

# Unit 9

## Saving

### Introduction

In Unit 9 of your Grade 10 study, you discussed the traditional practices that affect saving and saw the importance of planning and setting goals. In addition to this, you have seen how you could choose careers. Here you will discuss how to improve your saving habits and compare the traditional and conventional institutions of saving. Finally, you will look at how saving is important for investment and development.

### Lessons

1. The Need for New Thinking in Saving
2. Ways of Improving the Habit of Saving
3. Traditional and Modern Institutions of Saving in Ethiopia
4. Saving as an Instrument of Investment and Development

### What you will learn

#### You will:

- realize how to improve saving habits.
- understand the necessity of new thinking to improve saving habits.

- recognize the traditional and modern institutions of saving.
- appreciate the importance of saving as an instrument of investment.

### Key words and concepts

- Banks
- Capital accumulation
- Depositors
- Deposits
- Equib
- Iddir
- Insurance companies
- Local products

National Bank of Ethiopia



# 1

## LESSON

# The Need for New Thinking in Saving

By the end of this lesson, you should be able to:

- describe the necessity of a new perspective of saving.

Do you prefer locally produced clothes or imported clothes? Why?

One way to help develop the habit of saving is to transform the way you think about spending. This may be related to the way you consume things.

In Ethiopia there is a common thinking that is bad for saving. Many people avoid locally produced items. Because of this they spend a lot of money on expensive imported products. It is important to change this type of mentality. There is a need for a new way of thinking that favours locally produced goods. Like people in other countries, who are very

proud of their own products, we have to learn to live on our resources and appreciate our produce.

Buying more locally produced goods is more profitable for local industry and therefore good for development. If we do not support our manufacturers it may lead to local industries going out of business. At present, many foreign companies are profiting because we do not buy the goods made in our own country. The locally produced items are often cheaper and of just as good quality. We all need to appreciate locally produced goods — buy and use them regularly.

**?** Look at the case study. Where do the products you buy come from? See if you can identify their origin. How far have they travelled to get to you?

## CASE STUDY

### Export Standard Shoes Produced in Ethiopia

There are many shoe manufacturing enterprises in Ethiopia. They produce different types of shoes that are reasonably priced. These shoes are of good

quality. However, some people choose shoes with lower quality and a higher price, because they are from abroad.

Another challenge is how to avoid wastage during production. To produce goods and services, we use many inputs, which are those items required for their production. We have to use these inputs properly in order to reduce our costs. For example,

in the production of shoes we use leather as an input. We should be careful when using leather so as not to waste it. Wastage of inputs is a major cause of increased cost of production. If there is a lot of wastage of inputs, the cost of producing one

## The Need for New Thinking in Saving

item becomes high. If the cost rises, then the selling price of that product has to increase. This makes the products more expensive and less desirable. It also harms the development of the country. Therefore, it is important to be conscious while using production

inputs and use them carefully so as to avoid wastage.



Where can you practice reducing wastage?  
Could you encourage anyone you know to follow this idea?

### REMEMBER

- We should buy more locally produced products.
- Avoidance of wastage while producing and consuming is important.

# LESSON 2

## Ways of Improving the Habit of Saving

By the end of this lesson, you should be able to:

- explain the mechanism for improving the old tradition of saving.

Have you ever saved? If so why did you save and how did you start?

You have seen in previous grades, saving is very important in many respects. In this lesson, you will see ways to develop the habit of saving.

Saving is an activity that very much depends on income. Income is money that you receive. From the income that you get you may use part of it and keep any extra as savings. You are saving because you want to use it in the future. When you get an income it is important to believe that you should not consume all of it at once. This means you have to try to allocate some of it for saving. The first step to start saving is to decide what you have to spend. You should not waste money on items that you do not need. You have to understand that your income will only buy a certain amount of things to consume. After spending on what you need, the rest can be saved. You should balance your needs and wants with savings.

One factor that works against saving is doing things without planning. When you are planning, you need to think about your future. For example, it is important that you consider how you are going to live when you get to old age. Also, what would happen if there was an emergency? What if you

would like to purchase something in the future? We need to make sure that we do not just live in the present.

**?** Write a list of those things you might want to save for in the future.

In developing the habit of saving there are two issues that you need to consider: the avoidance of extravagance and living within your means. A person who avoids extravagant purchases will not be pressurised to pay out unnecessarily. If you limit your interests to your income, you should be able to sustain savings.

In order to avoid wasting your money on an extravagant purchase, you should consider your reasons for wanting the item and judge whether it is really necessary. Would you be better putting your money towards something else or saving it? There are many necessary purchases in life. You need to spend your money wisely.

