ENCOURAGEMENT OF SAVINGS HABIT BY MICROFINANCE BANKS AND POVERTY ALLEVIATION THROUGH ENHANCED FINANCIAL LITERACY AMONG THE PEOPLE OF CROSS RIVER STATE, NIGERIA

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Abstract

The study investigated the relationship between encouragement of savings habit by microfinance banks and poverty alleviation through enhanced financial literacy among the people of Cross River State, Nigeria. One null hypothesis was formulated in the study. Through the survey research design, data were collected from 572 randomly selected respondents. The data were statistically analyzed using chi-square test statistic at 0.01 significant level. The result showed a significant association exist between encouragement of savings habit by microfinance banks and poverty alleviation through enhanced financial literacy among the people of Cross River State. The study recommended that customers/clients of microfinance banks should be encouraged to save to acquire assets and also, microfinance banks should embark on agents banking using merchants to penetrate the rural areas. Equally, microfinance banks should introduce community banking in the rural areas supervised by community head or the chief to enable the people to save. It was also recommended that microfinance banks should use their agents and go to the grassroots and interact with the people in their native language about the need to operate a bank through which they can save their money.

Keywords: *Microfinance, microfinance banks, savings habit, financial literacy, poverty alleviation*

Introduction

A major requirements of microfinance clients or customers is a safe place to keep their savings so that they can build up huge sums of money to meet several needs – payment for shop, accommodation, medical expenses, tool, school fees, burial, marriages etc. (Ibrahim, 2013). Ibrahim (2013) maintained that the needs of the customers or clients of microfinance banks are met by savings mobilization activities. According to him, most micro enterprises find it difficult to leave their shops and business premises for banking transactions. From his observation, the convenience of this role is that the staff of the bank go to the customers at their homes, shops etc. for daily collection of deposits and loan repayments. Microfinance banks usually pay interest on the amount saved and encourages savings habit through enhanced financial literacy that can help the poor to get out of poverty.

Taiwo (2012) noted that the most important functions of the microfinance institutions (MFIs) in their various locations is the development of savings habits among the low income people that were not being reached by the conventional banking system. He averred that the provision of microfinance vehicle for the working poor is a means of encouraging the working poor to save, which is a way of promoting investment, employment and enhanced income through the set of skills and knowledge provided by MFIs to their customers in order for them to make effective decision with the resources available to them. Taiwo (2012) conducted a study on the impact of microfinance on welfare and poverty alleviation in Southwest Nigeria, from the respondents to his study, 97 per cent of MFIs customers interviewed saved regularly since their accounts were opened while only 3 percent admitted not to be saving regularly. The study also showed that many of the respondents have obtained loan facilities based on advice by microfinance institutions which have been utilized for various purposes, most of which have been channeled for development purposes, through micro-enterprises, for the self-employed, investment in passive income generation sources for those in self-employment. Evidence from the study showed further some improvement in nominal savings of respondents before and after opening an account and receiving loans from the MFIs. For an average of about three years for which account were operated by the respondents, normal average savings volume increased from N2,868 to N4,547 per week. This translates to an aggregate percentage change of 58.5 percent and annual compound growth rate of 18.6 percent (Taiwo, 2012).

There has been a massive shift in both thinking and practicing in the microfinance sector with MFIs coming to be seen as providing a range of financial services to the poor, including savings facilities, and not just micro credit. The argument for this comes from the fact that the poor has a strong need to manage their very limited resources and various forms of savings play an important role in household budgeting by the poor (Rutherford, 2000; cited in Weiss, Montgomery & Kurmanalieva, 2003). The practical demonstration is the shift from the original Grameen model of microcredit for productive purposes to Grameen Mark II with emphasis on financial literacy, and on a rage of flexible financial products, including loans of varying repayment periods for consumption as well as investment and various short and long-term savings which can alleviate poverty (Rutherford, 2000; cited in Weiss, Montgomery & Kurmanalieva, 2003). Shreinner (2001) cited in Ihugba, Bankong and Ebumuche (2016) defined microfinance as efforts to improve the access to loans and savings services for poor people. He observed that encouragement of savings through microfinance has the potential to effectively address material poverty, the physical deprivation of goods and services, granting services and educate low income households who are not served by the formal banking sector on how to manage their resources in order to alleviate poverty.

