

A Comparative Study on the Determinants of Household Savings in the Colombo District

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Abstract

The saving rate in Sri Lanka remains low and most of the studies have not been conclusive on factors influencing in savings in developing countries. The policy makers' understanding on household financial decision-making is important for the design of social welfare and consumer policy and household economic decisions about saving and spending are of interest to credit institutions, which should provide households with adequate financial services. This study adopted a micro economic approach in investigating the factors that influence savings among household of farmers, teachers and entrepreneurs in Colombo district. The sample composed of 90 farmers, teachers and entrepreneurs which was selected through convenience sampling under the non-probability sampling technique. To collect the primary data from the units of sample the researcher used survey method. This study used basically four main factors of demographic, socio economic, income and individual factors to test the determinants of household savings. The main findings of this study was household savings are determined by socio economic factors, income factors and individual factors while demographic factors do not show significant association with level of savings.

Keywords: Determinants of Savings, Socio Economic Factors, Income Factors and Individual Factors

INTRODUCTION

Savings can be defined as the process of setting aside a portion of current income for future use. From the classical days savings is one of the major determinants of economic growth. Saving contributes to the accumulation of capital which produces surplus output that can potentially be used for consumption in the future. Thus, savings is considered a significant variable for any economy. In this study, the emphasis is on the determinants of household savings. Due to the lower level of income in Sri Lanka it is important to understand the saving behavior in country. Determinants can be explained as the factors that affect the level of savings. There are a number of determinants of saving. These determinants are the key forces that shape the economic development of a country. At the same time, determinants of saving are also accountable for the development or collapse of the investment sector of a country. The main issue of this study is the low savings rate in the rural areas and unearths the factors behind the issue. Thus, the following research question has been addressed in detail.

“Whether there is significant difference in savings determinants among farmers, entrepreneurs and teachers?”

Brief Litterateur review on Savings determinants and research Gap This sub-title should be placed after the ‘Introduction’

There are many studies regarding the determinants of household savings. These studies differ from each other in terms of both the techniques of estimation and the set of data used. Some studies have used cross-country data; some have utilized single country time series data.

These studies include Ahmad & Asghar(2008),Kibet et al. (2009),Mustafa & Mualley (2011), Unny (2012),Larbi (2013) etc. But it is very difficult to find studies regarding determinants of household saving by using cross sectional analysis in Sri Lanka. The measurement of determinant of household savings should not be limited only for single section and results were more effective by conducting determinant of household savings for cross sections in single country. So the researcher aims to fulfill this gap. Burney & Khan 1992 analyzed the household savings behavior in Pakistan, using micro level data of the household income and expenses survey (HIES) for the year 1984-85. The researcher examined the effect of household income along with other demographic and socio economic factors such as education, dependency ratio, earning status, employment status, occupation and secondary

earners on household savings by using ordinary least squares (OLS) method. The study found that dependency ratio and the numerous kinds of education are found to have a negative effect on household savings. Athukorala & Tsai (2003) studied determinants of household saving in Taiwan by assessing of a saving rate function derived within the life-cycle framework and reveals that household saving rate rises with both the level of household disposable income and the real deposit rate has a significant positive impact. A study was done by Erskine et al. (2006) to examine further predictors for the saving behavior of young people in Toronto, Canada. The sample consists with 1806 young crowd aged 12 to 24 and out of that 937 female and rest of others were male. The study used questionnaire method under the survey method and data analyzed by using descriptive statics and estimating regression. This study revealed that education and employment positively related with level of savings. The findings of the previous studies give mix results. Region & Tesfamariam (2012) examined saving behavior and determinants of saving in southern Tigray Ethiopia. The observation for the study was obtained from randomly carefully chosen 120 rural household and the outcome of the study using least squares method showed that savings is determined by household annual income, and also it is negatively correlated with age, family size and higher level of education while male household tend to save more than female households. Larbi (2013) examined the determinants of private savings in Ghana and concluded that per capita income and inflation were established to have a positive and important relationship with private savings in Ghana. Thus, it is still feasibility to study the household determinants at the empirical level.

Objectives of the research

The research focuses on the savings determinants of households and how they affect the households based on their level of savings. The goal was to generate critical information about determinants of savings in households of the farmers, teachers and entrepreneurs. Key objective of this study was to identify the determinants of household savings of the farmers, teachers and entrepreneurs in Colombo district.

Specifically, the study

- Identify the savings determinants of farmers, teachers and entrepreneurs.
- Identify whether there is considerable difference between savings determinants of farmers, teachers and entrepreneurs.

In this research researcher focus on the household sector savings. The difference between the household income and expenses is taken as household saving. The study was carried out in Colombo district in the western province. The choice of Colombo district for this study is based on the fact that the majority of population resides in western province. This reading also examines the household saving behavior in Sri Lanka. In this research, researcher estimates the savings determinants by dividing household into three sections. The selection of farmers, entrepreneurs and teachers is centered on the information that many households depend on farming, business and employment income.

