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Assessment of Saving Culture among Households in Ethiopia

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Abstract
The saving rate of Ethiopia to GDP is 9.5% which is, the worst saving rate in the world as compared to China, Bangladesh and South Africa which have a better saving rate in the world. Ethiopia is characterized by poor saving cultures which result in very small domestic savings available for investment. The government knowing this fact has planned in the 5 year Growth & Transformation Plan of the country (2003 -2007 E.C) to increase saving rate from 9.5% to 20% of the GDP. To achieve the plan, there is therefore a need for investigating the root cause of poor saving habit. In order to achieve the objectives, a survey study using qualitative and quantitative approaches was conducted. Herein, 544 households were selected from three major cities namely Addis Ababa, Hawassa, and Mekelle on basis of non proportional quota sampling technique. The questionnaire accomplished by household was the research instruments used for the data-gathering. The study employed chi-square test and other descriptive statistics to analyse the data and results of the survey was processed using SPSS. The result of the study indicates that saving culture of the society is poor despite the performance improvement of saving rate. The cause of the poor saving identified in this study includes lack of appropriate saving products, lack of incentive to save, low income level, high level of debt, low interest rate, high inflation and others. Based on the investigation the study suggest that government and other sectors must work in creating awareness of saving in the society, stabilization of inflation, implementing forced saving, modernization and accessible the saving institution, stabilization of the income level of the society, reviewing the saving interest rate and others.
Key word: saving culture, income, inflation, interest rate, saving product.

1. Introduction

The business dictionary (www.businessdictionary.com) defines savings as the portion of disposable income not spent on the consumption of consumer goods, but accumulated or invested – directly in capital equipment, by paying off a home mortgage or indirectly through the purchase of securities. The other form of saving is through putting money aside by saving it in a bank or financial services provider, investing in a pension plan or in other forms of income – generating investments. Elbadawi & Mwega (2000) state that, empirical studies conducted over time have indicated that domestic saving and investment are highly correlated. It is recognized that saving as an important factor in economic development as it enables the conversion of resources into capital. Strong saving performance is crucial for macroeconomic balance and for the maintenance of financial (inflation) and price stability (exchange rate). Savings is beneficial for the economy as a whole and thus also for the citizens of the country. Sekgobela (2004) states adequate savings are important for capital formation and have a direct impact on economic growth, and as such are vital for achieving macroeconomic stability.

There is a lack of adequate domestic savings in most developing countries and as a result, more reliance is placed on foreign savings in the form of capital flows into the country. The issue of low levels of domestic savings is a major problem in developing states due to high levels of unemployment, low wages, the engagement of a large proportion of the population in the informal sector, and poor performance of the economy (Reddy, Naidu & Vosikdata, n.d.). Prinsloo (2000) states that, the low level of domestic saving limits the country's rate of investment; restrain the rate of economic growth and make the country more vulnerable to international capital shifts.

The continent Africa has been identified as having an unsatisfactory growth in saving rates, which slows down capital accumulation. Africa's low saving rate influences the ability of banks to lend to small enterprises due to the limited availability of capital. Sub Saharan countries are also facing low saving rate problem which is below 17%, so Ethiopia is not unique to the region.

According to National Bank of Ethiopia survey study, Ethiopian's saving culture is still regarded as poor despite the performance improvement from 6% in 1998 to 9.5% in 2003 E.C. Currently in Ethiopia from the total population only six millions household saves money in financial institutions on average 875 Birr per year. Saving rate of Ethiopia to GDP is 9.5% which is, the worst saving rate in the world as compared to China, Bangladesh & South Africa which have a better saving rate in the world.

Hence, Ethiopia is characterized by poor saving cultures which result in very small domestic savings available for investment. This influences the ability of financial institutions to lend for small enterprises due to the limited availability of capital. In the coming ten years industry sector is expected to lead the economy which was agriculture previously. In order to realize this industry sector need to be promoted. The sector to be promoted it needs among other thing adequate capital, readily available for investment in the form of domestic saving. Ethiopia knowing this fact has planned to promote saving habit among citizens so as to mobilize adequate saving. In the five year Growth &Transformation Plan of the country (2003 -2007), it is planned to increase saving rate from 9.5% to 20% of the GDP. To achieve the government Growth & Transformation Plan, there is therefore, a need for research to investigate the root cause of the problem and how Ethiopia can promote a culture of households saving to ensure success in its economic growth.

