

Investment Behaviour of Rural Families in Ghana: The Case of Rural Families in the Ho Municipality of the Volta Region

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Abstract

The main objective of the study was to explore the investment behaviour of rural households in the Ho Municipality of Ghana. The population used for the study was rural families in the Ho Municipality of the Volta Region of Ghana. The sample size of 160 households was drawn from the population using the multi-stage cluster sampling technique. Frequencies, percentages, mean scores and cross tabulations were used to present the findings of the study. The findings show that the respondent family heads preferred informal forms of investment to formal forms. Most of the items that the families invested in within the period were mainly for immediate use and the families invested for such reasons as leisure, employment security, financial security for self and children, to improve their standards of living among others. It was also found that the families' ability to invest was constrained by personal, institutional and societal factors. The findings of this study have policy implications for poverty alleviation in the study area and rural Ghana in general.

Introduction

Financial security is an important goal of families all over the world irrespective of the cultural, political, economic and geographical milieu in which the families find themselves. In spite of the many changes in society that have altered the roles and functions of the family, families the world over, continue to provide financial and material support essential to the growth and development of their members. In recent years in most developed as well as developing countries like Ghana, attention has been shifted from meeting the immediate needs of the family to ensuring the family's future financial security and total wellbeing. Ensuring the financial security of the family implies that the families individually must have the ability and culture of putting aside part of what they earn today for future use into ventures where the money stands a chance of increasing in value in future.

The concept investment originates from the word “vestment” and means the action of putting something into somewhere else. In economics, the concept is used to mean the purchase of capital goods – goods which are not consumed but instead used in future production – such as railroads, or a factory, clearing land, or putting oneself through education (www.Wikipedia.com).

In personal finance, the concept is used to mean money used to purchase shares, put in a collective investment scheme or used to buy any asset where there is an element of capital risk. Ahmed, (2002) puts it in a very simple language as “putting money into some venture in order to make profit”. There are several other explanations to the concept. But all point to the fact that, there is some financial commitment to make more money in the future or to increase one’s future purchasing power. Pollack and Heighberger (1998) for instance explained investment as putting money into instruments like stock, bonds, mutual funds and other securities where the money is expected to increase in value. To Raily (1992), investment is the current commitment of an individual’s income to derive future payment to compensate the investor for the time and fund committed, the expected rate of inflation and the uncertainty of future payments.

Investment is always characterised by risk and uncertainty. Risk is explained as a measurable possibility of losing money or not gaining interest on one’s investment. Pollack and Heighberger (1998) tried to differentiate between risk and uncertainty by saying that risk is measurable where as uncertainty cannot be measured.

Several reasons have been advanced as influencing people’s decision to invest. However, the main reason why people invest is to earn a return on their invested fund or capital due to their deferred consumption. Peoples invest because they want a return to compensate them for the time, the expected rate of inflation (a general increase in the price of goods and services over time) and the uncertainty of the return (Pollack, et al., 1998). Other reasons advanced by Weirich, (1983) as exerting some influence on why people invest are safety of income as well as liquidity of income. He also observed that the primary objective for investing by individuals is the hope of earning a capital gain at the time of sale.

In any economy, there are many types of investment opportunities that are available for households and families to engage in at any particular time. Raman (2002) identified three broad types of investment that an individual or a family is likely to engage in. These are real investment, contingent investment and titular investment.

Real investment is also known as tangible investment and is described as those investments which have physical or tangible existence. In common parlance, the word real investment is used to exclusively indicate real estate (land and building) only. Other types of investment that are also real are purchasing of jewellery, beads and precious stones like gold and diamond. This type of investment seems to be popular among most families in Ghana. This might be due to a multiplicity of factors. As observed by Raman (2002), in areas where the monetary system and capital markets are still not well developed, and are in primitive forms, these real investments are extremely popular. This however cannot be true for all real investments as the value in

terms of money of most of these real investments appreciates over time providing the owner a huge profit. In Ghana, casual observation by the researcher shows that money put in real investment increase appreciably and at a far higher value than bank deposits and even bonds and stocks.

Contingent investment is the investment whose value is related to a contingency. If that contingency arises, the money paid towards the investment comes back to the investor, nominee or legal heir many folds. However if no such contingency occurs during the holding period, the money paid towards the investment vanishes and might appear an unnecessary expenditure to the investor. Life insurance, health insurance, accident insurance, flood, fire and theft insurance are some examples of this contingency investment that families can engage in. (Raman, 2002).

