

# Relationship Between the Demographic Factors and Financial Literacy of the Rural Community

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## ABSTRACT

Taking the right financial decisions is important to empower the rural people economically and socially and to eradicate poverty and improve the quality of life in the rural community. For that, the financial literacy of the rural people is a very important factor. Accordingly, this research studies how the sociological factors of rural people affect their financial literacy. A research questionnaire was used to collect empirical data from 100 households using random sampling of the community in Middeniya East Grama Sewa Division. Accordingly, personal financial literacy was taken into account as the dependent variable and demographic factors were used as the independent variable. When reviewing information on personal financial literacy, a lot of data was gathered by presenting questions in relation to basic financial literacy and advanced basic literacy. Accordingly, to identify the impact of demographic factors on financial literacy, a Chi-Square Test was carried out. This study found that the level of education and age of the rural community affect financial literacy. But Gender was found to have no effect on the financial literacy of the rural community.

**Keywords:** Age, Education, Financial Literacy, Gender, Rural Population

## INTRODUCTION

Every individual always strives to satisfy his unlimited wants by utilizing the limited resources available. In order to satisfy their needs properly, every person must have some literacy about it. As defined by UNESCO, Literacy is the ability to identify, understand, interpret, create, communicate and compute, using printed and written materials associated with varying contexts. Nowadays, in a world that is undergoing a revolutionary change with digitalization, the lifestyle of people has undergone a lot of changes. This is mainly due to the busyness of people's lives. Here, individuals are expected to perform their daily tasks very easily with less time, wealth, labor, and cost and enjoy high returns. People should have a good understanding of it to carry out their daily life activities very easily and efficiently. To meet our needs and wants and achieve high satisfaction, our financial literacy should be high. In some cases, people with low financial literacy are unable to manage their finances properly. Therefore, every person should have some level of financial literacy to make proper decisions. Financial literacy has been defined differently by researchers in different contexts. Financial Literacy is a "combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being" (OECD, 2018). The concept of financial literacy focuses on an individual's ability to analyze and understand financial options, make financial plans for the future, and respond to the most appropriate financial products (Moore, 2003). Financial literacy strongly influences households' standard of living and economic stability and wealth accumulation (Muller, 2002). Further analysis shows that there is a positive relationship between participation in the stock market, participation in formal financial markets, and personal financial literacy (Hogarth, Anguelov, and Lee, 2004; O'Donnell, 2009; Cole et al., 2008). Due to people's access to the financial market in the formal sector, there is security for their financial resources. Referring to this, Lusardi and Mitchell (2008) state that informal sector financial market borrowing causes high costs and a high debt burden.

They also point out that it is due to a lack of financial literacy (Lusardi and Mitchell (2008). They also

mention that this means that especially the illiterate rural people will fall into a debt trap. Due to the complexity of the financial market, the increasing responsibility regarding the use of personal financial resources has highlighted the importance of personal financial literacy. Researchers around the world have focused on personal financial literacy and have researched it in various dimensions. In many countries of the world, studies and surveys can be identified at the national and regional levels on literacy. It is the same in Sri Lanka. But no index or quantitative measure can be identified at the national or regional level about personal financial literacy in Sri Lanka. The nature of many other countries in the world is similar. It is clear that many countries have paid relatively little attention to personal financial literacy. Identifying the financial literacy of a country's citizens is macro-economically important, as individual financial literacy is a factor that influences the individual's standards of living. Financial literacy is a concept that has differences based on various factors, so it is a matter that needs to be studied very widely. Studying and analyzing personal financial literacy will be very important for the policymakers of a country as well as banks and financial institutions. Identifying the level of financial literacy of individuals is critical to the policy-making process. Because each population group needs sufficient information to formulate the most appropriate type of financial statement. The nature of financial facilities required by individuals also varies depending on socio-economic differences, especially the level of education of individuals, rural-urbanity, and the nature of the profession employed. In considering the studies that have been conducted on the concept of financial literacy by targeting different social groups, researchers have identified many differences in the form of financial literacy according to social groups.

