

## Saving Strategies of Rural Households in Eastern Bosnia

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### Abstract

Savings are essential for protecting and boosting the assets of rural populations. The paper analyses rural households' saving strategies in eastern Bosnia. It is based on a secondary data and primary information collected by a questionnaire survey carried out in March 2013 with 147 rural households from nine municipalities in eastern Bosnia. The questionnaire focused on saving purposes; access to various saving means, including formal and semi-formal ones; membership in and management of saving/credit groups; and reasons for using formal money deposits (banks). The formal and semiformal sectors are currently not meeting the demand for financial services of all rural households. Survey results showed that 72.8% of respondents prefer keeping their savings as cash at home. Savings are also kept in form of livestock, precious metals and jewellery or invested in buildings. Access of rural households to appropriate saving services is of paramount importance for rural livelihood diversification in Bosnia.

*Key words:* rural finance, saving purposes, rural development

## Introduction

Rural finance is the provision of financial services in rural areas that support a wide range of economic activities and households of various income levels. Rural communities could make use of a wide range of financial services like savings, money transfer services, insurance products, loans, leasing, factoring, loan guarantees, venture capital and investment funds (Richter, 2011). However, most rural people lack access to the range of financial services they need. Financial services available to them are relatively costly or rigid, whether from formal or informal financial providers or traders and agricultural processors offering input credit (The Consultative Group to Assist the Poor [CGAP], 2003).

Financing of agriculture and agribusiness has always been difficult as a result of the risks and nature of the business. Traditional forms of collateral are often not available, thus limiting access to needed funding for the sector (Winn et al., 2009). The main products of many microfinance institutions are not well-suited to seasonal or longer-term agricultural activities (CGAP, 2003).

Rural communities are highly underserved in terms of financial services. Traditionally, formal financial institutions have avoided or failed to offer sustainable services in rural areas. Thus, informal or semi-formal financial institutions as well as alternative providers like traders or input suppliers have become major providers of financial services (Richter, 2011).

Much of the focus of governments in the past decades has been on delivering credit to rural households. However, experience has shown that rural households often value the availability of appropriate deposit services as much as, and sometimes more than, access to credit (Coleman & Wynne-Williams, 2006). It is commonly believed that many rural households in developing countries are too poor to save. However, a considerable amount of research disproves this view (e.g. Rutherford, 2000; Robinson, 2001; CGAP, 2002). In fact, they save constantly. However, most rural households in developing countries do not have ready access to savings facilities in banks or other formal financial institutions (Coleman & Wynne-Williams, 2006). Instead, they use alternative, informal vehicles for their savings, such as live-stock, gold and other precious metals, jewellery, and housing materials or other stocks of physical goods. They also maintain cash at home, or may deposit savings with a friend, family member, or moneylender. Or they may participate in rotating savings and credit associations with trusted family members or neighbours (Coleman & Wynne-Williams, 2006). Saving helps rural clients manage emergencies, prepare investments and smooth consumption (Buchenau, 2003).

One comforting fact is that the whole of Bosnia and Herzegovina (BiH) is well covered with banking and micro-finance institutions and their

branch offices (Arcotrass et al., 2006). Micro-credit organizations (foundations or companies) are a relatively recent development in BiH. All of the micro-credit organizations were established in the post war period mainly due to help from international financial and humanitarian organizations. By the end of 2010, BiH had approximately 25 micro-credit organizations (Food and Agriculture Organization, Regional Office for Europe and Central Asia [FAO-ROECA], 2012).

Little knowledge exists on the demand for specific financial services other than credit, like savings, payment services and remittance transfers, leasing or insurance, which makes it difficult for supply to meet demand. Transaction costs in rural areas, especially in remote areas, are high. Prohibitive transaction costs also discourage people to deposit savings (Richter, 2011).

The paper aims at analysing saving strategies of rural households in south-eastern BiH. In particular, it examines households' access to various savings services and presents household preferences for different savings means.

## Material and Methods

The paper is based on secondary data from an extended literature review and primary data collected by an exploratory questionnaire survey carried out in March 2013 with 147 rural households in nine municipalities of south-eastern Bosnia: Vlasenica, Han Pijesak, Milici, Zvornik, Rogatica, Pale, Bratunac, Sokolac and Foča. The questionnaire dealt with different issues including:

- General information about the interviewees: age, gender, role in household (head or member).
- Household characteristics: type of household (agricultural, non-agricultural, mixed), number of female and male members, age structure, education level.
- Rural saving: purposes of savings, main savings deposits and means, opinions about important characteristics of different types of savings, household membership in a saving/credit group (name, meeting frequency, reasons for membership, group membership request acceptance/rejection criteria), reasons for using formal money deposits (banks).