2. Literature Review

Net Savings may be more appropriate than gross savings when concern is growth rates and development, since net saving indicates domestic resources available for additions to the capital accumulation (Collins, 1991). The role of savings in the development process is well documented in the literature of economic growth. Low level of domestic savings is said to be one of the reasons for slow and stagnant economic growth in the developing countries (Agrawal et al., 2010 and Bordoloi and John, 2011). Thus, the revival of growth in emerging economies can be expected to require more investable resources for sustainable growth. Though international capital flows (foreign savings) are encouraged for the additional resources, the primary contribution for investment in developing countries like Ethiopia comes from their own savings.

There are some recent studies (see Loayza et al., 2000; Elbadawi and Mwega, 2000; Aryeetey and Udry, 2000; Sinha, 1998; Schmidt-Hebbel et al., 1996; and Collins, 1991) on the determinants of savings behavior in pooled time series cross-section data on a large number of countries. However, saving behavior shows considerable variation across countries depending on their socio-economic structure. Therefore, it is important to study the determinants of savings and the direction of causality between household savings and growth as these have important implications for development policy. Thus, the micro-level determinants of household savings are summarized in the following literature.

2.1. Household age and saving performance

The cornerstone of the life-cycle hypothesis is age-related consumer heterogeneity and the prediction that saving follows a hump-shaped pattern (that is, high at middle age and low at young and old ages). Research has shown that this hypothesis is not problem-free when it comes to interpreting actual saving behavior. Life-cycle saving is not sufficient to account for the high level of aggregate wealth in industrial economies (Kotlikoff and Summers, 1981). Elderly people save or at least do not dissave as much as predicted by the life-cycle hypothesis (Deaton and Paxson, 1994 and Poterba, 1995), and consumers appear to value bequests (Menchik and David, 1983). Some research studies such as Bovenberg and Evant (1990) shows that the higher the old aged population in the nation the lower is the saving rate in the economy. This study is inconsistent with the study of Foley and Pyle (2005) which concluded that the young and elder population saves more than the middle aged population but another study such as Attanasion (1997) shows individual’s age is expected to be negatively correlated with the saving which is the older people saves less and the younger people save more.

2.2. Household gender and saving performance

There are some empirical studies in Netherlands by kalwij (2003), Canada by Gagnon et al (2006) and Uganda by Kiiza and Pederson (2002) which shows that female households had better saving behavior than males because of the life developed style by the community and they are expected to cover the principal household consumption and costs in any social interaction where as in the other empirical study in Philippines by Bersales & Mapa (2006) shows that male households has better saver because the female has no power to control income even their own income.

2.3. Household education level and saving performance

Following endogenous growth theory, education has been included as a proxy for human development which increases the human productivity and capabilities, thereby increasing personal income as well as savings (Zhang et al., 2003). This is the indirect positive effect of education on saving through increased income. On the contrary, Kulikov et al. (2007) found that education as a human wealth ensures employability and stability of income and, hence, it can have negative impact on saving. Education can affect saving directly through financial literacy. Higher financial literacy also will result in higher saving (Browning & Lusardi, 1996). Financial literacy enable people to know the risk and return characteristics of different financial products and it also enable them to understand the complex procedures used in accessing financial products.

2.4. Household work status and saving performance

The longer life expectancy can change life cycle behavior which leads to the longer working life and possible higher saving for retirement (Sinha, 1998 and Mosk, 2010). Some empirical studies such as Sinha (1998), Muradoglu and Taskin (1996) shows that self employed household has consistent saving because they have fear of work uncertainty in the future whereas other studies such as Mosk (2010) show that the employed household has consistent saving because of their constant income. Therefore, household work statuses are directly affect household saving in terms of income certainty.

