

A Baseline Survey on Entrepreneurial Tendency and Saving Culture in Wolaita Zone

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Abstract

This report documents a summary of data and preliminary findings of the survey conducted on saving and entrepreneurship status of Wolaita zone. The survey was conducted from 17 to 22 December 2012. It systematically covered five Woredas of Wolaita zone. It sampled a total 271 households. The survey collected information on households' enterprise, tendencies of respondents, social characteristics and markets. The preliminary findings are mixed. Some responses on indicators suggest favorable characteristics while others indicate unfavorable patterns both for entrepreneurship and saving practices.

Keywords: Entrepreneurship and Saving.

Introduction

A strong small business sector and entrepreneurship are generally linked to a strong economy (Beck, Demirgüç-Kunt and Levine, 2005). It is associated with job creation, wealth creation, innovation and its related welfare effects. However, African economies are in crisis because of weakness of indigenous entrepreneurship (Kabeya, 2001). Different authors have suggested number of responsible factors for a limited number and low success of entrepreneurship in developing countries. Lichtenstein et al., (2004) postulated that the size and density of rural territories; the social and economic makeup of communities; and the territories' links or ties with the outside world are some of the possible obstacles to rural entrepreneurship. Khanka (2002) suggested that economic and non-economic factors are barriers of entrepreneurship ability. The economic factors incorporate financial capital, labor, raw materials, and market, whereas the non-economic factors may include legitimacy of entrepreneurship, mobility, socio-cultural values, etc. The non-economic factors are seen relatively more significant, though the problems of economic challenging factors appear to be responsible for low entrepreneurship ability, this analysis has placed environmental motivational factors as most influencing one. It is found that the socio-demographic characteristics have no significant influence on the entrepreneurship ability. For operating entrepreneurship Studies show that the business characteristics (i.e., enterprises' status, ownership type, condition, number of employees and types) were found to be more significant determinants of the ability of the entrepreneurship than the socio-demographic characteristics. Hence, conducting research is essential to investigate challenges, opportunities and factors influencing determinants of status of entrepreneurship are needed to take corrective action and alleviate barriers for promotion of entrepreneurship. In a related subject, household savings are the main domestic sources of funds for capital investment in infrastructure, education and technology etc. which are necessary for growth in economy. Besides, higher levels of household savings allow a larger portion of a country's overall debt to be financed internally and also have a positive impact on economy and its growth (Bošena 2011). Fred (2007) stated that saving is a key component in any development effort that can serve as a way to increase income and boost productivity in an attempt to break through the vicious cycle of poverty.

Entrepreneur ability and saving culture can be influenced by many economic, non-economic factors, however, vary from area to area, and their effect on status of entrepreneurship and saving culture are often not uniform. Because of these, saving culture and the reaction and ability of individuals to entrepreneurship is often different. This study attempts to address these issues empirically. It makes a survey of determinants of entrepreneurship and saving culture; the variation among households and community in Wolaita zone. This attempt is organized in the form of the following objectives:

- To assess the status entrepreneurship and saving culture in Wolaita zone.
- To reflect successes, best practices observed, and challenges that discourage entrepreneurship and development culture.
- To suggest necessary knowledge and skills in order to improve the entrepreneurship and saving habits among the community.

Methodology

The baseline survey was conducted in five systematically selected Woredas of Wolaita Zone and Sodo Town. The selection of the Woredas considered diversity in livelihood zones. The study population consisted of households, communities and key informants in the zone.

Survey study design was used where the information on saving and entrepreneurial patterns was collected using quantitative and qualitative survey instruments at household and community levels. Recall

method was used to extract information from respondents. The survey used a wide range of indicators on saving and entrepreneurship culture. These were categorized into four((Acharaya, Rajan and Schoar (2007); Nasurdin, Ahmad and Lin (2009); Sollymossy (1998))

- Respondent’s enterprise (ownership and practice)
- Tendencies of respondents (entrepreneurial and saving traits)
- Social characteristics
- Market characteristics

The following factors were considered while determining sample size:

- Available budget of ETB. 35,000
- Agro-climatic classifications in the zone
- Similarities in livelihood zones

Purposive sampling technique was employed to select 271 households, represented through their heads. The selection process was multistage and systematic based on factors considered for sample selection.

A structured and pre-coded survey questionnaire was used. The questionnaire covered saving and entrepreneurial culture indicators.

