Financial Savings and Capital Formation among Rural Farmers in Abia State, Nigeria

Ahamefule, B. A., Oke, U. R., Nnamani, N. G. and Ezeugo, K. O.

Department of Agricultural Economics,
College of Agricultural Economics, Rural Sociology and Extension,
Michael Okpara University of Agriculture, Umudike, P.M.B 7267 Umuahia Abia State, Nigeria
Corresponding Author's email: blessingahamefuleada@gmail.com; ahamefule.blessing@mouau.edu.ng

Abstract
Rural farmers require enhanced savings mobilization and capital accumulation to increase the loanable funds available in rural banks and for farming. This study analyzed the factors affecting savings and capital formation among rural farmers in Umuahia South Local Government Area of Abia State, Nigeria. A multi-stage random sample technique was employed in the selection of 96 respondents. Data were collected using structured questionnaires and were analyzed using descriptive and inferential statistics. Results showed that the majority of the respondents were males who are still strong and agile, with large household sizes and small farm sizes. The result equally indicated that all the respondents had different reasons for engaging in saving with the majority saving with the Commercial Banks. The important determinants of saving and capital formation included age, farm income, education, non-farm income, gender, and farming and savings experience at the 10%, 1%, 10%, 10%, 10%, and 5% levels of significance respectively. Also, delay in credit disbursement, the low future value of savings and low- interest rates charged on savings of bank account holders were among the major constraints. It is therefore recommended that government should empower financial institutions to provide favourable incentives which would motivate farmers to save. In addition, there should be a timely extension of micro-credit to rural farmers to enhance their production capability and enable them to have a surplus for savings and capital formation.

Keywords: Savings, Capital formation, Determinants and Rural Farmers

Introduction
Agriculture in Nigeria is practised at the subsistence level and is characterized by numerous farmers operating several scattered small and fragmented plots of land using traditional methods such as land rotation, bush burning and crude implements (Odoemenem *et al*, 2013). The majority of the rural populace in Nigeria either depend entirely on farming and farming activities for survival and generation of income or depend on other non-farming activities to supplement their main sources of income. The validity of this statement becomes evident when it is realized that most (90%) of the country's local food production comes from rural farms (Central Bank of Nigeria, 2004), which are usually not more than 10 hectares in size. Thus, growth in agriculture is often the keystone of overall socioeconomic growth and development. And rural farmers are the main actors in agricultural development as they account for about 90% of food production in Nigeria and other developing countries (Adams and Vogel, 1990; Central Bank of Nigeria, 2004).

Over the years, many farmers in Nigeria have increasingly not been able to invest adequately in their farming activities due to lack of funding. They have as such resulted in forming cooperative movements to achieve a common goal through democratically controlled business organizations. The most important economic obligation of members of the cooperative society is saving. Farmers save a specified amount of money daily, weekly, monthly or quarterly as it is convenient for the group and the individuals. This type of saving is important for agricultural production because it allows farmers or members access to credit at the onset of the farming season which could boost farm production and income of the farmers. Saving is a catalyst for capital formation as well as a major determinant of the cost of credits based on the law of scarcity which holds that 'when the former is low and scarce, it becomes more costly to obtain' (Bime and Mbanasor, 2019).

Savings involve the setting aside of some assets future use or what will be considered as deferred expenditure

(Amu and Amu, 2012), while capital formation is the process of accumulating stocks through positive investments. Savings are very imperative for supporting and developing rural enterprises, improving well-being, insuring against times of shocks, and providing a buffer to help people cope in times of crisis (Zeller and Sharma, 2000). It plays an important role in the economic development of both developed and developing nations, due to its significant influence on the circular flow of income in the economy (Jalo *et al.,* 2015). Meanwhile, inadequate saving and low- level of income usually leads to low capital accumulation in developing countries like Nigeria (Uhuegbulem *et al.,* 2016). Pearce (1981) observed that very little savings or investment can occur with low income and thus hampers capital accumulation.

