Saving Behaviour in Ghana: A Study of Rural Households in the Ho Municipality of the Volta Region

Volume 1, Issue 2, pp. 54-61; April 2012
Online Journal of Social Sciences Research
Full Length Research

Available Online at http://www.onlineresearchjournals.org/JSS

Saving Behaviour in Ghana: A Study of Rural Households in the Ho Municipality of the Volta Region

Manasseh Edison Komla Amu[1]* and Ephraim Kumah Amu[2]

[1]*Department of VOTEC, Faculty of Education, University of Cape Coast, Ghana. E-mail: edisonamu@yahoo.com
[2]Office of Parliament, State House Accra, Ghana. E-mail: kumagh@yahoo.com

Downloaded 28 February, 2012 **Accepted 7 April, 2012**

The main objective of the study was to explore the savings behaviour of rural household in the Ho Municipality. The population used for the study was rural families in the Ho Municipality of the Volta Region of Ghana. The sample size of 160 households was drawn from the population using the multi-stage cluster sampling technique. Descriptive statistics were used to analyse the data collected. The findings showed that in general, the family heads' knowledge about savings is low and that the families save more in the informal forms than in the formal forms. The findings also revealed that personal, societal and organisational constraints inhibit the respondent families' ability to save. The studied families also do not have any particular pattern for saving as they save as and when they have an excess income. Based on these findings, it was recommended that an outreach programme be instituted to help educate the rural families on the use of their income as well as on the savings avenues that are available for them. The findings have serious implication for eradicating rural poverty in the study area and in Ghana as a whole.

Keywords: Saving, rural household, family, Ho municipality, Volta region, Ghana.

INTRODUCTION

Most individuals and families hold the view that the primary aim of earning money is to be able to spend it to meet their immediate needs and wants and that the future will cater for itself. For such persons, savings and investment is not an option. Many people also hold the view that, saving and investment is a moral habit and that persons will need to save since the future is not known to them [1]. Many individuals and families in both developed and developing countries believe that savings and investment serve as a form of financial security to them [1].

In Ghana and most developing parts of the world, families' find it difficult or almost impossible to save due to low levels of incomes [2]. The low incomes of these Ghanaian families are due primarily to the low levels of economic growth coupled with other factors such as illiteracy and political instability. The current economic conditions in Africa have adversely affected most African families and therefore Ghanaian families both rural and urban with the rural families being the worst affected resulting in high levels of poverty.

Savings has existed as long as the human race has existed. People had always put aside whatever that they had for use in times of scarcity. And this is the basic idea of savings. This continued until precious metals such as gold and silver came to be used as money. Individuals who had these precious metals and needed a safe place to keep them sent them to goldsmiths to store for them for safe keeping [3].

Saving is a common word use by individuals on daily basis. It simply means putting something aside for future use or what will be considered as deferred expenditure. Several definitions of savings exist as there are about people who write on the topic. According to Miller and VanHoose (2001) savings is a foregone consumption [4]. They explained forgone consumption as when one does not spend all the income that is earned within a given period. To Miller and VanHoose (2001), once part of what is earned today is left for future use, there is savings [4]. On his part, Ahmed (2002) put it in a simple language as "putting money aside for future use". He argues that savings is the result of careful management of income and expenditure, so that there is something left to be put aside for future use [5].

Claton and Brown (1983) in defining savings, look at the concept purely from the economists' point of view. They explained savings as the absence of spending [6]. Other writers on the topic such as Smith (1991), attempts to explain the concept of savings mathematically as: Income - Consumption = Savings [7]. Railly (1992) agrees with Smith (1991) and further argued that, to save money families can put the money under their bed or burry it in the backyard until some future 'time when consumptions exceeds current income' [8].

For the study the following definitional concepts were used as defined below: Saving behaviour: This has to do with the forms of saving, frequency of saving and savings outlets a family engages in and factors influencing these decisions; Family/household: Family was used synonymously with household to mean a group of related persons either through blood, marriage and or adoption.