The formal financial sector refers to banks, savings and credit unions while in the semiformal sector are included micro-finance institutions, NGOs, associations, village savings and credit groups. The average age of the interviewees is 47.4 (minimum: 19; maximum: 70). The majority of the respondents are males (91.2%). Almost all the interviewees are rural

households' heads (89.2%). Regarding household structure, the number of household members ranges from one to 14. As for education level, 4.7% are illiterate while the rest have different education levels (primary school: 26.9%, secondary school: 17.7%, high school: 37.6%, and university: 13.1%). The majority of the surveyed households (68.7%) are mixed that's to say that their livelihoods are based on both farm and non-farm income-generating activities. Meanwhile, 6.8% of the surveyed households are non-agricultural.

## Results and Discussion

The purposes of savings change for a household to another and are often multiple. Saving helps the surveyed rural households to manage emergencies (66.7%), ensure children's education (44.9%), prepare investments (10.2%) and smooth consumption. Savings are quite often the primary source of financing for small individual projects. They are also the main source of funding used to meet daily needs such as education and health costs, or purchasing inputs needed for agricultural crops. Savings are mainly kept as bank deposits, in saving and credit groups, in form of livestock or invested in buildings. However, survey results show that more than two thirds of respondents prefer keeping their savings as cash at home (Figure 1). Moreover, 3.4% on the interviewees declared that they not have savings.

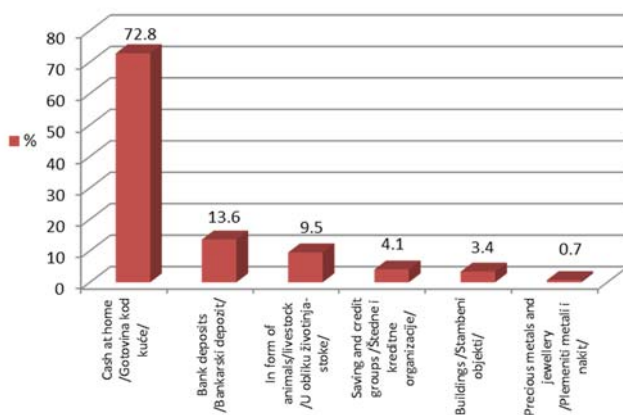


Fig. 1. Saving means for rural households in south-eastern Bosnia.  
*Načini uštedećine za ruralna domaćinstva u jugo-istočnoj Bosni*

Source: Authors' elaboration based on the results of the field survey.

Multiple answers were possible.

*Izvor: elaboracija autora na osnovu rezultata istraživanja na terenu.*

*Višestruki odgovori su bili mogući.*

Savings for rural people is risky. Savings in the form of cattle is subject to diseases and accidents, savings in gold invite theft, rotating savings and credit associations may be subject to unsound management, and banks may become bankrupt. Therefore, savers give the highest priority to security when deciding where and how to save (Buchenau, 2003).

The main criteria on which is based the saving mean choice are ability to retain or increase in value, liquidity (ease of access to or conversion into cash), safety (low risk of loss), short distance/short time taken to savings location, simple savings procedures (low paperwork amount), ability to deposit small amounts, and friendliness of savings institution staff.

Rural households value deposit services that are secure, have low transaction costs, and are appropriate to their needs (e.g. allowing for small deposits and quick withdrawals when necessary). Although rural households prefer making a positive real return on their savings, they accept small negative real returns in return for these other characteristics (Coleman & Wynne-Williams, 2006). Savers preferences with respect to liquidity and return (Branch & Klaehn, 2002) depend on their current situation and expectations. If they want to accumulate funds to fulfil a long-term goal, they will give return priority. If they require funds for emergencies, they will give priority to liquidity. In all cases, clients value convenience of access (Buchenau, 2003).

