

Household's financial Savings form an integral part of a nation's savings level. Financial institutions mobilize the households' savings and allocate them to the most efficient investments. Studies conducted in developing countries, Kenya included, indicate that most households save in informal financial institutions. Low savings in formal financial institutions limit the amount of funds available for long term investments.

This study sought to examine the underlying factors determining a household's choice of saving in formal, semi-formal and informal financial institutions using a separate bivariate logistic model for each of the institutions. In addition, the study examined the determinants of households' level of financial savings using weighted ordinary least squares method. Correlation between decision to save in formal, semi-formal and informal financial institutions was identified through pair wise correlations. Major hindrances to ownership of bank accounts were also identified.

The study utilized secondary data collected from a sample of 6598 Kenyan households. In each of the three forms of financial institutions, the level of financial information held about the financial institution, credit availability in the financial institution and the level of a household income were the most significant variables, in a household's decision to save in a particular financial institution. The level of household income, perceptions of high interest rates on savings held in financial institutions and the main financial service provider being a formal financial institution significantly increased the level of household financial savings. Positive correlations were found between savings in all the financial institutions although they were stronger between savings in formal and semiformal financial institutions. Resource constraints in a household were the major hindrance to ownership of a bank account.

The ministry of finance should collaborate with the banking sector to introduce financial education programmes to enlighten the public on the benefits of saving in formal and semi-formal financial institutions to enhance long-term finance. In addition, the government, through the relevant ministries, need to introduce measures to enhance incomes especially among households who derive most of their income from the informal sector. The increased incomes would not only increase the probability of households saving in formal and semi-formal financial institutions but would also increase the households' level of financial savings. The ministry of finance should encourage the growth of the microfinance industry which has strong positive correlations with the formal financial institutions. Informal financial institutions, especially women groups, should be encouraged to open bank accounts and join semi-formal financial institutions either individually or as groups. This would strengthen the linkage between savings in informal and semi-formal and formal financial institutions and boost overall household savings.