Hence, rural farmers need access to credit, information and numerous socio-economic factors to maximize their potential in agricultural production. Availability of credit will enable the farmers to increase their scale of production, timely adoption of improved technologies, income, savings and investment. Yet, there is a lack of access to credit from formal institutions by most rural farmers which is generally attributed to low levels of education and insufficient collateral (Ike, 2009). Also, households' lack of opportunity, willingness and inability to save and invest over time can significantly influence the rate and sustainability of capital accumulation and economic growth in developing countries (Oluwakemi, 2012). This lack of access to credit or its inadequacies is most frequently mentioned as a leading constraint to increased agricultural production in Nigeria. The constraint is particularly more acute for women than men, most of whom could improve their agricultural production if they had the requisite financial resources (Coleman, 1997). Generally, the inadequate funding in the agricultural sector is attributed to the fact that most rural farmers lack collateral, which virtually locks them out of the conventional banking system. Worse still, credit obtained from informal financial institutions is not always enough for a meaningful increase in agricultural production (Ike, 2009). In addition, inadequate policies which focus on improving services for savers according to Vonderlack and Schreiner, (2001) hinder the welfare of the rural poor farmers. Therefore, to curb these constraints, rural farmers require enhanced savings mobilization to increase the loanable funds available in rural banks and the extent to which they accumulate capital for farming (Rosenzweig and Wolpin, 1993

Furthermore, several studies have been carried out with different results on the determinant of savings patterns and mobilization in rural areas (Udry, 1990; Deaton, 1997; Zeller *et al.,* 1997; Nwibo and Mbam, 2013; Odoh *et al.,* 2020), in Nigeria, but there seems to be a dearth of empirical evidence of such study in Umuahia South Local government Area of Abia State. Therefore, this research seeks to find out the determinants of savings and capital formation among rural farmers in Umuahia South Local Government Area of Abia State.

Specifically, the study will ascertain the socioeconomic characteristics of the respondent, examine the reasons and methods of saving and capital formation, identify the financial institution patronized, determine the factors influencing the level of savings and capital accumulation and identify the problems producers face in their savings, and capital accumulation effort in the study area.

Methodology
The study was carried out in Umuahia South Local Government Area of Abia State, Nigeria. It is located in the South East region of Nigeria between longitude $7^{0}25^{1}$E and $7^{0}32^{1}$E and latitude $5^{0}30^{1}$N and $5^{0}40^{1}$N. The major occupation of the people is farming. They produce crops such as cassava, maize, melon, okra, garden egg, oil palm and cocoa while animals reared are sheep, goats, cattle, pigs and poultry. A multi-stage sampling technique was used in the selection of the respondents. In the first stage, ten (10) autonomous communities were randomly selected from the existing forty (40) autonomous communities. The second stage involved the random selection of two (2) villages from each of the communities identified to give a total of twenty (20) villages. Lastly, five (5) rural farmers were randomly selected from each of the villages to give a total of one hundred (100) respondents. However, only 96 questionnaires were returned and used in the analysis. Data for this study were obtained through primary sources using a well-structured questionnaire.

Method of data analysis
The data were analyzed using descriptive statistics such as means, frequencies and percentages for the socio-economic characteristics of the respondents, examining the reasons and methods of saving and capital accumulation among farmers and identifying the financial institution patronized by the respondents. Multiple regression analysis was used to determine the factors influencing the level of savings and capital accumulation among agribusiness owners while a 5-point rating scale was used to address the problems facing the producers in their saving and capital accumulation effort in the study area.

Model Specification
The multiple regression model of the determinants of farmers' savings and investment is explicitly stated as follows;
$$Y= b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + b_{10}X_{10} + ei \dots (1)$$

Where;
Y = Volume of savings/capital accumulated (Naira)
X_1 = Age of the respondents (years)
X_2 = Farm Income (Naira)
X_3 = Education Level (years)
X_4 = Non-farm Income (years)
X_5 = Gender (male=1, female=0)
X_6 = Savings experience (years)
X_7 = Household size (number)
X_8 = Distance to the nearest savings institution (Km)

X_9 = Membership of cooperatives (yes = 1, no = 0)
X_{10} = Farm size (hectare)
ei = Error term
β_0 = Intercept,
$\beta_1 - \beta_{11}$ = Regression parameters to be estimated.
Four functional forms (Linear, Exponential, Semi-log and Double-log functions) of the specified model were fitted to the data. The lead equation was selected based on the values of R^2, coefficients, the magnitude of the F-ratio and conformity of signs of the coefficient to *a priori* expectations and the number of significant parameters.
A 5-point rating scale was specified as the response option categorized into: Very large impact = 5, Large Impact = 4, Uncertain = 3, Little Impact = 2 and No Impact = 1. Based on the 5-point rating scale, the cut-off point was calculated thus:

$$X = \in \frac{F}{n}$$

Where,
F = Frequency of response under each mode
n = Number of respondents to an item