Generally, there are two main outlets where families can deposit any savings that they intend to do. These are formal savings outlets and informal savings outlets [2,5,9].

There are several reasons why families will want to put aside part of what is earned today for use in the future. Olson and DeFrain (2000) argues that the most important reason why families save is to 'prepare for the possibility of financial crisis, accidents, illness, pregnancy, job loss, divorce and many other crisis, financial gains [1]. The above argument was also advanced by Ahmed (2002) and Landburg and Feistone (1976) [5,10]. In addition to these, Smith (1991) adds the accumulation of funds for planned major expenditure and to defray expensive costs as the reasons why families save money [7]. Another reason why families may want to save money is to enable them to access credit facilities from the institutions that they save with [10].

The factors that influence savings behaviour are many, complex and often interrelated. However, the several determinants widely accepted among economists (which apply to personal finance as well) can be classified into policy and non-policy factors [11]. The main policy variables that have been thought to influence saving behaviour are fiscal policy and government saving, social security arrangements, financial market development, and macroeconomic stability. The non-policy factors most likely to affect saving are growth, demographics, and external factors. While the separation between policy and non-policy factors is open to debate, its purpose is to convey the idea that policymakers have a direct influence on only some of the variables that affect saving, whiles individuals and families themselves also have some amount of influence on savings. Other factors, such as growth, demographics, and external factors, including the terms of trade have been identified as exerting some influence on savings. In Ghana, savings has always been low even if compared to other African economies. Savings as a percentage of gross domestic products (GDP), in Ghana is low compared to several African countries. It averaged 37.4% in Botswana, 21.4% in Cameroon, 21.6% in Nigeria but only 6.4% in Ghana between the periods of 1980 and 2001 [12]. The apparent low savings in Ghana has been attributed to political as well as macroeconomic factors [13].

There have been some studies in Ghana to find out the impact of policy on savings behaviour of Ghanaian households. Zorklu and Barbie (2003) in their study, tried to examine the impact of financial sector reforms on private savings and found out that the financial sector reforms fail to achieve its intended purpose of enhancing savings rates in Ghana [13]. The explanation for this is that during the reform period, interest rates on savings was in real terms negative as a result of the high inflationary rates at the time of the reforms. This situation still exists where interest paid on savings account is far lower than inflation. This finding is a confirmation of an earlier one by Gockel and Akoena (2002) and Gockel and Brownbridge (1998) [14,15].

In Ghana with regards to savings with both formal and informal institutions, Quartey and Blankson (2005) found that the proportion of households who hold savings accounts is still very low and that children form over sixty percent of peoples with savings account [16]. The low savings in Ghana, as indicated by the above finding, could be due to the inadequate financial intermediaries as well as low incomes of the populace.

In a careful analysis of the Ghana Living Standards Survey III and IV, by Quartey and Blankson (2005), it was found that household investment in domestic appliances such as sewing machine, furniture and radio and a means of transport increased between 1991/92 and 1998/9. Interestingly, however, it was observed that the proportion of households who owned land, house and plot as well as those who invested in shares declined within the same period [16].

All these findings are clear indications of the fact that savings in Ghana is generally low and that most Ghanaians will prefer to save in the form of tangible asset like buying properties rather than putting the money in savings accounts where the real value of the money stands a chance to erode as a result of inflation. The study was also necessary at Ho Municipality because there have been few studies of such nature in the entire municipality. This research will provide some literature on the state of affairs relating to investment behaviour of the families at the Ho Municipality.

Basically, the study was based on the following objectives:

1. To describe the forms of savings that rural families in the Ho Municipality normally undertake as well as savings financial intermediaries that the families usually save with and the reasons influencing their choice of these financial intermediaries.
2. To investigate the level of knowledge of rural families on savings and the factors that influences the rural

families' decision to engage in the forms of savings and investment that they currently undertake.

