A Comparative Study between Farmers, Teachers and Entrepreneurs Savings Behavior in Sri Lanka

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Abstract: *The paper has explored the determinants off household savings in Sri Lanka during the period of 2015/2016. This study adopted a micro economic approach in investing the factors that influence savings among household of farmers, teachers and entrepreneurs in Colombo district. The sample composed of 90 farmers, teachers and entrepreneurs was selected through convenience sampling under the non-probability sampling technique. Researcher designed pre-determined self-administrative questionnaire method to collect information.. 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 is determined by socio economic factors, income factors and individual factors while demographic factors do not show significant association with level of savings. There is significant positive association between income, wealth, education, employment, attitude, bank habit, self-assessment and futuristic with savings while no association between age, gender, marital status and dependency with household savings.*
Keywords: *Determinants of Savings, Behavior of Savings, Household Savings*

I. INTRODUCTION

In order for an economy to generate sufficient and productive investment, a country should possess adequate level of savings. Savings are the major sources of capital formation. An economy with low savings fails to meet the capital expenditure through domestic resources and rely on the external resources. The types of saving are mainly based on the income available to the household, firm and public sector as a whole. Household sector savings can be defined as the savings done or accrued by the individual members in a household. Private corporation sector savings can be defined as the savings made in the private owned corporations. The public sector savings can be defined as the savings constituted into government savings. In this research researcher focus on the household sector savings. The difference between the household income and expenditure is taken as household saving. There are lots of socio-economics and demographic, financial, individual factors affect the household savings. such as income level, age, dependency, education level, gender marital status, attitude, bank habit etc. According to the World Bank data in year 2014, majority of the middle income countries of south Asia have higher savings than Sri Lanka.

II. RESEARCH PROBLEM AND OBJECTIVES

Savings is considered a significant variable for any economy due to numerous reasons. 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. 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.

III. SCOPE OF THE STUDY

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.

This study also examines the impact of numerous socio-economic, demographic factors, financial factors and individual factors on household saving. Specifically, , the effects on level of income, age, gender, education level, dependency, employment status, individual factors such as bank habit, attitude, self-assessment etc.

IV.   BRIEF LITERATURE REVIEW

The literature on saving behavior on the origin of data used can be separated into three parts. Those are savings theories, literature on studies using individual country data, and literature on studies using cross-country data. Keynes (1936) presented the Absolute Income theory, proposing the association between income and consumption and proposed that the consumption is the function of the real income and the income net of taxes. On the previous research of an analysis of the households saving behavior in Pakistan (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 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 result indicates that peer influence has an impact on individuals' saving behavior. A case study of Pakistan (Ahmad et al. 2006) investigated the behavior of household savings by using data arranged by world development series and state bank of Pakistan, economic survey of Pakistan during the years 1980-2003. The study found that Growth rate per capita income, per capita income were positively influencing while demographic factors of young dependency ratio, old dependency ratio were negatively affecting public saving in the long run as well as in the short run but two dependent ratios were impact on savings.

Lim et al. 2011 examined the investigation of physical elements affecting savers to identify whether there is a significant impact of self-control on saving behavior in Malaysia. On the previous research of determinants of Savings in African Countries during 1990-1999 examined the response of domestic savings in a set of African countries to its most important determinants, namely income, age and the dependency ratio by using ordinary least square (OLS) method with cross sectional data.(Mustafa & Mualley 2011). Gedela (2012) surveyed the determinants of the saving behavior of the tribal and rural households in the district of Visakhapatnam. The results exposed that the age of the head of the household, sex, dependency ratio, income and medical expenses are considerably influencing the saving behavior in the whole study area.
In review majority of the studies focus on studies using individual country data, and using cross-country data. Most of reviews reveal that income is the most significant determinant of household savings.

V.   METHODOLOGY AND DATA ANALYSIS

The primary concept behind this research 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.

