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Analysis of Socioeconomic Factors Affecting Savings Habits in Jalingo Taraba State

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Abstract: *Entrepreneurship development is necessary in every nations in bid to achieve economic growth and development, but its top must constrains are lack of capital and savings. Therefore, this study examined the effect of socioeconomic factors on savings habits in Jalingo metropolis, Taraba State, Nigeria. Multi-stage sampling technique was employed. In the first stage, five (5) wards were randomly selected from the existing ten (10) wards in Jalingo metropolis. In the second stage half (50%) of the residential areas in each ward were systematically selected. While in the third stage 0.718% of the populations in each of the selected residential areas were drawn to give a total of 130 respondents. Data were collected using structured questionnaire. Descriptive statistics and regression were used in analysing the data. The results show that income, age and household size have significant effect, while educational level, spouse spending habit and credit facilities have no effects on savings and investment habits.*

Key words: *Saving, Investment, Habits, Socioeconomic, Factors, Entrepreneurship*

I. Introduction

It is often said that there is a little difference in people (entrepreneurs) that make a great difference; the little difference is habit, the great difference is whether it is positive or negative. Saving and investing money regularly, no matter how small, is a positive habit the amount one saves is not as important as establishing the habit of savings. Habit can simply be seen as a regularly repeated pattern of behaviour which the person doing so may not even be aware or conscious about it. Among others, savings and investment are related examples of habit in which, one who saves money will either consume (spend) the whole of it or invest part of it. Even business organizations also save money in form of retain earning. However, due to basic needs, people are likely to spend their income without saving not to talk of investing.

Nigeria is one of the eight most populated countries of the world, greatly endowed with human and material resources. This material and human resources form the bedrock for sustainable economic growth and development. Although government has been the major employer of labour in Nigeria's formal sector, the development of the economy and the growth of employment opportunities actually depend on the investment decision of the private sector made up mainly of major corporate investors and medium- scale businesses, but these also include small-scale entrepreneurs, artisans and innovators. In other words, people's participation must form the basic element in any strategy to reduce unemployment and poverty affecting the global economy.

Capital may not be readily available to the 'would be' entrepreneur. Therefore, lack of capital is a major factor militating against entrepreneurial development. It therefore remains a fact that the individual who does not have enough capital must develop the habit of saving and investing money, while the one who has capital needs managerial skills to safe-guard the capital against loss. This will help entrepreneurial growth and development.

It is observed that most studies on financial management especially in textbooks concentrate on the capital management in organizations at the expense of the individual. But the individual entrepreneurship seems to be the nucleus of industrialization. Therefore, there is the need for studies that will centre on savings habit as source of personal finance for entrepreneurial development. It is with this background that this study evaluated the effect of socioeconomic factors on savings and investment habit of individuals.

Objectives of the Study

The objectives of the study were to:

Examine the effects of some socioeconomic factors (income, age, level of education, household size, spouse' spending habit, availability of credit facilities, Perceived financial wellbeing, interest rate, inflation and societal norms) on individuals' savings and investment habits.

Research Questions

What are the effects of socioeconomic factors on individuals' savings habits?

Research Hypotheses

Ho_1: socioeconomic factors (income, level of education, age, household size, spouse' spending habit and availability of credit facilities, Perceived financial wellbeing, interest rate, inflation and societal norms) is negatively related to savings habits of the respondents.

II. Literature Review

Savings

According to Varsha Virani (2013), Savings means sacrificing the current consumption in order to increase the living standard and fulfilling the daily requirements in future.

Nwibo and Mbam (2013), state that in many developing countries particularly in Africa, saving and investment are essential engines for capital and investment formation on one hand and economic growth and development on the other. Nwibo and Mbam (2013) argued that saving constitutes the basis for capital formation and capital formation constitutes a critical determinant of economic growth. Available statistics however indicate low saving mobilization base and investment in this part of the world.

Savings habit of an individual can be measured using marginal propensity to save which is determined by other factors. According to a World Bank report of 1995, households in developing countries save an average of 13% of the Gross National Product (GNP) and invest 6% of it thereby, leaving a savings surplus of 9% of the GNP. On the other hand, businesses save about 7% of GNP but invest more than 15% of the GNP (in Nwibo and Mbam, 2013).