Microfinance services by microfinance institutes such as savings and micro loans have direct impact on GDP (Gross Domestic Product). An organized support to microfinance is necessary to start soothing trend for poverty alleviation and economic growth, and this can be achieved through financial literacy which microfinance institute inculcate on their customers or clients (Awojobi & Bein, 2011; cited in Ayuub, 2013). Microfinance banks are designed in such a way that easies the stringent collateral and other requirements necessary for loan taken. It is believe that financial assistance and knowledge on how to manage financial resources can help the poor to come out of poverty (Aliyu & Umaru, 2016).

Akosile and Ajayi (2014) submitted that microfinance institutions carry out vigorous training of clients including financial literacy on loan usage, savings and repayment default because they use the credit and financial facilities extended to them on income generating and less risky business ventures that can guarantee poverty reduction.

Lindsay (2010) cited in Akangbe, Olajide and Ajayi (2012) noted that giving sufficient loans, giving business management information in financial literacy to customers encourages saving habit among customers. Similarly, Asikha (2009) cited in Akangbe, Olajide and Ayayi (2012) concluded in his study that microfinance banks offered management and financial literacy skills to their customers in order to be effective micro entrepreneur. Olomola (2008) cited in Nwigwe, Omonona and Okoruwa (2012) observed that at the individual level livelihoods, financial markets such as microfinance banks can perform very crucial functions. He observed further that microfinance banks can be a major means for the poor to get access to financial assets; through facilitating savings, they can be of importance in reducing the vulnerability associated with uneven and unpredictable year-to-year changes in circumstances, and they help convent illiquid assets into liquid ones in the event of emergencies through financial literacy.

Rajasekhar (2004) cited in Atuya (2014) observed that microfinance is the strategy for providing to the poor in rural and urban areas, specifically women with savings and credit facilities to set up or expand business, invest in self-employment activities and increased household security through financial literacy and regulate poverty alleviation. Savings services encourages capital accumulation for investment in the short and long terms which can reduce poverty and empowered women (Atuya, 2014).

Ndubi (2008) cited in Nkpoyen and Bassey (2012) emphasized that microfinance savings scheme promotes self employment through the development of small scale enterprises in rural communities. He stressed that enterprises act also as major source of capital formation via the mobilization and productive channeling of savings. Hague (2000) cited in Agba, Ocheni and Nkpoyen (2014) noted that microfinance institutions encourage their clients to save and offers small loan to them to either initiate or expand income-generating activities and also giving them financial advice in order to improve their livelihood and get out of poverty.

Annan (1997) cited in Egwuatu (2008) maintained that the poor people in the world still lack access to sustainable savings. He noted that savings is a constraints that exclude the people especially the poor from fully participation in the financial sector of the economy. Inclusive financial sectors such as encouragement of savings by microfinance institutions help the poor or their clients to improve their lives and also alleviate poverty (Annan, 1997; cited in Egwuatu, 2008). As development strategy, microfinance confidence is built on ability of the poor to meaningfully improve their conditions of living, if they can access financial support on affordable terms (Eligiamusoe, 2008; Uyang, Abanbeshie, Omono & Aboh, 2021).

Objective of the paper

The paper investigated encouragement of savings habit by microfinance banks and poverty alleviation through enhanced financial literacy among the people of Cross River State, Nigeria. Specifically, it

i. Examined whether encouragement of savings habit alleviates poverty through enhanced financial literacy among the people in Cross River State.

Research hypothesis

i. Encouragement of savings habit has no significant association with poverty alleviation through enhanced financial literacy among the people in Cross River State.

