



# **WOLKITE UNIVERSITY**

**COLLEGE OF AGRICULTURE AND NATURAL RESOURCE**

**DEPARTMENT OF AGRICULTURAL ECONOMICS**

**SENIOR RESEARCH REPORT ON FACTORS AFFECTING  
THE CULTURE OF SAVING HABIT IN WOLKITE TOWN**

**A Research Report Submitted To Department Of Agricultural Economics In  
Partial Fulfilment Of The Requirement For The Award Of The Degree Of  
Bachelor Science In Agricultural Economics**

BY HiwotMargeta ID: NSR/2681/14

Advisor: Mr Gizachew A.

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## **LIST OF ACRONYMS AND ABBREVIATION**

**GDP**= Gross Domestic Product

**GDS**= Gross Domestic Saving

**MOFED**= Ministry of Finance and Economic Development

**NBE**= National Bank of Ethiopia

**ROSCA**= Rotating Saving and Credit an Association

**VIF** =Variance Inflation Factor

**VSLAs**= Village Savings and Loan Association

## **ABSTRACT**

*This study examines the factors influencing the culture of saving habits among households in Wolkite Town, Ethiopia. Saving is a critical component of economic development, yet many households in developing countries, including Ethiopia, struggle to cultivate robust saving behaviors. The research employs a mixed-methods approach, combining descriptive and econometric analyses, to identify the socio-economic and demographic determinants of saving habits. Primary data were collected from 98 households using a structured questionnaire, and multiple linear regression was used to analyze the data.*

*The findings reveal that from 9 independent variables four variables which are financial literacy, income level, marital status, and expenditure patterns significantly influence saving behaviors. Financial literacy emerged as a strong positive predictor of saving, with higher levels of financial knowledge associated with increased savings. Income level also had a significant positive impact, highlighting the importance of income-generating opportunities in fostering saving habits. Conversely, higher expenditure patterns were negatively correlated with savings, indicating that consumption behaviors limit disposable income available for saving. The study concludes that targeted interventions, such as financial literacy programs, income enhancement initiatives, and tailored saving products, are essential to promote a culture of saving in Wolkite Town. Policymakers and financial institutions are encouraged to design strategies that address the identified barriers and leverage the positive determinants to improve household saving behaviors.*

**Keywords:** *Saving habits, financial literacy, income level, expenditure patterns, Wolkite Town, Ethiopia.*

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. BACKGROUND OF THE STUDY'S

Saving, when it refers to money, is a portion of an income that a business or an individual left with after consumption. In a nutshell, Brown (2015) conceived saving as “the action of refraining from the destruction of resources at one’s disposal”. From this particular meaning, it can be inferred that a money saved results from an action of refraining from spending the same. In modern society, money is usually saving the form of Bank deposits. McLeay, Radia& Thomas (2014) clarify that those deposits come simply at the expense of deposits that would have otherwise gone to companies in payment for goods and services.

In many developing economies particularly Africa, saving and investment are necessary engines for capital formation hence economic growth. It has been argued that saving constitutes the basis for capital formation and capital formation constitutes a critical factor of economic growth. Available statistics however indicate low saving mobilization base and investment in this part of the world (Issahaku, 2016). As a result, economists, international organizations, and governments in developing countries have placed increasing emphasis on the mobilization of deposits to increase rural households’ savings and achieve sustained economic growth and development (Kifle, 2015).

Banks endeavor in providing various incentives such as interest benefit to lure individuals to save money. Gedela S. (2016) puts that to achieve higher rate of growth with relative price stability, the marginal propensity to save should be raised by appropriate incentives and policies. These incentives are believed to influence people’s decision to save. Because, (McLeay, et.al, 2014) there is a view that deposits are typically ‘created’ by the saving decisions.

Saving Motives in turn leads to different levels of saving Habits. Saving habit is expressed using different terms by different authors; saving propensity (Mahdzan, 2015), saving behavior (Schunk, 2016), likelihood of saving (Fisher, 2014) in which all mean to say saving routines of people. In a very recent study (Fisher &Anong,2014) used saving habit to describe saving patterns where people regularly put money aside each time, including not saving behavior. In

general, in the above stated studies, saving habit is similarly classified among regular, irregular and not saving behavior.

Saving motives are found to be significantly related to the likelihood of saving (Fisher P., 2014, p.113). And different saving motives have different strength of influence on saving habit. This specially differs across different countries. Identifying the influence of saving motive on saving habit helps to understand which motive is more significant.

As far as the researcher of this study is concerned, similar studies have not yet been conducted in Ethiopia. In addition, as the current trend shows the growth of saving rate despite the prevailing negative interest rate, understanding which saving motive has a major contribution for saving habit is worthwhile. This in turn helps to understand which motive has strong impact on saving habit.

## **1.2. Statement of the Problem**

National saving is important for the economic development of the country. Because investment is generated through saving. country that having higher saving rate are enjoying the higher growth rate and per capital income. Saving is an indicator of economic development where it is used to achieve economic growth in any developing country (Abdul-Malik and Baharumshah, 2007).

If different researchers found different results on the effect of saving motive on saving habit, then more need to be researched, as it is difficult to generalize given the existing knowledge and that of the Ethiopian case. In addition, given the growing trend of bank saving in the country in a situation where real interest rate is negative, much needed to be known about the saving motives and habits of depositors.

In this case, it was essential to study the Ethiopian case by taking the appropriate list of saving motives. Hence, this study examined the effect of saving motives on saving habit in the case of wolkite town.

Krieckhou (2016), stated that countries characterized by less efficient capital markets, have ample dependence on domestic saving to finance their development project. Most of developing countries have low rate of saving habits so that improving saving habits is a primary goal for people living in this part of the world.

In Ethiopia GDP growth at used to achieve economic growth in any developing country. every rapid over 8% per annual well above the financial intermediation remain weak and also higher domestic saving. In year 2012 growth domestic saving in Ethiopia was lasted measured at 16.41% according to World Bank. This growth domestic saving calculated as GDP less final consumption expenditure economic.

Improving the dependence not only on attending of government provider, but also appropriate execution of recommended component of saving such as house hold in community and institution or sector. So that the following important issues is identified.