Socioeconomic Factors Affecting Savings

As good as the savings habit might be and the individual might desire to save, savings accumulation is a sacrificial task. It is affected by many factors, which are personal, institutional or environmental. Some of these factors are as follows:

(i) Spouse spending habit

According to Sando (2006) many financial crises and lack of savings are the result of the financial mismanagement of other members of the family (wife, husband and children). This is worse where they have grave financial misbehaviour and even criminal acts. For example, for the fact that a married couple shares savings and checking accounts means that the errors of one may affect the credit rating of the other. Some men find it difficult to manage their money if their spouse has very difficult spending habits. There are spouse who die without a will or with secret debt; children who get into serious debts; parents who become ill and need care; spouse who lose their jobs and abandon the family; and divorced women who are left with significant debts.

(ii) Availability of Credit Facilities

The easy availability of credit has increased borrowing that is not invested, but spent on necessities of life. Some individuals' borrow over and above their income while others collect loans to settle other debts thereby paying compound interest (Sando, 2006). Where food items, utensils and clothes are on sale on instalment payment, their prices are often far above the prevailing prices. This makes it difficult for individuals to save money.

(iii) Income Size

The effect of income on savings is inconclusive and varies across countries. Whereas some studies have found savings to cause growth in income, some have found income growth to cause savings. The causality from saving to economic growth is supported from the argument that domestic investment is determined by domestic savings. Following this argument, high rate of national saving is a crucial determinant of economic growth (Athukorala and Sen., 2004). In testing for causality between domestic saving and economic growth for some African countries, Anorou and Ahmad (2001) found a bi-directional causality in the cases of Cote d'Ivore and South Africa. The study also found that in the case of Congo, growth rate of domestic savings caused economic growth. For Ghana, Kenya, Nigeria and Zambia causality was found to run from economic growth rate to growth rate of domestic savings. Mwega et al (1990) found the growth rate of real income to have significant effect on private saving in the case of Kenya.

(iv) Household Size (family size and number of dependants)

Kanjanapon, (2004) argues that the size of ones family and number of dependants affects his savings as it entails his expenditure. This is even worse in developing countries, especially African countries where one bears the responsibilities of his extended family. The larger the size of a family the more the mouths that consume, thereby leading to less savings (Iheanacho, 1995).

(v) Perceived financial wellbeing

Kanjanapan, (2004) reported in his research that when investigation of savings habit by age was controlled by level of perceived prosperity, a clear-cut pattern emerged. For all age groups, the likelihood to save increases with degree of perceived financial wellbeing. While 56% of young people who perceived themselves as being prosperous or very comfortable saved regularly, only 21% of young people who said they were poor or just getting along financially did so. A similar pattern is evident for the other two ages. Therefore, the rich save more than the poor.

(vi) Interest rate

Mwega, et al, (1990) observed that one of the main determinants of savings is interest rate. It is generally believed that a higher interest rate encourages savings. According to McKinnon, (1973) and Shaw, (1973), low interest rate discourages savings mobilization and the channelling of the mobilized savings through the financial system. This eventually has a negative impact on the quantity and quality of investment, the entrepreneurial development and the economic growth. The impact of interest rate on personal savings is however not straightforward in the sense that the raising of interest rates have two effects that work in the opposite direction. There is the substitution effect which causes savings to increase as consumption is postponed to the future and the wealth effect in which savers increase current consumption at the expense of saving. The impact of interest rate on saving will therefore depend on which of the two effects will dominate. Study on the effect of real deposit rate on saving in Kenya by Mwega et al (1990) shows no significant effect in contrast with McKinnon and Shaw, (1973) hypothesis. The hypothesis argues for a positive impact of interest on saving for a less developing country that's financial and bond market is underdeveloped.

(vii) Inflation

Athukorala and Sen., (2004), advocate for the inclusion of inflation in the savings function. The reasons for the inclusion of inflation are: first inflation affect savings through its impact on wealth, if consumers have a set target of wealth, as inflation rises so will savings. Secondly, inflation brings uncertainty in future income and can lead to higher saving on precautionary grounds. The uncertainty of income is particularly relevant to the less developed countries (Deaton, 1987).

