Saving Habit of Rural Households – A Case Study in Sivasagar District, Assam

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Abstract –

Saving habits is a crucial factor for determining the level of capital formation of a country. In a country like India income standard of people is very low that leads to more consumption and less saving. Besides, majority of people in India lives in rural areas having very less awareness about saving. Therefore it is very important to create saving habits for economic development. This paper is going to analyzed saving habits of these rural households. Study was conducted through primary data collected from 350 households of Sivasagar district, Assam. Descriptive statistics has been used for realization of objective.

Key words: Households, Saving, Economic development.

Introduction –

Saving is a strategic variable of economic development. From the days of classical school saving is given great importance in accumulation of capital and hence for economic development of a nation. Saving is the part of the income earned by the individuals. Saving is influenced by two determinants ability to save and willingness to save. The ability to save is largely influenced by income level of households and others factors. Research on saving behaviors considered income as a predominant factor that influences saving. Saving components can be based on an individual or on household basis which proves to be the well being. To achieve higher rate of economic growth with relative price stability, the marginal propensity to save should be raise by appropriate incentives and policies. In the developed countries, the income is generated at a higher rate which encourages people to have more savings which opines to more investment and hence leading to more capital formation. But in a country like India, the income standard is almost uncertain and leads to more consumption rather than saving. In order to mobilize saving from this sector it is important to know the saving pattern of these households. It is important to know whether they save, what are the motives of saving, whether they save in financial institutions etc should analyze first. Assam is a north eastern state of India with diverse socio-economic conditions. Socio-Economic conditions of the state are marginal. The state is characterized by low Per capita income, dependency on agriculture etc. In Assam Gross Domestic Product at factor prices is Rs. 1, 43,567 crore in 2012-2013. In Sivasagar district of Assam most of households lives in rural areas . No special considerations are given yet to the development of rural households. Illiteracy, low income, high consumption etc. reduces their saving. The present study made an attempt to identify the saving habits of rural households

Research Questions

The study sets following research question

1. Whether rural households have saving habits?
2. Whether bank and other financial institutions have been able to benefit rural households?

Objectives of the study

The research paper sets following objective

1. To identify and examined the saving habits of rural households

Methodology

The study uses both primary and secondary data. Secondary data are collected from publications of Reserve Bank of India, North East Development Financial Institution, Statistical handbook of Assam and other research publications. Primary data has been collected from 240 households of twelve villages. Samples are selected by using two stage stratified sampling. At the first stage units are villages and at second stage households. At first stage four development blocks are selected from nine development blocks. From each development blocks three gaon panchayats and from each gaon panchayats one villages are selected. At second stage households are selected from each twelve village randomly. The study uses descriptive statistics, frequency, means and percentage to describe tables.

1.5 Review of related literature

There are many empirical and theoretical studies on saving behaviors of rural households. Kelly and Williamson (1968) provided an explanatory analysis of households saving behaviors in the Jogjakarta region of Indonesia and he found that age of the head of the household is an important determinant of households saving and average and marginal saving rates rise with the rise in agricultural income.

Panikar (1992) studied the rural households saving and investment pattern in selected villages of Kerela and Tamilnadu. He found that a high portion of saving is absorbed in unproductive assets leading to vicious circle of low income and low saving.

Loayza and Shankar (2000) studied the determinants of private saving in India during 1960-95. Their results showed that private saving rates rises with the share of agriculture in GDP and the real interest rate is positively associated with private saving rates However, the positive effect of income on private saving rates found in other studies does not coincide with these studies.

Abid and Afride (2010) Analyzed the saving behavior of rural and urban areas of Muzaffarabad district, J& K. For the empirical analysis they use an econometric model to study the effect of income, family size, locality and education on saving behavior of households in the district. They found that a strong relationship exits between saving and these variables. Result showed that a positive relationship is there between income and locality with saving. On the other hand family size and educational level have a negative relation with saving.

Bakshi et.al (2012) demonstrated that household incomes surveys showing no reliable large-scale sources of data on household incomes. A methodological framework has been developed for the estimation of rural household incomes of India. Income distribution based on findings from eight village surveys is conducted using the approach outlined. The two main findings from the study were that, (a) household incomes were underreported in rural areas, and (b) household incomes were lower than the aggregate of consumption and savings.

Shitu (2012), examined income and saving pattern of 300 rural households lives in South-western Nigeria. Descriptive statistics and probity regression model was used to determine factors that influences saving. Results show that households saving is positively related with household income. Besides income others factors such as years of formal educations, non farming households, years of working experiences have positive influences on saving Besides it, gender, age, marital status, farming households have negative impact on saving.