METHODOLOGY

This describes the methodology implicate and preparation in this research. This includes Research Type, Research Technique, Type???, Nature Population and sample design, data analysis methods. This research also focuses on the savings determinants of households and how it affects the households on their level of savings. The dependent variable is household savings and independent variables are divided in to demographic factors, socio economic factors, financial and individual factors.

The primary concept behind this research report is to identify the factors influencing on household savings with special reference to the Colombo district households. Hence the household savings in three segments defined as: farmers, teachers and entrepreneurs have been analyzed. Researcher defined three segments as;

- Farmer: Person who cultivates lands or crops or raises animals, either commercially or to sustain himself or his family.
- Teacher: Person whose permanent job is to teach in school.
- Entrepreneur: Person who, rather than working as an employee, runs own business.

Under the demographic factors, the parameters like gender, marital status, age of the head of the household and dependency, under the socio-economic factors use education level and employment are taken into account. And under the financial factors, the income levels of household heads and wealth are considered. Finally, under individual factors the factors such as self-assessment, attitude, futuristic and bank habits are considered.

This is a quantitative study and the approach of this research is deductive. Under the Descriptive research the method used here is Cross sectional analysis. Moreover, this study was a research that was carried out one time. Three samples are used to collect data from

farmers, entrepreneurs and teachers. Population of this study includes the entire household in Sri Lanka. It is difficult to gather data and analyze data from the entire population. Therefore, the researcher selected Colombo district in the western province to conduct the research. The choice of Colombo district in study is based on the fact that majority of population live in western province and it is more feasible to collect data for the researcher. Colombo district itself comprises of numerous cities. Therefore, out of those many cities in Colombo district researcher selected cities such as Homagama, Padukka, Meegoda, Nugegoda, Maharagama, Athurugiriya and Kottawa as a sample to collect information.

The sample is selected from households in Colombo district and it consists of 90 respondents. It is possible to vouch for the accuracy of information because it is neither large nor small sample.

Farmers– male and female	=30 respondents
Teachers– male and female	=30 respondents
Entrepreneurs -male and female	=30 respondents

Researcher selected convenience sampling under the non-probability sampling technique. This is the easiest non-probability sampling method as the sample is selected randomly until the essential sample size has been met. If the probability sampling techniques are used, researcher should have the sampling frame and also target population has equal chance to being an element of the sample. Therefore researcher has selected non probability sampling technique. Because of that it will very easy to recognize the sample, easy to access, minimum resources and so on. The sample consists of males and females residing in Colombo district.the researcher selected Colombo district in the western province to conduct the research. The choice of Colombo district in study is based on the fact that majority of population live in western province and it is more feasible to collect data for the researcher. Colombo district itself comprises of numerous cities. Therefore, out of those many cities in Colombo district researcher selected cities such as Homagama, Padukka, Meegoda, Nugegoda, Maharagama, Athurugiriya and Kottawa as a sample to collect information. That sample is used to measure the factors influencing on household savings. The approach of this research is deductive.

Data presentation and analysis

Data analysis involves converting a series of recorded observation in to descriptive statements and inferences about relationship. According to the data analysis that can be conducted based on the nature of the sampling process, the measurement instrument and data collection method. Cronbach's alpha is a statistical test which is commonly used as a measure of internal consistency or reliability of instrument such as questionnaire. To have better internal consistency the Cronbach's alpha value should be greater than 0.7. In this study researcher also used Cronbach's alpha value to measure the internal consistency.

Table 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.754	.745	25

The Cronbach's Alpha of the data set in the table 1 is 0.754 which represent higher internal reliability of the study. In this study researcher used chi-square test to discover the significant determinants and the relationship between independent variables and dependent variable of savings and the strength of the association measured by the value of Cramer's V. In here researcher used Cramer's V because it used to measure the strength of the association between one nominal variable with either one another nominal variable, or with an ordinal variable and if one variable or both of the variables can have more than two categories. He following table 2 gives the results of the Cramer's V test.

Table 2: Classification of Cramer's V value

Cramer's V value	Strength of association
0-0.30	No association (0) to weak association
0.31-0.70	Moderate association
0.71-1.0	Strong association

Descriptive measurements are used to define the basic features of the data collected from an untried study in various ways. They offer simple reviews about the sample and the measures.

Table 3: Gender distribution of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	30	33.3	33.3	33.3
	Male	60	66.7	66.7	100.0
	Total	90	100.0	100.0	

Table 3 shows the gender distribution of respondents. According to table and figure it can be concluded that majority of respondents are male and it is 67% of total respondents and female respondents only 33% of total respondents.

Table 4: Age distribution of respondents:

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 25	5	5.6	5.6	5.6
	Between 26 to 35	17	18.9	18.9	24.4
	Between 36 to 45	31	34.4	34.4	58.9
	Between 46 to 55	21	23.3	23.3	82.2
	Above 56	16	17.8	17.8	100.0
	Total	90	100.0	100.0	

Majority of the respondents are in the age in between 36-45 according the to the table 4. It is 34.44% from the total number of respondents. Then 46-55 age category represent the 23.33% from the total number of respondents. Age category of 26-35 and above 56 represents 18.89% and 17.78% of the sample respectively. Rests of the respondents are in the age category of below 25 and it is 5.56% from the total number of respondents.