One data collection team was formed. The team was deployed to the field immediately after training on the structured questionnaire in particular and the survey in general. Data collection was conducted between 17 and 22 September 2012 in all survey sites. A total of 16 enumerators were used. The enumerators were selected, from the localities, had degrees and were given a one day training on the questionnaire. Data was entered and analyzed using SPSS version 20 and Stata version 9. Ranges and skip rules as well as frequency distributions of variables were used to ensure data quality. Descriptive analysis was employed to analyze individual indicators.

The survey obtained ethical clearance from the concerned ethical clearance committee of the zone. Participants of the study were given complete information as to the objective of the study and their benefits/risks and only following their consent will they participate in the interview. Data collectors and were given orientations on how to maintain the ethical aspect of the study. The information to be collected was anonymous and no identification, such as, names, identification numbers, was used for tracing purposes after the collection of data. All the information and data collected was accumulated, organized, stored, analyzed, and retrieved guaranteeing confidentiality. Information was analyzed as group data and not on individuals.

Survey Results and Discussion

Table 1: Number of households sampled by Woreda

Sampled Woreda	Survey Households	Percent
Soddo	31	11.44
Humbo	60	22.14
Boloso Sore	60	22.14
Damot Gale	60	22.14
DamotPulasa	60	22.14
Total	271	100

A. Household Enterprise

Over 60 percent of the respondents (165 out of 271) have previous work experience. From those who reported as having previous work experience, 42.4% (n=70) stated that their engagement was in their own business. The largest engagement was in DamotPulasa where 83.3% of those with previous work experience had that experience in their own business. It is also worth noting that all the Woreda reported as having more of their respondents’ previous work experience as being in own business with the exception of Boloso Sore. Boloso Sore was more involved in food-for-work and cash-for-work arrangements.

The ownership of common business types were explored in Wolaita Zone. The results indicate that businesses tend to cluster to only Kiosk (15.2%) and Petty trading (30%). Moreover, less than half of the surveyed households owned at least one type of business. These findings are preliminary indications that there is a lot of room for household enterprise.

An important predictor of an individual’s entrepreneurship is whether he/she is active in his/her parent’s business as a child. Based on the findings of the survey, the share of household heads whose parents owned a business of some sort are only 34% and those who worked in these businesses as a child were just 19.9%. The share of those who worked in their parents business as a child was largest in DamotPulasa (86.4%).

Nearly all households reported membership in “Idir”. “Iqub” stands as the second most important form of social group. These informal institutions tend to not encourage starting new business or expanding existing ones. They serve risk mitigation roles during household shocks including death of family members, sickness, holidays and funeral ceremonies. There are mixed results to membership in other social groups. Reported

membership in MFIs (20.3%), RUSSACOs (5.5%) cooperatives (semi-formal financial institutions) was found to be low. This indicates that the population in the zone relies more on Idir and Iqub than on semi-formal financial institutions. It could also be possible that the zone is not yet considerably covered by semi-formal financial institutions like MFIs.

