ASSESSMENT OF SAVING BEHAVIOR OF CLIENTS OF BUUSAA GONOFAA MICRO-FINANCE INSITTUTION

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Zenegnaw Abiy (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or full to any other higher learning institution for the purpose of earning any degree.

Name   signature

St.Mary's University, Addis Ababa   **November, 2014**

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SCHOOL OF GRADUATE STUDIES

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APPROVED BY BOARD OF EXAMINERS

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Table of contents

LIST OF TABLES AND FIGURES

TABLES

FIGURES

ACRONYMS

ASCAs-Accumulating Saving and Credit Associations

AEMFI-Associations of Microfinance Institution

BG-Busa Gonofa

BG MFI- Busa Gonofa Microfinance Institution

LPF-Loan Performer

LCH-Life Cycle Hypothesis

MIS-Management Information System

MoFED-Ministry of Finance and Economic Development

NBE-National Bank of Ethiopia

PIH-Permanent Income Hypothesis

RoSCAs-Rotating Saving and Credit Associations

SHGs-Self-Help Groups

SSA-Sub Saharan Africa

SPSS-Statistical Package for Social Scientists

Abstract

Like many other MFIs in Ethiopia and elsewhere Busa Gonofa Micro-finance Institution (BG MFI) is a credit driven organization. After experiencing delivery of micro-credit service for more than a decade, the organization commenced delivery of saving service to the public since the year 2012. Much is not well understood about saving behavior of clients of the organization which is the basis of delivery of the services. Therefore, the purpose of this study is to assess saving behavior of clients of BG MFI from different perspectives; including demographic, socio-economic, and institutional.

A multi staged stratified random sampling technique has been used to select a total of 385 respondents from four branches operating in different geographic locations. Both secondary and primary data sources were used to gather relevant information. A structured questionnaire was designed by the researcher. An in-depth interview of all sample clients was administered through trained credit officers. Each respondent's saving balance has been collected from secondary data source of BG MFI. The data has been analyzed through SPSS software.

The findings of this study indicate that average saving balance of urban clients is higher than rural clients. Single (unmarried) client's average saving balance is also larger than married once and educated clients save more than uneducated clients. Saver only (non-borrower) client's average saving balance is larger than their counterpart borrower clients. It has been noticed that clients with higher income had quite higher saving balances than those with little income groups.

BG needs to create more access privilege to the many un-served low income households through physical expansion of branch offices or other innovative mechanisms such as mobile banking and agent banking models. The organization shall increase the scope of its door-step marketing strategy to promote its service to the public at large as many are not well aware about microfinance institution in general and BG MFI in particular. The association of microfinance institution (AEMFI) might play a role in promoting MFIs and their services to the public through the use of different media.

Chapter 1: Introduction

1.1. Background of the study

Microfinance, according to (Otero, 1999) is "the provision of financial services to low income poor and very poor self-employed people". These financial services include savings and credit but can also include other financial services such as insurance, transfer of payment services and remittances. Schreiner and (Colombet, 2001) define microfinance as the attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural areas and who are excluded to obtain such services from the formal financial institutions.

The formal sector like banks, MFIs, cooperatives and postal savings banks has only a limited capacity to meet the savings needs of the poor, thus absence of formal savings services results in the "financial exclusion" of the larger population. In that regard, informal savings prove the savings potential of the low-income people who use them and the unmet demand for savings services (Moulick, Guwahati, and Assam, 2008). On the other hand (Gugerty, 2003) argues that, it is largely invisible to the formal sector because majority of poor people in developing countries save informally and offers insight into some of the potential behavioral constraints on savings. For instance, in Ghana, poor households pay for "susu" collector who travels to individual home or businesses every day in order to collect savings deposits.

Micro-finance in Ethiopia and elsewhere in the globe focused mainly on delivery of micro-credit services to the financial excluded low income population. Regardless of the prudential regulatory framework of Ethiopia which allows deposit-taking MFIs to mobilize savings from the public, immediately after getting the permission or a license from NBE, MFIs focuses on credit delivery than saving. In line of this (*Wolday and Tekie 2014)*, stated that “in the last two decades, the government, donors, banks and microfinance practitioners in Ethiopia focused on the delivery of credit and failed to focus on the provision of saving services for a number of reasons” p. 4.

Busa Gonofa Microfinance institution is founded in 1999 as profit making Share Company. It is licensed by the National Bank of Ethiopia as non-bank financial institution with a deposit-taking mandate. Since 1999, BG offers solidarity group-based and individual loans and savings services to low-income households considered ‘un-bankable’ by conventional banks, (BG MFI strategic & business plan, and 2014). As of June 30, 2014 BG is serving more than 80,000 credit clients through a network of 29 branches located in rural district towns of Oromia. However, the number of depositors as of June 30, 2014 is only 35,000 out of which majority are loan clients.

Similar to many other Microfinance institutions, BG MFI had been focusing on the provision of efficient credit service to low income households in rural and pre-urban area. BG MFI, introduced saving products in 2012 after a decade plus experience in credit only services. The organization aims to provide tailored saving products to the financial need of its traditional target market, the low income household group of the community. As stated in (Strategic business plan of BG MFI, 2014), BG’s target customers are individuals from low-income households who are not in economic positions to access financial services from formal banks. The majority of BG’s targets are women micro-operators in both rural and urban areas, landless youth engaged in off-farm income generating activities and smallholder farmers with diversified livelihood activities (on-farm and non-farm).

Providing safe and accessible saving services to low income households marginalized from access to formal finical services is the primary objectives of BG MFI in offering micro-deposit service (Strategic business plan of BG MFI, 2014). The organization is also aiming to mobilize stable large lump sum money that would serve as alternative funding sources to be used in expansion of credit services to the large number of low income households.

According to (Wolday and Tekie, 2014), although banks, MFIs and financial cooperatives in Ethiopia offer savings products to households, little has been done to systematically study the relative merits of different product designs and saving mobilization strategies of financial intermediaries. Likewise, BG MFI also lacks sufficient strategy to be executed to mobilize massive saving that would help in achieving its social and business goals. Regardless of the effort made to design multiple saving products and its delivery mechanism, no effort has been done by the organization in studying the saving behavior of clients. It is assumed as clients have more or less homogeneous saving behavior. However, several studies indicate that households' saving behaviors is influenced by multiple factors including demographic, socio-economic and cultural dimensions (Han and Sherradan, 2009).

Therefore, the purpose of this study is to assess saving behavior of clients of BG MFI from various perspectives; specifically from demographic, socio-economic and institutional dimensions. The findings of the study would assist the organization in reshaping its saving mobilization strategy and providing saving services tailored to specific need of various categories of households.

1.2. Statement of the problem

According to (MoFED) Ministry of Finance and Economic Development (2010), the low level of domestic savings in Ethiopia is assumed to be one of the factors that would challenges supporting the huge demand of the country's investment for accelerating growth and development in the process of eradicating poverty. The document also indicates the plan of increasing growth domestic saving as % of GDP from 9.4 % in 2010 to 15% by end of 2015.

However, has to the knowledge of the researcher, no much effort has been done in studying and tackling reasons beyond such low saving performance of majority of households in the country. In this regard (Wolday and Tekie, 2014), stated that, "The formal finance providers in the past had given less emphasis to saving mobilization. They perceived that "the poor cannot save and are unbanked" which has been stumbling-block in mobilizing saving in Ethiopia. However, the evidence from the experience of MFIs and financial cooperatives and elsewhere reveal that forward looking households ought to be able to save, if given enough time and appropriate and flexible saving products. ”p.5

Busa Gonofa microfinance institution has been offering microcredit service to many rural and semi-urban low income households since 2000. The organization’s has too little experience of saving mobilization in relation to its rich experience in delivery of credit services. A lot of efforts have been done in understanding the financial demand of low-income households, the core market segment of BG’s credit services. To this end BG has internally developed social performance management system to consistently track and monitor impact of its credit services on borrower clients.

On the other hand, the researcher is well aware of the fact that the organization has no sufficient understanding of clients saving behavior which is one of the main factors that affect the effort made to mobilizing massive saving. Understanding of factors influencing saving behavior of potential market is crucial to formulate marketing strategies and delivery services.

Analysis of saving performance data as of the year ended June 2014, shows that saving to loan ratio of BG is 20% which is too small compared to the country’s industry average of 60%. The average deposit balance per account of birr 450 for same period is also too small to attain the intended massive saving mobilization goal of the organization. Moreover, it might escalate the cost of administering many accounts with tiny balances. Therefore, the purpose of this study is to assess the saving behavior of clients of BG MFI which would contribute in enhancing the sustainability of the services.

To the researcher knowledge, no research of same type had been conducted in the past, particularly on the saving behavior of clients of BG MFI. Hence, filling the knowledge gap at least internally, the study would depict dominant saving behaviors of clients of BG MFI. Finding of the study will help in specifying clear market segment, marketing strategy and design of appropriate product and delivery mechanism.