2.5. Household housing status and saving performance
In countries like Singapore, Malaysia and India in which their saving rate is high, they use some compulsory saving schemes such as social security schemes, social security insurance programmes, and Construction and sales of apartment programmes (Chandavark, 1993; Faruqee & Husain, 1998; and Agrawal et al., 2002). There are some empirical studies such as Chandavarkar (1993), which shows home ownerships are encouraging the household to save and in some countries such as Singapore, the government is enforced compulsory saving schemes programmes as the construction and sale of apartments which enjoy its positive effect on the household saving.

2.6. Household income level and saving performance
Keynes (1936) developed the absolute income hypothesis. The theory posits positive relationship between absolute income and saving. Such proposition is supported by much empirical evidence. This finding is consistent with the view that saving rise after income exceeds subsistence consumption. This finding challenges the recent revolution of microfinance institutions to mobilize micro-saving from the poor. The implication of this finding is for Financial Institutions to target the middle and high income groups for saving mobilization and reduce the pressure to mobilize micro saving from the poor.
Modigliani & Brumberg (1954) developed the life cycle hypothesis. The theory assumes no bequest motive and the individual aim at zero saving during the whole life; saving in one period of life will be matched with dissaving in another. With the assumption of rising income, individuals should borrow when young, save for retirement when middle aged and dissave when retired (Deaton, 1992). With the life cycle hypothesis, age of an individual has a role in consumption and saving. The life cycle hypothesis is supported by much empirical evidence. Thus financial institutions that target households for saving should focus on middle age and working groups. Freidman (1957) developed the permanent income changes. The theory states that permanent income changes (shocks) are consumed and temporary income changes are saved. However, the empirical evidence is contradictory with some studies support the permanent income changes and others reject it.

2.7. Household marital status and saving performance
The household marital status has been as a proxy for saving performance because family value is important factor of savings. There are some empirical studies such as Collins (1991) and Sinha (1998), which shows the family value plays an important role in the saving behavior of household and economic development. In their study, marriage is important for saving performance since marriage is morally and socially responsible for collective interest and it has important factor for financial planning. The married households save more than singles due to their multiple source of income (the income of the partners) and economies of scale with respect basic expenditure. In the study of Mosk (2010) shows that widowed household save more than married and unmarried household because they face unanticipated and extra risk of life such as rearing children alone. Therefore, marital status was one factor of household saving performance.

2.8. Household number of dependence and saving performance
The household's number of dependents has been as a proxy for saving performance of the household's owner's. The study of Muradoglu and Taskin (1996) shows that the number of dependents has a significant factor for saving performance. The other study such as the Sinha (1998) and Mosk (2010) shows that the household saving rates are higher when the dependency ratios are low and economic growth is rapid. The study of Orebet (2006) which is consistent with the above study shows that the impact of children on the household saving is on average negative and the impact is regressive. For example the one child policy of China has the impact on the saving performance. According to Kraay (2000), in the late 1970s the China government adopted a number of reforms concerning the youth dependency trend and their introduction of China's one child policy has contributed dramatically to the decline of the population number under the age of 14 as a result households have save more in the recent year.

3. Material and Methods

3.1. The Study Design
This study was conducted in order to investigate the root cause of poor household saving culture in Ethiopia. To be able to gather the necessary data to answer this question, the study was undertaking the descriptive type of research. As widely accepted, the descriptive method of research is a fact-finding study that involves adequate and accurate interpretation of findings. The study opted to use descriptive type of research considering the desire to acquire first hand data from the respondents so as to formulate rational and sound conclusions and recommendations for the study.

3.2. Method of Data Collection
To collect the necessary information, the study used both the primary and the secondary source of data. The primary data was derived from the answers that respondents are given in the self-administered questionnaire. The study was design both close ended and open ended questions to allow deep investigation of household

saving culture in Ethiopia. The secondary data on the other hand, was derived from the findings stated in published and unpublished documents and literatures related to the research problem. These were based from the recent literatures such as; articles, journals, magazines, books, and periodicals related to household saving.

3.3. Sample and Data Analysis

The study had respondents from households who earn either worker compensation or self employment income. The study to investigate household saving culture considers major cities of two regional state and one city administration; namely Addis Ababa, Mekelle, and Hawassa, and this study takes sample size of 544. Non proportional quota sampling technique was used to allocate sample respondents and convenient sampling to select the sample. Categories are created based on major cities of two regional state and one city administration. The result of study was analysed by employing descriptive statistics mainly Chi square. The data collected was processed using SPSS (version16.0).