Mobile phone ownership

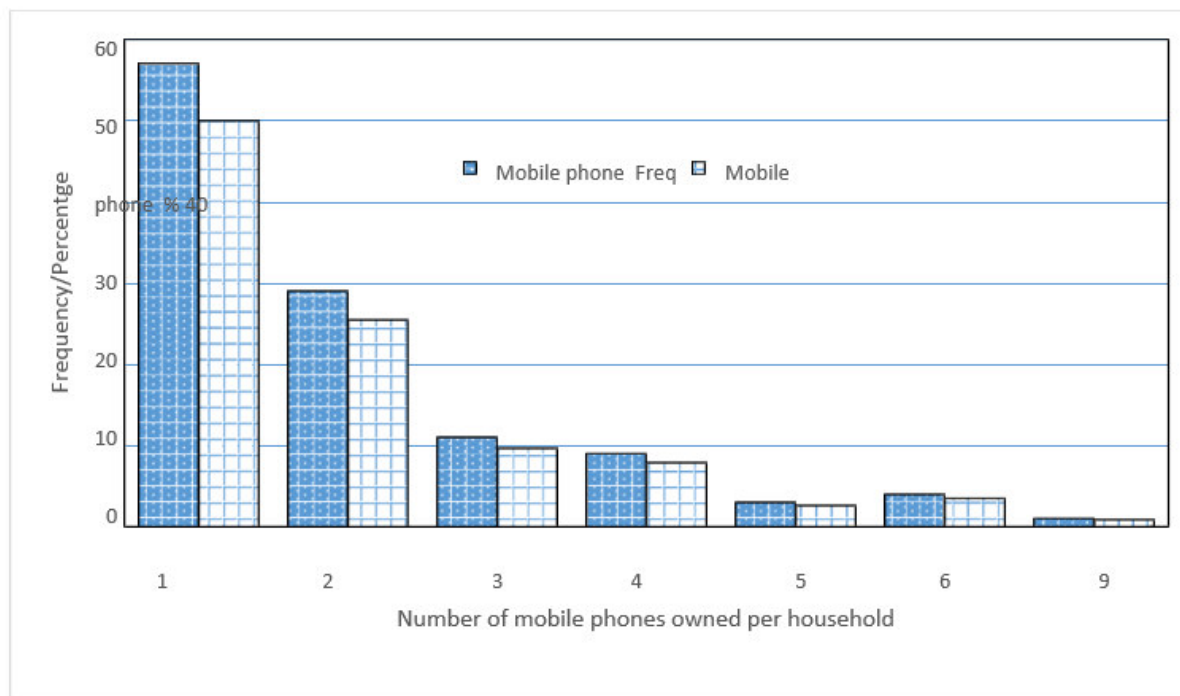


Figure 1: Mobile phone Ownership

Just half of the interviewed household heads stated that one phone is owned in the household. Slightly above 25 percent stated that two mobile phones are owned by their household. Mobile phone ownership is a proxy for the level of information that a household has for close to optimal business decision making (Jenny & Isaac, 2010).

Over 90 percent of surveyed households owned a single ox and another good number of households owned two oxen. This showed that households have a good share of their wealth saved in oxen, but also that they will have to work with at least another neighbor for plough as a yolk requires two, instead of one, ox.

The chunk of surveyed households practice mixed agriculture (75.3%) by combining cropping with livestock rearing. It is also not worthy that agriculture, in any of its forms is least practiced in Sodo town. This appears to indicate that households tend to diversify the risk of failure by diversifying their agricultural practice (Ellis, 1992).

An important measure of wealth of households, which is a very good predictor of their saving and entrepreneurial potential, is land entitlement. The average land size owned is 0.878 hectares per household. This is below the national average (=1.2 ha, Wikipedia 2008) but above SNNPRS average holding (=0.58 ha CSA (2001 E.C.)). Boloso Sore had the densest land entitlement (0.626 ha) while Damot Pulasa had the sparsest (1.374 ha). Except for Sodo, most of the sampled households had land entitlements.

The mean annual expenditure of households, as defined by expenditure on major expenditure items identified during the survey, was ETB 11,231.20. There was a marked variation in the expenditure from household to household (SD = ETB 11,392.21). The first four items they would spend their income on are better health services, better food and repair, rebuilding of their houses and better clothes, respectively. The survey revealed that households have not met their rudimentary needs.

There is a marked difference in household heads perception of their household's relative economic position in their villages. Overall, heads tend to look at their households as not having a good economic status relative to their co-villagers.

A comparison of actual against intended ownership of surveyed households with respect to the following enterprises reveals that people's intents roughly correspond with their actual enterprise ownership. The entrepreneurship literature considers these kinds of potential business owners as Fabian (lazy) entrepreneurs. A similar risk averse pattern seems to be observed with respect to the type of business organization that households adopted versus that they intend to adopt. These Fabian entrepreneurs seem to prefer sole proprietorships (73.19%)

because this kind of business organization can be less risky

The problem identified as the most important one to start a business was lack of enough capital (with an index value of 2.98). This followed by inadequate supply of input, lack of credit facility, high cost of material, lack of business skill and lack of work experience in decreasing order of importance. The problem identified as the least important was problem of registration and legal procedures (with an index value of 1.44).

In a similar fashion, sampled respondent were asked to rank a set of problems to enter into a business. The most important hindrance to entering into business was lack of seed money followed by lack of essential technology, lack of incentives and low level of education. Unlike expectations, fear of failure was not among the most important hindrances to enter a business.

The most preferred source of finance for those who already own a business is saving associations (with an index value of 2.92) while it is “Idir” (with an index value of 2.91) for those who do not own a business but intend to. The source of finance identified as the least important for business owners was aid and donations (1.78 pts.) while for those who intend to run their own business in the future it was local lenders (1.70). This result is another confirmation that the surveyed population tends to averse risk, especially if they do not own a business of any sort.

