MANAGING PERSONAL FINANCES

Financial Planning | Budgeting & Saving | Debt Management

Facilitator:

Dr Abenet Yohannes, PhD

TRAINING OBJECTIVES

By the end of the training, participants will be able to:

- Understand basic personal finance concepts
- Assess their current financial position
- Set realistic financial goals
- Prepare a personal budget
- Control unnecessary spending
- Build effective saving habits
- Establish an emergency fund
- Understand borrowing costs
- Manage and reduce debt
- Develop a personal financial action plan

TRAINING ROADMAP

PART 1 :
PERSONAL FINANCE FUNDAMENTALS

- Personal finance fundamentals
- Financial health assessment
- Financial planning
- Goal setting
- Budgeting
- Spending management
- Saving
- Emergency funds

PART 2 :
DEBT MANAGEMENT, BEHAVIORAL FINANCE & ACTION PLANNING

- Understanding debt
- Cost of borrowing
- Debt risks
- Debt repayment strategies
- Behavioral finance
- Case studies
- Personal action plan

PERSONAL FINANCE FUNDAMENTALS

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ICEBREAKER

If you received ETB 100,000 today... what would you do first?

🛍 A. Spend it	🏛 B. Save it	📈 C. Invest it
💳 D. Pay debt	👪 E. Support family	🔀 F. Combination

WHY PERSONAL FINANCE MATTERS

Money affects almost every area of life

- 💰 **Daily living**
- 🏠 **Housing**
- 🎓 **Education**
- ❤️ **Family wellbeing**
- 🚑 **Emergencies**
- 📈 **Future goals**
- 🧓 **Retirement**
- 😌 **Peace of mind**

WHAT IS PERSONAL FINANCE?

Personal finance is how you manage your money:

EARN	›	**PLAN**	›	**SPEND**	›	**SAVE**	›	**BORROW**	›	**INVEST**	›	**PROTECT**

Today's money must support today's needs and tomorrow's goals.

Key Message: Do not let money control you — learn to control your money.

SIX BUILDING BLOCKS OF PERSONAL FINANCE

💵 1. Income

🛒 2. Spending

🏦 3. Saving

💳 4. Borrowing

🛡 5. Protection

📈 6. Investing

All six are interconnected — a change in one affects the others.

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SIX BUILDING BLOCKS OF PERSONAL FINANCE

Six main parts of a complete financial plan.

1. Income planning

- Know how much money comes in

2. Expense management

- Know where your money goes

3. Savings planning

- Keep part of your income for future needs

4. Investment planning

- Use money to create more money

5. Risk management

- Protect yourself from financial shocks

6. Retirement planning

- Prepare for life after work

Earn | **Spend wisely** | **Save** | **Invest** | **Protect** | **Prepare**

Simple Message: Each part supports the others — a plan works best when all six are covered.

IMPORTANT FINANCIAL TERMS

Term	Meaning
Income	Money coming in
Expense	Money going out
Asset	Something you own that has economic value
Liability	Money you owe
Saving	Money set aside for future use
Debt	Money borrowed that must be repaid

INCOME IS NOT WEALTH

High Income ≠ Financial Security

👤 PERSON A

- Income: ETB 80,000
- Expenses: ETB 78,000
- Savings: ETB 2,000

👤 PERSON B

- Income: ETB 40,000
- Expenses: ETB 30,000
- Savings: ETB 10,000

Who may be building greater financial resilience?

KNOW YOUR FINANCIAL POSITION

FIRST FINANCIAL QUESTION

WHERE AM I TODAY?

Before deciding where you want to go financially, understand where you are now.

PERSONAL FINANCIAL HEALTH CHECK

Ask yourself:

- How much do I earn monthly?
- How much do I spend?
- How much do I save?
- How much debt do I have?
- Do I have emergency savings?
- Do I know where my money goes?
- Am I financially prepared for unexpected events?

MONTHLY CASH FLOW

Income – Expenses = Cash Surplus / Deficit

SURPLUS EXAMPLE

+ ETB 4,000

Income 40,000 – Expenses 36,000

DEFICIT EXAMPLE

– ETB 5,000

Income 40,000 – Expenses 45,000

A regular deficit means today's lifestyle is financed by savings or borrowing.

ACTIVITY: WHERE DOES YOUR MONEY GO?

Participants estimate their monthly spending (ETB):

Category	ETB	Category	ETB
Housing		Family support	
Food		Entertainment	
Transport		Savings	
Utilities		Other	
Education			
Debt			

Which three categories consume most of your income?

