assistance from other sources
X10	Those who had assistance from unpaid family members
X11	Those who saved from economic activities
X12	Those who did not save from economic activities
X13	Sources of capital to start economic activity-Osusu
X14	Sources of Capital to start economic activity- one's own savings
X15	Sources of capital to start economic activity- money lenders
X16	Sources of capital to start economic activity- credit unions
X17	Sources of capital to start economic activity- suppliers credit
X18	Source of capital to start economic activity-Bank credit/loans
X19	Source of capital to start economic activity-Parents/relations
X20	Those who received weekly savings from collectors
X21	Those who received monthly savings from collectors
X22	Those who received yearly savings from collectors
X23	Those who collect interest on savings
X24	Those who did not collect interest on savings
X25	Those who did not pay service charges for saving with collectors
X26	Those who did not pay service charges for saving with collectors
X27	Payment for services of collector-Whole day savings
X28	Payment for service of collector – less than a day's savings.
X29	Payment for services of collector – more than a day's savings.
X30	Payment of services of collector – weekly savings

Independent Variable	Rural financial institutions and associated characteristics
X31	Time allowed for repayment: 1 month
X32	Time allowed for repayment: 2 months
X33	Time allowed for repayment: 3-6 months
X34	Time allowed for repayment: 7-12 months
X35	Time allowed for repayment: more than 12 months
X36	Those who have not lost money through Default
X37	Those who have lost their money through default
X38	Safeguards against Default of IFI
X39	No safeguards against Default of IFI
X40	Safeguard through Bible (Swearing)
X41	Safeguards through Traditional Oath
X42	Safeguards through heavy fines
X43	Safeguards through Court Litigation
X44	Safeguards through other ways/methods
X45	Reasons for choosing economic activity. Financially rewarding
X46	Reasons for choosing economic activity: Less Risk
X47	Reasons for choosing economic activity; to support one's salary
X48	Reasons for choosing economic activity: insurance against job.
X49	Reasons for choosing economic activity: occupation support activity
X50	Reasons for choosing economic activity: other reasons
X51	Payment to single collector – Daily
X52	Payment to single collector – Weekly
X53	Payment to single collector – Monthly
X54	Payment to single collector – others.

The aim was to attempt to relate the rural financial institutions to rural development in Akwa Ibom State.

Thus a total of fifty four (54) variables associated with informal financial sector were regressed against each of the eleven indices of rural development. To select the characteristic components of rural financial institutions in Akwa Ibom State, the principal component analysis (PCA) was used. That is, all the fifty-four (54) attributes of rural financial institutions were subjected to principal component analysis.

RESULTS: All the fifty-four attributes of Rural financial institutions were subjected to a principal component Analysis as mentioned above.

The results were as presented below: The data in Table 1 shows that a total of five significant eigen values were extracted, each greater than unity and representing 69.64% of the total variation. The first eigen value accounts for 34.52% of the total variation, the second accounts for 16.75% of the total variation, and so on.

TABLE 1: TABLE OF EIGEN VALUES

FACTOR	EIGEN VALUES	% OF VARIANCE	CUM. %
1	18.633	34.505	34.505
2	2.048	16.705	51.255
3	4.368	8.125	59.380
4	2.886	6.345	64.725
5	2.539	4.702	69.427

SOURCE: AKPAN, NSEABASI 2001.

The five significant eigen values mean that five components of rural financial institutions were extracted.

Table 2 below shows the relationship between the un-orthogonal factors extracted and the fifty-four (54) independent variables entered into the equation.

TABLE 2: COMPONENT MATRIX

Variable	Factor I	Factor II	Factor III	Factor IV	Factor V
X13	0.6172	0.3159	0.2402	0.1110	-0.248
X1	0.7190	0.2204	0.0791	-0.1715	-0.0321
X19	0.2423	0.4031	0.0422	0.1290	0.0785
X16	0.5905	0.1172	0.2948	-0.1461	0.1506
X3	0.3812	-0.0584	-0.4356	0.4718	0.0291
X20	0.0172	0.3323	0.7241	0.2558	0.1587
X2	0.0354	0.1502	0.7695	-0.0172	-0.0795
X22	0.5530	0.3018	0.6439	-0.3716	0.0268
X31	0.7800	0.7659	0.4667	0.0944	0.1723
X32	0.1926	0.7566	0.3520	0.1759	0.2589
X41	0.2769	-0.128	-0.1274	0.6492	-0.0254
X43	-0.0580	0.3976	0.0398	0.7622	0.1768
X46	0.3134	0.0524	0.2553	0.6905	0.0352
X8	0.3700	0.3195	0.3462	0.2678	0.1952
X9	-0.2256	0.2118	0.0149	0.1569	0.6901
X4	0.6028	0.4234	0.1026	0.0431	0.0048

SOURCE: AKPAN, NSEABASI 2001.

Because un-orthogonal factor matrices usually yield components which correlate with each other, they cannot be easily interpreted. For easy interpretation of the relationship, the component matrix above was rotated to make them uncorrelated so easily identifiable components may be obtained.

