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Exploring the Relationship Between Financial Literacy and Savings Behavior in Tanzania's Low-Income Households. A case Study of Kilolo District.

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***Abstract** - This study aimed to explore the relationship between financial literacy and savings behavior among low-income households in Kilolo District, Tanzania. Using a mixed-methods approach, the study collected both quantitative and qualitative data from 200 respondents, including household surveys and in-depth interviews. The primary objective was to identify key factors influencing financial knowledge, attitudes, and behaviors related to saving. The findings revealed that while respondents possessed basic financial knowledge, significant gaps existed in understanding budgeting, inflation, and available financial services. Additionally, attitudinal factors such as a low preference for saving over spending and distrust in financial institutions were prevalent, which affected overall savings behavior. Financial behaviors such as regular budgeting and active savings were limited, with many households relying on informal savings methods like mobile money and savings groups (VICOBA, SACCOs). Key barriers to saving included low income, high household expenses, and lack of financial literacy. Most households used their savings for immediate needs, such as household expenses (40%), business investments (30%), and education (20%), with only a small portion set aside for emergencies (10%). The study concluded that improving financial literacy, promoting formal savings mechanisms, and addressing income-related challenges could significantly enhance savings behavior and financial security in low-income households. Recommendations include strengthening financial education programs, promoting accessible financial products, and fostering trust in formal financial institutions. This research contributes to a deeper understanding of savings behaviors in Tanzania and offers practical insights for policymakers and financial institutions seeking to improve financial inclusion.*

Keywords – Financial Knowledge, Kilolo, Behavior, Attitude, Barriers to Savings, Literacy.

1. INTRODUCTION

Financial literacy played a crucial role in shaping the savings Behavior of low-income households, particularly in developing countries such as Tanzania. In Kilolo District, where a significant portion of the population relied on subsistence farming and informal sector employment, financial literacy levels often influenced individuals' ability to make informed financial decisions. Limited knowledge of budgeting, interest rates, and financial products contributed to poor saving habits, restricting households' capacity to withstand economic shocks and invest in future opportunities. This study explored the relationship between financial literacy and savings behavior among low-income households in Kilolo District, examining how financial knowledge impacted their ability to plan, save, and utilize financial services effectively. By assessing the key determinants of financial literacy and savings practices, the study provided insights into potential policy interventions aimed at improving financial education and enhancing savings culture among low-income earners, in the end contributing to poverty alleviation and economic resilience in rural Tanzania.

Financial literacy is increasingly recognized as crucial for economic stability and individual financial well-being globally[1]. It encompasses knowledge and skills essential for making informed financial decisions, impacting personal and professional lives[2]. Despite its importance, significant disparities in financial literacy levels exist across countries [1]. Developed economies have integrated financial literacy into national education systems, with countries like the United States, Canada, and Germany implementing structured programs emphasizing budgeting, debt management, and investment planning [3]. Strategies for improving financial literacy include making education compulsory, enhancing practical skills, investing in digital training for educators, and leveraging public-private partnerships[1]. Proposed models for integration into public education systems include phased implementation approaches, interdisciplinary curriculum development, and stakeholder engagement strategies [4]. Ultimately, improving financial literacy is integral to enhancing economic well-being and fostering more equitable financial systems [2].

Studies consistently show that higher financial literacy correlates with better financial behaviors, including increased market participation and reduced reliance on informal borrowing [5]. Moreover, financially literate individuals demonstrate greater resilience to economic shocks and maintain higher spending capacity [5]. The OECD defines financial education as a process to improve understanding of financial concepts and develop skills for informed choices[6]. However, a significant proportion of the population across countries lacks adequate financial knowledge, indicating room for improvement in financial behavior [7]. These findings show the need for targeted financial education programs to bridge knowledge gaps and empower individuals to make better financial decisions [2], ultimately contributing to stronger economies and more equitable financial systems.

Financial literacy has been shown to significantly impact financial inclusion and decision-making in developing countries. Studies in India and Indonesia found that financial literacy is a strong predictor of demand for financial services [8]. Cross-country evidence suggests that financial literacy complements financial infrastructure in improving access to and use of financial services[9]. A randomized experiment in India demonstrated that financial education interventions can lead to substantial increases in savings and reductions in spending on temptation goods among low-income households [10]. Despite progress, financial inclusion remains a challenge, with East Asia, the Pacific, and South Asia accounting for 55% of the world's unbanked adults [11]. To address this, policymakers should consider innovative approaches like mobile banking and microfinance, alongside improvements in regulatory frameworks, financial education programs, and consumer protection measures[11].

Financial literacy in Africa varies significantly, with rural populations generally exhibiting lower levels compared to urban counterparts [12]. This disparity is attributed to limited access to formal education and inadequate financial training programs [13]. Women also tend to have lower financial literacy than men [12]. Financial literacy positively influences both formal and informal savings behaviors [12], highlighting its critical role in shaping financial decisions. To address these challenges, innovative approaches such as gamification, digital platforms, and tailored programs considering cultural and linguistic diversity have shown promise in improving financial literacy and inclusion [14]. However, contextualized measures of financial literacy are needed, as traditional assessments from developed economies may not translate well in African markets [15]. Implementing financial education initiatives can reduce barriers to financial inclusion and empower vulnerable individuals economically [13].