PERSONAL NET WORTH

What you OWN – What you OWE

🏛 ASSETS

- Cash
- Savings
- Investments
- House / property
- Vehicle
- Business assets

💳 LIABILITIES

- Bank loans
- Personal loans
- Mortgage
- Credit obligations
- Other debt

Net Worth = Assets – Liabilities

FINANCIAL PLANNING

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WHAT IS FINANCIAL PLANNING?

Financial planning means deciding what you want your money to achieve — before spending it.

TODAY › **YOUR PLAN** › **FUTURE**

Planning connects today's money with tomorrow's goals.

WHY PLAN?

Without financial planning

Income › Spending › Nothing Left

With financial planning

Income › Priorities › Saving › Spending › Progress

A financial plan gives your money direction.

FINANCIAL LIFE CYCLE

Financial priorities change over time

- **Education**
- **Employment**
- **Family formation**
- **Housing**
- **Children**
- **Wealth building**
- **Retirement**

SET FINANCIAL GOALS

⏱ SHORT TERM

- Less than 1 year
- Emergency fund
- School fees
- Pay small debt

📅 MEDIUM TERM

- 1–5 years
- Vehicle
- Business
- House deposit

🎯 LONG TERM

- 5+ years
- Home ownership
- Children's education
- Retirement

SMART Financial Goals

Good financial goals should be SMART.

S	**Specific**	What exactly do you want?
M	**Measurable**	How much money do you need?
A	**Achievable**	Can you realistically do it?
R	**Relevant**	Does the goal matter to you?
T	**Time-Bound**	When will you achieve it?

Key Message: A clear goal is easier to achieve than a vague goal.

Example of a SMART Goal

Turn wishes into numbers and deadlines.

Weak goal: "I want to save money."

- How much?
- For what?
- By when?

SMART goal

"I will save ETB 2,000 every month for 12 months to buy a laptop costing ETB 24,000."

Laptop	24,000	2,000	12 months
Goal	Amount (ETB)	Monthly saving (ETB)	Time

Key Message: Now we know exactly what, how much and by when.

Individual Exercise: My Financial Goals

Write one goal for each period — state what, how much, and by when.

1. Short-term goal

Within one year
What? ____________
How much? ________
By when? _________

2. Medium-term goal

Within 1–5 years
What? ____________
How much? ________
By when? _________

3. Long-term goal

After 5 years
What? ____________
How much? ________
By when? _________

5 MINUTES

Time for this exercise

The Financial Planning Process

Five simple steps you can repeat every year.

1. Know where you are

- How much do I earn, spend, owe and save?

2. Decide where to go

- Set your financial goals

3. Create a plan

- How much to save, what to reduce, what debt to pay

4. Take action

- Start following your plan

5. Review and adjust

- Check whether your plan is working

Know → **Goal** → **Plan** → **Act** → **Review**

Simple Formula: Planning is a cycle, not a one-time event.

Case Study: Ahmed

Ahmed earns a regular salary but has no savings. What should he do?

15,000	13,500	20,000	0
Monthly income (ETB)	Monthly expenses (ETB)	Debt owed (ETB)	Savings (ETB)

What do we know?

Income 15,000 – expenses 13,500 = ETB 1,500 remaining each month.

He does not only need more money — he needs a plan for the money he already earns.

Discussion questions

- What financial problems does Ahmed have?
- What should he do first?
- Which expenses could he reduce?
- How should he handle his debt and start emergency savings?

Group Discussion

Discuss these questions in your group.

Question 1

- Why do some people have financial problems even with a regular income?

Question 2

- Is earning more money enough to become financially successful?

Question 3

- Which habits help people become financially stronger?

Possible ideas

Saving • Budgeting • Avoiding unnecessary debt • Investing • Planning • Controlling lifestyle spending

Key Message: Income matters, but financial habits matter just as much.

NEEDS VS WANTS

🏠 NEEDS

- Necessary for basic living
- Housing
- Food
- Essential transport
- Healthcare
- Basic education

📱 WANTS

- Improve comfort or enjoyment
- Latest phone
- Frequent dining out
- Luxury clothing
- Leisure travel

NEEDS VS WANTS ACTIVITY

Classify each item as a need or a want:

🏠 Rent	📱 New flagship smartphone	💊 Medication	🍽️ Restaurant meal
🎓 School fees	📺 Streaming subscription	🚌 Essential transport	👠 Designer shoes

Wants are not bad — the problem is when they consistently block important goals.