Titular investment is the type of investment that comes with mere titles to the investor by way of certificate, deposit receipts, promissory and notes among others, issued by a competent authority.

Ahmed (2002) puts the types of investment available to families in a very simple term. The types of investment that were identified by him include; building up a business such as setting up a farm, building a house, buying land, purchasing bonds or shares, investing in oneself and keeping an investment account such as fixed deposit account with a bank. All the types of investment advanced by Ahmed (2002) are the divisions of Raman's (2002) classification of real or titular investments. Contingency investment was however considered by Ahmed (2002) as savings but not investment. There are typically three types of investors. These are the aggressive investor whose objective is immediate and large gain, the long term investor who invests so as to obtain regular gain for a long period of time and finally the income investor who needs income for living expenses but who is a growth oriented investor with the main purpose of maintaining his or her purchasing power (Weirich, 1983).

Investment behaviour of families is influenced by multifaceted factors. Onwioduokit (2002) in trying to investigate the push factors in private investment in Nigeria observed that two main factors are responsible for the private investment in Nigeria. These are the macroeconomic environment as determined by government policies on trade, monetary control, fiscal and exchange rates and the institutional factors such as administrative, legislative and regulatory framework.

There are some studies which also suggest that people's investment behaviours are influenced by factors such as the culture and the personality of the individual. Socio-cultural theories and the personality trait theories of entrepreneurship are some of these theories. Both theories try to explain motivations behind individuals and families' decision to invest. The personality trait theories are more related to investment behaviour of families than the socio-cultural theories.

The aspects of culture that were found by Hofstede as cited in Hills (2002) as having an influence on a person's investment behaviour are the power distance, individuality versus

collectivism, uncertainty avoidance and masculinity versus femininity. The personality trait theory identified individual characteristics such as need for achievement, locus of control and risk taking propensity as exerting some influence on the investment behaviour of families and individuals.

The need for achievement trait can be inculcated in individuals during their childhood, if emphasis is placed on self-reliance, industriousness, initiative, maternal warmth and low father dominance among others. On the contrary, child upbringing practices that emphasizes loyalty, flattery and obedience, will not promote the need for achievement individuals (McClelland, 1961). Locus of control theory describes how individuals attribute responsibility for events that occur in their lives to factors within themselves and their control or to factors outside their control. Internal and external controls are the two kinds of control identified by Gibson, Ivancevich and Donnelly (1997). Internally controlled individuals are persons who believe that they are in control of their own lives and that control of their lives comes from within themselves. On the other hand, there are those who believe that their fate is controlled by outside forces and are beyond their control, these are the externally controlled peoples. These two categories of persons have different attitude toward investment. Whereas the externally controlled individuals are likely not to invest, the internally controlled person will invest to improve his or her living condition, as they believe they can change their own lives.

The third theory advanced as having an influence on the investment behaviour of peoples is the risk-taking propensity. The theory explains that some persons are more likely to take risk than others (Akplu, 2005). Although these theories purposely attempt to explain entrepreneurship, the theories have great bearing on the motives behind the decisions of individuals or families to invest. These theories therefore can also explain to a large extent, the investment behaviour of families (why families may want to invest). Investment forms have also been found to be influenced by demographic characteristics of families (Amu, 2012)

This research was based on the objectives stated below;

1. describe the forms of investment that rural families in the Ho Municipality normally undertake as
2. identify the forms and purpose of investment and the reasons influencing their choice of investment form.
3. investigate the rural families order of preference of investment forms
4. outline the factors that influence the rural families' decision to engage in any of investment that they currently undertake.
5. investigate the factors that constraint the rural households investment behaviour.

Data And Methodology

The Study Area

The study was situated at Ho Municipality. The Municipality covers an area of 2,660 sq km and has a population of about 200,000 people. The Municipality has two types of communities – the urban and rural communities. The urban communities have a total population of 73,893 and represent thirty seven percent (37%) of the total population of the Municipality with about 17,969 households. The rural population stands at 126,107, being sixty three percent (63%) with about 25,221 households (Ho Municipal Assembly, 2005)

Population

The target population of the study was defined and restricted to include all families that reside in the rural areas of the Ho Municipality. The study covered all families in rural Ho Municipality regardless of occupation, educational level among other socio economic indicators. The Municipality has two different types of communities – three Urban communities and over 200 rural communities. The total population of the entire Municipality was about 200,000 people. The population of the study area (rural Ho Municipality) was about 126,107 people.