Mobile money services have significantly impacted financial inclusion in Africa, enabling access to basic financial services for many unbanked individuals [15]. However, the effectiveness of these services depends on users' financial literacy levels [16]. Studies show that financial literacy is a strong driver of financial inclusion, suggesting that efforts to promote these services should be accompanied by financial literacy campaigns [16]. Despite the widespread availability of mobile money accounts, actual usage is lower than expected, with demand for financial services increasing by 20 percentage points since their introduction [17]. Challenges include high costs, limited rural availability, and insufficient financial literacy [17].

Research has demonstrated a significant relationship between financial literacy and the use of mobile financial services. Higher levels of financial literacy are associated with increased utilization of mobile banking services, while simultaneously reducing the frequency of mobile payments and transfers [18]. Financial literacy positively influences both financial inclusion and savings behavior, with individuals possessing higher financial literacy scores more likely to hold savings in formal and informal forms [19]. However, disparities in financial literacy exist, with women and rural residents exhibiting lower levels compared to men and urban dwellers, respectively [12]. These findings show the importance of targeted interventions to enhance financial literacy, particularly among vulnerable groups, to promote responsible use of mobile financial services and improve savings behavior [12, 19].

Financial literacy in Africa is influenced by various socio-economic factors, including gender, income, education, and location. Studies consistently show that women have lower financial literacy levels than men [12, 20]. Rural residents also exhibit lower financial literacy compared to urban dwellers[12]. Income levels and employment status significantly impact financial literacy and inclusion [20, 21]. To address these disparities, targeted financial education programs have been implemented, focusing on vulnerable groups such as low-income individuals, women, and youth[13]. These initiatives aim to improve financial knowledge, skills, and awareness while promoting financial inclusion[13]. Research indicates that financial literacy positively influences savings behavior in both formal and informal sectors [12]. Additionally, factors like financial innovation and social lifestyles affect individuals' choices between formal and informal financial services [21].

Tanzania has made progress in financial inclusion, but challenges remain. Financial literacy is a key driver of financial inclusion in Tanzania and Kenya, with financially literate individuals more likely to use financial services [16]. However, financial literacy levels in Tanzania are low, particularly among women, the elderly, and those with lower income and education levels [22]. Access to financial services is primarily determined by age, education, and income [23]. Despite an increase in financial services following liberalization in 1990, access to formal banking remains limited, with only 14% of adults using formal banking services as of 2013 [24]. Barriers to financial inclusion include costs, lack of technology, low awareness, and regulatory requirements[24].

Savings behavior in Tanzania is influenced by various factors, including income levels, financial literacy, and access to

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financial services. Per capita income, financial deepening, and real deposit rates positively impact domestic savings, while inflation has a negative effect [25]. Age and education level are key determinants of individual savings, with older and more educated individuals more likely to save [26]. Many Tanzanians rely on informal savings methods, such as keeping money at home or participating in traditional practices like agistment agreements [26, 27]. However, access to formal financial services remains limited, particularly in rural areas [28]. Education, income, and proximity to financial institutions are significant factors in accessing formal financial services[28]. To promote savings and financial inclusion, there is a need for increased awareness of formal savings options and improved access to financial services [26, 28].

Informal financial practices play a significant role in rural Tanzania, providing savings and credit options for residents [27]. These practices include community-based savings groups and informal lending arrangements, which offer short-term financial relief but may not ensure long-term financial security[29]. Access to formal financial services remains limited, with education, income, and distance to financial institutions being key determinants [28]. The lack of awareness and understanding of formal savings products and investment concepts further hinders individuals' ability to build sustainable financial futures[30]. While informal financial groups have shown positive impacts on socio-economic development, there is a need for increased financial education and training to enhance their effectiveness[29]. Policymakers have developed strategies combining regulation, financial incentives, and education initiatives to encourage savings and investment in formal institutions [30].

The distinctive research gap identified in this study pertains to the inadequate comprehension of how financial literacy distinctly affects savings behavior among low-income families in rural Tanzania, particularly in the Kilolo District. While earlier research has investigated financial literacy and financial inclusion at both national and regional scales, there has been a limited focus on the micro-level interactions within rural contexts where informal savings practices are prevalent. Furthermore, the current literature has not adequately addressed the influence of socio-cultural factors, confidence in financial institutions, and knowledge of mobile money on savings behavior. This study addresses this gap by offering localized insights that can guide tailored financial literacy initiatives.

This study aims to assess financial literacy levels among low-income households in Kilolo District and examine their savings behavior, including methods, frequency, and influencing factors. It explores the relationship between financial literacy and savings habits, investigating whether greater financial knowledge leads to improved financial decision-making and resilience. Additionally, the study identifies barriers to financial literacy and savings, such as economic constraints, lack of financial access, and cultural beliefs. By addressing these challenges, the research seeks to propose strategies for enhancing financial education and promoting effective savings habits. The findings will provide insights for policymakers, financial institutions, and development organizations to improve financial inclusion and economic stability in rural Tanzania.