FINANCIAL PRIORITY PYRAMID

A strong financial foundation starts from essential needs and financial protection before luxury consumption.

- 📈 Wealth Building
- 💼 Investment
- 🎯 Medium / Long-Term Goals
- 🛡 Protection
- 💳 Debt Management
- 🚨 Emergency Fund
- 🍲 Basic Needs

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Financial Decision-Making Model

Before you spend money, ask four questions.

1. Need or want?

- A need is necessary; a want is nice to have

2. Can I afford it?

- Do I have enough without creating problems?

3. Does it support my goals?

- Will it help or delay my financial plans?

4. What am I giving up?

- Money spent here cannot be spent elsewhere — opportunity cost

Example

If you spend ETB 5,000 on entertainment, the same ETB 5,000 is no longer available for your emergency fund.

10 Good Financial Habits

Financially successful people practise simple habits consistently.

1. Set goals

- Know what you are working toward

2. Track spending

- Know where your money goes

3. Save regularly

- Save every month

4. Avoid bad debt

- Do not borrow for things you do not need

5. Invest carefully

- Make informed decisions

6. Keep learning

- Improve your financial knowledge

7. Plan ahead

- Prepare before major expenses

8. Manage risk

- Protect against financial shocks

9. Add income sources

- Do not depend on one source

10. Review finances

- Check your progress regularly

Key Message: Financial success usually comes from habits, not one big decision.

BUDGETING

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What Is a Budget?

DEFINITION • FORMULA • PURPOSE

Definition

A budget is a financial plan that estimates income and expenses over a specific period.

Budget Balance = Income – Expenses

"A budget tells your money where to go before it disappears."

Plan first.
Spend second.

WHAT IS A BUDGET?

It answers:

💵 **How much is coming in?**

🧭 **Where should it go?**

🏛️ **How much should be saved?**

⚖️ **Are we within our means?**

Why Budgeting Is Important

SEVEN EXECUTIVE BENEFITS

- Controls spending
- Prevents financial stress
- Helps achieve goals
- Encourages savings
- Reduces debt
- Better decision making

Promotes financial discipline — the habit that turns income into lasting wealth.

WHY PEOPLE AVOID BUDGETING

- ❌ "My income is too small."
- ❌ "Budgeting is complicated."
- ❌ "I already know where my money goes."
- ❌ "Unexpected costs always happen."
- ❌ "Budgeting means I cannot enjoy life."

Reality: Budgeting is about control — not punishment.

Consequences of No Budget

COMMON PROBLEMS • RISK REGISTER

- ✗ Overspending
- ✗ Living paycheck to paycheck
- ✗ Accumulating debt
- ✗ No savings
- ✗ Financial anxiety
- ✗ Missed opportunities

Cost of Inaction

Discussion
Which of these is most common in your community?

The Budgeting Process

SIX-STEP WORKFLOW

STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6
1	2	3	4	5	6
Identify Income	List Expenses	Categorize Spending	Set Savings Targets	Monitor Performance	Review and Adjust

The cycle repeats every month — budgeting is a routine, not a one-time event.

Sources of Income

ACTIVE AND PASSIVE INCOME CATEGORIES

Active Income

Earned through your time and effort

- Salary
- Wages
- Consulting
- Business income

Passive Income

Earned from assets you already own

- Rental income
- Dividends
- Investments

Exercise: list every source of income in your household — then total it.

Understanding Expenses

THREE EXPENSE CATEGORIES

Fixed Expenses

Same amount every month

- Rent
- School fees
- Loan payments

Variable Expenses

Change with usage

- Food
- Transport
- Utilities

Discretionary

Optional lifestyle spending

- Entertainment
- Luxury purchases

Fixed costs anchor the budget; discretionary costs are where savings are found.

Needs vs Wants

THE DECISION FILTER

NEEDS	WANTS
Food	Restaurant dining
Shelter	Luxury house
Basic transport	Luxury vehicle
Healthcare	Premium lifestyle items

Filter every purchase

Key Question

“Do I need it, or do I simply want it?”

BUDGETING RULE: 50 / 30 / 20

A simple guideline for allocating your income

NEEDS	WANTS	SAVINGS & DEBT
50%	30%	20%
Housing, food, transport, health	Comfort and enjoyment	Savings and debt reduction

A guideline — not a law. Adjust it to your own circumstances.

Interactive Exercise 1

NEEDS OR WANTS? • 2 MINUTES

ITEM	NEED	WANT
Mobile phone		
Latest smartphone upgrade		
Food		
New luxury watch		
School fees		

Tick one box per item

TIME: 10 MIN

Then debate the two items your group disagreed on most.

