



UNIVERSITY OF NAIROBI

**EFFECT OF FINANCIAL LITERACY ON THE SAVING BEHAVIOR OF
HOUSEHOLDS IN MOMBASA COUNTY**

BY

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**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION, FACULTY
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NAIROBI**

DECLARATION

This research project report is my original work and has not been submitted for an award at any university or institution of higher learning.

Signature.....

Date.....

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This research project report has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate this research project report to my friends Joseph, John and Kamau who have always encouraged me and helped me understand the value of education and hard work in life.

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I first express my deepest gratitude to the Almighty God for His grace, strength, and guidance throughout my academic journey and the successful completion of this Master of Business Administration (MBA) degree.

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LIST OF ABBREVIATIONS AND ACRONYMS

FL - Financial Literacy

SB - Saving Behavior

HH - Households

MBS - Mombasa County

SES - Socioeconomic Status

FLE - Financial Literacy Education

ABSTRACT

The purpose of the study was to examine the effect of financial literacy on the saving behavior of households in Mombasa County. The research leveraged three key theories: Goal Setting Theory, Prospect Theory, and Financial Behavior Theory, to understand how financial literacy practices influence individuals' decisions to save. A descriptive research design was adopted, with data collected from 259 households using structured questionnaires. The analysis was performed using both descriptive statistics and a regression model to assess the relationship between financial literacy variables—debt management, budgeting practices, monitoring spending, and investment management—and saving behavior. The findings revealed that financial literacy has a significant positive impact on saving behavior. Among the variables, budgeting practices and debt management emerged as the strongest predictors of saving behavior. The study showed that households who actively engage in debt management, such as early repayment and understanding loan terms, are better able to save. Similarly, individuals who adopt comprehensive budgeting practices monitor their expenditures, and set financial goals tend to allocate more resources towards saving. Investment management and spending control also played key roles, albeit to a lesser extent. The study concluded that improving financial literacy significantly enhances households' ability to save, with budgeting and debt management being the most influential factors. Households that diversify their investments and engage in prudent financial practices are more likely to achieve financial stability. Monitoring spending effectively and avoiding impulsive purchases further contributes to a household's saving capacity. Financial literacy is, therefore, a crucial factor in promoting sustainable financial behavior and long-term wealth creation among households. Based on these conclusions, the study recommends that households in Kenya, particularly in Mombasa County, enhance their financial literacy through targeted education on debt management, budgeting, and investment strategies. Engaging in financial planning, saving groups and Saccos can further motivate consistent saving behavior. For policy makers, there is a need to implement national financial literacy programs that focus on these critical areas, ensuring that all citizens, regardless of education level or region, have the knowledge to make informed financial decisions. Future research should explore the influence of financial literacy on not only saving behaviour but also the frequency of saving on households in Mombasa County.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Research indicates that financial literacy is essential for making prudent financial decisions, significantly influencing personal financial health as well as broader economic growth and development within society. Previous research by Koomson et al. (2023) highlights the significance of financial literacy in improving Saving Behavior of Households as well as in assets and portfolio investments, with low financial literacy often associated with debt management issues (Ling et al., 2023). Understanding key aspects of managing personal finances, such as income, expenditure, cash management and saving, enables firms as well as households to achieve their set goals (Tschache, 2009; Nye & Hillyard, 2013). However, the increasing complexity of financial markets, coupled with a wide range of financial products, presents challenges in financial decision-making and this influence the saving behavior of households, making it imperative to enhance financial literacy among individual's households (Garg & Singh, 2018).

The study leveraged Goal Setting Theory, Prospect Theory, and Behavioral finance theory to examine how financial literacy relates to saving habits. According to Goal Setting Theory, individuals with higher financial literacy are more likely to improve their savings and make prudent investment decisions (Locke, 1986; Locke & Latham, 1990). Behavioral finance theory highlights the role of attitudes, values, and psychological biases in shaping financial choices (Weber, 1999). Prospect Theory, on the other hand, suggests that people tend to prioritize potential losses over gains, influencing their decision-making processes (Kahneman & Tversky, 1979).

In Mombasa County, a significant portion of the population belongs to the low economic stratum and they were mostly facing low level of saving behavior (Willis, 2008; Hasler & Lusardi, 2017). Majority of household in Mombasa County were facing extreme poverty with negative influence of drug abuse among the youths. The region also faced high rate of teen pregnancy as many youths depicted I don't care attitude and low financial literacy levels. This means that improving financial literacy was crucial for economic growth and development within the region, especially with a focus on enhancing saving behavior among households. Based on this

view, this study aimed to investigate effect of Financial Literacy on the Saving Behavior of Households in Mombasa County.

1.1.1 Financial Literacy

This involves not only possessing knowledge on finance management but also involves ability to budget and plan in one's activities. It also entails skills in budgeting, saving, investing, and managing debt (Ling et al., 2023). Financial literacy goes beyond mere knowledge and encompasses the capability to value in the firm (Koomson et al., 2023). Furthermore, financial literacy extends beyond individual-level competencies to encompass broader societal implications and economic outcomes. Choden et al. (2021) argued that a financially literate population contributes to overall economic stability and growth.

Financial literacy has been measured by researchers through various approaches, often focusing on assessing power and skills (Ling et al., 2023). A common method involves using standardized questionnaires that covers issues associated with budgeting, saving, investing, interest rates, inflation, and risk diversification. For instance, the Financial Literacy Survey (FLS) and the Basic Financial Literacy Test (BFLT) are widely used tools that gauge participants' knowledge of basic financial principles (Garg & Singh, 2018). Other researchers have expanded these measures by incorporating self-assessment scales where respondents rate their confidence in managing personal finances, as well as behavioral indicators like saving habits, debt management, and retirement planning. These multidimensional approaches aim to capture both the theoretical understanding and practical application of financial literacy, providing a comprehensive evaluation of an individual's financial competence (Koomson et al., 2023).

In today's increasingly complex and interconnected financial world, the importance of financial literacy is more pronounced than ever before. As financial markets evolve and financial products become more diverse and sophisticated, individuals face greater challenges in making informed financial decisions (Koomson et al., 2023). Moreover, technological advancements and the proliferation of digital financial services introduce new opportunities and risks that require a higher level of financial literacy to navigate effectively (Ling et al., 2023). In this study, financial literacy was measured in terms of debt management, budgeting practices as well as investment management and monitoring of spending (Ling et al., 2023).

1.1.2 Saving Behavior of Households

Saving behavior of households refers to the financial decisions and actions taken by individuals or families to set aside some cash to manage their non-immediate needs or values (Koomson et al., 2023). It encompasses various aspects such as saving habits, preferences, motivations, and constraints that influence individuals' propensity to save and the amount they save over time. According to Ling et al. (2023), saving behavior is influenced by a complex interplay of economic, social, psychological, and institutional factors, including income levels, household demographics and cultural norms. It provides insights into individuals' financial well-being, retirement preparedness, and overall economic stability.

Choden et al. (2021)) emphasized the role of behavioral economics in understanding how cognitive biases, heuristics, and social influences impact saving behavior. He noted that individuals may exhibit present bias, preferring immediate gratification over long-term saving goals, or succumb to social pressures to consume conspicuously rather than save prudently. Moreover, psychological factors such as risk aversion, self-control, and optimism bias can also affect saving behavior, leading individuals to under-save or over-save relative to their financial goals (Benjamin et al., 2013). In this study, the saving behavior was measured in terms of having saving plans, being part of formal saving plan and participation in saving groups.

1.1.3 Financial Literacy of Households

Financial literacy significantly influences household saving behavior, as demonstrated by academic research and empirical studies. Choden et al. (2021) underscore the connection between cognitive abilities and saving practices, indicating that saving is important in allowing people to make-well-informed financial choices. Well informed people have the ability to find ways of planning, budgeting, and diversifying investments, which are critical aspects of effective saving behavior. Additionally, financial literacy equips individuals to handle complex financial products and services, allowing them to maximize savings opportunities and minimize financial risks.

