Microfinance Banks and Savings Mobilization: Case Study of ABC Microfinance Bank Okada, Edo State, Nigeria

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Abstract: This paper presents field findings as to why microfinance banks in rural areas have not been able to mobilise savings or the use of bank services effectively. Data was collected through primary and secondary sources. The Chi-square and Pearson's Correlation Matrix were used in the analyses of data. All the null hypotheses tested were rejected. The findings conclude that ABC Microfinance Bank has not been effective in mobilising savings from Okada community. Some of the factors that militated against the bank's success were the individuals' level of education, access to loan, incentives to encourage savings and others. It was recommended that the bank employs marketers to assist in the mobilization of savings from the community. The bureaucracies in obtaining loans should be relaxed so as to accommodate the uneducated and the poor. Government should consider reviewing deposit interest rate upward to encourage saving.
Keywords: Microfinance, Saving, Bank, Okada, Mobilization.

I. Introduction

Savings can be defined as that proportion of income not spent on consumption. People save for a variety of reasons including setting aside money for the rainy day, planning of some big purchase in future amongst others. There is also the fact that the future is beyondour control, so putting aside some money to spend when the need arises is actually organizing and taking control of one's future and financial affairs. Savings can be done in a variety of ways especially in the rural areas where majority of the people have low income and are not educated. While conventionally savings is done via financial assets, rural dwellers save through instruments that can easily be converted into cash- (grains, livestock, clothing, ornaments and others).

Individuals and households in developed countries enjoy easy access to credit since they have the window to overdraw on their credit cards without formal application, this could discourage the need to save. In contrast, access to credit in most developing countries is not as easy especially for the low-income earners hence they resort to borrowing from local loan sharks. Since the interest paid to loan sharks is high, individuals would rather deprive themselves of present consumption in order to save for future use.

Among the factors that determine saving behaviour is the ability to save which depends on disposable income, access to financial institutions and in some cases the level of education. Savingsmay be voluntary or compulsory depending on the one's employment. While individuals who are self-employed have the freedom to decide whether to save or not, others in public service have a compulsory monthly deduction towards a Pension Fund.In Okada as in most rural settings in Nigeria, traders, farmers, artisans and others belong to trade unions or cooperative societies which on weekly basis members contribute a certain amount to a common purse, this gives them the opportunity to borrow from such purse at very low interest rate to meet urgent needs. This practice has contributed immensely in discouraging members from saving in the formal banks.

Savings mobilization for microfinance banks and institutions has been described as a good strategy for effective microfinance operations. The success of any microfinance bank depends on its ability to mobilize savings, hence the onus to effectively strategize on the various ways to encourage savings lie with them.According to Abayomi (2011), there are certain factors that are sure recipes for successful savings mobilization for Micro Finance Institutions (MFIs). Most importantly is the access andproximity to customers,the closer the bank is to the customers the better the chances of mobilizing a large number of depositors. The sustainable development agenda is currently a national priority, generating domestic resourcesis one of the key instruments to finance it. Capital is an important factor to the entrepreneur for wealth creation. Young individuals having good business ideas lack the needed fund to execute such ideas. Those who borrow most times are yoked with high interest rate and hence continuity and sustainability become a problem.

Themain objective of this study is to find out to what extent ABC microfinance bank has been able to mobilise savings from the Okada community and also if any, the factors that have militated against such. In

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addition, the study will also identify strategies that could be employed to encourage more savings in Okada community.

II. Literature Review

According to Beverly and Sherraden (1999), three factors are responsible for savings behaviour in Africa; the ability to save, returns on saving and other socio-economic factors like family size.Households with large families tend to save less than to those with smaller families. The life cycle hypothesis is a model that is hinged on saving and consumption pattern over an individual's life span. Modigliani-Bromberg developed the concept which centres on the spending and saving pattern and habits of people.According to Robinson, (1994) saving is broadly defined as a means to secure future consumption at all times either in cash or in kind.To avoid the temptation of excessive spending,savings institutions can developa marketing plan to mop up extra cash off consumers.