ZERO-BASED BUDGETING

Give every birr a job. Income: ETB 40,000

NEEDS	SAVINGS	DEBT	WANTS
23,000	**7,000**	**5,000**	**5,000**

Remaining: ETB 0 — every birr intentionally assigned

PAY YOURSELF FIRST

Traditional approach

Income › Spend › Save What Remains

Better approach

Income › SAVE › Spend What Remains

Treat saving as a regular financial obligation.

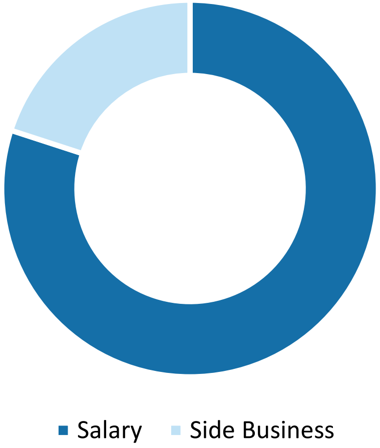
Sample Monthly Budget — Income

HOUSEHOLD CASE • ETB

INCOME SOURCE	AMOUNT (ETB)
Salary	20,000
Side Business	5,000
Total Income	**25,000**

TOTAL MONTHLY INCOME

ETB 25,000

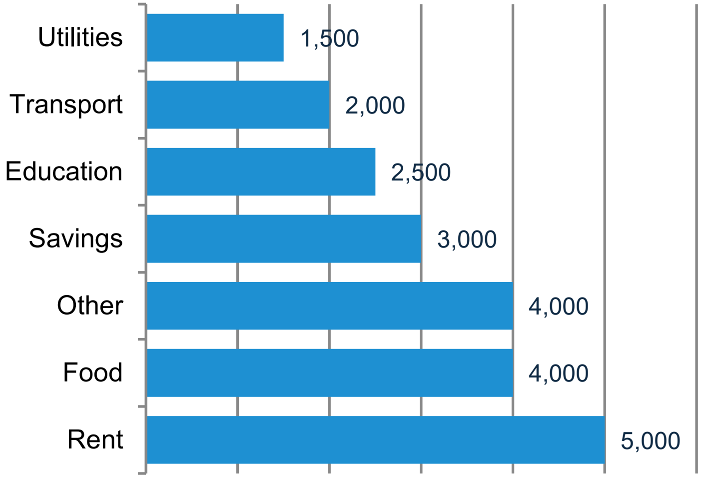


80% salary • 20% side business — diversification reduces income risk.

Sample Monthly Budget — Expenses

HOUSEHOLD CASE • ETB

EXPENSE	AMOUNT (ETB)
Rent	5,000
Food	4,000
Transport	2,000
Utilities	1,500
Education	2,500
Savings	3,000
Other	4,000
Total	**22,000**



SURPLUS 25,000 − 22,000 = ETB 3,000

Budget Surplus vs Deficit

TWO OUTCOMES, TWO FUTURES

Budget Surplus

Income > Expenses

- ✓ Savings increase
- ✓ Investments increase
- ✓ Financial freedom grows

Budget Deficit

Expenses > Income

- ✕ Debt accumulation
- ✕ Financial stress
- ✕ Goals postponed

Budgeting Golden Rules

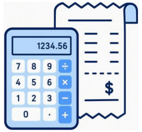
SIX NON-NEGOTIABLES

1

Spend less than you earn

2

Save before spending



3

Track every expense

4

Review monthly

5

Avoid impulse purchases

6

Maintain emergency savings

MANAGING SPENDING

WHERE MONEY LEAKS

Small spending can accumulate. Example: coffee / snack at ETB 150 × 20 days

PER DAY
ETB 150

PER MONTH
ETB 3,000

PER YEAR
ETB 36,000

What is your spending leak?

LIFESTYLE INFLATION

Income rises → Spending rises

📱 Bigger phone

🍽️ More eating out

👗 Expensive clothing

💳 New loan

🚙 Bigger car

INCOME ↑

EXPENSES ↑

SAVINGS unchanged

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THE 24-HOUR RULE

Before buying a non-essential item:

⏳ **WAIT 24 HOURS**

- Do I really need it?
- Can I afford it?
- Is it in my budget?
- What financial goal will I delay?

For large purchases: wait longer.

SAVING

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WHY SAVE?