Saving habit and institutions of saving area have become increasingly important for safety of the employees, this provide Investigation of factors associated with saving habit assumes critical importance and successfully implement to Provision of saving services.

Saving habit plays role in saving performance there is no sufficient client literature dialing with in generally and particularly. Hence, this study aimed to fill this gab by its investigation on saving behavior.

### **1.3 Research Questions**

Therefore, the researcher raises the following questions to fulfill the gap. These are: -

1. What are the main factors that affecting saving?
2. What is the status of saving habits in Wolkite town?

### **1.4 Objectives Of The Study**

#### **1.4.1. General objectives**

- ✓ The main objective of the study is to assess the factor that affect the cultures of saving habit.

#### **1.4.2 Specific objectives**

The specific objectives of this study was; -

- ✓ To investigate the factor that affect saving.
- ✓ To describe the status of saving habit in Wolkite town

### **.1.5 Scope of The Study**

This study focused on assessing the factors that affected the culture of saving in Wolkite town, located in the Guraghe zone of the Central Ethiopia regional state. The study aimed to investigate the main factors that influenced saving, the influence of traditional practices on saving habits, and the importance of establishing modern saving institutions to increase the level of saving.

### **1.6 Significance of the Study**

Assessing saving habit is very important to understand and evaluate the achievement in the implementation of saving programs. It is also source of information for the employees about the benefit of saving improving employee life. It is hope that result this study will give direction to saving habit for policy makers, planers, and researchers to understand of the determinant of the saving habit of employees in the study area. By exploring the saving motives and habits of individuals in the local population, the study can provide valuable insights into the saving culture and patterns, which is essential for policymakers and financial institutions to design effective strategies to promote saving.

### **1.7 ORGANIZATION OF THE STUDY**

The organization of this study has five chapters. The first chapter consists of introduction, background of the study, statement of the problem, research question, and objectives of the study, scope of the study, significance of the study and organization of the study. The second chapter included about related literature review. The third chapter consists description of the study area, research methodology, data source of the study, data collection techniques, sampling techniques, Method of sampling, Method of data analysis and model specification, and chapter four data analysis and discussion of the result are present. On the last chapter, conclusion and recommendations are present.

## CHAPTER TWO

### 2. LITERATURE REVIEW

#### 2.1 Concept and Definition

**Saving:** refers to the portion of income that is not spent on consumption, but rather set aside. As defined by Brown (2015), saving is "the action of refraining from the destruction of resources at one's disposal." This implies that saving is the result of a conscious decision to not spend available resources.

**Saving Habit:** Saving habit, also referred to as saving propensity (Mahdzan, 2015), saving behavior (Schunk, 2016), or likelihood of saving (Fisher, 2014), describes the routine or pattern of saving money by individuals. It reflects the regular practices and tendencies people have towards saving a portion of their income.

**Importance of Saving in Developing Economies:** In many developing economies, particularly in Africa, saving and investment are critical for capital formation and economic growth (Issahaku, 2016). Economists, international organizations, and governments have emphasized the need to mobilize household deposits and increase rural savings to drive sustained economic development (Kifle, 2015).

**Incentives for Saving:** Banks and financial institutions often provide various incentives, such as interest earnings, to encourage individuals to save more of their income (Gedela, 2016). These incentives are believed to influence people's decisions and habits around saving (McLeay et al., 2014).

#### 2.2. Theoretical Review

##### 2.2.1. The life cycle of hypothesis

Modigliani (2015) emphasized that income varies syntactically over people's way of life and that saving allows consumers to move income from those times in life when income is highly to those times when it is low. One important reason that income varies over a person's life is retirement. To maintain and smooth consumption people after retirement must save during their

working year. Thus consumption does not depend on current income alone rather it depend on consumer life time resource which is composed of initial wealth and life earning .this come be expressed in the following ways .

$$c = ((W + RY)) / T$$

Where C=consumption of the house hold

W=initial wealth

Y=income earning

R=earning period of retirement

T=life time period

### **2.2.2.The permanent income hypothesis**

A recent study by Sohag et al. (2021) examined the validity of the permanent income hypothesis in Ghana using time-series data. The results confirmed that permanent income is the primary determinant of household consumption, supporting the predictions of the permanent income hypothesis. The authors recommended that policymakers in Ghana should consider the long-term income expectations of households when designing policies to promote saving and investment.

Fried man (2013) proposed the permanent income hypothesis to explain consume behaviorists complement of the life cycle hypothesis .however unlike the life cycle hypothesis .That income follow regular pattern over the person's life time.

The permanent income hypothesis emphasized that people experience and temporary changes in their incomes from year to year. Friedman suggested that view current income as the sum of permanent income and transitory income in which the former affect consumption and the latter is the discrepancy between current income and permanent income affect saving. This any deviation from the current income is considered the transistor part of income.

Hear permanent income is the part of income that people expect to persist in to the future moreover; transistor income is the part of income that people do not persist can be expressed.

Mathematically= $y^p + Y^T$  where, Y=total income of the house hold.

$y^p$ = permanent income

$Y^T$ =transistor income

### **2.2.3. Current income hypothesis**

Keynes (2012) noted that house hold saving depend on house hold absolute current income which is in contrast with life cycle and permanent income hypothesis. In all cases, households saving depends on income. That is households saving determined by the level of house hold income.

### **2.2.4. Classical and keynes debates**

#### **2.2.4.1. Classicals**

The classical economist based on economist based on their prediction about full employment on principle known as say law, the creation of French economists J.BSAY(2014),cited by sassy(2016).

According to this law, supply creates its own demand. There was nothing to prevent the economy from the expended to full employment.as long as job seekers were willing to work for a wage not higher than productivity(there contribution to output of the firm).

Profit seeking business would desire to their everyone who wanted a job. There would always be educating demand for the output of these additional workers, because of says of law.

Many people view that if households decide to save a portion of their income not all of the income created by business would return in the form of spending. As a result, the demand for goods and services would too small for supply. Some output could remain unsold business would then react by cutting back on production and lying of workers those causing unemployment high dependence ratio.

