



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF THE PRACTICES AND CHALLENGES OF  
SAVING MOBILIZATION: THE CASE OF SPECILIZED  
FINANCIAL & PROMOTIONAL INSTITUTION**

**BY: WUDMA WOLDE ASSEFA**

**ID: SGS/0542/2010A**

**JUNE, 2019**

**ADDIS ABABA, ETHIOPIA**

**ASSESSMENT OF THE PRACTICES AND CHALLENGES OF  
SAVING MOBILIZATION: THE CASE OF SPECILIZED  
FINANCIAL & PROMOTIONAL INSTITUTION**

**BY: WUDMA WOLDE ASSEFA**

**ID: SGS/0542/2010A**

**A THESIS SUBMITTED TO ST.MARY'S UNIVERST, SCHOOL  
OF GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION IN GENERAL MANAGEMENT**

**JUNE, 2019**

**ADDIS ABABA, ETHIOPIA**

**ASSESSMENT OF THE PRACTICES AND CHALLENGES OF SAVING  
MOBILIZATION: THE CASE OF SPECILIZED FINANCIAL &  
PROMOTIONAL INSTITUTION**

**BY WUDMA WOLDE**

**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
**Dean, Graduate studies**

\_\_\_\_\_  
**Signature & Date**

\_\_\_\_\_  
**Advisor**

\_\_\_\_\_  
**Signature & Date**

\_\_\_\_\_  
**External Examiner**

\_\_\_\_\_  
**Signature & Date**

\_\_\_\_\_  
**Internal Examiner**

\_\_\_\_\_  
**Signature & Date**

## TABLE OF CONTENTS

TABLE OF CONTENTS.....	iii
LIST OF ABBREVIATIONS/ACRONYMS.....	v
LIST OF TABLES.....	vi
ACKNOWLEDGEMENTS.....	vii
ABSTRACT.....	viii
CHAPTER ONE.....	1
INTRODUCTION .....	1
1.1. Background of the study .....	1
1.2. Background of the organization.....	3
1.3. Statement of problem.....	4
1.4. Research Questions.....	6
1.5. Objectives of the study.....	6
1.5.1. General objectives.....	6
1.5.2. Specific objectives .....	6
1.6. Significance of the study.....	6
1.7. Scope of the study.....	6
1.8. Limitation of the study.....	7
1.9. Organization of the study.....	7
CHAPTER TWO.....	8
REVIEW OF LITERATURE .....	8
2.1. Theoretical literature.....	8
2.1.1. Concepts of Saving Mobilization.....	8
2.1.2. Non-formal saving mechanisms in developing countries.....	8
2.1.3. Attributes poor savers value most.....	9
2.1.4. Saving products.....	9
2.1.5. Saving mobilization versus other sources of funds.....	11
2.1.6. Challenges of saving mobilization for MFI.....	12
2.1.7. Challenges of saving mobilization on the client side.....	14

2.2. Empirical literature .....	15
2.2.1. Arguments for voluntary savings mobilization.....	16
2.2.2. Facilitating Local Saving Mobilization to Finance Development .....	17
2.3. Research Gap .....	19
CHAPTER THREE .....	21
RESEARCH METHODOLOGY .....	21
3.1. Research approach and design.....	21
3.2. Population of the study .....	21
3.3. Sample size and sampling procedure.....	22
3.4. Data sources and data collection method.....	23
3.5. Data analysis method .....	24
CHAPTER FOUR.....	25
PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA .....	25
4.1. Characteristics of the respondents .....	25
4.1.1. Respondents work Experience, Job position &Education level .....	25
4.1.2. Trend of voluntary saving in SFPI.....	26
4.2. Practice of SFPI in saving mobilization.....	28
4.2.1. Practice of SFPI for saving mobilization based on staff perspective.....	28
4.2.2. Practice of SFPI on saving mobilization based on clients perspective.....	32
4.3. Challenges for saving mobilization .....	35
CHAPTER FIVE .....	39
SUMMARY, CONCLUSION AND RECOMMENDATION.....	39
5.1. Summary of the findings.....	39
5.1.1. Saving mobilization practices.....	39
5.1.2. Challenges of saving mobilization.....	40
5.2. Conclusion .....	40
5.3. Recommendation .....	41
REFERENCES .....	43
APPENDIX.....	48

## **LIST OF ABBREVIATIONS/ACRONYMS**

BRI	Bank Rakyat Indonesia
CGAP	Consultative Group to Assist the Poor
FDRE	Federal Democratic Republic of Ethiopia
MFI	Microfinance Institutions
NBE	National Bank of Ethiopia
GDP	Growth Transformation Program
GTP	Branch expansion for saving mobilization in SFPI
MIS	Management Information System
NGO	Non Governmental Organization
No	Number
NR	Number of Respondent
ROSCAS	Rotating Saving and Credit Association
SACCOs	Savings and Credit Cooperative Societies
SFPI	Specialized Financial Promotional Institution
SPSS	Statistical Package for Social Science
WSBI	World Savings Banks institute

## LIST OF TABLES

Table 1. Sample size of saving clients in SFPI.....	23
Table 2. Respondents Job position, Education level& work Experience.....	26
Table 3. Voluntary saving performance of SFPI.....	26
Table 4. Practice of SFPI on saving mobilization based on staff perspective.....	31
Table 5. Practice of SFPI on saving mobilization based on clients perspective .....	34
Table 6. Challenges of saving mobilization in MFI.....	38

## **ACKNOWLEDGEMENTS**

First of all I would like to praise almighty God for supporting me to accomplish this graduate study. My special thanks and gratitude to Maru Shete (PhD and Assoc. Prof.) for his guidance, comments and unreserved intellectual assistance throughout my research work.

I would like to thank management of Specialized Financial Promotional Institution for allowing me to use of necessary resources to accomplish my study and to all staff who assist me in interviewing respondents. I also acknowledge with deep and profound gratitude, the invaluable assistance received from Mr.Melese Girma (SFPI Credit Manager) &Finally, I wish to express my great thanks to my lovely family who were encouraging and energizing me to accomplish the graduating program. I am much grateful to you all. God bless you.



## **ABSTRACT**

*The objectives of this study was to assess the practice & challenges of saving mobilization of Micro Finance Institutions in the case of Specialized Financial & promotional institution (SFPI). The lending activity of the micro finance institution is made possible by mobilizing enough funds from their customers. Specific objectives of this study are to assess saving mobilization practices of SFPI, to evaluate the current deposit mobilization performance of SFPI, to identify the major challenges on mobilizing of voluntary saving. The target population for the study include branch managers, operation supervisors and saving & credit officers those having two years and above experience & potential saving clients involved in deposit mobilization. Data collected through primary data such as questionnaire, interview and secondary data from the annual reports of SFPI. The sampling method in the branches staff for the study used census method & the sampling size was 125 from all operational staffs while a multi staged stratified random sampling technique used to select a total of 160 active saving clients. Descriptive method was adopted for the study to analyze the data. The analysis was carried out using statistical package for social sciences (SPSS) version 20 to accommodate analysis. The researcher used structured questionnaire for employees and customers of SFPI and structured interview discussion for the management of the institution and reviewed five year annual report. The findings have shown that, SFPI has not conducted regular promotion, poor branch expansion trend, poor incentive system to staff and customers, provided of poor training to staff. Challenges that face microfinance institutions are Poor saving habits or cultures in the society, inflation & political instability & unstable economic conditions, unavailability of appropriate organizational structure, competition, Lack of management information system and loan default. The study, therefore, the researcher recommend that the management of the SFPI has to consider expanding of branches, conducting of regular promotion, apply management information system, capacity building for frontline staff, and develop incentive system to staff & potential client to make more saving mobilization.*

**Key words:** MFI, saving mobilization, challenges of saving mobilization, specialized financial & promotional institution, Addis Ababa, Ethiopia

# CHAPTER ONE

## INTRODUCTION

### **1.1. Background of the study**

Mobilization of saving to meet the demands, the formal sector like banks, MFIs, cooperatives and postal savings has a limited capacity. Thus absence of formal savings services results largely dominated by widely accepted and practiced semi-formal and informal mechanisms such as Iqub, Iddir, buying livestock and jewelry and hiding cash at home practiced in Ethiopia in that regard, informal savings prove the savings potential of the low-income people who use them and the unbalance demand for savings services (Moulick et al, 2008).

Savings mobilization can help MFIs to expand and deepen their outreach. A larger number of poor households may use savings services than credit services. In particular, poorest households may rely on savings before they have an effective demand for credit. Moreover, deposits from the public area less volatile source of funds than alternative sources, such as rediscount lines from the Central Bank or funds from donor agencies. This stable funding source can expand lending operations and, hence, also benefit poor borrowers. Mobilizing small and micro-savings can contribute to self-sustainability by providing the MFI with cheaper funds than those from the interbank market. However, there may be a trade-off between the lower financial costs and relatively high costs of mobilizing and administering small deposits. Attracting depositors may in still a stronger demand orientation and economy to MFIs' operations and increase public confidence. As savers become important stakeholders in deposit-taking institutions, the latter are forced to improve their product variety and efficiency of services. Moreover, effective prudential regulation and supervision can increase the public's confidence in an MFI's financial operations.

Local saving mobilization in MFIs industry has not supported by systems applying of different strategies, staff capacity, management information system, etc. In many cases, there are some strategy or policy documents, and list of products and services, perhaps copied or adopted from other country or MFI experience, which are never supported by serious market research to reflect local reality. It is not as good as, such strategies, policies, products and services are poorly communicated to staff, particularly those at branches, who are supposed to market them to real client. Staff training on MFI is rare in general, too less on saving mobilization. Often, the staff incentive scheme, if there is one at all, is based toward credit, or at least do not fully reflect the challenges on saving mobilization from the poor. As a result, most microfinance programs fail to establish trust among the public as a trustworthy custodian of financial resources, and this challenge continue to be felt even in countries like Ethiopia where the regulation (relatively unique in the industry) allows MFIs to mobilize ‘public saving’ from day one of securing the license.

The proclamation, which offers for the establishment of MFIs, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000). In particular, the Licensing and Supervision of MFI Proclamation of the government encouraged the spread of Microfinance Institutions (MFIs) in both rural and urban areas as it authorized them among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business (Getaneh, 2005).

The current government development strategy, GTP II (2015/16 – 2019/20) emphasize local saving mobilization to finance development. During GDP I, the share of gross domestic saving in GDP increased from 9.5 percent in 2009/10 to 21.8 percent in 2014/15 due to measures including:-awareness creation and community mobilization activities, expanding financial institutions and services, raising the minimum deposit rate, strengthening existing and introducing new saving mobilization instruments such as saving for housing program, Renaissance Dam Bond, introducing private social security schemes, strengthening government employees social security scheme, which were accompanied by rapid economic growth and structural economic transformation (FDRE, 2016)

## **1.2. Background of the organization**

Specialized Financial and Promotional Institution (SFPI) is one of the microfinance institutions (MFIs) established immediately after the issuance of Proclamation No. 40/96, aiming to fill the gap of formal institutions to meet the need of small-scale borrowers in income generation schemes. The Institution is licensed to operate nationwide. It started operation in Addis Ababa after obtaining a license from the National Bank of Ethiopia in November 1997 and now its operation area expanded to Oromiya, North & South region of the country. Since 1998, SFPI provides loan in group-based and individual methodology & it also provides compulsory savings services that related to loan to low-income households considered unbankable by conventional banks.

