

# Saving Practices of Rural Households in Ethiopia: Case of East Gojjam Zone, Amhara Regional State

Tarekegn Tariku

Department of Accounting & Finance, Debre Markos University, Ethiopia

## Abstract

Saving is an economic practice of keeping portion of income earned today from various sources of earning for future consumptions. The main aim of this study was to assess saving practice of rural households in East Gojjam Zone, Ethiopia. Respondents were selected through two stage-sampling techniques, and 250 rural households were participated in the study. Primary data was collected from household heads by implementing household survey with in similar time interval. The collected data was analyzed using simple descriptive statistics. Findings of the study revealed that most households save their income, however, most rural households do not have long-run saving motives, and socio-cultural activities are harming the saving practices of rural households. Lack of willingness, less access to financial institutions, high income tax rate and less interest rate were not the main reasons for low household saving practices. The major reasons for not saving earnings were lack of adequate annual earnings, high living expenses and lack of good and adequate saving awareness. To improve saving practice of rural households more work should be performed on improving their saving motives, creating saving awareness, establishing accessibility to financial institutions and improve annual income of the households, and each household should overcome wasteful socio-cultural events.

**Keywords:** Saving practice, rural households, motives, Ethiopia

## I. Introduction

Saving is the economic practice of keeping portion of income earned today from various sources of revenue for future purposes and consumption. Many bodies like individual, households, public entities and private organizations can perform saving practice in different manners. Saving is one of the vital economic events that help these bodies to excel their future. For instance, a farmer with good saving practice can access modern farming technology and inputs, employ improved farming methods, could increase his/her production and income. Saving is among important ingredients for economic success of a country especially in an economy dominated by agriculture [8] [9] [7]. There is strong connection between saving (household saving and public saving) and economic development particularly in countries where agriculture takes dominant share.

As it is well known, agriculture is the backbone of Ethiopian economy and most of rural households lead their life based on agricultural activities. However, the sector is very subject to adverse shocks such as bad c[11] ate condition (e.g., drought), rising in agricultural input cost, economic fluctuation, and price fall of agricultural outcome. While the sector uses traditional farming styles, it could not escape from these catastrophes. In addition, in the study area particular household head has the responsibility of leading life of members of the household. According to the central statistics agency of the country [6], the average number of household member is five per family. The household head should meet all needs of these household members until they grown up and engaged on their work or business. For instance, tuition fees, clothing costs, health expenses, housing, and other living expenditures would be covered for all family members. It requires huge amount of capital to bring the family member to particular economic status. Therefore, household saving is a crucial means of providing an insurance against adverse shocks and improving well being of household members.

Furthermore, different socio-cultural practices are negatively affecting household's saving practice living in study area. To mention few of these socio-cultural practices are frequent holiday day celebration, exaggerated marriage ceremony, extravagate traditional belief and unplanned memorial events. Even some households purposely save to undertake these extravagant events. As a result, the saving practices of households are found at very low level.

Despite of the crucial roles of saving in the well-beings of households and low saving culture of the household in the study area, no adequate investigation has been made to dig-out the saving practices of rural households. This study was conducted to assess the saving practices of rural households living in East Gojjam Zone, Ethiopia.

## II. Statement of the problem

Saving is cost free source of financing future living expenditures, economic activities and retirement allowance. Rural households have less access to borrowing and financial institutions. It is difficult to get credit from financial institutions due to high interest rate and significant collateral requirements. Households face challenges of borrowing money from credit providers. As a result, saving becomes the best and cheap alternative means of financing their activities. In addition to its less expensiveness and alternative source of financing, money being

saved can easily be accessed and used upon demand. Unlike loan, no restrictions are imposed on income being saved.

Saving is a driving force of economic success and stability. Domestic household saving have become a major contributor to a country's economic success [7]. In Ethiopia, households, however, are characterized by low saving experience and domestic saving has very low share in GDP [4]. Particularly, the saving practices of rural households found at worst level. The reasons of low saving experience have not been empirically well identified and even no one can absolutely know whether household does save or not. As a result, no measures have been taken to teach, give training, and create awareness on saving practices of rural households.