This research is significant as it provides insights into the impact of financial literacy on savings behavior among low-income households in Kilolo District. Understanding this relationship is crucial for developing targeted financial education programs that enhance financial decision-making and economic resilience. The study also highlights barriers to savings, such as limited financial access and cultural perceptions, offering solutions to improve financial inclusion. Policymakers, financial institutions, and development organizations can use the findings to design strategies that promote responsible financial habits, increase access to savings tools, and foster economic stability. Ultimately, this research contributes to poverty reduction efforts by empowering rural households with financial knowledge and sustainable savings practices, enhancing their long-term financial well-being.

The next sections of this paper present the methodology section, which details the research design, data collection methods, and analytical approaches employed in this study. Then the results and discussion sections. The paper concludes with a summary of key findings, offering recommendations and areas for future researches. Lastly acknowledgement to stakeholders.

2. METHODOLOGY

2.1 Research Design

This study adopted a descriptive and correlational research design to examine the relationship between financial literacy and savings behavior among low-income households in Kilolo District. The descriptive aspect will provide an in-depth understanding of financial literacy levels and savings patterns, while the correlational analysis will assess the strength and direction of the relationship between these two variables.

2.2 Study Area, Target Population and Sample Size

The research was conducted in Kilolo District, Tanzania, a rural area where financial literacy and savings challenges are prevalent. The district was chosen due to its socio-economic composition, which predominantly consists of low-income households engaged in small-scale farming and informal businesses. The target population consisted of low-income households in Kilolo District. The study used a sample of 200 households, selected through a multi-stage sampling technique. First, wards were purposively selected based on economic activities and financial accessibility. Then, households were randomly chosen from the selected wards.

2.3 Sampling Technique

A stratified random sampling technique were used to ensure representation across different income levels, occupations, and financial access levels within the low-income category. The study also incorporated purposive sampling to select key informants such as financial service providers, local leaders, and government officials.

2.4 Data Collection Methods

A survey questionnaire was administered to households to assess their financial literacy levels, savings behavior, and factors influencing their financial decisions. Key informant interviews with financial service providers, local government officials, and development practitioners provided additional insights into financial inclusion efforts. And FGDs with selected community members was conducted to explore cultural and social perceptions of savings and financial literacy.

2.5 Data Analysis

Quantitative data was analyzed using descriptive statistics (mean, frequency, percentage) summarized financial literacy levels and savings patterns, while qualitative data from interviews and FGDs was analyzed using thematic analysis, categorizing common themes and patterns.

3. RESULTS AND DISCUSSION

In this section the results and discussion of the findings are presented and discussed in the form of financial knowledge, financial behavior, financial attitude, savings behavior, saving methods, barriers to savings and use of savings.

3.1 Financial Knowledge

Financial knowledge played a crucial role in shaping the savings behavior of low-income households. The study revealed that only 30% of respondents (60 individuals) in figure 1 had knowledge of interest rates, indicating a significant gap in understanding how financial institutions calculate returns on savings and the cost of borrowing. Many respondents admitted that they struggled to differentiate between simple and compound interest, making it difficult for them to make informed financial decisions. One respondent noted:

> *"I have heard of interest rates, but I don't really understand how they work. When I take a loan, I only look at the amount I have to pay back monthly."*

This lack of knowledge often resulted in households making poor financial choices, such as taking high-interest loans from informal lenders or failing to capitalize on better savings options in formal financial institutions.

Furthermore, 35% of respondents (70 individuals) demonstrated awareness of the impact of inflation on savings. While some had a basic understanding that inflation reduces purchasing power over time, many were unaware of how it affects their saved money. Several respondents expressed concerns that their savings did not seem to grow as expected, but they lacked the knowledge to attribute this to inflation. One participant stated:

> *"Prices keep rising, but the money I saved last year can no longer buy the same amount of food. I thought saving was safe, but now I am not sure."*

This uncertainty led many to prefer holding physical assets, such as livestock or crops, instead of monetary savings, limiting their financial security and growth potential.

In terms of budgeting, 45% of respondents (90 individuals) reported having an understanding of how to allocate income and expenses effectively. However, despite this awareness, few practiced systematic budgeting. Some relied on mental calculations rather than written records, making it difficult to track expenses accurately. One respondent explained:

> *"I try to budget in my head, but sometimes money finishes before the end of the month, and I don't know where it went."*

This lack of structured financial planning often resulted in difficulties in meeting essential household needs and saving consistently.