According to age: financial literacy of students between 14-19 (O'Donnell, 2009), financial literacy of undergraduates (Chen and Volpe, 1998; Mandell, Lewis and Klein, 2008) household financial literacy (Duca and Kumar, 2011; Thaleysingam and Arunachalam, 2007) financial literacy of individual investors (Alessia, Lusardi and Van-Rooij, 2008), financial literacy of rural communities (Thilakam, 2012; Valentine and Khanum, 2005), financial literacy of elderly individuals (Lusardi and Mitchell, 2008; Atkinson and Messy, 2012), financial literacy among local government units and literacy (Williams, 1983) and financial literacy among low-income populations (Robson, 2012) among others. According to social researchers on financial literacy, it is clear that even within each social group, different forms of individual financial literacy can be identified based on gender, age level, education level, ethnicity, and family income. Overall, many studies have identified that financial literacy is low among most population groups. Nevertheless, it is shown here that the financial literacy of one social group differs from another. The majority of Sri Lanka's population lives in rural areas, which is as high as 77.4% of the total population according to the Department of Census and Statistics (2015) (Economic and Social Statistics of Sri Lanka-2015, 2015). 93.1% of the total population of Sri Lanka (Central Bank of Sri Lanka, 2016) are literate and the human development index value of Sri Lanka is 0.766 (minimum 0.0, maximum 1.0) with a quantitative index value. Also, life expectancy at birth is an average of 75.0 years (Central Bank of Sri Lanka Annual Report, 2019). Considering the economic situation of Sri Lanka, the revised GDP per capita in 2014 is about 459,516 LKR and the unemployment rate is about 4.3% of the labor force (Economic and Social Statistics of Sri Lanka-2015, 2015).

Overall, despite the high progress shown in the socio-economic conditions of Sri Lanka, no significant progress has been made in terms of equitable distribution of the benefits of economic development. That is, according to the Department of Census and Statistics (2015), considering the distribution of income in Sri Lanka on the basis of households, the richest 20% receive 52.9% of gross income, while the poorest 20% of households contribute only 4.5% of gross income (Economy of Sri Lanka and Social Statistics-2015, 2015). Many scholars agree that personal financial literacy is a critical factor in the problematic situation described above. It is clear from the studies done in this regard that financial literacy is a catalyst in the development process and it is also influenced by social welfare. Although the average literacy rate in Sri Lanka is high, no attention is paid to financial literacy in the human development index or in the average literacy rate. According to the Central Bank of Sri Lanka (2014), the number of licensed commercial bank branches in Sri

Lanka is 2856 and the number of licensed specialized bank branches is about 652. Also, the number of credit cards in-use in Sri Lanka is 4996 cards per 100,000 people. And the number of banks is 17 bank branches per 100,000 people. But only a few take advantage of these. According to the studies done on this, it appears that the financial literacy of the rural community should improve the self-strength that is built with the help of the knowledge and ability that they receive in order to choose better financial options for the rural people in order to increase the financial literacy through financial education (Gray et al., 2009). Accordingly, this research studies the relationship between demographic factors and the financial literacy of the rural community. Looking at the global context although little has been studied about this, in Sri Lanka such a study could not be identified. Accordingly, it is expected to study it under this research.

## LITERARY REVIEW

This research presents information on pre-studies relevant to personal financial literacy. Attention has been given to this to learn extensively the empirical studies that have been conducted in Sri Lanka and other countries in connection with financial literacy. In focusing on the factors that influence personal financial literacy, researchers who have studied personal financial literacy have conducted research on personal financial literacy and a variety of individual sociological factors. The United States Institute for International Development (2013) conducted a study on the level of financial literacy in Indonesia with 450 people. It has been identified that factors such as individual age, gender, education level, individual income, and financial product ownership affect individual financial literacy. Individual financial literacy is classified into two parts, basic and advanced, and the knowledge, understanding, and ability to use simple economic concepts are described as basic financial literacy, and the knowledge of complex economic concepts and the ability to perform complex economic calculations is described as advanced financial literacy. As a result, the financial literacy of Indonesians is low and, advanced financial literacy is very minimal. And this study has identified that there is a strong relationship between the two factors of high financial literacy and high education level and high-income level. Marwick (1995) found in his study of 1183 employees that they did not care enough about their retirement. Also, they are unaware of the use of future financial resources based on income sources. Volpe et al. (1998) found that in a study of 530 online investors on the use of financial resources related to investing, they answered only 50% of the questionnaire correctly. A study conducted by Alessia, Lusardi and Van-Rooij, (2008) shows that the financial literacy of Dutch workers increased slightly in 2010 compared to 2005. In 2005, the median score of workers on the retirement planning knowledge test was 21.9% and in 2010, it was 28.9%.

