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**DIFFERENCES OF SAVINGS PRACTICES:  
WITH SPECIAL REFERENCE TO MATARA DISTRICT IN SRI LANKA**

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**Abstract**

Savings consider as a major role of capital accumulation in an economy. Further, economist believe that savings appear as two ways such domestic savings and national savings. However, in the macroeconomic analysis investment function of the savings. Therefore, studies regarding savings are most important to the economic analysis. This paper discusses about the differences of savings practices in term of rural and urban with special reference to Matara district in Sri Lanka. According to literature efforts focused on behavioral changes, particularly strengthening discipline around savings and spending may be more effective for promoting long-term financial well-being. Data collected from a sample from two divisional secretariat (DS) divisions of Hakmana and Matara in the Matara district in Sri Lanka. 150 households were randomly selected from each DS division. Employing a structural questionnaire, the data was gathered. According to this study, while 84% people are encouraged to do savings in the rural sector, 97% of them are encouraged to do that in the urban sector. Further, basic socio-economic factors, occupation is also pointed out much vary in urban sector savings. But, such a variation is not visible in the rural sector savings due to the employees occupied in agriculture base jobs. For evaluate the individual's attitude of saving products done in both the sectors, differences which should be considered for the policy making related financial market in Sri Lanka are reported. It was constructed using a SPAI (Saving product attitude index) under three major factors such as income generation, financial security and future investment. SPAI showed that the majority of the sample in the both sectors consists of satisfactory attitude (while rural is 79%, urban is 67%). Individuals who are in the urban sector are favorable to savings than those in the rural sector. It can be pointed out that the individuals who generate fixed income monthly to savings. Thus, financial institutions leading commercial banks should be introduced new participatory investment programs based on community savings.

**Keywords:** Savings, Financial institutions, Urban sector, Rural sector.

## **Introduction**

Savings are playing a major role of capital accumulation in an economy. In macroeconomic analysis, savings are elaborated to two parts such as private savings and national savings. According to saving sources, house-hold savings are categorized as formal and non-formal savings. Among these sources, commercial and specialized banks, financial institutions are popularized within the community. This paper illustrates the impacts of public opinion on savings which are deposited on commercial banks.

Commercial banks recently appear as the most favorable institutions in the financial market of an economy. Its major role is financial intermediation and to facilitate transaction aims for economic development. The evolution of commercial bank began from the Great Britain and advanced timely popularizing among the whole community. Not only globally but also in Sri Lankan economy, commercial banks are reporting a contribution of more than 51% in the financial market as the leading institution.

In financial transactions, commercial banks offer various types of products to save for people. Among those products, savings products are important as one of the famous money saving source. Consider around the Sri Lankan financial market after 1977 savings products growth than 70%. Therefore, this study is important to identify attitudes of the community which is related to saving product maintenance.

## **Literature review**

This section reviews available literature on the savings practices. An experimental study conducted in Uganda suggests a positive relationship between youth savings and higher grades, test scores, and improved attitudes on education. Despite these findings, scholars, to our knowledge, have not assessed impact of youth savings on other key education indicators (e.g. level of educational attainment and school attendance) in a developing country context (Masa, et. Al., 2010). According to Ashraf, et. al. (2006) the 81% increase in savings after one year did not crowd out savings held outside of the participating bank, but that the longer-term impact over two and a half years on bank savings dissipated to only a 33% increase, which is no longer statistically significant. Turnham (2010) suggest that educating low-income and vulnerable populations about financial concepts is important. However, efforts focused on behavioral changes, particularly strengthening discipline around savings and spending, may be more effective for promoting long-term financial well-being.

## **Methodology**

The data collected from a sample from two divisional secretariat (DS) divisions of Hakmana and Matara in the Matara district in Sri Lanka represents rural and urban sectors. 150 households were randomly selected from each DS division. Employing a structural questionnaire, the data was gathered. Likert-scale options were employed to identify the public attitudes about saving products.

The data analysis was elaborated as two parts: descriptive and statistical analysis. To measure the public attitudes of saving products on commercial banks, a composite index was estimated under the statistical analysis. In addition, comparing the difference of the monthly savings share between urban and rural sectors is done using a ANOVA test.

**Results and discussion**

Individuals saved money aiming future protection and getting investment benefits. But, some people do not engage in savings. According to this study, while 84% people are encouraged to do savings in the rural sector, 97% of them are encouraged to do that in the urban sector. However, it can be identified that some parts of the community: urban or rural, avoid from savings. There is a diversity of saving sources of individuals in the rural sector than the urban sector (see Table: 01).