However, classical economists did not see saving as problem. Saving would not cause reduction in spending, because business would borrow the saved money for investment those, the classical were sure that saving equals investment, because of interest rate. Interest rate is determined by demand for supply of loadable funds, money available to be borrowed.

#### **2.2.4.2. Keynesian**

Keynes (2013), in this general theory of employment, interest rate and many argued that says laws. According to Keynes interest rate adjustment cannot be relied on to make saving equal investment because interest rate not the major motivating force in either the or investment decision. The level of income is the primary factors infusing the amount that household plan to save. The higher incomes the greater level of saving, change in interest rate are relatively minor impact on saving decision. The interest rate only one factor infusing the profitability of an investment and not the most important factor. If sells are poor business are unlikely to undertake new investment evenly the prevailing interest rate is low. Since the interest rate is not the major force guiding and investment decision , it cannot much up the plans of severs and investors as consequence , when household want to save more than business desire to invest the level of output employment in the economy will tend to fall.

#### **2.2.5. Potential determinants of private saving**

Both theoretical and empirical work on saving have consistently outline the major potential determinant of saving which can be grouped under the headings of government policies variables. Financial variables, income and growth variables, demographic variables, uncertainty measures and external variables (Modigliani, 2016).

##### **2.2.5.1. Government policy**

Various action of government can have a bearing on saving. Among this, the effect of fiscal has especially been the center of debate. The neo classical vision of the life cycle model not that decline in government saving will tends to fair conception of discourage saving by shifting too burden form present to future generation and predict that a decline in government saving will causes a decline in national saving(Dayal,Gulti,2015).

##### **2.2.5.2. Income and growth variables**

The relationship between saving of income on other hand the relationship between the saving and growth have been major subject of desecration on the growth literature, subsistence

conception theory suggested that country with high income level tend to have higher saving rate and the empirical evidence strongly supports that this conclusion Edward(2014)

### **2.2.5.3. Financial variables**

The financial variables that have an impact on saving are usually ones that capture the degree of development of financial sector. These variables are accepted to be special relevant for development country (Baskin, 2015).

### **2.2.6. Financial sector development**

The degree of financial sectors development and the range , availability of financial assets to suit savers represent another important factor in promoting saving the expansion of bank branches and importing the accessibility to bank facility will a result in reducing the cost of bank transactional and thus motivate individual saving. As Lewis has put it remarks, if saving is institution pushed right under individual nose.. people save more than it the nearest saving institution are some distance way on the other hand , if financial institution well organized stable saving will be kept in none monetary terms ,such as jewelry and real estimates this may defect the main purpose of saving in short deeper financial market and strengthened prudential regulation of financial institution help to enhance saving and investment opportunity by offering wider variety of financial instruments to channel saving also by producing more security (in the case of effective regulation) to investors.

However, financial development is also often associated with an increased availability of credit for consumption relaxing the domestic liquidity constraints. Saving can be discourage as more credit s become available, particularly credit for consumption (Athol Ketala, Sen., 2016).

### **2.2.7. Saving habit in Ethiopia**

In Ethiopia, the effective financial structure has 90% of the productivity asset, which is composed 70-80 loan 10-20% liquid investment and the remaining 5% is unproductive asset composed of Land buildings and equipment.

In our country, there are different traditional financial system, which has long history and permanent contribution to economic betterment and social wellbeing of society. Traditional institution organized with essence of cooperation and raise sharing has enabled Ethiopia to experience saving of financial management within it cultural context. Ekub, Eddir, Mahiber etc. are some of the informal financial institutions that shaped the social bonds and interaction (Gebeyaw, 2016).

Ekub: is an equivalent name of Ethiopia's for ROSCAC rotating saving and credit an association during the Italian occupation of 1936-41 people wanted to retain themselves from in security intricacies of war and urbanization.

Eddir: even if some eddirs have wider meaning it is mainly for the burial society when stated during the Italy occupation of 1936-41. Eddir have extended to provide wider long of issuance services in urban to assist the bereaved financial and monetary. Eddir member make regular conditions is that can be used of feral expenses of financial assistance to familiar of the decreased and some time to cover other costs such as medical expenses loser due to fire and theft(EEA Vole, 2016).

#### **2.2.8. Issues on saving mobilization**

In economic development of any country, financial resources play a critical role. As different researcher pointed out that the available of saving is ape conditions for accelerating growth. Saving is defined closely as a resource mobilization requiring an institutional resource arrangement to encourage of mobilizes savings. Generally, clients can not withdraw while they have loaned outstanding (Wed lay, 2016). On the other hand voluntary saving is not obligatory part of assessing credit services. Voluntary services are provided to both borrowers and non-borrowers who can withdraw according to their needs.

### **2.3. Empirical Literature Review**

Several studies have been conducted to investigate the determinants of saving behavior in Ethiopia. These studies provide empirical evidence on the factors affecting the saving culture and habit in the country.

Alemayehu and Addis (2021) examined the determinants of household saving in urban Ethiopia using the 2015/16 Household Consumption and Expenditure Survey data. The study found that household size, marital status, educational level, age, access to credit, and income level were the main factors influencing household saving. They recommended policies targeting these factors to promote household saving in urban areas.

Arega and Yizengaw (2020) investigated the determinants of rural household saving in Ethiopia using a cross-sectional household survey data. The results showed that household size, land ownership, access to credit, and participation in microfinance institutions positively affected rural household saving. On the other hand, dependency ratio and food expenditure had a negative impact on saving.

Dawit Shaggu (2016) the study indicates that low level income unsuitable expansion of public sector consumption expenditure,. The disincentive effect of monetary and fiscal polies measures. Adverse terms of trade, lack of sustained economic growth performance are factor responsible for the low domestic saving of Ethiopia. Abu Girma (2015) also found almost similar result. His attempted to identify the main explanatory factor of domestic saving in Ethiopia

Kifle (2018) analyzed the determinants of personal saving in Mekelle city, Ethiopia. The study found that income level, age, educational level, family size, and access to banking services were the key factors affecting personal saving. The study suggested improving financial inclusion and access to banking services to enhance the saving culture in the city.