Table 5: Education category analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Up to grade 5	9	10.0	10.0	10.0
	Up to grade 8	15	16.7	16.7	26.7
	Up to O/L	21	23.3	23.3	50.0
	Up to A/L	17	18.9	18.9	68.9
	Up to Degree	28	31.1	31.1	100.0
	Total	90	100.0	100.0	

The table 5 illustrates the distribution of education of respondents. Majority of the respondents have educated up to degree. It is 31% from the total number of respondents. The category of up to O/L represents the 23% from the total number of respondents. The category of completed up to A/L and up to grade 8 represents 19% and 17% of the sample respectively. Marginal of the respondents has only completed up to grade 5 and it is 10% from the total number of respondents.

Table 6: Employment analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Farmer	30	33.3	33.3	33.3
	Teacher	30	33.3	33.3	66.7
	Entrepreneur	30	33.3	33.3	100.0
	Total	90	100.0	100.0	

Table 6 shows that in this study researcher get equal amount of respondent from each occupation category to conduct the research.

FINDINGS AND CONCLUSION

The study found that there are no significant association between savings and demographic factors of gender, age, marital status and dependency of the respondents. It concludes that

demographic factors are not significant determinants of savings. The results are in line with study of the Rural-Urban Saving Differentials in Pakistan (Chaudhry et al. 2011). When considering about categories separately teachers and entrepreneurs also the table 7 reveals the same results which means that demographic factors are not significant determinants of savings. In the category of farmers age and dependency also reveals that no significant association between savings but gender and marital status show significant association between savings. It concludes that gender and marital status are significant determinants while age and dependency are not significant determinants of savings in farmers. When considering about socio economic factors it was found that there is significant association between savings and socio economic factors. It concludes that socio-economic factors are significant determinants of savings.

Table 7: Summary of the determinants of savings

Factors		Determinant or not	Association
Demographic	Age	Not significant determinants of savings	-
	Gender		
	Marital status		
	Dependency		
Socio economic	Education	Significant determinants of savings	Positive association
	Employment		
Financial	Income	Significant determinants of savings	Positive association
	Wealth		
Individual	Attitude	Significant determinants of savings	Positive association
	Self-assessment		
	Bank habit		
	Futuristic		

The results are further supports the Ahmad & Asghar n.d. (2008) examined the saving behavior of Pakistan households and opposite with study of households saving behavior in Pakistan (Faridi 2010).The categories of teachers and entrepreneurs reveal that there is

significant association between savings and socio economic factors of education and employment status. It concludes that socio economic factors are significant determinants of teachers' and entrepreneurs' savings which are consistent with Kibet et al. (2009). It was found that there is significant association between savings and financial factors of income and wealth. It concludes that financial factors are significant determinants of savings. Results are in line with Ahmad & Asghar (2008). Increasing income and wealth is resulted in the form of increasing living standard of the people.

Table: 8 Summary of the determinants of saving–for category

Factors	Farmers Savings	Teachers Savings	Entrepreneurs Savings
Age	Not a significant determinant of savings		
Gender	Significant determinant (Positive)	Not a significant determinant of savings	
Marital status			
Dependency	Not a significant determinant of savings		
Education	Not a significant determinant of savings	Significant determinant (Positive)	
Income			
Wealth			
Attitude	Significant determinant (Positive)		
Bank habit	Significant determinant (Positive)		Significant determinant (Negative)
Futuristic	Significant determinant (Negative)	Significant determinant (Positive)	

Table 8 shows that teachers and entrepreneurs have a significant association between savings and wealth but farmers reveal opposite results. It concludes that wealth is significant determinant of teachers' and entrepreneurs' savings while it is not a determinant of farmers' savings. Most of the farmers do not have extra income sources to generate wealth when compare with teachers and entrepreneurs. This also affect to that opposite results of categories. However, it concludes that financial factors are significant determinants of savings in teachers and entrepreneurs while it is not a significant determinant for farmers' savings. There are significant association between savings and individual factors of attitude, bank habit, futuristic and self-assessment of household. It concludes that individual factors are significant determinants of savings. The study also ascertained of the findings of Lim et

al. 2011. According to analysis conclude that individual factors are significant determinants of savings in all categories of farmers, teachers and entrepreneurs.

Finally, the study reveals that there are numerous ways of improving savings in households. With consideration of income factor, one way to improve savings level is by implementing policies that improve productivity of households and through that increase the income which leads to increase in savings. Institutions that are involved in development projects need to increase their support to improve the business environment of households specially farmers and entrepreneurs by providing facilities such as infrastructure etc. These will motivate households to increase their production, income and hence savings.

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