4. Result and Discussion

Savings means withholding something valuable for future use instead of consuming it immediately. This simple phrase describes two key elements of any saving activity which is discipline and sacrifice and planning for future. With respective to this the saving culture in Ethiopia can be described as follows. 64.1% of the respondents from the sampling respondents save their money whereas 35.9% of them do not save their money. This shows that majority of the households in Ethiopia save their money. However, only 36.8% of the respondents save their money in saving accounts; the remaining prefer purchasing of physical assets. The worst of all with respect to household saving habit in Ethiopia is they have very low habit of saving regularly. The study indicates that out of the total population incorporated in this study only 7% have regular saving the remaining save irregularly, save in physical assets or never save at all. Two possible factors are identified in this study for low saving habit of households in Ethiopia: internal factors (characteristics of households) and External factors. The internal factors of saving habit that emanate from characteristics of households are identified using chi- square test.

The Pearson Chi-Square value of household age is greater than the table value that is 1.402 > 0.711; this shows that age is a significant factor for the saving behavior of households. This implies that when households' age increased, their saving will decreased. This may be due to the fact that young aged households work more than the old aged households. Hence, they work more they will get more money and save more.

There are various studies which shows that the age of households are affecting the saving behaviors such study by Bovenberg and Evant (1990) shows that the higher the old aged population in the nation, the lower is the saving rate in the economy. Similarly a study by Foley and Pyle (2005) concludes that the young and elder population saves more than the middle aged population. Another study by Attanasion (1997) individual's age is expected to be negatively correlated with saving that is older people saves less and the younger saves more.

The Pearson Chi-Square value of household gender is greater than the table value that is 1.429 > 0.00393; this shows that gender is a significant factor for the saving behavior of households. The behavior and terms of saving of individuals' differs from one sex to another. The study revealed that female households had better saving behavior than males. This finding is consistent with empirical studies conducted in Netherlands by Kalwij (2003), Canada by Gagnon et al. (2006) and Uganda by Kiiza and Pederson (2002) that is women are saving more than men.

The possible reason for the observed less inclination to save by male households are: male households were highly vulnerable to un expected income expense because of the already developed life style by the community, males are expected to cover the principal household consumption and outside the family affairs in any social interaction particularly in financial sphere to carried on moral obligation, and males are expected to cover mutual costs. Besides, the personality of male's households is open to extravagancy that is males maximize consumption simply because of their financial capacity. There is one remarkable proverb in our community <never ask males income> this proverb implies that males are fully authorized to do whatever they need on their income. However, females are reserved from such extravagancy and they are financially well planned than males. Since saving is primarily a function of income the situation leads into low level of saving.

The Pearson Chi-Square value of household education level is greater than table value that is 5.679 > 0.1145; this shows that level of education is a significant factor for the saving behavior of households. The study revealed that as the academic level of households increase their saving behavior shows improvement. The study found a clear difference in saving behavior of households' that attains different educational level specifically. With regard to frequency of saving, majority of households with low class of educational level commit inconsistent and less frequent saving on the contrary majority of households who are able to access and complete secondary and tertiary educational practices regular saving. For example households whose educational level is first degree and above were relatively commit regular saving practice than households with diploma and certificate class completed. The results of the findings were consistent with the prior findings that remarked higher financial literacy is associated with higher saving (Brownig and Lusards, 1996).