Yohannes and Woldeyes (2017) examined the determinants of household saving in Woldia town, Ethiopia. The study revealed that household income, dependency ratio, marital status, and access to credit were the significant determinants of household saving. The authors recommended policies to increase household income and access to credit to promote the saving habit in the study area.

Haile and Tsegai (2016) investigated the determinants of household saving in rural Ethiopia using the 2011 Ethiopian Rural Household Survey data. The study identified household size, dependency ratio, livestock ownership, access to credit, and participation in safety net programs as the main factors influencing rural household saving.

Sisay (2016), investigated on the determinant of rural household saving rate. The study employees the OLS regression to saving function steps to investigate on the determinants of saving behavior found that dependence ratio and household conception ratio affect saving negatively. However, most of the studies are investigation is based on an aggregate level of saving.

Haro (2015) investigation an empirical study on determinants of domestic saving in Ethiopia using time serious data from 1974-2009 and non-structure vary model from estimation result real per capital income broad money.

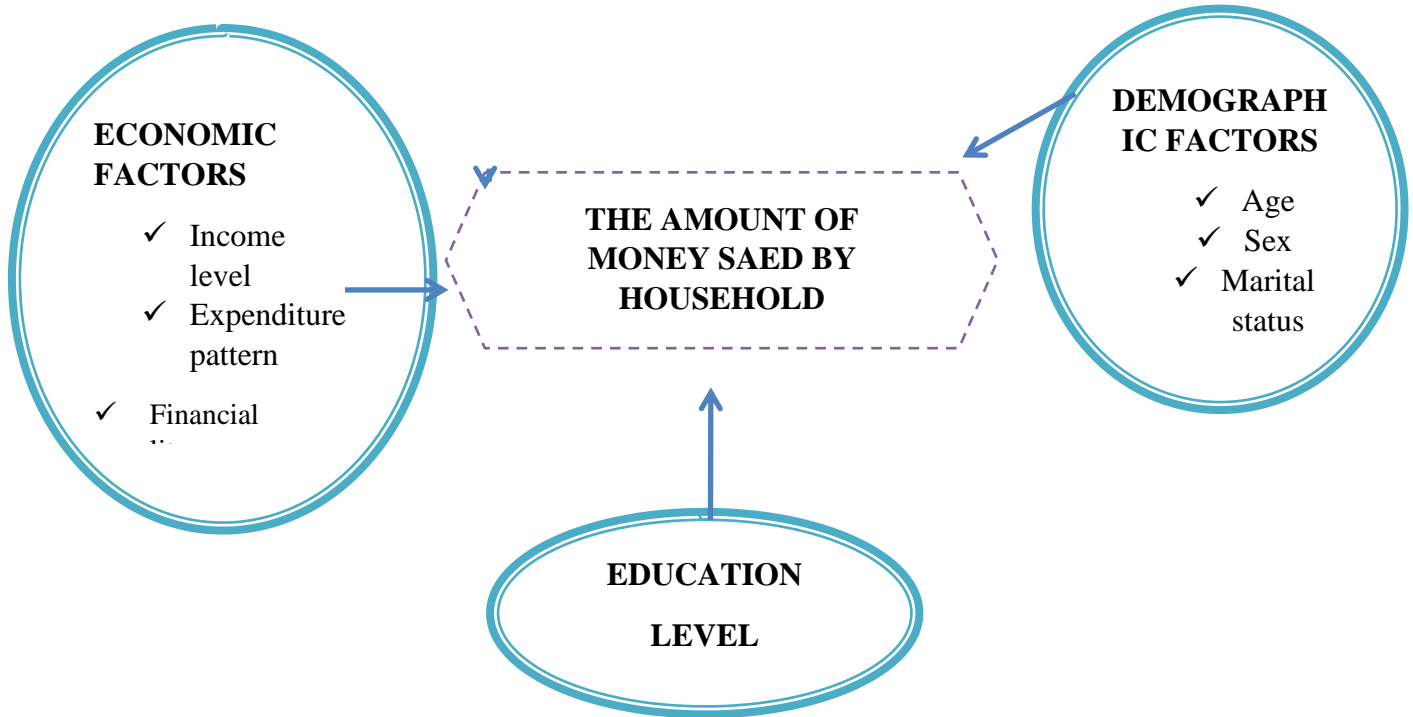
Work (2016) study determinants growth of in Sub-Sahara Africa countries empirical evidence from Ethiopia. The study employee time serious data spanning from 1969-2004 and found that GDP one period long conception expenditure export and inflation to have statically significant impact on growth domestic saving

These studies provide valuable insights into the factors affecting saving behavior in different parts of Ethiopia. The findings highlight the importance of addressing demographic, economic, and financial factors to promote a stronger saving culture in the country.

## 2.4. Conceptual Framework

The following diagram illustrates the conceptual framework of factors that affecting the culture of saving the saving habit is dependent variable while age, sex, education level, number of saving associations, marital status, income level, financial literacy, prevailing cultural norms are the independent variables.

Fig 2.1 Conceptual framework



## **CHAPTER THREE**

### **3. METEDODOLOGY**

#### **3.1 Description Of The Study Area**

Wolkite is a town and separate woreda in south-western Ethiopia. The second administrative center of the Central Ethiopia Regional State , and Gurage Zone. The town has a latitude and longitude of 8°17'N 37°47'E and an elevation between 1910 and 1935 meters above sea level. . It is surrounded by kebenaaworeda and the former Goroworeda. Which is located 133 kilometers far away from Addis Ababa, that is capital city of Ethiopia.

According to the gurage zone Government, Wolkite is one of 12 town with electrical power, one of 11 with telephone service and one of nine that have postal service. The SNNPR bureau of finance and economic development, adds that as of 2003 Wolkite also have bank branch and other financial institution, as well as a hospital. An all-weather road is built in 1963 which connects Wolkite to Addis Abeba way of Emdibir.

Based on the 2007 census conducted by the central statistical agency(CSA), this town are a total population of 28,866, of women 15,074 are men and 13,782 women.

#### **3.2. Type and Source of Data Collection**

The types of data that were collected included both qualitative and quantitative. The sources of data for this study were both primary and secondary. Primary data was collected specifically for the research study at hand, making it highly relevant to the research objectives. Secondary data was collected through reviewing documents such as books, articles, and using the internet.