An attempt made to evaluate the standing of surveyed households with respect to different financial activities (cash, credit, saving and investment) revealed that households tend to practice less and less as the financial activity becomes more and more advanced.

B. Household Savings

Of the surveyed households 78.85% (n=205) reported as having the practice of saving. When asked to identify the kind of saving they practice, the majority identified individual saving (47.17%, N=125) as their predominant type of practice.

Surveyed households were asked to reveal their preference of places to save their income and wealth. The results show that the most preferred saving place is with Idirs. The least preferred saving place of households is in the form of buildings. A point to note here is that preference of formal and semi-formal financial institutions (MFIs, cooperatives, banks) for saving is still low. With the exception of cattle and crops, saving in kind (such as gold, land, and building) also appeared to be very low.

The survey revealed that there is a significant lack of knowledge about practices that can be identified as saving.

The overwhelming majority (76%) cited ensuring against future shocks as their main reason for saving. About a quarter (24%) saved for future investment purposes in addition to mitigating future shocks.

The survey explored the knowledge, attitude and practice of households towards savings. Households were made to reveal their level of knowledge related to saving practices. They were made to reveal their level of agreeableness or disagreeableness on an 11 points Likert scale where 0 is a point of neutrality, positive values are levels of agreeableness in increasing order and negative values are levels of disagreeableness in increasing order.

As Figure IV 16 indicates, households seem to have a very good knowledge of the uses of savings. On all four of the suggested uses of savings households seemed to be highly agreeable as the frequency distribution graphs registered high frequency values around scores 4 and 5.

C. Household Tendencies – Identifying Entrepreneur Specific Factors

Households were made to reveal their tendency to entrepreneurship and saving traits. Both individual tendencies and other social factors that affect these tendencies were explored.

A set of 20 standard questions were used, four under each of the five psychological traits that are peculiar to entrepreneurs (Hirsch, 1998), to characterize the tendencies of the surveyed households. The response of the households to these 20 questions was built into five indices. The results are shown in Figure IV 17 below. According to this figure, a positive score is recorded for all of the five psychological traits. This indicates that the surveyed households exhibited more of the entrepreneurial side. Of the five traits, they have scored highest in the achievement trait but lowest in the opportunistic trait suggesting that households are driven by achievement but not as much by seizing opportunities that come their way or even create some themselves.

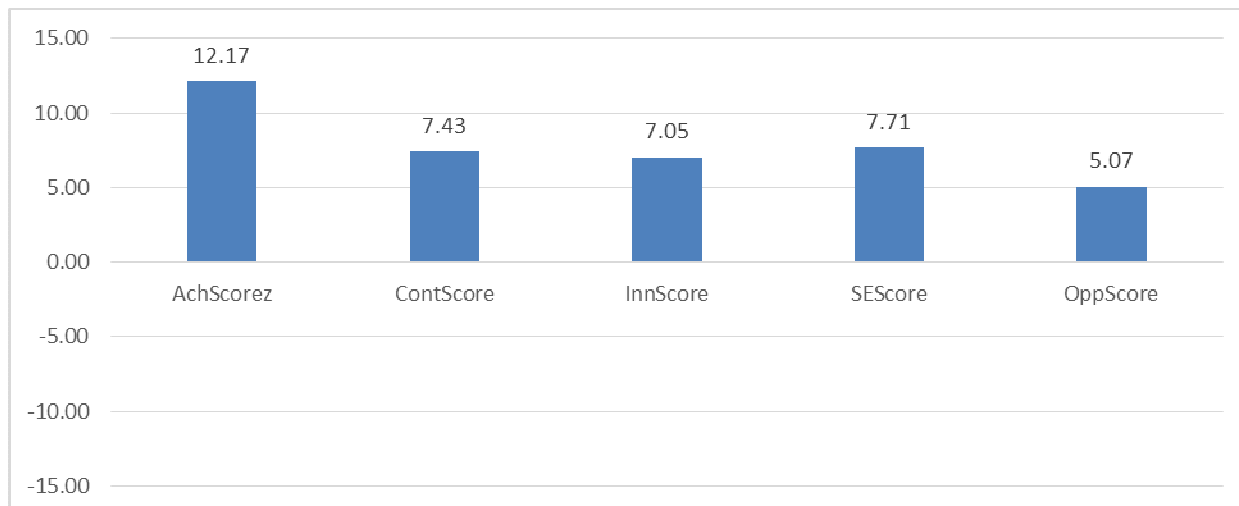


Figure 1: Entrepreneurial traits score

Disaggregating these findings further into Woreda, we found that households in Sodo outperformed all the other Woredas except on the Control trait. This is indicative of the fact that urbanization creates a potentially more hospitable climate to produce and incubate entrepreneurs than rural vicinities.