Additionally, 40% of respondents (80 individuals) in figure 1, were knowledgeable about financial service providers, such as banks, mobile money services, and microfinance institutions. However, many still hesitated to engage with formal institutions due to a lack of trust or perceived complexity. Some respondents felt that financial services were designed for wealthier individuals and not for low-income earners. One individual during FGD remarked:

> *"I know there are banks, but I fear the requirements they ask for. I prefer saving with our village group because it is easier and familiar."*

This perception limited access to formal financial opportunities, reinforcing dependence on informal savings mechanisms

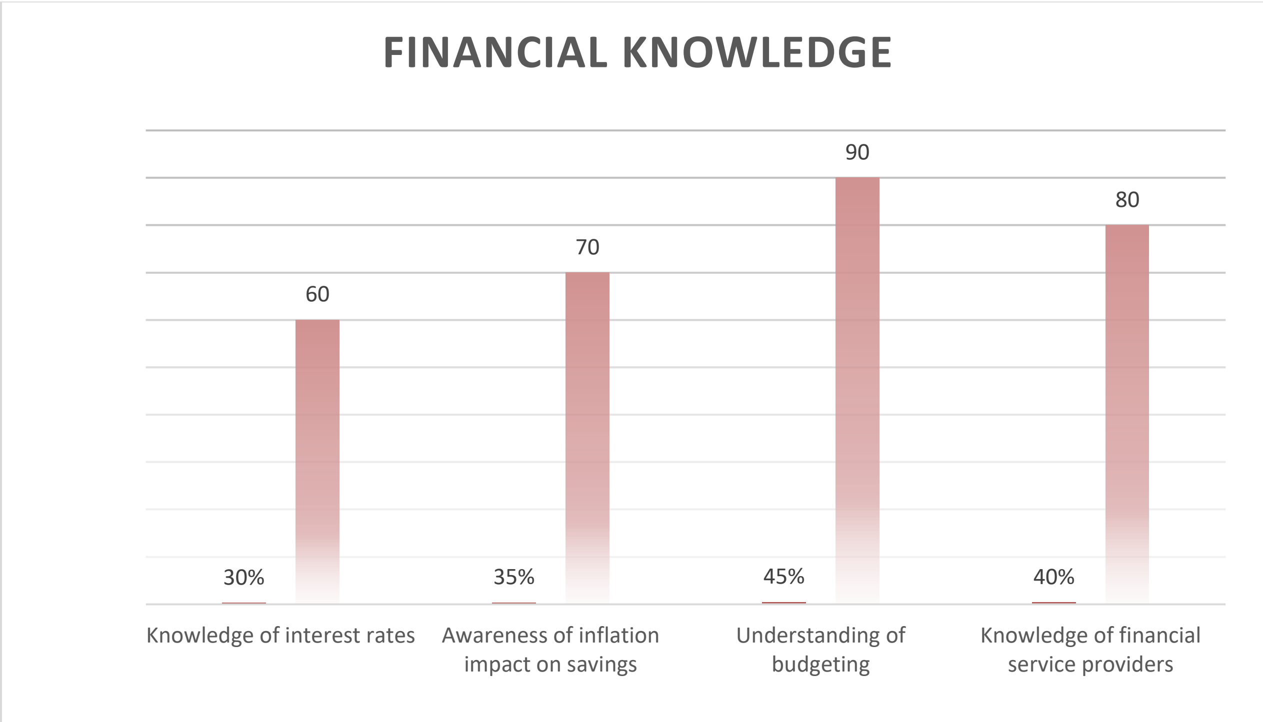

Figure 1: Financial Knowledge

Therefore, the findings suggested that limited financial knowledge significantly influenced the savings behavior of households in Kilolo District. Many respondents lacked essential skills and awareness needed to maximize their financial potential, leading to inefficient saving strategies and missed investment opportunities.

3.2 Financial Attitude

Financial attitude significantly influenced the savings behavior of low-income households, shaping how individuals prioritized saving over spending, trusted financial institutions, perceived the importance of emergency funds, and showed willingness to invest their savings. The study results in figure 2 revealed that 50% of respondents (100 individuals) preferred saving over spending, reflecting a cautious approach to financial management. Many participants acknowledged the benefits of saving but struggled to maintain a consistent habit due to limited income and competing household expenses. One respondent remarked:

> *"I try to save whenever I can, but sometimes there are urgent needs that force me to use the money."*

This indicated that while the intention to save existed, external financial pressures often hindered the practice. Others mentioned that cultural expectations and family obligations made it difficult to set aside money, as they were frequently expected to support relatives and contribute to social events.

Trust in financial institutions remained a significant challenge, with only 20% of respondents (40 individuals) expressing confidence in banks and other formal financial service providers. Many respondents felt that financial institutions were not designed to serve the needs of low-income earners, citing high fees, bureaucratic processes, and unfavourable terms. One participant shared:

> *"I once opened a bank account, but the deductions were too much. At the end, I had nothing left."*

Such experiences led to widespread scepticism, pushing many to rely on informal savings groups such as village community banks (VICOBA) and rotating savings and credit associations (ROSCAs). Additionally, some respondents feared losing their money due to past incidents of bank failures or scams, further reinforcing their reluctance to engage with formal financial institutions.