This study focused on the saving practices of rural households in East Gojjam Zone to explore motives of households to save, identify socio-cultural events affecting saving, investigate saving awareness and accessibility to financial institution, and fill the existing literature gap. In order to achieve these objectives the following research questions were answered by this study.

- What are the motives of rural households to save?
- How socio-cultural practices of rural households are affecting their saving culture?
- What are the extent of rural households' saving awareness and accessibility to financial institutions?
- What are the reasons for not being exercising saving practices by rural households?

### III. Related Literature Review

The definition of saving across scholars is different, even if, it holds similar concepts. According to [3] saving is simply means of putting something aside for future use or what will be considered as deferred expenditure. Similarly, [8] has defined household saving as it is part of current income which is not expensed in the current period (or foregone consumption) after direct taxes paid from the earned income. Furthermore, researches including [1] [13] mathematically defined saving as the difference between current income and current consumption when their difference is positive. The alternative definitions of saving include expenditure on durable goods, human capital investment such as education, health and insurance expenditures [1]. [11] Shares the alternative definitions of saving; expenditure made for purchasing of a home or automobile, or spends for any investment is regarded as saving.

Household saving is the economic management of earned net income for expectation of future survival. Earned net income might be managed through various manner of saving, such that putting aside a portion of net income for future consumption; settlement of household liabilities; and contribution made by both employer and employee to pension and insurance fund with the interest earned on those funds. To the contrary, the absence of earnings management might leads to negative saving like financing current expenditure of households by credit rather than current income [8].

Previous studies on household saving behavior provided some motives of households to save. As [10] [12] [5] explained households save their income with the motives of building up a reserve against unforeseen contingencies; meeting future personal needs; receiving interest and capital appreciation; enjoying a sense of independence; carrying out business; bequeathing a fortune, and accumulating capital to buy houses, cars, and other durable assets.

The above motives rely on the assumption that households have access to means of saving and dissaving. In practice, the absence of such motives may affect the desire to save and underlying factor for non-existent or scarce savings. In addition, liquidity constraints may prevent households from borrowing when desired which again means that households may find it difficult to adjust consumption over time – they might not be credit-worthy, thus they might not be able to borrow when necessary so as to consume more today at the expense of the future. Hence, one can say that households' saving behavior is determined by the combined effect of two different motives – the motive to save and the possibilities for inter-temporal allocation of the financial system [10].

### IV. Research Methodology

This study was conducted in East Gojjam Zone, Amhara Regional State of Ethiopia. Its total land area is 14,009.75 km<sup>2</sup>. It has four administration towns and sixteen rural districts. The proposed total population size living in the zone is 2,494,324 of which 14.21% are living in urban areas and 85.79% are living in rural districts [2]. The focus of this study was on rural households saving practices.

Sample respondents were identified by implementing two stage-sampling techniques. First, households living in rural districts were included in the research after the study areas were purposively selected based on their population size. Accordingly, three most populated rural districts such as Hulet Eju Enesie, Enarji Enawga & Goncha Siso Enesie were selected. The specific dwelling area of each respondent was also purposively selected based on their access to transportation facilities and easiness for data collection. Accordingly, three provinces one each were purposively sampled from the selected rural districts.

The second step had to do with the selection of respondent households from the sampled provinces. In each

selected provinces, simple random sampling technique was employed to select respondent households and in total 250 household heads were sampled. The number of respondent household heads taken from each sampled provinces were determined based on total proportional number of provinces of the sampled areas.

Data collection was made through new survey by employing questionnaire. For each household head included in the research sample, one questionnaire was administrated after the items in questionnaire were translated into local language (that is Amharic). The items were adopted and modified in line with the research environment from prior period literature review. The questionnaire consists of two parts. The first part comprised the demographic questions about the respondents. The demographic questions was designed to gather information related with household head's gender, age, marital status, level of education and other important data. The second part contains items formulated to obtain data related with saving practices of households. Simple descriptive statistic was employed to analyze the collected data.