Another important skill to develop is the ability to live within your means. You have to learn to understand what your income can purchase including assigning a certain amount for savings. You have to know how much your needs cost and limit these to the value of your income. Some people desire things and start spending a lot of money on impulsive purchases. This type of behaviour is bad because it results in unplanned expenditures that discourage savings. It could also lead to debt, where you are spending more money than you earn—a big problem in developed countries.

## Ways of Improving the Habit of Saving

**?** Try to list all the things you spend money on during a month and add up how much you spend.

### CASE STUDY

#### Impulsive Purchases

Molla is a government employee with two sons studying in private schools. He is proud of his own appearance and, whenever he sees clothes and shoes that he likes, he buys them. He also likes to socialize with his friends on a weekly basis. His income does not match his expenditure so he resorts to borrowing

money from his friends.



What do you think of Ato Molla's behaviour?  
What advice would you give him?  
What do you learn from this case study?

### REMEMBER

- It is important to develop the habit of saving.
- It is possible to develop the habit of saving by avoiding extravagance.
- It is possible to develop the habit of saving by limiting our interests to the level of our earnings.



Shop selling luxury items



# LESSON 3

## Traditional and Modern Institutions of Saving in Ethiopia

By the end of this lesson, you should be able to:

- identify traditional and modern institutions of saving.
- explain the effects of saving on the individual and society at large.

What are some of the traditional institutions of saving?

You have seen in the previous two lessons the ways of improving your saving habits and changing your thinking. You will now see the different institutions through which you can save. These institutions are divided into two: traditional and modern. The traditional institutions for saving are those established by the community in order to save. Modern institutions are similar to everywhere else in the world. The main modern institution for saving is a bank, while traditional institutions vary in different places.

In Ethiopia there are both traditional and modern institutions for saving and people use both. Examples of traditional saving institutions in Ethiopia are *Equb* and *Iddir*. Also the modern institutions of saving like the banks and insurance companies are widely used, especially in the urban areas.

*Equb* and *Iddir* are traditional saving institutions in Ethiopia. Both are examples of what is called forced saving whereby, if you choose to engage in it, you have to contribute a fixed amount. *Equb* works where a group of people come together and decide to contribute an equal amount of money every month.

The total amount collected in one month is given to one person, then the following amount collected will be given to the next person. This continues until all members of the group receive the amount. The person who receives first is considered to be borrowing because he or she gets a total amount first and continues to pay the amount over a certain period of time in equal installments. On the other hand, the person who receives the money last is considered to be saving because he or she pays a small amount every month and receives the total amount at the end of the cycle. This is considered a forced saving since, once you are involved in it, it is difficult to get out as other people's interests are involved.

*Iddir* is another traditional saving where people living in a community contribute a fixed amount every month so that when a family member dies the *Iddir* gives services and items, like tents, for the ceremony. This is a kind of saving because it contributes money for future use. These two saving methods contribute to alleviating social problems.

Other than the traditional ways of saving there are modern institutions like banks and insurance companies. Banks are financial institutions that are used for saving and borrowing money. People put part of their income in the bank and in return for keeping it there for a certain period of time they get paid interest in addition to the money they have. The money that is kept with the banks is called a deposit and the person depositing is called a depositor. The banks then lend this money to people who need money and charge the borrower a higher interest rate. So the working of the banks is similar to that of *Equb*.

## Traditional and Modern Institutions of Saving in Ethiopia

Another modern institution of saving is an insurance company. Insurance companies are places where you pay out a certain amount of money called a premium every year. The insurance company will cover your expenses in case of an emergency according to the initial agreement. Usually you have

insurance for your property, like your house or car, in case of theft or fire. The working of insurance companies is similar to that of Iddir since you get the services in case of emergencies. Banks and insurance companies contribute to the economic development of the country.

### CASE STUDY

#### Metebaber Meredaja Iddir

Metebaber Meredaja Iddir has 130 members. The Iddir has its own chairman. It also has a store, a storekeeper and items that are needed for funerals. These items include a big tent, metal chairs and tables, dish and bowls for serving food including plates and cups. It also has cooking equipment. Whenever a relative of a member passes away, the storekeeper organizes people and erects the tent around the neighborhood of the member whose relative passed away. Also selected members of Iddir come to the member's house to help cook food and console the member.

However, the Iddir gives these services only when there is a death. It doesn't provide these services for weddings or other events.

**?** Do you think that an Iddir is a good organization to invest in?  
Should Iddir give services only for funerals? Give reasons for your answer and consider different view points.