1.3. Significance of the study

The finding of the study shall help management of BG MFI and other similar organization to better understand saving behavior of low income households. It would contribute in simplifying the effort of segmenting the mass market into niche market. Findings of the study may also help the organization in modifying existing products or developing new saving product to meet the specific need of certain market segment. Management of the organization might use findings of the study to formulate appropriate marketing strategies that would contribute in achieving the goal of mobilizing massive saving. Understanding depositor's behavior would also aid employees of the organization in effectively interacting with various depositor groups that need different types of promotion or service delivery approach. Other organizations that need to understand the saving behavior of low-income community might use output of the research. The study could also serve as a baseline for further research about saving behavior of clients of BG MFI.

1.4. Basic research question

- What is the dominant demographic characteristic of depositors of BG MFI?
- Which demographic categories saves higher amount?
- What are saving goals of clients?
- What challenges clients to increase their saving balance?
- Why clients choose to deposit at BG MFI?
- What clients dislike about deposit service of BG MFI?

1.5. Main Objectives of the study

Assessing the saving behavior of clients of Busa Gonfa Microfinance institution from various dimensions is the main objective of the study.

Specific objective of the study

- To assess saving behavior of clients in terms of demographic characteristics;

- To determine saving behavior of clients in terms of socio-economic domain;
- To explain saving behavior of clients from institutional dimension;

1.6. Delimitation

The scope of this research is limited to analysis of saving behaviors of depositors with relatively higher saving balances. This consideration might overlook client who had higher saving balances but withdrawn at a time in point. The exclusion of such clients in sample selection would affect the output of the study.

Chapter 2: Review of related literature

2.1. Introduction to saving

Saving is defined as cash held back from day-to-day spending by an act of a will. It transforms small cash flows into useful large lump sum. Savings are fundamental to sustainable economic development. It is the most frequent source of funding for microenterprise startup and expansion. Savings enable households to smooth consumption in the face of uneven income flows, to accumulate assets for the future, to invest in education, and to better prepare for emergencies. Despite the importance of savings, the large majority of micro-savers continue to lack access to safe and sound institutions where they can deposit their savings.

Saving can be made in cash or in-kind. Savings in cash at home has the advantage of liquidity and accessibility, but as it stands chance of theft or being frittered away, it is not the preferred mechanism. Savings in-kind is common because it provides quick and higher returns, for example through the reproduction of livestock. It is also used because of traditional social practices and the status attached to assets such as land and jewelry. Nonetheless, savings in kind is most prevalent among low-income people usually not by choice, but for want of a better option. Saving with non-bank financial companies, Iqub, or rotating savings and credit associations (RoSCAs), and accumulating savings and credit associations (ASCAs) is a more common practice because of their wide outreach and simple processes.

Most people would prefer to save in a secure and accessible account in a formal institution. Of the options available, banks and microfinance institutions are preferred because of the security and discipline they provide. Nonetheless, formal savings services present many hurdles. They are inaccessible because of the limited outreach of the formal financial institutions. The products offered often do not meet clients' needs effectively, and they are delivered by staff members who are not sensitive to the needs and expectations of low-income people.

The advantages and disadvantages of each mechanism affect the choice of savings options among different economic categories: the rich, not so poor, and poor. Understandably, the rich are the highest users of the formal institutions and the poor the lowest. Institutions such as self-help groups (SHGs) and microfinance institutions (MFIs) cater more to the poor and reach out to the lower segment of the not-so-poor category. Multiple informal mechanisms are used in parallel, mostly by the not so poor, because they can diversify their risks and accumulate lump sums to meet some planned need or to invest in some asset. The poor also often use the informal mechanisms, but their most commonly used option is simply to hold cash savings at home, which is mostly driven by lack of feasible alternatives.

2.2. Theories of saving

Examining and explaining determinants of saving and asset building have attracted attention from scholars across numerous disciplines. Economic theories put primary emphasis on income and age as predictors of saving and asset accumulation (Modigliani & Ando, 1957). Behavioral economists and economic psychologists have recognized the role of self-control, motives, and other personality characteristics on saving (Katona, 1975; Thaler & Shefrin, 1981; Wärneryd, 1999). Sociologists have been interested in how class and social stratification influence saving and asset accumulation (D'Souza, 1981; Sorensen, 2000). Social workers have examined the effects of institutional factors such as access, incentives, expectation, and facilitation in promoting saving (Beverly & Sherraden, 1999; Sherraden, Schreiner, & Beverly, 2003). (Han and Sherraden 2009), classifies existing theories into three perspectives: 1) an individual-oriented perspective; 2) a social stratification perspective; and 3) an institutional perspective.

2.2.1 Individual Perspective

The individual perspective includes neoclassical economics, economic psychology, and behavioral economics. Neoclassical economic theory assumes that individuals are rational beings who respond in predictable ways to changes in incentives; and assumes that individuals have perfect knowledge and access to perfect markets. Two prominent neoclassical economic theories include: 1) the life cycle hypothesis (LCH; Modigliani & Ando, 1957); and 2) the permanent income hypothesis (PIH; Friedman, 1957). Both theories assume that individuals and households are concerned about long-term consumption opportunities and therefore, explain saving and consumption in terms of expected future income.

The LCH posits that savings will be used to smooth consumption when income varies by age. A main idea of the LCH is that working people are savers, whereas children and retired people are not. Thus, differences in consumption and saving among house- holds are attributed to age differences (Modigliani & Ando, 1957). While people are working, they use their income to provide for the household consumption, while at the same time they are saving to provide for their retirement. On the other hand, the PIH suggests that savings decisions are based on income being perceived as either permanent or temporary. Households mainly spend the permanent income, while the temporary or transitory income is channeled into savings; and households are freely able to save and borrow to smooth their consumption (Friedman, 1957). Both economic theories view savings primarily as a function of income. Aside from income, age, including the age of the head of household and other household members, is an important predictor of saving, according to neoclassical economic theories.

Although evidence suggests that neoclassical economic theories can predict savings behavior of households in developing countries, some researchers have argued that the application of LCH and PIH to explain savings behaviors of low-income households in developing countries can be problematic (Rosenzweig, 2001). For instance, PIH's assumption that households are freely able to save and borrow to smooth their consumptions may not be true in developing countries where low-income households have very limited access to a well-developed insurance and credit market (Rosenzweig, 2001). In addition, distinction between permanent and temporary income may not be evident in many parts of the developing countries where household income is minimal and irregular. Savings in low-income settings for long-term purposes, such as retirement, may not be substantial given that many households struggle to meet subsistence consumption level, especially in times of emergencies and other income shocks.

Unlike neoclassical economic theories, the other two individual perspectives on savings in this study economic psychology and behavioral economics do not assume that people are rational and all-knowing. These two perspectives assume that personality characteristics and attitudinal variables affect saving and asset accumulation. The inclusion of psychological factors on savings research has been the subject of investigations by early economic thinkers such as Jevons (1965), Marshall (1961), and Fisher (1977). Although they recognized that savings depend on economic factors, particularly income and its size and frequency, they also believe that there are various psychological characteristics that influence the temptation to spend and forego saving. Although fewer psychologists have investigated psychological determinants of saving behavior than economists, there are some established psychological models on savings behaviors, including those by (Katona, 1975), (Ölander and Seipel, 1970), and (Lindqvist, 1981). For instance, Katona's theory of saving (1975) is partly determined by income and partly by some independent intervening factors. Two important factors are the ability to save (mostly objective data) and willingness to save (a variety of psychological variables). Ability to save refers to those who can save, whereas willingness to save is related to the degree of optimism or pessimism of economic conditions (Katona, 1975). Thus, ability to save does not guarantee savings because savings also depend on an individual's willingness to save.

Behavioral economics integrates insights from psychology and economics. According to this perspective, common human characteristics such as self-control and ability to delay gratification, mental accounting, use of rules-of-thumb, default options, and hyperbolic discounting shape financial behaviors and economic decisions (Shefrin & Thaler, 1988) and (Angeletos, Laibson, Repetto, Tobacman, & Weinberg, 2001). These characteristics can lead households to behave in ways that are inconsistent with their own priorities. However, little is known about the explanatory powers of these factors on savings behavior of low-income households in developing countries.

2.2.2 Sociological Perspective

Social stratification theory refers essentially to a distribution of power in society. The divisions in society, based on economically conditioned power, are called classes, which refer to any group of people that is found in the same economic situation (Weber, 1967). Class and social stratification have strengths in explaining the factors affecting savings behavior among low-income households because class relates to the possession (or lack) of resources (economic or otherwise) necessary for individuals and households to save and build up their assets. Individuals and families in lower economic classes have limited access to information, resources, and services that can help them save and accumulate assets over time. When low-income families have assets, they are less likely to have access to additional resources that they can use to generate positive returns on the assets they already own. The economistic approach to class and social stratification suggests that a major explanation of class inequalities rests in the nature of access to, and take up of, material resources, as well as the institutions that govern such access (Crompton, 2008). In addition to control and possession of economic resources, class and social stratification are powerful determinants of outcomes that can further shape saving and asset accumulation patterns. Demand from social network members, particularly family members, can make it difficult to save and accumulate assets (Stack, 1974).

