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KNOWLEDGE FOR SELF-RELIANCE

KOGI JOURNAL OF MANAGEMENT

A JOURNAL OF THE
FACULTY OF MANAGEMENT SCIENCES
KOGI STATE UNIVERSITY, ANYIGBA.

CAUSALITY BETWEEN HOUSEHOLD SAVINGS AND ECONOMIC EMPOWERMENT IN NORTH-CENTRAL STATES OF NIGERIA

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Abstract

At the micro level, attention has been mostly focused on the savings behaviour of households. However, the impact of household savings on economic empowerment at the household level has not been adequately addressed. This study has been designed therefore to examine the relationship between the household financial savings and level of economic empowerment in North-Central States of Nigeria. A two-stage sampling technique was used to select Local Government Areas as well as the respondents at the village level. The first stage sampling involved one urban and one rural local government area from each of the Senatorial districts. At the second stage, a set of questionnaire was administered on household heads that were selected from the Local Government Areas proportional to the total number of households in the area. The questionnaire was designed based on the World Bank's Living Standards Measurement Study (LSMS) and the Federal Bureau of Statistics' National Integrated Survey on Households (NISH) standard. The measurement of economic empowerment at micro level is an adaptation of UNDP's Human Development Index measurement at macro level using the three dimensions; Life Expectancy, Educational attainment and Income Level. The Ordinary Least Squares method was used to analyze the data through Multiple Regression Technique. The major findings of the study showed that: the household size in the geo-political zone ranged between 3 and 29 members with a savings range of between N500 and N 20,000 per month; savings, household size, and membership of Savings and Credit Associations (SCAs) are positively related to economic empowerment and significant at 5% level. It was also found that savings are more positively related to economic empowerment in the rural than urban areas at 1% level.

Based on the above findings, it was recommended that each household should improve its savings to enhance economic empowerment through membership of formal and informal credit associations. In addition, the Family Planning Programme of the Government should be intensified, especially in the rural areas where household size is high. In conclusion, savings at the household level remain crucial for economic empowerment strategies that need to be encouraged and channeled into productive investments in both the rural and urban sector of the economy. This will adequately complement government's policy on poverty eradication.

Introduction

Financial resources have long been considered as a very important factor, if not the most important factor in economic development. Consequently, the mobilization of resources has been identified as crucial in achieving rapid economic "take off" in the developing countries (Ezeuduji, 1997). The main responsibility of securing growth and equity participation of household, and hence for achieving rapid poverty reduction and human development as called for by the Millennium Development Goals (MDGs), lies with countries' policymakers. It is their actions that primarily determine the state of governance, the choice of macro economic and microeconomic policies, the health of public finances, the parameters of the financial system, and other fundamental elements of the economic environment (Agu, 1984; Aryeetey, 1997).

However, it is obvious that the magnitude of impact of financial institution on mobilization of savings must be known in order to implement appropriate economic policy for the nation which will enhance savings rate of households and thus, improve their overall economic position. Moreover, if all individuals were identical as regards their savings behaviour, then aggregate saving would simply be the product of a single (representative) individual's saving and the size of the population. To the extent, however, that individuals do differ in characteristics that impact on their saving behavior, the distribution of these characteristics in the population is the determinant of national savings, the difference between private savings and personal savings is retained earnings; the savings of the corporate sector. This has some fundamental effects on the economic empowerment of both the households and the corporate entities in the communities. There are examples of countries where households at the beginning of the 20th century were just as poor as those in Nigeria. These countries were successful in creating a 'culture of savings' amongst households but with different policy approach to solving the problem within the framework of the Life Cycle Hypothesis were employed. The financial situation of households in North-Central States of Nigeria appears to be alarming that an investigation into the relationship between their savings and economic empowerment can make a valuable contribution towards a better understanding of this problem. The study examined the relationship between household financial savings and the level of household economics empowerment in the North-Central States of Nigeria.