Saving helps us:

- 🚨 **Handle emergencies**
- 🎓 **Pay education costs**
- 🏠 **Buy assets**
- 💼 **Start businesses**
- ✈ **Achieve personal goals**
- 🧓 **Prepare for retirement**
- 😌 **Reduce financial stress**

SAVING VS INVESTING

🏦 SAVING

- Short-term goals
- Emergencies
- Capital preservation
- Liquidity

📈 INVESTING

- Long-term growth
- Wealth building
- Retirement

Important: investment normally involves risk.

EMERGENCY FUND

Money reserved specifically for unexpected essential expenses

Medical emergency

Loss of income

Critical home repair

Family emergency

Goal: build toward approximately 3–6 months of essential expenses, depending on circumstances.

CALCULATE YOUR EMERGENCY FUND

MONTHLY ESSENTIALS
ETB 20,000

3 MONTHS
ETB 60,000
20,000 × 3

6 MONTHS
ETB 120,000
20,000 × 6

BUILD SAVING AS A HABIT

- Start small
- Save regularly
- Automate if possible
- Separate saving from spending
- Save part of bonuses
- Increase saving when income rises
- Track progress

Key principle: consistency beats occasional large saving.

POWER OF COMPOUNDING

Money earns returns › **Returns earn returns** › **RETURN ON RETURN**

The most powerful ingredient?

⏳ **TIME**

What Is the Time Value of Money?

Money today can be more valuable than the same money tomorrow.

Because money you have today can be:

Saved

Kept safely for later

Invested

Put to work for growth

Earning interest

Held in an interest account

Used for a goal

Turned into something you need

"If I give you 1,000 birr today or 1,000 birr in five years, which would you choose? Most choose today — because we can use, save, or invest it now."

Think of Money Like a Seed

A seed grows over time

Seed → **Plant** → **Tree** → **More fruit**

Money can work the same way

Money saved → **Time** → **Growth** → **More money**

"Saving is like planting a financial seed. The earlier we plant it, the more time it has to grow."

Why Does Time Matter?

Two people each want to save money.

Abebe

Starts saving today

More time for money to grow

Bekele

Waits five years

Less time, must save more

Even a small amount saved every month has longer to grow when you start earlier.

When saving money, time is your friend.

A Simple Saving Example

If you save 1,000 birr every month:

Time	Your savings
1 month	1,000 birr
1 year	12,000 birr
5 years	60,000 birr
10 years	**120,000 birr**

And with interest or investment returns, it can become even more.

"The lesson is not only how much we save. It is also how long we allow our savings to grow."

What Is Interest?

Interest is the extra money you can earn from your savings.

You save **10,000 birr**	→	The bank or investment **gives you a return**	→	Later you may have **10,000 birr + interest**

You work for money. Your savings can also work for you.

What Is Compound Growth?

You earn money on your money — and then earn money on the extra money too.

Year 1

10,000 birr
plus growth

Year 2

Original money
+ previous growth
+ more growth

It is like a snowball becoming bigger as it rolls.

Saving Early vs Saving Late

Two people preparing for retirement.

Person A

Starts at age 25

Small amount + lots of time

Person B

Starts at age 45

Needs a larger amount + less time

Starting early can be more powerful than trying to save a lot later.

Do Not Wait Until You Earn More

Many people say: "I will start saving when my salary increases."

But saving does not have to start with a large amount. You can start with:

100 birr	**500 birr**	**1,000 birr**	**Whatever you can afford**

START → CONTINUE → INCREASE LATER

"The habit of saving is more important than waiting for the perfect amount."

Connect Saving to Your Goals

Ask yourself: what am I saving for?

Emergency	**Education**	**House**	**Vehicle**
Business	**Retirement**	**Family needs**	

Then ask:

- How much do I need?
- How much can I save every month?
- How much time do I have?

That is financial planning.

The Simple Formula

Small amount + Regular saving + Time = Bigger future fund

SAVE EARLY

SAVE REGULARLY

GIVE IT TIME

Do not underestimate small savings. A small amount saved consistently over a long period can become meaningful.

Your greatest advantage is not always how much money you have — sometimes it is how early you start.

Common Saving Challenges

BARRIERS AND COUNTER-MOVES

Low income	→	Grow a second income stream
Impulse spending	→	Apply a 24-hour purchase rule
Lack of discipline	→	Automate the transfer on payday
Family pressure	→	Agree a household budget openly
Emergencies	→	Build the emergency fund first

Discussion: which challenge is hardest in your context, and how would you overcome it?