3. To evaluate the frequency of savings and factors that influence savings by rural households or families.

METHODOLOGY

Population, Sample and Sampling Procedure

The target population of the study was defined and restricted to include all families that reside in the rural areas of the Ho Municipality. The study covered all families in rural Ho municipality regardless of occupation, educational level among other socio economic indicators.

The municipality has two different types of communities – three urban communities and communities. The total population of the entire municipality is about 200,000 people. The population of the study area (rural Ho municipality) was about 126,107 people. Using the average family size of rural Ghana as indicated by the Ghana Living Standards Survey (1988), which stands at five members per family, the total number of families in the study area was estimated to be 25,221 households. This number was arrived at by dividing the total rural population of the study area (126,107) by the average household/family size (five) [17].

Multi-staged cluster sampling method was adopted to select 160 families for the study. To ensure that the sample selected was a true representation of the total population of rural families/households in the municipality, the municipality was divided into four zones. The zones were called the Southern zone, the Northern zone, the Eastern zone and the Western zone. This was to enable the researchers achieve accuracy and greater precision.

After using stratified sampling procedure to put the study area into four main strata (North, South, East and West zones), cluster sampling or what is described by Campton and Hall (1972), as area sampling was used. Where within each stratum, a list of communities was prepared and a simple random sampling method used to select one rural community from each of the four strata to serve as the clusters which were studied [18].

The next step had to do with the selection of families/households from the four randomly selected communities to serve as the study units. In view of the lack of data on the population of the various communities to warrant the use of proportional method of selecting these families, the researchers used a disproportional method to choose 160 families from the four communities. For each community selected, the researchers used simple random technique to select forty (40) families/households for the study. All families/households were numbered by the researchers separately in each of the four communities; the researchers then used the numbers assigned to the families to prepare a table of random numbers for each community and randomly selected the forty (40) families to be studied in each community.

The use of 160 households for the study is justified in view of Nwana's (1992) suggestion that if the population of a study is a few hundreds, a 40 percent or more sample size can be representative enough; if many hundreds, 20 percent sample will do; if the population is a few thousands, a 10 percent sample is recommended and if the population is several thousand, five percent or less will do [19]. In the view of Fraenkel and Wallen (2000), for a descriptive study, a sample with a minimum number of 100 elements is essential for establishing generalisation [20].

Instrumentation

The main instrument used to collect data from the sampled families was interview schedule. Interview schedules were found to be the most appropriate and effective tool for data collection from the sampled families because most families in rural Ghana and for that matter, rural Ho municipality have low levels of education. That is to say that illiteracy is high among the population studied.

Data Collection Procedure

To ensure that data was collected as accurately and as quickly as possible, the researcher recruited field assistants to assist in the data collection process. The selection of the field assistants was based on criteria such as good educational level preferably, a minimum of Higher National Diploma (HND), fluency in both English Language and the native language of the residents (Ewe) and a prior experience in research and data collection.

These field assistants were trained for three (3) days. When the research team moved to any selected community, the team contacted the opinion leaders of the community and sought approval to conduct the study. This was followed by a comprehensive numbering of the families in that community. For any family chosen, the head of the family was the one who responded to the items in the interview guide. However, for a head of family to qualify to participate in the study, the researcher ensured that the head met certain established criteria. The standards considered was that the head must be active economically, must assume responsibility of the up keep of the household and must be of sound mind (must be psychologically fit).

If in any household the supposed head did not meet these criteria, the researcher interviewed whoever assumed these roles or responsibilities in the family; on condition that such a person is a permanent member of the selected family. In cases where the breadwinner of the selected family is a member of another nuclear family unit or household, such a household was eliminated from the study and replaced with the family next to it on the table of random numbers.

Data collection took 16 days in all, the researchers spent about four (4) days in each of the four communities and about ten (10) families were interviewed each day.