## V. Finding Analysis and Discussion

The main aim of the study was to investigate saving practices of rural households. To meet the aim data was collected from 250 household heads living in different rural areas by administering well-structured household survey. As presented in the following table 1, 17% of respondents were females while 83% were males. These figures show low participation of female household heads in the study as compared to male household heads since they have less opportunity to become household head in the study areas. The average age of household head was 41 years with 20 minimum and 70 maximum years, however, larger share of household head found in between 20 - 30 years that is 40%. This implies most respondents were at their young age followed by 31 - 40 years that is 24%. Regarding to respondents' annual earnings, almost all household heads (87%) had less than ETB<sup>2</sup> 50,000 annual income. The average annual income of household head was ETB 30,426 with ETB 5,500 minimum and ETB 108,000 maximum annual income. The variation of household head's annual income from the mean was ETB 16,731. Most household heads were married (77%) followed by unmarried household head which was 19% of the total. More than half of the respondents did not attend formal education at school. About 74% household heads were illiterate followed by 11% household heads attended grade 1-12<sup>th</sup> and the rest have first degree (9%) and diploma (6%). Concerning the respondents' work type, all household heads included in this study had their own work at the time of data collection and most of them were farmers - share about 87% followed by government employees which were 8% of respondents. In order to know its consequence, the personal saving habit of each household head was also assessed by designing different elements that may indicate personality of household heads. According to the assessment, most respondents about 59% were failed to achieve positive personal saving habit. However, regardless of their personal saving habit, most household heads develop their own annual financial plans.

On the other hand, comparison analysis was made for households saving practices across different socio-demographic elements of the household head. As presented in table 1, 59% of respondents were save their income while 41% did not save. This shows the existence of good household saving practices in the study areas. Moreover, there is a difference between female household head and male household head saving practices; hence, 50% and 61% of female and male respondents were experiencing saving practices respectively. The saving practice of single households was better than married and divorced or widowed household saving behavior. Furthermore, divorced or widowed households have very low saving participation rate. In addition, households those followed formal education were saver than illiterate households. The saving practices of households raises as the level of their education increase. In this case, first-degree holders were more than all other less educational level. This implies education level affects positively household saving practices.

Still work type makes a difference among household saving practice. For instance, self employed (such as engaged on trade, manufacturing, and services) households were more saver than other households were. Specifically, the saving practice of farmer households was very low. Household head's personal saving habit and financial planning were other factors make a difference on saving practice. In general, those household heads who have positive personal saving habit and develop financial plan were more saver than otherwise.

---

<sup>2</sup> ETB is the abbreviated form of Ethiopian currency that is Birr.

**Table 1: Socio-demographic Characteristics of Respondents**

Item	Category	Freq.	Perce.	Mean	Max.	Min.	
Age in year	20 - 30	100	40%	41 years	20 years	70 years	
	31 - 40	60	24%				
	41 - 50	50	20%				
	51 - 60	32	13%				
	61 - 70	8	3%				
Total		250	100%				
Household annual Income	1 - 50,000	217	87%	Br. 30,426	Br. 5,500	Br. 108,000	
	50,001 - 100,000	27	11%				
	100,001-150,000	5	2%				
	150,001-200,000	1	-				
Total		250	100%				
Rural Household Saving Practices							
Item	Category	Yes		No		Grand Total	
		Freq.	%	Freq.	%	Freq.	%
Gender	Female	21	50%	21	50%	42	17%
	Male	127	61%	81	39%	208	83%
Total		148	59%	102	41%	250	100%
Marital status	Single	17	68%	8	32%	25	19%
	Married	129	61%	81	39%	210	77%
	Widowed/divorced	2	13%	13	87%	15	4%
Total		148	59%	102	41%	250	100%
Educational level	Illiterate	96	52%	90	48%	186	74%
	Grade 1-12 <sup>th</sup>	19	70%	8	30%	27	11%
	Diploma	12	86%	2	14%	14	6%
	First degree	21	91%	2	9%	23	9%
Total		148	59%	102	41%	250	100%
Work type and status	Self employed	8	100%	0	0%	8	3%
	Government employee	19	90%	2	10%	21	8%
	NGO employee	0	0%	0	0%	0	0%
	Private org. employee	3	75%	1	25%	4	2%
	Farmer	119	55%	98	45%	217	87%
	Retired	0	0%	0	0%	0	0%
Total		148	59%	102	41%	250	100%
Personal saving habit	Positive	82	80%	20	20%	102	41%
	Negative	66	45%	82	55%	148	59%
Total		148	59%	102	41%	250	100%
Financial planning	Yes	142	64%	80	36%	222	89%
	No	6	21%	22	79%	28	11%
Total		148	59%	102	41%	250	100%

