

## **Rural-Urban Differences in Savings Practices and Attitudes: With Special Reference to Matara District**

**Charitha Vidanapathirana<sup>1</sup>, K. G. G. Weerasinghe<sup>2</sup> and N. M. A. Jayasinghe<sup>3</sup>**

### **Introduction**

Savings play a major role in the accumulation of capital in an economy. In macroeconomic analysis, savings are classified into two parts as private and national savings. According to savings sources, household savings are further categorised as formal and non-formal; commercial and specialised banks, as well as financial institutions being popular institutions in the former category. This paper illustrates the impacts of public opinion on savings deposited in commercial banks.

Commercial banks have recently emerged as the most favorable institutions in the financial market of an economy. Their major role is financial intermediation and facilitation of transactions, with an aim to achieve economic development. The evolution of commercial banks began in Great Britain and advanced over time to gain global popularity. In the Sri Lankan economy, commercial banks report a contribution of more than 51% to the financial market.

In financial transactions, commercial banks offer various types of products by which people may save. Among these, savings products are particularly important. Since 1977, the Sri Lankan financial market has experienced a savings products growth of more than 70%. Therefore, this study is important to identify attitudes of the community in relation to savings product maintenance.

### **Methodology**

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

Data analysis was of two parts, descriptive and statistical. To measure public attitudes on saving products offered by commercial banks, a composite index was estimated. In addition, an ANOVA test was used to compare differences in monthly savings between urban and rural sectors.

---

<sup>1</sup> Department of Economics, University of Sri Jayewardenepura. [anjalividanapathirana@gmail.com](mailto:anjalividanapathirana@gmail.com)

<sup>2</sup> Department of Economics, University of Sri Jayewardenepura.

<sup>3</sup> Department of Economics, University of Sri Jayewardenepura.

### Results and Discussion

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

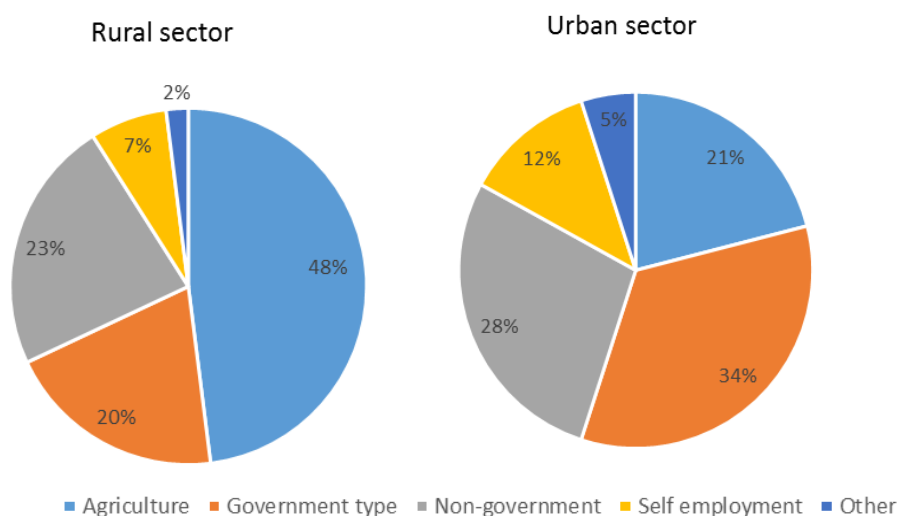
Table 01: Individuals' savings sources

Savings sources	Rural (%)	Urban (%)
Commercial banks	14.3	53.6
Specialised 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 compilation based on survey data, Jan. 2016

Among basic socio-economic factors, occupation is also pointed out as varying in urban sector savings to a great extent. But such a variation is not visible in the rural sector, due to the predominance of agriculture-based occupations (see Figure 1).

Figure 01: Savings and occupation types



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

When comparing the mean difference in the monthly savings share of individuals between sectors, urban individuals score a higher mean than rural individuals. According to the ANOVA test, the mean savings difference among sectors was significant (see Table 2).

Table 2:

	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 compilation based on survey data, Jan. 2016

According to the results of this study, it is evident that there is a high mean of monthly savings among the urban sector rather than the rural, because, individuals in the rural sector do not always generate monthly incomes.

When evaluating the individual attitudes towards savings products in both sectors, differences which should be considered in formulating financial market policy in Sri Lanka are reported.

This evaluation used a saving product attitude index (SPAI) as follows:

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

Where,

$SPAI_i$  = Saving product attitude index of  $i^{th}$  individual

$X_1$  = Income generation

$X_2$  = Financial security

$X_3$  = Future investment

Three categories have been identified for the public attitude towards saving products based on SPAI: most satisfactory ( $SPAI > 0.71$ ), satisfactory ( $0.31 < SPAI < 0.70$ ), and unsatisfactory ( $SPAI < 0.30$ ). Descriptive statistics showed that the majority of the sample (79% rural, 67% urban) indicated satisfaction due to transaction convenience, easy access, and updates of interest.

## Conclusions

Savings convenience financial transactions in an economy and benefit capital accumulation as a macroeconomic phenomenon useful for the measurement of economic performance. Therefore, it is important to empirically identify attitudes of the community. Thus, to accumulate capital flows, savings should be integrated to the financial system of the economy. So, there is a requirement to develop a community for savings. Where public attitudes in favour of savings products offered by commercial banks are moderate, the financial system should be introduce

incentives to improve the savings habits such as double-bonus interest. Further, developing community-based investment activities, can be recognised as a new approach to participatory investment in the community, to develop self-employment or livelihood.

Likewise, as a result of community investment growth through savings, people can improve the employability of their society. However, all of these improvements depend on a healthy savings culture. In Sri Lanka, leadership in savings promotion should be taken by commercial banks because their share in the financial market is larger than the others. Individuals who are in the urban sector are more in favour of savings than those in the rural sector. It can be pointed out that the individuals who generate fixed income monthly tend to favour saving. Thus, financial institutions and leading commercial banks should introduce new participatory investment programmes based on community savings.

Further, various expenditure management programmes should be launched in the rural sector, aiming to improve saving habits in the rural community. Such programmes would formalise agri-based investment practices.

***Keywords: commercial banks, investment, rural sector, savings attitudes, urban sector***