Sample and Sampling

Multi-staged cluster sampling method was adopted to select 160 families for the study. To ensure that the sample selected was a true representation of the total population of rural families/households in the Municipality, the Municipality was divided into four zones. The zones were called the Southern zone, the Northern zone, the Eastern zone and the Western zone. This was to enable the researcher achieve accuracy and greater precision.

The first stage involves the use of stratified sampling procedure to put the study area into four main strata (North, South, East and West zones), cluster sampling or what is describe by Campton and Hall (1972), as area sampling was used. Within each stratum, a list of communities was prepared and a simple random sampling method used to select one rural community from each of the four strata to serve as the clusters which were studied.

The next step had to do with the selection of families/households from the four randomly selected communities to serve as the study units. For each community selected, the researcher used simple random technique to select forty (40) families/households for the study. All families/households were numbered by the researchers separately in each of the four communities; the researcher then used the numbers assigned to the families to prepare a table of random numbers for each community and randomly selected the forty (40) families to be studied in each community.

Instrument

The main instrument used to collect data from the sampled families was interview schedule.

Data Collection

When the research team moved to any selected community, the team contacted opinion leaders of the community and sought their approval to conduct the study. This was followed by a comprehensive numbering of the families in that community. For any family chosen, the head of the family was interviewed provided the head is economically active, assumes responsibility of the up keep of the household and is of sound mind.

Data Analysis

Data collected was edited to remove inconsistencies in responses. The data was then organised and analysed using SPSS version 15. Mean scores, frequencies, pie charts and histograms were used to present the results.

Findings And Discussions

Purposes Of Investment

This portion of the study sought to find out the purpose for which the studied households invested in different forms. The finding is represented in figure 1.

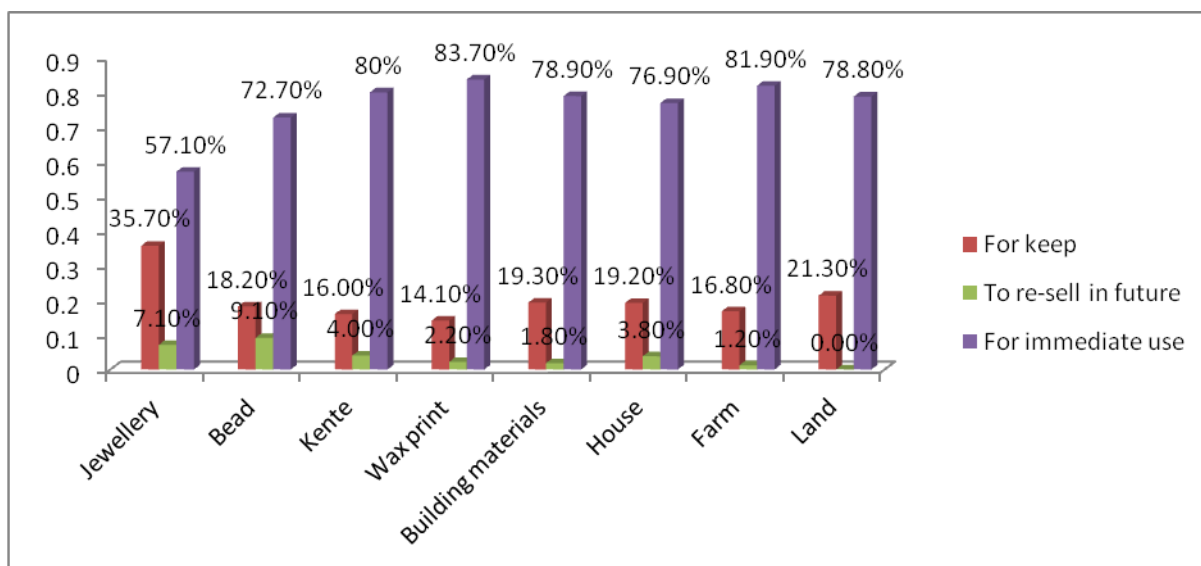


Figure 1 Purpose and forms of investment by respondent family heads

Form And Purpose Of Investment Of Respondents

From figure 1, it was observed that a large number of the respondents invest in farming. This might be due to the fact that farming is the occupation of a large number of the respondent families in the study area and also that it is the easiest form of investment for households in the area. Other forms of investment that was found to be popular with the respondent families are building of house and purchase of building materials, and buying of land. The main finding is that the households invest mainly in real form like building a house, purchase of building materials, buying personal belongings like wax prints and *Kente* cloths among others. This finding is in line with that of Raman's (2002), observation that in areas where the monetary system and capital markets are still not well developed, and are in primitive forms, these real investments are extremely popular among individuals and families.