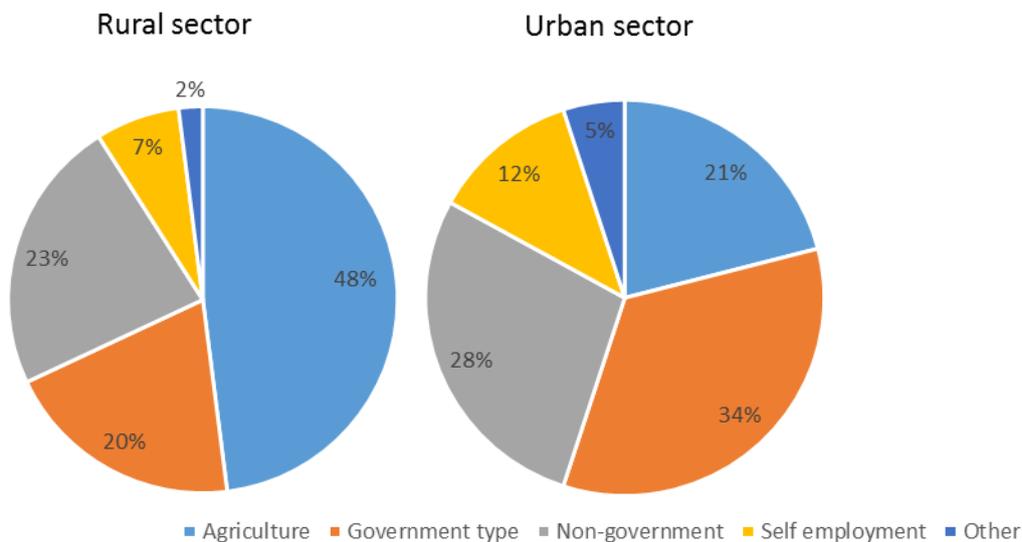
**Table 01:** Individual’s savings sources

Savings sources	Rural (%)	Urban (%)
Commercial banks	14.3	53.6
Specialized banks	16.7	13.2
Rural banks	35.3	6.2
Special Financial institutions	8.2	7.9
National Savings Bank (NSB)	15.4	10.5
Other institutions	10.1	8.6

Source: Author construction based on survey data, Jan. 2016

Among the basic socio-economic factors, occupation is also pointed out much vary in urban sector savings. But, such a variation is not visible in the rural sector savings due to the employees occupied in agriculture base job types (see Figure 01).

**Figure 01:** Savings and occupation types



Source: Author construction based on survey data, Jan. 2016

When comparing the mean difference of monthly saving share of individuals between sectors, urban individual is reported to score a high mean than a rural individual. And according to ANOVA test, mean saving difference among sectors was significant (see Table 02).

**Table 02:** Mean Differences of Monthly Saving Share

	Sector	Count	Mean	Std. deviation
Monthly saving share <sup>1</sup>	Urban	150	125.46	80.782
	Rural	150	100.58	78.234

<sup>1</sup> significant under 95% confidence level

Source: Author construction based on survey data, Jan. 2016

According to the results of this study, it has been evident that there is a high mean of monthly savings by urban sector than the rural sector. Because, individuals in the rural sector do not always generate income monthly. But urban individuals often generate their monthly income.

When evaluating the individual's attitude of saving products done in both the sectors, differences which should be considered for the policy making related financial market in Sri Lanka are reported. It was constructed using a SPAI under three major factors as follows.

$$SPAI_i = (X_1 + X_2 + X_3) / 45$$

Where,

SPAI<sub>i</sub> = Saving product attitude index of i<sup>th</sup> individual

X<sub>1</sub> = Income generation

X<sub>2</sub> = Financial security

X<sub>3</sub> = Future investment

Three categories have been identified for the public attitude of saving products based on SPAI: most satisfy (SPAI>0.71), satisfactory (0.31<SPAI<0.70), and unsatisfactory (SPAI<0.30). Descriptive statistics showed that the majority of the sample in the both sectors consists of satisfactory attitude (while rural is 79%, urban is 67%). Individuals were satisfied due to transaction convenience, easy access, and the interest is updated.

## Conclusion and Recommendations

Basically, for goodness of financial transaction of the economy savings is reliable to capital accumulation. It is macro level economic phenomenon in the measurement of economic performance. Therefore, it is significant to identify the attitudes of the community empirically. Thus, to accumulate capital flows, savings should be integrated to the financial system of the economy. So, it has a requirement to develop community for savings. Especially, public attitudes of saving products of commercial banks were moderate, financial system should be introduced to improve saving habits such as double bonus interest. Further, developing community based investment activities, can be recognized new approach in the participatory investment in the community to develop their self-employment or livelihood events.

Likewise, as a result of the community investment growth through savings, people can improve employability of their society. However, all of these improvements depend on a healthy savings culture. Here, for savings, a great leadership should be taken by the commercial bank because their share in the financial market is larger than the others. Individuals who are in the urban sector are favorable to savings than those in the rural sector. It can be pointed out that the individuals who generate fixed income monthly to savings. Thus, financial institutions leading commercial banks should be introduced new participatory investment programs based on community savings.

Further, variety expenditure management programs should be launched in the rural sector aiming to improve saving habits in the rural community. These programs should formulize agri -based investment practices.

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