You can see from this that you can use both the traditional and modern institutions for saving. By using these institutions it is possible to meet the needs of your family. In addition you can also benefit society by engaging in these institutions with other people.

providing financial resources for those people who want loans. Engaging in these institutions could help other people to save. This all contributes to the development of our country.

**?** In what ways does saving benefit society? Present your ideas to the class.

Saving is also beneficial for the society by

### REMEMBER

- There are both traditional and modern institutions of saving.
- Traditional saving institutions vary in different places.
- Traditional saving institutions in Ethiopia include Equb and Iddir.
- Modern institutions of saving include banks and insurance companies.

# LESSON 4

## Saving as an Instrument of Investment and Development

By the end of this lesson, you should be able to:

- explain the relationship between saving and development.
- describe the role that national and international monetary institutions are playing in development.

What role do you think saving has in development?



Ethiopian Airlines facilitates investment



National Bank – another symbol of investment

You saw in the previous lesson that banks receive people's savings and lend money to others. In this lesson, we will discuss how savings made in banks serve as a source of capital.

Banks play a significant role in the accumulation of capital. This is because they are instruments through which funds are made available for investment. Banks make funds available by collecting from those people who save. The source of the funds that banks lend, mostly comes from depositors. The more money people and businesses deposit with banks, the more money they are able to lend for investment. The more people realize the importance of saving, the more money they will save in banks. When people save more money in banks then banks have more money to lend to investors. Not only that, people who save their income also can engage in investment activities themselves.

If you save enough money you may be able to invest in business opportunities. This would make you a business person. Investment is essential in the process of development. When people invest, usually their production increases and they need to hire more staff. Because of this more people will have jobs and more goods and services will be available. This leads to a growth in income and development. Therefore, saving is important.



## Saving as an Instrument of Investment and Development

### CASE STUDY

#### The Ethiopian Banking System

The Ethiopian banking system is made up of ten banks, called commercial banks. All, except one, the Development Bank of Ethiopia, give services and accept deposits from the public. Most of these banks have branches in cities and towns. These ten banks also give loans to investors. In 2005/06 the banks gave 5.5 billion Birr worth of loans to the private

sector. At the same time these banks also collected around 5.7 billion Birr worth of deposits.

**?** What kind of investment would you like to be involved in? Explain why you have chosen to spend your money in this way.

There are other sources of funding that can be used for development. There are international financial institutions that give out loans and grants for their development efforts.

The well-known big international institutions that give such kind of services are the International Monetary Fund (IMF) and the World Bank. These international financial institutions are established to

provide funding for global development. They study the direction of development in different countries and advise them. In addition to this, the international institutions provide financial resources to support the development efforts in these countries. Since 1991 Ethiopia has had very close relationship with IMF and World Bank.

### REMEMBER

- Saving is very important for the accumulation of capital.
- Capital accumulation is very important for development.
- There are also international financial institutions that are involved in providing financial resources for less developed countries.

## UNIT SUMMARY

In this unit, you have seen many dimensions of saving. You have discussed the need for a new thinking regarding saving by using local products where possible and becoming more efficient in consumption and production. The ways to improve your saving habit by avoiding wastages and limiting one's interests to one's income has been explored. We have examined traditional and modern institutions of saving, with their similarities and differences. Finally you looked at the importance of saving with respect to capital accumulation and development.

## GLOSSARY

<b>Banks:</b>	An institution that keeps people's money and gives out loans.
<b>Capital accumulation:</b>	The accumulation of financial resources for investment.
<b>Depositor:</b>	A person or institution who keeps money in a bank.
<b>Deposit:</b>	Money kept in the bank.
<b>Equb:</b>	The traditional institutions that serve as forced saving instruments.
<b>Iddir:</b>	The traditional saving institutions that give services in case of emergencies.
<b>Insurance:</b>	The institutions that cover risk against accidents.

## UNIT REVIEW EXERCISES

Do these review exercises in your exercise book.

### Part I – Multiple choice

- Which of the following is the way to improve saving habits?
  - avoidance of wastages
  - using local products
  - limiting one's interest with one's income
  - (a) and (b)
  - (a), (b) and (c)
- Local products means:
  - goods locally produced by the local industries
  - goods locally available that are imported from other countries
  - goods produced at home
  - all
- Limiting one's interest with one's income means:
  - developing the habit of using all your income for your interests
  - being extravagant
  - planning consumption with the income left after saving
  - all

4. Banks are:
- (a) modern institutions that accept contributions and give out money in case of an emergency
  - (b) modern saving institutions that also give out loans
  - (c) a good example of traditional saving institutions
  - (d) all
5. Which of the following is not a traditional institution of saving?
- (a) banks
  - (b) Iddir
  - (c) Equb
  - (d) all

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