Another important finding obtained from the survey was that male headed households scored better on all of the five psychological traits. In a similar manner those who owned businesses of any sort scored better than those who did not. These results seem to suggest that being exposed to a favoring factor, in this case the masculine predisposition and owning a business, boosts ones entrepreneurial tendencies. So those who run business tend to have more of the characteristics that entrepreneurs exhibit. Likewise, male sections of the community are somehow encouraged to develop these same entrepreneurial traits than females (Brown, 2013).

Another important dimension that serves as a good indicator of an individual's, and a household's, entrepreneurial tendency is their risk taking character. Fifteen questions were posed to the household heads. Three of these questions were placebos and the remaining 12 questions presented scenarios that differed in their risk expectations and variance. An index was constructed whose scores were measured on a scale of 0 to 12 where 6 is a point of neutrality and high values indicate risk loving behavior. Figure 2 below gives the risk preference of surveyed households.

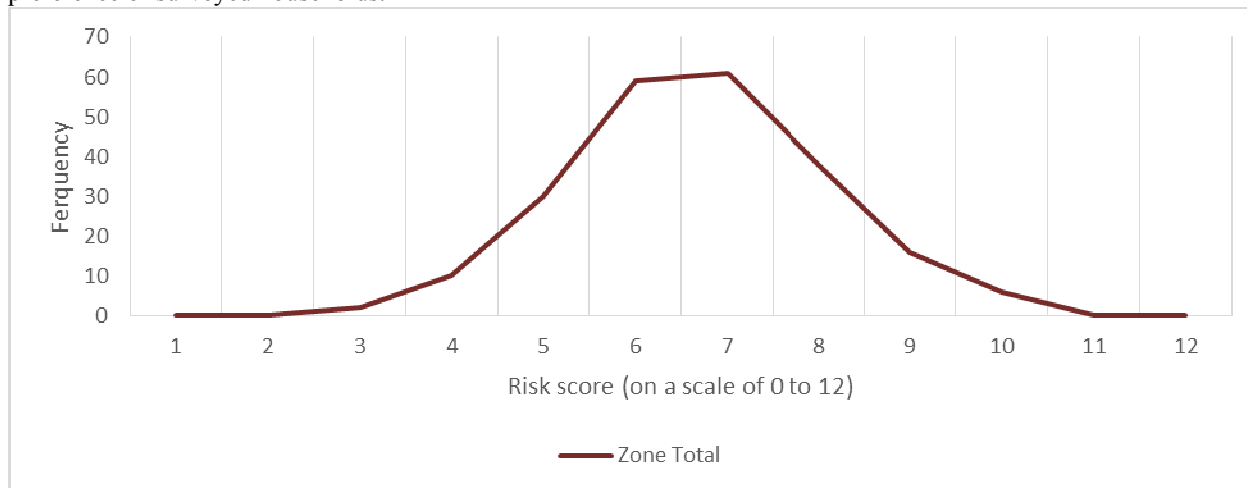


Figure 2 : Risk score frequency distribution is aggregated by Woreda

Figure 2 above reveals the risk preference structure of households the vast majority's revealed preference for risk was found around the middle (5.5 to 7.5) of the risk score scale. This indicates that the surveyed households tend to be risk neutral. And the pattern does not seem to be markedly different among Woredas, age groups, household size, sex, education or religion.

D. Social Factors

In addition to individual psychological predisposition of household heads, broader social forces are known to influence entrepreneurship. The influence of these social factors has also been explored on the tendency and practice of entrepreneurship. The results of the evaluations of surveyed households are given below.

The survey revealed that people tend to have strong ties with their families and friends and peers; they

had strong socializing extent; the extent of boundaries of interaction was very strong and so was the response to others needs. Family ties were the strongest social relations followed by friends, peers respectively. People also tend to socialize and respond to others needs quite well.