2.2.3. Institutional Perspective

Institutional theory posits that individuals and households are faced with institutional level factors that make it impossible or difficult to save. The main hypothesis of institutional theory assumes that low-income individuals and families are unable to save and accumulate assets primarily because they do not have the same institutional opportunities that higher-income individuals and households receive (Beverly &

Sherraden, 1999). Otherwise, given access to the same institutional support for saving and asset building that their wealthier counterparts use, low-income families can be in a position to save and accumulate assets. Institutions in the institutional theory refer to “purposefully-created policies, programs, products, and services that shape opportunities, constraints, and consequences” (Beverly, Sherraden, Carmer, Williams & Zhan, 2008): p. 10). Institutional theory hypothesizes that institutions affect world views, which in turn, affect financial behaviors and decisions (Beverly & Sherraden, 1999).

Seven institutional level dimensions have been hypothesized to influence saving and asset accumulation. These dimensions are access, information, incentives, facilitation, expectations, restrictions, and security (Beverly & Sherraden, 1999; Beverly et al., 2008).

2.3. Motives for Saving

Households have varying needs of which some must be satisfied immediately (and this can be done from current income), but other needs will occur in the uncertain future, some of which are planned and some unforeseen. To satisfy this future needs money need to be saved to be available when needed. This means that households must sacrifice current consumption to be able to consume in the future.

Households need funds in future for various reasons, such as: durable consumer goods, children’s education; acquiring a home and healthcare; Education is usually high on the priority list of most households. Acquiring an own home is another high household priority.

Neoclassical economists typically emphasize four motives for saving: (1) maintaining consumption during retirement; (2) preparing for income shocks and other emergencies (precautionary saving); (3) transferring wealth to future generations (bequest motive); and (4) purchasing “big ticket” items such as consumer durables, education, or a vacation (target saving). The first three are expected to influence long term saving, and the fourth to affect short- to medium-term saving and dissaving (Sturm 1983).

Poor households are in totally different situations. While ordinary households enjoy the luxury of permanent jobs that come with automatic savings mechanisms such as medical aid and retirement schemes or own their own successful enterprises that ensure adequate income to support savings for necessary and unnecessary future needs, poor households mostly cannot even pay for very necessary current consumer goods and services. Yet they also need to save for future needs. These needs can be normal everyday needs such as to eat and pay for transport, but are often unforeseen, such as to pay for funeral costs

Saving is a crucial component of poor people's economic well-being. They save money in order to reduce their vulnerability to negative shocks which may be due to causes such as natural disasters, crop failures, job losses, illness or death in the family. They create a Safety Net with the help of savings, in kind or cash. Asset building instruments (such as contractual savings accounts) allow poor households to accumulate small amount of money periodically for payment of bigger expenses such as school fees and medical treatment. According to, (Stuart Rutherford, 2005), the savings needs of the poor can be grouped into four main categories:

1. Lifecycle Needs: such as weddings, funerals, childbirth, education, home building, widowhood, old age. 2. Personal Emergencies: such as sickness, injury, unemployment, theft, harassment or death. 3. Disasters: such as fires, floods, cyclones and man-made events like war or bulldozing of dwellings; and 4. Investment Needs: expanding a business, buying land or equipment, improving housing, securing a job (which requires paying a large sum), etc.

In the absence of efficient credit and insurance markets, household saving is a crucial determinant of welfare in developing countries (Attanasio and Szekely, 2001). How much society saves today for tomorrow's consumption has important implications for economic growth, consumption levels and the welfare of the elderly. So why exactly do households save? In his book, "The General Theory of Employment, Interest and Money," John Maynard Keynes provided eight motives as to why a household would save:

1. To build up a reserve against unforeseen contingencies (the precautionary motive);
2. To provide for an anticipated future relationship between income and the needs of the individual (the life-cycle motive);
3. To enjoy interest and appreciation (the inter-temporal substitution motive);
4. To enjoy a gradually increasing expenditure (the improvement motive);
5. To enjoy the sense of independence and the power to do things, though without a clear idea or definite intention of specific action (the independence motive);
6. To carry out speculative or business projects (the enterprise motive);
7. To bequeath a fortune (the bequest motive); and,
8. To satisfy pure miserliness, i.e., unreasonable but insistent inhibitions against acts of expenditure as such (the avarice motive).

In addition to the eight motives above, Browing and Lusardi (1996) provided a ninth reason to save: To accumulate deposits to buy houses, cars and other durables (the down payment motive). Corresponding to these reasons for saving, Keynes also provided a list of motives for consumption: enjoyment, shortsightedness, generosity, miscalculation, ostentation, and extravagance. There are a lot of reasons why a household might save and many reasons why it may not. Moreover, an individual might save for different reasons at different stages of his or her life.

2.4. Empirical Findings: Demographic, socio-economic & Institutional factors affecting household saving behavior

2.4.1. Age of Individual

The Life Cycle Hypothesis (LCH) posits that savings will be used to smooth consumption when income varies by age. A main idea of the LCH is that working people are savers, whereas children and retired people are not. Thus, differences in consumption and saving among households are attributed to age differences (Modigliani & Ando, 1957). While people are working, they use their income to provide for the household consumption, while at the same time they are saving to provide for their retirement.

Elderly people save or at least do not dis-save as much as predicted by the life-cycle hypothesis (Deaton and Paxson, 1994 and Poterba, 1995), and consumers appear to value bequests (Menchik and David, 1983). Some research studies such as Bovenberg and Evant (1990) shows that the higher the old aged population in the nation the lower is the saving rate in the economy. This study is inconsistent with the study of Foley and Pyle (2005) which concluded that the young and elder population saves more than the middle aged population.

2.4.2. Gender of Individual

Results of prior empirical studies on effect of gender on households saving performance are mixed. For instance, (Chowa, G. A. N. 2008), show that both women and men are saving successfully. However, women are saving better than their male counterparts across levels of education, marital status, and type of work. On the other hand, a study conducted by (Wolday and Tekie 2014) indicates that male headed households had significantly higher cash savings (about 2.2 times) than female households. Empirical study in Philippines by Bersales & Mapa (2006) shows that male households are better saver because the female has no power to control income even their own income.

2.4.3. Marital status

The household marital status has been as a proxy for saving performance because family value is important factor of savings. There are some empirical studies such as (Collins, 1991) and (Sinha, 1998), which shows the family value plays an important role in the saving behavior of household and economic development. In their study, marriage is important for saving performance since marriage is morally and socially responsible for collective interest and it has important factor for financial planning. The married households save more than singles due to their multiple source of income (the income of the partners) and economies of scale with respect to basic expenditure. The study of (Mosk, 2010) shows that widowed household save more than married and unmarried household because they face unanticipated and extra risk of life such as rearing children alone.

2.4.4. Households Family size

Evidence suggests that poverty in extended families can impede saving and asset accumulation (Chiteji & Hamilton, 2005; Heflin & Patillo, 2002). This is further evidenced by findings of (Wolday and Tekie 2014), which indicates that households with larger family size (more children and elderly members) are likely to increase their consumption and remain with little cash to save. On the other hand, if the dependents are economically active, there is a probability of contributing to the increase in cash saving of household heads and offers incentives for better risk protection within the household.

2.4.5. Dependency ratio of household

Economic researchers commonly use dependency ratio or those under age 15 and over 65 as a share of the total household composition, as an explanatory demographic variable. In the LCH, households with more children at home may save less until the children leave home, which would raise the per capita income of the household. Thus, higher dependency ratio negatively affects savings rates. Evidence from SSA and other developing countries shows similar results. An increase in dependency ratio decreased saving, while a decrease in dependency ratio increased saving among households in Kenya (Kibet, Mutai, Ouma, Ouma, & Owuor, 2009). Higher ratio indicates more consumption expenditures and therefore, less saving.

On the other hand (Mason's 1987, 1988) studies, challenged findings that dependency ratio has a strong negative effect on saving. Mason qualifies the negative effect of dependency ratio on savings by introducing the age factor. He demonstrates that in some cases, the effects of the dependency ratio depend on the age of the dependents. In the Philippines, for instance, researchers found that the percentage of young dependents had a negative effect on savings, whereas, the percentage of the elderly had a significant positive effect on savings (Bersales & Mapa, 2006).