II CONCEPTUAL CLARIFICATION AND LITERATURE REVIEW

Empowerment is a construct that links individual strengths and competencies, natural helping systems, and proactive behaviours to social policy and social change (Rappaport, 1981, 1984). Empowerment theory, research and intervention link individual well-being with the larger social and political environment. Theoretically, the construct connects mental health to mutual help and the struggle to create a responsive community. It compels us to think in terms of wellness versus illness, competence versus deficits, and strength versus weakness. Empowerment – oriented interventions enhance wellness while they also aim to ameliorate problems, provide opportunities for participants to develop knowledge and skills, and engage professionals as collaborators instead of authoritative experts. Both empowerment processes and outcomes vary in their outward form because no single standard can fully capture its meaning in all contexts or populations (Rappaport, 1984; Zimmerman, 1993). A distinction between empowering processes and outcomes is critical in order to clearly define empowerment theory. Empowering processes for individuals might include participation in community organizations. At the organizational level, empowering processes might include collective decision making and shared leadership. Empowering processes at the community level might include collective action to access government and other community resources (e.g., media). Empowered outcomes refer to operationalizations of empowerment that allow us to study the consequences of empowering processes. Empowered outcomes for individuals might include situation-specific, perceived control and resource mobilization skills. The need for empowerment is part of the realization of one's very humanity.

On the other hand, Savings is a sacrifice of current consumption that provides for the accumulation of capital, which in turn, provides additional output that can be used for consumption in the future (Gersovitz, 1988). According to Peter (2002) savings are still seen as one way of mitigating risk, especially of income variability in poor households. The risk of crop failure or of unemployment means households either build up savings or attempt to gain access to loans. Savings is therefore a type of self-insurance. Poor households are unlikely to save much. Already they find it hard to gain sufficient income to satisfy minimum consumption needs. Mutuality in insurance provision by groups of households is a way that households can mitigate idiosyncratic risk. For very poor households this form of insurance may not be enough to cope with shocks. Other coping strategies may involve migration, increasing the supply of child labour or reducing food intake, with obvious effects on health, especially that of children (see World Bank, 2001).

Households find other ways than saving to affect the smoothing process such as marital ties, or changing family size (Rosenzweig, 2001). Deaton and Paxon (2000) consider that the existence of multigenerational households hides the differences between individuals within households. They develop a method of deriving individual's behaviour from household's data and then apply this to Thailand and Taiwan household survey data. They found that there is some support for the life-cycle hypothesis that savings increase with growth as the younger age groups save more as their incomes rise.

The discussion around the above-mentioned contributions is concerned with policy effects in the presence of liquidity constraints, which result in behaviour contrary to that predicted, by the standard life-cycle model. One benefit of looking at policy events in this way is that changes in consumption patterns over time can be separated out from the effects of policy changes. Given that most household surveys in most years should have estimates of income and details of consumption, it is possible in principle to look at policy effects on savings independently of changes in income and across income groups.

However, one of the most important factors that affect the saving behaviour of individuals is the type of savings products available to them. For some, the most important question however, is liquidity, i.e. how often, can the savings be accessed after the account is opened and monies deposited. Because individuals have different motives and needs for saving, they will demand different types of savings products. And since developing and maintaining many products has a financial implication for the providing institution, it is important to know what the tendency in a community is. So the question is: "what saving products are most preferred in the community?" Wright (2000) observes from experiments with open access and compulsory locked-in savings systems by Bangladesh MFIs, that most rural saver prefer open access (highly liquid) savings product to the liquid locked-in savings product. Open access products do not limit the number of times a saver can carry out transactions on their account in a period. The experience observed that there is a clear preference among the poor in Bangladesh for voluntary, open access savings products. (Christen et al, 2000).