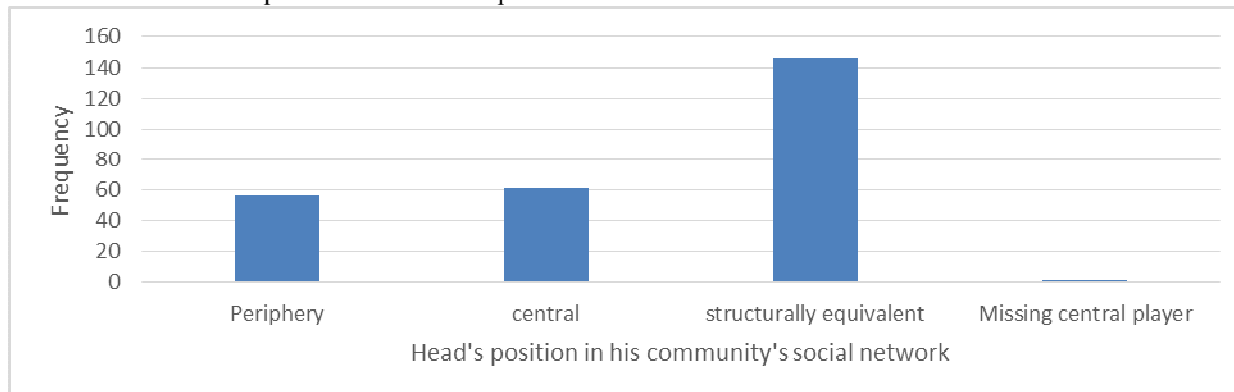


Figure 3: Head's position in her/his social network

Majority of households consider themselves as structurally equivalent (See Figure 3). A good numbers of households, however, consider themselves as central players in their communities. These groups of people who see themselves as important players in the society are indications of a good sized pool of potential entrepreneurs. Overall, the different social factors tend to indicate that there is a favorable environment that encourages entrepreneurship.

E. Markets

Markets can be considered as key drivers of production. Therefore, their availability, accessibility, their number and the demand they present for products are key in giving or stripping households of their ability to engage in entrepreneurial activities or to save.

Most available markets are the weekly markets and the second most available ones are the Gulit markets that are held locally on a daily basis.

As expected the "Gulit" (petty trading) markets were the most accessible markets followed by weekly markets. However, home markets are the closest. Cash crop and cereal markets, on the other hand, are the farthest. The more important markets such as commodity exchange are still meagerly available and their inaccessibility is more so.

Successes, Best Practices and Challenges to Entrepreneurship and Development

The results of the preliminary analysis reveal interesting findings that paint the picture of what successes, best practices and challenges are prevalent among the communities of Wolaita zone as a whole and among the different geo-demographic divides.

Prevailing practices and the challenges:

- There is room for starting new businesses as the type and variety of businesses is at low levels
- Woreda's like Damot Pulasa encourage children to participate in parents' businesses
- Boloso Sore Woreda is the least favorable of all the five Woredas included under the survey.
- Households and communities are focused on risk mitigation and not on investment
- Access to and availability of capital was the most important problem
- Business owners and males are more predisposed to entrepreneurship and saving practices
- Households seem to have significant drive for achievement but not so on innovative and opportunistic behavior
- Households tend to be risk neutral
- Most of the household heads are illiterate. This poses a challenge to instigate ideas of change and entrepreneurship (Todaro & Smith, 2012)
- Parents do not encourage their children to learn the ways of doing business. Only 19.9% of those parents who owned a business involved their children in their businesses.
- Nearly 90 percent of households have land entitlement. Land, therefore, makes for an important part of family wealth.
- Households knowledge of financial facilities and their practices of the same is still at a very low level
- Important markets such as cash crop and cereal markets and commodity exchange markets are still meagerly available and accessible

Recommendations

The following key interventions are forwarded to promote entrepreneurship and saving in Wolaita Zone based on the findings of the survey:

- Education (basic and special): education and training on business making, financial activities, savings, entrepreneurship, etc will be indispensable
- Concerned government and non-government organizations should work to facilitate for the transition of *Idirs* and *Iqubs* to investment oriented institutions
- Encourage and promote information exchange means within local communities and beyond to avail a close-to-market price to those who engage in businesses
- Encourage intensive commercial farming focused on crop specialization and facilitate the move away from subsistence mixed farming practices
- Encourage shift to businesses that do not rely on land
- promote and establish capital/credit access facilities tailored to the context of the communities and households in the zone
- Encourage business owners to expand and diversify their businesses
- Conduct a more comprehensive survey regularly to better understand the complex behavior of individuals, households and communities and tailor intervention projects more appropriately to their needs and contexts

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