2.4.6. Income of Household

Evidence from SSA and other developing countries, albeit mostly from middle to upper income households, suggests that income positively influences saving and in ways consistent with standard economic theories (Schmidt-Hebbel, Webb, & Corsetti, 2002). In Kenya, household income was found to be a statistically significant predictor of savings among rural farmers, entrepreneurs, and teachers (Kibet et al., 2009). In Uganda, higher permanent and transitory incomes significantly increased the level of net deposits among households that reported owning bank deposit accounts (Kiiza & Pederson, 2001). Income was also a significant predictor of improved savings in India (Agrawal, Sahoo, & Dash, 2007; Athukorala & Sen, 2004), and the Philippines (Bersales & Mapa, 2006). A study conducted in Malawi, by (Alexander R., 2010) concluded that household income levels significantly determine the ability to open a bank account or to save. These findings suggest that households save a larger share of their income when that income is higher.

2.4.7. Educational status

Evidence from SSA and other developing countries suggests that class related factors can explain savings behaviors of low-income households. Education has been found to be a significant predictor of savings in Kenya (Kibet et al., 2009), and the Philippines (Bersales & Mapa, 2006) but not in India (Agrawal et al., 2007). Higher education level translates to higher savings level. Furthermore, evidence also suggests that class-related factors, such as education, not only affect savings rate but also ownership of a formal savings account. In Uganda, the education level of the head of household was found to be a statistically significant predictor on whether a household will acquire a formal savings account (Kiiza & Pederson, 2001).

2.4.8. Occupation of Individual

Household work statuses have been found to affect their saving performances. According to findings of the study conducted by (Wolday and Tekie 2014), occupation of a household such as farming, non-farming activities, wage employment, self-employment, causal employment and etc influence the saving behavior of households. They state that in both rural and urban areas, households with significant income from non-farm or self-employment are expected to have relatively higher cash saving. Occupation, which can be predicted by a person's level of education, was found to be a significant predictor of savings rates in rural Kenya (Kibet et al., 2009).

Some empirical studies such as Sinha (1998), Muradoglu and Taskin (1996) shows that self-employed household has consistent saving because they have fear of work uncertainty in the future whereas other studies such as Mosk (2010) show that the employed household has consistent saving because of their constant income.

2.4.9. Convenience to save

Convenience is one of the priorities that savers establish as criteria for where they place their savings. For most savers, convenience is characterized by physical proximity, hours of access, transaction requirements or costs, speed of transactions, and product access. The physical proximity of the savings institution facility determines the cost and time required for the saver to go to the deposit facility. For many vendors, time away from their business has a high opportunity cost.

Evidence from SSA and other developing countries suggests that institutional factors are associated with saving and asset building. In Uganda, proximity of the financial institution to the household is associated with the probability of whether or not a household will open a formal saving account, as well as the level of net deposits among households owning a bank account (Kiiza & Pederson, 2001).

In the same study, urban households were more likely to open a deposit account than their rural counterparts. Higher transaction costs (due to reduced accessibility) were also found to have significant negative effects on the level of savings deposits among Ugandan (Kiiza & Pederson, 2001) and rural Kenyan households (Dupas & Robinson, 2009). They (Dupas and Robinson, 2009) found that subsidizing the opening fees for a savings account on behalf of a random sample of small business owners in rural Kenya increased the savings of women; many of them market vendors who opened the account compared to women who were not offered the account.

Also in Kenya, (Kibet and colleagues, 2009) found that higher transport costs to saving institutions had a negative impact on the saving habits of teachers in rural areas. These results suggest that poor people can be better off if it is much cheaper to start a bank account. A finding from Malawi, (Alexander R. Phiri, 2010) correspond with other finding which indicates that distance to the nearest bank has negative effect on saving performance of households. In these circumstances, accumulation of savings and other assets is not solely based on individual characteristics and choices; some people have greater access than others, and this disparity in access is evident in many parts of the developing world.

2.4.10. Information

Obtaining information, particularly general information about financial institutions and their products and services, was found to be associated with owning a bank account among households in SSA. Some individuals, those who are more educated and more comfortable with financial matters might seek out this type of information, but many will not obtain information unless it is delivered to them in an accessible format. In Uganda, researchers found that the likelihood of owning a savings account increases by roughly 33 times when a household becomes well informed about a particular bank and its services (Kiiza & Pederson,2001).

2.4.11. Facilitation

Facilitation refers to any form of assistance in saving, especially making saving "automatic." Common examples are automatic payroll deduction and automatic transfers into saving products. Usually, people must arrange for automatic transfers, but after signing up, they no longer have to make conscious decisions to save. According to (Beverly, Moore, and Schreiner 2003) and (Shefrin and Thaler 1988) "pre-commitment constraints" increase deposits because funds for saving are never "in hand" and are therefore much less likely to trigger spending temptations.

2.4.12. Security:

Security refers to freedom from unreasonable risk in saving and asset holding (Beverly et al, 2008). All households need a safe place to put their money. Therefore, it seems probable that security shapes saving and investment action, specifically that people are more likely to deposit, less likely to withdraw, and more likely to have a diverse portfolio when they can participate in a variety of secure saving policies, programs, and products. According to (Beverly et al, 2008), security is considered at two levels: micro and macro. Micro security refers to protection from risks of lost assets for a particular household and in the shorter-term. Macro security refers to protection from risks for the political economy as a whole and in the longer-term.

Micro security includes both risk of property loss and investment risk. Property loss risk refers to threats of misplacement, theft, and destruction (e.g., through catastrophes such as fire or flood).

At the micro level, a second type of risk is investment risk. The topic of investment risk is well-developed in microeconomics, usually in relation to rates of return. It is commonly understood that, in competitive markets, riskier investment options, over time, can offer higher rates of return. Therefore, some degree of investment risk is desirable for asset accumulation over the long term, and "security" from this risk can have negative consequences.

Macro risks have to do with the competence and integrity of the political system, integrity of the financial markets, and management of the macro economy. Whenever assets accumulate, as in a defined contribution retirement plan, these assets may be subject to depletion through mismanagement or corruption.

Chapter 3: Research Method

3.1. The Research Design

The purpose of the study is to assess the saving behavior of clients currently saving at BG MFI. An in depth analysis of saving behavior of households saving at the organization has been conducted to asses factors that influence their saving practices. The researcher used descriptive survey method because of its efficiency in collecting large amount of information within a short time.

3.2. Source of Data

Both primary and secondary data source was used to collect information of the sample population. Saving balance of sample clients was gathered from internal record of the organization. Whereas other information was collected from primary sources through interviewing all sample clients.

3.3. Sampling Design & Techniques

As of June 30, 2014 BG MFI is providing credit and saving services at 29 branches in different rural and peri-urban parts of Oromia region. BG had categorized its branches in to four regions for administrative purpose and each region consist a cluster of 6-8 branches. The organization was serving 80,440 borrower clients and 35,300 depositor clients as of June 30, 2014. About 80% of the depositors are borrower clients.

Further analysis of saving balances of BG MFI depositors indicates that the saving balance of individual client varies in the range of birr 10 and 500,000. The lion-share (about 65%) of borrowing depositors account balance is below birr 100. Assuming, such very small balance of borrower clients might not be a true voluntary saving (could be a forced saving as noticed during informal discussion with some BG branch staff), the researcher decided to limit the total population of the study to clients with account balance of birr 100 and higher as of June 30, 2014. Hence, the total study population is adjusted to be about 16,950 clients.

Considering factors like, cost, time, accuracy of data and its management, the researcher selected four branches, one from each region using stratified random sampling strategy. These branches are Arsi-Negele from South, Bishoftu from East, Muka-Turi from North and Nekemte from West region. Each of the selected branches can represent the remaining branches in their respective region in terms of, client composition, client status, demography, and economic condition.

Multi stage stratified random sampling selection method had been used to select clients from selected branches of each region. Special consideration was made to include depositor only clients (non-borrowers) and those who are a depositor and a borrower at a time. On top of this, the proportion of urban and rural households was considered in selecting sample clients from the total population of the study.

3.4. Sample Size Determination

To identify the sample size of the study the following stastical formula was used;

$$\boxed{\mathbf{N = (Z\ score)^2 \times SD*(1-SD)/(ME)^2}}$$

Where, N is number of sample size, Z score is Z value of used confidence level, SD is standard deviation, and ME is Margin of error

To calculate the intended sample size of the study, the researcher used the following values for each parameter. These are,

- Confidence level (CI)=95%
- Margin of Error (ME) = 5%
- Standard Deviation (SD) =0.5
- Z score of 95% confidence level is 1.96

Accordingly, the sample size or number of respondent needed for the study is calculated as follow,

$$N = (1.96)^2 * 0.5 * (1-.05) / (.05)^2$$

$$N = (3.8416x.25)/.0025$$

$$N = .9604/0.0025$$

$$\underline{\underline{N = 385}}$$

Branches	Total Clients	Sample clients	Sample-Urban	Sample-Rural
A/Negele	1,302	140	90	50
Bishoftu	1,052	115	80	35
Muka-Turi	498	55	28	27
Nekemete	710	75	65	10
Total	**3,562**	**385**	**263**	**122**

Table: Proportional Allocation of sample clients

3.5. Data Collection Method

Saving balance of sample clients was gathered from management information system which is LPF record of each branch. A structured questionnaire has been used to gather additional information related to factors influencing saving behaviors of the study group through interviewing all sample clients. Trained data collectors administered interview of all sample clients at each of the four selected branches for the study.