Theoretical framework

The functionalist theory sees society as a complex system whose parts work together to promote solidarity and stability (De Rosso, 2012). It looks at society through a macro-level orientation which is a broad focus on the social structures that shape society as a whole and believe that society has evolved like organisms (De Rosso, 2012). This approach looks at both social structure and social functions. Functionalism addresses society as a whole in terms of the function of its constituent elements, namely, norms, customs, traditions and institutions. These parts of society are organs that work toward the proper functioning of the society as a whole.

According to functionalist perspective of sociology, each aspect of society is interdependent and contributes to society's stability and functioning as a whole. For example, the government provides education for the children of the family, which in turn pays taxes on which the state depends to keep itself running. That is, the family is dependent upon the school to help children grow up to have good jobs so that they can raise and support their own families. In the process, the children become law-abiding, taxpaying citizens who in turn support the state. If all goes well, the parts of society produce order, stability and productivity. If all does not go well, the parts of society then must adapt to recapture a new order, stability and productivity. For example, during a financial recession with its high rates of unemployment and inflation, social programmes are trimmed or cut, schools offer fewer programmes. Families tighten their budgets. A new social order, stability and productivity occur (Macinois, 2012).

This theory has relevance for this present study. This is because functionalists generally believe institutions in the society perform positive functions (they do good things for the individual and society). The microfinance bank is an identifiable economic structure. Its major goals are its contribution towards meeting societal needs of poverty reduction. The emergence of micro finance banks and its continuous existence is explained in terms of its vital contribution to the maintenance (function) of the rural and urban communities of Cross River State. The banks exist to meet both social and economic needs.

The provision and accessibility to credit facility, encouragement of savings habit, entrepreneurship development and promotion of investment are the specific structures through which microfinance banks perform the function of poverty alleviation. These are considered in a systemic manner. The nature of credit facility has an impact on improving income level, savings habit has an impact too on enhancing financial literacy which in turn help in poverty reduction.

Methods and material

The research design adopted for the study was survey. A questionnaire was designed based on the variable drawn from the study. Cross River is the study area with a population of 3,866,300 (National Population Census and National Bureau of Statistics Estimation, 2016). Cross River State is grouped into three senatorial districts. They are Northern Senatorial District, Central Senatorial District and Southern Senatorial District with 18 Local Government Areas. The study adopted the multi-stage sampling procedures. The state was stratified along the existing three senatorial districts. These three (3) senatorial districts constituted the three strata of the study. Purposive sampling procedure was used to select one third (1/3rd) of the local government areas per major stratum. The breakdown of the Senatorial Districts indicated that the South has 7 LGAs, the central has 6 LGAs while the North has 5 LGAs. The total number of LGAs in the Senatorial District is 18. Thus, represented strata 1, 2 and 3 respectively. One third of the local government areas translates to 2 local government areas per stratum. This yielded to 6

LGAs. These constituted the 6 minor strata.

Systematic sampling technique was adopted to select the actual respondents of the study. This was used to select between 115 and 97 respondents from village/ward (cluster). It involved the enumeration of households in each village or community or wards or street as usually done during census (1, 2, 3, 4, 5, 6, 7,8, 9, 10 etc.). The researcher used even numbcred households in a systematic manner. It amounted to 600 respondents who participated in the study. Since minor stratum A was Calabar Municipality and being the Cross River State headquarters, the number of beneficiaries identified were more. Altogelher 115 respondents were involved in | minor stratum, For the rest of the remaining 5 minor strata, 97 respondents were involved. Therefore, a total of 600 respondents (participants) participated in the quantitative study. This sample size was considered appropriate for generalization. Data derived from the administration of the questionnaire were analyzed using simple percentages and chi-square statistical test. The percentages were used to describe the socio-demographic characteristics of respondents in the study, while chi-square statistical test was used to test the hypothesis formulated for the study.

Analysis

For this study, a total of 600 copies of questionnaire were distributed while 572 were returned. The analysis was therefore based on 572 questionnaire retrieved from the field and at 0.01 significant level. The sociodemographic statistics of respondents was examined first before testing the hypothesis drawn for the study.

