

RESEARCH NOTE: 3

**INFORMALIZATION, SAVINGS MOBILIZATION AND WOMEN ASSOCIATIONS IN RURAL IMO STATE<sup>1</sup>**

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**ABSTRACT**

This paper examines the growth of informalization from the perspective of Rural Women Credit Associations. Thirty officers of fifteen associations operating in high and low population density areas were interviewed. It is shown that informal associations are propelled by economic factors rather than state support. Associations in densely populated areas, which have more commercial activities thrived more than those in low-density area. This leads to the conclusion that informalization is induced by economic factors. There is a desire by members of these associations to seek economic support outside the formal economy, which is bedeviled by crises as in the financial system distress.

**INTRODUCTION**

The objective of this paper is to answer the question: Is the growing informalization of economic activities in Nigeria

a result of the failure of the state, the formal sectors, or is it independent of these? Nigeria in the past two decades has witnessed a phenomenal growth of the informal economy, with 55% of the urban

workforce employed in the informal economy, 65% by the late 1980's and 80% by 1999 (Meagher, 2001; Sethuraman 1981). The issue of informalization and its propelling forces is of contemporary interest to development studies. While evidences abound on the growth of the informal economy, there is no consensus on the factors propelling it.

Since the late 1980's there has been consensus by economists that the key criterion for distinguishing between formal and informal economic activity relates to whether or not activities are conducted in accordance with the regulatory framework of the state (DeSoto 1989; Castells and Portes 1989; Meagher 1999). To this extent women associations in Imo State can be described as informal, being neither engineered nor regulated by the State or her agencies. Informality does not therefore necessarily mean casual nor without procedure.

The perspective from which informalization is explored here is rural women associations within the context of a liberalized financial market. Nigeria, in 1986 embarked on a Structural Adjustment

Programme (SAP) which entailed among others, the liberalization of the financial market (Besley, 1994; Ndele, 1999; Nwajiuba, 1995). This in specific terms implied the discontinuance of such policy instruments as:

administratively fixed interest rates; usually concessionary for rural and agricultural credit;

portfolio prescription which meant that commercial banks had a minimum volume of credit to be lent to the agricultural sector

The rural banking scheme to stimulate rural savings mobilization and credit delivery.

The argument for these then was that the rural and agricultural sectors were not in a position to compete against other sectors of the economy and therefore required those and other institutional measures. But the need for, and problems with rural credit still exists (Aryeety, 1997).

## METHODOLOGY

The study was conducted in two local government area – Mbaitoli and Ohaji/Egbema – randomly selected from the

twenty-seven local government areas of Imo State. Mbaitoli had a population of 148,250 persons and an area of 138km<sup>2</sup>, while Ohaji/Egbema had a population of 118,790 persons and a land area of 985.01 km<sup>2</sup> (NPC, 1991). Mbaitoli therefore had a higher population density than Ohaji/Egbema.

Data was sourced from fifteen (15) women credit associations (10 in Mbaitoli and 5 in Ohaji/Egbema). These were selected by simple random method, in Mbaitoli, out of sixty women associations existing in the communities in the area. In Ohaji/Egbema, not all communities had thriving women associations. Five associations were identified and all five used for the study. Two officials of each association were interviewed, meaning thirty in all.

## **RESULT AND DISCUSSION**

### *Formation and Organization*

Women credit associations were studied. These associations are open to only married women in the various communities. This is a cultural issue in traditional societies, where

married and unmarried women are neither encouraged nor expected to parley.

These associations while concentrating on generation of funds and lending to members, also serve social functions. The women set the rules of their operation. There is therefore little scope for non-members, including male members of the community to influence the activities of these associations beyond their conforming with the broad prescriptions of culture. Members of each association are empowered to the extent of the benefits, which normally accrues to each member.

Officers are elected by members of each association from among themselves. They may serve for tenures ranging from 1-3 years. They may however be re-elected.

The associations were formed between 1984 and 1988. Only four were formed before 1987, while eleven were formed since 1987 (Table 1). It could therefore be inferred that there has been an increase in the formation of these group since 1986 when the Structural Adjustment Programme (SAP) commenced in Nigeria. There is also an indication of con-

centration around 1987 to 1989, in the period of active SAP policy implementation. Membership of women associations increased from 125 before 1987, to 1097 by 1998. this represents an increase of 88.6% in membership since 1987

**Table 1: Formation and Membership of Women Associations before and since 1987.(n = 15)**

	No. of Associations	Membership Size
Before	4	125
Since 1987	11	1097

Source: Field Survey 1999

Note: The First ten are in the high density Mbaitoli L.G.A., while numbers 11-15 are in the low density Ohaji/Egbema L.G.A.

### ***Savings Practices***

Private savings is one of the major sources of fund to the associations. Each group had varying savings ranging from

N2,355 in 1986 to N16280 in 1998. Total savings by three reporting associations in 1986 amounted to N7,033.5, while the sum of savings by all 15 associations in 1998 amounted N138,640 (Table 2).

Some of these associations operated savings accounts with

**Table 2: Savings by the Associations in 1986 and 1998**

	No. of Associations	Total Savings	Average Savings
1986	3	7,033.5	9,242.7
1998	15	138,640	

Source: Field Survey 1999

community banks while a few saved in commercial banks which are mostly in nearby towns. Associations in communities closer to urban centers saved their funds in commercial banks

### ***Relationship with Formal Credit Institutions***

Most rural communities have neither commercial nor

community banks. Although some of the associations saved with community and commercial banks, being rural-based, they had limited opportunity for credit. To reinforce this, banks are reluctant to invest in agriculture. The constraint to rural and agricultural financing by banks is their perception of higher risks and lower returns as well as higher costs compared to other sectors (Ahanotu and Nwajiuba, 2001). In addition, the absence of formal credit institutions in rural areas which is ascribed to the distress syndrome in the formal financial system, and the consequent closure of many of these banks which existed in these areas, hinders access to credit by rural inhabitants. Examples of such banks in the study areas are the Cooperative and commerce Bank (CCB), the Pan African Bank (PAB) and the African Continental Bank (ACB) which hitherto existed in some of the areas but were closed down as a result of the distress in the financial system.