RESULTS AND DISCUSSION

Background Characteristics of Respondents Age of Head of studied Families

The ages of the respondent family heads for the study were between 24 years to over 75 years. A careful analysis of the age distribution indicates that a large number of the respondents (about 73.8%) fall within the productive ages of 55 and below. The remaining 26.2% of the heads of families that were sampled for the study are above the age of 55 years with a significant number of these (13.8%) getting very close to or are even in their retirement ages. Majority (62.5%) of the family heads, however, were within the ages of 36 years and 55 years. This is an indication that majority of family heads in the study area are in their mid years. Quite a significant number (12.5%) of the respondent household heads are at least five years above the formal retirement age of 60 years but still participate in income generating activities to sustain their families/households.

Sex of respondent family heads

Out of the 160 family heads interviewed, a large number of them representing 65% wee males, an indication that more men in the study area than females are heads of families and assume their responsibilities as family heads. A significant number representing 35% of the respondent households were headed by females. One main factor that accounted for this seemingly high number of female headed households in the area was rural – urban migration. In most of the families that were headed by females, their male counterparts migrated to the urban areas in search for greener pastures. Though most of these migrant males do contribute to the upkeep of their families' back home, the greater percentage in terms of the care of the household, in most cases, was the responsibility of the female residents.

Forms of savings undertaken by respondent families

The findings of the research revealed that the first and the second most popular forms of saving among the families in the study area are mutual help groups and Susu respectively. The mutual help groups come mostly in the form of *ku haborbor* (death mutual help group, where upon the death of a member, all members contribute towards his/her burial). The respondents consider this more of savings than insurance. The least popular form of savings among the respondent family heads is walking bank with only 3.1% of the respondent family heads saving in this form. The findings also show that the respondents save their monies in informal forms far more than in formal forms. This is a confirmation of an earlier finding by Quartey and Blankson (2005) that a large proportion of Ghanaians still use the informal forms of savings with only a few of them saving with formal financial intermediaries [16]. They specifically observed that households who hold savings accounts are still very low [16]. In the case of rural families, as in this study, the above finding could be due to the low income levels of the families coupled with the families' inability to access the services of formal financial intermediaries like banks, and also the inadequacy of formal financial intermediaries as well as low incomes of the populace.

With regards to the savings financial intermediaries that the studied families use, the findings of the study indicate that informal financial intermediaries are very popular among the respondents. Majority (61%) of the respondent family heads keep their monies home. A significant number (56) with percentage of 36.4% of the respondents also save with formal financial intermediaries like banks and credit unions. Out of the number of respondents who save with the formal financial intermediaries, 33.8% save with various banks in the area. A small but not negligible percentage (2.6) of respondents also uses other forms such as keeping the money with friends and relatives. Most of the respondents who keep their money home cited reasons such as banks not being accessible, also that their incomes are barely able to meet their basic needs that none is left after basic needs are met. This confirms the assertion of Railly (1992) that people save when their incomes exceed their current consumption desires [8]. The frequency distribution of savings financial intermediaries use by the respondents is indicated below in figure 1.

Reasons accounting for the choice of savings forms

This aspect of the research tried to find out why the respondent families engage in the type(s) of savings that they do. Analysis of the data shows that the respondents consider several factors before choosing any particular form of saving. The main consideration is how accessible their savings or money will be. Out of the 143 respondents, 78 of them constituting 58.2% consider the accessibility of their savings before deciding on the form of saving to do. A considerable number of the respondents also consider the safety and interest that will accrue on their savings before deciding on the form to save their money. As much as 34 and 18 (constituting 25.4% and 13.4%) of the respondents respectively consider the safety and rate of return on their income before choosing any form of saving (figure 2). Those who consider the interest that will accrue on their savings may be those who want to outpace inflation probably because the money will be saved for a long period of time. For these people, the primary motive might be to keep their