Only 12.9% of members of the interviewees' households belong to saving/credit groups. As a matter of fact, the surveyed rural households are members in saving/credit groups such as organization of "*Mali akcionari*" (small shareholders), organization of "*Mali poljoprivrednik*" (small farmers), microcredit foundation "EKI" and *Mikrofin*. According to Matul and Tsilikounas (2004), micro-credit in BiH stimulated household reconstruction as it provided an efficient and long lasting coping mechanism for households after the war. For most clients micro-credit helped at least to sustain their household self-employment activities

Most of the interviewed saving groups members (63.1%) declared that these groups meet often or at least once per month. Other groups meet once per year (5.3%), twice per year (10.5%), very rarely (15.8%) or when there is a request from a member to meet (5.3%).

Rural households got in touch with saving/credit organizations to get loans (78.9%) but also for saving purposes (26.3%) as it is difficult to save in the bank. The choice of these groups and organizations is based on many reasons including that they trust the members of the group (31.6%) or they are friends with some of them. Participation in rotating savings and credit groups is also a way for strengthening social capital of rural households. In

fact, saving groups allow cultivating friendship and socializing (21.1%). The other rural households either never applied for joining saving and credit groups (93.8%) or their applications were rejected (6.2%). One of the reasons for not applying was that the application procedure is considered quite complicated especially for those that have low education levels. Moreover, apart from the lack of collaterals another reason for rejecting some applications was that they were badly prepared.

Many rural people participate in rotating saving and credit groups not only to make easier getting loans and saving money but also to socialize. Member-owned financial institutions such as Self-Help Groups (SHGs), Village Saving and Loan Associations (VSLAs) and Savings and Credit Cooperatives (SACCOs) are increasing in numbers in many countries (Chao-Béoff, 2008). Nevertheless, saving-credit associations that could be important facilitators of rural financing still do not have a favourable legal framework for establishment in Bosnia (Arcotrass et al., 2006).

Membership in local financial groups helps developing financial management skills. As Sudan (2007) points out, regular micro-credit clients adopt good management practices more substantially, in particular with regard to calculating profits on the basis of records. In fact, the clients are more inclined to use costs and earnings records than are non-client group. The clients appear better able to estimate their sales, expenditure and profits than those in the non-client group.

Evidence from India shows that credit and saving groups must have sufficient knowledge and management skills to deal with the organizational and technical issues related to various aspects of the economic activities. Therefore, training meant for grass roots organizations must deal with formation and structure of self-help credit groups, their roles and responsibilities, and account-keeping and financial management (Sudan, 2007).

Institutions collecting savings have a high responsibility to ensure the security of their clients' savings. Given the risk to depositors, most countries restrict the business of collecting savings from the public to supervised financial institutions (Buchenau, 2003).

Only less than a fifth (17%) of the surveyed households' members used a kind of monetary saving from a formal institution in the past five years. The main mentioned banks by the interviewees are: *Nova* bank, *Raiffeisen* bank, *Hypo Alpe Adria* bank, *Prizma* bank, NLB Development bank, Balkan Investment bank, *Comercial* bank. Others never saved in a bank mainly because they have too little income, no habit in savings or they consider banks as unsafe (Figure 2).