#### **3.3. Sample Size Determination and Sampling Technique**

Two-stage sampling techniques were used to collect data from sample respondents in the study area. The study was conducted in the Central Ethiopia region, specifically in Wolkite town. In Wolkite, there were three sub-cities: Adiss, Bekur, and Gubrye. There are six kebeles, each with a total number of households. From the urban kebeles, two kebeles were selected from Adiss and bekur sub-city using random sampling techniques. In the first stage, two kebeles were selected using simple random sampling techniques. Those are kebele menahariya from adis sub-city and kebele Edgetber from bkur sub-city.

The sampling unit was households in the two kebeles. Each of the two kebeles have a total population of 2,350 and 2124 respectively in each kebeles. In the second stage, the sample size was taken from the two kebeles using the Yemen sampling formula with a 90 percent confidence leve.

$$n = N / (1 + N(e^2))$$

$$n = \frac{4474}{(1 + 4474(0.1^2))} = 98$$

n= sample size for the research use (98)

N= total number of total population

e= margin of errors at 10% simple random sampling (0.1).

### 3.4. Methods Of Data Analysis

Concerning methods of analysis, the methods used were descriptive and econometric methods of data analysis. In the descriptive analysis, data was analyzed through mean, frequency, and percentages. The econometric method of analysis utilized multiple linear regression analysis.

### 3.5. Econometric Model Specification

The specific econometric model could be estimated using a multiple regression analysis, such as:

$$y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \dots + \beta_nx_n + \varepsilon$$

$$\text{Amount of money saved by hh} = \beta_0 + \beta_1 * \text{Income} + \beta_2 * \text{Edu} + \beta_3 * \text{Age} + \beta_4 * \text{Sex} + \beta_5 * \text{Marital\_Status} + \beta_6 * \text{Financial literacy} + \beta_7 * \text{Expenditure Pattern} + \beta_8 \text{HHsize} + \varepsilon$$

$$y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \dots + \beta_nx_n + \varepsilon$$

Where:

$\beta_0$  is the constant term

$\beta_1$  to  $\beta_8$  are the coefficients of the independent variables

$\varepsilon$  is the error term

The model was estimated using techniques like Ordinary Least Squares (OLS) regression. The significance and magnitude of the coefficients indicated the impact of each factor on the saving habits of households in Wolkite town..

**Dependent Variable:**

The dependent variable in the econometric model for factor affecting the culture of saving in the study area.

Dependent variable of the study was **the amount of money saved by the household.**

**Independent Variables:**

The independent variables of the study was :

**Income Level:** refers to the amount of monetary resources available to an individual or household on a regular basis. The level of income or earnings may influence the saving habits. The income level of household can be considered a continuous variable. The income level have a positive relationship between the level of household income and the likelihood of engaging in active saving practices. Higher income earners may be able to save for longer-term objectives.

**The age of household:** is the key demographic factor. The saving culture is likely to vary across different age group. Younger households may be more inclined to save for longer-term goals while older households my focus more on retirement planning and inter-generational wealth transfer. This variable is conceptualized as a continuous measure that captures the precise age of the respondents participating in the study.

**Sex:** saving culture differs between male-headed and female-headed household. The sex of household can be considered as a dummy variable, which takes 1 if the household head is male and 0 if the household head is female. This could be due to differences in financial decision-making patterns, access to financial resources, or societal norms and expectations.

**Marital status:** is categorical variables, as it typically measured as a nominal variable. The study will expect that both negative and positive effects on the dependent variable depending on the their outlook about saving.

**Household size:** refers to the number of individuals, including adults and children, who reside within a single household or living unit. It will expect that it affects negatively the saving habit.

It is a continuous variable which refers to number of households. The increased in household size can make it more challenging to allocate funds towards savings.

**Expenditure Pattern:** refers to the distribution and allocation of household income towards various consumption categories. It is a continuous measure that captures the relative importance and proportion of household expenditure across different spending categories. Higher household expenditures, whether for consumer goods, social/cultural activities, or other purposes, can limit the amount of income available for savings. This negative effect on the savings culture is understandable, as households with higher expenses may have less disposable income to allocate towards savings.

**Education level:** Higher levels of education are likely associated with better financial literacy understanding of the importance of saving. A positive relationship between education level of households and their engagements in active saving practices. The level of education possessed by household members will directly influence their financial knowledge, decision making, and the likelihood of engaging in active saving practices. It is a continuous variable, it is measured in terms of the number of years of schooling completed.

**Financial literacy:** refers to an individual's knowledge, understanding, and competence in managing personal finances. The study will expect that positive relationship with saving habit. When an individual possesses a strong understanding of financial concepts and principles, it can lead to more informed and disciplined financial decision-making, ultimately enhancing their saving habits. It is a categorical variable.

Table 3.1 type of variables, expected effect, measurement of the independent variables

<b>Independent Variables</b>	<b>Types of variables</b>	<b>Measurement</b>	<b>Expected effect</b>
Income level	Continuous	Income of household	+ve
Age of household	continuous	Year	+ve/-ve
Sex of household	Dummy	Male or female	+ve/-ve
Education level	continuous	level of education attained by the hh	+ve
Household size	continuous	Number of persons	-ve
Financial literacy	categorical	Level of financial knowledge	+ve
Expenditure pattern	continuous	Total expenditure	-ve
Marital status	dummy	Married, single	+ve/-ve



# **CHAPTER FOUR**

## **4. DATA ANALYSIS AND DISCUSSION OF RESULTS**

In this chapter, the major results regarding the factors affecting the culture of saving habits in Wolkite Town were presented, based on both descriptive and econometric data analyses. The first section summarized the findings from the descriptive analysis, highlighting the socio-economic and demographic characteristics of the respondents, along with the prevailing saving habits in the community. The second section focused on the econometric analysis, detailing the outcomes of the estimated model, the diagnostic test results, and a discussion of the significant findings. This chapter aimed to comprehensively address the research objectives by integrating both analytical approaches, providing valuable insights into the determinants of saving behaviors in Wolkite Town.