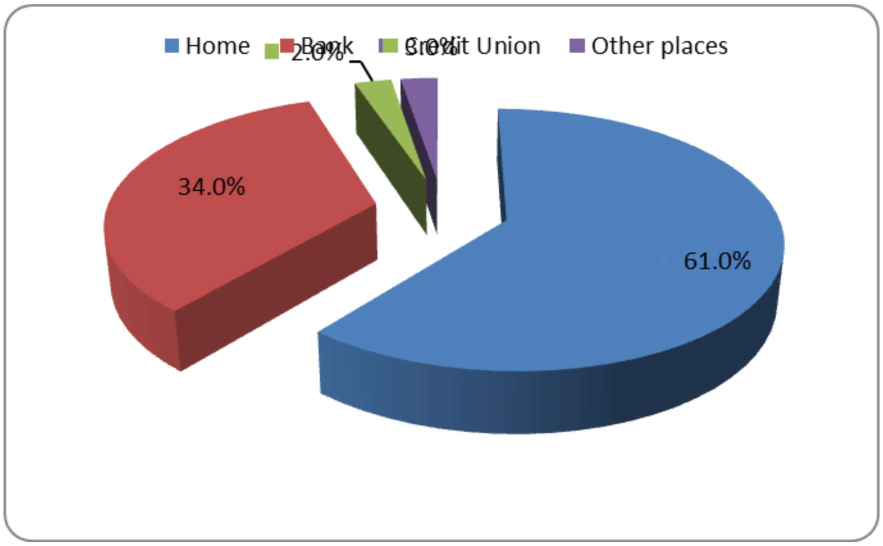

Figure 1. Frequency distribution of Savings financial intermediaries use by respondent family heads.
Source: Field Survey, 2009

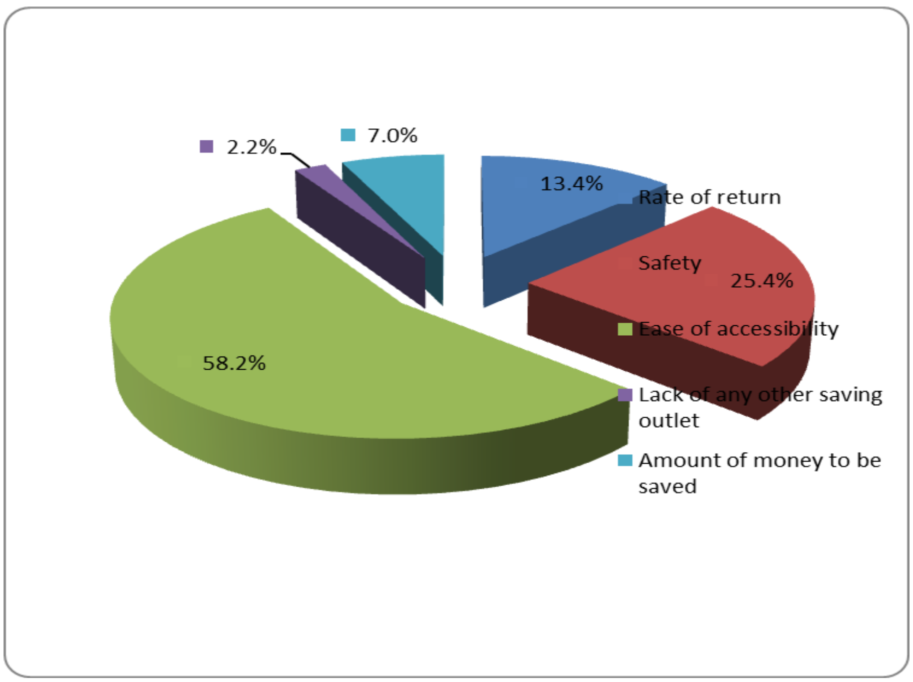

Figure 2. Reasons influencing respondents' choice of the kinds of saving they engage in.