### Motives of Rural Households to Save

In this study the motives of households to save were assessed by designing different saving motive factors as presented in table 2 below. Savers do have their own motives of saving. In case of this study, most households save their income to meet future needs, cover future expenditures, for unforeseen contingencies, and to be self-sufficient. However, very a small number of respondents had motive to save to acquire long-term assets, to earn interest income, to start own business and to take investment opportunities. This indicates most households were save their income for purpose of financing short-run or day-to-day activities. They do not have long-run purpose of saving practices.

**Table 2: The Motives of Households to save**

Item	Frequency	Percentage
To meet future needs	122	49%
For contingency	115	46%
To be independent (self-sufficient)	112	45%
To cover future expenditures	110	44%
To start own business	38	15%
To earn interest income	32	13%
To acquire house, car & other long-term assets	28	11%
Others	3	1%

On the other hand, the impact of socio-cultural activities on households saving practices was also assessed particularly focusing on ceremonial celebration of holidays and marriage. On average particular household held celebration for holiday 5 times per year and spent ETB 4,255. The maximum frequency and annual expenditure for holiday celebration was 10 times and ETB 21,000 per year respectively. The minimum was one times and ETB 300 per year in the study areas. Unfortunately, most households purposively save income to finance holiday expenditures rather than for future investment.

Regarding to marriage celebration, in the study areas organizing and financing exaggerated marriage ceremony give higher recognition to households than investing on business. It is a competition among households and considered as their cultural responsibility. Even household finance it by debt borrowing from relatives or financial institutions. If the household head unable to finance marriage, other person specially his/her relatives support to finance by finding funds. As result, the extravagant may reach at other households than the household undertaking marriage ceremony. Thus, exaggerated socio-cultural events are harming the saving practice of each household.

#### **Reasons for Not to Save Income**

There are many reasons for being not saving the earned income. The reasons may differ from household to household. In the following table-3, some of the reasons for not saving income are provided.

**Table-3: Reasons for not to save**

Item	Frequency	Percentage
Lack of adequate income	88	35%
High living expenses	78	31%
Lack of saving awareness	50	20%
Lack of willingness	12	5%
Less access to financial institutions	3	1%
High income tax rate	3	1%
Less interest rate	2	0.06%

In order to identify the main reasons of low saving practices of households in the study areas, respondents were requested to put the reasons in a sequence from most significant to the lesser one. Accordingly, three factors were identified as the major reasons for not saving income. The first one is annual income inadequacy. Even though the households have an interest to save their earnings, they have no adequate annual income remain excess to save after living costs are covered. Even most households were financing their activities and life by borrowing from saving and credit institutions before saving. The existence of high living expenses is the other reason for not to save. Due to substantial living expenses, rural households are not in a position of exercising saving practices. Most portions of earnings are used to cover the needs of all family members. Lack of good saving awareness is the third major factor for not to save income. Creating public awareness about saving is a vital mechanism to raise the level of saving practices of households. Even though the current level of households saving awareness is better than before in the study areas, more work should be done particularly on rural households to create strong saving awareness.

Furthermore, other factors such as lack of willingness, less access to financial institutions, high income tax rate and less interest rate are not the main reasons for low household saving practices. Regarding to the accessibility to financial institutions, currently two financial institutions - Amhara Credit and Saving Institution (ACSI) and Commercial Bank of Ethiopia (CBE) are playing main role in improving accessibility to saving institutions. These institutions are now very close especially to rural households through opening their branch at rural district level where it is appropriate to run financial activities except in very remote areas. Even though it could not be said there is adequate access to saving and credit institutions, accessibility is not the major problem for not saving earning by rural households. Therefore, accessibility to financial institution is now not the main problem to save. The problem is the inability to save due to lack of adequate annual earnings.