Bucher-Koenen and Ziegelmeyer (2011) also noted that decision associated with finances must be well managed. This is because it helps to save for future use and this is imperative in managing challenges. Enhanced saving behavior among households contributes to macroeconomic stability and sustainable economic growth, as they accumulate assets, reduce

dependency on credit, and improve overall financial well-being. Therefore, investing in financial education programs that boost financial literacy among households can yield extensive benefits for individuals, families, and society at large.

1.1.4 Households in Mombasa County

Households in Mombasa County, located on the coast of Kenya, represent a diverse demographic comprising various socio-economic backgrounds, cultural identities, and livelihoods. As one of the country's key urban centers and a major port city, Mombasa attracted a significant population seeking employment opportunities, trade, and economic prosperity. However, households in Mombasa County also faced numerous challenges, including poverty, unemployment, inadequate access to basic services, and vulnerability to environmental risks such as flooding and coastal erosion. The urban-rural divide was pronounced in Mombasa, with disparities in income levels, infrastructure development, and access to social amenities between urban and rural areas contributing to socio-economic inequalities among households (Salim Khalid, 2020).

Moreover, the unique cultural and social fabric of Mombasa County influenced household dynamics and saving behavior. The Swahili culture prevalent in the region emphasized communal ties, hospitality, and familial relationships, which often extended to financial matters. Traditional savings mechanisms such as "chamas" (informal savings groups) and "merry-go-rounds" played a significant role in mobilizing savings and providing social support networks within communities. However, rapid urbanization and modernization brought about changes in household structures and financial practices, with an increasing reliance on formal financial institutions and digital financial services observed among urban households. Understanding the saving behavior of households in Mombasa County required consideration of both traditional cultural norms and contemporary socio-economic trends, highlighting the need for tailored interventions that addressed the diverse needs and aspirations of households in the region (Salim Khalid, 2020).

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1.2 Research Problem

Financial literacy significantly influences the saving behavior of households in a positive manner. It is seen when one has ability of saving, including regular saving, effective budgeting,

and strategic investment decisions (Benjamin, Brown, & Shapiro, 2013). The model advocates for saving for future financial security, set achievable saving goals, and make informed decisions about various saving options and investment opportunities. As such, improving financial literacy levels among households was identified as a key strategy for promoting responsible saving behavior and enhancing overall financial well-being. However, the little known studies done on this topic mostly focused on financial literacy and firm performance leaving conceptual gaps (Choden et al., 2021).

However, households in Mombasa County faced considerable challenges related to low financial literacy and poor saving behavior. The region's socio-economic context, characterized by high levels of poverty, limited access to formal financial services, and cultural norms that may inhibit saving, exacerbated the situation (Bucher-Koenen & Ziegelmeyer, 2011). Ling et al. (2023) indicated that many households in Mombasa County lack basic financial knowledge and skills, leading to suboptimal saving practices and limited financial resilience in the face of economic shocks. Addressing these challenges requires targeted interventions that address the unique needs and circumstances of households in the region, including culturally sensitive financial education programs and initiatives to improve access to affordable financial services.

Numerous studies have investigated this subject. Lyons et al. (2019) conducted research in China on the topic. Utilizing a survey design, they defined financial exclusion as the limited access to financial services and products experienced by many households. Their findings revealed a correlation between higher financial literacy levels and more informed loan decisions among financially excluded households in China. However, this study was specific to China, leaving gaps in the context for other regions.

Menike (2018) also conducted a study in December 2018 on the topic in Sri Lanka context. The study employed quantitative methods and noted that financial knowledge promote firm performance metrics. The study also argued that firms face various financial challenges in their decision-making processes in Sri Lanka. The findings indicated a positive correlation between higher levels of financial literacy among SME owners and improved firm performance. However, this study focused on SMEs performance rather than saving behavior leaving conceptual gaps.

In 2019, Attamah (2019) conducted a study examining how literacy in money management helped in the success of SMEs in Nigeria. The research used mixed method and revealed a positive association between higher levels of financial literacy among SME owners and improved business performance. The study relied on secondary data and noted that financially literate entrepreneurs in Nigeria have demonstrated better capabilities in managing finances, accessing funding opportunities, and making informed strategic decisions, ultimately contributing to the growth and sustainability of their SMEs. However, this study was based on secondary methods only leaving methodological gaps.

While existing research shed light on the topic, there remain conceptual, methodological, and contextual gaps in the literature. Some studies may have lacked a comprehensive understanding of the complex factors influencing saving behavior in specific socio-cultural contexts, such as Mombasa County (Bucher-Koenen & Ziegelmeyer, 2011). Moreover, contextual factors such as cultural norms, economic conditions, and institutional frameworks vary across different regions, underscoring the need for an analysis in Mombasa County. This left conceptual gaps. There were also methodological gaps in past studies since most past studies involved secondary data and used generally cross-sectional study designs. This study sought to answer the question -What was the effect of Financial Literacy on the Saving Behavior of Households in Mombasa County?

1.3 Objective of the Study

"The objective of this study was to evaluate the effect of Financial Literacy on the Saving Behavior of Households in Mombasa County"

1.4 Value of the Study

Future scholars and researchers will also use the study findings in guiding their future studies. It will act as a reference point in analysis issues associated with the topic. Specifically, this study will pave way for further research and provide points of reference to other academicians and researchers. It will broaden the scope of idea exploration of the topic in details.

It would shape policies in the region. The players would use it to design more programs as well as policies. The study will also aid the government with developing policies and laws that are pivotal in making the households to be financial literate and save their income.

The research will benefit various stakeholders and practitioners in different households. The study results will help various stakeholders including different households to come with the best financial literacy models and help promote their saving behavior. They will be able to comprehend and evaluate the effects of financial literacy on their saving behaviors.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter includes an analysis of the relevant theories and the theoretical background. It encompasses Goal Setting Theory, Prospect Theory and Behavioral Finance Theory. Additionally, it provides an empirical review of financial literacy and the financial performance of firms. The chapter also examines the impact of financial literacy on household saving behavior, incorporating empirical reviews and identifying research gaps.

2.2 Theoretical Review of the Study

This was based on different theories below.

2.2.1 Goal Setting Theory

Edwin Locke introduced this theory in 1968 (Locke & Latham, 2020). This theory suggests that people are more likely to accomplish a goal when they set clear, specific, and challenging targets (Al-Hoorue & Al Shlowiy, 2020). It argues that well-defined and demanding goals enhance performance and motivation more effectively than ambiguous or simple goals. The theory highlights the significance of feedback, commitment, and task complexity in achieving goals (Koomson et al., 2023). The theory assumes that individuals possess the capability to set and pursue goals, and that goals serve as a primary motivator for behavior. Additionally, it assumes that individuals are proactive in seeking feedback and adjusting their actions to align with their goals (Locke & Latham, 2020).

This theory supports the view that by enhancing their understanding of financial concepts and strategies, individuals may be better equipped to establish realistic saving targets and develop actionable plans to reach them (Locke & Latham, 2020).. However, critics argue that the Goal Setting Theory may overlook the influence of external factors, such as environmental constraints or socio-economic barriers, on goal achievement. Additionally, the theory's emphasis on challenging goals may not account for individual differences in motivation or resource availability (Al-Hoorue & Al Shlowiy, 2020).