Wright and Mutesasira (2002), found intheir study that about 99% of the poor save informallyand, on the average,also lost about 20% of the amount they have saved. The informal sector in most cases do not pay interest and when there is bad debt the burden is shared on all members of the group. Some local trade unions save and borrow money to members at interest rates higher than what obtains in the Microfinance banks.One would wonder why the locals still prefer to borrow from such trade unions. Service providers need to demonstrate to their customers especially the uneducated that they can provide the needed services and are reliable.

According to Zeller et al, (1996), because the poor are more vulnerable to income shocks,precautionary savings are more important to poor households. Economic theory has it that the three motives for holding cash or money are for transactions, speculation and precautionary motives. Empirical findings show that the poor hold precautionary money in liquid assets like goats, chicken, sheep, ornaments and others. This is because of the ease with which these can be converted into cash and the availability of ready market for such. "Saving is seen as necessary even when there is no surplus" (Blanchet 1986), this statement is true especially when the motive is precautionary.

In Nigeria, the sustainable development agenda is currently a national priority and one of the channels through which banks intend to mobilise fund and have an all-inclusive system is via the mopping up of funds at the rural levels. Local money lenders keep all their monies outside the banks irrespective of the amount and also most people in the villages still prefer to keep their savings close to them or handed over to somebody they can trust. Saving money in the bank is still alien to mostuneducated and elderly in Okada community. Nevertheless, in order to motivate savings and attract the non-banking individuals, ABC Microfinance bank in Okada recruited marketers who go from shop to shop and house to house to encourage the people to save their money with them. These marketers sometimes carry out personal services of collecting money from the people and depositing same in the bank. They serve as intermediaries between the bank and the customers.

According to Dichter, (2007), for the poor, particularly those with low, irregular and unreliable income, saving is critical. In a study conducted by Nayak and Sethi (2013), on the pattern and determinants of saving behaviour in rural and urban areas, it was shown that the rural households who had little or no education had low propensity to save when compared to others in stable income employment. This finding is incongruous to the findings in the study by Dichter (2007).

Nnanna,Englama and Odoko (2004) asserts that because of the low saving deposits of the poor, the attitude of banks to small savers impedes their desire to save with the banks. Findings by Bime (2007) that there is lack of saving services for the poor because formal institutions ignore them and the insignificant size of their savings supports the argument by Nnanna et. al (2004).The important role microfinance banks can play to fill this gap is to carry out effective banking services at the grassroots by concentrating on the small and rural savers. It is true that the formal banking institutions offer better services to customers in terms of rate of return, security of money saved, legal protection amongst others, but the rural poor should also be given consideration irrespective of the size of their saving. In Nigeria, this is one of the major reasonsthe level of fund mobilization by banks is quite low. According to (Odoemenem et al. (2013), there is a link between savings and investment hence, the need to step-up efforts in mobilizing small savers both in the urban and rural areas.

The role of savings in the economic growth of any country cannot be over-emphasized. Conceptually, savings represent money available for investment. When applied to capital investment, savings increases output (Olusoji, 2003). The economies of developing countries grow at insignificant rates because of lack of capital to drive investment. Banks out of their meagre savings find it difficult to grant huge loans to prospective investors hence, the cost of capital is usually high and discouraging to investors. To be able to effectively mobilize savings in an economy, the deposit interest rate must be relatively high, that is, the opportunity cost of saving should be higher than the immediate satisfaction derived from present consumption. Without a doubt, the level of savings in an economy reflects in the level of investment. National savings are as crucial as individual

savings if an economy is to experience growth. According to Keynesian theory, savings and investment are equal at equilibrium income level (Turi, 2011).

Inflation is another factor that has discouraged savings in Nigeria, others are; fear of future rise in price, unstable exchange rate and political instability. Individuals would rather spend their money on present consumption rather than save for an uncertain future. This has compounded the problem of effective mobilization of saving and by extension economic growth. According to Chete (1999), savings rate has been declining in developing countries since the first oil shock in the early 1990s.Since savings is a function of income and the economies of developing countries are still import dependent, investments which lead to wealth creation, employment and availability of goods and services is still low. The poverty index for most countries including Nigeria has worsened because the real sector is not vibrant. Since the introduction of SAP in 1986 to shift attention from public to the private sector by privatisation and commercialization of some government enterprises, savings have not increased significantly to drive economic growth.