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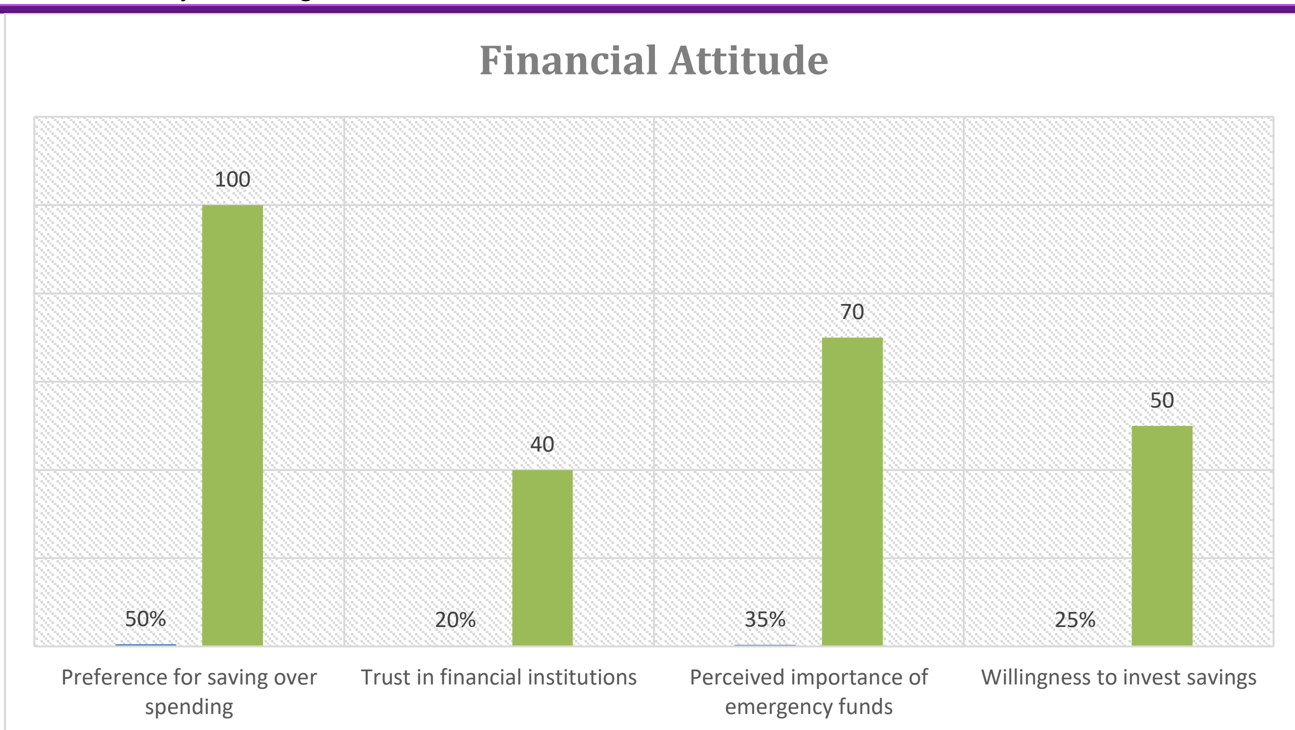

Figure 2: *Financial attitude.*

The study also found that 35% of respondents (70 individuals**)** recognized the importance of emergency funds. Many acknowledged that having savings for unexpected events such as illness, job loss, or funeral expenses was crucial for financial security. However, despite this awareness, very few had actually set aside money for emergencies. One respondent admitted:

> *"I know it is good to have money for emergencies, but most of the time, I don't have enough left to save after taking care of daily needs."*

This demonstrated a gap between financial knowledge and practical financial behavior, where immediate consumption needs often took precedence over long-term financial security. Those who managed to save for emergencies typically did so through informal means, such as keeping cash at home or contributing to savings groups where emergency loans were accessible.

Furthermore, 25% of respondents (50 individuals) expressed a willingness to invest their savings in income-generating activities. While some recognized that investments could provide financial growth, many were hesitant due to fear of losing their money or lack of knowledge on viable investment opportunities. One participant stated:

> *"I would like to start a small business, but I don't know where to begin, and I fear taking a loan that I might fail to repay."*

This hesitation was often linked to negative past experiences or stories of failed businesses, which discouraged risk-taking. Additionally, limited financial literacy and lack of guidance on how to identify profitable investment ventures further restricted respondents' willingness to commit their savings to business opportunities.

Generally, the study demonstrated that financial attitudes among low-income households in Kilolo District played a critical role in their saving and investment behaviors. While many recognized the importance of saving, trust issues with financial institutions, immediate financial pressures, and limited investment knowledge created significant barriers.