To ascertain whether the purpose of these purchases can really be defined as investment or not, a cross tabulation was made between the items purchased and the reasons for the purchase. It was found out that though all the purchases can be classified generally as investment, the idea behind some of the purchases made it difficult to tell whether in real terms they are meant for more profit in the future. The cross tabulation indicates that a large number of respondents who purchase most of these real items have no intention to keep them for the future nor to re-sell them in the future. Instead, they buy them for immediate use of their families. For instance out of the 92 respondents who purchased wax print, as many as 77 constituting 83.7% buy it for immediate use by the family. Similarly, out of the 33 and 57 respondents who bought land and building materials respectively, as many as 78.8% and 78.9% respectively do so for immediate use. It is however worth to note that households who purchase some of the item for immediate use can re-sell such an item somewhere along the line if there is an urgent need for money. Items bought for immediate use can therefore be considered as an investment as the family has the opportunity to re-sell them in the future for more income (profit).

The respondents who purchased the items for keep in most cases might be doing so as to be able to re-sell them in times of need and therefore fall within the same category as those families whose main purpose of the purchase is to sell the items later. Those who intend to buy the items for keep or for re-sell are fairly large in terms of percentage among those who purchase jewellery (42.9%), beads (27.3%) and houses (23.1%).

Respondents' Order Of Preference Of The Various Investments Forms

The researchers also attempted to investigate the investment preferences of the families. The percentage preference of the various investment forms in indicated in Table 1.

Table 1: Percentage distribution of order of preference of the various investment forms by the respondents.

Type of investment	n	Order of preference (in percentages)							
		1	2	3	4	5	6	7	
Trading Shares	160	23.1	24.4	16.3	15.0	14.4	5.0	1.9	
bonds	158	4.4	5.7	13.9	9.5	16.5	28.5	21.5	
Housing	160	16.3	22.8	23.8	18.1	8.1	7.5	2.5	
Jewellery and precious metals	159	-	-	2.5	5.7	10.1	23.9	57.9	
Farming	160	11.3	17.5	16.9	25.6	15.0	8.8	5.0	
Transport	158	4.4	7.0	7.7	15.8	30.4	25.3	9.5	

Scale: 1 is the most preferred form of investment by the respondents while 7 is the least preferred form of investment by the respondents.

This was aimed at clarifying the investment forms that they engage in. The data indicated that most of the respondent family heads prefer investing in human capital like education and skill acquisition. A large number of the respondents (83.2%) rate education and skill acquisition as the first two most preferred forms of investment. It was also observed that trading and housing are also very much preferred by most of the respondents. To most of the respondents, trading is an investment where there is little chance of failure.

Purchase of precious metal and jewellery as a form of investment is not preferred by majority of the respondents. Out of the 159 respondents, nearly 60% rate investment in jewelry and precious metals as the least preferred form of investment. Share and bonds are also not preferred by the respondents as most of them show total ignorance about what shares and bonds are as well as how they operate. Interestingly, farming as an investment option is also not very much preferred by the respondents irrespective of the fact that majority of them are farmers and a considerable number of them actually invest in farming. The main reason attributed to the comparatively low rating for farming as a preferred form of investment is the unpredictable weather conditions that make investing in farm a very risky venture. The main reason provided by the respondents for the ratings can be summed up in one simple sentence: the risk level involved. From the reasons given by the respondents it is obvious that all of them want a form of investment that the risk and uncertainty levels are low and also those that they think they have a prior knowledge in; so as to play it "safe". This is in line with Pollack, et al. (1998) assertion that investment is always characterised by risk and uncertainty and people choice of an investment avenue is based on their measure of the how well they can handle the risk associated with that particular type of investment. Risk is explained as a measurable possibility of losing money or not gaining interest on one's investment. According to them, the

difference between risk and uncertainty is that risk is measurable where as uncertainty cannot be measured.

In general it can be observed that real investments are more preferable by the respondent families than other forms of investment. This might be due to the underdevelopment of the capital market coupled with the families' lack of knowledge about other investment forms. This is in line with the observation by Raman (2002) that in areas where the monetary system and capital markets are still not well developed, and are in primitive forms, real investments are extremely popular among individuals and families.

