CHAPTER VII
SUMMARY AND CONCLUSIONS

7.1 Introduction

From the classical period onwards, saving has been considered as a determinant of growth. To take the underdeveloped countries to the path of development, rate of saving must be increased. Whereas for the individuals and households, saving provide a cushion of security against future contingencies, for the nation, saving provide the funds needed in the developmental efforts. To achieve higher rate of growth with relative price stability, the marginal propensity to save should be raised by appropriate incentives and policies. To reduce the country's vulnerability to unexpected shifts in international capital flows, national saving rates must be raised so as to finance the country's investment targets. In an era of international financial integration, for macro economic stability, higher domestic saving is necessary. Saving is a function of both income and current consumption. Both increasing income and decreasing consumption are the ways for increasing saving.

Aggregate saving in any economy depends on a number of interdependent variables. In the Indian economy, the household sector contributes a lion's share of the total saving and hence, to step up saving in the economy, saving rate of the household sector should be stepped up. In the physical asset formation, household sector is of critical importance, as this sector undertakes physical investments directly and make public and private
corporate sector saving possible by transfer of saving. The share of the household sector in the gross domestic saving has increased from 73.7 per cent in 1950-51 to 88.8 per cent in 1999-2000. The physical saving of this sector has declined from 87.19 per cent of the total household saving in 1950-51 to 43.0 per cent in 1999-2000, which means that the contribution of this sector for investment in the other sectors has increased.

In the Indian economy, rural sector is of great importance because of the prominence of this sector to the growth of other sectors. As there is an assumption that the rural saving capacities are very low, the policy makers have not considered seriously about the mobilization of saving of this sector. The decennial debt and investment surveys has shown the saving and investment potential of the rural households in India. It was seen that the rural households in India have made capital expenditure worth Rs.154 in 1961-62, on an average, which increased to Rs.1700 by 1991-92. Taking the number of households residing in the rural areas in India, the volume of gross investment in capital assets by the rural household sector is enormous.

In Kerala, in spite of lower per capita income compared to other states, the rate of saving is very high, which is reflected in the total deposits mobilised by the commercial banks, co-operative banks and regional rural banks. Capital expenditure by rural households in Kerala has increased from Rs.171 in 1961-62 to Rs.3947 in 1991-92. In the gross capital expenditure 68.56 per cent was in residential plots and buildings in 1991-92 whereas investment in farm business has declined from 45.61 per cent in 1961-62 to 14.5 per cent in 1991-
92. The share of investment in non-farm business has been greater in Kerala. Thus, the investment in physical assets in rural Kerala is of particular nature.

Investment in financial assets has been increasing in the rural households which is depicted by the deposits mobilized by primary agricultural credit societies. The indicators of physical quality of life in Kerala have been very high which had attracted world wide attention. In terms of social indicators, Kerala is comparable to the top among the Asian countries. But in terms of per capita income, Kerala stands below the all India average. The most important hypothesis for the low per capita income pertains to the lower rate of investment in the industrial and agricultural sectors of the state. Thus, the saving and investment prevalent in Kerala is of particular nature. But the voluminous saving generated is drained out leading to lower credit deposits ratio. Thus, the present study was undertaken with the following objectives.

1) To examine the sources of income and consumption pattern of the rural households in Kerala.

2) To identify the determinants of saving of the rural households.

3) To examine the pattern of investment of the rural households.

4) To identify the managerial and operational constraints that restrict saving and investment.

Hypotheses

(1) The major source of income of the agricultural households is agricultural income.
(2) Proportion of income spent on food is higher for the saving households in the higher income groups.

(3) Saving tends to rise as inequalities of income increases.

(4) The major determinants of saving are dependency ratio, number of male children, education, number of earners, age, income, occupation and prospects of children.

(5) Determinants of saving differs from region to region.

(6) There is a shift away from the farm related assets to the non-farm assets.

(7) As income increases households prefer more of financial assets than physical assets.

Findings of the Study

7.2 Sources of Income of the Occupation Groups

Even though households were classified on the basis of the occupation of the head of the household, analysing the sources of income, it was found that most of the households have received income from sources other than the occupation of the head of the household. A notable aspect of the sources of income is that, the cultivator households receive only 47.89 per cent of their income from the main source, whereas 52.11 per cent comes from supplementary sources. This rejects our hypothesis that the major source of income for the agricultural households is agricultural income. For all other occupation groups, a major share of income is contributed by the main source.
Non-agricultural labour households rank first in the matter of largest share of income from the main source, with a share of 78.36 per cent followed by the salaried class with 77.21 per cent.