### **4.1 DESCRIPTIVE ANALYSIS**

This section presents the results obtained from the descriptive analysis of the data collected on the saving habits in Wolkite Town. The analysis focused on the socio-economic and demographic characteristics of the respondents, including age, gender, education level, income, and marital status. Additionally, it examined the prevalent saving behaviors and practices within the community. By summarizing these findings, this section aims to provide a clearer understanding of the factors influencing saving habits among residents, highlighting trends and patterns that emerged from the data. The insights gained from this descriptive analysis serve as a foundation for further investigation into the determinants of saving behaviors in the subsequent sections of this chapter.

## 4.1.1 Socio-economic characteristics of respondents

### 4.1.1.1 Categorical variables

Table 4.1 categorical socio-economic characteristics of respondents

variable	class	freq	percentage
sex	Male	63	64.29
	female	35	35.71
Marital status	Married	65	66.33
	single	33	33.67
Financial literacy	Low	23	23.47
	Medium	19	19.39
	High	34	34.69
	Very high	22	22.45

### Sex distributions of the respondents

The distribution of the variable "Sex" in the dataset highlights the gender composition among the participants. There are a total of 98 individuals, with 63 identified as male, which accounts for 64.29% of the total sample. This indicates that males represent a significant majority within the dataset. Conversely, 35 individuals are identified as female, making up 35.71% of the sample.

### Marital status of the respondents

The marital status distribution shows that **66.33%** of respondents are **married**, while **33.67%** are **single**. This indicates that the majority of the respondents have shared financial responsibilities, which could influence their financial behaviors, such as savings, expenditures, and financial planning. Married individuals may prioritize joint savings and managing household expenses, whereas single individuals may focus more on personal financial goals and have greater flexibility with disposable income. Therefore, marital status likely plays a significant role in shaping financial habits within the sample.

## Financial literacy

The financial literacy distribution among respondents indicates that 23.47% have low financial literacy, 19.39% have medium financial literacy, 34.69% are classified as having high financial literacy, and 22.45% exhibit very high financial literacy. This suggests that a majority of respondents (57.14%) possess at least a high level of financial literacy, which significantly impacts their financial behaviors and decision-making. Those with high or very high financial literacy are more inclined to engage in effective financial planning and make informed investment choices, leading to responsible money management. As a result, they are more likely to adopt disciplined saving habits, set financial goals, and utilize available financial tools effectively. The 23.47% of respondents with low financial literacy may struggle to understand essential financial concepts, hindering their ability to save effectively and make sound financial decisions. Higher financial literacy is positively correlated with better saving behaviors, underscoring its vital role in enhancing individuals' financial well-being.

### 4.1.1.2. Continuous variables

Table 4.2 continuous socio-economic characteristics of respondents

<b>Variable</b>	<b>Mean</b>	<b>Std.Dev</b>	<b>Min</b>	<b>Max</b>
Age	35.27551	9.287816	20	60
Education level	11.32653	3.158283	0	18
Expenditure	1681.122	471.5906	1000	4700
Household size	3.846939	3.846939	1	8
Income	2260.714	806.2977	1200	8000

## Age

The mean age of the respondents is 35.28 years, indicating that the typical respondent in the sample is in their early to mid-thirties. The standard deviation of 9.29 years suggests there is some variation in the ages, with respondents ranging from as young as 20 years to as old as 60 years. This wide range of ages indicates a fairly diverse sample, with individuals in both the

younger and older working-age brackets, providing a mix of perspectives and experiences. The distribution suggests that the sample includes both individuals who are likely early in their careers as well as those who are more established, influencing factors such as income, financial behaviors, and future financial planning.

## **Education level**

The mean education level in the sample is 11.33 years, indicating that, on average, respondents have completed a little over 11 years of formal education. This is roughly equivalent to finishing secondary school or the first few years of higher education. The standard deviation of 3.16 years suggests there is variability in the educational attainment of the respondents, with some having only a few years of schooling and others completing up to 18 years of education (which would generally include a high school diploma or higher education such as a bachelor's degree). The minimum education level of 0 years and the maximum education level of 18 years reflect a diverse sample, ranging from individuals with no formal education to those with the highest levels of schooling. This variation in education levels may influence financial decision-making and literacy among the respondents.

## **Household size**

The average household size is 3.85 members, indicating that, on average, respondents in the sample have relatively small to medium-sized families. The standard deviation of 1.26 members shows that family sizes vary, with some respondents having very small families (as few as 1 member) and others having larger families (up to 8 members). The range of family sizes (from 1 to 8 members) suggests that the sample includes individuals with different family dynamics, which could influence their financial behaviors. For example, larger families might have more financial responsibilities and may need to allocate more resources to support their dependents, while smaller families may have more flexibility in their spending and saving decisions. This variation in family size can affect individuals' financial priorities and their approach to saving, budgeting, and managing expenses.

## **4.2. THE STATUS OF SAVING HABIT IN WOLKITE TOWN**

The saving practices in Wolkite Town exhibit several key characteristics. A segment of the population actively utilizes financial services for saving purposes, primarily through regular deposits in accounts. These savers tend to be individuals with relatively stable incomes, greater financial literacy, and awareness of benefits such as security and potential earnings.

Several factors influence saving capabilities in the community. Income fluctuations, essential living expenses, and financial knowledge all play important roles in determining how much and how often individuals can save. While some residents exhibit disciplined saving routines, others face challenges in maintaining consistent saving habits due to economic constraints or competing financial priorities.

Saving mechanisms are established in Wolkite Town, but their penetration is uneven across different socioeconomic groups. There appears to be potential for growth in saving participation if accessibility is improved and financial education expanded. The current status reflects a financial ecosystem where saving exists but has not yet become the dominant practice among the majority of households.

Overall, the findings present a picture of a community where saving is recognized as valuable but where actual saving practices differ based on individual financial situations and priorities. The study reveals both the potential for improved saving culture and the existing barriers that affect consistent saving behaviors among residents. The overall adoption of the saving methods remains limited compared to the town's total population.