$$\text{Mean score} = \frac{1+2+3+4+5}{5} = 3.0$$

Results and Discussion
Socioeconomic characteristics of the respondents
The results of the socioeconomic characteristics of the rural farmers are presented in Table 1 below. The majority (69.79%) of the farmers were males while 30.21% were females, Ijere and Mbanasor (2003) noted that two groups of people, the poor and women are known to suffer the greatest disadvantage in the allocation of society's resources, the lack of assets for collateral since women barely have legal ownership of land. If therefore, an individual is a woman and at the same time poor, her problems become compounded. The result showed that the mean age of the respondents was 38.6 years. This is an indication that the small-scale farmers in the study area were mostly in their active age which is necessary for increased agricultural production. This finding is also similar to the results obtained by Adejare and Arimi (2013) who reported that the majority of agricultural labour force in Nigeria falls between 35 to 50 years. From the result, the area is dominated by respondents with large household sizes. The implication is that the household size may likely enhance the family labour supply in the farm, hence supplying favourably the production capacities of the farmers already enhanced by their age. This supports the findings of Orebiyi *et al*. (2012) that an increase in household size will make the farmer meet the additional financial commitment. In addition, larger household size may be beneficial as family labour may be maximized. The majority of the respondents had education up to the tertiary level indicating that the rate of adoption of improved technology adoption will be high and hence increased farm income. The mean saving experience was 8 years showing that the farmers had long years of farming and savings experience. Hence, the farmers are likely to make decisions that would increase their output and income. This conforms to the findings of Ike and Umuedafe (2013), and Nwibo and Mbam (2013). The majority of the respondents were smallholder farmers. This implies that most of the farmers in rural areas generally have small holdings and operate at the subsistence level of agriculture. The result shows that the majority of the farmers belong to a cooperative. The implication is that they had more access to information and better inputs than others who do not belong.

Methods of Savings and Capital Formation by Respondents
Reasons
The results show that all the respondents noted that they agreed with the motives for savings except to marry more wives (1.13), which was lower than 3.00. The most important motives for savings in the study area were to acquire more land and buy goods in future which rated 4.29 each. Others include: care for family (3.29), build a house (70), increase production (3.65) and children's education (3.70). Deon *et al* (2014) noted that savings mobilization is critical for individual and societal welfare. At the individual level, savings help household's smooth consumption and finance productive investments in human and business capital. At the macroeconomic level, savings rates one strongly predictive of future economic growth.

Methods of saving
The results show that the most important method of savings by the respondents was the banks (83.33%), followed by savings at home (.31.25%) and club/society (20.83%). The least important method of savings was Akawo (10.41%). Those that saved with the bank stated that they normally collected loans from the bank to execute some jobs, so it was required that they should have accounts with a bank. It was imperative that civil servants needed to save through banks since salaries are paid into their accounts. A good number of them preferred to save their money at home either for easy access or contingency purposes. These findings imply that savings in these areas conform to the savings habit of the rural population who save their money mostly in banks and at home, in addition to participating in the club/society\banks and Akawo.

Financial Institution Patronized
Table 4 shows the frequency distribution of respondents according to financial Institutions patronized. The result shows that many (50.00%) of the respondent's patronized micro-finance institutions while 25.00% patronized commercial banks and cooperative societies each. This corroborates the findings of Ahamefule et.al. (2019) that 59.94 % of rural farmers obtained their credit from micro-finance banks. More so, the activities of banking institutions enhance monetary control, thereby ensuring greater economic stability. In this regard, the recent bank expansion in Nigeria provides a unique framework and opportunity for assessing the efficiency of formal financial institutions as savings mobilizing conducts in rural areas.

Determinants of Level of Savings and Capital Formation

The results of the factors influencing savings and capital formation among the respondents in the study area are presented in Table 5 below. The exponential functional form was chosen as the lead equation based on a high R^2 value, number of significant variables and agreement with a prior expectation. The R^2 value of 0.5715 indicated a 57.15% variability in the level of savings explained by the independent factors. The F-value of 7.58 was highly significant at a 1% level indicating the goodness of fit of the regression line. The coefficient of age was positive and significant at the 10% level. This implies that any increase in age will lead to a corresponding increase in the level of savings among the respondents. This, however, disagrees with the findings of Bime and Mbanasor (2019) that younger people have higher savings capacity than older ones. Aged people tend to be more frugal while spending. The coefficient of farm income was positive and highly significant at the l% level. This implies that any increase in farm income will lead to a corresponding increase in the level of savings among the respondents. This finding supports the Keynesian theory of consumption which posits a positive relationship between income and savings and that household savings is directly and significantly affected by the income level. This also follows the findings of Samroyina (2005) who studied saving behaviour among households in Russia and observed that the marginal propensity to save out of income was positive, corroborating with an economic theory that an increase in income is bound to lead to an increase in saving.