monies safe while maintaining the value of the money

Reason for savings

The respondent family heads were to mention why they save and invest or would like to save and invest. The findings show that with regard to savings, there are several reasons why the respondent families would want to save. The respondents were asked to rank the reasons as they serve as motivation for them to save. The findings correspond with the assertion by Olson and DeFrain (2000) that the most important reason why families save is to prepare for the possibility of financial crisis, accidents, illness, pregnancy, job loss, divorce and many other crises, which all have financial consequences [1]. The respondents ranked meeting emergencies as the first and foremost reason why they save. As much as 73.8% of the respondents ranked emergencies as the number one reason why they save or will want to save. To buy expensive items and to depend on during retirement are the second reasons why the respondent families will want to save or even save. For the money to increase in value is the least reason why the respondents will want to save. It is however worth to note that some of the respondents also save for the money to increase in value. A finding that is in line with Ahmed (2002) and Landburg and Feistone (1976) when they opined that increasing ones' income substantially in amount is one of the reasons why people may want to save [5,10].

Challenges of saving

This part of the work aimed at finding out the constraints or the things that inhibit the respondents' attempt to save and invest as rural dwellers. The respondents identified several constraints to their inability to put part of what they earn aside for use in the future. Out of the 62 respondents to that item, 27 representing 43.6% of them identified inadequate income as the main constraint to their ability to save money. According to this category of respondents, their incomes are not able to meet their needs let alone some being left for savings. They conceded that though they always try and wish to save, they are unable to do so due to their limited incomes. Another 16.1% of the respondents also mentioned sickness as a hindrance to their ability to save money. According to these people, constant illness depletes any money that they may have and may want to put aside for future use.

Another hindrance to the studied family heads' ability to save also has to do with the fear that their monies will not be safe if they save it in both formal and informal forms. Some of them mentioned the fact that people may abscond with their monies or thieves may enter their homes and make away with their monies as the cause of fear of losing their savings. Pressure from the extended family as well as members of the society at large were also identified by another 16.1% of the respondent family heads as constraining their ability to save money. Factors such as high bank charges, delays and congestions at the banks, remoteness of banks were also found to hinder the rural families'/households' saving abilities. A significant number (8.1%) of the respondents also identified their own inability to manage their financial resources very well as a constraint to their savings abilities while some also named the insincerity of group members (in cases of susu and welfare) as constraints to their savings.

The things that the respondents identified as inhibiting their ability to save can be categorised into: personal causes (misuse, sickness, and fear of safety of income) with a cumulative percentage of 38.7% of all the hindrances to saving, societal hindrances (family and societal demands) which constitute 11.3% of the hindrances and economic causes with 43.6% and finally the organisational constraints (insincerity of group members, high bank charges, delays and congestions at the bank and remoteness of banks) with a cumulative percentage of 9.2%. The constraints identified by the respondents are shown in figure 3.

Frequency of saving by the respondent families

This aspect of the study was aimed at finding the frequency with which families in the study area save and invest. The data collected shows that with regards to savings, a significant number of respondents with a percentage of 35.1% save sporadically. This means that these people save as and when they have an excess income. They do not have any specific pattern or interval for which they save their income. These categories of family heads are those whose incomes are irregular such as farmers and traders. According to them, they save when there is a good harvest or when sales are good. As much as 44.7% of the respondents also save monthly or quarterly. This group is also likely to be made up mainly of those respondents who earn income on monthly basis and also of some individuals who make it a deliberate habit to save within specific intervals. It is important to note also that a significant number (20.2%) of respondents can be said to be prolific savers who save either on daily basis or on weekly basis. Most of these prolific savers however save their monies in informal forms such as keeping the money home or with trusted persons or friends in the society.

A cross tabulation between the amount of money saved and the frequency of savings provides a more vivid picture of the amount of income saved and the intervals with which they save (Table 1). The data revealed that those families who save less than ten Ghana cedis (GH¢10) are more likely to save it on either weekly or monthly basis. However, family heads who save between 10 and 39 Ghana cedis are more likely to save either monthly or occasionally. The data also showed that as the amount of income saved increases, the number of respondents who saved that amount also decreases and the frequency with which the money is saved also increases with increase in amount saved. For instance, 20 respondents save between 10 and 19 Ghana cedis as against eight respondents who save between 30 and 39 Ghana cedis and 2 respondents who save between 80 and 89 Ghana cedis. This indicates a low savings among the studied rural households and also means that families with little savings will save more frequently than families with higher savings. Thus families who save small amounts of money are likely to save it on daily and weekly basis whiles those who save large sums of money are more likely to save it on monthly or occasional basis. In general, majority of the respondents save either on monthly basis or on occasional basis. The likely cause of