3.6. Method of data analysis

Descriptive statistics have been used to analyze the data obtained from secondary as well as primary sources. Analysis of the data had been conducted through the use SPSS software. Tables and figures were illustrated to provide evidences of some of the most important the findings of the study.

Chapter Four: Findings and Discussion

4.1. Profile of respondents

Out of the total sample of 385 only 345 were found to be valid for data processing. Further analysis of profile of respondents indicates that 32% belongs to Arsi-Negelle, 28% to Bishoftu, 23% to Nekemete and 17% to Muka- Turi branches of BG. 64% of the respondents are borrowing clients of BG while the remaining 36% are depositors only (non-borrowers). Almost about one-third of respondents are female clients. Majority (79%) of respondents are urban clients.

4.2. Result of study by Demographic characteristics

4.2.1. Client saving behavior by age:

Age is an important variable that influence the amount of saving. Majority of the respondent (58%) belongs to the age category of 31-60 years followed by age group 19-30 (39%). Few clients (2%) reported age below 18 years. In this study, only four respondents (1%) are eldest clients of age more than 60 years. It is observed that the eldest clients have recorded the highest deposit balance of birr 18,239 on average. The age range 19-30 years is observed to be the second higher average saving balance with birr 5,560. The average deposit balance for total respondent is birr 4,447.

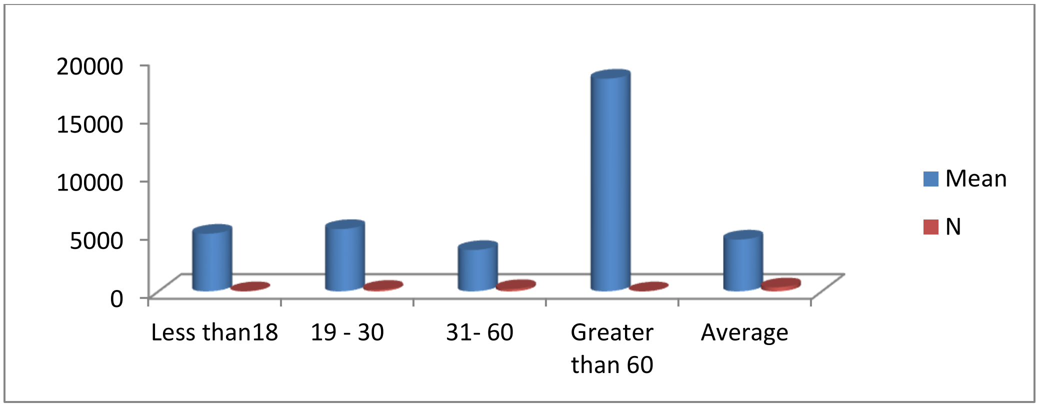

Figure 1: average saving balance of respondents by age (June 30, 2014)

4.2.2. Client saving behavior by sex

Two-third of the respondents in the study is female**.** 58% of female respondents had reported they never had saving account at any banks while the same is true for 47% male respondents in the study. At the moment, 60% of female respondents are saving at Iqub while only 46% of males uses Iqub saving. One-third of female respondents stated that they are saving in cash at home and 19% of male respondent's had similar experience. The finding of the study shows that male respondents average saving balance birr 3,494 is slightly higher than their counterpart female respondent of birr 3,874.

4.2.3. Saving behavior by Family size

The size and composition of households may influence the demand for saving services. In this study, respondents with family size 3-4 consists the largest share of 33% (one third) followed by 1-2 (26%), 5-6 (24%) and more than 7 (11%). About 6% of the respondents did not report the number of their family number. Average deposit balance birr 6,214 for respondents with family size 1-2 is quite higher than average saving balance of birr 1,555 for respondents with family size greater than 7.

4.2.4. Saving behavior by marital status

Majority (72%) of the respondents are married while 17% are single, 8% widowed and 3% divorced. Single clients had much higher saving balance of birr 11,439 followed by widowed 3,828 then married 3,039 and lastly divorced birr 889 in this study. The average saving balance of single (unmarried) clients is much (2.5 times) higher than the average saving balance of all clients as indicated in figure number 2 below.

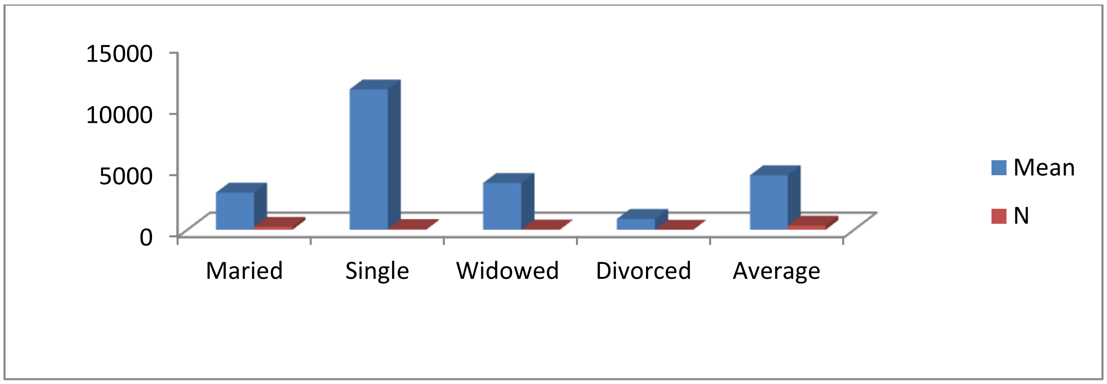

Figure 2: Respondents average saving balance by marital status (June 30, 2014)

4.3. Result of study by socio-economic dimension

4.2.5. Client saving behavior by education status

Nearly one-fourth of the respondents (24%) had no formal education. whereas 40% of respondents had attended 1-8 (primary education), 22% attended 9-12 (secondary education) and the remaining 14% had attended college studies. The average saving balance of clients who completed high school education birr 12,348 is significantly higher than the average balance of no schooling birr 2,452

Education level	Frequency	Percent	Valid Percent	Cumulative Percent	Mean (saving balance)
No Schooling	82	**23.8**	23.8	23.8	2,452
Elementary 1-4	61	**17.7**	17.7	41.4	2,270
Junior 5-8	77	**22.3**	22.3	63.8	4,406
Secondary 9 -12	75	21.7	21.7	85.5	3,172
Higher than 12	50	14.5	14.5	100.0	12,348
Total	345	100.0	100.0		4,447

Table 1: Average saving balance by level of education (June 30,2014)

4.2.6. Saving behavior by occupation

The largest share of respondents is pity traders (60%) followed by farmers (18%), employees (11%) and others constitute the remaining 11%. The average saving balance of employees birr 10,384 had been significantly higher than clients engaged in other activities. The smallest saving balance was observed for a farmer which is birr 1,555.

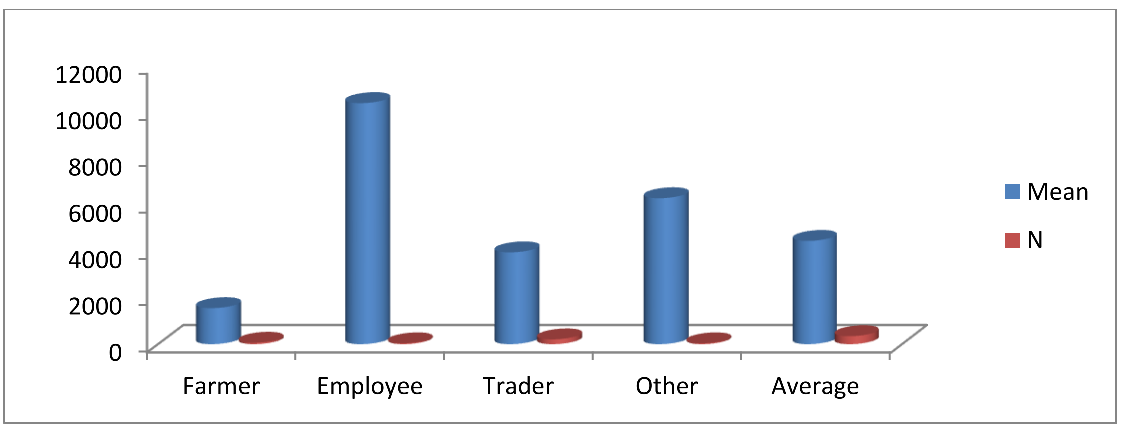

Figure 3: Average saving balance of respondents by occupation (June 30, 2014)

4.2.7. Saving behavior by Urban or Rural

The residence of majority of respondent clients is urban (79%) while the remaining 21% are rural depositors. The average saving balance of urban clients birr 5,416 in the study is significantly (six times) greater than that of rural clients of birr 896.