Analysis and findings

Saving habits is an important factor that determines the willingness to save. A Household saving in financial institutions determines channelization of saving for investments in other sectors of an economy. So far as saving habit is concerned it is different among different households. Households save with various motivations. Some saves for buy assets in future, some save for business purposes and some for care for family. Households prefer different financial institutions according to their needs and incentives provide by those financial institutions. In this section an attempt is made to analyze the saving habits of sample households, saving institutions, saving deposits, saving frequencies, saving incentives.

Table – 3

Motivations for and frequency of saving

Motivations of saving	Percentage	Saving frequency	Percentage
Care for family	35	Weekly	8
Buy assets in future	11	Monthly	36
Business purpose	16	Quarterly	25
Emergency purpose	38	Yearly	31
Total	**100**	**Total**	**100**

Source: Survey data

The above table shows motivation and frequency of saving. According to the data 38 percent of rural households save for emergency purpose and 35 percent of households save for care for their family. On the other hand 16 percent of households save for business purpose and 11 percent for buy assets in future. So far as saving frequency is concerned 36 percent of households heads save monthly, 31 percent yearly, 25 quarterly and 8 percent save weekly.

Table – 4

Saving Institution

Institution	Yes (percentage)	No (percentage)	Total
Bank	73	27	100
Post office	57	43	100
Life insurance	42	58	100
Micro finance	56	44	100
Self help groups	51	49	100
Others	08	92	100

Source: Survey data.

Saving institution like bank, post office, chit funds, life insurance etc. plays a very important role in rural areas as major institution of saving. The above table shows the percentage of households saves in saving institution. The above table shows that about 73 percent saves in banks and 27 percent do not save in bank. On the other hand 57 percent save in post office and 43 percent do not save in post office. Besides 56 percent save in micro finance and 44 percent do not save in microfinance. 51 percent save in self help groups and 49 percent do not save in Self help groups. Only 8 percent save in others. Here others includes chit funds, bonds etc. Thus it is clear that most of the households save in bank. That signifies that there exists bank penetration in rural areas of India.

Saving is influenced by different incentives. The decision to save is always a result of some incentive. The extent and intensity of this motivation are usually a result of varying personal and economic conditions. A saving incentive can be an efficient bridge between saving potential and saving willingness. In the study area respondents mainly choose security and high return as incentive to save.

Table – 5

Incentive to save

Incentive to save	Frequency	Percentage
High return	68	28
Security	105	44
Both	67	28

Source: Survey data

The table shows that 28 percent of households save with the incentive of making high return, 44 percent of households save with security purpose and 28 percent of households save for both security and high return.

Table – 6

Types of deposits held by households

Deposits	Yes (percentage)	No(percentage)	Total
Saving deposit	89	11	100
Fixed Deposit	42	58	100
Recurring deposit	54	46	100
National saving certificates	6	94	100
Provident fund	11	89	100

Source: Survey data

So far as deposits are concerned table shows that about 89 percent of households have saving bank or post-office deposit, while, 11 percent have no saving deposits.54 percent of households have recurring deposits while 46 percent have no recurring deposit. About 42 percent of households have fixed deposits while 6 percent have National Saving Certificates and 11percent have provident funds.

Recommendations and Conclusion

Study on saving pattern of rural households and its determinants is very important and necessary to understand the actual growth of an economy The study shows that rural households have the potential and habits of saving. But there are some socio- economic constraints that hamper the habits and incentives of saving. Although there is different financial institution yet the amount is less.. It is therefore required government efforts and people participations towards researcher to bring out the real socio-economic conditions of the households. Only then can government able to uplift the economy of a country when actual picture will in front of them. Otherwise rural areas will remain backward with low infrastructure, low credit-deposits and low capital. Therefore some measures are recommended below to increase propensity to save and investment in rural areas.

1. Findings of the study shows that business is the major occupations of households, therefore creation of business environment in rural areas is required. Government should provide subsidized loans to business holders and self –employed persons. Besides infrastructure facilities should develop in rural areas.

2. In rural areas women folk should empowered. In the study it was found that there are many women subscribers to chit funds and small saving schemes offered by the post offices.

3. The study showed that saving potentialities are there in Assam. Therefore self-Help groups should establish for mobilizations of saving. Micro saving enterprises like Self Help Groups can help to mobiles saving in the state.

4. Instruments of capital markets like mutual funds, debentures, bonds were not accepted by rural households. Therefore policy should take to spread these institutions with other financial institutions in rural areas.

5. In rural areas chit funds, post offices small saving were well accepted among households. Rural households were interested in those instruments for flexibility in operations rather than high return and security. Therefore other financial institutions should give emphasis on it and should make saving formalities flexible rather than rigid.

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