Determinants of savings and Capital formation in the study area

The coefficient of education was positive and significant at the 10% level, implying that any increase in educational level will lead to a corresponding increase in the level of savings. Also, an educated farmer can save better than an illiterate farmer. This finding corroborated Burney and Khan (1992) who noted that educated farmers tend to save more than non-educated farmers as their savings can be employed in providing good education for their children. The coefficient of non-farm income was positive and significant at the 10% level. This implies that any increase in non-farm income will lead to a corresponding increase in the level of savings. This is because off-farm income acts as an important strategy for overcoming credit constraints faced by rural households in many developing countries. This is justified, as increasing the income level of a household will enhance investment resulting in a surplus that will be re-invested after consumption expenditure has been made. The coefficient of gender was positive and significant at the 10% level. This implies that the male farmers saved more than their female counterparts. This might be because the males tend to have access to more resources than their female counterparts. The coefficient of experience in the saving program (which covers rural farmers' experience and savings/capital accumulation) was positive and significant at the 5%level. This

corroborates the findings of Ike and Umuedafe (2013), and Nwibo and Mbam (2013) and implies that long years of experience in farming and savings programs have exposed them to its benefits which invariably will lead to a corresponding increase in the level of savings among the respondents in the study area. This is expected following a priori expectations

Constraints Militating Against Savings and Capital Formation

The results in Table 5 show the rating scale analysis of constraints militating against saving and capital formation in the study area. The result shows that the respondents were all in agreement that the constraints were important factors military against savings and capital formation in the study area. The most important constraint was a delay in credit disbursement (4.51) which ranked the highest, followed by the low future value of savings (4.44), low-interest rate (4.43), poor access to credit (4.36), tedious farming system (4.27), which ranked second, third, fourth and fifth respectively. Others include demand for children's education (4.15), low agricultural yield (4.13), poor government policy (3.45) and high incidence of pests (3.43), which ranked sixth, seventh, eighth and ninth respectively. Among the least were, distance to savings institution (3.29) and high cost of agrochemicals (3.22). The column for strongly disagree was expunged from the table because zero.

Conclusion

The results obtained from the study revealed that age, farm income, educational level, non-farm income and experience in saving programs were the major factors influencing savings and capital formation among rural farmers. Also, delay in credit disbursement, the low future value of savings and low-interest rates charged on savings of bank account holders were among the major constraints affecting savings and capital formation in the study area. It is therefore recommended that savings mobilization organizations should adopt a demand-oriented approach in designing savings programs by considering the socio-economic characteristics of the farmers. Government should empower financial institutions to provide favourable incentives which would motivate farmers to save. In addition, there should be a timely extension of micro-credit to rural farmers to enhance their production capability and enable them to have a surplus for savings and capital formation.

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Table 1: Frequency distribution of Respondents according to their socio-economic characteristics

Variable	Frequency	Percentage
Sex		
Male	67	69.79
Female	29	30.21
Total	96	100.00
Age		
21-30	18	18.75
31-40	43	44.79
41-50	24	25.00
51-60	9	9.37
61 and above	2	2.08
Total	96	100
Household Size		
1-3	23	23.96
4-6	34	35.42
7-9	15	15.63
10-12	24	25.00
Total	96	100
Mean 6		
Educational Attainment		
No formal education	3	3.13
Primary level	22	22.92
Secondary level	30	31.25
Tertiary Level	41	42.71
Total	96	100
Farming and Saving Experience		
1-5		
6-10	28	29.17
11-15	44	45.83
15 and above	20	20.83
Total	4	4.17
Mean = 8	96	100
Farm Size		
1.0-1.9		
2.0-2.9	10	10.42
3.0-3.9	20	20.83
4.0-4.9	15	15.63
5.0-5.9	13	13.54
6.0 and above	8	8.33
Total	30	31.25
Mean	96	100
Membership to cooperatives	2.26	
Member		
Non-member	51	53.13
Total	45	46.88
	96	100

Source: Field Survey Data

Table 2: Rating scale analysis of reasons of Savings and Capital Formation in the study area