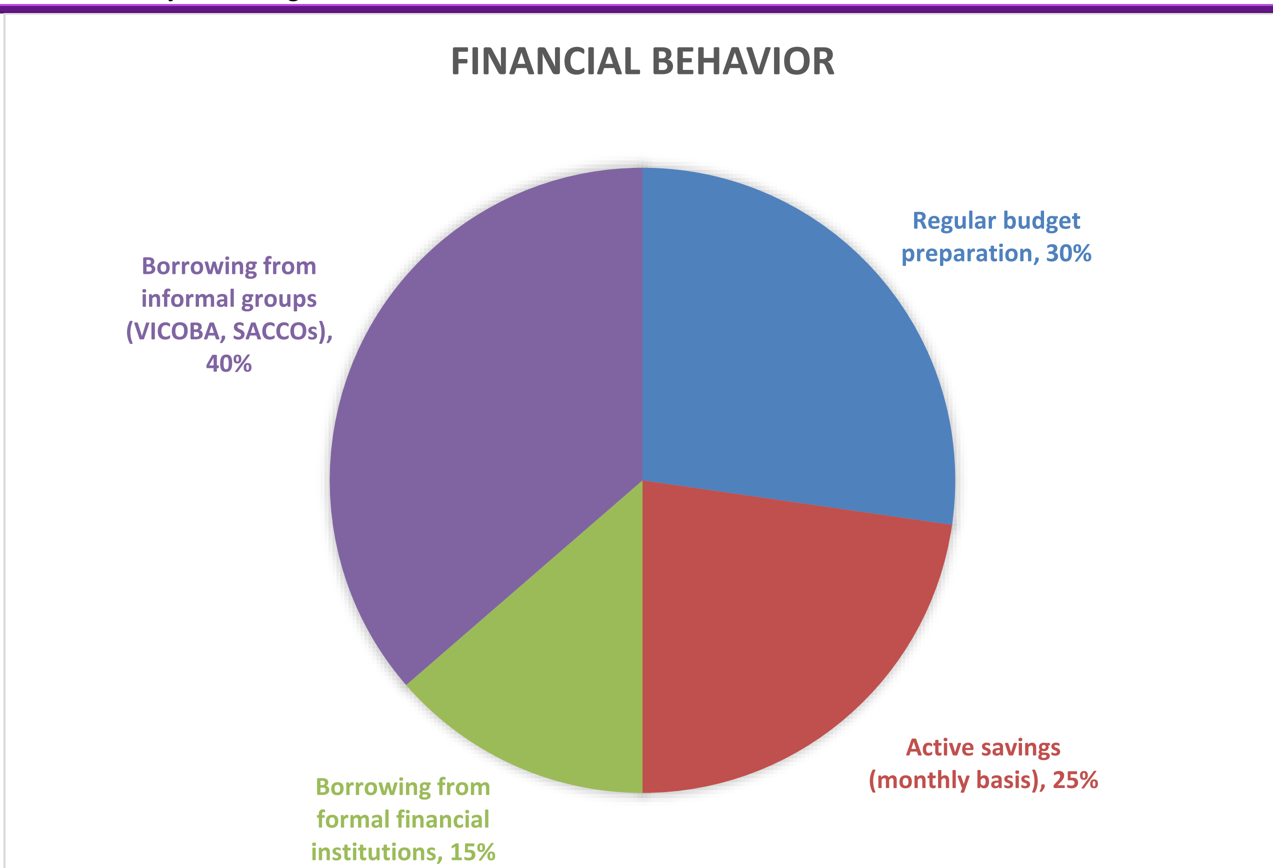

Figure 3: *Financial Behavior*

3.3 Financial Behavior

Financial behavior significantly influenced the savings and borrowing patterns of low-income households in Kilolo District, shaping their ability to manage income, save consistently, and access financial resources. The study revealed that only 30% of respondents (60 individuals) regularly prepared budgets to track their income and expenses. While some acknowledged the importance of budgeting, many struggled to implement it due to irregular earnings and urgent financial needs. A respondent explained:

> *"I have tried to budget before, but unexpected expenses always come up, making it hard to follow my plan."*

This lack of structured financial management often resulted in impulsive spending and difficulty in prioritizing savings. Households that budgeted effectively tended to have more control over their finances, allowing them to allocate money for essential needs and savings.

Active savings remained a challenge, with only 25% of respondents (50 individuals) reporting that they saved on a monthly basis. Many respondents expressed willingness to save but cited insufficient income and competing financial obligations as major barriers One participant stated:

> *"I want to save every month, but sometimes I barely have enough for food and school fees."*

This demonstrated that while the intent to save existed, financial constraints made consistent saving difficult. Those who managed to save regularly often used informal savings mechanisms such as mobile money wallets or local savings groups rather than formal banking services.

Borrowing behavior varied among respondents, with only 15% (30 individuals) borrowing from formal financial institutions. Many cited high interest rates, complex loan requirements, and fear of losing collateral as reasons for avoiding banks. One respondent shared:

> *"Banks ask for too many documents, and if you fail to repay, they take everything you own."*

In contrast, 40% (80 individuals) borrowed from informal groups such as VICOBA and SACCOs, which offered flexible terms and lower interest rates. Many preferred these community-based savings groups because of their accessibility and supportive structure, as one respondent noted:

"With VICOBA, we help each other. If someone struggles, the group understands."

This reliance on informal borrowing emphasised the need for more inclusive financial services tailored to low-income earners.