The concept of household saving behavior basically indicates four sub factors. They are demographic factors, socio economic factors, financial factors, and individual factors. Throughout this research report it is explained as to how these four factors affect the primary concept of household saving behavior. The conceptual framework for the study is based on the litterateur and given below in Figure: 5.1

Figure: 5.1: Conceptual Framework of the study

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┌─────────────────────────────────────┐
│ Determinants of household savings     │
└─────────────────────────────────────┘

┌─────────────────────────────────────┐
│ Demographic factors                   │
│   • Gender                            │
│   • Marital status                    │
│   • Age of the head of the            │
│     household                         │
│   • Dependency ratio                  │
│ Socio economic factors                │         ┌──────────────────────┐
│   • Education level                   │  ═══▷    │ Performance of Savings │
│   • Employment status                 │         └──────────────────────┘
│ Financial factors                     │
│   • Income level                      │
│   • Wealth of household               │
│ Individual factors                    │
│   • Attitude                          │
│   • Bank habit                        │
│   • Self- assessment                  │
│   • Futuristic                        │
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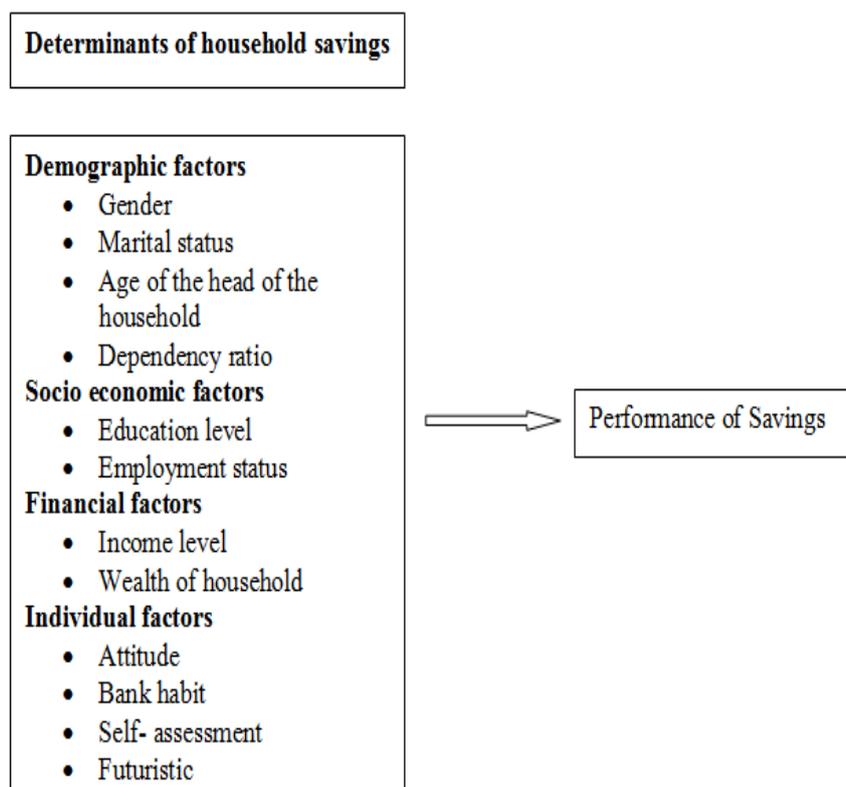
According to the above mentioned conceptual framework, the research preceded and based on this framework the questionnaire was constructed.

5.1 Definition of Variables
Following are the operational definitions of the dependent and the independent variable;
Household savings
Here it can be defined, household savings as the dependent variable which will be varying according to the below mentioned independent variables.

Income level
Income has been considered the most important element in the determination of the saving behavior of an individual. Increasing income is resulted in the form of increasing living standard of the people. Ozcan et al. (2003) find in Turkey that income level positively effects on saving. Ahmad & Asghar (2008) examined the saving behavior of Pakistan households and found that most significant determinant of savings is level of income. Larbi (2013)investigated the determinants of private savings in Ghana and concluded that per capita income has a positive and significant relationship with private savings in Ghana.

Dependency
The dependency ratio is defined in the literature as the proportion of the population aged 16 and below plus the percentage of the population aged 65 and above. In this research researcher considers population aged 16 and below as dependent of the household. According to Kibet et al.(2009)dependency ratio negatively influence household saving. The recent study of the determinants of savings of the rural household in Kerala (Unny 2012) also found that dependency ratio has negative impact on savings.

Employment status
The employment position of the household head has received significant attention as a source of variances in saving across households in developing countries. Ahmad & Asghar n.d. (2008) examined the saving behavior of Pakistan households and found that employment status has a positive effect on household saving behavior in Pakistan. Kibet et al. (2009) found that nature of businessmen occupation positively influenced the saving behavior of the rural households in Nakuru district.