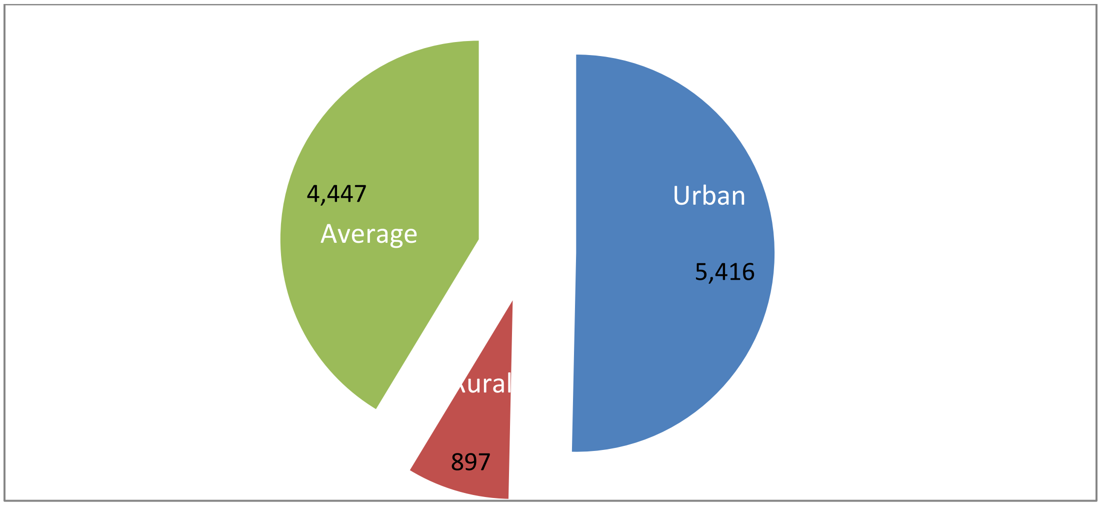

Figure 4: Respondents average saving balance by place of residence (June 30, 2014)

4.2.8. Saving behavior by status of clients at BG

Two-third of the respondents was borrowing clients of BG whereas the remaining are depositors only. The finding of the study shows that average saving balance of non-borrowers or savers only clients birr 9,602 is 6.3 times higher than that of borrower clients average saving balance of birr 1,518.

4.2.9. Saving behavior by Income

Fifty percent (50%) of respondents reported that pity trade is their first major source of income while farming activities is the first major source of income of 18% of respondents. Animal rearing (cattle and cattle products) was reported as the second major source of income of many clients.

During the interview clients were asked to estimate their monthly average income. Nearly half (46%) of respondents estimates their monthly average income to be in the range of 1,000-3,000 birr, followed by (22%) those who estimates their monthly average income to be between 3,000-5,000 birr and 18% who estimates below birr 1,000 which is approximately below 2USD per day. Only 6% of respondents estimate their monthly average income to be higher than birr 10,000.

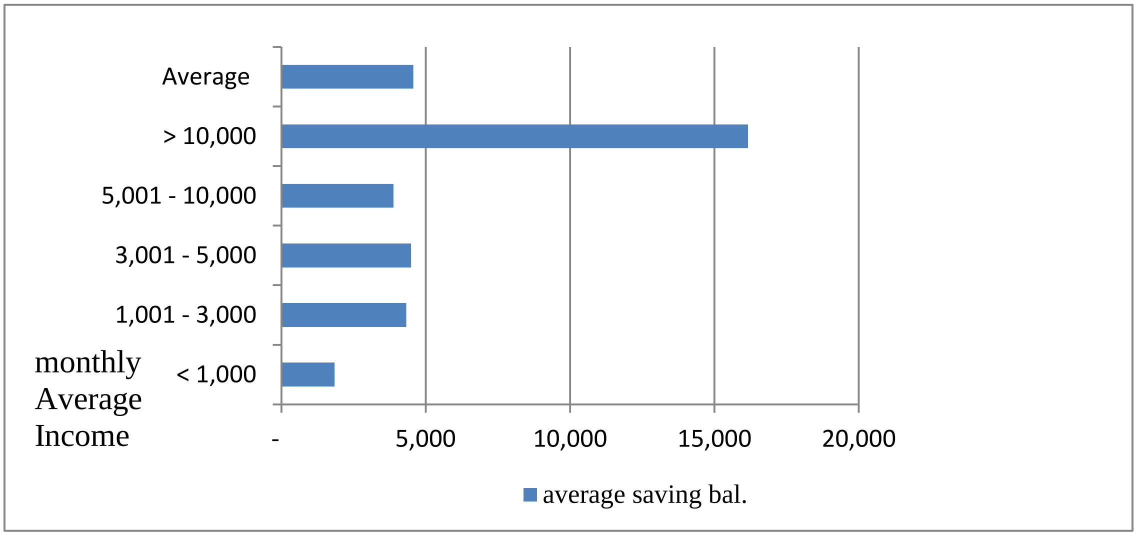

Figure 5: Average saving balance by income (June 30, 2014)

4.2.10. Saving capacity

The saving balance of different income category was found to be slightly different except for the very high income group which was significantly high as depicted in figure 5. The saving balance of the lowest income group is observed to be too small as expected by the researcher. When asked why respondents are not increasing their saving balance (50%) of them reported that there income is too low followed by (19%) priority to investment in business, (15%) too high expenditure, (8%) preference to save in kind than in cash and (8%) did not reported.

More than half (54%) of clients are saving on weekly or monthly regular basis. Few respondents (2%) reported they are saving on daily basis. Many respondents (44%) are saving on irregular basis mainly because of irregularity of their income. One-third (33%)

of urban respondents are saving on weekly regular basis. Too few (10%) rural clients are saving on monthly regular basis.

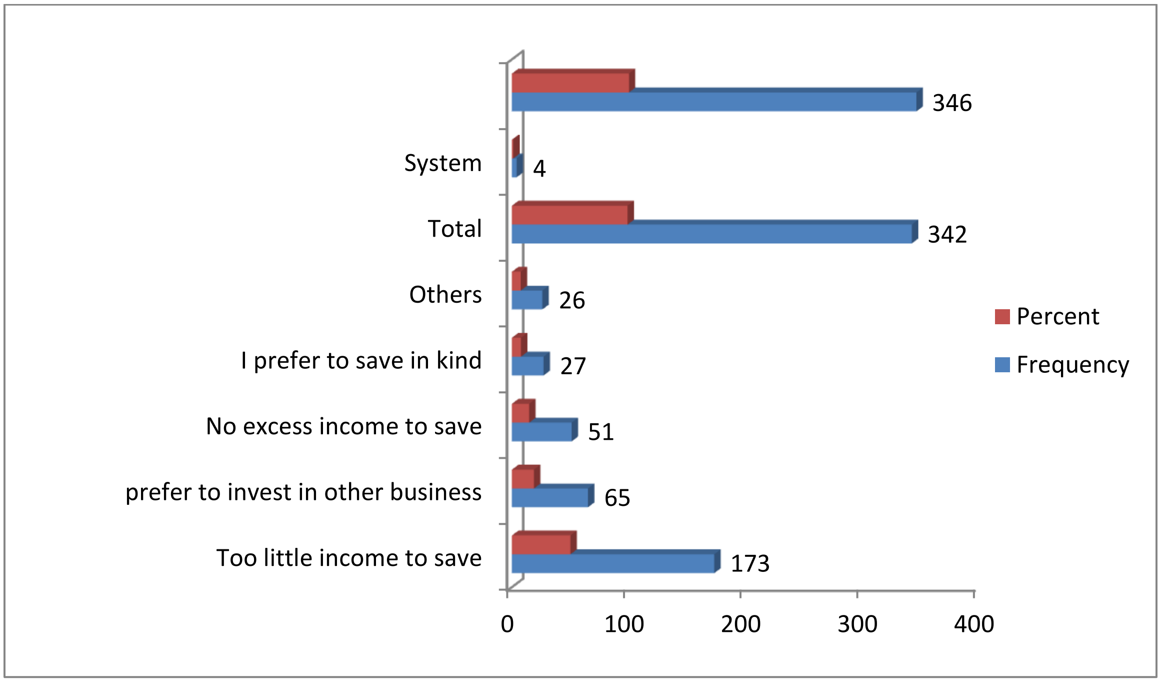

Figure 6: Respondents reasons for not increasing saving balance

4.2.11. Goal of saving

Emergences (42%) are the most popular saving purpose cited by respondent's followed with business expansion (34%), children education (10%), purchase of household asset (8%), holiday ceremony (1%) and for old age (1%). Relatively larger share of female respondents (30%) in the study had the goal of saving for emergencies while most male (20%) had the priority of saving for business expansion. Largest share (17%) of younger age group of 19-30 years stated they are mainly saving to start or expand an existing business. One-third (33%) of married respondents are saving for emergencies purposes while large number of single (8%) respondents aims business expansion. The strong desire to invest in business is ascertained as two-third (67%) of respondents declares their preference of investing if they have extra money. In this study no much difference is observed in the saving goal of rural and urban clients.