Practical Tips for Successful Saving

TOP TEN HABITS

1	Automate savings
2	Set clear goals
3	Track expenses
4	Cut wasteful spending
5	Avoid unnecessary debt
6	Increase income streams
7	Save windfall income
8	Use a budget
9	Build emergency fund
10	Review monthly

DAY 1 CASE STUDY — MEET HANA

Monthly income: ETB 45,000 | Total expenses: ETB 48,000 | Saving: ETB 0

Expense	ETB	Expense	ETB
Rent	12,000	Entertainment	5,000
Food	10,000	Loan	5,000
Transport	5,000	Saving	0
Family support	5,000	Other	6,000

Questions

1. What is Hana's problem?
2. Which expenses can she adjust?
3. How much should she try to save?
4. What should her priorities be?

PART 1 SUMMARY

- Know your financial position
- Set SMART financial goals
- Separate needs from wants
- Prepare a budget
- Control spending leaks
- Pay yourself first
- Build emergency savings
- Save consistently

Do not ask only "How much do I earn?" - ask "How much do I keep, and what am I building?"

PART 2
DEBT MANAGEMENT, BEHAVIORAL FINANCE & ACTION PLANNING

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UNDERSTANDING DEBT

"Debt is a tool when managed wisely and a burden when ignored."

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WHAT IS DEBT?

Using someone else's money today and agreeing to repay it later.

Amount Borrowed › + Cost of Borrowing › = Amount Repaid

WHY DO PEOPLE BORROW?

- Housing
- Education
- Business
- Vehicle
- Emergency
- Consumption
- Repaying other debts

Key question: does this debt improve or weaken my future financial position?

What Is Debt Management?

Definition

Debt Management is the process of controlling what you borrow and how you repay it.

- ✓ Controlling borrowing
- ✓ Monitoring obligations
- ✓ Managing repayments
- ✓ Reducing debt burden
- ✓ Maintaining financial stability

BASIC LOAN TERMS

Term	Meaning
Principal	Amount borrowed
Interest	Price paid for borrowing
Installment	Regular repayment
Loan term	Repayment period
Fees	Additional charges
Collateral	Asset pledged to secure debt
Default	Failure to repay as agreed

TYPES OF PERSONAL DEBT

- Salary loan
- Bank personal loan
- Housing loan
- Vehicle loan
- Business loan
- Microfinance loan
- Credit purchase
- Digital / mobile loan
- Informal borrowing
- Family / friend borrowing

Types of Debt

Secured Debt

Backed by collateral.

- Mortgage loans
- Vehicle loans

Unsecured Debt

No collateral required.

- Personal loans
- Salary advances
- Credit facilities

GOOD DEBT VS BAD DEBT?

Instead of thinking only GOOD vs BAD — ask five questions:

1. Why am I borrowing?

2. How much will it cost?

3. Can I repay comfortably?

4. Does it create future value?

5. What happens if my income falls?

POTENTIALLY PRODUCTIVE DEBT

🎓 **Education that improves earning capacity**

🏠 **Affordable housing**

💼 **Viable business investment**

🛠 **Productive equipment**

⚠ **Even productive debt becomes dangerous if repayment is unaffordable.**

POTENTIALLY HARMFUL DEBT

- Luxury consumption
- Repeated borrowing for entertainment
- Borrowing for status
- Financing unnecessary gadgets
- Borrowing to repay borrowing
- Multiple loans without a repayment plan

Key Principle

Borrow to create value, not to create financial stress.

COST OF BORROWING

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THE LOAN AMOUNT IS NOT THE REAL COST

YOU BORROW
ETB 100,000

TOTAL REPAYMENT
ETB 125,000

COST OF BORROWING
ETB 25,000

Fees

Insurance

Penalties

Other charges

Hidden Costs of Debt

Financial Costs

- ✓ Interest
- ✓ Fees
- ✓ Penalties

Non-Financial Costs

- ✓ Stress
- ✓ Family conflict
- ✓ Reduced savings
- ✓ Limited opportunities

The true burden of debt is never only financial.

BEFORE TAKING A LOAN — ASK THE LENDER

- How much will I receive?
- What is the interest rate?
- What fees apply?
- How much is each installment?
- How many installments?
- What is my total repayment?
- What happens if I pay late?
- Can I repay early?
- Are there penalties?

AFFORDABILITY VS ELIGIBILITY

THE BANK MAY SAY
"You qualify."
Eligibility — the lender's decision

THAT DOES NOT MEAN
"I can afford it."
Affordability — your decision

Eligibility is the lender's decision. Affordability is yours.