Among the three villages studied, cultivator households in V1 get 69.67 per cent of their income from cultivation whereas in V2, this share is only 40.42 per cent, whereas in V1 it is still lower at 35.23 per cent. In terms of the highest share of income from main source, salaried group with 82.45 per cent stands first in V1, whereas in V2 non-agricultural labour households, salaried households and overseas employed households receive almost same per cent of income from the primary source. In V3, the salaried group received 80.17 per cent of income from the main source.

7.3 Income Distribution among the Occupation Groups

Average income for all households is Rs.75358 and the per capita income works out to be Rs.15491. Average income of the cultivator households is less than the average for all households. The lowest average household income is reported by the agricultural labour households, whereas the highest average household income was reported by the households whose main source of income is overseas employment, followed by those self employed in non-farm sector. The highest per capita income of Rs.36213 was also reported by the households employed overseas.

7.4 Consumption Expenditure Pattern among the Occupations Groups

The average propensity to consume for all households is 0.80. Out of the consumption expenditures 41.78 per cent is for food items and the rest for
non-food items. Among the occupation groups, the lowest consumption income ratio is reported by the highest income occupation group where only 34.79 per cent is for food items and the rest for non-food items. Agricultural labour households have reported average consumption income ratio of 1.13 where 51.9 per cent of the consumption expenditures are for food items. A greater part of the consumption expenditures of the high income occupation groups is for non-food items including consumer durables.

7.5 Income Distribution and Consumption Pattern of the Income Groups

Among the income groups, the highest income group comprising 4.67 per cent of households has got an average income of Rs.255250, whereas the lowest income group with 8.33 per cent of households get an average income of only Rs.20619. In terms of per capita income these two groups of households show a difference of Rs.37274.

The lowest three income groups have consumption income ratio of more than one and the lowest consumption income ratio is for the income group Rs.150000-200000. The share of expenditure on food articles declines as the income increases whereas the share of non-food items increase. Consumption income ratio shows a downward trend as the level of income increases.

7.6 Size of the Households and Consumption Expenditure

The size of the family is an important determinant of consumption expenditures. In the study, it was found that there is a positive correlation between size of the family and consumption expenditures. However, with the increase in the number of members, the number of earners has also increased,
as a result of which the highest average income was recorded by the households with the largest size of the family.

7.7 Income and Consumption Expenditure of Savers and Dissavers

In all the occupation groups, except those employed overseas, there are saving and dissaving households. Notable differences are found in the income levels of saving and dissaving households in all occupation groups. However, in the distribution of consumption expenditures between food and non-food items, it is found that the share of expenditure on food by the saving households in the higher income occupation groups is greater compared to the dissaving households in the corresponding occupation groups. This has led us to recall the conclusion that savers save by reducing consumption of unnecessary articles.

Among the lower income groups not much of difference is found in the income of savers and dissavers. Whereas in the higher income groups, the dissaving households have more income than the saving households. The share of food in the consumption expenditures of the households making positive saving is greater in the case of higher income groups compared to that of the dissaving households in corresponding income groups. Hence the hypothesis that proportion of income spent on food is higher for the saving households in the higher income groups may be accepted. The percentage of savers shows a steady increase to reach 100 per cent with the Rs.75000-100000 income class, even though, slight fluctuations are seen in the case of still higher income groups.
7.8 Age of the Head of the households and Saving

In the study, it was found that with the exception of the youngest age group, saving follow the hump shaped pattern as proposed by the life cycle hypothesis. The youngest age group has recorded a saving income ratio of 0.31, which is because of the higher income received by the heads of these households due to the particular nature of occupation in which they are employed. From the next age group on wards saving income ratio has shown a steady increase to reach 0.25 for the 55-65 age group and falling to 0.11 for the next higher age group.

7.9 Dependency Ratios and Saving

In the study, it was found that saving income ratio is optimum when the number of dependents is 2. Generally, dependency ratio has a negative effect on saving. The lowest saving income ratio of 0.10 is recorded for the households with the largest number of dependents, namely 6 or more. However, these households have received the highest income or these are joint families and here the number of earners is more. Households with more children at home save less because saving for retirement is deferred until children leave home. Older people work less and consume out of their past saving. Thus, old age dependency ratio and young age dependency ratio have negative effect on saving.

7.10 Male and Female Children and Saving

Number of unmarried female children does not seem to make a telling impact on the saving of the households. Even though the highest saving
income ratio was found for the households with three or more unmarried female children, these households have also recorded the highest income.

The number of male children above 10 has a negative effect on the saving of the households. Households with no or one male child above 10 have recorded saving income ratios of 0.27 and 0.17 respectively. When the number of male children above 10 increased, saving income ratio has recorded a decline. This is because, male children are considered as assets, which, to some degree, satisfies the household desires for wealth accumulation.