## **4.3 ECONOMETRIC ANALYSIS**

### **4.3.1 Diagnostic test of the model**

In this section, the researcher employs econometric methods to identify the major factors that significantly determine the culture of saving in Wolkite Town. To this end, a multiple linear regression model was estimated with saving behavior as the dependent variable, utilizing Ordinary Least Squares (OLS) since the dependent variable is continuous.

### **4.3.1.1 Goodness of Fit of the Model**

The goodness of fit of a regression model assesses how well the model explains the variability of the dependent variable. In the context of Ordinary Least Squares (OLS) regression, several statistics are commonly used to evaluate the model's performance

#### **R-squared ( $R^2$ )**

The R-squared value obtained from the regression analysis is 0.8891. This statistic indicates that approximately 88.91% of the variability in the dependent variable, Amount Saved Birr, can be explained by the independent variables included in the model. In practical terms, this suggests that the model provides a strong fit to the data, as a high R-squared value means that the predictors have a substantial explanatory power concerning the outcome variable.

The remaining 11.09% of the variation in savings is attributed to factors not included in the model or to random error. This high proportion of explained variance implies that the selected independent variables—such as income level, expenditure, financial literacy, and marital status—are significant contributors to the amount saved by households.

#### **Adjusted R-squared**

The Adjusted R-squared value for this model is 0.8792. This statistic adjusts the R-squared value based on the number of predictors in the model relative to the number of observations. Unlike R-squared, which can artificially inflate with the addition of more predictors, the Adjusted R-squared provides a more accurate measure of model fit when multiple independent variables are included.

The Adjusted R-squared value of 0.8792 suggests that after accounting for the number of predictors, approximately 87.92% of the variability in AmountSavedBirr is still explained by the model. This slight decrease from the R-squared value indicates that while the model remains robust, the addition of new variables does not contribute significantly to explaining the variation in savings.

#### **4.3.1.2 Multicollinearity Assessment (Variance Inflation Factor - VIF)**

The mean Variance Inflation Factor (VIF) of 2.54 indicates that, overall, multicollinearity is not a major concern in the model. Generally, a mean VIF below 5 is considered acceptable, meaning that the predictors are not highly correlated with each other. This suggests that the relationships between the independent variables are relatively independent, and the model's coefficient estimates are unlikely to be unduly influenced by multicollinearity. However, closer attention may still be needed for the variables with higher individual VIFs, such as Expenditure Birr and Income Level, which exhibit some correlation with other predictors.

#### **4.3.1.3 Heteroscedasticity test**

The test results show a chi-squared statistic of 0.14 and a p-value of 0.7050, which is much greater than the common threshold of 0.05. This means that the variance of the residuals appears to be constant across different levels of the predictors, and there is no significant evidence of heteroskedasticity. As a result, the assumption of homoskedasticity holds, and the regression model is not affected by this issue. Therefore, there is no need for adjustments, such as using robust standard errors, since the model's assumptions remain valid and the estimates are reliable.

### 4.3.2 Interpretation of Significant Variables

```
. reg AmountSavedBirr Age Sex EducationLevelYears FamilySize IncomeLevelBirr FinancialLiteracy15 MaritalStatus ExpenditureBirr
```

Source	SS	df	MS	Number of obs	=	98
Model	13771962.3	8	1721495.28	F(8, 89)	=	89.22
Residual	1717221.41	89	19294.6226	Prob > F	=	0.0000
				R-squared	=	0.8891
				Adj R-squared	=	0.8792
Total	15489183.7	97	159682.306	Root MSE	=	138.91

AmountSavedBirr	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Age	-2.874887	2.271599	-1.27	0.209	-7.388505	1.638731
Sex	1.300207	30.35011	0.04	0.966	-59.00481	61.60522
EducationLevelYears	-10.34242	5.374591	-1.92	0.058	-21.02162	.3367736
FamilySize	-17.06312	13.68798	-1.25	0.216	-44.26085	10.1346
IncomeLevelBirr	.7120729	.0408769	17.42	0.000	.6308514	.7932943
FinancialLiteracy15	80.96785	14.5313	5.57	0.000	52.09447	109.8412
MaritalStatus	125.7834	38.80307	3.24	0.002	48.68256	202.8843
ExpenditureBirr	-.6480986	.0711059	-9.11	0.000	-.7893846	-.5068127
_cons	-38.26268	123.0877	-0.31	0.757	-282.8353	206.3099

#### Education Level (Years)

The results of the regression analysis reveal an unexpected negative relationship between education level and the amount saved (Amount Saved Birr). Specifically, for each additional year of education, the amount saved decreases by approximately 10.34 Birr, holding all other variables constant. This finding contradicts our initial expectation that higher levels of education would be associated with increased savings, as education is often linked to better financial literacy, higher earning potential, and improved decision-making skills. The p-value of 0.058 indicates that this relationship is marginally significant, at 10% level of significance. Indicating that the true effect of education on savings could vary from a substantial decrease to a negligible increase.

This unexpected negative relationship could be attributed to several factors. For instance, individuals with higher education levels may face higher costs associated with their education, such as student loans or other expenses, which could reduce their ability to save. Additionally, more educated individuals might have higher consumption patterns or invest their income in other assets rather than saving in traditional forms. It is also possible that the sample population in this study includes individuals who, despite their education, face economic constraints or prioritize other financial goals over savings.

**Income Level(Birr)**

The coefficient for income (0.71 Birr) indicates that a one-Birr increase in income is associated with a 0.71 Birr rise in savings, holding all other variables constant. This result is highly statistically significant ( $p < 0.001$ ), demonstrating both the precision and robustness of the estimate. The positive relationship underscores income as the most influential predictor of savings in the model.

**Financial Literacy:**

Financial literacy has a significant positive impact on savings. For every unit increase in financial literacy, savings rise by approximately 81 Birr. The strong statistical significance ( $p=0.000$ ) and emphasizing the critical role of financial education in promoting effective saving behaviors. Programs aimed at enhancing financial literacy can significantly contribute to improving household savings.

**Marital Status:**

Married individuals tend to save more, with a coefficient of 125.78. This suggests that shared financial resources or responsibilities likely contribute to higher savings. The significance ( $p=0.002$ ) and suggesting that shared financial responsibilities in married households contribute to increased savings.