Reasons For Engaging In The Various Types Of Investment

The findings indicate that there are varied reasons why the families engage in the types of investment.

Table 2: *Percentage distribution of Reasons for engaging in the various types of investment*

Reasons	Types of investment (in percentages)					
	H (n=58)	T (n=79)	P (n=2)	F (n=55)	TP (n=30)	E (n= 80)
Alternative source of income	75.6	19.0	-	21.8	53.3	-
Support at old age	-	2.5	-	-	-	-
Lucrative	3.4	55.7	100	21.8	40.0	-
Experience	-	5.0	-	7.3	-	-
Employment security	-	8.9	-	7.3	-	-
Occupation	-	2.5	-	1.8	3.3	-
Leisure/hobby	-	1.3	-	3.6	-	-
Low risk level	13.8	5.0	-	3.6	-	-
Food security	-	-	-	30.9	-	-
	-	-	-	1.8	-	-
Commonest available investment	-	-	-	3.6	3.3	80.0
Easy to manage	-	-	-	-	-	1.3
Financial security of children	-	-	-	-	-	-
Improve standard of living	-	-	-	-	-	-
Can afford to do so	-	-	-	-	-	17.5
Financial security of	-	-	-	-	-	-

self	6.9	-	-	-	-
Collateral					

KEY: H = Housing; T = Trading; P = Precious metals; F = Farming; Tp = Transport business and E = Education

For those families who engage in housing, the main reason why they do so was because the house can be rented out to serve as an alternative source of income to them. A small (but not negligible) percentage of 13.8% also invest in housing because of the low risk level associated with that form of investment. Some of them also invest in housing because it can be used as collateral to secure loans in the future to undertake other activities. Majority (55.7%) of those who invest in trading do so because to them, it is a lucrative venture to engage in since the return rate is very high. Nearly ten percent of the respondent said they invest in trading because it serves as employment security for them and their families especially their wives. Low risk level, experience and support at old age are also reasons that some of the families assigned to their choice of trading as an investment option. It is interesting to note that a few (1.3%) of them also trade for leisure or to serve as a hobby for them.

The main reason that the families assign to their choice of farming as an investment option are for food security, because of its lucrativeness and also to serve as an alternative source of income to the family. These three reasons cumulatively accounted for 73.6% of all the reasons given by the respondents as to why they invest in farming. Food security accounted for 30% of all the reasons and alternative income and high return rated both accounted for 21.8% each. Leisure or hobby, experience in farming, employment security, as an occupation, low risk level and also because farming is the commonest form of investment available in the area are also some of the reasons that the families assigned to their choice of farming as an investment option.

Majority of the respondent who invested in transport business do so to serve as an alternative source of income and also because of it yielding high profits or dividends. A small proportion of them (3.3%) also invested in transport business because it is easy to manage whiles the same percentage also do so because it is their occupation. Investment in education is also popular among the respondents. A very large proportion (80.0%) of the respondent household heads invest in the human capital development of their children to ensure that the future of their children is secured financially. The respondent families actually value investment in the human capital development of their children in terms of sending them to school or to learn a trade. To a sizeable percentage (1.3%) of the studied household heads, they invest in the human capital of their children for their own financial security because they children will look after them at an old age when they (the parents) can no longer work. To these family heads therefore, sending their children to school or to learn a trade is seen as ensuring the financial security of themselves and their families in general.

The very few studied household heads who invest in precious metals and jewellery said they do so because it is very lucrative as the value in terms of the price keeps on increasing. The families' low investment in precious metal might be due to the fact that these precious metals are not common in the area and that having access to them will be a difficult task for many families that might even have the interest in investing in them. It might also be due to the fact that as these precious metals are not available to the families, they might not be aware of their usefulness and value.

The reasons given by the family heads as influencing their choice of investment types are primarily the basic motive of increasing value of the money invested in future. The main hidden motive might however be to outpace inflation. It is however important to note that the main reason why studied family heads invest is to increase the value of their invested fund as it has the potential of increasing with time.

Constraints To Respondents' Ability To Invest

With regards to the things that hinder respondent household heads' ability to invest, several causes were identified.