TABLE 1 Distribution of respondents

	No of respondent	Per centage of respondent
Age bracket		
25 – 30 years	251	43.88
31 – 35 years	192	33.56
36 - 40 years	76	13.28
41 – 45 years	27	4.72
46 – 50 years	19	3.34
50+ years	7	1.22
Marital status		
Single	312	55.22
Married	224	39.65
Divorced	21	3.72
Widowed	8	1.41

LGA		
Akamkpa	95	16.61
Calabar Municipal	111	19.40
Ikom	97	16.96
Obubra	91	15.91
Obudu	93	16.26
Ogoja	85	14.86
Religion		
Christianity	481	95.06
ATR	6	1.19
Islam	19	3.75
Occupation		
Farming	211	36.89
Fishing	82	14.33
Trading	120	20.98
Civil service	128	22.38
Unemployed	21	3.67
Others	10	1.75
Education		
Primary	98	17.13
Secondary	136	23.78
Tertiary	309	54.02
Informal	29	5.07

Income		
Less than N50,000	166	29.02
N51,000 – N100,000	231	40.39
N101,000 – N200,000	98	17.13
N201,000 – N300,000	52	9.09
Above N300,000	25	4.37
Sources of capital		
Credit facility from Microfinance	357	62.41
Credit facility from Coop. society	198	34.61
Payment transfer	17	2.97
Sources of income per month		
Profit from trading	120	20.98
Profit from fishing	81	14.16
Profit from enterprises	41	7.17
Salary	128	22.38
Profit from agriculture	192	33.56
Other investment	10	1.75
No of children		
None	167	29.20
1 – 2	232	40.56
3 – 5	143	25.00
6+	30	5.24

Source: Fieldwork, 2023

Table 1 indicates the socio demographic data of respondents. The distribution indicated that 251 respondents representing 43.88 per cent of the total respondents were between the ages of 25 and 30 years, 192 respondents representing 33.56 per cent were between the ages of 31 and 35 years, 76 respondents representing 13.28 per cent were between the ages of 36 and 40 years, 27 respondents were aged between 41 and 45 years while 19 respondents representing 3.34 per cent were between the age bracket of 46 and 50 and seven respondents representing 1.22 per cent were above 50 years. Among the respondents, 312 representing 55.22 per cent were single, 224 respondents representing 39.65 per cent were married, 21 respondents representing 3.72 per cent were divorced and eight respondents were widowed. Also, the distribution showed that 95 respondents representing 16.61 per cent were resident in Akamkpa, 111 respondents representing 19.40 per cent were resident in Calabar Municipal, 97 respondents representing 16.96 per cent were residing at Ikom, 91 respondents were in Obubra, 93 respondents in Obudu and 85 respondents representing 14.86 per cent were resident in Ogoja Local Government Area. With regard to religion, 481 respondents representing 95.05 per cent were Christians, six and 19 respondents respectively belonged to African traditional religion and Islam.

Also, the distribution showed that 211 respondents representing 36.89 per cent were farmers, 82 respondents representing 24.33 per cent were fishermen/women, 120 respondents representing 20.98 per cent were traders, 128 respondents representing 22.38 per cent were civil servants, 21 respondents were unemployed and other categories not listed were 10 respondents. The distribution further showed that 98 respondents out of 572 had primary education as their highest educational qualification, 136 respondents representing 23.78 per cent had secondary education, 309 respondents representing 54.02 had tertiary education and 29 respondents had no formal education. The monthly income levels of the respondents were: 166 respondents representing 29.02 per cent earned below N50,000, 231 respondents representing 40.39 per cent earned between N51,000 and N100,000, 98 respondents representing 17.13 per cent had their monthly earnings between N101,000 and N200,000 while 52 respondents earned between N201,000 and N300,000 and 25 respondents representing 4.37 per cent eamed above N300,000 monthly. For sources of capital, the Table indicated that 357 respondents representing 62.4] per cent stressed that their source of capital was credit facility from microfinance, 198 respondents representing 34.61 indicated credit facility from cooperative society while the remaining 17 respondents indicated payment transfer as their source of capital. With regard to sources of income per month, the distribution showed that 120 respondents representing 20.98 indicated profit from trading, 81 respondents representing 14.16 per cent indicated profit from fishing, 41 respondents representing 7.17 indicated profit from enterprises, 128 respondents indicated that their source of monthly income was salary, 192 respondents representing 33.56 per cent indicated profit from agricultural activities and 10 respondents indicated other investments as sources of their monthly income. The respondents also indicated the number of children they have; 167 respondents representing 29.20 per cent had no children, 232 respondents representing 40.56 per cent had children between one and two, 143 respondents representing 25 per cent had three to five children while 30 respondents had six and above children representing 5.24 percent.