SFPI has a two-layered organizational structure; head office and branch. The head office mainly do the administrative task & supporting of branches operation whereas the branch conducts the main marketing, operation, with staff directly contacting credit and saving officers to clients on the following activities; loan delivery, monitoring, repayments and saving mobilization. SFPI has 18 branches & 10 sub-branch offices to implement its operations. Currently, the institution has more than 300 employees over 85% are at branch level, having direct contact with clients (SFPI, 2018). SFPI currently delivers micro-finance activities including, credits, savings, & micro insurance. Similar to many other Microfinance institutions, SFPI had been focusing on the provision of efficient credit service to low income households in rural and Pre-urban area. It introduced voluntary saving products since 2014 this shows after a decade plus experience in credit services only. The institution aims to provide modified saving products to the financial demand of its traditional target market, the low income household group of the community. As stated in (Strategic & business plan of SFPI, 2017), SFPI's target customers are individuals from able poor households who are not in economic positions to access financial services from formal banks. The majority of SFPI'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.

### **1.3. Statement of problem**

Since the issuance of the microfinance law in 1996, all MFIs have been registered by National Bank of Ethiopia to deliver financial services including savings. This has deepened financial spreading out, bringing services nearer to where clients, particularly poor clients, reside. Therefore, the appropriateness of financial products and services, approaches, staff attitudes and behaviors, etc. need to be tailored to the target market. Interestingly, Commercial banks of Ethiopia accounts for almost 2/3 rd of the total deposits mobilized, while MFIs and SACCOs account for the remaining third (Wolday and Tekie,2014).This is a disappointing statistic given that MFIs', as pro-poor financial intermediaries, have the greatest opportunity to mobilize a potentially huge volume of voluntary savings from grass roots households and communities.

Banks, the world over, thrive on their ability to generate income through their lending activities. Since commercial banks depend on depositor's money as a source of funds, it means that there are some relationships between the ability of the banks to mobilize deposits and the amount of credit granted to the customers. For the purpose of achieving self-sufficiency there is the need to improve ways of mobilizing domestic deposits. Records indicate that large chunk of deposits are lying idle under pillows and in bamboos in the rural areas being left out of the banking stream (Rutherford, 2000).Therefore commercial banks should increase ways to approach and mobilize the huge deposits lying in the unbanked people to maximize and maintain their portfolios.

Due to poor financial system practiced in the MFI to attract potential customers and providing quality services there is a gap has been seen in the Ethiopian MFI, even if the local population has substantial demand for saving products. According to CGAP (1998), Savings plays, not only crucial role in financing productive activities but also promotes microenterprises. Furthermore, evidence shows that the accumulation of savings help to create a domestic capital base that makes economies less dependent on foreign capital and more resistant to capital market fluctuations (CGAP, 2006). This is adequate evidence that poor people in developing countries including Ethiopia accredit high importance to savings. Exploring issues related to create demand and awareness of savings mobilization amongst the poor households, which improve the performance of saving mobilization, is one of the key issues for assisting poor people to improve their saving.

Microfinance institutions focus towards the credit operation and they also provide saving products within minimal efforts or the saving mobilization efforts has been seen slowly growth compared to credit. The trend of voluntary saving mobilization by such institutions to non borrowers constitute is too low of compared to their loan outstanding. Micro Finance Institutions loan services have been financing from Bank loan, grants, etc., when in the absence of that fund, they cannot expand the loan operations. Thus, deposit mobilization from the communities give less attention as a potential source of fund to finance their loan portfolio. Most micro credit service delivered through NGOs affiliated and government initiated projects in Ethiopia did not consider savings as one of most important product both to the client and institution. Therefore deposit mobilization from the public, the industry still offers a narrow saving product range, its performance is unsatisfactory and it is far behind in mobilizing deposit as a tool in deepening its client base. However, the MFI provide voluntary saving on a commercially sustainable basis there are clear remaining gaps in terms, institutional culture, product design, marketing segment & strategy, and delivery system, outreach as well as capacity building in savings promotion. MFIs must address these gaps in order to increase saving mobilization and generate the liquidity need to satisfy demand for credit with minimum cost.

Specialized Financial & promotional institution has rich experience in delivery of credit services, but comparing to credit the voluntary saving mobilization trend is too low. Analysis of voluntary saving performance data as of the year ended June 2018, shows that voluntary saving to loan ratio of is 22% which is too small compared to the country's industry average of 60% (SFPI, June 2018 operation report).

Though a many research (Wolday 2000 ,Wolday & Teklay 2014 , Woldemichael 2010 and others) had been under taken in this area, while those researchers have been unable to consider the deposit mobilization practice together with its challenges in the MFIs in Ethiopia. This issues has a great influence on outreach performance of loan operation of the micro finance industry. Saving mobilization practice and challenges on saving mobilization are highly influence on the saving performance of the MFI by such cases there is a gap to growth and outreach that needs to examine the MFIs in Ethiopia. Thus, this study is designed to assess the practice and challenges of saving mobilization specifically in SFPI.

## **1.4. Research Questions**

The study paying attention on providing the answers for MFIs position towards delivery of savings mobilization, thus, the guiding research questions are:

- 1) What are the saving mobilization practices of Specialized Financial & promotional institution (SFPI)?
- 2) What is the current performance of SFPI in voluntary saving mobilization?
- 3) What are the major challenges encountered by SFPI in mobilizing of voluntary saving?

## **1.5. Objectives of the study**

### **1.5.1. General objectives**

The general objective of this study is to assess the practice and challenges of saving mobilization in Specialized Financial & promotional institution.

### **1.5.2. Specific objectives**

- ✓ To assess saving mobilization practices of Specialized Financial & promotional institution(SFPI)
- ✓ To evaluate the current deposit mobilization performance of SFPI
- ✓ To identify the major challenges of mobilizing of voluntary saving in SFPI.

## **1.6. Significance of the study**

The study initially will help to fill up the gap between the theory and the ongoing practice in the microfinance area regarding savings mobilization practice in MFIs. The result of the study will help management of SFPI and other similar institutions to improve& strength the management of saving operations in local saving mobilization from low income households. The 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 may use the findings of the study to formulate appropriate marketing strategies that would contribute in achieving the goal of mobilizing massive saving. And also the study will have great contribution to the existing knowledge in the area of implementing saving mobilization practices of microfinance institutions and to know the practical challenges that face saving mobilization in microfinance institution to design and implement effective saving mobilization strategies.

## **1.7. Scope of the study**

This study emphasizes on the assessment of the practice &constraints of saving mobilization on the specialized financial & promotional institution. Due to time and budget constraints the study

was concentrated on SFPI and the study implemented on the branches of the institution that located in rural and urban area. The study was involved staffs, clients, and managements from branches & head quarter of the institution who are directly participant in the subject. Regarding of saving clients sample of branches has been taken for the data collection.

### **1.8. Limitation of the study**

The research concentrates only on one institution specifically SFPI. The study is also considering only samples of the clients. In addition the study was not considering detail investigations in relation to determinants of saving behavior of the clients.

### **1.9. Organization of the study**

The research has five chapters. The first chapter states the background of the study, statement of problem, the general and specific objectives of the study, the significance of the study, scope of the study, organization of the study. The second chapter incorporates the literature review part and it includes the theoretical and empirical literature review on saving mobilization. The third chapter demonstrates the research design & methodology of the study used. Chapter four is dedicated for data analysis, presentation and interpretation. The final chapter, chapter five, is dedicated for conclusion and recommendation of the study.



## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

#### **2.1. Theoretical literature**

##### **2.1.1. Concepts of Saving Mobilization**

Saving mobilization is defined by Elser et al (1999) as the process of encouraging customers to save cash with the Bank or attracting new clients to financial institutions to open accounts. “Savings fundamentally, is about choosing between current and future consumption” (Ashraf et al. 2003). Savings theories traditionally predict that current consumption is related not to current income, but to a longer - term estimates of income. From an institutional perception, primary motive for saving mobilization lies in lower cost of capital compared to other sources of fund. Savings are fundamental to sustainable economic development. It is the most frequent sources of funding for microenterprise start up and expansion. Despite the importance of savings, the majority of micro-saver continues to lack access to safe and sound institutions where they can deposit their savings.

According to Adams (1978) the main column favored by the supporters of the opposing view on local saving mobilization and the low income people as savers is poor capacity to save, low interest rate on small deposits, charge of mobilizing small deposits, and lack of attractive saving product for the poor. According to CGAP (1998) institutional governance, ownership and good will of the MFIs are major causes for victorious saving mobilization. MFIs must make sure that they have the organizational structures that agree to them to mobilize deposit legally. “Institutional capacity requires that adequate governance, management, staff and operational structures are in place to provide savings services” (Ledgerwood, 1999). Deposit is a source of relatively low-priced funds for the cause that it normally attracts low interest rates compare to commercial loans. Deposit affects outreach as a financial operation as MFI not offering savings services may achieve lower outreach than MFIs offering savings operation.

##### **2.1.2. Non-formal saving mechanisms in developing countries**

The availability of formal financial services and inefficiency of most locally present financial institution has diverted the poor to an alternative saving mechanisms. Mauri (1985) identified that financial institutions in developing countries have various shortcomings when it comes to

serving the pro poor in the developing countries. First, the commercial banks had generally showed little interest in attracting savings accounts, especially in rural areas, they considered them costly to manage. Second, the post office despite they collect deposit from the public at a large scale, they usually lack certain element of the financial institutions like, invest collected funds on government bonds, suffer from lack of skill and motivation of the staff, and they seriously suffer from drainage of savings from rural areas to urban large customers.

### **2.1.3. Attributes poor savers value most**

Understanding common attributes of deposit services valued by poor clients help MFI in designing an appropriate product. Scholars have identified basic saving attributes poor savers value most; these are access, security, liquidity and return. In some cases, low minimum balance is preferred among poor clients. Adams (1978) cited the reward paid on savings as the key element of saving mobilization program. In addition, he noted that convenience, liquidity, and security of the savings as a strong complement for the return on savings. Also he suggested that wherever it is legal a lottery scheme should be attached to a saving scheme to boost the interest of pro poor savers.

Access comprises of physical proximity of the service point, prompt service at sight and the time taken to complete the transaction. On the other hand, the security of poor people deposit is relative. Deposits are secured in formal financial institutions than in informal ones. “Savers most Deposits are secured in formal financial institutions than in informal ones. “Savers most frequently report that the key feature they seek is safety for their savings. They want to feel confident that their deposits will be available when they need them” (CGAP, 2002) confidence in security of the savings and customer care of institution staffs are of crucial importance.

### **2.1.4. Saving products**

Generally, an institution providing deposit services does not need a large number of products. “A savings account permitting unlimited transactions, a time deposit account (which includes options for relatively short maturities), potentially a contractual savings account to support education, retirement, housing, or upcoming ceremonies, and, if necessary, one or two other deposit products are sufficient”(Ledgerwood, et al. 2013). “They must be carefully designed through a balance of product features, security, convenience, and price to allow them to be used in different combinations for different purposes by all types of savers-poor and non poor, individuals and institutions” (Robinson 2006).

The requirement of compulsory savings and voluntary savings implies opposing view on saving behavior of the poor. Commonly, compulsory saving assumes that either the poor should be taught to save or the institution uses it as collateral. On the other hand, voluntary saving reflects that the poor actually saves and appropriate financial service should be provided. “The compulsory savings approach typically clients with little or no choice of savings products (and often with no returns on their savings)” (Robinson, 2001). Mostly compulsory savings are locked in until the client repays its loan before having access to its accumulated deposits. In some cases compulsory saving is not accessible unless the client decides to drop out. Moreover, the only time client can have a compulsory saving option is only when they borrow. Therefore, according to Robinson (2001) “compulsory saving raises client cost of loans and mostly it does not meet the needs of client’s income”.