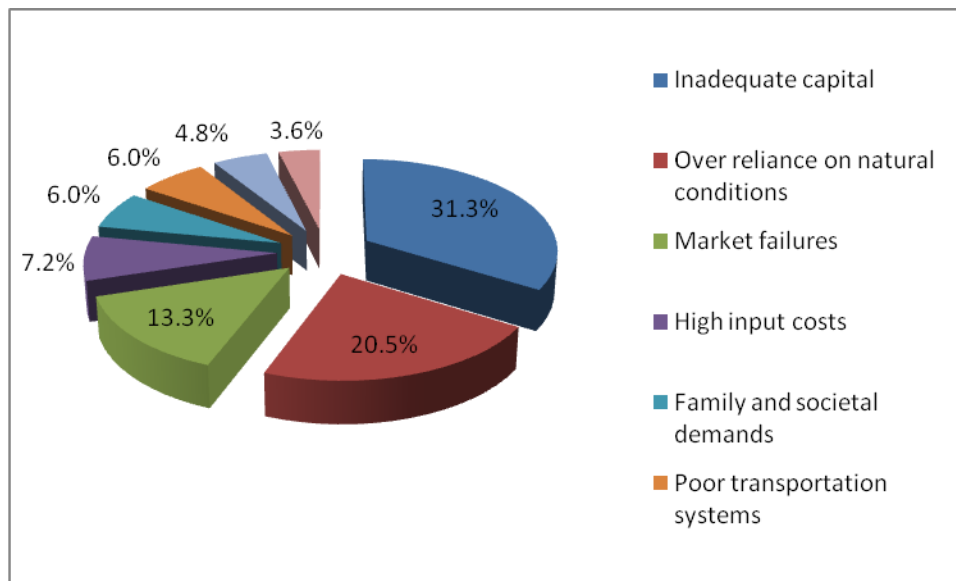


Figure 2: Percentage Constraints or challenges to respondents' investment (n = 83)

Prominent among these were inadequate or access to capital. More than 31% of the respondent family heads observed that they are not able to access enough capital in terms of money for their investments. Out of the 83 respondents to this item, 17 representing 20.5% also identified over reliance on natural conditions as a hindrance to their households' quest to invest. This point was mainly advanced by those households who invest mostly in agriculture. They mentioned that, their over dependence on natural rain for the sustainability of investments in their farms makes the investment more risk prone; when there is rain failure,

they usually incur a loss. Access to market for sale of produce of invested capital is also another factor that the respondents identified as serving as a hindrance to their investments. The respondents contended that the unavailability of market especially for their agricultural produce makes it virtually impossible for them to sell their farm produce. This usually results in their produce getting rotten leading to massive losses, and an eventual decline in investment in subsequent years.

Other problems identified by the respondents as serving as hindrances to their investment are high cost of input (7.2%), family and societal demands (6.0%) and poor transportation systems which include poor road network to market areas and also irregular movement of vehicles to and from the communities and the market areas which usually result in their foodstuffs getting rotten (6.0%). Another hindrance that the respondents identified included the fear of failure or the fear that their investment will not succeed. That is to say that this category of households will try to avoid uncertainty and so there is a high propensity of them not investing. The finding therefore shows that ability to take risk is an important hindrance to families' ability to or not to invest. This finding is in accordance with the assertion by Hofstede's as cited in Hills (2002) theory of risk taking propensity as having an influence on the investment behaviour of peoples. Hofstede in Hills (2002) also advance the socio-cultural theory of uncertainty avoidance as exerting a significant influence on people's decision to invest. The findings in this study also show that one hindrance to the respondent's investment is that they are not certain as to what will happen to their invested fund in the future.

The respondents also mentioned poor management of their income as a hindrance to their investment ability. What happen is that the families find it difficult to control their use of income to make some available through savings and then translate the savings to investment. This is evident in view of the fact that more than 90% of the respondent households do not use family budget. The families also cited inadequate knowledge about the forms of investment that they engaged in as serving as a hindrance to the investment that they do.

Conclusions

Many factors restrain rural households from investing. Among these factors was inadequate capital, over reliance on natural conditions, and market failures. Others included poor transportation systems, fear of failure, family and societal demands, and inadequate knowledge about investment, high input costs and abuse of money. However, the little investments that the households engaged in are in the informal forms or in their chosen occupations and sometime in human capital development of the children in the family. Since the families incomes are low and their investments meagre, they households invest these income on daily or weekly basis.

Based on these, the study recommends that financial counselling services be made available to rural households to equip them with the skills and competencies of managing their financial resources to meet both the present and future needs of the household.

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