Education

One variable, which has an association with savings of the households, is the educational status of the households. An analysis of the households saving behavior in Pakistan (Burney & Khan 1992) reveals that various categories of education are found to have a negative influence on households savings, indicating that more educated household have a higher consumption expenditure, and that they are likely to save less. The study of households saving behavior in Pakistan (Faridi 2010) investigating the determinants of households and it reveals that education of household head significantly and inversely affecting household savings.

Age of the head of the household

Age of the head of the household is another vital factor in determining the rate of savings by a household. The case study of determinants of savings in small farmers, entrepreneurs and teachers in rural areas of Kenya (Kibet et al. 2009)reveals that Age was found to have a negative influence on saving of specifically among teachers and businessmen, which passes the priori test. It is expected that, saving by the adult population (Especially above 30 years) would be diminishing with age as they grow towards and beyond retirement age.

Wealth of Household

Apart as of income, wealth has been involved as one more determinant of saving behavior. Since it was difficult to get data on wealth, ownership of property would take as a proxy for wealth. Here wealth is taken as an explanatory variable since wealth plays a significant role in influencing saving behavior of people. Ahmad & Asghar (2008) examined the saving behavior of Pakistan households and found that wealth has negative impact on saving behavior in Pakistan.

Gender

Sex of household head is also reflected as a significant variable to determine the saving behavior of a household. According to Ahmad & Asghar (2008) their study on saving behavior in Pakistan household. Generally it is considered that female lead save more than male lead but this study expose opposite idea which is that male headed households save more than female headed households.

Marital status

Marital status of household head is also reflected as a significant variable to determine the saving behavior of a household. The study of households saving behavior in Pakistan (Faridi 2010) reveals that marital status negatively and considerably interrelated with the household savings. Another study of Rural-Urban Saving Differentials in Pakistan (Chaudhry et al. 2011) also reveals that rural as well as urban households less likely to save if they are married.

Individual factors

Individual factors of attitude, bank habit, and self- assessment, futuristic are important variables to determine the saving behavior of a household. Lim et al. (2011) examined the investigation of physical elements affecting savers to identify whether there is a significant impact of self- assessment on saving behavior in Malaysia. The finding demonstrations that people are more likely to save if they are capable to control themselves via executing sound planning and economic cost valuation.

5.2. Population and Sample

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. Moreover, the sample represented both male and female households. Researcher used survey method to collect the primary data from the units of sample. The related questionnaire is relevant to the indicators mentioned under conceptual framework.

6. Data Presentation and Analysis

The data analysis can be conducted based on the nature of the sampling process, the measurement instrument and data collection method. is a statistical test which is commonly. This study researcher used Cronbach's alpha as a measure of internal consistency and reliability of instrument such as questionnaire. The Cronbach's Alpha of the data set in this study is 0.754 which represent higher internal reliability of the study. The chi-square test is used to examine the categorical variables and the Pearson's chi-square test is used to test the significance of the determinants and discover if there is an association between two categorical variables. In this study researcher used chi-square test to discover the significant determinants and the relationship between independent variables and dependent variable of savings. 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.

Most of the households represent positive association between savings and individual factors for all three categories while in the category of entrepreneurs bank habit shows negative association with savings. In the category of farmers futuristic also shows negative association. It concludes that individual factors of the households do not affect severely for their savings level. According to analysis conclude that individual factors are significant determinants of savings in all categories of farmers, teachers and entrepreneurs. The summary of the analysis is given in the Table 6.1.

Table: 6.1: Summary of the determinants of savings

Factors		Determinant or not	Association
Demographic	Age	Not a 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		

Source: Author Compiled (2016)

VI.   CONCLUSIONS

Domestic savings play and dominant role in economic growth and stability of any country. Just like other developing countries the levels of domestic savings and investment in Sri Lanka have been very low. It was 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 reveal the same results which means that demographic factors are not significant determinants of savings.

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. 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). In the category of farmers it was found that there is no significant association between savings with education and employment status. It concludes that socio economic factors are not significant determinants of farmers' savings. The results are further supports the with study of effects of socio economic characteristics of farmers on household savings in Nigeria (Nwankwo & Economics 2015).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 Ozcan et al. (2003) and Ahmad & Asghar (2008). Increasing income and wealth is resulted in the form of increasing living standard of the people. When considering about categories separately teachers and entrepreneurs also reveal that there is significant association between savings and income but farmers reveals opposite results. It concludes that income is significant determinant of teachers' and entrepreneurs' savings while it is not a determinant of farmers' savings. Income of teachers and entrepreneurs are greater than farmers and because of higher income they tend to save more rather than farmers. 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.

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