## VI. Conclusions

The saving practice of rural households in study areas was good since most households were saving their annual income. However, most rural households did not have long-run saving motives. They save only for meeting the current needs of the households. In addition, socio-cultural activities specially frequent holiday celebration and extraordinarily marriage events were harming the saving practices of households in the study areas. Lack of willingness, less access to financial institutions, high income tax rate and less interest rate were not the main reasons for low household saving practices. The major reasons for not saving earnings in the study areas were lack of adequate annual earnings, high living expenses and lack of good and adequate saving awareness.

## VII. Recommendations

In order to improve the saving practices of rural households, all stake holds should work more on improving their saving motives, creating public saving awareness, establishing accessibility to financial institutions and improve annual income of the households. On the other hand, each household should overcome extravagant or unreasonable socio-cultural activities such as frequent holiday celebration and exaggerated marriage events.

## References

- [1] Aktas, A., Guner, D., Gursel, S. and Uysal, G., (2012) Structural Determinants of Household Savings in Turkey: 2003-2008. *Bahcesehir University Center for Economic and Social Research Betam Working Paper Series #007*, 1-52
- [2] Amhara Nation Regional State (ANRS) (2014) Finance and Economic Development Bureau. Accessed on September 05/2014 through "<http://www.amharabofed.gov.et/amharainfo/>".
- [3] Amu, M.E.K, and Amu, E. K, (2012). Saving Behaviour in Ghana: A Study of Rural Households in the Ho Municipality of the Volta Region. *Online Journal of Social Sciences Research*, 1 (2), 54-61.
- [4] Aron, HS., Nigus, A., and Getnet, B. (2013). Assessment of Saving Culture among Households in Ethiopia. *Journal of Economics and Sustainable Development*. 4(15, 1-8
- [5] Baranzini, M. (2005). Modigliani's life-cycle theory of savings fifty years later. *BNL Quarterly Review*, 18, 233-234, 109-72.
- [6] Central Statistic agency of Ethiopia (CSA) (2010). Federal Democratic Republic of Ethiopia general country data report. Available on [www.csa.gov.et/newcsaweb/images/.../pdf.../HCE\\_2010\\_11\\_Statistical%20Report.pdf](http://www.csa.gov.et/newcsaweb/images/.../pdf.../HCE_2010_11_Statistical%20Report.pdf)
- [7] Chenge, T., Hisatosh, H. and Wenxing, X. (2006). Analysis on saving behaviors in urban China: Empirical results based on household survey in Shanghai. *Modern Asia Review*, 1(1), 1-21.
- [8] Girma T., Belay K., Bezabih E. and Jema H. (2013). Determinants of Rural Household Savings in Ethiopia: The Case of East Hararghe Zone, Oromia Regional State. *Journal of Economics and Sustainable Development*, 4(3), 66-75.
- [9] Kifle, T. S. (2012). Determinants of saving Behavior of cooperative members survey evidence from Tigray region, Ethiopia. *Journal of Research in Economics and International Finance*, 1(5), 150-158.
- [10] Kulikov, D., Paabut, A. and Staehr, K (2007). Factors Affecting Household Saving Behaviour in Estonia. *Kroon&Economy*, 2, 28-42.
- [11] Lim, H.N., Hanna S. D. and Montalto, C. P. (2010). Consumer Optimism and Saving Behavior. *Consumer Sciences Department, Ohio State University*, 1-22
- [12] Nga, M.T. (2007). An Investigative Analysis In To The Saving Behaviour of Poor Households in Developing Countries: with specific reference to South Africa. 1-46.
- [13] Smith AW. Understanding economics (2nd ed.). New York: Macmillan/McGraw –Hill Company Inc, 1991.

## Acknowledgement

I would like to thank Debre Markos University for financing the study budget; Business and Economic College research review committee for following up the study status; and the respondents and data collectors for providing reliable and relevant data.