DEBT WARNING SIGNS

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WHEN DEBT BECOMES A PROBLEM

Red Flags

Borrowing for daily expenses	Missing payments	Borrowing to repay a loan	Constant salary advances
Hiding debt	Having no savings	Most income committed	Frequent penalties

The Debt Trap

What Is a Debt Trap?

A situation where a person continually borrows money to repay previous loans.

The cycle repeats and each round costs more.

Borrow

↓

Repay

↓

Borrow Again

↓

More Interest

↓

More Debt

BREAKING THE DEBT CYCLE

Replace "Borrow → Repay → Borrow Again" with:

Budget

↓

Reduce unnecessary spending

↓

Create surplus

↓

Pay debt

↓

Build emergency fund

↓

Reduce dependency on borrowing

DEBT-TO-INCOME RATIO

Monthly Debt Payments ÷ Monthly Income × 100

MONTHLY INCOME
ETB 30,000

DEBT REPAYMENT
ETB 9,000

DEBT-TO-INCOME
30%

Higher debt commitments generally mean lower financial flexibility.

Interpreting Debt Levels

Ratio	Status
Below 20%	**Excellent**
20% – 35%	**Healthy**
36% – 50%	**Caution**
Above 50%	**High Risk**

Keep your ratio below 35% to stay financially healthy.

DEBT REPAYMENT STRATEGIES

Dr Abenet Yohannes, PhD

Debt Management Process

1
Step 1
List All Debts

2
Step 2
Calculate Interest Costs

3
Step 3
Prioritize Debts

4
Step 4
Develop Repayment Plan

5
Step 5
Monitor Progress

A repeatable five-step cycle for taking control of debt.

Debt Inventory Template

Debt Type	Amount	Interest	Monthly Payment
Bank Loan			
Microfinance Loan			
Family Loan			
Supplier Credit			

List every obligation — nothing can be managed until it is written down.

Debt Repayment Strategy 1

Debt Avalanche Method

Pay the highest interest debt first.

Best for

Borrowers who want to minimise the total cost of borrowing.

Advantages

- ✓ Lowest total interest cost
- ✓ Faster debt reduction
- ✓ Financially efficient

Debt Repayment Strategy 2

Debt Snowball Method

Pay the smallest debt first.

Best for

Borrowers who need visible progress to stay disciplined.

Advantages

- ✓ Quick wins
- ✓ Motivation
- ✓ Builds momentum

SNOWBALL VS AVALANCHE

Snowball	Avalanche
Smallest debt first	Highest interest first
Psychological motivation	Mathematical efficiency
Quick wins	Lower interest cost
Easy to follow	Requires discipline

Best method? The method you can consistently follow.

PRACTICAL DEBT CASE — ABEL

Debt	Balance (ETB)	Interest
Loan A	10,000	8%
Loan B	25,000	20%
Loan C	50,000	14%

UNDER SNOWBALL

Loan A

Smallest balance first

UNDER AVALANCHE

Loan B

Highest interest first

DEBT REPAYMENT ACTION PLAN

- Stop creating unnecessary new debt
- Prepare a realistic budget
- Identify available surplus
- Maintain minimum payments
- Prioritize one debt
- Direct extra money to it
- Review progress monthly
- Build emergency savings

BEHAVIORAL FINANCE

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WHY SMART PEOPLE MAKE POOR MONEY DECISIONS

Financial decisions are not purely mathematical. They are influenced by:

❤️ **Emotions**

👥 **Social pressure**

🧠 **Biases**

⏰ **Short-term thinking**

📱 **Advertising**

🏆 **Status**

PRESENT BIAS

“I want it now.”

OFTEN PREFERRED
ETB 1,000 today

RATHER THAN
ETB 1,200 later

We may prioritize current pleasure over future financial security.

SOCIAL COMPARISON

"Everyone else has one."

📱 **Better phone**

🚗 **Better car**

🎉 **Expensive events**

🍽️ **Frequent dining out**

👗 **Luxury clothing**

Remember:

You can see someone's lifestyle.

You usually cannot see their debt.

LIFESTYLE INFLATION — A BETTER RULE

Income increases. Instead of savings rising, expenses often rise.

Better rule: when income rises, divide the increase among:

- 🏦 **Savings**
- 📈 **Investment**
- 💳 **Debt reduction**
- 🏠 **Lifestyle improvement**

MENTAL ACCOUNTING

SALARY
“serious money”

BONUS
“free money”

But financially: money is money.