Studies from East Africa paint a different picture. Contrary to the view held by Robinson (2001) and other authors that the liquid type of saving products is the most demanded by rural savers, studies of the East African situation observed that there are equally many rural savers, who demand illiquid savings products. One study (Wright 2000) observed that the varying nature of the needs lead rural savers in East Africa to demand different savings products simultaneously, and to prefer to target each need with a specific product. Likewise, evidence from Kenya (Morduch, 1995; Muradoglu and Taskin 1996) suggests that there are many rural savers who prefer compulsory locked-in (highly illiquid) savings products offered as a part of MFI loan contracts, because they find them most effective in protecting their savings from pressures of day-to-day petty needs. The study also confirmed that rural savers pursue multiple savings activities. However, the study only covered clients of MBI while other people were not covered. Another study in Ghana found that rural savers were willing to pay a fee to save with deposit collectors, simply because this fee was much less than the transaction costs of saving directly in a formal financial institution (Aryeetey et al. 1994).

In its original formulation, the life-cycle hypothesis (LCH) presented a theory of saving behaviour focusing on the individual who spread their lifetime consumption over their lives by accumulating saving during earning years and maintaining consumption levels during retirement. The theory assumes:
(i) that there are opportunities, in which income is constant until retirement and zero thereafter, with zero interest rates.
(ii) taste or preference to be constant over life, with no bequests (no children), It is referred to as the basic or 'Stripped down' version of LCH model (Modigliani (1986:300). The main motive or reason to save here is to maintain acquired wealth.

III METHODOLOGY

A purposive sampling technique is characterized by the use of judgment and deliberate effort to obtain representative samples by including presumably typical areas or groups in the sample. The researcher collected the 2006 census enumeration list of the local governments from National Population Commission Area Office in Ilorin North-Central States of Nigeria from which a purposive sample of Local Governments Area in the North- Central Region was made.

A complex sample design was adopted. This was carried out using more than one sampling technique. The researcher used simple, stratified and multi- stage sampling schemes. The Region was first divided into its senatorial districts as demarcated in the 1999 constitution. The 2nd stage, two Local Government Areas (LGAs) were randomly selected in each senatorial district. One urban and one rural as classified by the office of Bureau of Statistic, in each State in the Region. The 3rd stage was random selection of Household heads from the chosen LGAs in each senatorial district.

The staff of the Bureau of Statistic, in each State was employed for the period of the sample survey. They used their manual of random table to select randomly the households on which the questionnaires were administered. Their professional ethnics were reflected in the way and manner the questionnaires were administered and the co-operation of all the respondents given the fact that these officers were familiar with the individual household in their respective areas and as they were always taking record of activities in the area for publication in the National Statistical data base.

Each selected Household was visited in each chosen village or town or hamlet. Some motorcyclists were hired to cover all the villages especially in the Rural Local Governments. This study is set out to investigate the influence of age, religion, education, gender, marital status, size, and location of household to empowerment. To achieve this objective, a research instruments was used to collect relevant data. The instrument i.e. questionnaire on savings mobilization was based on the Word Bank's Living Standards Measurement Study (LSMS) and the Federal Bureau of Statistics' National Integrated Survey on Households

(NISH). The LSMS surveys was designed to: produce a comprehensiv monetary measures of welfare and its distribution; describe other aspects o welfare; describe patterns of access to and use of social services, and describ how households behave in response to changes in the economic policies of the government.

Estimation of Variables

The Human Development Index (HDI) is a summary measure of huma development. It measures (in macro terms) the average achievement in country in three basic dimensions of human development. These are:

i) A long and healthy life, as measured by life expectancy at birth.
ii) Knowledge, as measured by the adult literacy rate (with two-third weight) and the combined primary, secondary and tertiary gros enrolment ratio (with one-third weight).
iii) A decent standard of living, as measured by GDP per capita purchasing power parity (PPP) terms in dollar.