TABLE 2 Descriptive Statistics

	N	Mean	Std. Dev	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Encouragement of saving habits and poverty alleviation								
Necessity of saving	572	1.72	.449	.202	-.984	.102	-1.035	.204
Microfinance encourages poor to save	572	1.76	.425	.181	-1.247	.102	-.447	.204
Microfinance and mgt of resources	572	1.54	.499	.249	-.162	.102	-1.981	.204
Saving and poverty reduction	572	1.69	.463	.214	-.827	.102	-1.321	.204
Microfinance and financial literacy	572	1.51	.500	.250	-.049	.102	-2.005	.204
Fin. literacy and poverty reduction	572	1.57	.495	.245	-.298	.102	-1.918	.204
Motive to save and poverty reduction	572	1.69	.461	.213	-.844	.102	-1.291	.204
Valid N (listwise)	572							

Sources: SPSS Output

Table 2 showed the general descriptive statistics of the survey. The distribution described the statistical structure of the data collated for the survey. Generally N represented number of respondent that reacted to the items, the mean is the average response of the respondents, the standard deviation indicated the deviation of the responses from the mean while Skewness and Kurtosis indicated the shape of the data in term of peak. The table indicated that the items were all responded to, hence N = 572.

Encouragement of saving habits and poverty alleviation had necessity for saving (N = 572, mean = 1.72, standard deviation 0.449, variance = 0.202, skewness = -0.984 and kurtosis = -1.035); encouragement of the poor to save (N = 572, mean = 1.76, standard deviation 0.425, variance = 0.181, skewness = -1.247 and kurtosis = -0.447); microfinance and management of resources (N = 572, mean = 1.54, standard deviation 0.499, variance = 0.249, skewness = -0.162 and kurtosis = -1.981); saving and poverty reduction (N = 572, mean = 1.69, standard deviation 0.463, variance = 0.214, skewness = -0.827 and kurtosis = -1.321); microfinance and financial literacy (N = 572, mean = 1.51, standard deviation 0.500, variance = 0.250, skewness = -0.049 and kurtosis = -2.005); financial literacy and poverty reduction (N = 572, mean = 1.57, standard deviation 0.495, variance = 0.245, skewness = -0.298 and kurtosis = -1.918), motivation to save and poverty reduction (N = 572, mean = 1.69, standard deviation 0.461, variance = 0.213, skewness = -0.844 and kurtosis = -1.291).

Hypothesis one

Encouragement of savings habit has no significant association with poverty alleviation through enhanced financial literacy among the people in Cross River State

Table 3: Chi square analysis for test of association between encouragement of saving habit and enhanced financial literacy

	N	Mean	Std. Dev	Min	Max	Per centiles 25th	50th (Median)	75th
Saving habit	572	1.69	.463	1	2	1.00	2.00	2.00
Financial literacy	572	1.57	.495	1	2	1.00	2.00	2.00

Chi-Square Test

Saving habit

	Observed N	Expected N	Residual
No	177	286.0	-109.0
Yes	395	286.0	109.0
Total	572		

Financial literacy

	Observed N	Expected N	Residual
No	244	286.0	-42.0
Yes	328	286.0	42.0
Total	572		

Test Statistics

	Saving habit	Financial literacy
Chi-Square	83.084[a]	12.336[a]
Df	1	1
Asymp. Sig.	.000	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 286.0.