Alessi and Van Rooge point out that this increase is very small and that the increase in personal financial literacy is not enough. Although personal financial literacy is generally low in developed countries as well as in developing countries, the level of financial literacy in developing countries is very low compared to developed countries. Chen and Volpe, (1998) and Worthington and Andrew (2004) have conducted studies involving students studying in universities and colleges. Chen and Volpe, (1998) cite two main reasons for selecting university and college students for these studies. That is, to be a group that receives an education that is more easily identifiable, and to be a group that has to bear professional and social responsibilities in a very short period of time. As identified through these two studies, it has been concluded that there is a positive correlation between education and personal financial literacy. It has been found that financial literacy is also high among the people going to higher education. Through the study conducted by Mandell, Lewis and Klein, (2008) it has been identified how there are differences in personal financial literacy among students studying in universities and colleges according to academic years. This has been presented through the mean of the marks obtained by giving the correct answers to the questionnaires given to university and college students. Freshmen in high schools scored a mean score of 59.3%, sophomores 61.0%, juniors 62.1% and seniors 64.8%. In terms of university students, 54.6% of associate degrees, 61.1% of first degrees, 63.6% of second degrees and 65.9% of doctoral degrees or equivalent have obtained mean scores. Thus, it is clear that individual financial literacy also increases as the level of education increases. Chen and

Volpe, (1998) show that graduates demonstrate higher levels of financial literacy than undergraduates. Mandell, Lewis, and Klein, (2008) further indicate that there is a strong correlation between financial literacy and early life education.

Considering the relationship between education and financial literacy, education is classified into two parts. As students who study subjects such as economics, business studies, accounting, marketing, and, other subjects studying financial matters and students who do not study such subjects. It has been identified through the study that students who study subjects related to financial matters show a relatively high level of financial literacy. According to the studies conducted on personal financial literacy, it has been recognized that there is a relationship between personal financial literacy and personal age. Overall, it can be concluded that there is a positive relationship between individual age level and individual financial literacy level (Moore, 2003). Lusardi and Mitchell (2008), who have been widely studied in this regard, show that there is a relationship between individual age and individual financial literacy that takes the shape of an inverted English letter “U”. When the age level of the individual is shown on the horizontal axis, as the age level of the individual increases, his level of financial literacy increases and peaks at the middle age level. They indicate many reasons why individual financial literacy increases as the age level increases. Accordingly, it has been recognized that education, professional and professional experience, increase in the frequency of financial use, development of social relations, increase in responsibilities, etc. will affect this. But after middle age, the level of financial literacy declines due to factors such as not updating knowledge, reducing responsibilities, and retirement (Pierce et al., 1994). Lusardi and Mitchell, (2011) have also explained this situation through a study conducted in the United States of America. According to them, the age only 5% answered the questionnaires used for the study correctly, except for those aged 25-65. People belonging to the age group of 30-35 years showed the highest level of financial literacy. The financial literacy level of the 25-65 age group was estimated to be close to 60%. Lusardi and Mitchell (2008) found in a study conducted in the United States that less than 1/3 of American 12- to 17-year-olds have basic knowledge about interest rates, inflation, and risk diversification. When considering personal financial literacy, men show higher levels of financial literacy than women (Chen and Volpe, 1998). When given the opportunity to self-assess about financial knowledge, the percentage of women who answered that they were very knowledgeable and knowledgeable was 48% and 60% of men.