The estimation of Human Development Index at micro level is proxy f Economic Empowerment of household in this study (see appendix I f illustration). The researcher is believed that HDI is the only instrument that c adequately be used for measuring individual household econom empowerment (see also Ajayi 2010). The estimation of Household's H requires creation of some indices for each of these dimensions. Therefore, calculate these indices – the life expectancy, education and GDP indices minimum and maximum values (i.e. goal post) are chosen for each underlyi indicator. Performance in each dimension is expected as a value between 0 a 1 by applying the following general HDI's formular.

$$\text{Dimension Index} = \frac{\text{Actual Value} - \text{Minimum Value}}{\text{Maximum Value} - \text{Minimum Value}} \quad \ldots\ldots\ldots\ldots\ldots 1$$

The HDI is calculated as a simple average of the dimension indices.

The life expectancy value of household head is obtained as the avera age of parent whether dead or alive. While the goal post set was 85 yea maximum and 25 year minimum (as used in UNDP Report 2007).

The proportions of adult that are literate in each Household were taki for adult literacy rate (%) while 100 is maximum value and 0 minimum valu The proportions of children in each household that are in school were taken combined gross enrolment ratio (%) while 100 is maximum value and minimum values.

The current level of income of each household head measured in Na was taken for GDP per capita while the maximum value is N140, 000 a minimum value N 4, 000. The maximum value represents the basic salary Permanent Secretary at State level given that the States is known as C

Service State. The minimum value was chosen because interactions with the labour market in the States revealed that some drivers and shop attendants are paid N4, 000 as wages.

The model was specified to determine the interaction between the savings, socio-economic factors and economic empowerment. In other words, the focus of this model was to determine simultaneously the responsiveness of empowerment to each of the explanatory variables of household in North-Central States of Nigeria.

Based on the above, we postulate Household Empowerment Index (HEI) as a function of several variables that include savings, household size, gender, location, marital status etc. such that the mathematical relationship between these variables was expressed thus;

$$HEI_i = F(SAV_i, SIZE_i, AGE_i, MARISTU_i, SEX_i, RELI_i, EDUCALEV_i, EMPLOY_i, MSCA_i, LOCAT_i) \quad ....2$$

However, a linear relationship is assumed to exist between the variables, in which by transforming equation 2 it has been written as

$$HEI_i = \lambda_0 + \lambda_1 SAV_i + \lambda_2 SIZE_i + \lambda_3 AGE_i + \lambda_4 MARISTU_i + \lambda_5 SEX_i + \lambda_6 RELI_i + \lambda_7 EDUCALEV_i + \lambda_8 EMPLOY_i + \lambda_9 MSCA_i + \lambda_{10} LOCAT_i + \mu. \quad ....3$$

Where,

i = individual household in the survey
HEI_i = household empowerment index
SAV_i = the value of saving in cash
$SIZE_i$ = the value of total members of household
AGE_i = the value of age of head of household
$MARISTU_i$ = the value of marital status
SEX_i = the value of sex
$RELI_i$ = the value of religion
$EDUCALEV_i$ = the value of education
$EMPLOY_i$ = the value of employment of household head
$MSCA_i$ = the value of household membership of Saving Credit Association
$LOCAT_i$ = the value of location
μ = Error Term
λ_0 = intercept
$\lambda_1, \lambda_2, ... \lambda_{10}$ = parameter estimated or coefficient.

The a-priori expectations between the individual household empowerment in North-Central States of Nigeria and the independent variables in the model are.

$$\frac{\delta HEI_H}{\delta SAV_i} > 0, \quad \frac{\delta HEI_H}{\delta SIZE_i} < 0, \quad \frac{\delta HEI_H}{\delta AGE_i} > 0, \quad \frac{\delta HEI_H}{\delta MARISTU_i} > 0$$

$$\frac{\delta HEI_H}{\delta SEX_i} > 0, \quad \frac{\delta HEI_H}{\delta RELI_i} > 0, \quad \frac{\delta HEI_H}{\delta EDUCALEV_i} > 0, \quad \frac{\delta HEI_H}{\delta EMPLOY_i} > 0$$

$$\frac{\delta HEI_H}{\delta MSCA_i} > 0 \quad \frac{\delta HEI_H}{\delta LOCAT_i} < 0$$