3.4 Savings Behavior

Savings behavior among low-income households in Kilolo District was shaped by multiple economic and social factors, influencing whether individuals saved regularly, irregularly, or not at all. The study in table 1, found that 30% of respondents (60 individuals) reported having no savings at all. Many of these individuals struggled with daily financial pressures, making it nearly impossible to set aside money for future use. One respondent stated:

> *"I would like to save, but my income is barely enough to cover food, school fees, and medical expenses."*

This demonstrated that immediate survival needs often took priority over long-term financial security. Others cited a lack of financial discipline, stating that whenever they had money, they felt compelled to spend it immediately.

A significant 45% of respondents (90 individuals) engaged in irregular savings, meaning they saved only when extra income was available. Most of these individuals relied on seasonal income, such as earnings from farming, casual labor, or small businesses, which fluctuated throughout the year. One respondent explained:

"I save when I sell my crops, but during planting season, I have nothing left to save."

This irregular pattern made it difficult for households to build substantial savings, leaving them vulnerable to financial shocks.

Only 25% of respondents (50 individuals) reported saving regularly, either through formal financial institutions or informal mechanisms such as mobile money or community savings groups. Many of these individuals attributed their saving habits to discipline and structured financial planning. A respondent noted:

> *"I joined a savings group, and now I save every month because I know I will need the money later."*

This show the importance of financial education and accessible savings platforms in promoting consistent saving behavior.

3.5 Savings Methods

The study results in table 1 discovered diverse savings methods among low-income households, with many individuals opting for informal and easily accessible financial mechanisms. Mobile money savings emerged as the most popular method, used by 40% of respondents (80 individuals). Many preferred mobile money platforms due to their convenience, security, and ease of access. Respondents highlighted the advantage of being able to save small amounts without the need for a bank account. One participant stated:

> *"I save little by little on my mobile money account because it is easy to deposit and withdraw anytime I need it."*

However, some mentioned that the frequent temptation to use the savings for daily expenses hindered their ability to accumulate substantial amounts. Additionally, transaction fees discouraged some from fully relying on mobile money as a long-term savings method.

Informal savings groups, such as VICOBA and ROSCAs, were the second most common savings method, used by 35% of respondents (70 individuals). Many participants valued these groups for their structured savings plans and social support systems. One respondent explained:

> *"With VICOBA, I am disciplined because I must contribute every month. Also, when I have an emergency, I can get a loan easily."*

The group-based approach helped individuals remain accountable and ensured that they saved regularly. However, some respondents expressed concerns about the risks involved, especially in cases where savings groups collapsed due to mismanagement or members defaulting on contributions.

Bank savings were utilized by only 15% of respondents (30 individuals), primarily due to barriers such as high fees, complex account opening procedures, and lack of trust in financial institutions. One respondent shared:

> *"I once opened a bank account, but the charges were too high, and I ended up withdrawing everything."*

Many low-income earners found banks to be less accommodating to their financial realities, preferring alternative savings methods.

Cash savings at home remained the least common method, with only 10% of respondents (20 individuals) relying on this approach. While some individuals preferred keeping cash within reach for emergencies, others acknowledged the risks associated with this method, such as theft or the temptation to spend impulsively. One respondent admitted:

"I used to keep money at home, but I always found a reason to use it, so I stopped."

These findings show the need for accessible and affordable formal financial services tailored to the needs of low-income earners to encourage secure and structured savings habits.

Table 1: Savings behavior, Savings method, Barrier to savings and Use of savings

Indicator	Sub-Indicators	(%)	N/R
Savings Behavior	No savings	30%	60
	Irregular savings	45%	90
	Regular savings	25%	50
Savings Method Used	Mobile money savings	40%	80
	Informal savings groups	35%	70
	Bank savings	15%	30
	Cash savings at home	10%	20
Barriers to Savings	Low income	50%	100
	High household expenses	30%	60
	Lack of financial knowledge	15%	30
	Distrust in financial institutions	5%	10
Use of Savings	Household expenses	40%	80
	Business investment	30%	60
	Education of children	20%	40
	Emergency and health expenses	10%	20

3.6 Barriers to Savings

The study found that multiple barriers hindered the savings behavior of low-income households, making it difficult for many individuals to accumulate financial reserves. Low income was the most significant barrier, affecting 50% of respondents (100 individuals) in table 1. Many participants explained that their earnings were barely enough to meet daily needs, leaving no surplus for savings. One respondent stated:

> *"I want to save, but my income is too little. After buying food, paying school fees, and covering transport costs, there is nothing left."*

This demonstrated that limited financial resources forced individuals to prioritize immediate survival over future financial security. Seasonal workers and small-scale farmers particularly struggled with irregular cash flows, making consistent saving nearly impossible.

High household expenses were cited as another major obstacle, affecting 30% of respondents (60 individuals). Many participants explained that rising costs of living, especially for essentials such as food, rent, and medical care, consumed most of their income. One participant shared:

> *"Even when I try to set aside money for savings, an unexpected expense always comes up, like a sick child or a relative needing help."*

This indicated that financial shocks and unpredictable expenses often disrupted savings plans, making it challenging for households to maintain consistent saving habits.