#### **2.1.4.1. Compulsory savings**

Compulsory saving is among the requirement or preconditions for receiving credit in financial institutions. MFI clients are supposed to deposit certain amount of weekly or biweekly or monthly in order to attain certain Percent before being disbursed a loan. Clients are not allowed to withdrawal partial or full amount of their savings until are loaning free or decide to leave the organization (Robinson, 2001; CGAP, 2005). On the other hand compulsory saving is used as loan insurance or cash collateral for loans and a part of the loan is secured by the savings. This restriction has forced the MFI clients to save some amount of money that would not have been possible to save by them. There are critics about compulsory saving since clients have no easy access to their savings. Others argue that compulsory savings should not be called a ‘service’ because it is a down payment on loan and it does not respond to accumulation and precautionary savings motives, these two factors affect the decision to save (Zeller and Sharma, 2000).

#### **2.1.4.2. Voluntary savings**

From client’s side, there is a demand for such products. Low income people can save more money at their doorsteps instead of travelling far to deposit with banks. A survey by Rahman (1998) showed that “lack of proximity is one of the major reasons for not depositing savings with a bank”. Sadoulet (2006) also noted that the poor need to save when they have the opportunity to do so, to withdraw in time of need and to do this without lessen their savings over time. Thus, savings services must have four properties; “safety, accessibility, flexibility and positive returns” (Marcus et al 1999). Otero and Rhyne, (1994) pointed out that “there is considerable evidence

that the poor people greatly value voluntary savings services, where they can save unrestricted and often very small amounts at convenient interval, and which they can access rapidly". More over a study by Bass et al (2000) validates that voluntary savings services attract a large number of depositors and a higher savings amount than compulsory savings since the voluntary savings facilities is not limited to those who save only as a prerequisite for access a loan.

#### **2.1.5. Saving mobilization versus other sources of funds**

Dauner (et al, 2004) has expounded that relying on saving mobilization as a source of fund will guarantee independence from donors, increased feeling of ownership among clients, and give power to the institution in terms of powerful information about client repayment &and regularity of deposit. However, unless managed carefully mobilizing saving has its own effect on the deposit taking MFI. Dauner (2004) cited that when customers save regularly in small amounts, it is most likely that the institution incur high administrative cost.

Lastly, it has been argued that small amount deposits are not stable due to the frequency of transaction and not good for financing medium and long term loans. However, Bald (2009) has conducted a test on four microfinance institutions that deposit from poor client can form the conventional theory of core deposit. The study has concluded that poor depositors saving exhibit same behavior as the conventional deposit does in terms of stability.

Otero (1994) proposes a gradual transfer for MFIs from relying on donor grants and soft loans as funding sources, which plan at building up viable credit institutions, to commercial sources of funds and, eventually, to public deposits. She states that at an advanced stage of institutional evolution, savings mobilization will provide the principal share of capital. Robinson (1996) points out that savings mobilization is not feasible for every institution that began with a microcredit program. She argues that an obligatory evolution path that leads from entirely donor-financed credit to full-service financial intermediation relying heavily on private savings does not exist.

States deposits are the main source of banks to provide loan Herald and Heiko (2008).This deposit is mainly provided by people (Salehi, 2010). However, deposits can also be provided by business organizations, NGOs, government and so on. Therefore, whether deposits are from individuals, businesses and government they are important financial source of banks.

## **2.1.6. Challenges of saving mobilization for MFI**

### **2.1.6.1. External environment for successful saving mobilization**

There are certain external factors that are beyond the control of the MFIs. For example, unstable macroeconomic and financial sector surroundings can shift pro poor savers away from formal financial institutions. According to Adams (1978) it is necessary to institute appropriate legal changes so that the pro poor institution can mobilize local deposit from the public. According to CGAP (1998) study, the performance of saving mobilization among MFIs affected by existence of political turmoil, high inflation rate, extensive government interventions through interest rate controls and subsidized credit .“To mobilize deposit effectively, an MFI needs to be operating in a country in which the financial sector has been liberalized” (Lidgerwood, 1998). CGAP (1998) also give emphasis to accessibility of tailored prudential regulatory and supervisory framework for MFI avoids complexity related to minimum capital, liquidity, loan collateral, and other risk exposure requirements of the conventional banking regulations.

Lidgerwood (1998) categorize a set of external environmental precondition that should be met before operating in deposit mobilization. Some of them are licensing, reserve requirements, and availability of deposit insurance.

To accept deposits mobilization license, microfinance institution must have the financial strength and institutional capacity. However, determining the capacity of MFIs is the responsibility of the licensing body. However, it is not a surefire against MFIs failure. Setting aside a certain percentage of deposit either in liquid form or at the central bank is also recommended to boost the public confidence as well as last resort in case of bankruptcy. On the other hand, deposit insurance scheme is an after the incident benefit to the depositors in case of default of the institutions. Such schemes do not guarantee the full safety of the depositors. Usually deposit insurance is backed up by government with a nominal value for depositors in case of failure of the deposit taking institution.

### **2.1.6.2. Internal environment for successful saving mobilization**

According to CGAP (1998) institutional governance, ownership and reputation of the microfinance institutions is key factors for successful deposit mobilization. Prior to offering voluntary deposit services, MFIs must ensure that they have the institutional structures that allow them to mobilize savings legally. Organizational structure of the deposit taking microfinance

institution is also critical. That means the closer the MFI gets to its clients, the larger the number of depositors with access to the facilities. Proximity to pro poor clients and depositors drastically reduces the transaction cost of the institution. It also ensures building the trust and confidence. “Institutional capacity requires that adequate governance, management, staff and operational structures are in place to provide savings services” (Lidgerwood, 1998).

Risk management framework of the microfinance institution is another dimension that should be carefully dealt with while thinking of deposit mobilization. The risks can range from liquidity risk; where the MFI cannot be able to meet the immediate withdrawal demands of the clients. Such incidence will result in loss of confidence among pro poor clients. CGAP (1998) cited that in order to manage the risk properly, deposit taking MFI should put into action strict borrower screening, diversifying the loan portfolio, monitoring borrowers and following sound provision policies. Asset and liability management is the core of conventional banking business. The same is true for microfinance institutions if they are taking deposit from the public. Brom (2009) expounds that even the biggest microfinance institutions need to pay attention to their balance sheet to manage financial risks. Sound asset and liability management is critical to help MFIs asses and manage financial risk. On the other hand, the importance of market research and strong management information system has also been stressed in most scholarly articles on the performance of deposit mobilization. In addition, security and internal control of the institution has to be strengthening while going for voluntary deposit.

#### **2.1.6.3. Costs of deposit mobilization**

CGAP (1998) has identified various methods a deposit taking institution could practice in order to decrease the cost of saving mobilization of saving. Lowering administrative costs through designing simple saving products, offering differentiated interest rate system with no interest payment on low balance accounts, and maintaining bend over field organizational structures are some of them. “The cost of savings mobilization depends not only on internal factors such as operational efficiency, but also on external factors such as minimum reserve requirements, tax rates and general market conditions. Determining both internal and external costs helps to establish what rate to pay on different savings products” (Ledgerwood, 1998).

On the other hand, CGAD (2002) has identified that numerous non-financial costs related to designing, marketing and protecting saving deposits products are incurred while offering the

service and suggests a functional costing mechanism for accurately determine the financial and non-financial costs associated with providing the service. The other important aspect while considering costs associated with deposit is the interest paid to depositors. Some accounts bear interest like fixed and contractual accounts, some do not like current accounts. Therefore, determining the saving interest rate is highly depends on the nature of the liquidity of the account and the length of time of the account.

### **2.1.7. Challenges of saving mobilization on the client side**

Security of savings, confidence and trust in the repository of the savings, liquidity of the savings option, transaction costs and interest rate are the challenges that influence the household's decision to hold a savings. Quick access to deposits is especially crucial for poor households for emergencies and investment opportunities that emerge suddenly. The transaction costs, the cost of making a deposit and of liquidating it. Time spent traveling to the financial institution, waiting in line, and on paperwork can represent such high costs that a seemingly positive real rate of return becomes negative and small savers have rather turn to informal means of savings. 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. In Kenya,(Kibet and colleagues,2009) found that higher transport cost to saving institution had a negative impact on the saving habits of teachers in rural areas.

The real interest rate, Although there is evidence that rural savings takes place even under negative real returns offered by the informal sector, evidence from different countries has shown that the demand for savings products by all savers, including the poor, increases as interest rates increase. Information obtaining, particularly general information about financial institutions and their products and services, was found to be associated with owning a bank account among household in Sub Saharan Africa .Some individuals, those who are more educated and more comfortable with financial matters might seek out this type of information, but many have not obtain information unless it is delivered to them in an accessible format. In Uganda, researcher found that the likelihood of owning a saving account increased by roughly thirty three times when a household becomes well informed about a particular Bank and its services (Kiiza and Pederson, 2001)

Most staff at operation have, for long, been dealing (only) with micro-credit clients, who normally face shortage of liquidity to run their business (and actually most of the promotion for ‘voluntary’ saving have been conducted to these same people who, fortunately to the staff, regularly weekly or monthly come to MFI office to do transactions on loan). Not surprising that such staff tend to believe that the target poor only have demand for small loan. In reality, however, such entrepreneurs (who, unfortunately, constitute only a very small portion of the population in many communities) are quite a different category of people (in term of their desire to doing business with the MFI or bank) from potential clients who can demand (voluntary) saving services (net savers). The latter do not have immediate demand for additional liquidity, but rather they want someone to take care of their hard earned money. These category of people, who are said to constitute the large majority (perhaps 90-95%, and therefore a huge market) in many communities demand different level of promotion and persuasion (as well as suitable products) for them to be able to build trust toward the institution, and staff who can appreciate and understand their local reality, culture, and easily communicate with them. Institutions with the right kind of products, services and staff are really lacking (Getaneh Gobeze, 2005).

Recent research outcomes demonstrated that voluntary saving can cover a too small portion of the loan outstanding of many MFIs, including those who secured the license two decades back. Inability to effectively mobilize savings, and the resultant shortage of funds, constitute one of the serious issues that challenge MFIs to meet the expansion of microcredit demands (Wolday and Tekie, 2014).

## **2.2. Empirical literature**

Saving is the cheapest funding source and one that is easier to obtain than other forms of funds. Deposit services are important for clients, financial institutions, and local economies. For clients, it provides relatively secure deposit services that meet the demand of large numbers of poor people on an ongoing basis. For financial institutions, deposit-taking can be the key to financial sustainability. This can be possible through providing a stable means to finance a growing loan portfolio to release MFIs from external dependence and subsequently improve the sustainability of the institution. Deposits may also fuel local development by increasing the resources available for productive investment. Rural Savings and Credit Cooperatives are basically savings-led MFIs. Savings mobilization can help MFIs expand and deepen their



outreach. It is a stable source of fund. This stable funding source can expand lending operations and therefore benefit borrowers. It can contribute to self-sustainability by providing the MFI with cheaper funds than those from the interbank market. Deposit collection allows MFIs to provide much needed service to more poor clients and lowers the costs of capital.

### **2.2.1. Arguments for voluntary savings mobilization**

The most important arguments forwarded by development economists like Fernando (1991), Meyer (1989), and Vogel (1984) for emphasizing savings mobilization include:-. Saving mobilization can lead to a more equitable distribution of income by giving the poor access to financial assets with higher returns than those from tangible assets. For these purpose positive real rates of interest and low transaction costs are needed. This will also improve resource allocation, since, a considerable amount of money saved under informal arrangements are either kept idle or spent on low return investments.