IV Results and Discussion

The result of the survey conducted on the respondents from th sampled local government areas indicated that the range of household size respondents was between 3 and 29 members. The households with 6 memb had the highest frequency of 148 (that is, 20.5%) of the total respondents. households with highest membership had 29 members. About 81.5% of respondents were married while only 11.5% were singles. The remaining were either widowed or divorced. Also, 24.2% of the respondents were you adult whose ages fell between 20 and 30 years; while 52.9% of responde ages were between 31 and 50 years, representing the work force of the sam and the remaining 22.9% were old adult.

The survey also showed that 84% of the respondents were male w 16% were female heads of households. The major religion was Islam with 79 of the total respondents. The survey equally revealed that 14.2% of respondents had no formal education; while 46.5% completed their ter education and 39.3% either completed primary or secondary education. Majo of the respondents were civil servants (that is, 43%) while 36.3% were far Only 11.9% were businessmen/women.

Moreover, the survey showed that 80.5% belonged to one or m Savings and Credit Associations in their area; while 19.5% indicated no inte in SCA. The people that joined SCA expressed divergent reasons why joined. Most of them about 67.1% joined to have access to loa empowerment; only 15.4% joined to save for the raining day. About 84 household heads that were not saving and were not members of SCA indi low income as major reason for their action. Only 10.5% of the respond believed that they were not saving because they didn't have trust in the bank

The result of the multiple regression analysis showed a relatio between household savings and economic empowerment. This res presented in table below.

Table a: Multiple Regression results of factors affecting empowerment of Households in North-Central States

Explanatory Variable	Coefficient (t- value)	Other Statistics
Intercept	0.344 (10.824)*	R^2 = 0.516
Savings	0.325 (11.947)*	F =73.866
Household Size	0.088 (2.709)*	Durbin – Watson = 1.843
Age of head	0.530 (16.532)*	No of observation = 703
household	0.620 (2.500)**	
Marital status	-0.187 (-6.327)*	
Sex	-0.012 (-0.441)	
Religion	0.151 (5.083)*	
Education Level	-0.054 (-1.918)**	
Type of Employment	0.040 (1.817)***	
Member of any SCA	0.122 (4.391)*	
Location (Rural or Urban)		

Source: Author's Survey 2010
1. *, ** and *** Indicates Statistical Significant at the 1%, 5% and 10% levels of confidence.
2. Figures in parentheses are the t-value statistic.

A look at the model shows that it has an R-square of 0.516. This shows that 51.6 percent variation in the dependent variable (Empowerment Index) is explained by the explanatory variables while its error term takes care of the remaining 48.4 percent. These were variables in the study that cannot be included in the model because of certain qualitative features. The global fitness of the model as measure by F-statistic at 1 percent level of significance is about 74; this is statistically good and showed that the model is useful in determining the significant relationship between empowerment index of household and the socio-economic factors (including savings) of households of North-Central States of Nigeria in the model, as the F-statistic of 73.866 is greater than the tabulated F-statistic value at 1.94, hence the alternative hypothesis holds.

Holding all other factors constant except savings of household, the co-efficient and the associated t-value of savings is directly related to empowerment index in North-Central States of Nigeria of Nigeria because the standardized coefficient (0.325) of the variable is positive. This result fulfills our a-priori expectation; statistically savings is significant at 1 percent level of confidence. The positive sign is an indication that savings have relatively contributed to the level of household empowerment in North-Central States of Nigeria. As the level of saving increases, it will increase resources available for empowerment through eradication of illiteracy and good standard of living that will increase life span of the household members and disposable income for the future will increase with increase in present saving thereby increasing the income level of the household. It is worth noting that Countries with high saving ratios of household savings had a combination of specific factors responsible for their saving performance and it is important to understand and to evaluate their relative significance (Bhanoji Rao, 2002). These factors include level of income, demographic changes, institutional role and social – cultural determinant.