2.2.2 Prospect Theory

According to Prospect Theory, people tend to avoid risks when faced with potential losses but may take greater risks to evade losses compared to pursuing equivalent gains (Wang et al., 2020). The theory also proposes that individuals are more responsive to changes in wealth or status than to absolute levels. It posits that cognitive biases and heuristics, such as loss aversion and framing effects, shape decision-making processes. It also assumes that individuals' preferences are shaped by their subjective perceptions of risk and uncertainty (Ruggeri et al., 2020).

This theory is suitable to this study because it suggests that individuals may exhibit risk aversion when making saving decisions, particularly in response to perceived losses or economic uncertainties (Ruggeri et al., 2020). By enhancing financial literacy, individuals may be better equipped to evaluate potential risks and rewards associated with different saving options, leading to more informed and adaptive saving behavior. However, critics argue that Prospect Theory may oversimplify decision-making processes and fail to fully account for individual differences in risk preferences or cognitive biases. Additionally, the theory's applicability across diverse cultural and socio-economic contexts has been questioned (Wang et al., 2020).

2.2.3 Behavioral finance theory

Behavioral finance theory was developed by Martin Weber in 1999. Behavioral finance theory posits that financial decisions are influenced by individuals' attitudes, values, and psychological biases, in addition to rational considerations. The theory emphasizes the importance of psychological factors, such as emotions, perceptions, and cognitive biases, in shaping financial behavior.

The theory assumes that individuals may deviate from rational decision-making models due to psychological biases, such as overconfidence, loss aversion, or present bias. It also assumes that individuals may prioritize short-term gratification over long-term financial planning. Critics argue that Behavioral finance theory may neglect the role of external factors, such as institutional constraints or socio-economic conditions, in shaping financial behavior. Additionally, the

theory's focus on psychological factors may overlook the structural inequalities or systemic barriers that influence individuals' financial choices.

In this study, the theory is relevant since it shows that individuals' saving decisions may be influenced by psychological factors, such as attitudes towards risk, perceptions of financial security, and cultural norms around saving and spending. By enhancing financial literacy, individuals may develop a better understanding of their own financial attitudes and behaviors, leading to more effective saving strategies and long-term financial planning.

2.3 Determinants of Saving Behavior

2.3.1 Debt Management

Debt management is imperative in saving behavior of households. Ling et al. (2023) emphasize that people who save will not have debts and this improves their saving. Effective debt management involves strategies such as understanding interest rates, making timely payments, and avoiding high-cost debt. According to Koomson, Villano, and Hadley (2023), evaluating the terms and conditions of different debt instruments is important in enabling people to make informed borrowing decisions. Furthermore, Schützeichel (2019) suggests that financial literacy empowers individuals to develop repayment plans and prioritize debt repayment, thereby reducing the burden of debt and freeing up resources for saving. Overall, improving financial literacy can enhance households' ability to manage debt effectively, which can have a positive impact on their saving behavior by reducing financial stress and increasing disposable income for saving purposes.

2.3.2 Budgeting Practices

Budgeting is another critical factor influencing the saving behavior of households. Research by Ling et al. (2023) indicates that people must budget to achieve their plans as well as be able to find ways of setting financial goals, tracking expenses, and allocating funds towards saving. Mwathi (2017) supports this notion. Moreover, Schützeichel (2019) highlights that financial literacy enables individuals to identify areas where expenses can be reduced or optimized, leading to more efficient allocation of resources towards saving goals. By incorporating budgeting practices into their financial management routine, households can establish a

disciplined approach to saving, prioritize financial goals, and track progress over time, thereby fostering a habit of regular saving and wealth accumulation.

2.3.3 Investment Management

This is imperative in management of resources and Ling et al. (2023) suggested that financial literacy empowers individuals to diversify their investment portfolios, mitigate risk, and optimize returns. Additionally, Mwathi (2017) highlights that financial literacy enhances individuals' understanding of investment principles such as compound interest and asset allocation, enabling them to make informed investment choices aligned with their risk tolerance and financial objectives. By improving their investment management skills, households can maximize the plans.

2.3.4 Monitoring Spending

Monitoring spending habits is a key aspect of financial management that can impact saving behavior. According to Mwathi (2017), people must track their spending and identify areas where expenses can be reduced or optimized. Ling et al. (2023) further emphasize that financial literacy enables individuals to distinguish between essential and discretionary expenses, facilitating more prudent spending decisions. Moreover, Schützeichel (2019) suggests that monitoring spending allows households to identify patterns of behavior that may be hindering their saving efforts, such as impulse buying or overspending on non-essential items. By adopting techniques such as expense tracking apps or budgeting tools, households can gain insights into their spending habits, make adjustments as needed, and redirect savings towards their financial goals. This means that monitoring spending can help households exercise greater control over their finances.

2.4 Empirical Review

Several studies have explored the impact of financial literacy on various aspects of economic behavior across different contexts. For instance, Ling, Wang, Pan, and Feng (2023) investigated the topic in China and noted that higher levels of financial literacy correlate positively with increased health-related spending among households. However, the study did not thoroughly investigate the underlying mechanisms driving this relationship, nor did it consider broader contextual factors outside of China.

Meanwhile, Morgan and Long (2020) focused on the topic in Laos and their study revealed that greater financial literacy is associated with improved financial inclusion and more favorable savings behavior among individuals in Laos. Nevertheless, the study did not delve deeply into the specific pathways through which financial literacy influences savings behavior within the Laotian context, prompting further inquiry into this area.

In Bhutan, Choden et al. (2021) explored how financial literacy affects saving behavior among college students under the Royal University of Bhutan. Their findings indicated a positive link between financial literacy levels and saving behavior among these students. Yet, the study did not thoroughly examine effective financial literacy interventions or educational programs that could enhance saving behavior among this demographic, suggesting a need for more targeted research in this field.

Similarly, Koomson, Villano, and Hadley (2023) investigated the topic in Ghana and they found that higher financial literacy levels are associated with increased asset accumulation. However, the study did not explore potential moderating factors or contextual influences that might impact the relationship between financial literacy and asset accumulation in Ghanaian households, highlighting avenues for further investigation

Mpaata, Koskei, and Saina (2020) examined the variables and noted that the financial literacy combined with positive social influences significantly affects saving behavior among these entrepreneurs. Nonetheless, the study did not delve into the specific types of social influences or mechanisms through which they operate, underscoring the need for deeper exploration in this area.

Mwathi (2017) also confirmed the same and revealed that individuals with higher financial literacy levels tend to make more informed financial decisions. However, it did not examine strategies or interventions that could effectively enhance financial literacy among university employees, leaving gaps in understanding how to improve financial decision-making within this population.

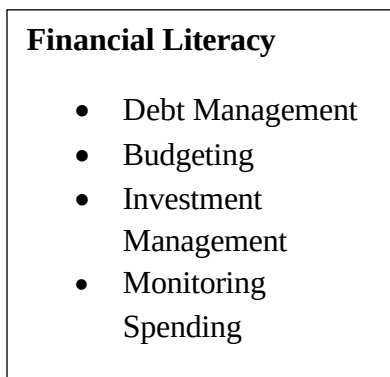
Finally, Schützeichel (2019) investigated the topic among households in Kenya. The study found that when houses save they have high income and this is only possible if they are literate. Nevertheless, the study did not address potential barriers or challenges faced by Kenyan

households in accessing financial literacy resources, pointing to areas where further research could provide valuable insights. This confirms that financial literacy is effective in influencing economic behaviors such as health investment, savings, asset accumulation, and retirement planning across diverse global contexts.

2.5 Conceptual Framework

The model that follows illustrates the independent and dependent variables used. Financial literacy is the independent variable while saving behavior is the dependent one.