III. Methodology

The Study Area

Okada is the capital of Ovia North East Local Government Area in Edo State, Nigeria. Okada is home to Igbinedion University and Igbinedion University Teaching Hospital hence commercial activities are high. The town is characterised by the educated and uneducated and core rural dwellers. Most of the trading activities are carried out by indigenes and non-indigenes. When the University is in session, the average population of people in Okada is over 8,000. As at today, Okada has four conventionaland one microfinance banks.

Before Igbinedion University was established in Okada in 1999, there was only one community bank that has now metamorphosed into the present ABC Microfinance bank. Most of the customers of the microfinance bank are traders, artisans, farmers and others. The University community prefers to patronise theconventional banks because of the availability of ATM and E-payment facilities.

Data were obtained from primary source using structured questionnaires and analysed through the use of descriptive statistics,Chi-square and the Pearson correlation matrix methods. Purposive randomly sampling method was used in the selection of respondents because the focus of the study was on the rural dwellers. Questionnaires were filled by 85 respondents in Okada communitywhile secondary data was obtained from ABC Microfinance bank for the period1999–2018.The questions were drawn to elicit responses on thedeterminants of savingsand the constraints to savings mobilization amongst others. Some of the questions asked will form the hypotheses to be analysed.

4. Data Presentation and Analyses
4.1 *Demographic/Socio-economic data of Respondents*
1. Sex: Male **[40]** Female **[45]**
2. Age: ≤ 25yrs **[18]**,≤ 35ys **[27]**, ≤45yrs **[15]**,≤ 55yrs **[17]**,≥55ys **[8]**
3. Educational Background: No formal Education **[32]** Primary Education**[38]**
Secondary Education**[13]** Tertiary Education **[2]**

4. Vocation: Trading **[27]** Farming **[30]**Civil Servant **[6]**
Artisan **[11]** Unemployed **[1]** Others **[10]**
5. Average Yearly Income: ≤N100,000 **[28]**≤300,000 **[42]**≤N500,000 **[17]**
≤N1million **[7]**≥ N1million **[1]**

Table no 1: Summary of Primary Data Collected

No.	Questions	SA	A	UND	D	SD
1.	The poor do not save money in Bank	21	6	0	42	16
2.	Savings is a function of income	70	7	1	3	4
3.	Savings depend on motivation and reward from banks	21	19	4	26	15
4.	ABC Microfinance bank has a role to play in mobilizing savings in Okada	32	26	10	12	5
5.	Savings mobilization is crucial for rural development	17	36	12	15	5
6.	It is easier to obtain loan from ABC if one has a savings account with the bank	54	19	2	9	1
7.	Savings help in business expansion and meeting urgent needs.	62	20	0	3	0
8.	Interest rate paid can motivate higher savings.	52	17	1	1	4
9.	It is easier to access loans from the informal banks (Osusu) than from ABC bank.	54	19	2	9	1
10	Interest charged by informal banks (Osusu) is higher than that of ABC microfinance bank.	53	27	0	5	0
11.	Ability to read and write is necessary in accessing loan from ABC microfinance bank.	41	20	6	15	3
12.	ABC Microfinance bank renders other supportive services to savers	3	10	0	46	26
13.	ABC bank is not as reliable as other banks	21	36	14	8	6
14	With the right incentives, people will save more.	66	10	3	5	1

Author's compilation, 2018.

SA= Strongly Agreed, **A**=Agreed, **UND**=Undecided, **D**=Disagree, **SD**=Strongly Disagreed.

From the above data collected from the field, about 52% of the respondents were female. Majority of the respondence fell into the age bracket of 25 to 45 years. About 38% had no formal education of any sort while about 45% had primary education. Farming and trading were the major occupation of the respondents as about 67% of them were engaged in either of both. On average yearly income, about 70% earned less than N300,000 (approximately $1,000)per year while only I person out of the 85 respondents earned above 1 million naira yearly.

Some hypotheses would be tested using the Chi-square method of estimation. These would be drawn from the questions and the responses.

4.2Hypotheses Testing and Discussions

$H0_1$: There is no significant difference in savings by the respondents in the five vocation categories.