TABLE 3: ROTATED COMPONENT MATRIX

Variable	Factor I	Factor II	Factor III	Factor IV	Factor V
X13	0.8214	0.2281	0.2041	0.1056	-0.0119
X1	0.8138	0.4821	0.0276	-0.0297	-0.233
X19	-0.1281	0.1266	0.0451	0.1342	0.0492
X16	0.3942	0.3139	0.2941	-0.0721	0.1564
X3	0.7999	-0.2891	-0.1174	0.4382	0.0235
X20	0.1124	0.8465	0.7828	0.0106	0.0175
X27	0.2329	0.2097	0.2492	-0.0321	-0.3124
X22	0.4125	0.2354	0.4348	-0.1468	0.1194
X31	0.4101	0.08159	0.0108	0.1295	0.0204
X32	0.0948	0.7999	0.3515	0.0421	0.1249
X41	0.1213	-0.4293	-0.0129	0.6791	-0.0100
X43	-0.0341	0.2654	0.4201	0.6105	0.2801
X46	0.2133	0.3001	-0.1251	0.2347	0.1241
X8	0.3018	0.2374	0.2974	-0.0904	0.7058
X9	-0.2111	0.2941	0.0147	0.1525	0.7251
X4	0.8001	0.3527	0.1431	0.2274	0.1448

SOURCE: AKPAN, NSEABASI 2001.

Rotated Component Matrix

The rotated components matrix above, loads highly on X13 (those who received funds from Osusu to start their enterprise), X1 (those who continue to finance their enterprise through rotating savings – single collector, and X4 (those who receive funds from credit clubs to start their enterprise). This factor shows the prominence of Osusu, single collector and credit unions in financing enterprise. Factor I is therefore identified as an Osusu/single collector/credit union component.

Factor II loads highly on X31 (those with repayment periods of 1 month), and X32 (those with repayment periods of 2 months). Factor II could be named “Repayment period component”.

Factor III loads highly on X27 (those who pay a whole days’ service charges). It is identified as a “charges component”.

Factor IV loads highly on X41 (those safeguards through traditional oath and X43 (safeguards through court litigation). It is therefore labelled a safeguard against default component.

Factor I loads highly on X8 (those who receive assistance from paid family members). This factor is named "an employment component". It can be seen that these five components represent the five important elements in the characteristics of rural financial institution.

Findings and Discussion

The evidence from this study reveals that rural finance in Akwa Ibom State consists of a number of diverse institutions. The most predominant are non-commercial lending including OSUSU, rotating savings (single-collector) savings and credit clubs which are always made up of family members, friends, neighbours and other households in the village. The commercial lenders are of little importance in the lending process in the rural areas of Akwa Ibom State given the small proportion of respondents who reported to have borrowed from money lenders. It was also discovered that rural development could be discouraged if the people depended much on money lenders because their interest rates are very high. Thus factor I "OSUSU/single collector" credit union component.

It was also discovered that many factors have prompted the use of rural financing which differentiates the rural financial institutions with the formal financial institutions; their accessibility and the prompt delivery of the informal loans, lack of collateral security, lack of banks in most rural areas and finally the habit of the rural people. Thus the socio-cultural environment signified by the peoples (Rural people) conception of lending/borrowing as a mutual aid arrangement have provided a major reason for the patronage of the rural financial sector in Akwa Ibom State. That rural financial institutions encourages close association and promotes ties of solidarity and friendship in the groups or amongst members.

The study also reveals that borrowing/lending amongst respondents in the area surveyed was not solely for financing consumption expenditures. Thus, and, contrary to the orthodox conviction, some of the loans received from rural financial institutions were used to finance small scale business/trade, beauty related enterprises, small scale industries, agricultural related business, tailoring and fashion designing businesses, confectionaries as well as restaurants, drinking parlour and retail shops. Within this context, the use of rural financial institutions in the sampled population or area ranges from short-term to long-term investment in income-generating activities. The researcher needs to emphasize, however, that short-term investment predominates over long-term investment. This facts reinforced our belief that rural financial institutions have contributed immensely to rural development in Akwa Ibom State. Thus the fifth factor component. Since the short-term investment predominates the

rural areas of Akwa Ibom State and for the loan to be meaningful the period of collection and repayment is useful. Thus 'the second factor component' or 'Repayment period component'.

It was discovered that risk occurring in the market (rural financial market) was managed either through traditional Oath taking and the Bible or through heavy fines and court litigations. Thus the fourth factor component "safeguard against default component". It is good to say that other checks exist vis-à-vis the membership and leadership of these institutions. Afterall, members are related to one another and leaders are chosen on the basis of known personal qualities and trust.

It was noted that the service charges had impacts on the level of patronage. That the rural people gave a whole day's savings to the collectors as service charges and prefer to take their 'pot' by the end of every month. Thus, the third factor component, "charges component". This to them will encourage short term investment.

Conclusion

The positive role played by the rural financial institutions established by this study casts some doubts on the applicability of the orthodox thinking and policy prescriptions which emphasize only on the importance of the formal financial institutions. The findings in this work point to the opposite and reveal that rural financial institutions are very important in the development process in Akwa Ibom State. It is also indicated here that some of the loans collected from rural financial institutions are free from interest rates while others attract very meagre interest rate. For example, in a whole one month of savings the collector is bound to take only one day's savings.

The study found out that, Akwa Ibom State rural people patronise three major types of rural financial institution viz: Osusu, rotating savings (single collector), and savings and credit clubs. It was discovered that commercial lending or money lenders were not popular in the rural areas of Akwa Ibom State; that people patronise the rural financial institutions because it encourages close association and promotes ties of solidarity and friendship in the group or amongst members, that rural financial institutions are acting as mutual aid arrangement coupled with the lack of formal financial institutions in the rural areas.

This study ends by suggesting that the notion that the poor are without resources is not true. The existence of a large number of Osusu, savings clubs and rotating savings in the rural areas suggests that there is a demand for savings and lending services and some degree of excess of liquidity. More-over, the popularity of these institutions suggest that peer pressure is perhaps the best method to ensure savings in poor rural communities. And lastly, that rural financial institutions have their uses, as Seibel (1988) argued,

government intervention designed to eliminate it, is, therefore, likely to be unrewarding.

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