4.4. Result of the study from Institutional perspectives

4.4.1. Saving at other institutions

Majority of respondent's clients (54%) had no saving practice at formal institution including banks. The figure is quite higher (77%) for rural resondents and slightly lower for urban (48%). In similar manner most (54%) of respondent are practicing Iqub saving as an alternative saving mechanism. 40% of Iqub savers are depositing on a weekly basis at their nearby villages. When asked why they prefer to save in Iqub about 45% reported that they hope to win lottery of large lump-sum money as quickly as possible. Few respondents (5%) reported that they would like to maintain their social relationship with Iqub members and 3% of respondents admire the forced saving discipline imposed by Iqub.

Majority of respondents (51%) are still saving at home on top of using different saving options. One-third (33%) of female respondents reported that they are saving at home and 19% of male are also practicing the same. Accessibility and convenience are reported as the major reason of saving in cash at home.

4.4.2. Saving at BG MFI

When respondents were asked what drives them to start saving at BG, 37% of them mentioned strong sales promotion effort by staff followed physical proximity (28%), access to credit service (15%), high interest on saving and others (7%). Majority of female (22%) respondents were derived by strong saving promotion followed by 18% proximity and 13% access to credit service. Large number of male clients (17%) stated that they were derived by strong saving promotion, followed by 11% proximity and 6% higher interest rate on saving.

4.4.3. Information about BG's saving products

When asked whether they know the existence of different types of saving products 85% said they knew. However, passbook account is the most known (81%) followed by planned time deposit (67%) and time deposit (26%). Many respondents (57%) prefer to use passbook saving account while 33% like planned time deposit and only 10% prefer time deposit. Majority (57%) of respondents like accessibility and flexibility features of BG saving products while 23% liked forced saving discipline and 14% higher interest rate on their saving.

4.4.4. Most liked about BG saving service

Speedy service delivery is the first most liked (26%) followed by door-step deposit collection services (21%) and proximity of office (20%). The second most liked is speedy service (33%), friendly staff (21%) and interest on saving (21%). Most urban respondent (21%) liked speedy service delivery followed by door-step deposit collection service (18%). Higher number of rural respondents (5%) liked interest on saving followed by proximity of branch office (5%).

Most liked by respondents	Frequency	Percent	Valid Percent	Cumulative Percent
Proximity	70	**20.2**	20.3	20.3
Interest on saving	47	13.6	13.6	33.9
Speedy service	90	**26.0**	26.1	60.0
Friendly staff	54	15.6	15.7	75.7
Office security	13	3.8	3.8	79.4
Door -step service	71	**20.5**	20.6	100.0

Total	345	99.7	100.0	
System	1	0.3		
Total	346	100.0		

Table 2: Respondents most liked BG services

4.4.5. Most disliked about BG service

The first most disliked is distant office from my place (24%) followed by working hour (21%), interest on saving (12%) and office security (9%). The second most disliked is office security (13%), interest on saving (11%), distant office from my place (8%) and working hour (8%). Greater number of rural clients (11%) disliked distant offices from their places followed by (5%) working hours. 21% of urban clients disliked working hours followed by 19% distant offices from their places.

4.4.6. Suggestion to attract potential depositors

Majority of respondent (59%) guess people in their village had no proper information about BG and its service. Few of respondents (13%) stated people in their village might not thrust to save at BG. When asked suggestions to attract as many as possible potential depositors, respondents first suggestion is educating people (52%) followed by expansion of place of operation (16%) and increasing working days/hours (12%). The second most suggested area of improvement is expansion of place of operation (29%) followed by increasing interest rate (26%) and educating people (20%).

Reasons for not Saving at BG	Frequency	Percent	Valid Percent	Cumulative %
Do not know BG	203	**58.7**	59.5	59.5
Do not trust BG	44	12.7	12.9	72.4
Prefer to save at other financial service	44	12.7	12.9	85.3
Prefer to save in kind	29	8.4	8.5	93.8
Too poor to save	12	3.5	3.5	97.4
Others	9	2.6	2.6	100.0
Total	341	98.6	100.0	

System	5	1.4		
Total	346	100.0		

Table 3: Respondents suggestion why others people are not saving at BG

4.5. Discussion of Major Findings

4.5.1. Demographic behaviors of clients

In this study the saving balance of elder and younger respondents is relatively higher than the middle aged group. This result partly corresponds with prior empirical study conducted by (Woldey & Tekie, 2014), which states young household heads (less than age 25) had relatively higher cash saving compared to higher age group. Similarly a study by (Foley and Pyle, 2005) concludes that the young and elder population saves more than the middle aged population. On the other hand, the result of this study is inconsistent with the findings of a study conducted by (Attanasion, 1997) which indicates that individual's age is expected to be negatively correlated with saving that is older people saves less and the younger saves more.

Male clients in the survey had relatively higher saving balance than their female client's counterparts. This finding agrees with an imperial research conducted by (Wolday & Tekie, 2014). As observed in this study, higher proportion of female saves in cash at home than their counterpart males and this could be one of the possible explanations for their lower saving balance at BG MFI.

The study reveals that the saving balance of single client (unmarried) is higher than that of married, widowed and divorced ones. As noticed during the study, majority of single clients has a strong aspiration to expand their small scale-business and willing to frequently save than the married and other groups. However, married clients are saving more than widowed because of advantage of couples multiple income contribution to the

household. The widowed client's & the divorced might face problem of capacity to save from single income source. The result of this study is consistent with that of (Wolday&Tekie, 2014) where the saving balance of single household is found to be higher than that of married, divorced as well as the widowed.
On the other hand, the finding of this study is in contrary to other studies conducted by (Collins, 1991) and (Sinha, 1998) which shows that married households save more than single households. A study by (Mosk, 2010) shows that widowed household save more than married and unmarried household in contrary to the finding of this study.

As it is expected, the saving balance of larger family size is observed to be less than that of lower family size. Prior empirical study by (Chiteji & Hamilton, 2005) shows similar results. Since the rate of expenditure of larger household is higher than that of lower family size the savings balances of former once would be lower. On top of this some members with in a family might not contribute to family income.

4.5.2. Socio-economic behavior

This study revealed that clients with higher academic level (secondary school and above) had significantly higher saving balance than less educated once. The results of the findings were consistent with the prior findings that remarked higher financial literacy is associated with higher saving (Brownig and Lusards, 1996). Education has been found to be a significant predictor of savings in Kenya (Kibet et al., 2009), and the Philippines (Bersales & Mapa, 2006). Higher education level translates to higher savings level.

Occupation as a means of earning is a very important variable that influence the saving behavior. In this study, the saving balance of employed individuals is quite higher than others types of means of earnings against the hypothesis of the researcher. Pity traders were expected to be the highest, but the result of the study shows this is not true. Pity traders prefer to use their money as working capital than saving in cash at financial institutions. In Malawi, an empirical finding by (Alexander R., 2010) indicates that, some people don't operate bank accounts because they invest their money in businesses and hence the money is always in circulation.

The study revealed that when the income level of households increase the saving balance also increases. The result of this study coincides with several studies which conclude income as one of the most important determinant factor of household saving capacity. For instance, in Uganda, higher permanent and transitory incomes significantly increased the level of net deposits among households that reported owning bank deposit accounts (Kiiza & Pederson, 2001). Similarly, (Modngliani, 1995) noted that for poor and developing countries the saving ratio tends to rise with income. This is due to the fact that if we have excess money after fulfilling our expenditures the last option will be saving that money.

4.5.3. Client Saving Behavior from the Institutional perspectives

This study suggests that access (or proximity to financial institutions) is very important factors that encourage low-income individuals to save. It has been observed that the opportunity cost of frequent travel to distant office to save from the daily small & irregular income is not affordable for pity traders and small business operators. For many small savers, the cost of paying for transportation from their place to a distant office may exceed the average small deposit.

The opportunity costs typically refer to closing self-managed business, loss of customer and sales, and money spent to reach a branch office. This finding supports previous findings about the positive association between proximity to financial institutions and higher savings in SSA (Kibet et al., 2009; Kiiza & Pederson, 2001).

The convenience of working hours is also important in improving the saving behavior of low-income urban and rural clients. As many of them are informal self-operators they need to be served at their convenient hour than the formal official working hours as stated by many of respondents.

This study reveals that the saving balance of borrower clients is too low compared with their counterpart savers only. It is also observed that there is no clear and significant difference in the economic and demographic profile of the two groups. One of the possible reasons is that borrower client might fear the risk of losing their saving to settle loans of their fellow group member in case of repayment problems. On the other hand, access to credit might reduce the incentive to save as observed by prior empirical study of Kibet et al., (2009).