Table no2:Chi-Square result on vocation and savings

Trading	Farming	Civil Servant	Artisan	Unemployed	Others
27	20	6	11	1	10

Expected N =14.17   Chi-square = 57.765   Significance = .000   Alpha = .05

The table no 2 shows a Chi-Square value of 57.765 and a p-value of .000. Testing at an alpha level 0.05, the p-value is less than the alpha level, and as such, the null hypothesis which states that "there is no significant difference in saving by the six groups in the vocation category in ABC microfinance Bank rejected. Consequently, individual vocation plays a role in the saving ability of the respondents.

$H0_2$: There is no significant difference in accessing loan from ABC Bank based on the ability to read and write.

Table no 3: Chi-Square result on accessing loans based on the ability to read and write

Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
41	20	6	15	3

Expected N =17Chi-square = 32.506significance = .000Alpha = 0.05

The table no 3 shows a Chi-Square value of 32.506 and a p-value of .000. Testing at an alpha level 0.05, the p-value is less than the alpha level, and as such, the null hypothesis is rejected. This means that the ability to read and write is a factor that is considered in accessing loans in ABC Microfinance Bank. A visit to bank confirmed this because the customers should be able to read and understand the loan documents, implication of taking loan, the interest rates charged, the maturity date, penalty for defaulting and other legal documentation. Further discussions with some respondents and bank staff confirmedthatwhere a customer cannot read nor write, he or she must have a guarantor who can read and write. Some respondents especially womenexplained that some guarantors charge a percentage of the amount to be borrowed as a fee. This bottleneck has discouraged intending borrowers from the bank and leave them with the option of borrowing from loan sharks at very high interest rates.

$H0_3$: There is no significant difference in savings irrespective of the income.

Table no 4:Chi-Square result on savings as a function of income

Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
70	7	1	3	4

Expected N =17.0Chi-square = 2.07Significance = .000Alpha = .05

The table no 4 shows a Chi-Square value of 2.07 and a p-value of .000. Testing at an alpha level of 0.05, the p-value is less than the alpha level, and as such, the null hypothesis is rejected. From the primary data collected, about 90% of the respondents agreed that savings is a function of income. That means the higher the income, the higher the saving. Empirically, this might not always be true because individuals with higher income tend to have more financial responsibilities and a relatively expensive life style.

$H0_4$: There is no significant difference in savings even when there is motivation and reward from ABC Microfinance bank.

Table no 5:Chi-Square result on saving and reward from the ABC Bank

Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
21	19	4	26	15

Expected N =17.0Chi-square = 16.118Significance = .003Alpha = .05

The table no 5 shows a Chi-Square value of 16.118 and a p-value of .003. Testing at an alpha level 0.05, the p-value is less than the alpha level, and as such, the null hypothesis is rejected. Individuals would always want to feel appreciated irrespective of the amount involved. Some conventional banks give out gift packages to customers especially at the end of the year. The gesture endears the bank to the customer. ABC Microfinance bank has not been able to give out gifts to their customers. When the manager was questioned on why customers have not been given any form of appreciation over the years, he explained that the rate of bad debts in the bank was high and the profit low. He also explained that the bank customers were just the rural low-income individuals and that they have not been able to attract the staff and students of IgbinedionUniversity because they do not offere-banking services.

$H0_5$: There is no significant difference in the ease to obtaining bank loan even if one has a savings account in ABC Microfinance Bank.

Table no 6:Chi-Square result on access to loan and being the bank customer

Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
79	6	0	0	0

Expected N =42.5Chi-square = 2.076Significance = .000Alpha = .05

The table no 6 shows a Chi-square value of 2.076 and a p-value of .000. Testing at an alpha level of 0.05, the p-value is less than the alpha level, and as such, the null hypothesis is rejected. On the question whether it was easier to obtain bank loan if one has a savings account in the bank, all the respondents agreed that it was easier. The individual seeking to obtain loan from the bank must have an interest and an account in the bank. Faithful bank customers more often find it easy to obtain loan especially if they have good track record of refunding money borrowed on due dates.

$H0_6$: There is no significant difference in savings even when interest paid is high.

Table no 7:Chi-Square of result savings and interest paid

Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
52	17	1	1	4

Expected N = 17.0   Chi-square = 99.176Significance = .000   Alpha = .05

The table no 7 shows a Chi-Square value of 99.176 and a p-value of .000. Testing at an alpha level 0.05, the p-value is less than the alpha level, and as such, the null hypothesis is rejected. From the statistics of responses, about 81% of the respondents agreed that customers would be motivated to save more in the bank if the interest paid is high.