Motives	Strongly agree (5)	Agree (4)	Uncertain (3)	Disagree (2)	Strongly disagree (1)	Total	Mean	Formation Rank
Care for family	30(150)	20(80)	15(45)	10(20)	21(21)	316	3.29	Agreed
Build House	40(200)	20(80)	15(45)	10(20)	11(11)	356	3.70	Agreed
Buy goods in future	50(250)	30(120)	10(30)	3(6)	3(6)	412	4.29	Agreed
Increase Production	40(200)	20(80)	10(30)	15(30)	11(11)	351	3.65	Agreed
Marry more wives	3(15)	10(40)	12(36)	6(12)	65(65)	108	1.13	Disagreed
Children's Education	40(200)	20(80)	15(45)	10(20)	11(11)	356	3.70	Agreed
Acquire more land	50(250)	30(120)	10(30)	3(6)	3(6)	412	4.29	Agreed

Source: Field Survey Data

Table 3: Distribution of Respondent According to Method of Saving and Capital Formation

Method	Frequency*	Percentage
Bank	80	83.33
Club/Society	20	20.83
Akawo	10	10.41
Savings at home	30	31.25

=Multiple Responses

Table 4: Distribution of Respondents According to Financial Institution Patronized

Institution	Frequency	Percentage
Micro-finance	40	50.00
Commercial	20	25.00
Cooperative Society	20	25.00
Total	80	100.00

Source: Field Survey Data

Table 5: Regression estimates of the Determinants of savings and Capital formation in the study area

Variables	Linear	Exponential +	Cob Douglas	Semi-log
Constant bo	52413.66	10.869	10.320	20013.89
	(20.04***)	(24.103)	(6.46***)	(2.16*)
Age (X_1)	640.714	2.0011	0.0530	3044.376
	(1.89*)	(1.91*)	(2.29*)	(2.26*)
Farm income(X_2)	0.6106	0.0001	0.5665	3368.868
	(4.92***)	(4.78***)	(4.34***)	(4.43***)
Education (X_3)	174.879	0.029	0.0271	1569.686
	(2.07*)	(2.06*)	(2.64*)	(2.63*)
Non-farm income (X_4)	0.089	1.569	0.0044	253.1232
	(2.12*)	(2.13*)	(0.97)	(0.95)
Gender (X_5)	2218.5	0.0381	-0.0015	-155.6677
	(1.74*)	(1.74*)	(-0.03)	(-0.05)
Savings Experience (X_6)	163.997	0.0027	0.0210	1227.37
	2.61**	(2.5**)	(2.26*)	(2.26*)
Household size (X_7)	128.338	0.0021	-0.0009	-50.1423
	(1.32	(1.30)	(-0.10)	(-0.08)
Distance (X_8)	-228.193	-0.0040	0.0590	3560.22
	(-0.79)	(-0.81)	(0.80)	(0.83)
Member of Cooperatives (X_9)	245.538	0.0054	0.041	160.591
	0.37	(0.47)	(0.34)	(0.23)
Farm size (X_{10})	-485.075	-0.0080	-0.1030	-6171.341
	(-1.03)	(-0.98)	(-1.39)	(-1.43)
R^2	0.4791	0.5715	0.4064	0.4116
R^{-2}	0.4176	0.5094	0.3365	0.3476
F	7 82***	7.58***	5.8***	5.95***

Source Field Survey Data
*,** and *** is significant at 10%, 5% and 1% level figure in parentheses one t-values + = lead equation

Table 6: Constraints militating against savings and capital formation in the study area

Constraints	VLI l (5)	LI (4)	U (3)	LI (2)	Total	Mean	Decision	Rank
Distance to a savings institution	11(55)	18(72)	55(165)	12(24)	316	3.29	Agreed	10
Poor access to credit	60(300)	16(64)	15(45)	5(10)	419	4.36	Agreed	4
High cost of agrochemicals	22(110)	18(72)	16(48)	40(80)	310	3.22	Agreed	11
High incidence of pest	32(160)	14(56)	14(42)	36(72)	330	3.43	Agreed	9
Government policy	23(115)	17(68)	37(111)	19(38)	332	3.45	Agreed	8
Tedious farming system	41(205)	40(160)	15(45)	8(16)	410	4.27	Agreed	5
Delay in credit disbursement	70(350)	13(52)	5(15)	16(32)	433	4.51	Agreed	1
Low agricultural yield	55(257)	15(60)	10(30)	7(14)	973	4.13	Agreed	7
Demand for children's education	51(255)	19(76)	16(48)	10(20)	399	4.15	Agreed	6
Low-interest rate	31(155)	16(68)	11(33)	37(74)	330	4.43	Agreed	3
Low future value of savings	66(330)	15(60)	10(30)	5(10)	430	4.47	Agreed	2

VLI = Very large impact, LI = Large impact, U = Uncertain, LI = Little impact, NI = No impact