Savings mobilization enables financial institutions to improve their financial viability and overall performance. Repayment performance may be superior on loans made through mobilized funds for borrowers are more likely to repay promptly when they know that resources come from neighbors rather than from some distant governmental agency or international donor. It also creates customer loyalty and resources for loans. Deposit mobilization therefore contributes to the stabilization of rural financial markets' liquidity and solvency, and reduces their dependency on governments and donors fund (Schrieder&Heidhues, 1991).

Savings mobilization is an antidote to asymmetric information and incentive problems; it adds value to the relationship between intermediaries and clients. It helps rural financial institutions to make sound creditworthiness decision deposit records provide valuable information on the savings history and solvency of potential borrowers. Empirical evidence shows that debtors are less negligent to honor loan obligations when they hold deposits at the lending institution. This information reduces the risks, and thus the costs of lending.

Deposits are an indispensable tool commercial banks use to enhance its profitability through advancing deposits mobilized to its customers in form of loans which make in return interest to commercial banks. Tuyishime et al, (2015) study established the effects of deposit mobilization on the bank financial performance of commercial banks in Rwanda. The findings indicated that a

positive change in deposits interest rate affects the level of deposits received and later on the profitability of the bank.

According to Kazi (2012), in banking sector, deposit mobilization is a scheme intended to encourage customers to deposit more cash with the bank and this money in turn will be used by the bank to disburse more loans and generate additional revenue for them. The main business for banks is accepting deposits and granting loans. The more the loans the banks disburse the more profit they make. Also, banks do not have a lot of their own money to give as loans. They depend on customer deposits to generate funds for granting loans to other customers.

According to Laura et al, (2009), to mobilize more deposits, financial institutions offer a range of savings products that are tailored to their particular clientele. They offer the widest variety of specialized savings products, so that their customers have a choice between immediately accessible, liquid products, or semi-liquid accounts or time deposits with accordingly higher interest rates. Simple and clear design of basic savings products enables depositors to easily select the product that best suits their needs. The simple and transparent design of the savings products also enables staff to administer them with ease, reducing administrative costs.

Woldemichael (2010) study shed a light on the main challenges and opportunities of the Ethiopian Savings and Credit Cooperative Societies industry with respect to deposit mobilization performance. The study analyzed the effect of ownership structure, source of fund structure and regulatory environment on deposit mobilization performance of the industry. The study findings revealed that due to lack of saving mobilization the industry is highly dependent on cheap and subsidized source of funds from both international NGOs and national Government; which put the long term sustainability of the institutions in question. Moreover, lack of strong management information system and liquidity management opportunities worsens the situation.

### **2.2.2. Facilitating Local Saving Mobilization to Finance Development**

Global experience suggests that there is a huge demand for a convenient, safe and reliable saving service among the poor. Just as the existence of moneylenders indicates a demand for credit among the poor, the widespread use of informal savings mechanisms may signal demand for formal deposit services (CGAP, 2006). This represents an unused financial potential which could be put to productive use -- from the unproductive hoarding of illiquid assets to activities where the marginal productivity of capital is higher, thus facilitating a more efficient allocation of

resources. Efficient financial intermediation "destroys" sub-optimal consumption and investment choices and results in better investments (Adams, 2009). Microfinance institutions have become the key tools of effective intervention.

The dramatic success of Bank Rakyat Indonesia (BRI), among others, has indeed been very inspirational for many to follow suit. While Grameen Bank, which assumed that what the poor lack to get out of poverty is access to 'microcredit' (including lobbying that microcredit is a 'human right' (Adams, 2009) did not emphasize on voluntary saving, BRI, although they also aim at enhancing access to small loan to the poor, they equally emphasize that the poor also demand saving services – perhaps more so than microcredit. Both Institutions started formal operation in the 80's (BRI much earlier in various forms), and more or less comparable developing countries in Asia. After a decade or so experience of implementing their programs (and reaching more or less similar number of microcredit clients), Grameen managed to mobilize some US\$133 Mill (and still depend on external donors, borrowing to finance their loan portfolio), while BRI managed to mobilize more than US\$ 2.6 Bill (which can finance more than 100% of their loan portfolio), with 6:1 ratio of saving accounts to loan (Kasekende, et al, 2012). The practice in such institutions also evidenced that typically, in a balanced financial intermediary, the number of depositors is three-to-ten times the number of borrowers (Adams, 2009).

Empirical evidence has shown that around the world poor household save in various forms and for various purposes. General they are willing to save part of their income if suitable financial institutions are available. For instance Shipton (1992) provide evidence on the use of lockboxes in the Gambia. Rutherford(1999) also cites several commitment devices that villagers in East Africa use to stick to savings plan, including "buying a lockbox and throwing away the key" and the use of "money guards" in which individuals hand over their savings to someone else that trust to avoid using it. Moreover there is evidence that in Latin America and Africa, households use 'tree crops and tubers as a relatively illiquid store of savings' (Godoy et al.1996).

Other empirical studies suggest that the desire for "flexibility and liquidity" is so paramount that the poor is willing to forgo the desire for obtaining a positive return (Zeller and Sharma, 2000). A survey conducted in rural Kenya by Dupas and Ribson (2009) found that 89 % of the

treatment group opened an account while only three individuals in control group did so. The researchers find remarkable impacts despite substantial transaction fees charged by the bank (\$0.50 or more). In contrast to the Karlan and Zinman (2009) on their study of the impact of credit in the Philippines and de Mel et al. (2008) study of returns to capital, here the impacts were found only to exist among female entrepreneurs. On the other hand FinScope (2007) survey in Uganda shows that 71 % of Ugandans are currently saving, whereby 15 % save in informal groups, 4 % and 15 % save in semi-formal and in formal institutions respectively.

A survey by the World Savings Banks institute (WSBI) (2006) showed that there were 1.3 Billion low-average balance deposit accounts against 190 million loan accounts in developing and transitioning economies meaning that MFI clients wan saving services. “poor savers turn small amounts of money in to lump sums to help smooth consumption and mitigate the effects of economic shocks”. A study in Nicaragua found that more than 70 % of credit clients press out demand for financial services other than credit that is “savings , remittances , transfer and insurance”(CGAP 2005).Again, a survey in Uganda by FinScope(2007) when asked about financial needs, majority (43 percent)replied first “ a place to save” before “ a place to borrow” (31 percent).

Gugerty (2007), on his study from 70 ROSCAS in rural Kenya , interestingly found that nearly 60 ROSCAS(rotating savings and credit Association)were “consistent with a self –control commitment through most used the money for more than one purposes”. Karlan et al. (2010) who tested the effects of making savings more important by sending clients simple reminders to make deposits found that “even with no commitment, the reminders can be successful in increasing savings rates (by 6%) and helping clients to meet savings goals ( a 3% increase in the likelihood of reaching one’s goal)”. Similar positive impacts on savings were found by a deposit collection services tested in Ashraf et al. (2006), as well as Dupas and Robinson (2009).

### **2.3. Research Gap**

Few studies have been done on assessment of the practices & challenges of saving mobilization in Micro financial institutions and the few which are accessible have been conducted in other countries Some of the studies used descriptive statistics to analyze the decision to save in the financial institutions (Wolday 2000 ;Wolday & Teklay 2014 ; Woldemichael 2010;Amimo et al., 2003; Chandararot and Dannet, 2007;Noula, 2002).

Generally, this brief review of theory and empirical literature has shown that saving mobilization practice and different challenges that hinder saving mobilization. Hence this study attempts to identify key variables of savings mobilization practice & challenges amongst the un-bankable customers'. These and other experiences in the microfinance industry were inspiring for many practitioners to adapt mechanisms for local saving mobilization. In recognition of the value of saving services to the poor as well as the importance of generating liquidity from local sources to finance development. Those researchers had been under taken in this area, while those researchers have been unable to consider the deposit mobilization practice together with its challenges in the MFIs in Ethiopia. This issue has a great influence on outreach performance of loan operation of the micro finance industry. Saving mobilization practice and challenges on saving mobilization are highly influence on the saving performance of the MFI by such cases there is a gap to growth and outreach that needs to examine the MFIs in Ethiopia. Therefore, the motives of researcher is to conduct the study focused on the saving mobilization practice and challenges that hinder the performance of saving mobilization in specialized financial & promotional institution to fill the existing research gap..

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. Research approach and design**

To generate necessary information and come up with more progressive and comprehensive data, the researcher used both qualitative and quantitative approaches. This study adopted descriptive method to obtain data useful in evaluating present practices and providing a basis for decision making. The qualitative approach focused on examining the real experiences of the respondents including their own expression and articulation with more subjective views, whereas the quantitative approach addresses the specific objective through empirical assessments that involve numerical measurement and analysis.

#### **3.2. Population of the study**

The theoretical population of the study consists of all the operational employees of specialized financial & promotional institution and all the active saving clients registered in 18 branches of SFPI. Ideally the researcher wanted to study the entire active saving clients. However, due to financial and time constraints it was impossible and unfeasible to do census especially for saving clients therefore, the researcher adopted sampling techniques. Thus the researcher drew proportionate samples for savers and performed census for staff to collect the required data from staff & saving clients. Thus for effective coverage, time management and lower cost, only selected samples among active saving clients were covered. The total number of active saving clients recorded in 18 branches of the institution was 15,152 as of June 2018. By considering factors like, cost, time, accuracy of data and its management, out of those branches the researcher selected six representative branches based on convenience in which a total of 4032 active saving clients registered. Those branches are Akaki, Holeta, Kirkos, Merkato, sendafa and Shola that registered 1317,507,789,377,460 and 582 active saving clients respectively. Those branches selected based on their performance, seniority, trends on saving mobilization & area allocation from rural & urban. Each of the selected branches can represent the remaining branches, since all branches perform similar activities regarding of saving operations.

### 3.3. Sample size and sampling procedure

The sampling size of the branches staff is 125, by census method the sample size consists of all saving & credit officers, branch managers, operation supervisors working in the SFPI. There are in total of 102 saving & credit officers, 18 Branch managers & 5 Operation supervisors in the described branches of SFPI. The reason of selection of those staff is they had directly participated in the saving operations and they had matured experience in the management of credit & saving operations in the MFI. While a multi staged stratified random sampling technique used to select a total of 160 active saving clients. Therefore, from the selected branches, 160 sample saving clients selected by using stratified random sampling strategy. For this study in clients side the researcher used Cochran sample size determination, the sample size determination formula was specified in the equation below:

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where  $n_0$  = sample size,  $Z_2$  is the abscissa of the normal curve that cuts off an area  $\alpha$  at the tails ( $1 - \alpha$  equals the desired confidence level, e.g., 93%),  $e$  = level of precision,  $P$  is the estimated proportion of an attribute that is present in the population, and  $q$  is  $1-p$ . Thus

$$n_0 = \frac{1.81 * 0.5 * 0.5}{0.07^2}$$

$$\underline{\underline{=167}}$$

$$n = n_0 / (1 + (n_0 - 1) / N)$$

Where  $n$  is the sample size and  $N$  is the population size

$$n = 167 / (1 + (167 - 1) / 4032)$$

$$\underline{\underline{= 160}}$$

As seen above, by using Cochran's formula of calculating sample size with an error 7% and with a confidence coefficient of 93%, the calculation from a population of 4032 resulted into 160 persons from all savers. A total of 160 saving clients were required to constitute the sample size. The branches were further stratified in to six based on the number of branches in the institution. The above sample size, 160, was proportionately distributed into these six strata's to guarantee appropriate and equal representation. The applicable formula to identify the respective sample size for each stratum is:

$$N_s = (D_1 / N) * n$$

Where;  $N_s$  = sample size for each strata

$N$  = Total Number of population

$D_1$  = Population size of the strata

$n$  = sample size

Thus the total number of sample for each branch was calculated using the above formula and the researcher was able to distribute questionnaires having different number of clients with in each branch as depicted in table 1 bellow. Within those branches the questionnaires were distributed at the researcher's convenience to all available and willing clients.