$H0_7$: There is no significant difference in the ease to accessing loan from the informal banks (Osusu) than from formal banks.

Table no 8:Chi-Square result on ease of loan access from informal banks (Osusu)

Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
16	46	3	15	5

Expected N = 17.0Chi-square = 69.765Significance = .000Alpha = .05

The table above shows a Chi-Square value of 69.765 and a p-value of .000. Testing at an alpha level of 0.05, the p-value is less than the alpha level, and as such, the null hypothesis is rejected. The result confirms that accessing loans from ABC Microfinance bank has some bureaucracies which are not present in the informal banks. Respondents explained that obtaining loans from local loan sharks was easier because the individuals know one another in the community. The only requirement according to respondents was a witness to confirm that the transaction took place.

$H0_8$: There is no significant difference in the interest charged by the informal banks and the formal banks.

Table no 9:Chi-Square result on interest charged by formal and informal banks

Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
53	27	0	5	0

Expected N = 28.3Chi-square = 40.753Significance = .000Alpha = .05

The table above shows a Chi-Square value of 40.753 and a p-value of .000. Testing at an alpha level 0.05, the p-value is less than the alpha level, and as such, the null hypothesis is rejected. Over 95% agreed that the interest charged by the bank is different from that charged by the informal banks. The only reason these informal banks are patronised is the ease with which business is carried out. The informal banks charge higher interest and they give out loans with collateral except human witnesses. The high interest serves as cushion in times of bad debts.

Table no 10: Pearson's Correlation Matrix for some variables

	EMPLOYED	LEVEL OF EDUCATION	INCOME	BANK CUSTOMER	AVERAGE SAVINGS
EMPLOYED	1				
LEVEL OF EDUCATION	0.42	1			
INCOME	0.88	0.21	1		
BANK CUSTOMER	0.98	0.76	0.92	1	
AVERAGE SAVINGS	0.31	0.89	0.68	0.65	1

Author's computation, 2018

Table no 10 is the Pearson's correlation matrix which was further used to establish relationship among some variables. From the result, the correlation between being employed and savings is positive but low with a coefficient of 0.31. This means that people can save from gifts, inheritance and others even if not employed. The correlation between level of education and savingsis positive and high at 0.89. Since the ability to read and write is a function of access to loans and loans are only granted to bank customers, one can therefore conclude that education is key to becoming a bank customer at ABC Microfinance bank. Another interesting observation is that the correlation between income and level of education is insignificant at 0.21. From the primary data collected, some respondents who had no formal education were successful farmers, traders, artisan and so on. One is not surprised therefore, that in Okada because of the rural setting, education has not played significant role in income generation. Being a bank customer and level of education has a correlation coefficient of 0.76. This corroborates the Chi-square results which shows that level of education played a significant role to becoming a bank customer.

IV. Conclusion and Recommendations
Savings is essential for economic development because investors need to have capital for business. Savings play a crucial role in the survival and success of microfinance institutions and have also become a machinery for promoting economic growth. Household savings contribute immensely to total savings irrespective of the amount saved.

The general findings of this study confirmed that ABC Microfinance bank need to do more especially with their customers' service and saving incentives. Responses on whether the ABC Microfinance renders supportive services show that about 85% disagreed they rendered supportive services.

ABC Microfinance bank is yet to develop a working strategy to encourage savings inthe Okada community.All the null hypotheses tested were rejected based on the Chi-square results. Level of education, income, deposit interest rate, easy access to credit, e-banking facilities played key roles in motivating savings in Okada.

It is therefore recommended that ABC microfinance bank should gear efforts towards reducing the bottlenecks and bureaucracies associated with access to loans. Saving incentives and rewards can be given to savers to encourage and build saving culture in the community.Payment of higher deposit interest rate and lower lending interest rates will stimulate activities in the bank. The bank should more employ marketers to assist in the mobilization of savings from the community. E-banking facilities should be provided to encourage patronage from the University community.

One of the major problems encountered in this study was the inability of some of the respondents to fill the questionnaires without assistance because of their level of education. As a result, the interviewers had to assist hence human bias cannot be completely ruled out.

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