The Pearson Chi-Square value of household work status is greater than table value that is 5.478 > 0.103; this shows that work status is a significant factor for the saving behavior of households. The study revealed that self-employed households save more than employed and retired households. This finding is consistent with the study of Sinha (1998) and Muradoglu and Taskin (1996). Because of continuous flow and more uncertain nature of their income, self-employed households have a knee interest for saving. Conversely, whatever the amount of salary and wage employees were relatively certain about the flow of their income, therefore they are less eager for saving.
The Pearson Chi-Square value of household housing status is greater than the table value that is 5.806 > 0.00393. This shows that housing status is a significant factor for the saving behavior of households. The study revealed that households who have not their own home saves more than house owners. This may be due to the fact that to have own home whether by purchasing or building should have enough money and to get the desired money saving as means. This finding is consistent with the study of Chandavarkar (1993).
The Pearson Chi-Square value of household income level is greater than the table value that is 14.522 > 0.1145; this shows that income level is a significant factor for the saving behavior of households. The study revealed that when the income level of households increased the saving rate will also increase by some present. This is due to the fact that if we have excess money after fulfilling our expenditures the last option will be saving that money. Similarly, Modngliani (1995) he noted that for poor and developing countries the saving ratio tends to raise with income, while in developed countries there is no significant, systematic relationship between income and saving.
The Pearson Chi-Square value of household marital status is greater than the table value that is 7.003 > 0.352. This shows that marital status is a significant factor for the saving behavior of households. The study reveals that the saving behavior of widowed and married households is better than unmarried ones. Majority of unmarried households would commit unplanned expenditure mainly in favors of their own interest more over unmarried household financial planning scope is narrow and designed in self-oriented way because of these reasons their saving behavior is weak. But married households are morally and socially responsible for collective interest especially in financial sphere. Married households' financial plan is also somewhat broader in scope than single households. Because of this reason the married household saving behavior is better than unmarried ones but less than widowed households. This may be due to the fact that widowed households would face unanticipated and exposed to extra risk of life. Most of the time, widowed households forced to grow children lonely. Thus to minimize the pressure of this extra risk they inclined to save more than the married and unmarried household.
There are various studies which shows that the marital status of households are affecting the saving behaviors such study by Collins (1991) and Sinha (1998) shows that married households save more than singles due to their multiple source of income and economies of scale with respect to basic expenditure. Another study by Mosk (2010) shows that widowed household save more than married and unmarried household because of extra risk of life such as rearing children alone.
The Pearson Chi-Square value of household's number of dependents is greater than the table value that is 3.572 > 1.635. This shows that number of dependencies is a significant factor for the saving behavior of households. The study reveals that when the number of depends increased, the saving behavior of households will increased. For example households whose dependent family is more than five saves more than households whose dependent family is less than five. This may be due to level of future responsibility that is more dependent family households have more responsibility for future wellbeing of their children than less dependent family households. The result is similar with past studies conducted by Orbeta (2006) shows that the impact of children on household saving is on average negative and the impact is regressive.
The saving habit of households is also affected by economic and social factors. In this study respondents were asked to rank top factor that affect saving behavior from long list of economic and social factors such as attitude of the society towards saving, lack of appropriate saving product, lack of incentives to save, low interest rate, low income of the society, and inflation rate. From this list great majority of respondents ranked inflation as first factor that discourage saving. Next to that low attitude of saving habit of the society, low interest rate and low income of the society was ranked from second to fourth respectively.

5. Conclusion and Recommendation

The saving culture of the society is poor despite the performance improvement of saving rate from 6% in 1998 to 9.5% in 2003 E.C which is the worst saving rate in the world and even in the Sub-Saharan countries. The cause of the poor saving identified in this study includes demographic, economic and social factors.
The critical economic factors that affect saving culture includes; low interest rate of saving, lack of incentives to savers and high inflation rates prevailing in the country. The single most determinant of poor saving habit is attitude of the societies towards consumption than saving.
The demographic factors that affect saving habit includes; age which implies that when households age increase their saving will decrease; gender which revealed that female households has better saving behaviors than males;

educational level which revealed that as the academic level of households increase their saving behavior shows improvement; work status which revealed that self-employed households save more than employed and retired households; housing status which revealed that households who have not their own home saves more than house owner's; income level which shows that when the income level of households increase the saving rate will also increase by some presents; marital status which shows that the saving behavior of widowed and married households is better than unmarried; number of dependences which shows that when the number of dependences increase the saving behavior of households will also increased.

Government has to take the major role in installing the saving culture through financial literacy. In addition the government stabilization of inflation, implementing forced saving, modernization and accessible the saving institution, stabilization of the income level of the society and reviewing the saving interest rate.

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