Table 1. Sample size of saving clients in SFPI

Sr. No	Name of Branches	Total active saving clients	Sample Size
1	Akaki	1317	52
2	Holeta	507	20
3	Kirkos	789	31
4	Merkato	377	15
5	Sendafa	460	18
6	Shola	582	24
Total no. of saving clients		4032	160

Source: Survey result, 2019

### 3.4. Data sources and data collection method

The data for this study was collected from primary and secondary data sources. Here the primary data collected from the respondents using structured questionnaire and interview gathered using questionnaire. Questionnaires are designed to collect information from the operation staff &



savers of the institution by taking sample savers of the branches offices .The data was analyzed and interpreted using different techniques. And also a detailed description of the analysis and interpretation of data was outlined. All statistics were calculated using the Statistical Package for Social Sciences (SPSS).While the secondary source of data was collected from annual operational reports of the institution from June 2014 to June 2018 which is unpublished and published sources like journals, articles & proceedings.

### **3.5. Data analysis method**

The purpose of the study is to assess the practices & challenges of saving mobilization at SFPI. In order to meet the stated research objectives, the researcher used descriptive type of analyses (tables & percentage) to analyses the collected data.

## **CHAPTER FOUR**

### **PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA**

#### **4.1. Characteristics of the respondents**

##### **4.1.1. Respondents work Experience, Job position & Education level**

Results presented that the majority of the respondents have experience of between 2 to 18 years. According to the finding, the least work experience is two years while employees less than two years experience have not included in the study. 81.6% of the respondent's service year is four years and above, which shown that the majority of the respondents were well experienced. The composition of work experience of the representative samples may have a positive effect on the quality of the finding of the study as it incorporates the views of each group. This gave the researcher confidence that the respondents were experienced enough such that their views and opinions based on the questionnaire will not be out of experience.

The study findings revealed that out of the total respondents of staff, 18(14.4%) are currently holding the position of branch manager, while the remaining 102(81.6%) and 5(4%) are saving & credit officers and operation supervisors respectively. All participants have direct experience on deposit mobilization; the researcher enabled to get all required data from the participant. Concerning the question of educational level, respondents provided with options to choose from Diploma, First Degree & Second Degree and above. As presented in the findings, all of the respondents have diploma and first degree. The results shown that the total number of respondents, 30(24%) are currently holding diploma, while the remaining 95(76%) are 1<sup>st</sup> degree holders. However, the first degree holder's respondents have a big share compared to diploma holders. Faith (2014) noted that academic qualification has a positive relationship with employee performance. This gave the researcher confidence that the respondents were qualified enough to offered constructive opinions based on the questionnaire. The table 2 summarizes the job position, education level & work experience of the respondents.

Table 2.Respondents Job position, Education level& work Experience

S/n	Job position	Respondent Education level		Frequency	Percent
		Diploma	1st degree		
1	Managerial	0	18	18	14.4
2	Supervisor	0	5	5	4
3	Saving & credit office	30	72	102	81.6
	Total	30	95	125	100
	Respondents experience				
4	Service year	Minimum	Maximum	Mean	St.dev.
		2year	18 year	6.4	3.42

Source: field Survey, 2019

#### 4.1.2. Trend of voluntary saving in SFPI

As indicated table 3 below, the trends of growth of voluntary saving of Specialized Financial & Promotional Institution from 2014 to 2018 that increased at increasing rate. The growth of voluntary saving balance of SFPI reflected the effect of concerted efforts of saving mobilization that shown on the five years analysis. As of end of June 2018, the ratio of voluntary saving to loan outstanding ratio of SFPI was 22% which is too small and thus the loan was covered by very small voluntary savings balance (the institution financial report from June 2014- 2018).

Table 3.Voluntary saving performance of SFPI

Year	Growth of Voluntary saving (mill.)	Percentage Change	Saving to loan ratio
2014	10.84	-	8.6%
2015	17.11	58%	8.81%
2016	33.48	96%	19.61%
2017	44.33	32.4%	21.2%
2018	56.11	27%	22%

Source: SFPI Financial Report, (2014-2018)

The percentage share of voluntary savers of SFPI on the products of ordinary, box & child saving types covered 80%, 13% & 5.7% respectively while fixed time deposit saver are insignificant in numbers. Whereas, the largest portion of voluntary saving balance is ordinary saving that covered 77% , box saving 16%, time deposit 6% and child saving 1% mobilized (the institution financial report, June 2018).

Concerning of trends of voluntary saving mobilization, head quarter interview respondents' replied that ,the fund mobilization trend of SFPI is in different ways; by mobilization of saving from existing & new potential clients, interest collected from loan, loan from development bank of Ethiopia & other commercial banks with low interest rate and donation from stakeholders. Mobilizing small and micro-savings can contribute to self-sustainability by providing the MFI with cheaper funds than those from the interbank market. So savings mobilization can help to the MFI to expand and deepen its outreach. The institution has given special attention to saving mobilization by assigning saving department in the head quarter level to follow specifically saving mobilization operation which mobilization done at branches by saving & credit officers . The saving department has Prepared Strategic plan & (operational plan), Workshops, Seminar and promotion to Institutional leaders and/or Public officials and Intensive Promotion. SFPI provides different saving products by its branches that have two categories; Voluntary Savings (Box, Ordinary, Child & Time deposit,) and Compulsory Savings.

The trends of mobilization techniques used by SFPI as respondents described; the saving department together with business development service design customer demand saving products & then by promoting those products through different mechanisms for public to save in SFPI, by conducting of door to door promotion by saving & credit officers, by public promotion, by using different promotion materials (like pamphlets, brushers) and by saving box distribution to clients. Therefore to strength saving mobilization there is weekly branches performance evaluation done at the department & at branch level each saving & credit officers' performance evaluated by branch managers. The things that make SFPI vary from other MFIs, there is a saving department that always closely follows up the implementation of saving mobilization and also designs strategies for outreach of saving mobilization.

## **4.2. Practice of SFPI in saving mobilization**

### **4.2.1. Practice of SFPI for saving mobilization based on staff perspective**

As shown in the table 4, the study sought to determine whether the saving policy of SFPI is favoring or not to customers to increase deposits. The findings shown that, 80.8% agreed & 6.4% strongly agree that the saving policy of the SFPI is favoring to savers to increase deposits with institution while 10.4% disagree & 2.4% neutral. From the results, majority of the respondents agreed that the saving policy of SFPI is favoring customers to make deposits. According to the finding shown that, 69 (55.2%) disagreed, 4 (3.2%) strongly disagreed while 45 (36%) agreed & 7(5.6%) respondent were neutral on the regular promotion to mobilizing deposits. This indicates that the majority of the respondents disagreed on the regular promotion to mobilize saving.

The study sought to determine the attractiveness of the current SFPI's interest rate applied to mobilize more deposits. Asked to judge how attractive the current interest rate to the MFI deposits, 80% believed that this attraction is Agreed & 6.4% & strongly agreed while 11.2% did not recognize this attraction & 2.4% respondents are neutral. This argued that the current interest rate on saving mobilization is competitive and impact on the MFI deposits. The findings shown that, from all respondents majority of the respondents which are 74 (59.2%) agreed that SFPI offered different saving products to its customers. 36 (28.8%) of the respondents disagreed that the MFI offers different saving products to its customers, the remaining 15 (12%) remained neutral about the availability of different product. The survey result indicates that saving products that meet customers 'choice approached to neutral.

Regarding of branch expansion, the findings shown that 87 (69.6%), 37 (29.6%) and 1(0.8%) of the respondents disagree, strongly disagree & neutral respectively, that the MFI is not aggressively increasing its branches. During the period ended June 30, 2018, SFPI opened one new branch in that budget year and the total number of branches & sub branches are 18 & 10 respectively. Of these branches, four are found in Addis Ababa while the remaining 14 branches & all sub branches are outlying ones. This indicates that SFPI wasn't increased its branches aggressively to attract new savers and to satisfy the existing customer compared to its establishment year (SFPI June, 2018 operation report).

Respondents were asked to determine the usage of minimum saving amount to open an account. The findings that shown in the table 4, 77(61.6%) and 47(37.6%) of the respondents agreed & strongly agreed respectively in that of minimum saving amount to open an account is one of the saving mobilization strategy used in the SFPI. According to the item of borrower clients are more targeted to mobilize voluntary savings than non-borrower clients, the findings shown that 65(52%) of Agree, 26(20.8%) strongly Agree while 32(25.6%) disagree & 2(1.6%) neutral that of borrower clients are more targeted to mobilize voluntary savings than Non-borrower clients. The survey result indicates that most of the MFI focused on borrower clients than non-borrower clients to mobilize voluntary savings. In other way, the involvement of Non-borrower clients in voluntary saving mobilization is less. Most staff at operation has, for long, been dealing only with micro-credit clients, who normally face shortage of liquidity to run their business and actually most of the promotion for 'voluntary' saving have been conducted to these same people who, fortunately to the staff, regularly weekly or monthly come to MFI office to do transactions on loan (Zegeye, et al, 2012).

Concerning of saving mobilization is a cheap source of fund for micro finance institutions, the respondents replied that 64(51.2%) strongly Agree and 61(48.8%) Agree about saving mobilization is a cheap source of fund for micro finance institutions. From the data result the significant number of respondents from the total population strongly agreed that saving mobilization is a cheap source of fund for microfinance institutions. Concerning of marketing materials used to promotion of saving, the findings indicates, 70(56%) disagree, 54(43.2) agree while 1(0.8%) neutral from the total population of the respondents. The result indicates that marketing materials had not used by SFPI to promotion of saving.

According to the item of incentive to staff for saving mobilization, the respondents presented in table 4 shown that, 92 (73.6%) & 32 (25.6%) strongly disagree & disagree respectively, this implies that SFPI had not offered incentive to staff for saving mobilization purpose. Staff incentives need to give adequate wait to saving. Indeed, saving products are harder to "sell" given the local context. It is not an easy task, it takes effort and commitment, and results are only achieved in the medium to long term. In the providing of training on saving mobilization to employees, from the result presented, only 4(3.2%) of the respondents agreed on that of SFPI

provide training on saving mobilization to its employees; 7 (5.6%) of the respondents were neutral while 92(73.6%) of the respondents disagreed and 22 (17.6%) of the respondents strongly disagreed. According to the described information SFPI has not provided saving mobilization training regularly to its employees. Training increases the knowledge and confidence of employees about the MFI service, marketing, and customer service management. Building staff capacity on public saving mobilization strategy, policy, product development, especially front-line staff capacity is crucial. According to the item of incentive for depositors to attract potential savers, the findings shown that, from all respondents majority of the respondents which are 45 (36%) and 78 (62.4%) disagree and strongly disagree respectively, that SFPI has not provided incentive for depositors. The remaining 2 (1.6%) remained neutral about the availability of incentive for depositor. According to the respondents the MFI has not offered incentive to savers. The table 4 summarizes the Practice of saving mobilization in SFPI based on staff perspective.