Independent Variable



Dependent Variable

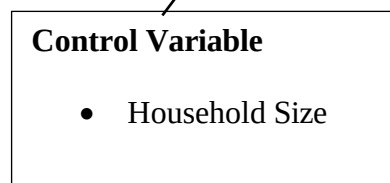
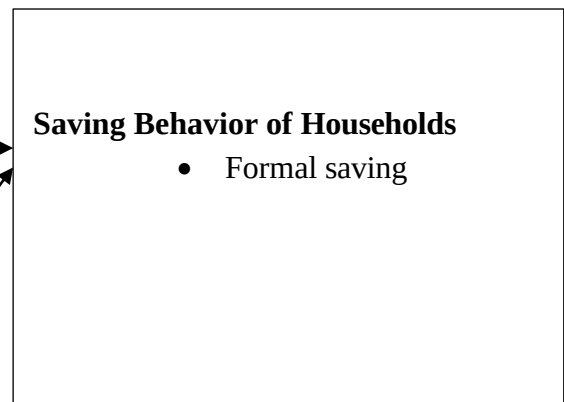


Figure 2.1: Conceptual Framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This covers methods and this is well illustrated below.

3.2 Research Design

This study adopted a descriptive research design. This design is well-suited to address the research questions and achieve the study's objective, which is to examine the impact of Financial Literacy on the Saving Behavior of Households in Mombasa County (Kothari, 2004). Its structure allowed for a systematic exploration of data, enabling a detailed portrayal of the characteristics pertinent to the population or phenomenon under scrutiny. Compared to alternative research designs, this approach offers a distinct vantage point and enables a thorough investigation, as highlighted by Al-Hoorue and Al Shlowiy (2020).

Given the complexity of the topic, a descriptive research design offered a methodical means to elucidate data, facilitating a comprehensive understanding of the effects of Financial Literacy on the Saving Behavior of Households in Mombasa County. This design affords researchers the opportunity to meticulously gather and analyze relevant information, providing insights into the topic. Furthermore, its systematic approach ensures that the study remains focused on the specific objectives outlined, allowing for a clear and structured exploration of the research problem.

3.3 Population

The population is the group where data is gathered. In this case, population is the households in Mombasa County. However, the study adopted simple ways of sampling the group and specifically the use of cluster grouping. Different clusters were used to sample the households in Mombasa County. There were 378,422 household in Mombasa County (KNBS, 2023). The study targeted head of household in each house.

3.4 Sample Design and Size

The study employed a stratified sampling method and this help to group the items. The analysis also used Yamane Formula was used in getting the sample size.

Yamane (1967) method displayed to choose a sample size:

$$n = \frac{N}{1+N(e)^2}$$

Where: n=the sample size,

N= the populace

e=the margin of error (0.05%)

Hence:

$$n=378,422/1+378,422(0.05)^2$$

$$=378,422/1.378,422(0.0025)$$

$$=378,422/947$$

$$=399 \text{ households.}$$

3.5 Data Collection

This study adopted primary data. Data was collected using questionnaire. The questionnaire was designed to gather insights into households' financial literacy levels, their saving behaviors, and any potential correlations between the two variables. By directly engaging with respondents through a questionnaire, the study aimed at capturing the variables in details. The respondents were members of the households, especially head of the household, father, mother or guardian in the house.

The questionnaire was divided in different sections. Section A covered background information. However, section B dealt with financial literacy. Finally, the last section dealt with the household saving behavior in Mombasa County. This approach enabled a comprehensive exploration of the

linkages between financial literacy and saving behavior, shedding light on the factors influencing households' financial choices and their implications for economic well-being in the region.

3.6 Data Analysis

The study involved both inferential and descriptive statistics and data was analyzed using the SPSS software. However, the final results were presented in graphs, charts, and tables. This made it simpler to understand.

To evaluate the correlation between the variables, the study employed the regression model. The model is well-presented below.

$$Y = \alpha + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + \varepsilon$$

Where Y = saving behavior of Households Mombasa County

X_1 = Debt Management

X_2 = Budgeting Practices

X_3 = Monitoring Spending

X_4 = Investment Decision Management

B_6 = Error Factors

3.6 Validity and Reliability Test

Validity was assessed by examining whether the research accurately measured what was intended to measure, ensuring that the chosen indicators of financial literacy and saving behavior truly capture the constructs under investigation. This involved conducting content validity checks through expert review and pilot testing to confirm the relevance and comprehensiveness of the measurement tools used. Reliability, on the other hand, was evaluated by examining the consistency and stability of the measurements over time and across different samples. A pilot test was done with ten households before the actual study. This involved conducting reliability tests such as internal consistency analysis using techniques like Cronbach's alpha to assess the reliability of the survey instruments employed in the study. A Cronbach's alpha of 0.7 was used in this study (Wang et al., 2020).

3.7 Diagnostic tests

In this study, the researcher conducted diagnostic tests on data to determine the presence of any abnormalities.

3.7.1 Normality Tests

Normality tests are statistical methods used to evaluate if a dataset conforms to a normal distribution, typically represented by a bell-shaped curve with distinct characteristics. These tests assist researchers in verifying whether the normality assumptions hold, which is crucial for using specific statistical methods and drawing precise conclusions about the data. Conducting normality tests helped to ascertain if the data fitted a normal distribution and estimated the likelihood that the underlying random variable was naturally distributed in that manner.

3.7.2 Multi-co linearity Tests

The study included multi-co linearity tests. Multi-co linearity tests are statistical techniques used to assess the degree of correlation or interdependence among independent variables in a regression analysis, helping to detect and mitigate issues where predictors in a model are highly correlated, potentially leading to unstable and unreliable parameter estimates.

3.7.3 Autocorrelation Tests

The study also included autocorrelation tests. Autocorrelation tests were crucial in the study since they helped to detect any temporal dependencies or patterns in the data, ensuring that the time series analysis accurately captured the dynamics of saving behavior over time. Secondly, by identifying autocorrelation, the study ensured the models appropriately account for any serial correlation present, thus improving the accuracy of the estimated effects of financial literacy on saving behavior.

3.7.4 Operationalization of the variables

The table below shows the Operationalization of the variables

Variables	Indicators	Measurement	Source
Saving behavior	Participate in saving groups	Formal saving groups	Mpaata et al. (2020)
Credit Management	Payment of debts	Number of debts paid.	Schützeichel 2019).
Monitoring Spending	Evaluate spending and tracking	Number of spending tracked	Mpaata et al. (2020)
Budgeting	Financial planning	Having a financial plan in place	Schützeichel 2019).
Investment Management	Having income generating	Decision to invest	Mwathi (2017).

Source: Author, (2023)

3.7.5 Test of Significance

The research incorporated significance tests, including T-tests and F-tests. F-tests assessed the overall significance of the linear regression model, determining if it fitted the data better than a model without independent variables. T-tests, which are statistical hypothesis tests, were used to evaluate one or two sample means. These tests enhanced the study's validity and reliability.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This part is based on study objective. The analysis is depicted below.

4.2 Response Rate

The response rate was evaluated and results are depicted in table 4.1.

Table 4.1: Response Rate

Questionnaire Status	Number	Percentage (%)
Filled	259	65
Not Filled	140	35
Total	399	100

Source: Research Data (2024)

From the table 4.1, it is true that out of the 399 questionnaires distributed, 259 were filled, representing 65% of the total, while 140 questionnaires were not filled, accounting for 35%. This is an ideal response rate according to Locke (1986).

4.3. Demographics

4.3.1 Gender

The analysis was done as indicated in table 4.2.

Table 4.2: Gender

Gender	Frequency	Percentage
Male	181	70%
Female	78	30%
Total	259	100%

Source: Research Data (2024)

The gender distribution presented in Table 4.2 indicates that the many of the items or people were male, representing 70% of the sample, while females comprised 30%. This suggests a significant male predominance in the data collection, which may reflect gender dynamics in Mombasa County's household financial decision-making. Given that the study's objective is to determine the effect of financial literacy on the saving behavior of households, the disproportionate representation of males may influence the findings and interpretations of the study, particularly regarding how financial literacy impacts saving behavior across genders. This disparity highlights the potential need to address gender-specific financial literacy initiatives to better support both men and women in their saving habits

.