When asked about how to get financial knowledge, 74% of women and 68% of men said that they get knowledge from their parents, and 70% of women and 63% of men gave the answer of self-mistakes as the next source. In addition, it was answered that knowledge is acquired through self-study and school education. Gender did not have a significant effect on financial knowledge acquisition. Due to insufficient or non-availability of financial education in schools or other formal sectors, disparities in informal knowledge acquisition have also caused women to show a relatively lower level of financial literacy. Due to the fact that women have lower financial literacy compared to men, women face a high economic risk. (Xu and Zia, 2012). In a study on personal financial literacy among 50 undergraduates in Kenya, 25% were female and 25% were male. As identified there, there is a causal relationship between gender inequality and financial literacy. The female respondents showed relatively lower financial literacy and the reason for this is that in traditional African society, men have a higher responsibility in the family financial decision-making process and as a result, men have to study financial matters and manage financial resources compared to women. Worthington and Andrew (2004) have shown through this study. It was concluded that due to the increased participation of women in the labor market and relatively high life expectancy, the financial literacy of women should be increased.

## METHODOLOGY

The main target of this research is to study the relationship between Demographic factors and the financial literacy of rural people. The sample used is 100 households in the Middeniya East Grama Sewa Division. In

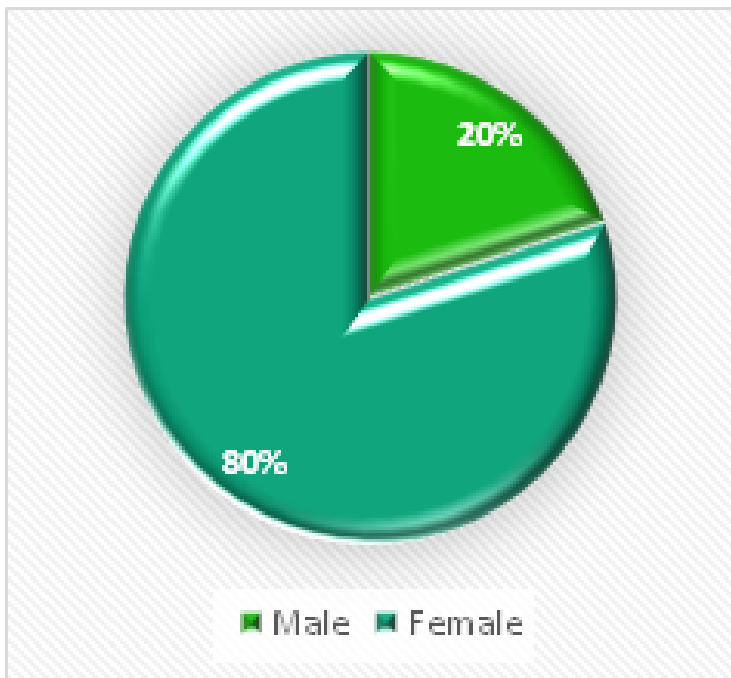


order to select 100 households from the total of 532 households in the Middeniya East Grama Sewa Division, the simple random sampling method was used. Here it was considered whether a connection exists between the relationship between Demographic factors and financial literacy. Accordingly, personal financial literacy was taken into account as the intrinsic variable, and the efficiency of the use of financial facilities was used as the extrinsic variable. Both the primary and secondary data methods were used to collect data. Under these two methods, both quantitative and qualitative data were classified and in order to obtain data relevant to the two methods, primary and secondary technical methods inherent to that were used for the collection of data. On this occasion, in order to obtain primary data, the self-counting method, interview method, and direct observance were employed. To mainly gather data, a questionnaire was also used. This questionnaire was created in three sections. In the first section, information regarding the background of the responder was investigated and in the second section, information on the responder's use of personal financial use was obtained while in the third section, information in connection with the responders. When reviewing information on personal financial literacy, a lot of data was gathered by presenting questions in relation to basic financial literacy and advanced basic literacy. Accordingly, to identify the Demographic factors of financial literacy, a standard Chi-Square Test was carried out. Here, as the dependent variable, financial literacy was used, and as the independent variable, demographic factors were used. An index was prepared based on the answers given by the responders in relation to basic financial literacy and advanced financial literacy. With the use of these indexes and Demographic factors as the foundation, a Chi-Square Test was conducted.

## RESULTS

According to Figure 1 below, 80% of responders were females and the remaining 20% were males.