7.11 Education of the Head of the Household and Saving

As hypothesized, education of the head of the household has influenced the saving of the households. From negative saving for households with illiterate heads, the saving income ratio has increased steadily to reach 0.32 for households whose heads have education of degree and above and further to 0.53 for households with heads having professional qualification. Data from all the three regions reassure a positive relation between level of education of the head of the household and saving.

7.12 Number of Earners and Saving

The survey data has explained that income of the households increase with the number of earners. However, saving do not increase proportionally with the number of earners. The highest saving income ratio of 0.24 is reached for the households with two earners. Saving income ratio declines to reach 0.06 for the households with 4 earners each. Being joint families, individual
members in the households with more number of earners do not consider it their duty to save for the future.

7.13 Occupation and Saving

Among the different occupation groups, in the study, only agricultural labour households have negative saving whose saving income ratio is -0.15. The households classified as overseas employed have the highest saving income ratio of 0.45. Out of the total saving made by all the occupation groups, the largest share of 35.47 per cent was contributed by those self employed in non-farm sector followed by the salaried group of households with a share of 33.91 per cent. Thus, the non-agricultural households in the rural sector have higher propensity to save compared to the agricultural households.

7.14 Income and Saving

The lowest three income groups have reported negative saving. Cumulative contributions towards saving by 42.33 per cent of households is -17.31 per cent. Positive saving start from Rs.50000-75000 income group onwards. The highest saving income ratio was recorded by households in the Rs.150000-200000 income group, whereas, for the Rs.200000 and above income group, the saving income ratio is lower at 0.23. The largest share in the total saving that is 45.60 per cent was contributed by 18 per cent of households in the Rs.100000-1500000 income group. Thus, income plays an important role in determining the saving by the rural households.

In the study, 23 per cent of households in the top three income brackets account for 91.09 per cent of the total saving. These households share 48.94
per cent of the income also. 42.33 per cent of households in the bottom three income brackets get only 18.81 per cent of the total income and their cumulative contribution towards total income is -17.31 per cent. These arguments reassure our hypothesis that saving tends to rise as inequalities of income increases.

7.15 Assets and Saving

In the present study, higher asset groups have higher income, even though the causality is not that larger assets lead to higher income. The higher asset groups are cultivators for whom, more than half the income has originated from sources other than cultivation. Thus, higher income has led to more asset creation. Taking all the regions together it is found that there exists a direct relationship between value of assets and saving income ratios.

7.16 Motivations for Saving

The study has found that among the motivations for saving, future prospects of children like wedding of children and education of children have occupied the prime place. 25 per cent of households has ranked wedding of children first whereas another 25.67 per cent of households has given second rank to this motive. For 11.66 per cent of households education of children occupies the first rank and 15.67 per cent of households has ranked this as the second important motive for saving. Meeting future contingencies and provision for old age are other important motivations for rural household saving. Considering the discussion on determinants of saving and motivations for saving the hypothesis that the major determinants of saving are dependency
ratio, number of male children, education, number of earners, income, age, occupation and prospects of children is reinforced. But inter-regional differences in the determinants and the motivations are only narrow and thus the hypothesis that determinants of saving differ from region to region can only be narrowly accepted.

7.17 Pattern of Financial Investment

The rural households have made a 45.03 per cent of the investment in financial assets. As much as 43.05 per cent of this financial investment is in the form of deposits even though, only 26 per cent of households have opted for this. The most sought after financial instrument in rural Kerala in terms of per cent of households is chit funds. 43.83 per cent of households have invested in this instrument. Other important financial assets selected by rural households are post office schemes and insurance premiums. More households have gone for these instruments because of the flexibility of operations.

7.18 Pattern of Physical Investment

Analysing the pattern of investment in physical assets, it was found that there is a shift away from the farm assets. 54.80 per cent of the total physical investment is exclusively in non-farm assets and 15.56 per cent is in purchase of land. Considering the fact that most of the investment in purchases of land is for construction of residential and commercial buildings, the total off farm investment comes to 71.36 per cent.
7.19 Investment Pattern of Different Occupation Groups

Analysing the pattern of investment among the different occupation groups, it was found that, financial investment is mostly made by the cultivators, salaried employees and self employed in non-farm assets. In all these groups deposits form the prime instrument, in terms of amount invested. However, in terms of the percentage of households, making investments, it is chit funds. For the cultivators, 42.84 per cent of the total investment is in financial assets whereas for the salaried group 60 per cent of the investment is in financial assets and for the self employed in non-farm sector, financial investment forms only 35.91 per cent of the total.

Cultivators, salaried group and the self employed in non-farm sector are the occupation groups who have invested most in physical assets. The cultivators have invested 57.16 per cent of their investment in physical assets whereas the salaried group has invested only 40.01 per cent in these assets and those self employed in non-farm activities have invested 64.09 per cent of the investment in physical assets. The cultivators have invested only less than half of the investment in farm related assets whereas for the other groups a major portion of the investment is in non-farm assets. Hence the hypothesis that there is a shift away from farm related assets to non-farm assets is accepted.

Of the total investment, only 58.87 per cent is from saving of the current period. For the lower income occupation groups, a major portion of the finance for investment has come from borrowings, for the higher income occupation groups, major source of finance was current saving.
7.20 Investment Pattern of Income Groups

Financial investment in absolute terms show an increasing trend for the increase in the income level. Hence the hypothesis that as income increases households prefer more of financial assets than physical assets is accepted. For the lower income groups, chits and post office saving form the important portfolio whereas for the higher income classes deposits account for a major portion of financial investment. This is because, at higher levels of income people prefer more of security of funds. Generally, there is a preference for chit funds for households belonging to all income groups.

Coming to physical investment it was found that at lower levels of income more of the investment is in physical assets and very little in financial assets. At higher levels of income households go for more of financial investment. In the study, the lowest income group made 81.98 per cent of the investment in physical assets whereas the topmost income group invested only 41.77 per cent in physical assets. Regarding the asset selection, it was found that at lower levels of income households go for more of farm related assets whereas the higher income households have selected more of non-farm assets.

7.21 Level of Education and Pattern of Investment

The study has found that as the level of education increases there is a tendency for the households to invest more in financial instruments. Those households whose heads have higher education have invested huge amounts in financial instruments. It was also found that the demand for instruments provided by the formal financial institutions increases with increase in the level
of education. Demand for jewellery and other financial instruments do not find much importance in the portfolios at any education level.

Households with higher education have invested greater portion of their investment in non-farm assets whereas those with lower education have opted for more of farm related assets. There is a general trend to move away from farm-related investments as the level of education increases.

Regarding the funds for investment it was found that the percentage of funds needed for investment comes from borrowings and sale of existing assets, for the households with lower education. As level of education increased, more funds for investment has come from current saving.

7.22 Liabilities of Rural Households

The study found that 69.85 per cent of the credit facilities required by the rural households were met by formal financial institutions and for the rest of the credit requirements these households have approached the informal sources like money lenders, chit funds and friends and relatives. The average debt of the households amounts to Rs.10984. The utilization of funds was for both productive and unproductive purposes.

7.23 Problems Related to Saving and Investment

For financial investment, the most important problem faced by rural households is lack of funds. For 54.33 per cent of households this is the most important problem. 66 per cent of the households get an average income of less than Rs.25000. Other important problems faced for making financial
investment are formalities involved in the formal financial institutions, and lack of sufficient returns from investment.

Problems faced by households in making physical investment are lack of funds, risk of capital loss and the formalities involved in the form of licenses. 39 per cent of households find lack of funds as the most important problem whereas for 33.33 per cent of households risk of capital loss in making investments in physical assets is the most important problem.

7.24 Recommendations

(1) The cultivator households, in spite of controlling a good portion of the productive assets, get only less than 50 per cent of their income from cultivation. This points to the fact that cultivation is considered as part time employment by majority of the cultivators in Kerala. Steps should be taken to make agriculture more remunerative by bringing down the cost of production so that cultivators concentrate more on their main occupation and agricultural production in the state does not come down.

(2) In the saving mobilisation efforts and in the endeavour to increase physical investment in productive farm assets, the government can link the decentralised planning. The programme like distribution of livestock may be linked to some small saving schemes.

(3) Another measure that can be undertaken in the saving mobilisation efforts is to empower the women folk in the rural areas. It was found in the study that there are many women subscribers to chit funds and small saving schemes offered by the post offices.
(4) The study found that 69.85 per cent of the credit requirements are met by formal financial institutions. This again underlines that the financial institutions are ready to make advances even in the rural sector. What is required is the availability of good projects, for investment.

(5) The study has revealed that the saving potential of the rural households in Kerala is very high. For the mobilisation of these saving more self-help groups in the rural areas should be established. The micro-saving enterprises like self-help groups can do a great deal in increasing the total saving mobilisation in the state.

(6) As mentioned earlier and established in many studies Kerala state is the only state with very low credit deposit ratio. Various reasons can be attributed for this, one being the differences in the concept of feasibility. Also, the branch managers are not prepared to take any risk. This attitude should be changed. Appropriate strategies may be formulated in the State Level Bankers' Committee (SLBC) meetings.

(7) The investment of rural households in financial assets is only 45.03 per cent even now. It was found that the instruments of the capital market like equity shares, debentures and mutual fund units have not made their presence felt in the rural households. Hence, the policy should be to spread these and other financial instruments in the rural sector.

(8) Schemes of chit funds and post office small saving schemes are well accepted among the rural households. For the rural households the absence of rigid formalities and flexibility of operations of these
institutions are more attractive than the returns and security of funds. The system of lottery and the variety of bonuses and insurance attached to chit fund schemes run by private chit funds have attracted many rural households to chit funds. This should be an eye-opener for the formal financial institutions in their saving mobilization efforts.

(9) In the asset preference of physical investment, there is a move towards non-farm assets. The role of decentralized planning in promoting investment in livestock is significant. To promote investment in farm and related areas the government should give encouragement and should find quick yielding avenues of investment in this sector.

(10) Another finding of the study is that for a large number of households lack of funds is a problem for investment in the financial assets, whereas for investment in physical assets this problem is not that serious. Only lesser number of households have reported lack of funds as a problem for investment. Majority of the rural households do not find lack of funds as important deterrent to investment in physical assets. They find existence of a large number of formalities, lack of sufficient returns and risk of capital loss as important problems of investment. Thus, to raise the credit deposit ratio, what is needed is to increase the attractiveness of investment by reducing the formalities involved and increasing the rate of returns on investment. Projects for investments in farm related activities or in small-scale industries involved in value addition may be made available.
(11) It was also found in the study that the lower income households make more of farm investments compared to high income groups. This is a pointer towards where the government should concentrate in its efforts towards increasing farm investment. By motivating the upper income groups to increase investment in farm related assets, total investments in the farm sector can be increased significantly.

(12) The higher income households have mostly invested from current saving whereas the lower income groups have gone for borrowed funds. The physical investment by the higher income groups is very low and for those households the credit deposit ratio is also very low. One of the reasons for the lower credit deposit ratio is not that funds are not available, it is because of the attitudes of the people towards physical investment. Hence to raise the credit deposit ratio, the attitude of the people as well as that of the bankers should be changed.

**Contribution of the Researcher**

The researcher has tried to critically evaluate the available literature on saving and investment in the rural sector. Even though macro studies for India based on time series data and a few studies conducted by NCAER to analyse saving and investment behaviour of the household sector are available, not a single attempt was made so far to analyse the determinants of saving in the rural households in Kerala. The researcher made a humble attempt to fill this gap.

The researcher examined four dimensions in this study. In the first objective, an attempt was made to examine income received and source of
income and the expenditure pattern of the rural households. The second objective examined the different factors on which the saving behaviour of the rural households depends. In the next objective, an attempt was made to analyse the asset preference of the rural households when investing their saved income. An attempt to identify the constraints in investment experienced by the rural households is also new. The researcher could also identify a few areas for future research.

Areas for Future Research

The primary focus of this work was to identify and analyse the determinants of saving behaviour in rural Kerala. This was attempted under four objectives. No research work is complete in all respects. But a seriously and systematically done work will be able to identify future areas of research. This scholar could also identify and list a few areas for future research.

(1) The primary focus of the present study was only to identify and analyse the determinants of rural saving. There are a number of factors and issues behind rural saving behaviour which are not enquired in this study. An enthusiastic scholar can proceed in this line.

(2) The saving behaviour was given only sketchy analysis in the present study. There is further scope for detailed studies on rural investment behaviour in Kerala. Separate studies can also be performed on financial saving and physical saving. The chances of increasing
investment in farm sector through investments in non-farm sector can also be explored.

(3) In Kerala, the rural urban distinction is very narrow because of various reasons. Studies on urban saving behaviour or urban investment behaviour are rarely available. Research works on these lines will be a novel attempt.

(4) At the macro level saving investment behaviour is discussed in the framework of national income accounting. The present work rarely adopted this approach because of various limitations. But there is scope for applying national income accounting framework in order to analyse saving investment behaviour.

(5) The potential of developing indigenous rural financial institutions to tap the rural financial saving and thus to reduce the fragmentation in the rural financial markets can be studied.

(6) Non-Banking Financial Intermediaries (NBFCs) play a crucial role in promoting rural economy. But so far research scholars have not tried to undertake research on this topic in Kerala.

(7) At present capital market has not made much headway in the rural sector. Research can be conducted to identify the ways to make the capital market attractive to the rural households.

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