**Expenditure (Expenditure Birr):**

Higher spending is associated with lower savings, with a coefficient of -0.65, indicating that each Birr spent reduces savings by roughly 0.65 Birr. The negative effect is significant ( $p=0.000$ ) and emphasizing the trade-off between consumption and saving. Higher household expenditures limit the disposable income available for savings.

## **CHAPTER FIVE**

### **5 CONCLUSIONS AND RECOMMENDATION**

#### **5.1 CONCLUSION**

This research explored the multifaceted factors influencing saving habits among rural households in Wolkite town, emphasizing the importance of saving as a cornerstone for economic stability and growth in developing countries, particularly Ethiopia. The findings indicate that saving behaviors are not solely individual choices but are significantly shaped by socio-economic dynamics. The study employed a robust methodology, utilizing a multistage sampling technique to gather data from 98 households, and applied both descriptive and econometric analyses, specifically Ordinary Least Squares (OLS) regression. This comprehensive approach allowed for a nuanced understanding of the determinants of saving habits, revealing key influences such as financial literacy, income levels, expenditure patterns, and marital status.

Financial literacy emerged as a critical factor in the study, demonstrating a strong positive correlation with effective saving behaviors. Households that possessed higher levels of financial education were more likely to engage in disciplined saving practices, highlighting the need for educational initiatives aimed at enhancing financial awareness within the community. Moreover, the research found that income levels significantly impacted saving capacities, with increased financial resources facilitating greater savings. This suggests that strategies aimed at improving income-generating opportunities for rural households could play a vital role in fostering a culture of saving, thereby contributing to their long-term financial security and resilience.

Additionally, the analysis of expenditure patterns revealed a negative relationship with saving habits, indicating that higher spending limits the disposable income available for savings. This finding underscores the importance of understanding household consumption behaviors and creating a balanced approach that encourages saving alongside responsible spending. Interestingly, while household size was examined, it did not show a statistically significant effect on saving behaviors, suggesting that the complexities of saving dynamics may vary based on other socio-economic factors. Overall, this research not only fills a critical gap in the existing literature but also provides valuable insights for policymakers and financial institutions. By addressing the identified barriers and promoting a culture of saving through targeted

interventions, stakeholders can significantly enhance the economic resilience of rural communities, contributing to sustainable development and poverty alleviation in Ethiopia.

## **5.2 RECOMMENDATION**

To enhance saving behaviors among residents of Wolkite Town, several detailed recommendations can be implemented.

- Improving financial literacy is crucial. This can be achieved by developing comprehensive educational programs that target various demographics, including youth, adults, and the elderly. These programs should cover essential topics such as budgeting, saving strategies, debt management, and investment basics, incorporating real-life scenarios to provide practical knowledge. Collaborating with local institutions, such as universities and NGOs, can further enrich these programs by bringing in expertise and resources.
- Foster Responsible Spending Habits: Create awareness campaigns and community workshops that emphasize the importance of responsible spending. Teach individuals how to prioritize savings and make informed financial decisions, thereby reducing unnecessary expenditures that detract from saving potential.
- Promote Economic Empowerment: Implement policies and programs aimed at increasing income-generating opportunities. This could include vocational training, entrepreneurship support, and access to microfinance. Providing individuals with the tools and resources to enhance their earning potential will help create a foundation for improved saving habits.
- Enhancing awareness about the benefits of saving, introducing attractive financial products, and fostering a culture of disciplined financial planning. By addressing these issues, stakeholders, including policymakers and financial institutions, can work towards increasing the saving habits of Wolkite Town's residents, leading to greater financial security and economic stability.

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# APPENDIX 1

## RESEARCH QUESTIONNAIRES

### Section 1: Demographic Information

1. Age (in years.....)
2. Gender:
  - Male
  - Female
3. Marital Status:
  - Single
  - Married
4. Education Level (in years of formal education) .....
5. How many individuals are there in the household?.....
6. Monthly Income (in Birr).....
7. Monthly Expenditure (in Birr) .....

### Section 2: Saving Habits

8. Do you have a save money?
  - Yes
  - No
9. If your answer is yes in question number 8, how do you save?
  - Daily
  - Weekly

- Monthly
- Rarely
- Never

10. On average, how much do you save per month?.....

### **Section 3: Factors Influencing Saving Behavior**

11. What motivates you to save money? (Select all that apply)

- a.  Emergency funds
- b.  Education expenses
- c.  Health expenses
- d.  Future investments
- e.  Other: \_\_\_\_\_

12. How would you rate your financial literacy?

- a.  Low
- b.  Medium
- c.  High
- d.  Very High

13. Do you think your spending habits affect your ability to save?

- a.  Yes
- b.  No

14. How do you perceive the role of banks and financial institutions in promoting savings?

- a.  Very helpful
- b.  Helpful
- c.  Neutral
- d.  Not helpful
- e.  Very unhelpful

**Section 4: Open-Ended Questions**

15. What challenges do you face when trying to save money?

16. What suggestions do you have for improving saving habits in your community?

## APPENDIX 2

```
. regress AmountSavedBirr Age Sex EducationLevelYears FamilySize IncomeLevelBirr FinancialLiteracy15 MaritalStatus ExpenditureBirr
```

Source	SS	df	MS	Number of obs	=	98
Model	13771962.3	8	1721495.28	F(8, 89)	=	89.22
Residual	1717221.41	89	19294.6226	Prob > F	=	0.0000
				R-squared	=	0.8891
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Total	15489183.7	97	159682.306	Root MSE	=	138.91

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_cons	-38.26268	123.0877	-0.31	0.757	-282.8353 206.3099

```
. vif
```

Variable	VIF	1/VIF
Expenditur~r	5.65	0.176898
IncomeLeve~r	5.46	0.183113
Age	2.24	0.446863
MaritalSta~s	1.71	0.585468
FamilySize	1.50	0.665665
EducationL~s	1.45	0.690354
Financial~15	1.25	0.800604
Sex	1.07	0.930965
Mean VIF	2.54	

```
. hettest
```

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of AmountSavedBirr

chi2(1) = 0.14

Prob > chi2 = 0.7050