Source: SPSS Output

Test statistic: Chi square analysis

Table 3 presented Chi square analysis for test of association between encouragement of saving habit and poverty alleviation through enhanced financial literacy among the people in Cross River State. The results of the test showed both descriptive statistic for the association between access to encouragement of savings habit and financial literacy among the people and the chi square test statistic. The mean response for savings habit was 1.69 while the mean response for financial literacy was 1.57. The standard deviation for the respective variables were 0.463 and 0.495 while other parameters were the same. The chi square test values were 83.084 for encouragement of savings and 12.336 for financial literacy significant at 0.01 level. When these values were compared with the critical chi square table value of 10.8 at 0.01 and one degree of freedom, the values were significantly higher indicating a significant association between encouragement of savings habit and financial literacy. Therefore the null hypothesis was rejected in favour of the alternative and consequently, it was concluded that encouragement of savings has a significant association with poverty alleviation through financial literacy among the people in Cross River State.

Result and discussion

The result of statistical analysis revealed that encouragement of savings habit significantly relates with poverty alleviation through enhanced financial literacy. It was discovered from the analysis that the calculated value of chi-square (X^2) was found to be greater than the critical or table value. This implies that encouragement of savings habit has a significant positive association with poverty alleviation through enhanced financial literacy among the people.

The findings supports Taiwo (2012) who noted that one of the most important functions of MFIs in their various locations is the development of savings habit among the low income people that were not being reached by the conventional banking system. He averred that the provision of microfinance vehicle for the working poor is a means of encouraging the working poor to save, which is important for promoting investment, employment and enhanced income through the set skills, and knowledge provided by MFIs to their customers inorder for them to make effective decision with the resources available to them.

This findings are in agreement with Shreinner (2001) cited in Ihugba, Bankong and Ebomuche (2016) who observed that encouragement of savings through microfinance has the potential to effectively address material poverty, the physical deprivation of goods and services, granting financial services and educate low income households who are not served by the formal banking sector on how to manage their resources in order to alleviate poverty.

This findings also agree with Awojobi and Bein (2011) cited in Ayuub (2013), according to them, microfinance services by microfinance institutions such as savings and micro loans have direct impact on GDP (Gross Domestic Product). They maintained that an organized support to microfinance is necessary to start soothing trend for poverty alleviation and economic growth, and for them this can be achieved through financial literacy which microfinance institutions inculcate on their customers or clients.

The findings are in line with Akosile and Ajayi (2014), they submitted that microfinance institutions carry out vigorous training of clients including financial literacy on loan usage, savings and repayment default because they use the credit and financial facilities extended to them on income generating and less risky business ventures that can guarantee poverty reduction. The findings are also in line with Lindsay (2010) cited in Akangbe, Olajide and Ayayi (2012) who noted that giving sufficient loans, giving business management information in financial literacy to customers encourages savings habit among customers.

The findings are in consonance with Asikha (2009) cited in Akangbe, Olajide and Ayayi (2012) who concluded in his study that microfinance banks offered management and financial literacy skills to their customers in order to be effective micro entrepreneurs and get out of poverty. The findings are accentuated by Hague (2000) cited in Agba, Ocheni and Nkpoyen (2014) who noted that microfinance institutions encourage their clients to and offers small loan to them to either initiate or expand income – generating activities and also giving them financial advice in order to improve their livelihood and get out of poverty.

Conclusion

Microfinance is a term used to refer to different methods and strategies for giving poor access to financial service. Microfinance banks presently made entrepreneurs to unlocked the ambitions of the rural poor. Equally, lead to creation as well as sustaining new income generation through encouragement of savings habit with adequate financial literacy making the rural entrepreneurs and subsistence farmers self reliance and independent in order to come out of poverty.

Recommendations

1. Customers/clients of microfinance banks should be encouraged to save to acquire assets and also, microfinance banks should embark on agent banking using merchants to penetrate the rural areas. Equally, microfinance banks should introduce community banking in the rural areas, supervised by community head or the chief to enable

the people to save.

2. Microfinance banks should use their agents and go to the grassroots and interact with the people in their native language about the need to operate a bank through which they save their money.

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