Table 4. Practice of SFPI on saving mobilization based on staff perspective

S/n	Items	Scale				
		Strongly Disagree	Disagree	Neutra 1	Agree	Strongly agree
1	The saving policy of SFPI is favoring customers to increase more deposit	0 0	13 10.4%	3 2.4%	101 80.3%	8 6.4%
2	Saving promotion has conducted regularly by the SFPI to attract potential clients	4 3.2%	69 55.2%	7 5.6%	45 36%	0 0
3	SFPI used different interest rate to attract depositors	0 0	33 55%	2 3.3%	25 41.7%	0 0
4	Saving products delivered by the SFPI meet the choice of clients	0 0	36 28.8%	15 12%	74 59.2%	0 0
5	SFPI is aggressively expanding its branch to increasing saving mobilization	37 29.6 %	87 69.6%	1 0.8%	0 0	0 0
6	Minimum saving amount to open an account is one of the saving mobilization strategy used in the SFPI.	0 0	0 0	1 0.8%	77 61.6%	47 37.6%
7	There is an incentive system to staff for saving mobilization strategies that applied by the MFI	32 25.6%	92 73.6%	1 0.8	0 0	0 0
8	There is an incentive system to high savers to attract potential clients applied by SFPI.	78 62.4%	45 36%	2 1.6%	0 0	0 0
9	Regular training is conducted by SFPI to increase awareness of saving mobilization to staff	22 17.6%	92 73.6%	7 5.6%	4 3.2%	0 0
10	Targets of MFIs to mobilize voluntary savings on borrowers than non-Borrower clients	0 0	32 25.6%	2 1.6%	65 52%	26 20.8%
11	Saving mobilization is a cheap source of loanable fund to MFI rather than other sources	0 0	0 0	0 0	61 48.8%	64 51.2%
12	Complete marketing materials with clear, simple and forceful message, is used by SFPI to increase to saving mobilization strategies	0 0	70 56%	1 0.8%	54 43.2%	0 0

Source: field Survey 2019



Practice of saving mobilization, according to head quarter interview respondents' replied that, in the question of the reason why SFPI need to offer savings services for the purpose of; to get loan able fund that help the MFI to expand borrowers, to improve saving culture of the society in the area of rural & urban, for being independent from external source of fund. In addition local saving mobilization is the cheapest resources for loan capital thus it helps to increase outreach & promote institution capacity. In addition to improving sustainability of MFI by filling their liquidity gap, additional benefits of local saving mobilization is that it can improves their loan repayment performance. According to respondent point of view, SFPI has a plan, the saving department of the institution closely follow up the achievements of the plan by evaluate branches to achieve their plan effectively & efficiently. The strategies to attain the targets are; continuous branch supervision ,monitoring & evaluation performance of the institution, by designing incentive mechanisms to branch staffs & potential savers, integrating savings with various benefits, providing training regarding of customers management & quality service to staff to provide fast service at transaction time. Based on respondent point of view, there are also untouched potential markets for saving mobilization which is a cheap source of fund in microfinance institution. As individuals there are potential borrower clients, non borrower clients, traders, farmers, children, women and employees. While, as institution churches, NGOs, self-help groups, associations, Iqub & Iddir, etc. are some of the potential market for saving mobilization. So MFI look them to mobilize huge savings to ensure the sustainability of loan provision productive poor.

#### **4.2.2. Practice of SFPI on saving mobilization based on clients perspective**

The study sought to determine the different saving products mostly offered by SFPI favoring customers in mobilizing more deposits. The findings shown that, 128(80%) and 12(7.5%) of the respondents agreed & strongly agreed respectively whereas 20(12.5%) respondents disagree in that of SFPI offered different saving products which satisfy customers. According to the described information almost more than 87% of respondents agreed in the term of providing of different saving products to satisfy its customers. Respondents were asked concerning of service quality, branch convenient to deposit and saving collected from saver by saving & credit officers in working place of customers, the findings shown that 124(77.5%), 73(45.6%) & 131(81.9%) agreed while 28(17.5%), 77(48.1) & 8(5%) of respondents in those described items were

disagreed respectively. In addition to this 21 (13.1%) respondents replied strongly agreed that of SFPI staff collected saving from depositors on working place of customers. Regarding of saving interest rate on the customers perspective, the findings as shown in table 5, 84(52.5%) of the respondents Disagree, 70(43.8%) Agree and 6(3.8%) neutral. This argue that majority of the respondents disagree on the current interest rate to attract customers to make deposits as means of gaining competitive rates. Respondents were asked to determine the incentive offered to depositors by SFPI. According to the findings, 62(38.8%) strongly Disagree and 98(61.3%) disagree that of incentive offered to high depositors from SFPI. According to the result, saving products offered by SFPI adapted by customers and they encouraged door to door saving collection service type while, branch office convenient, better interest rate & incentive to attract potential savers respondents not much comforted .

Concerning of clients choice to save in SFPI,45.6% on proximity, 38.4% on good service especially door to door saving collection service, 8.4% on good trust, better interest rate 4% & accessibility of loan to savers less attractive by respondents that is 3.6% .This implies that based on service nearer to customer, they prefer to save in MFI. According to saving products familiar to customer that shown in the result,30.4% (118) box saving,40.2%(156) ordinary saving ,24.7% (96) child saving product and 4.6%(18) fixed time deposit saving products familiar to customers that confirmed by respondents. The results shown that ordinary saving& box saving products are well known by clients while child & fixed time saving products need more promotion to familiar those products. According to preference of saving products by savers, the results shown that, 54.4% ordinary saving and 38.8% respondents confirmed box savings product preferred, while 6.9% of selected child saving.

Asked the reasons why concerning in the preference of those saving products by customers, what are the reasons that attributed to preference of saving products to increase deposits in SFPI, the findings shown that,54.4% of respondents stated ordinary saving product which is easy to deposit& withdrawal ,38.8 % of the respondents stated the reasons of the saving box placed on their business area, 6.9 % stated that child saving preferred, to develop the saving trend to their children& they liked this product. The study sought to determine the types of saving service mostly offered by SFPI for saving mobilizing. The findings shown that, there is any saving service type offered by SFPI except deposit & withdrawal that all respondents confirmed.

Table 5. Practice of SFPI on saving mobilization based on clients perspective

S/n	Items	Scale	NR	Percentage
1	Different saving products offered by SFPI satisfy its customers	Disagree	20	12.5
		Agree	128	80
		Strongly agree	12	12.5
2	Customer service offered by SFPI is fast & qualified that satisfy its clients	Disagree	28	17.5
		Neutral	8	5
		Agree	124	77.5
3	The SFPI branch is convenient to customer to make deposit	Disagree	77	48.1
		Neutral	10	6.3
		Agree	73	45.6
4.	SFPI staff collected saving from depositors working place	Disagree	8	5.0
		Agree	131	81.9
		Strongly agree	21	13.1
5	SFPI paid better interest to savers that satisfy its customer	Disagree	84	52.5
		Neutral	6	3.8
		Agree	70	43.8
6.	SFPI has offered incentive for high depositors	Strongly Disagree	62	38.8
		Disagree	98	61.3
7	Choice of SFPI to depose	Proximity	114	45.6
		Good trust	21	8.4
		better interest rate	10	4.0
		to get loan access	9	3.6
		quality service	96	30.4
8	Types of saving products familiar to customer	Box	118	34.2
		Ordinary	156	40.2
		Child	96	24.7
		Fixed Time deposit	18	6.8
9	Preferred saving products	Box	62	38.8
		Ordinary	87	54.4
		Child saving	11	6.9

Source: Field Survey, 2019

### **4.3. Challenges for saving mobilization**

Respondents were asked to determine poor saving habits, culture and poor awareness of the society are challenges for MFI to mobilize saving. According to the findings as shown in the table 6, 77(61.6%) of the respondents agree & 48(38.4%) strongly agree. The results shown that, the total population argued that poor saving habits&/cultures in the society are one of the challenges for saving mobilization. Respondents were asked concerning Inflation& political instability, the findings shown that 55.2% Agree &44% strongly agree and the remaining (0.8%) neutral. As shown in the result, almost all of the total population agreed that Inflation, political instability& unstable economic conditions are challenges to mobilization of saving.

Regarding of competition the findings shown that, 78(62.4%) of the respondents Agree, 36(28.8%) strongly-Agree, while the remaining 6(4.8%) of the respondents replied neutral & 5(4%) respondents disagree about Competition among financial institutions are challenges of saving mobilization. The result shown, total population argued that competition is one of the challenges for savings mobilization.

Concerning about poor infrastructure that challenges to saving mobilization, respondents were also asked and 85(68%) Agree and 28(22.4%) strongly agree, while 5(4%) neutral and 7(5.6%) disagree. The survey result in this item that the majority of respondents were replied unavailability of appropriate organizational structure for saving mobilization is one of the challenges for saving mobilization.

According to Seasonality of cash flow, the findings shown that, 88 (70.4%) agree & 32(25.6%) strongly agreed while 3(2.4%) neutral and 2(1.6%) disagree in the item of Seasonality of cash flow affect saving mobilization. The survey result shown that the total population agreed byseasonality of cash flow is one of the challenges of saving mobilization. The liquidity patterns of income and expenditure of clients and potential clients should be known at each mobilization area so that product designing or redesigning as well as marketing plans can be more appropriately set up as a major solutions. The study sought to determine the internal challenges faced by MFI in mobilizing of saving .The findings as shown regarding of branch office distances that far from customer, 67.2% of the respondents agree & 20% strongly agree. The survey result shown that of total population argued that branch office distances is one of the challenges for MFIs to saving mobilization. The physical distance between service provider and

potential clients have less interest to get MFI saving services because they have incurred more cost to save small amounts of money at regular basis. Therefore proximity is one of the determinant factors that affect saving mobilization.

According to Lack of appropriate saving products that affect saving mobilization, the findings shown that, 74.4% agreed & 17.6% strongly- agreed that Lack of appropriate saving products that meet customer needs affect saving mobilization. While 3.2% respondent neutral and 4.8% respondents were disagreed. Product differentiation is one of saving mobilization methods by attracting new and retaining existing customers (Ariful, 2014). Product Development need to be supported by active market research, given the fact that branch staff, particularly frontline staff have the opportunity for frequently contacting clients and potential clients, they often have a rich information about potential feasible products in their operational areas.

Respondents were asked to determine lack of management information system (MIS) or technology that affect saving mobilization, the findings shown that 48.8% agree and 51.2% strongly agree. Then the total population argued that lack of management information system challenges for MFI to savings mobilization. Respondents were asked concerning of poor commitment & weak attention of front line staff & management of the MFI, the findings shown that 56% disagree & 32 % strongly disagree, while the remaining 4% neutral & 8% agreed .As shown in the survey result, almost 88% of the total respondents disagreed, this implies that there is a good attention by front line staff& management of SFPI for saving mobilization.As shown in the result, concerning of internal fraud or corruption and weak saving management practice, 59(47.2%) of the respondents disagree, 51(40.8%) strongly disagree, whereas 10(8%) of the respondents replied neutral and 5(4%) agree about this issue. Internal corruption is, of course, a potential problem for the MFI and a risk for savers. Strong effective management, a clear policy of delegating responsibility and holding managers and staff accountable for their decisions and actions, appropriate MIS, careful internal supervision and controls, and a promotion and incentive system designed to encourage employee loyalty to the MFI can all help to prevent internal fraud. In the last item, which is Loan defaults hinder saving mobilization, the findings shown that 58.4% of participants were replied agree and 40.8% of the respondents strongly agree. Then the survey result had shown that total population argued that loan defaults or non performing loan is one of the challenges of saving mobilization in MFI. Because most time

defaulter clients leave the MFI & they took their whole saving balance. As noted, it is crucial for an MFI introducing voluntary savings products and services to maintain high loan portfolio quality. Before introducing public savings, transformed MFI must have effective procedures in place for loan collection; accurate, transparent accounting and reporting systems; and qualified, well-managed internal supervision and audit. The study sought to determine the challenges faced to customers to save more deposits in SFPI ,based on customer perspective ,the finding shown that the most challenge are Market fluctuation, Office distance, Withdrawal not allowed by other branches & low income ,this represents 41.9%, 15% , 21.3% & 21.9% respectively as the analyses of the respondents..