Figure 1: Gender Disparities

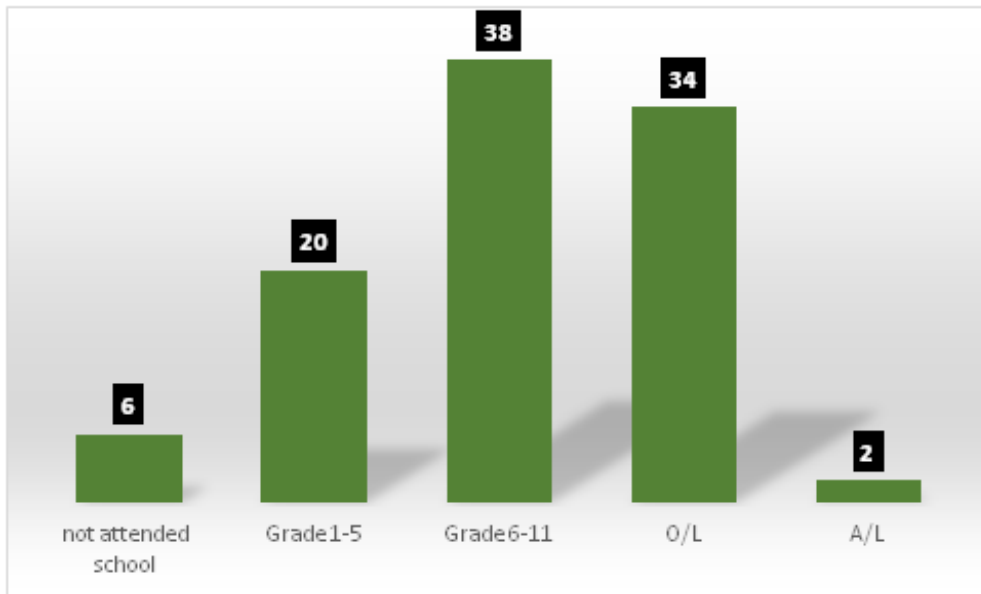


Source: Sample Survey 2020

Based on the level of education, most of the responders were persons who attended school from Year 6 to Year 11. Accordingly, 38% have come forward for their sample. At the same time, it received responses from the group of least responders which was 2% who have succeeded at the Advanced Level. The group

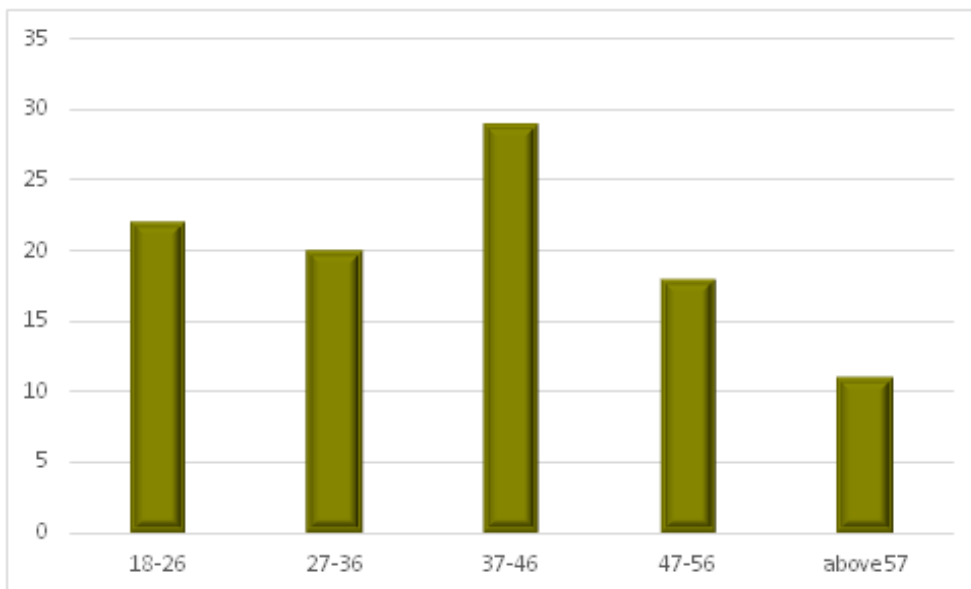
which has not attended school was as small as 6%. Accordingly, more than half of the sample were persons who have gone to school for more than 6 years. Further information on this is depicted in Figure 2.