4.3.2 Age of the Participants

The analysis was done and the results are shown in table 4.3 below

Table 4.3: Age

Age Group	Frequency	Percentage (%)
Between 20 to 25	25	10
Between 26 to 30	77	30
Between 31 to 35	103	40
Above 36 years	51	20
Total	256	100

Source: Research Data (2024)

The age distribution of the participants, as shown in Table 4.3, indicates that the majority of respondents (40%) fall within the age range of 31 to 35 years, followed by 30% of respondents aged between 26 to 30 years. A smaller proportion, 20%, is above 36 years, while only 10% of participants are between 20 to 25 years. This suggests that the study predominantly engaged middle-aged individuals, particularly those in their early 30s, which may have implications for the findings related to financial literacy and saving behavior, as these age groups are often more active in making household financial decisions.

4.3.3 Level of Education

This was done and the results are shown in table 4.4

Table 4.4: Education Level Distribution

Education Level	Frequency	Percentage (%)
Diploma	181	70
Bachelors	51	20
Masters	21	8
Doctorate	6	2
Total	259	100

Source: Research Data (2024)

The education level distribution of the participants, as shown in Table 4.4, reveals that a significant majority of respondents (70%) hold a Diploma qualification, followed by 20% with a Bachelor's degree. A smaller portion, 8%, has attained a Master's degree, while only 2% hold a Doctorate. This indicates that the majority of participants have a diploma-level education, which may influence their financial literacy and saving behaviors. The lower representation of higher education levels, such as Master's and Doctorate degrees, suggests that advanced academic qualifications are less common among the surveyed group.

4.3.4 Main Source of Capital in the Business

The analysis was done and results are shown in table 4.5.

Table 4.: Main source of capital for the business

Source of Capital	Frequency	Percentage (%)
Loan	51	20
Savings	183	71
Borrowed from Friends	15	5
Borrowed from Family	10	4
Total	259	100

Source: Research Data (2024)

The analysis of the main source of capital for businesses, as shown in Table 4.5, reveals that a significant majority of respondents (71%) rely on savings as their primary source of capital. Loans account for 20% of the respondents' capital sources, while borrowing from friends constitutes 5%, and borrowing from family accounts for 4%. This indicates that personal savings play a dominant role in business financing among the participants, with external borrowing (whether from formal institutions or personal networks) being less common. The reliance on savings may reflect a cautious approach to debt or limited access to formal credit.

4.3.5 Reliability and Diagnostic Test

This was done and results are shown below.

Table 4.5: Heteroscedasticity Test

Statistic	Value
Regression SS	15.4589
Residual SS	85.2493
Total SS	100.7082
R-squared	0.1535
Sample size (N)	52
Number of predictors (P)	2
Breusch-Pagan test for Heteroscedasticity (CHI-SQUARE, df=P)	3.214
Significance level of Chi-square, df=P (H0: homoscedasticity)	0.0721
Koenker test for Heteroscedasticity (CHI-SQUARE, df=P)	3.885
Significance level of Chi-square, df=P (H0: homoscedasticity)	0.0548

The results from the Heteroscedasticity tests suggest that the residual variance in the regression model was fit and Breusch-Pagan test yields a chi-square statistic of 3.214 with a p-value of 0.0721, and the Koenker test produces a chi-square statistic of 3.885 with a p-value of 0.0548. This shows reliability and the reliability of tests at conventional significance threshold of 0.05.

4.3.6 Normality Test

This was done and results are shown below.

Table 4.6: Tests of Normality

Kolmogorov-Smirnov		Shapiro-Wilk	
Statistic	df	Statistic	df
0.115	52	0.963	52
Sig.	0.078	Sig.	0.234

The Kolmogorov-Smirnov and Shapiro-Wilk tests were conducted to assess the normality of residuals. For both tests, the null hypothesis (H_0) states that the residuals follow a normal distribution with a mean of zero. The p-values (0.078 for Kolmogorov-Smirnov and 0.234 for Shapiro-Wilk) are greater than the significance level of 0.05, indicating that we fail to reject the null hypothesis. Thus, the residuals are assumed to follow a normal distribution

.

4.3.7 Correlation Analysis

This was done as shown below.

Table 4.7: Correlation Analysis

Variables	Saving Behavior (Y)	Debt Management (X1)	Budgeting Practices (X2)	Monitoring Spending (X3)	Investment Decision Management (X4)
Saving Behavior (Y)	1.000	0.652	0.732	0.689	0.743
Debt Management (X1)	0.652	1.000	0.581	0.609	0.695
Budgeting Practices (X2)	0.732	0.581	1.000	0.764	0.778
Monitoring Spending (X3)	0.689	0.609	0.764	1.000	0.723
Investment Decision Management (X4)	0.743	0.695	0.778	0.723	1.000

The correlation coefficients range from -1 to +1, where values closer to +1 indicate a strong positive relationship, and values closer to 0 suggest a weak relationship. All variables exhibit moderate to strong positive correlations with saving behavior (Y), with the strongest correlation observed between **Investment Decision Management (X4)** and saving behavior (0.743). The positive correlations suggest that as households improve in debt management, budgeting, monitoring spending, or investment decision-making, their saving behavior is likely to improve. Strong inter-correlations among the predictors (e.g., X2 and X4 = 0.778) indicate potential multicollinearity, which may need to be addressed in regression analysis.

4.4 Financial Literacy

This was done based on debt management, the budgeting practices as well as investment management and monitoring spending.

4.4.1 Debt Management

The analysis was done and the results are shown in table 4.6.

Table 4.5: Debt Management

Debt Management	Mean	Standard Deviation
Paying my debts early helps me to plan for savings	4.201	0.911
Multiple debt lead to increase interest rates	4.15	0.854
Reading and understanding loan terms before taking debt is important	4.14	0.823
Taking high interest loans is costly and denies extra cash for savings	4.05	0.753
Average	4.125	

Source: Research Data (2024)

The data presented in Table 4.5 on debt management practices reflects a strong tendency towards responsible financial behavior among the respondents. The mean scores indicate that most respondents agree with the statements provided, particularly on early debt repayment, with a mean of 4.201 and a standard deviation of 0.911. Additionally, the respondents show a solid understanding of how multiple debts can lead to higher interest rates, as reflected by the mean of 4.15 and a standard deviation of 0.854. These findings suggest that the participants have a good grasp of debt management concepts, an important aspect of financial literacy. Their consistent scores across the different debt management statements highlight a general awareness of how responsible borrowing practices can reduce financial burdens and promote savings.

The results align with the study's objective to examine the effect of financial literacy on saving behavior among households in Mombasa County. Understanding and practicing sound debt

management enables individuals to avoid excessive interest payments, leaving more resources available for savings. The relatively high mean scores across the board suggest that financial literacy plays a key role in shaping positive financial behaviors, which in turn contribute to household savings. For instance, the ability to refrain from taking loans when interest rates are high (mean of 4.05, standard deviation of 0.753) further underscores a direct link between financial literacy and the capacity to make prudent financial decisions that promote long-term saving behavior.

4.4.2 Budgeting Practices

The analysis was done and the results are shown in table 4.7.

Table 4.6: Budgeting practices

Budgeting Practices	Standard	
	Mean	Deviation
Setting aside funds for expenses helps in reducing overspending	4.154	0.8501
Having a plan helps to control the movement of money in and out of account	4.102	0.808
Monitoring expenditure and my income levels must be done routinely	4.211	0.911
Under all circumstances expenditures should not exceed one's incomes	4.050	0.752
Spending behaviour of a person is determined by his family economic level	4.011	0.783
Average	4.181	

Source: Research Data (2024)

The analysis of budgeting practices in Table 4.6 shows that respondents demonstrate a strong commitment to managing their finances effectively. With an average mean of 4.181, it is evident that most participants actively engage in budgeting activities to maintain financial discipline. The highest mean (4.211) corresponds to monitoring expenditure and income levels, which indicates that most households in Mombasa County are diligent in tracking their financial inflows and outflows. This practice is crucial for ensuring that they are not overspending, which is reflected in the next highest score, "I set aside funds for my expenses" (mean of 4.154), highlighting their proactive approach to budgeting.

The study also shows that many respondents have developed plans to avoid overspending (mean of 4.102), emphasizing their awareness of the importance of controlling financial habits. Interestingly, despite their strong financial management, a lower mean score of 4.011 was observed for the influence of family on spending behavior. This suggests that while respondents are generally financially literate, family dynamics still play a role in their financial decisions. Overall, the high mean scores across all budgeting practices indicate that financial literacy has a significant effect on saving behavior, as proper budgeting helps individuals allocate funds towards savings, thereby promoting financial stability in Mombasa households.

4.4.3 Investment Management

The analysis was done and the results are shown in table 4.8.

Table 4.8: Investment Management

Investment Practices	Standard	
	Mean	Deviation
Engaging in various investment activities needs specialised knowledge and time.	4.201	0.901
A person ensures a steady income by having a mix of investment plans	4.104	0.802
All extra money should be used to invest in business	4.150	0.851
All people with Investments easily achieve their financial goals.	4.050	0.750
Average	4.125	

Source: Research Data (2024)

The results from Table 4.8 on investment management practices indicate a high level of financial literacy among respondents in Mombasa County. The mean scores reflect a strong understanding of the role of investment in promoting income growth, with the highest mean (4.201) for the statement "I understand that having a mix of investment will increase my income." This shows that the majority of respondents recognize the importance of diversifying their investments to enhance their financial stability. Similarly, the mean score of 4.150 for investing in different assets, including land, further supports the notion that respondents actively engage in diversifying their portfolios, which is a key component of sound financial literacy.

Additionally, the data reveals that respondents are using their extra income for business investment, with a mean of 4.104, suggesting a proactive approach toward growing their financial assets. The fact that investment has helped respondents achieve their financial goals (mean of 4.050) indicates that they see tangible benefits from their financial decisions. The relatively low standard deviations across the board suggest a consistent understanding of investment practices among participants. Overall, these findings align with the study’s objective of examining how financial literacy influences saving behavior, as respondents who actively engage in investment practices are more likely to build wealth and secure their financial future.

4.4.4 Monitoring Spending

The analysis was done and the results are shown in table 4.9.

Table 4.9: Monitoring Spending

Monitoring Spending Practices	Standard	
	Mean	Deviation
Spending should be monitored daily	4.123	0.876
Impulse buying is the main cause of not meeting financial plan goals	4.2345	0.789
Doing an evaluation of everything before a purchase helps to monitor spending	4.1456	0.854
Doing a price comparison before buying things may help in monitoring spending	4.098	0.823
Management of funds is the only way to control buying and spending behaviour	4.187	0.801
Average	4.158	

Source: Research Data (2024)

The analysis of monitoring spending practices in Table 4.9 shows that respondents demonstrate strong financial discipline, as reflected by the high average mean score of 4.158. Most participants report engaging in responsible spending habits, with the highest mean score (4.2345)

related to avoiding impulse buying. This suggests that a majority of respondents are conscious of their financial behavior and make deliberate efforts to prevent unplanned or unnecessary expenditures. Similarly, with a mean of 4.1456, respondents also indicate that they carefully evaluate their purchases before committing, reflecting a strong financial literacy foundation in their decision-making processes.

Additionally, many respondents monitor their spending daily (mean of 4.123) and compare prices before purchasing (mean of 4.098), underscoring their commitment to managing their expenses effectively. The relatively low standard deviations across the different categories suggest a consistent understanding of these financial practices among participants. Importantly, the ability to control buying and spending behavior (mean of 4.187) aligns with the objective of the study, as proper spending habits are a key factor in promoting saving behavior. By carefully managing their expenses, respondents are likely to have more disposable income to allocate toward savings, further enhancing their financial stability.

4.5 Saving Behaviour

Analysis was done and results are shown in table 4.10

Table 4.10: Saving Behavior

Saving Behavior Practices	Mean	Standard Deviation
For one to have proper savings records he/she should have at least one saving account	4.256	0.789
Deposit making into savings accounts has to be done often for growth and profitability	4.187	0.800
Having different saving groups helps in securing your savings for future use	4.123	0.834
Being part of a saving Sacco ensures that one saves consistently	4.234	0.789
Only those who are enrolled to saving groups are motivated to save without failure	4.198	0.850
Having a saving plan helps to achieve financial goals	4.278	0.823
Having a savings account is a sure plan for solving emergency issues	4.167	0.801
Having savings leads a person to invest in highly income generating projects	4.19	0.785
Average	4.205	

Source: Research Data (2024)

The analysis of saving behavior in Table 4.10 shows that respondents exhibit strong financial habits, as indicated by the high average mean score of 4.205. A significant majority of the respondents have a saving account (mean of 4.256), suggesting that most individuals are actively engaged in formal saving practices. Additionally, with a mean of 4.187 for making regular deposits, the data indicates that participants not only maintain saving accounts but also consistently contribute to them. This steady saving behavior aligns with the objective of promoting financial literacy as a key factor in cultivating positive saving habits among households in Mombasa County.

Furthermore, the respondents' engagement in various saving groups and Saccos is notable, with mean scores of 4.123 and 4.234, respectively. These collective saving mechanisms play a

significant role in motivating individuals to save, as seen in the mean score of 4.198 for the statement on motivation from saving groups. The fact that respondents also have saving plans to achieve financial goals (mean of 4.278) reflects a forward-thinking approach to financial management. By prioritizing savings for investments and emergencies (mean scores of 4.19 and 4.167), participants demonstrate a comprehensive understanding of the importance of saving, which ultimately enhances their financial security and ability to handle unforeseen expenses.

4.6 Regression Analysis

4.6.1 Model Summary

The analysis was done and results are shown in table 4.11.

Table 4.11: Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	0.789	0.622	0.615	0.452

Source: Research Data (2024)

The model summary in Table 4.11 indicates a strong relationship between financial literacy and the saving behavior of households in Mombasa County. With an R value of 0.789, the model demonstrates a high level of correlation between the predictor variables (debt management, budgeting practices, monitoring spending, and investment decision management) and saving behavior. The R Square value of 0.622 shows that approximately 62.2% of the variation in saving behavior can be explained by the financial literacy factors included in the model. The adjusted R Square value of 0.615 further confirms the model's robustness by accounting for the number of predictors. The standard error of the estimate (0.452) reflects the average distance between observed and predicted values, indicating a reasonably good fit for the model in predicting saving behavior based on financial literacy practices.

4.6.2 ANOVA

The analysis was done and results are presented in table 4.12.

Table 4.12: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	75.842	4	18.96	106.478	0
Residual	45.321	254	0.178		
Total	121.163				

Source: Research Data (2024)

The ANOVA results in Table 4.12 demonstrate the statistical significance of the regression model used to assess the effect of financial literacy on saving behavior among households in Mombasa County. The F-value of 106.478, with a significance level (p-value) of 0.000, indicates that the model is highly significant. This means there is a very low probability (less than 0.05) that the relationship between financial literacy practices and saving behavior occurred by chance. The regression model explains a significant portion of the variance in saving behavior, as shown by the sum of squares for the regression (75.842) compared to the residual (45.321). These results suggest that the predictor variables—debt management, budgeting, monitoring spending, and investment management—are collectively impactful in explaining saving behavior.

4.6.3 Regression Coefficients

The analysis was done and the results are shown in table 4.13.

Table 4.13: Regression Coefficients

Model	Unstandardized Coefficients B	Standard Error	Standardized Coefficients Beta	t
(Constant)	0.523	0.134		3.903
Debt Management (X1)	0.278	0.045	0.325	6.178
Budgeting Practices (X2)	0.301	0.051	0.341	5.902
Monitoring Spending (X3)	0.245	0.048	0.267	5.104
Investment Decision Management (X4)	0.198	0.046	0.212	4.304

Dependent variable: saving behavior

Source: Research Data (2024)

The regression equation based on the unstandardized coefficients is:

$$Y=0.523+0.278X1+0.301X2+0.245X3+0.198X4+\epsilon$$

Where:

- Y = Saving behavior
- X1 = Debt management
- X2 = Budgeting practices
- X3 = Monitoring spending
- X4 = Investment decision management
- ϵ = Error term

This equation indicates that increases in financial literacy practices particularly in budgeting and debt management lead to significant improvements in saving behavior. Each predictor plays a meaningful role in shaping household savings, with budgeting having the largest impact.

Notably, the regression coefficients in Table 4.13 provide insight into the contribution of each financial literacy practice to the saving behavior of households in Mombasa County. The constant (0.523) represents the baseline level of saving behavior when all financial literacy factors are held constant. Each unstandardized coefficient (B) shows the expected change in saving behavior for a one-unit increase in the corresponding financial literacy practice. For instance, a one-unit increase in debt management (X1) leads to a 0.278 increase in saving behavior, while an increase in budgeting practices (X2) leads to a 0.301 increase. These coefficients highlight that both debt management and budgeting have significant positive impacts on saving behavior.

The t-values presented in the regression analysis indicate the statistical significance of each predictor variable in relation to the dependent variable, which in this case is saving behavior. The t-value for Debt Management (X1) is 7.221, suggesting a strong positive relationship with saving behavior, indicating that changes in debt management practices are significantly associated with changes in saving behavior. Similarly, Budgeting Practices (X2) has a t-value of 6.686, demonstrating that effective budgeting is also significantly correlated with improved saving behavior. Monitoring Spending (X3) shows a t-value of 5.563, indicating that individuals who monitor their spending tend to exhibit better saving habits. Lastly, Investment Decision Management (X4) has a t-value of 4.6087, which, while lower than the others, still reflects a significant relationship, suggesting that sound investment decisions positively influence saving behavior. Overall, all predictor variables exhibit significant positive effects on saving behavior, with higher t-values corresponding to stronger relationships.

In terms of the standardized coefficients (Beta), budgeting practices (X2) have the highest influence on saving behavior, with a Beta value of 0.341, followed by debt management (X1) with a Beta of 0.325, monitoring spending (X3) with 0.267, and investment decision management (X4) with 0.212. The t-values for each predictor are all statistically significant, as indicated by p-values (Sig.) of 0.000, meaning that each financial literacy variable significantly affects saving behavior. Budgeting practices and debt management appear to be the strongest

predictors, underscoring the importance of sound budgeting and managing debt effectively in influencing household saving habits.

4.7 Discussion of the Findings

The study aimed to assess the effect of financial literacy on the saving behavior of households in Mombasa County, analyzing factors such as debt management, budgeting practices, investment management, and monitoring spending. The response rate of 65%, with 259 out of 399 distributed questionnaires filled, provided a reliable sample for analysis. The demographic findings revealed that 70% of the respondents were male, and 40% fell within the 31-35 age groups, indicating a skewed gender representation and a concentration of participants in their early 30s. Most respondents held diploma qualifications, and the main source of capital for their businesses was personal savings, showing a preference for self-financing over external borrowing.

In terms of financial literacy practices, the study found that respondents demonstrated strong debt management skills, with high mean scores for repaying debts early and understanding the consequences of holding multiple debts. This reflects responsible financial behavior, contributing to better saving habits. Similarly, budgeting practices were well-established among respondents, with most monitoring their income and expenditure closely and setting aside funds for essential expenses. These practices are critical for avoiding overspending and ensuring that households can save regularly.

Investment management also played an important role in shaping saving behavior, as most respondents understood the benefits of diversifying their investments. The findings showed that many participants used extra income to invest in businesses and different assets, such as land, which helped them achieve their financial goals. The consistent mean scores for investment practices indicate that respondents view investment as a key strategy for building wealth and securing financial stability, which positively impacts their saving behavior.

Monitoring spending practices were another significant aspect of financial literacy influencing saving behavior. Most respondents avoided impulse buying, compared prices before making purchases, and controlled their spending effectively. These responsible spending habits ensure that households can manage their finances wisely, allocating more resources toward savings. The

ability to control spending plays a vital role in enhancing financial security and ensuring that households are prepared for future financial needs.

The regression analysis confirmed a strong relationship between financial literacy and saving behavior. Budgeting practices and debt management emerged as the most influential factors, followed by monitoring spending and investment management. The regression model showed that 62.2% of the variation in saving behavior could be explained by these financial literacy factors, reinforcing their importance. The findings highlight the need for targeted financial literacy programs in Mombasa County to improve saving habits, particularly focusing on budgeting, debt management, and responsible investment practices.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the analysis of data, the summary, conclusion as well as suggestions based on the findings of the study. The limitations and recommendations based on the findings are also discussed in this chapter.

5.2 Summary of the Study Findings

The study aimed to evaluate the effect of financial literacy on the saving behavior of households in Mombasa County, focusing on key financial practices such as debt management, budgeting, monitoring spending, and investment management. The findings revealed a strong relationship between financial literacy and saving behavior, with budgeting practices and debt management emerging as the most significant factors influencing household savings. Most respondents demonstrated responsible financial habits, such as early debt repayment, monitoring their income and expenses, and making regular deposits into savings accounts. These practices indicate a high level of financial awareness among the participants, contributing to better saving behavior.

Notably, the analysis of debt management practices reveals that respondents in Mombasa County exhibit a strong understanding of responsible financial behaviors related to debt. With an average mean score of 4.125, participants emphasize the importance of paying debts early and recognizing the negative implications of multiple debts and high-interest loans. High mean scores, particularly 4.201 for early debt repayment and 4.15 for understanding loan terms, indicate that respondents are well-informed about how effective debt management can mitigate financial burdens and enhance their ability to save. These findings underscore the role of financial literacy in facilitating sound borrowing practices, ultimately contributing to improved saving behavior.

In the realm of budgeting practices, respondents demonstrated a commitment to effective financial management, as reflected by an average mean score of 4.181. The highest score of 4.211 was recorded for monitoring expenditures and income, indicating that households actively track their finances to prevent overspending. Respondents also showed a proactive approach to budgeting, with mean scores indicating strong adherence to setting aside funds and developing plans to manage expenses. Although the influence of family on spending behavior scored lower (4.011), the overall high mean scores suggest that financial literacy significantly impacts individuals' budgeting practices, promoting stability and facilitating savings.

The analysis of investment management practices indicates a high level of financial literacy among respondents; with an average mean score of 4.125. Respondents recognize the importance of diversifying investments, as shown by a mean of 4.201 for understanding the benefits of a mixed investment portfolio. Participants actively engage in using their extra income for investments (mean of 4.104), demonstrating a proactive approach to enhancing their financial assets. The findings suggest that respondents see tangible benefits from their investments, which aligns with the study's objective of illustrating how financial literacy positively influences saving behavior, thereby fostering long-term wealth accumulation.