Regarding of the challenges of savings mobilization, according to the findings of head quarter management staff respondents', the challenges of savings mobilization are both internal and external. Some of the challenges are under the control of SFPI which may be removed through capacity building and management effort. Others are external beyond the control of management of SFPI. However, currently the greatest challenge of the MFI is lack of management information system. It is true that the credit clients may tolerate many of the problems and hurdles due to supply problem but the savings clients do have better alternatives as commercial banks are becoming closer and closer to the clients. In addition to MIS, based on respondents' response other the most challenge the MFI encountered in deposits mobilization is high competition with other financial institutions .This challenge of sharing the market with other financial institutions therefore more efforts are always needed to mobilize more deposits. To summarize the above results, Poor saving habits & cultures in the society ; Inflation, political instability& unstable economic Conditions, Competition among financial institutions, unavailability of appropriate organizational structure& Seasonality of cash flow are the main external challenges for saving mobilization in micro finance institutions while, Lack of management information system or technology, Lack of appropriate saving products, branch office distances that far from customer and loan defaults that face microfinance institutions when mobilizing savings. The table 6 summarizes the challenges of saving mobilization in MFI.

Table 6.Challenges of saving mobilization in MFI

S/n	Items	Scale				
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	Poor saving habits, culture ,and poor awareness of the society are the challenges for MFI to mobilize saving	0 0	0 0	0 0	77 61.6%	48 38.4%
2	Inflation, political instability& unstable economic Conditions are the most challenges to mobilization of savings.	0 0	0 0	1 0.8%	69 55.2%	55 44%
3	competition among financial institutions are challenges of saving mobilization	0 0	5 4%	6 4.8%	78 62.4%	36 28.8%
4	Poor infrastructure affects the mobilization of saving	0 0	7 5.6%	5 4%	85 68%	28 22.4%
5	Seasonality of cash flow affect saving mobilization	0 0	2 1.6%	3 2.4%	88 70.4	32 25.6%
6	SFPI Branch office distances that far to customer affect saving mobilization	0 0	13 10.4%	3 2.4%	84 67.2%	25 20%
7	Lack of appropriate saving products that meet customer needs affect saving mobilization	0 0	6 4.8%	4 3.2%	93 74.4%	22 17.6%
8	Lack of management information system (MIS) or technology affect saving mobilization	0 0	0 0	0 0	61 48.8%	64 51.2%
9	There is poor commitment& weak attention of front line staff& management of the MFI for saving mobilization	40 32%	70 56%	5 4%	10 8%	0 0
10	There is internal fraud or Internal corruption and weak saving management practice have seen in the MFI	51 40.8%	59 47.2%	10 8%	5 4%	0 0
11	Loan defaults or non performing loan affect saving mobilization in MFI	0 0	0 0	1 0.8%	73 58.4%	51 40.8%

Source: Field Survey, 2019

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1. Summary of the findings**

The Findings of this study were incorporated with practice of saving mobilization & Challenges faced by specialized financial & promotional institution to saving mobilization.

##### **5.1.1. Saving mobilization practices**

The findings have shown that, most respondents argued that the saving policy of SFPI is favoring to customers to make more deposits and the majority of the respondents in staff perspectives replied that the current interest rate on saving mobilization is competitive among other MFIs, while in the client perspective saving interest rate is not attractive to encourage savers .This argue that majority of the respondents disagree on the current interest rate on the client perspective to attract customers to make deposits as means of gaining competitive rates. Regarding of minimum saving balance the findings indicated that almost all of the respondents replied agreed in that of minimum saving balance to open an account is one of the saving mobilization strategy used in the SFPI.

And also result had shown that most of the MFI focused on borrower clients than Non-borrower clients to mobilize voluntary savings. In other way, the involvement of Non- borrower clients in voluntary saving mobilization is less. While the research findings indicated that the majority of the respondents argued that SFPI has not conducted regular promotion, poor branch expansion, poor incentive system for staff and customers, provided of poor training to staff. Concerning of marketing materials used to promotion, the findings indicate that almost the respondents argued that the institution is not used. According to saving product Preferred by savers, the study sought to determine the saving products that the MFI mostly offered two types of products those are familiar to customers. The research findings shown that, 54.4% confirmed that ordinary saving product is mostly preferred by respondents &38.8% box saving are more selected. The reasons that preference of saving products to increase deposits in SFPI, the respondents stated the reasons of ordinary saving preferred is easy to depose &withdrawal &saving box placed in their business area.



### **5.1.2. Challenges of saving mobilization**

The research findings indicated that, Poor saving habits or cultures in the society, Inflation & political instability & unstable economic Conditions, unavailability of appropriate organizational structure, competition among MFIs and from banks, seasonality of cash flow, are external challenges while Lack of management information system (MIS) or technology, Lack of appropriate saving products, branch office distances that far from customer and loan defaults that face microfinance institutions when mobilizing savings. According to the client respondent interviewees responses there are factors that affect saving mobilization in MFIs, those factors are, proximity, lack of trust, poor product delivery and customer services quality are some of the factors that affect saving mobilization.

The respondents in the interview session, the interviewees emphasized that there are a potential market for saving mobilization in which MFIs didn't address in an effective way, includes Churches and mosques, NGOs, Self- help groups, associations, Iqub, Iddir, and etc. If MFIs design a strategy to link with the above mentioned semi-formal and informal groups it might be exploit the huge untouched savings which is a cheap source fund for MFIs.

## **5.2. Conclusion**

This study sought to assess the practice & challenges of savings mobilization in the case of SFPI. Specifically, the study sought to find out the mobilization practices put in place in mobilizing savings, identifying challenges facing on the saving mobilization .Descriptive research method employed for the study and the sampling size of the branches staff is 125, by census method of all operational staffs while a multi staged stratified random sampling technique used to select a total of 160 active saving clients as sample size. The findings reflect the practical successes and challenges faced by the MFI.

From the findings of this study regarding of practice of saving mobilization, it can be concluded that SFPI has saving policy which is favoring customers to make deposits and the current interest rate is competitive. From this study, the minimum saving balance to open an account is one of the saving mobilization strategy used in the SFPI. To mobilize voluntary savings in sustainable basis, there are clear remaining gaps has been seen in this study in terms of governance, institutional culture, product design, incentives to potential savers & staff, outreach as well as poor training to frontline staff to build their capacity and confidence in voluntary savings

promotion. In addition to this, branch location, distance from homestead to MFI, Lack of management information system, and loan defaults that faces microfinance institutions when mobilizing savings. Based on the findings depicted in the previous chapter, this study reserves that the MFI has offered different savings products mainly as ordinary savings, box saving accounts, child saving & time deposits and those products have different features

### **5.3. Recommendation**

In connection with the summary of finding and conclusions drawn above, the following recommendations are provided to address the gaps identified by the study.

- To conduct regular promotion; The Institution has to design comprehensive promotion materials with clear, simple and compelling message, so front line staff can confidently adapt their marketing message to saving mobilization.
- To develop saving products; SFPI has meet its customers demand by evaluating the existing product and determine in which stage of its life cycle each product falls. It can use various sources of information to evaluate products, including client complaints, staff observations, market research, and competitive activities.
- To apply centralized management information system and online to be competitive including likes agent banking and mobile banking to address more potential clients.
- To provide training and capacity building for front line officer on marketing ability. This can also help to examine field officers over-all approach, attitudes and behaviour to the society. This raises the confidence and effectiveness of front-line staff.
- Incentivise staff; indeed, saving products are harder to “sell” given the local context. It is not an easy task, it takes effort and commitment, and results are only achieved in the medium to long term and also arrange & apply incentive program to potential savers need to give adequate wait to saving.
- The MFI has to maintain the healthiness of loan portfolio by strong follow up method. Voluntary saving is effectively promoted mostly to borrower clients, while loan defaults or non performing loan is one of the challenges of saving mobilization in MFI .Because most time defaulter clients leave the MFI & they took their total savings balance or offset to their unpaid loans.

- SFPI has to expand its branches in order to increase saving mobilization and it has give priority for branch opening .The study, therefore, stated that the management of SFPI should consider increasing the number of branches especially in rural area to address the un-bankable societies & to make more opportunity available to potential savers and also break distance barrier which tends to discourage savings.

## REFERENCES

- Adams, Dale (2009): Easing Poverty through Thrift, Source: Savings and Development, Vol. 33, No. 1 (2009),
- Adams W Dale, 1978, mobilizing household saving through rural financial market. The Agency of International Development University of Chicago. Chicago, USA
- Amino, A. et al, (2003), The Potential for Saving in the Rural Mozambican Households, Savings and Development, Quarterly Review, Issue No. 2
- Ariful Islam, proshenjit Ghosh (2014), a comparative analysis of deposit product in Banking industry: an opportunity for eastern bank Ltd.
- Ashraf, N., Karlan, D., Yin, W (2006):“ Deposit Collectors”- Advances in Economic Analysis and Policy 6, Article 5.
- Bald Joachim, 2009, Stability of Small Balance deposits, CGAP technical notes, Washington DC, USA.
- Brom Karla, 2009,, Asset and Liability management for deposit taking Microfinance institutions
- Chandararot, K., and Dannel, L. (2007). National Survey on Saving Needs and Opportunities for Poor Households in Cambodia: Developing Deposit Services in Rural and Urban Cambodia. Cambodia Institute of Development Study
- CGAP, 2002, Savings are as important as credit: deposit services for the poor, CGAP, Washington DC, USA.
- CGAP (2005); Microfinance Consensus Guidelines Developing Deposit Services For the Poor: 1818 H Street, NW, and Washington, DC
- CGAP (2005): Nicaragua Country-Level Effectiveness and Accountability Review. Washington, D.C
- CGAP Working Group on Savings Mobilization.1998, Proceedings of the Africa on Savings in the Context of Microfinance. Eschborn
- CGAP (2006, c): Safe and Accessible: Bringing poor savers in to the formal financial system, CGAP Focus Note, No 37, September 2006
- Cochran, W. G. 1963. Sampling Techniques, 2nd Ed, New York: John Wiley and Sons, Inc.