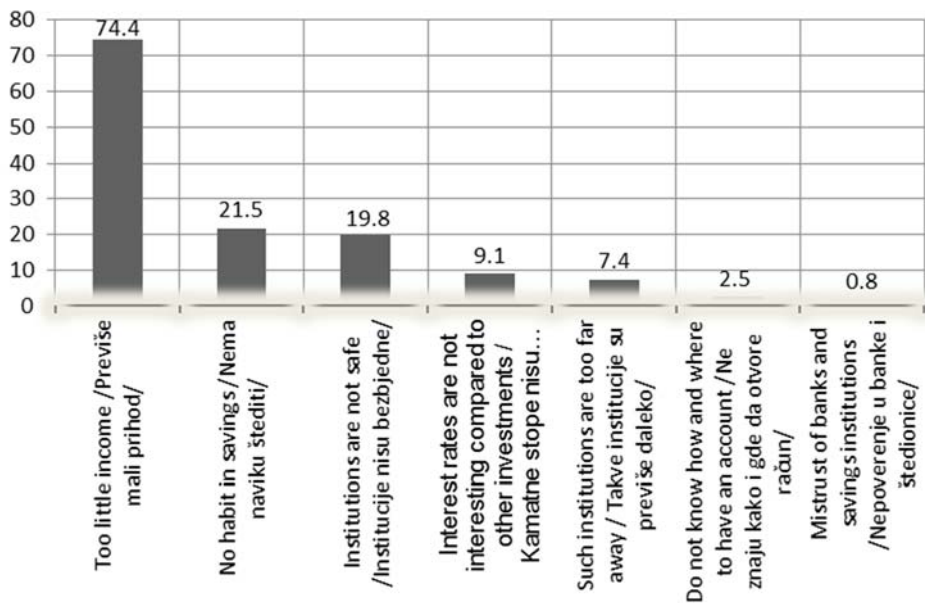


Fig. 2. Reasons for using no kind of monetary saving in banks by rural households (in %)

*Razlozi zašto seoska domaćinstva ne koriste mogućnosti novčane štednje u bankama (u%)*

Source: Authors' elaboration based on the results of the field survey. Multiple answers were possible.

*Izvor: elaboracija autora na osnovu rezultata istraživanja na terenu. Višestruki odgovori su bili mogući.*

Many policy interventions are needed to support knowledge and innovation in rural finance, increase capacity of financial institutions to serve rural areas, and provide an enabling environment. These include: supporting financial institutions to innovate and adopt delivery models that reduce transaction costs; better understanding demand for financial services in rural areas; designing innovative financial products that meet demand in rural and remote areas; extending the range of financial services that are tailor-made for agriculture and rural areas; and strengthening management capacity and governance of informal and semi-formal financial service providers. Moreover, it is important to promote a savings culture among rural populations through awareness campaigns, financial education trainings or experience/testimony-sharing (Richter, 2011).

## Conclusion

The formal and semiformal financial sectors are currently not meeting the demand for saving services of many Bosnian rural households. Therefore, savings are mainly kept as cash at home. The main criteria for choosing the saving mean are safety, ability to retain or increase in value, liquidity, short distance to savings location, savings procedures simplicity, ability to deposit small amounts, and savings institution staff friendliness. Many rural people participate in rotating savings and credit groups. These groups represent also a form of social capital for rural people.

Easy access of Bosnian rural households to appropriate financial services and products - including saving ones - is of paramount importance for fostering rural livelihoods diversification. Therefore, the state and entity governments should support microfinance initiatives through improvements in the policy, legal, and regulatory environment. A greater variety of rural finance institutions will help meet the needs of a diverse rural population. Moreover, there is a need to promote savings culture among the rural population and to upgrade rural people's financial management skills in south-eastern Bosnia.

## Acknowledgements

The used questionnaire is mainly based on a similar one that was used by Thi Minh Chau Le (Hanoi University, Vietnam), Philippe Lebailly (University of Liege, Belgium), and Nguyen Tuan Son (Hanoi University) in Hai Duong province (Vietnam).

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Received: December 29, 2014

Accepted: January 27, 2015

## Strategije za uštedu seoskih domaćinstava u istočnoj Bosni

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### Sažetak

Štednja je od suštinskog značaja za zaštitu i jačanje imovine ruralnog stanovništva. U radu se analiziraju strategije za uštedu seoskim domaćinstvima u istočnoj Bosni. Rad se zasniva na obradi sekundarnih izvora podataka i primarnih informacija prikupljenih od ankete sprovedene u martu 2013. godine sa 147 seoskih domaćinstava iz devet opština u istočnoj Bosni. Upitnik je bio fokusiran na svrhu uštede; pristup raznim sredstvima štednje, uključujući formalne i polu-formalne oblike; članstvo u štednim/kreditnim organizacijama i upravljanje štednjom; i na razloge za korišćenje formalnih novčanih uloga (banke). Formalni i poluformalni sektori trenutno ne ispunjavaju zahteve svih seoskih domaćinstava za finansijske usluge. Rezultati ankete su pokazali da 72,8% ispitanika radije drži svoju štednju u gotovini kod kuće. Štednja se čuva u obliku životinja, plemenitih metala i nakita ili investira u stambene i prateće objekte. Pristup seoskih domaćinstava odgo-varajućim štednim servisima je od najvećeg značaja za diversifikaciju životnih uslova u ruralnim sredinama u Bosni.

*Ključne riječi:* upravljanje finansijama na selu, svrha štednje, ruralni razvoj

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Primljeno: 29. decembra 2014.  
Odobreno: 27. januara 2015.