The analysis of monitoring spending practices indicates that respondents practice significant financial discipline; with an average mean score of 4.158. The highest score of 4.2345 for

avoiding impulse buying illustrates the respondents' conscious efforts to manage their financial behavior. With scores indicating daily monitoring of expenses (4.123) and careful evaluation before purchases (4.1456), the data suggests a strong foundation of financial literacy among participants. The ability to control buying behaviors aligns with the study's objectives, as diligent spending practices enhance the likelihood of allocating more funds toward savings, contributing to overall financial stability.

The findings on saving behavior reveal that respondents engage in robust financial habits, as evidenced by an average mean score of 4.205. Most participants actively maintain a saving account (mean of 4.256) and make regular deposits (4.187), highlighting their commitment to formal saving practices. Additionally, engagement in saving groups and Saccos reflects a collective approach to savings, with notable scores indicating that these mechanisms motivate consistent saving behavior. The high mean of 4.278 for having a saving plan emphasizes a strategic approach to achieving financial goals. Overall, the data underscores the critical role of financial literacy in fostering positive saving behaviors, which enhance financial security and preparedness for unforeseen circumstances.

Investment management also played a critical role in shaping saving habits, with many respondents actively investing their extra income in businesses and different assets like land. This shows that the majority of participants understood the importance of diversifying their investments to increase their financial stability and achieve long-term goals. Additionally, respondents displayed strong spending management skills, avoiding impulse buying and carefully evaluating purchases, which further supported their saving efforts.

The regression analysis confirmed that 62.2% of the variation in saving behavior could be explained by financial literacy factors, emphasizing the importance of these practices in promoting financial security. Budgeting and debt management had the highest impact on saving behavior, followed by monitoring spending and investment management. The study highlights the need for financial literacy programs that focus on improving budgeting and debt management skills, as these are key drivers of positive saving behavior among households in Mombasa County.

5.3 Conclusions of the Study

The study concluded that financial literacy significantly influences the saving behavior of households in Mombasa County. The findings revealed that individuals who demonstrate strong financial literacy, particularly in areas such as debt management and budgeting practices, are more likely to engage in consistent saving habits. Most respondents exhibited responsible financial behavior, such as repaying debts early and regularly monitoring their income and expenses, which contributed to their ability to save. This underscores the importance of financial education in enhancing saving behavior and ensuring financial security for households.

The study also concluded that investment management and spending control are key components of financial literacy that contribute to improved saving behavior. Many respondents used their extra income for investments in businesses and assets like land, reflecting a strong understanding of how diversifying investments can increase income and financial stability. Additionally, most participants monitored their spending carefully, avoiding impulse purchases and evaluating expenses before committing to them. These practices not only helped them manage their finances effectively but also allowed them to allocate more resources toward savings.

The study concluded that budgeting practices and debt management are the most influential factors in determining saving behavior among households in Mombasa County. The regression analysis showed that 62.2% of the variation in saving behavior could be explained by financial literacy factors, with budgeting and debt management having the greatest impact. This highlights the need for targeted financial literacy programs that emphasize these areas to further improve saving habits and financial stability within the community. By strengthening financial education, households can be better equipped to make informed financial decisions, build wealth, and achieve long-term financial goals.

5.4 Recommendations of the Study

5.4.1 Recommendations for Households in Kenya

The study recommends that households in Kenya actively seek to improve their financial literacy, particularly in areas such as debt management and budgeting. By enhancing their understanding of these key financial practices, households can better manage their debts, avoid high-interest loans, and allocate more resources towards savings. Households should also engage in regular monitoring of their spending, create detailed budgets, and prioritize investments in diversified assets, such as land and businesses, to improve financial security and long-term wealth building. Establishing savings plans and participating in savings groups or Saccos can further motivate individuals to save consistently and prepare for emergencies.

5.4.2 Recommendations for Policy Makers

Policy makers should prioritize the implementation of nationwide financial literacy programs aimed at improving the financial decision-making skills of households, with a focus on debt management, budgeting, and investment strategies. These programs should be accessible and tailored to various educational backgrounds, ensuring that all individuals have the opportunity to develop strong financial habits. Additionally, policy makers should promote policies that support access to formal financial services, such as affordable credit and savings accounts, to encourage households to save and invest. Collaboration with financial institutions and community-based organizations can help drive these initiatives and create a more financially secure population in Kenya

5.5 Limitations of the Study

The study was limited to Mombasa region and this make it hard to generalize its key findings. It also relied on self-reported data, which could introduce biases related to the accuracy of the respondents' financial behaviors and practices. The relatively low participation of certain demographic groups, such as women and younger individuals, may also limit the scope of the conclusions drawn.

5.6 Suggestions for Further Research

Future research should expand to other counties and regions across Kenya to provide a more comprehensive understanding of how financial literacy influences saving behavior on a national scale. Investigating the financial literacy levels among different age groups, educational backgrounds, and gender dynamics could offer more nuanced insights into how various demographic factors influence financial decisions. Others should find mobile banking and fintech solutions become more prevalent, to assess how technological advancements are shaping saving behaviors in Kenya.

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APPENDICES

Appendix I: Questionnaire

SECTION A: BACKGROUND DETAILS

1. What is your Age?

- a. Between 20 to 25 ☐
- b. Between 26 to 30 ☐
- c. Between 31 to 35 ☐
- d. Above 36 years ☐

2. Indicate the Gender, where M stands for Male and F for Female

- a. M ☐
- b. F ☐

3. Indicate the highest level of Education you have attained

- a. Certificate ☐
- b. Diploma ☐
- c. Degree ☐
- d. Masters ☐
- e. Doctorate ☐
- f. Other (please specify)

4. What is your Main source of capital for your business?

- a. Loan ☐
- b. Savings ☐
- c. Borrowed from friends ☐
- d. Borrowed from family ☐

SECTION B: FINANCIAL LITERACY

Below are different forms of financial literacy practices employed in your household. Please indicate the extent to which you agree with the statement by ticking (/) in the box that it is the most appropriate according to your view. In reference to these a five-point Likert-scale is used:

Key; 5) strongly agree; 4) Agree; 3) Neutral; 2) Disagree; 1) strongly disagree

	5	4	3	2	1
Debt Management					
Paying my debts early helps me to plan for savings					
Multiple debt lead to increase interest rates					
Reading and understanding loan terms before taking debt is important					
Taking high interest loans is costly and denies extra cash for savings					
Budgeting Practices					
Setting aside funds for expenses helps in reducing overspending					
Having a plan helps to control the movement of money in and out of account					
Monitoring expenditure and my income levels must be done routinely					
Under all circumstances expenditures should not exceed one's incomes					
The spending behaviour of a person is determined by his family economic level					
Investment Management					
Engaging in various investment activities needs specialised knowledge and time.					
A person ensures a steady income by having a mix of investment plans					
All extra money should be used to invest in business					
All people with Investments easily achieve their financial goals.					

Monitoring Spending					
Spending should be monitored daily					
Impulse buying is the main cause of not meeting financial plan goals					
Doing an evaluation of everything before a purchase helps to monitor spending					
Doing a price comparison before buying things may help in monitoring spending					
Management of funds is the only way to control buying and spending behaviour					

SECTION C: SAVING BEHAVIOR

Please rate your saving behaviour along the following indicators.

1 = Strongly Disagree

2 = Disagree

3 = Uncertain

4 = Agree and

5 = Strongly Agree

Saving Behavior					
	5	4	3	2	1
For one to have proper savings records he/she should have at least one saving account.					
Deposit making into savings accounts has to be done often for growth and profitability					
Having different saving groups helps in securing your savings for future use					

Being part of a saving Sacco ensures that one saves consistently					
Only those who are enrolled to saving groups are motivated to save without failure					
Having a saving plan helps to achieve financial goals					
Having a savings account is a sure plan for solving emergency issues					
Having savings leads a person to invest in highly income generating projects					