- Dauner Gardiol Isabel, et al. 2004, Mobilizing savings, key issues and good practices in saving promotion, ÓSDC , Swiss Agency for Development and Cooperation.
- De Mel, S., Mackenzie, D., Woodruff, C., (2008).“ Returns to capital in microenterprises: evidence from a field experiment, Quarterly Journal of Economics Forthcoming.
- Dupas Pand Robinson J (2009); Savings constraints and Microenterprise Development: Evidence from a field experiment in Kenya” National Bureau of Economic Research Working Paper 14693
- Elser Laura et al, 1999, Comparative analysis of savings mobilization strategies, Eschborn, CGAP working group on saving mobilization.
- Faith, J.A. (2014). Perceived Relationship between Employee Academic Qualifications and Job Performance in Mukuru Slums Development Projects, Nairobi County. Retrieved from: <http://erepository.uonbi.ac.ke/>
- Federal Democratic Republic of Ethiopia (2016) Growth and Transformation plan (GTPII) 2015/16-2019/20), (2016)
- FERNANDO, N.A.(1991) Mobilizing rural savings, in Papua New Guinea. Myths, realities, And needed policy reforms. Developing Economies, Vol 29(1):44-5.
- Fin Scope (2007); “ Demand and use of Financial Services in Uganda”, Survey report presented on April, 2007, Kampala
- Getaneh G (2005). Regulating Microfinance in Ethiopia: Making it more Effective. Amhara Credit and Savings Institution (ACSI)
- Gugerty, M.K. (2003). “You can’t save alone: Testing theories of rotating saving and credit Associations.” Manuscript -Evans School of Public Affairs University of Washington.
- Gugerty, M. K., (2007); “ you can’t save alone; commitment in rotating savings and credit associations in Kenya”. Economic Development and Cultural Change 55, Pp 251-282
- Godoy R., Franks J.M, and Claudio M.A. (1996); Adoption of Modern Agricultural Technologies by Lowland Americans in Bolivia: the Role of Households, Villages, Ethnicity, and Markets. Development Discussion paper No.539, Harvard Institute for International Development, Harvard University.

- Karlan, D., Zinman, J., (2009); “Expanding microenterprise credit access: Using randomized supply decisions to estimate the impacts in Manila”. Yale University, Dartmouth College, and innovations in Poverty action working paper
- Kasekende, Louis (2012): Savings in the Context of Macroeconomic Policy Issues – the East African Experience, in CGAP and others (1998): Saving in the Context of Microfinance—Africa Conference Campala, Uganda
- Kazi, A. M. (2012), Promoting deposit mobilization and financial inclusion.
- Kibet, L.K., Mutai, B.k., Ouma, D.E, Ouma, S.A., and Owuor, G.(2009). Determinants of household saving: Case study of small holder farmers, Entrepreneurs and teachers in rural area of Kenya. Journal of development and agricultural Economics,1,137-143
- Kiiza, B.,& Pederson, G. (2001). Household financial savings mobilization: Empirical evidence from Uganda. Journal of African Economies, 10, 390-409
- Laura, E., Alfred, H. & Sylvia, W. (2009).CGAP working on Savings Mobilization Comparative Analysis of Savings Mobilization Strategies
- Ledgerwood, Joanna, (1999), Sustainable banking with the poor. The World Bank Washington DC, USA
- Ledgerwood, J. (2013). “The new microfinance handbook: a financial market perspective”. Washington, D.C.: World Bank, Sustainable Banking with the Poor project
- Mauri Arnaldo, 1985, the role of financial intermediation in the mobilization and allocation of household saving in Ethiopia. Interlink between organized and informal Circuits
- MEYER, R.L. (1989). Mobilizing rural deposits: discovering the forgotten half of Financial intermediation. Development Southern Africa, Vol6 (3):279-294.
- Moulick, Guwahati, Assam, (2008); Understanding and Responding to the Saving Behavior of the Poor People in the North East of India; Micro-save for DAI
- Otero, M. and Rhyne E9(1994); The New World of Microenterprise Finance; Building Healthy Financial Institutions for the poor: Intermediate Technology Publications.

- Noula, A. (2002). Multivariable Functions of Savings and Credit in Menoua, West Cameroon
- Robinson, M. (2001): The Microfinance Revolution: Sustainable Finance for the poor. World Bank, Washington
- Robinson, M.S., Savings Mobilization and Microenterprise Finance: The Indonesian Experience, in: M. Otero and E. Rhyne (eds), The New World of Microenterprise Finance, pp. 27-54, West Hartford: Kumarian 1994.
- Rutherford, S., et al. (1999); "Saving and the poor: the methods, use and impact of savings by the poor of East Africa. "Report prepared for Micro Save –Africa, Kenya.
- Rutherford, Stuart. 2000. The poor and their Money. New Delhi: Oxford University press.
- SCHRIEDER, G.& HEIDHUES, F. (1991). Finance\ and rural development in West Africa. Evaluation of financial projects for the rural poor with Special emphasis on savings schemes. Proceedings of international seminar held inQuagadougou. UniversitatHohenheim PF 700562 - 7000 Stuttgart 70
- Shipton, P. (1992); " the Rope and the Box: Group Savings in the Gambia." In DW.Adams and DA., Fitchett eds., Informal finance in Low- income Countries; Boulder: Westview Press, South Africa Journal of Economics, Economic Society of South Africa, vol.64(4), pp 217-223.
- Specialized Financial and promotional Institution, annual report (2014-2018)
- Specialized Financial and promotional Institution, saving manual (2014)
- Tuyishime, R., Memba, F., & Mbera, Z. (2015). The Effects of Deposits Mobilization on Financial Performance in Commercial Banks in Rwanda. A case of Equity Bank Rwanda Limited. International Journal of Small Business and Entrepreneurship Research, 3(6), 44-71
- Uremadu, S.O. (2002).Introduction to finance. Benin Mindex Publishing company ltd.
- World Saving Banks Institute (2006); based on CGAP 2004, Access to Finance: what does it mean and how do savings Banks foster access.
- VOGEL, R.C. (1984). Savings mobilization: the forgotten half of rural finance in Dale Adams et al (eds).Undermining rural development with cheap credit. Boulder, Colo: Westview Press

Wolday A (2000).Networking Microfinance Activities in Ethiopia: Challenges and Prospects. Occasional Paper No. 1 .AEMFI. Addis Ababa, Ethiopia

Woldemichael, B.D. (2010). Deposit Mobilization Performance of Ethiopian Sacco Institutions: Challenges and Prospects.

Wolday Amaha and Tekie Alemu (2014), household saving behavior and saving Mobilization in Ethiopia, Ethiopian Inclusive Finance Training and Research Institute, Addis Ababa.

World Saving Banks Institute (2006); based on CGAP 2004, Access to Finance: what does it mean and how do savings Banks foster access.

ዘገየባንቲ፡ አዋሽ አብተዉእና ብርሃኑ ኪዳኑ (2012) (2005 ኢት. አቆ)  
 ቁጠባ በኢትዮጵያ በስፋት ለማሰባሰብና ለማስፋፋት የሚያስችል የማሰልጠኛ ማንዋል .  
 (ETHIOPIAN INCLUSIVE FINANCE TRAINING AND RESEARCCH INSTITUTE, EIFTRI & AEMF)

Zeller M. and Sharma M. (2000); “Many Borrow, More Save, and All insure: Implications for Food and Micro-finance policy”, Food Policy 25(2) 2q, pp.143-167



**APPENDIX**  
**Questionnaire for operation staff or/and managements**

**ST. MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATES STUDIES**  
**MBA PROGRAM**

Dear Respondents

The main purpose of this study is to assess the practice & its challenges saving mobilization in Microfinance Institutions in the case of specialized financial & promotional institution (SFPI). This questionnaire is prepared to gather information from the staff of SFPI. Your genuine responses will have greater value for the success of the study. Therefore, I would like to assure you that all the information provided would be kept confidential and only used for the purpose of the study.

Put (√) for the multiple choices questions and state your opinions briefly for the short answer questions.

Thank you for your cooperation.

Section I: Demographic information

1. Level of education  Certificate     Diploma     1st degree     Master's & above

2. Years of service in MFI \_\_\_\_\_ years.

3. Current position/Job Title

Managerial     Supervisory     saving & credit officer

Section II: Assessment of the practice & challenges saving mobilization

A. Saving mobilization practice: Please rate the extent to which you agree or disagree with each statement by putting a tick mark (√) on the following:

S/n	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The saving policy of SFPI is favoring customers to increase more deposit					
2	Saving promotion has conducted regularly by the SFPI to attract potential clients					
3	SFPI used different interest rate to attract depositors					
4	Saving products delivered by the SFPI meet the choice of clients					
5	SFPI is aggressively expanding its branch to increasing saving mobilization					
6	Minimum saving amount to open an account is one of the saving mobilization strategy used in the SFPI.					
7	There is an incentive system to staff for saving mobilization strategies that applied by the MFI					
8	There is an incentive system to high savers to attract potential clients applied by SFPI.					
9	Regular training is conducted by SFPI to increase awareness of saving mobilization to staff					
10	Targets of MFIs to mobilize voluntary savings on borrowers than non-Borrower clients					
11	Saving mobilization is a cheap source of loan able fund to MFI rather than other sources					
12	Complete marketing materials with clear, simple and forceful message, is used by SFPI to increase to saving mobilization strategies					

B. Challenges that influence saving mobilization: The following are some of the challenges which affect saving mobilization in MFI. Please rate the extent to which you agree or disagree with each statement by putting a tick mark (√) on the following:

S/n	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Poor saving habits, culture ,and poor awareness of the society are the challenges for MFI to mobilize saving					
2	Inflation, political instability& unstable economic Conditions are the most challenges to mobilization of savings.					
3	competition among financial institutions are challenges of saving mobilization					
4	Poor infrastructure affects the mobilization of saving					
5	Seasonality of cash flow affect saving mobilization					
6	SFPI Branch office distances that far to customer affect saving mobilization					
7	Lack of appropriate saving products that meet customer needs affect saving mobilization					
8	Lack of management information system (MIS) or technology affect saving mobilization					
9	There is poor commitment& weak attention of front line staff& management of the MFI for saving mobilization					
10	There is internal fraud or Internal corruption and weak saving management practice have seen in the MFI					
11	Loan defaults or non performing loan affect saving mobilization in MFI					

**Questionnaire for MFI customer**

Instruction: Please use tick mark (√) in the boxes provided to choose from the options given and state your opinions briefly for the short answer questions.

S/n	Statements	strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	Different saving products offered by SFPI satisfy its customers					
2	Customer service offered by SFPI is fast & qualified that satisfy its clients					
3	The SFPI branch is convenient to the customer					
4	SFPI staff collect saving from depositors working place					
5	SFPI pay better interest to savers that satisfy its customer					
6	SFPI has offered incentive for high depositors					

7. As the customer of the SFPI what kind of saving services are you getting?

.....  
 .....

8 Why did you prefer to save at SFPI? .....

.....

9. What are common types of savings products you know that are offered by SFPI?

(a).....

(b).....

(c) .....

(d) .....

,

10. Among the mentioned savings products which one is most preferred in your scale of preference? And what are the reasons that attributed to that preference?

.....  
.....

11. What is challenging you to increase your saving at SFPI?

.....  
.....

12. What do you suggest SFPI to improve & to attract more depositors?

.....  
.....

## **Interview Questions for MFI staff at head Quarter level**

Checklist of MFIs questions:

Why SFPI need to offer savings services?

.....  
.....  
.....

How does SFPI mobilize funds?

.....  
.....  
.....  
.....

Would you explain the practice of deposit mobilization of SFPI, what techniques does the MFI use, what is the difference from other MFI?

.....  
.....  
.....

Do you have deposit plan, if yes what are your strategies to achieve your deposit plan? Is any department which monitors the deposit mobilization process? If yes how and what the department work? What are the challenges to implement the plan?.....

.....

What are the potential markets for saving mobilization of SFPI?

.....  
.....

,

## DECLARATION

I, the undersigned, declare that this thesis is my original work; prepared under the guidance of Dr. Maru Shete (Assoc. Prof.). 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 in full to any other higher learning institution for the purpose of earning any degree.

---

Name

St. Mary's University, Addis Ababa

---

Signature

June, 2019

## ENDORSMENT

This thesis has been submitted to St.Mary's University, School of Graduate Studies for examination with my approval as university advisor.

---

Advisor

St.Mary's University, Addis Ababa

---

Signature

June, 2019