IMPULSE BUYING — USE STOP

✋ S — STOP

- Pause before you pay

🤔 T — THINK

- Do I need this now?

🔍 O — OBSERVE

- What is my real motive?

✅ P — PROCEED

- Only if affordable

FINANCIAL HABITS MATTER

Small habits repeated consistently can create large outcomes.

Track spending

Save on payday

Review budget monthly

Avoid impulse borrowing

Discuss major purchases

Compare prices

Set financial goals

INTEGRATING EVERYTHING

THE PERSONAL FINANCE SYSTEM

EARN

PLAN

BUDGET

SPEND WISELY

SAVE

MANAGE DEBT

INVEST

REVIEW

REPEAT

Dr Abenet Yohannes, PhD

TWO FINANCIAL PATHS — PATH A: FINANCIAL STRESS

No plan

▼

Overspending

▼

No savings

▼

Emergency

Borrowing

▼

Debt repayment

▼

Less disposable income

▼

More borrowing

PATH B — FINANCIAL RESILIENCE

Financial plan

▼

Budget

▼

Controlled spending

▼

Regular savings

Emergency fund

▼

Less borrowing

▼

More financial flexibility

▼

Asset building

CASE: SAMUEL'S FAMILY

Samuel earns ETB 60,000 / month | Total household spending: ETB 63,000

Expense	ETB	Expense	ETB
Housing	15,000	Entertainment	5,000
Food	13,000	Loan repayment	10,000
Transport	7,000	Other	6,000
School	7,000		

SAVINGS
ETB 0

DEBT
ETB 150,000

EMERGENCY FUND
ETB 0

GROUP DISCUSSION — ANALYZE SAMUEL'S FINANCES

- What is his monthly deficit?
- What are his financial risks?
- Which expenses could be reviewed?
- Should debt repayment be prioritized?
- How can he start an emergency fund?
- What would you recommend for the next 6 months?

POSSIBLE SOLUTION

Income: ETB 60,000 → revised allocation

ESSENTIALS	DEBT REPAYMENT	EMERGENCY SAVINGS	DISCRETIONARY
40,000	10,000	5,000	5,000

Result: balanced budget + savings + debt repayment

PERSONAL ACTION PLAN

FINANCIAL HEALTH SCORECARD

Rate yourself from 1 to 5:

Area	Score (1–5)
I know where my money goes	
I have a monthly budget	
I save regularly	
I have an emergency fund	
I control unnecessary spending	
My debt is manageable	
I have financial goals	
I review finances regularly	

MY 30-DAY FINANCIAL ACTION PLAN

During the next 30 days, I will:

1. **Start ______________________________**
2. **Stop _______________________________**
3. **Reduce ___________________________**
4. **Save ETB __________________________**
5. **Pay ETB ____________ toward debt**
6. **Review my budget on ______________**

MY 12-MONTH FINANCIAL TARGET

One year from today:

Emergency fund: ETB ________________

Debt balance: ETB __________________

Savings: ETB _______________________

Investment / assets: ETB ___________

Major goal achieved: ________________

10 PERSONAL FINANCE RULES

1. Spend less than you earn.
2. Know where your money goes.
3. Budget before spending.
4. Pay yourself first.
5. Build an emergency fund.
6. Borrow only when necessary and affordable.
7. Understand the full cost of debt.
8. Avoid lifestyle inflation.
9. Review your finances regularly.
10. Make today's money support tomorrow's goals.

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KEY TAKEAWAYS

FINANCIAL PLANNING Give your money direction.

BUDGETING Tell your money where to go.

SAVING Pay your future self.

DEBT MANAGEMENT Borrow carefully and repay strategically.

FINANCIAL DISCIPLINE Small consistent actions create long-term results.

FINAL MESSAGE

Financial freedom is not necessarily
having unlimited money.

It is having greater control over your financial life.

🎛 **Control**

🔀 **Choice**

🛡 **Preparedness**

💪 **Confidence**

FINAL THOUGHT

"A goal without a plan is only a wish."

"Financial freedom begins when debt no longer controls your decisions."

Plan wisely.

Spend intentionally.

Save consistently.

Borrow responsibly.

Final Message: You do not need to be rich to start planning — good planning is how financial security is built.

THANK YOU

Your financial future is influenced by the decisions you make today.

Questions & Discussion

Dr Abenet Yohannes | Financial Literacy & Personal Development Training

NEED PROFESSIONAL SUPPORT?

For training, consultancy, research, financial management, project management, organizational development and advisory services, please feel free to get in touch.

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Let's Connect, Collaborate & Create Impact