From other studies (Ahanotu and Nwajiuba, 2001; Okorie, 1998), the relatively far distances in reaching urban-based banks, contributed to the mini-

mal funds generated by these associations. There is also the problem of lack of trust in the banks as a result of previous distress syndrome. These factors have limited linkage between formal and informal credit markets.

### *Organizational Capacity*

These are informal associations because they are not registered with any formal agency of state. However, the community development offices at each local government are aware of their existence. Informality as earlier stated does not imply the absence of form or procedure. They are informal to the extent that they are outside the purview and control of the state and her formal regulatory agencies.

The associations take periodic (weekly or on market days) contributions from women. These funds may be lent to members of each association who need funds for economic (agricultural and non-agricultural) or for other non-economic (social) needs. At the end of the year, members may share their contributions and the interest that has accrued.

Amount saved per member of

each Association is about N100 per week. Because the weekly contribution is relatively low, what is accumulated as savings is low. Associations are therefore constrained by inadequate funds in their credit granting ability. The small funds available to each association as a result of low savings is a reflection of the low socio-economic status of the members of these associations.

### *Effect on Development*

Benefits accruing to members include: opportunity for savings, acceptance of little amounts saved, opportunity for credit, chance of obtaining support from government, social interaction and support from other members.

These associations are constrained by the low savings ability of the members, who are mostly not too well off. The predominant economic activities in rural areas which are agricultural and small micro-enterprises influence the capacity of these associations.

Expected benefits from government hardly comes, for instance fertilizer, financial support and others expected under the Better Life and Family

Economic Advancement Programmes. However since these expected benefits are not the main driving force for the formation of these associations members are not discouraged from continued membership.

It has earlier been shown that there is also little linkage to formal financial institutions.

Rural branches of commercial banks in some communities or neighbouring ones have closed down as a result of the distress syndrome in the financial market. Community banks are not widely patronized, where available. There is therefore little linkage to banks by the associations, either for savings or for savings or for obtaining credit.

It was also earlier shown that the number of associations, membership size, and volume of funds increased since 1986 when Nigeria embarked on liberalization of the financial sector. Nevertheless, since there is little linkage between these associations and formal

financial institutions, we cannot attribute this growth to the formal economy. The prime motivating forces therefore seem to be the desire of members to help themselves,

economically and socially.

In addition, high population density, semi-urban communities have more vibrant and thriving associations. Membership size, number of associations and volume of savings show that those in the high density Mbaitoli L.G.A. are more vibrant than those in the low density Ohaji/Egbema L.G.A. (Table 3). These lead to the conclusion that the forces driving these Associations are primarily economic. High population density areas tend to have more economic activities.

These associations help source credit for micro-enterprises.

Their contributions to economic development include being opportunities for rural savings mobilization, and sources of credit, for mostly rural non-agricultural micro-enterprise.

### *Problems*

The main problem confronting the associations from the perspective of the officers include the lack of collateral to obtain loans from bank (32%), which is related to inadequate funds and low fund mobilization (910%), and lack of support from the government (28%) (Table 4). Most of the groups expect

**Table 3: Savings Mobilization by Associations and Locality**

	1986			1998		
	No of Assoc.	Amount	Average	No of Assoc.	Amount	Average
High Density (Mbaitoli L.G.A)	2	6,483.5	3,241.8	10	97,880	9,788
Low Density (Ohaji/Egbema)	1	1,450	1,450	5	40,760	8,152

government to ensure that all the policy and programme packages meant for rural women are implemented to help alleviate poverty among them.

**Table 4: Problems Encountered in the Operation of Informal Credit Associations (n = 30)**

Options	% Respondents
Lack of security to obtain loans from banks	32
No government	28
Insufficient funds	10
Inability to meet credit needs of members	10
Shortage of money during sharing	8
Members not complying in contribution	6
Waning of interest due to loss of savings	6
<b>Total</b>	<b>100</b>

## CONCLUSION

This study has shown that informalization is propelled by economic factors and the need by members for opportunities for self and household improvement. It has less to do with the state. The associations have nevertheless shown tenacity to survive despite the absence of state support. They therefore could be veritable means for reaching and supporting rural women. In addition, because of the high level of acceptability to the women, and because they are likely to be effective in reaching them, these associations could play important roles in rural and agricultural development.

Informal credit associations have thrived under Nigeria's liberalized financial market but with minimal linkage with the formal financial market. Officials of the associations indicated that funds available to these associations are inadequate even for their own limited scope. In addition, the associations were unable to meet all request for credit by borrowers because that exceeded the ability of the associations. However, because inadequate agricultural and rural financing still remains a challenge to



policy on this should consider linkages between formal and informal financial markets.

Linkage between formal and informal credit markets is however presently weak. Informal sources are the major source of credit to rural agricultural and non-agricultural borrowers. Policy should be designed to encourage formal institutions finance agricultural and other rural businesses through these informal associations. An important strength

of these associations is that default was indicated as a problem. We can therefore conclude that repayment rate is adequate. This is because members are unlikely to default in loan repayment, since they seem committed to the performance of their associations. In other words the typical fears of formal institutions over high default rate for rural and agriculture financing can be overcome through using these informal associations.

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