(viii) Societal norms and values

Canfield et al (2000) observed that one's habits and believe systems are products of one's environment. The people he hangs around with and the environment he lives in strongly influence what he does. A person brought up in a negative environment, continually subjected to physical or verbal abuse has a different view of the world than a child reared in a warm, loving and supportive family. Their attitudes and levels of self esteem are different. Rich people teach their children how to save and invest, and how to maintain a wealthy status while the poor and average people do not (Kiyosaki, 2003). Children that are brought up in environments where apprenticeship is a pride are likely to save and go enterprising after apprenticeship. This is common among Ibo people in Nigeria. Values are imbibed from parents, teachers and elders as an individual grows; values are adapted and refined in the light of new knowledge and experiences (Ndubuisi et al, 2000).

III. Methodology

Sources of Data

The data for this study were obtained from primary and secondary sources. The primary data collection involved the use of questionnaire and interview schedule. Secondary data were obtained from journals, text books, seminar papers, and the internet.

Population of the Study

The population of the study consists of 78,465 peoples.

Method of Data Collection

Data for the study were collected with the using structured questionnaire. These questionnaires were administered by the researcher and five (5) trained research assistants.

Sample Size and Sampling Technique

Multi-stage sampling technique was used for this study. Samples were obtained from the population residing in Jalingo metropolis. From a sampling frame of 78,465 obtained from National Population

Commission (NPC, 2006), samples were drawn viz: The first stage involved the selection of 50% of wards out of the 10 wards namely: Sinatali, Mayo goi, Barade, Kachala Sembe, and Sarkin Dawaki. The second stage involved the selection of 50% of the residential areas in each of the selected wards. The third stage was the drawing of 0.718% of the respondents in each of the residential areas earlier selected to give a total sample size of 130 respondents for the study. In all these stages, simple random sampling method (lottery) was used to select the respondents.

Method of Data Analysis

The data for the study were analyzed using both inferential and descriptive statistics. The descriptive statistics consists of percentage and tables. Secondly, regression analysis was used to test the hypotheses. Regression analysis was used to determine the effects of some socioeconomic factors on savings and investment habits in the study area. The model is explicitly stated as:

$Y= a+b_1 x_1+b_2x_2+b_3x_3+b_4x_4+b_5x_5+b_6x_6+b_7x_7+b_8x_8+b_9x_9+b_{10}x_{10}+U$

Where: Y= Savings, X_1 = income, X_2 = age, X_3 = level of education, X_4 = household size, X_5 = spouse' spending habit, X_6 = availability of credit facilities, X_7 = Perceived financial wellbeing, X_8 = interest rate, X_9 = inflation, X_{10} = societal norms, a= constant, U= Random error term b_1-b_6= Regression coefficient.

IV. Results

Socioeconomic Characteristics of the Respondents

The socioeconomic characteristics investigated were age, sex, educational level, income, size of family and business ownership.

Table 1: Socioeconomic Characteristics of the Respondents

Variables	Frequency	Percentage (%)
1. Age in years	41	32.54
18-29	62	49.21
30-49	23	18.25
50 and above		
2. Sex		
Male	96	76.19
Female	30	23.81
3. Marital status		
Single	44	34.92
Married	78	61.9
Widowed	4	2.48
4. Educational level		
No. formal schooling	4	3.2
Primary	12	9.5
Secondary	41	32.5
Tertiary	69	54.8
5. Size of family		
01-05	30	23.81
06-10	85	67.46
11 and above	11	8.73
6. Business Ownership		
Own business	74	58.73
Own no business	52	41.27

Source: Field Survey 2014

Table 1 Shows that most (49.2%) of the respondents were within the middle age (30-49 years). The middle age is the prime of achievement and has less financial responsibility and number of dependents. Modigliani (1986) found that people in the middle age between 30 and 49 years save more money compared to the early and/or old age. About 76.19% of the respondents were male while 23.81% were females. Marital status of the respondents shows that majority (62%) of them were married. This implies that most of them have family responsibilities.

Analysis of educational level shows that a good number of the respondents (32.5%) attended secondary school while most of them (54.8%) had being to tertiary institutions. Education (especially entrepreneurship) helps one to understand the essence of saving and investing money. Most of the respondents had at least six people in their families. This shows high dependency ratio. Family size can influence individual savings and entrepreneurial development. All things being equal, the larger the family size, the less the amount of money one can save and vice versa. Iheanacho, (1995) supports this by averring that as the size of the family increases there are more mouths that consume, making it difficult to save. The findings on business ownership indicate that majority (59%) of the respondents owned businesses. This shows that they would have had some experiences in saving or not saving money.