Great number of respondents evidenced the importance of strong saving promotion to attract many potential depositors. The fact that many potential depositors do not know products and services of BG MFI restrain the use of such services. Prior studies also evidenced that, absence of information was one of the most inhibiting factors that reduces the visibility of MFIs services. This is backed up by findings of (Wolday & Tekie, 2014) which indicate majority of urban and rural households lacks information and awareness on the benefits of the saving services of MFIs.

Chapter 5: Summary, Conclusion and Recommendation

5.1. Summary of the findings

The finding of this study indicates that, certain groups of clients save higher than other groups. The study indicates that average saving balance of urban clients is significantly higher than rural clients; single (unmarried) client's average saving balance is also larger than married once and educated clients save more than uneducated clients. BG saver only (non-borrower) clients average saving balance is significantly larger than their counterpart borrower clients. The result of the study also reveals that clients with higher income had quite higher average saving balances than those with little income groups.

This study indicates that clients are using a mix of saving mechanisms than relying on a single source. They save in cash as well as in kind at home rather than putting all their money at financial institutions. Most of them prefer to save in Iqub than in banks or other formal financial institution to get access to their liquid asset.

According to findings of the study clients have various reasons for saving. Majority reported that meeting the unforeseen future financial need is the top priority of their saving. As a result many of them do not have the compelling need and discipline to save large amounts.

5.2. Conclusion

Many factors are affecting the saving behavior of low income clients. On one hand, the low level of household income diminishes their saving capacity. On the other hand, lack of awareness about institutional savings and distance to make small deposits at their offices challenges the saving behavior of low income households. In fact, Micro-finance institutions had demonstrated the possibility of mobilizing savings from low-income households in rural as well as urban area. The established business relationship has simplified most of the institutional hurdles of low income households saving at Microfinance Institutions.

5.3. Recommendations

It is recommended that BG should focus on formulating clear marketing strategy to tap higher saving amount from specific target market such as urban clients who have higher and stable income than focusing on traditional micro-credit clients. Promoting the service to attract potential savers group such as the educated, single or unmarried individuals and salaried workers would contribute much in mobilizing massive saving.

To further enhance the quality of its service, Busa Gonofa, need to review some of its current policy, especially working hours, interest rate, and linkage of credit to saving services and design different products to meet various saving need of different market niche. Distance offices were reported as a major constraint of clients who need to make small deposits on a frequent basis. Therefore, BG needs to create more access privilege to the many un-served low income households through physical expansion of branch offices or other innovative mechanisms such as mobile banking and agent banking models.

The organization shall increase the scope of its door-step marketing strategy to promote its service to the public at large as many are not well aware about microfinance institution in general and BG MFI in particular. To this end, the association of microfinance institution (AEMFI) might play a role in promoting MFIs and their services to the public.

Finally, BG should formulate strategy of offering financial education to enhance the saving behavior of majority of the uneducated low income households, which is its core market segment. Again in this case, AEMFI may play the role of coordinating the separate effort of each microfinance institution to efficiently reach so many low- income households throughout the country.

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Appendix

Questionnaires for Depositor Households

Instruction: please warmly welcome the respondent before starting this interview. Tell her/him you need to stay for about 45 minute to complete the interview. Remind that all information will be kept confidential and used for academic purpose only.

1. Demographic information

1.1.Sex of informant: M____ F____
1.2.Age of informant:_____
1.3.Household family size
A. 1-2
B. 3-4
C. 5-6
D. More than 7
1.4. Number of children below age 14
A. 1-2
B. 3-4
C. 5-6
D. More than 7
1.5.Number of elder age above 65 years
A. 1-2
B. 3-4
C. 5-6
D. More than 7

2. Socio-economic information

2.1. Place of residence: Urban_____ Rural____
2.2. Marital status:
A. Married
B. Single
C. Widowed
D. Divorced

2.3.What is the highest level of education you have completed?

A. No schooling
B. Elementary (1-4)
C. Junior (5-8)
D. Secondary (9-12)
E. Higher education (>12)

3. Income related information

3.1. From what types of activities does your household generate income? *(multiple answers possible)*

A. Farming (crop, fruits and vegetable production)
B. Animal rearing (cattle or cattle products)
C. Pity trade/commerce
D. Monthly salary
E. Service (hotel, transport, beauty salon, etc)
F. Others, please specify _________________

3.2. What is your household's **monthly average income**? (you and your spouse or children)

A. Less than 1000
B. 1001-3000
C. 3001-5000
D. 5001-10,000
E. Greater than 10,000

3.3.What share of your monthly income do you save at BG MFI?

A. More than half
B. Below half but more than one-third
C. One third
D. More than one-fourth but less than one-third
E. Less than one-fourth
F. Other (specify)________________________________

3.4. In which three months do you have higher cash flow?

A.__________________B_______________C______________

3.5. In which three months do you have the least cash flow?

A.__________________B_______________C______________

4. Client Saving behavior

4.1. Have you ever had a saving account at a bank?

A. Yes B. No

4.2. Did you save in the last 12 months in Iqub?

A. Yes B. No

4.3. If you are saving at Iqub , what is the usual frequency at which you save?

A. Daily
B. Weekly
C. Monthly
D. Other ________________

4.4. Why you need to save in Iqub?

A. To quickly get large lump sum money
B. To maintain social relationship with friends
C. Forced saving (saving discipline)
D. Proximity of the service
E. Other (specify)____________________________

4.5. Did you save in cash at home for the last 12 months?

A. Yes B. No

4.6. Why you need to save in cash at home?

A. Accessibility or convenience
B. Safety
C. Confidentiality
D. Others (specify)______________________________

4.7. What factors drive you to save at BG MFI?

A. Physical proximity
B. High interest rate on saving
C. Small account opening balance
D. Strong sales promotion by BG staff
E. To gets access to loan
F. Others (specify) ________________________________

4.8. What is the purpose (goal) of your current saving at BG?

A. Emergencies purpose
B. Children's education
C. To start or expand business
D. Retirement (for old age)
E. For holiday: Meskel, Christmas, A refa, new year, etc
F. To buy household assets
G. Others (specify)_______________________________

4.9. What is your usual frequency of saving at BG MFI?

A. Daily
B. Weekly
C. Monthly
D. Quarterly
E. Irregularly
F. Other (specify)

4.10. If you are not saving regularly, what is reason that inhibits you from doing it?

A. My income is seasonal to save frequently
B. I do not have the time to deposit
C. High cost of transportation to deposit
D. Other (specify)___________________________________

4.11. What is challenging you to increase your current saving amount at BG MFI?

A. My income is too small
B. I prefer to invest in other business
C. My spending is too high compared to my income
D. I prefer to save in kind
E. Others (specify)________________________________

4.12. When you have extra money, what do you do with it?

A. Invest in business
B. Purchase household asset
C. Deposit at bank/MFI
D. Keep in cash at home
E. Others (specify)____________________

5. Institutional perspective

5.1. Informant current status at BG MFI:

A. Saver only
B. Saver and borrower at a time

5.2. If you are only a saver, for how long you saved at BG MFI?

A. below 1 year
B. 1-2 years
C. More than 2 years

5.3. If you are a borrower and a saver at a time for how long you served BG's credit?

A. Below 1 year
B. 2-3 years
C. 4-5 years
D. 6-9 years

E. More than 9 years

5.4. Why did you prefer to save at BG MFI?

A. Proximity
B. Good trust
C. Good interest rate
D. To get access to loan service
E. Other (specify): ____

5.5. Do you know the different saving products of BG MFI?

A. Yes B. No

5.6. If yes, please list them: 1____________2._____________3.___________

5.7. Which saving product do you prefer most?

A. Saving account
B. Time deposit
C. Planned Time deposit

5.8. What is the main reason for preference of the saving product you chosen?

A. Accessibility or withdrawal flexibility
B. Higher Interest rate
C. Disciplined saving
D. Small account opening
E. Other (specify)_____________________________

5.9. What do you value more about the saving services offered by BG MFI? (multiple answer is possible)

A. Proximity
B. Interest on saving
C. Speedy service
D. Friendly staff
E. Office security
F. Door step collection service
G. Others (specify) _________

5.10. What do you like least from the saving service offered by BG MFI? (multiple answer)

A. Working hours
B. Office security
C. Interest on saving
D. Staff attitude and service
E. Distant office from my place
F. Other________________

11. What do you suggest BG to improve to attract more depositors?

A. Increase working days/hours
B. Improve speed of service

C. Educate people
D. Increase saving interest rate
E. Expand your place of operation
F. Others (specify)_________________________________

5.11. In your opinion, why many households in your village are not saving at BG MFI?

A. They do not know BG MFI
B. They do not trust BG
C. They prefer to save at other financial service providers
D. They prefer to save in kind
E. They are too poor to save
F. Others (specify) ______________________________