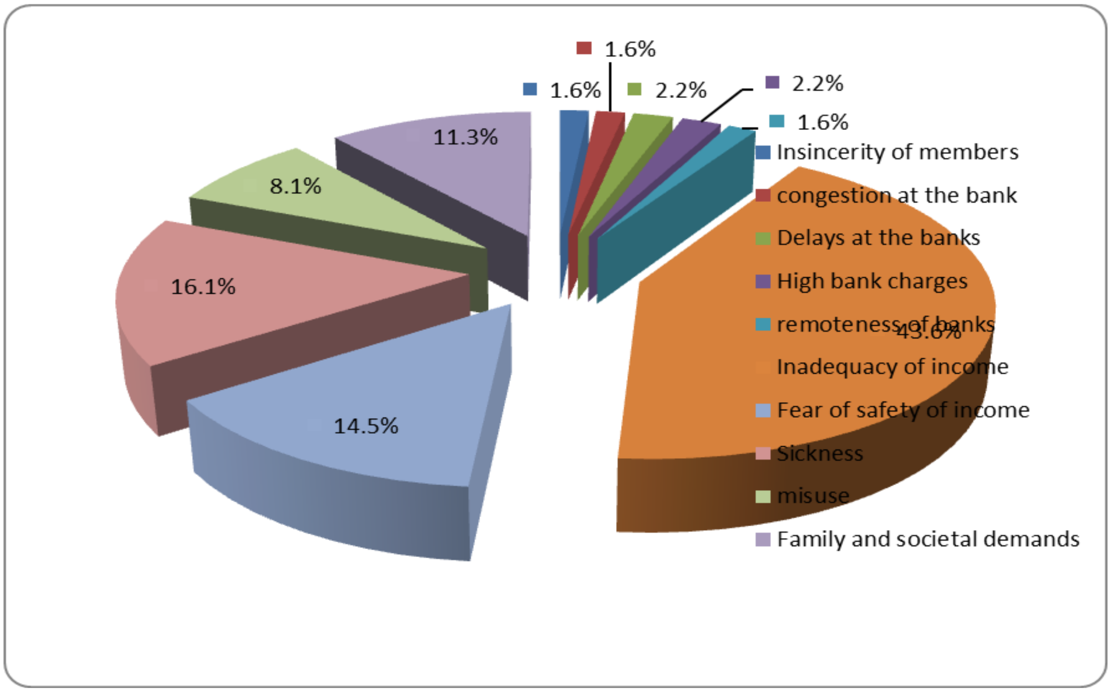

Figure 3. Constraints/challenges of savings as identified by the respondents households (n=62).
Source: Field Survey, 2009

Table 1: Cross-tabulation between amount of savings and frequency of savings of respondents.

Amount Saved (GH¢)	F	Frequency of Savings					Total
		Daily	Weekly	Monthly	Quarterly	Occasionally	
< 10	24	-	41.7	20.8	16.7	20.8	100
10-19	20	5.0	25.0	30.0	-	40.0	100
20-29	18	.-	11.1	38.8	16.6	33.3	100
30-39	8	12.5	12.5	12.5	25.0	37.5	100
40-49	3	-	-	66.7	-	33.3	100
50-59	6	16.7	-	50.0	16.7	16.7	100
60-69	2	-	-	-	50.0	50.0	100
70-79	1	-	-	100.0	-	-	100
80-89	2	-	-	50.0	50.0	-	100
> 89	13	-	15.4	30.8	15.4	38.5	100
Total	**97**	**3.1**	**20.6**	**30.9**	**14.4**	**30.9**	**100**

Source: Field Survey, 2009

this phenomenon has been explained earlier as being due to the fact that majority of the respondents are self employed whose source of income are also seasonal. Most of them are farmers who only save as and when they harvest crops from their farms. For those who are engaged in artisanal trade, they also argued that the requests come occasionally and it is logical to argue that these families can only save when they get some contract to carry out.