Table 3: Regressions Analysis of the Socioeconomic Factors Affecting Savings

Variables	Coefficient	Standard Error	T-Value	Decision
Age	48.796	24.396	0.048**	Significant
Educational Level	44.614	75.628	0.556	NS
Spouse Spending Habit	-173.210	401.711	0.667	NS
Availability of Credit Facilities	188.713	409.517	0.646	NS
Income Size	0.67	0.006	0.000*	Significant
Household Size	-170.441	69.275	0.015**	Significant
Perceived Financial Wellbeing	676.83	691.014	0.000**	Significant
Interest Rate	457.042	208.599	0.052*	Significant
Inflation	157.626	180.298	0.485	NS
Societal Norms	386.366	664.642	0.562	NS
Constant 283.611				
R2 0.591				
Adjusted R2 0.570				
F-Ratio 28.650				

Source: Field Study, (2014)
*= Significant at 5% level
**= Significant at 5% level
NS = Not significant at 5% level

Analysis of the result in Table 3 shows that income is significant at 1% while age is significant and positively related to savings at 5% level. This implies that the larger the income, ceteris paribus, the larger the amount of money the respondent can save leading to his chances of investment and enterprising. The age of the respondent is significant at 5% and directly related to his savings. This shows that as age increases the respondent becomes independent and more productive as he grows away from the early (unproductive) stage of life. At the middle age when he would have been gainfully employed or self employed he has the tendency to save, probably because he or she has less responsibility and smaller family size. However, at the old stage in life, age is likely to be indirectly related to savings since one tends to retire and become dependent or leaves on transfer earnings (Modigliani 1986).

Household size and spouse spending habit, though significant, were found to be indirectly related to savings. This implies that the more the number of people a respondent has in his household, the more his spending responsibility hence, the less he saves. Also, the indirect relationship between respondents' savings and his spouse' spending habit is that if the spouse (wife or husband) is a spendthrift or thrifty, it will affect his savings. Since they are members of the same family and have financial responsibility for one another, their spending habit affects the spending of their partner. Kanjanapon (2004) also found this relationship to be true in his study on The Differences in Value related to Work, Savings Habit and Borrowing.

The analysis also shows that there was an insignificant positive relationship between the availability of credit facilities (such as loan and overdraft) and savings such that where credit card is mostly in used, the more the availability of credit facility, the less the savings of the individual. Some people probably avoid the use of Automated Teller Machine (ATM) because it induces them to easily withdraw and spend, thereby not saving. Educational level of the respondent is equally insignificant but positively related to savings. This means that the effects of educational level of the respondent on his savings are negligible.

The results indicated that there is significant relationship between perceived financial wellbeing and savings and investment habits. There is also significant relationship between the prevailing rate of interest in the market with savings and investment habits. There is insignificant relationship between rate of inflation and societal norms with savings and investment habits.

V. Discussion of findings

Precisely, the results show that there is significant positive relationship between income, age, household size, perceived financial wellbeing and interest rate. It means that the higher the income of an individual, the greater the amount to be saved for investment. Age also affects the saving and investment habits. The age increases, the more individual may save money for investment. The number of dependant/family members strongly influences the way and amount an individual will save. If a person is having a small number of dependants family members, the greater the chances of saving for investment. Individuals work with what will bring benefits or reword to them. Therefore, the respondents' perceived savings and investment will bring about financial wellbeing. Therefore, they prefer to make saving in order to invest it in future. Therefore, the greater the positive perception of financial wellbeing the greater will be the amount to be saved by an individual.

The results have established that educational level, do not have significant effect on savings and investment habits of the respondents. This signifies that educational qualifications are not a determining factor affecting savings and investment habits. Even an illiterate person can save and invest. Spouse spending habit has insignificant effect on savings and investment habits. Likewise, availability of credit facilities, rate of inflation and societal norms has no significant effects on savings and investment habits. In order words, theses factors are not predicators of savings and investment habits to the respondents. With or without them they can save and invest.

VI. Conclusion

The conclusion drawn based on the findings is that most of the respondents saved money, and saving is one of the key qualities of a successful entrepreneur. The study established that savings and investment habits are significantly affected by income, household size, age, Perceived financial wellbeing and interest rate. On the other hand, educational level, spouse spending habit, availability of credit facility, inflation and societal norms has no significant effect on savings and investment habits of the respondents.

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