According to the traditional theory (Modigliani, 1986) income is the main determinant of saving. Through empirical studies on savings, the Asian countries indicated that there is a strong relationship between economic growth and saving ratio. For example, Lahini (1989) estimated saving equations for each of the eight countries in his sample and confirmed this relationship. Also Collins (1991) used time series data for 10 countries, but averaged the data over five-year periods to compensate for fluctuation in inventories of rural households. He also found a significantly positive co-efficient for economic growth and equation of saving rates. For Thailand, income growth was a good predictor of increased saving rate. Other countries like China, Malaysia and Singapore have other factors relatively more important than income growth (World Bank 1993).

Furthermore, holding saving and other factors except Household size constant, it's coefficient and the associated t – value were positively related to empowerment index and statistically significant contrary to our a priori expectation. This may be due to the relatively high level of income of Households with more members because the larger the size, the less the empowerment index is supposed to be. The coefficient and associated t – value of age of household heads were directly related and statistically significant to empowerment index in North-Central States of Nigeria. This result may be due to the fact that over fifty percent of the respondents fell between age 31 to [illegible] years and their average income and savings were higher than any other age groups.

From the survey, the coefficient and t – value of religion was statistically insignificant which shows that religion do not play any role in Household empowerment in North-Central States of Nigeria. Other coefficient and t – value of marital status and employment were statistically significant at 10%. This confirmed that all explanatory variables except religion influenced empowerment of Household in North-Central States of Nigeria, Nigeria.

Horioka (1990) claims: "demographic factors may also interact with corporate behaviour to increase saving". A demographic effect may exist when longer life expectancy can change life cycle behaviour, thus leading to a longer working life and possible higher saving for retirement. In another related study, household saving were found to be strong and stable in the countries with many elderly people (Deaton and Paxson 2000). Bloom, Canning and Graham (2003) confirmed that longer life expectancy is strongly associated with higher national saving rates across countries. Economists such as Fry and Mason (1982) argued that in countries undergoing rapid economic growth, the earnings of the young working class are higher than earning of retirees (who might be dissaving). If this is true, concentration of earning among a high saving group should generate a higher aggregate level of household saving. A decrease in the dependency ratio will lead to an increase in household savings i.e. household saving rate are relatively higher when the dependency ratio (that's ratio of non-working age people to working age people) are low and economic growth is rapid (Higgins, 1998; Kelley and Schmidt, 1996; Mason, Bayoumi and Samei 1998). They also regard the shifts in demographic structure of the East Asian countries like Malaysia, Singapore and Thailand, to be the main factor explaining the increase in their household saving ratio over a long period. The reason behind the fast change in the size and age composition of households was to discourage the rate of dependency burden.

However, Deaton and Paxson (2000) argued, using data for the Taiwan household saving, that changes in age composition accounted for only a modest increase of 4% in gross saving rate. They claimed that the increase in the aggregate saving rate was not mainly due to change in the age composition of the population but rather to an increase in the saving rates of all age groups.

V Conclusion

Conclusively, saving, Household size, Household head's age, educational status, members of SCA and location have positive and statistically significant co-efficient; while sex and employment were inversely related to empowerment and statistically significant. This confirmed that all the independent variables identified in the model are relevant in determining household economic empowerment in North-Central States of Nigeria. The Durbin-Watson test of 1.843 confirmed that there is no auto-correlation among the variables.

Based on the findings, the following are recommended: Raising income level of Nigerians though economic policies that will improve the Gross National Income generally and more specifically household income. A reduction in dependency ratios by intensifying effort of National Family Planning agency, to allow free income for saving purposes; and changing mindset of Household through financial enlightenment education.

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