Conclusion

The main constraints to the rural families' inability to save are inadequacy of income, sickness and fear of safety of their income. Other constraints identified included family and societal demands, misuse of money as a result of lack of budget, and other problems inherent in the activities of financial intermediaries such as remoteness of banks, high bank charges, and delays and congestions at the banks. Frequency with which the rural households saved was diverse and is affected mainly by the amount of money that the family saved. In general, the respondents saved on monthly and daily basis and also on occasional basis. As the amount of income saved increased, the frequency of savings also increased.

The most preferred form or savings outlets of rural families in the study area were the informal savings outlets such as susu, mutual help groups and also keeping the money home. These sources were preferred by the families because they are more accessible and are comparatively easier to use than the formal forms like banks.

REFERENCES

[1] Olson DH, DeFrain J. Marriage and the family: Diversity and strengths (3rd ed.). London, Mayfield Publishing Company. 2000.

[2] Boateng IK. Basic business knowledge and consumer skills. An Unpublished Master's Thesis, University of Ghana, Ghana. 1994.

[3] Kaufman GG. Money and financial systems fundamentals. Chicago: Rand McNally Publishing Companies. 1975.

[4] Miller RL, VanHoose D. Money, banking and financial markets. Australia: South – Western Thomson Learning. 2001.

5] Ahmed MS. Management in living for senior secondary schools (2nd ed.). Ghana, Kumasi: Bayoba Graphics Limited. 2002.

[6] Clayton GE, Brown JE. Economics principles and practice. Columbus: Charles E. Merill Publishing Company. 1983.

[7] Smith AW. Understanding economics (2nd ed.). New York: Macmillan/McGraw –Hill Company Inc, 1991.

[8] Railly FK. Investment (3rd ed.). Sydney: The Dryden Press. 1992.

[9] Aryeetey E, Gockel FA. Mobilizing domestic resources for capital formation in Ghana: the role of informal financial sectors, AERC research paper 3. 1998.

[10] Landburg SE, Feistone LJ. Macroeconomics. New York: McGraw-Hill Company Inc, 1976.

[11] Akpokodje G, Lancon F, Erenstein O, Toure AA. "Savings trends and behaviour in Nigeria". West Afri. J. Monetary Econ. Integrat. 2004; 2(2): 87-102.

[12] World Bank. World development indices 2003. 2003.

[13] Ziorklui SQ, Barbee W. Financial sector reforms and savings in Sub-Saharan Africa, Savings and Development, Issue 1. 2003

[14] Gockel FA, Akoena S. Financial intermediation for the poor: credit demand by micro, small and medium enterprises in Ghana: A further assignment for financial sector policy. IFLIP Research Paper 02: No. 6. 2002

[15] Gockel FA, Brownbridge M. The impact of financial sector reforms since independence. In M., Brownbridge, F. A. Gockel, & C. Harvey, (Eds.). Banking in Africa. Oxford; James Currey. 1998.

[16] Quartey P. Finance and small and medium enterprise development in Ghana. An unpublished PhD thesis, University of Manchester. 2002.

[17] Ghana Statistical Service. Ghana living standards survey 3 and 4. Accra. 1991/92; 1998/99.

[18] Hall OA, Compton NH. Foundation of Home Economics research: A human ecology approach. Minneapolis: Burgers Publication Company. 1972.

[19] Nwana OC. Introduction to educational research for student-teachers: Designing the study. Nigeria: Heineman Educational Books (Nig.) PLC. 1992.

[20] Fraenkel JR, Wallen NE How to design and evaluate research in education (4th ed.). Homewood, IL: Irwin. 2000.