Lack of financial knowledge was reported by 15% of respondents (30 individuals), who admitted that they did not fully understand the importance of savings or how to manage their finances effectively. Some participants noted that they had never received any form of financial education and were unaware of structured savings plans. One respondent admitted:

> *"No one ever taught me about savings. I just use money as it comes, without thinking about the future."*

This shows the need for financial literacy programs to equip individuals with basic skills in budgeting and long-term financial planning.

Distrust in financial institutions was a barrier for 5% of respondents (10 individuals), who expressed concerns about high banking fees, complicated procedures, and the perceived risk of losing their savings. One respondent explained:

> *"Banks take too many charges, and I don't trust them with my money. I prefer saving in my mobile account or with my savings group."*

This reluctance to engage with formal financial institutions showed the need for more transparent and inclusive banking services that cater to the financial realities of low-income earners.

3.7 Use of Savings

The study in table 1, revealed that low-income households in Kilolo District utilized their savings primarily to meet essential needs, with a focus on household expenses, business investment, education, and emergencies. Household expenses accounted for the largest share of savings usage, with 40% of respondents (80 individuals) reporting that they used their savings to cover daily necessities. Many participants explained that, despite their efforts to save, the rising cost of living often forced them to withdraw their savings for food, rent, utilities, and other household expenditures. One respondent stated:

> *"I try to save, but every time I do, something urgent comes up, like buying food or paying for transport."*

This demonstrated that for many low-income earners, savings were more of a temporary financial cushion rather than a tool for long-term financial growth.

Business investment was the second most common use of savings, with 30% of respondents (60 individuals) using their funds to support small businesses. Many participants explained that savings were essential for expanding their businesses, purchasing stock, or handling slow business periods. One small shop owner noted:

> *"I save money so I can restock my shop when sales go down. Without savings, I would struggle to keep my business running."*

This indicated that for entrepreneurial households, savings played a crucial role in ensuring business continuity and growth.

Education of children was another significant use of savings, reported by 20% of respondents (40 individuals). Many parents prioritized school fees and learning materials, recognizing education as an investment in their children's future. One father explained:

> *"Even if I struggle with money, I make sure to save for my children's school fees. Education is the only way they can have a better future."*

This reflected the strong commitment among low-income households to break the cycle of poverty through education.

Emergency and health-related expenses accounted for 10% of savings usage, with 20 respondents highlighting that they kept savings for unexpected medical needs. Many participants noted that sudden illnesses or accidents required immediate funds, making savings a crucial safety net. One respondent shared:

> *"Last year, my wife got sick, and if I had no savings, I wouldn't have managed to take her to the hospital."*

This shows the importance of savings in providing financial resilience during emergencies.

4. CONCLUSION AND RECOMMENDATIONS

This study explored the relationship between financial literacy and savings behavior among low-income households in Kilolo District, highlighting key factors influencing financial knowledge, attitudes, and behaviors. The findings revealed that while many households had basic financial knowledge, gaps in understanding budgeting, inflation, and financial service providers hindered their ability to make informed financial decisions. Attitudinal factors, such as a low preference for saving over spending and distrust in financial institutions, further influenced savings habits. Financial behavior data indicated that regular budget preparation and active savings were limited, with many households relying on informal savings groups or mobile money. Barriers such as low income, high household expenses, and lack of financial literacy significantly constrained savings capacity. The primary use of savings was for essential household expenses, business investment, education, and emergencies, demonstrating that savings were more of a financial buffer than a tool for long-term wealth accumulation.

The study recommends the following;

- Given the knowledge gaps identified, targeted financial education programs should be developed and implemented at the community level. These programs should focus on budgeting, understanding financial products, and the impact of inflation on savings.
- To encourage formal savings, financial institutions should design accessible and low-cost savings products tailored to low-income earners.
- Since many respondents used their savings for business investments, entrepreneurship support

programs should be expanded to provide financial management training, business advisory services, and microcredit opportunities.

- To tackle the barriers of low income and high household expenses, efforts should be made to support income-generating activities, such as vocational training, agricultural productivity improvement, and access to microfinance.
- Since distrust in financial institutions was identified as a challenge, banks and other financial service providers should focus on transparency, reducing transaction costs, and simplifying procedures to build confidence among low-income savers.

Areas for future research;

- Future studies could explore how digital financial services, such as mobile banking and fintech solutions, influence savings behavior among low-income households.
- Examine how financial literacy and savings habits vary between men and women in low-income households.
- Assess the long-term impact of financial literacy programs on budgeting, savings behavior, and financial decision-making.
- Investigate the psychological and behavioral aspects of savings, including self-control, financial stress, and decision-making biases.
- Explore how informal savings groups (such as VICOBA and ROSCAs) contribute to financial stability and resilience among low-income households.
- Examining how cultural norms, social expectations, and economic conditions affect savings behavior in different regions of Tanzania.
- Explore how savings habits translate into productive investments, particularly in small businesses and agriculture.

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