**Figure 2: Responder’s Education Level**



Source: Sample Survey, 2020

**Figure 3: Responder’s Age Level**



Source: Sample Survey, 2020

Considering the age level of the respondents, there are 22 people in the age group of 18-26 years. Also, there are 20 people in the 26-36 age group and 29 people in the 37-46 age group. There are 18 respondents in the age group of 47-56 years and 11 people in the age group above 57 years. A standard Chi-Square Test can be used to determine whether there is a relationship between categorical variables. In this study, Chi-Square Test was conducted to examine the relationship of financial literacy with the level of education, Gender, and age of the rural people.

**Table 1: The Relationship between Financial Literacy and the Education Level of Rural People.**

Hypothesis		df	P-Value	Discission
H <sub>1a</sub>	75.789	12	0.000	H <sub>0a</sub> - Rejected

**Source: Authors generated using SPSS**

Hypothesis:

H<sub>0a</sub>: The level of education has no effect on determining the financial literacy of rural people.

H<sub>1a</sub>: The level of education has an effect on determining the financial literacy of rural people.

It can be stated with a confidence level of 95% that the level of education has an effect on determining the financial literacy of rural people. According to table 1 above, the p-value is 0.000 when examining whether there is a relationship between the financial literacy of the rural community and the level of education. So, the p-value is smaller than the significance level of 0.05. Therefore, it can be said with a confidence level of 95% that there is a relationship between the financial literacy of the rural community and the level of education. Accordingly, it can be identified that individual financial literacy increases when moving from a lower level of education to a higher level of education.

**Table 2: The Relationship between Financial Literacy and Gender of Rural People.**

Hypothesis		df	P-Value	Discission
H <sub>1b</sub>	7.247	3	0.064	H <sub>0b</sub> : - Accepted

**Source: Authors generated using SPSS**

Hypothesis:

H<sub>0b</sub>: Gender has no effect on determining the financial literacy of rural people.

H<sub>1b</sub>: Gender has an effect on determining the financial literacy of rural people.

It can be stated with a confidence level of 95% that there is no effect of Gender in determining the financial literacy of rural people. According to table 2 above, the p-value has been 0.064 when examining whether there is a relationship between the financial literacy of the rural community and Gender. Therefore, the p-value is greater than the significance level of 0.05. Therefore, it can be said with a confidence level of 95% that there is no relationship between the financial literacy of the rural community and Gender. However, a higher financial literacy of men can be identified compared to women

**Table 3: Relationship between Financial Literacy and Age of Rural Population**

Hypothesis		df	P-Value	Discission
H <sub>1c</sub>	29.555	12	0.003	H <sub>0c</sub> : - Rejected

**Source: Authors generated using SPSS**

Hypothesis:

$H_{0c}$ : Age groups have no effect on determining the financial literacy of rural people.

$H_{1c}$ : Age groups have an effect on determining the financial literacy of rural people.

It can be stated with a confidence level of 95% that there is an influence of their age groups in determining the financial literacy of the rural people. According to table 3 above, the p-value has been 0.003 when examining whether there is a relationship between the financial literacy of the rural community and the age level. Accordingly, the p-value is smaller than the significance value of 0.05. Therefore, it can be stated with a confidence level of 95% that there is a relationship between the financial literacy of the rural community and the age level. Accordingly, it can be recognized that individual financial literacy increases when moving from a lower age level to a middle age level, and as the age gradually increases, financial literacy also decreases slightly. As mentioned above, the data obtained in relation to the survey can be presented and interpreted and analyzed using various statistical techniques.

## DISCUSSION AND CONCLUSION

Considering the financial literacy of the rural community, it depends on advanced financial literacy and basic financial literacy. Accordingly, this research studied how the Demographic factors of the rural community affect financial literacy. This study found that the level of education and age of the rural community affect financial literacy. But Gender was found to have no effect on the financial literacy of the rural community. Accordingly, it is important to take care of the level of education and age in order to increase the financial literacy of individuals. Because personal financial literacy is very helpful for people to do their daily work appropriately. Accordingly, it is important to provide proper education to children so that they develop financial literacy right from the school stage. Because the level of education affects financial literacy. Also, age level also affects financial literacy, so it is important to provide the necessary knowledge about financial literacy to individuals within the relevant age limits. