An analysis of the determinants of rural household savings in Bondo district

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This paper investigates the determinants of rural household savings in Bondo district, Kenya. The endogenous variables examined in this study include: age, bank distance, dependency, education level, employment status, income, interest rate, wealth and urbanization. The urbanization variable was later dropped as it gave conflicting results. A total of 120 household heads were interviewed and both qualitative and quantitative results were obtained. The main empirical findings of the paper are:- i) The most significant factor determining household savings is income. The other variables that were found to be significant are wealth, interest rate, employment status and education level. ii) Dependency was found to have a positive coefficient in Rarieda division. Thus, high dependency was found to reduce savings only in urban areas but in the rural areas, a positive relationship was found to exist between savings and dependency. iii) Education motive was found to be the most important motivation for household savings in Bondo district. iv) Businesslike occupations contributed more to rural household savings than wage employment. v) Contrary to expectations, bank distance was found to have a positive coefficient, implying that the long distances to the saving institutions encouraged savings in the rural areas. vi) Wealth may not encourage savings in rural areas. Based on these findings, it was suggested that rural households savings could be increased through:- i) Promotion of non-wage occupations in rural areas ii) Encouraging the wage earners to engage in businesses that would boost their income levels. iii) Implementation of savings policies at lower levels such as the divisional and locational level. iv) Promotion of public awareness programmes by financial institutions. This would lead to increased awareness by the rural folk on the advantages of financial savings.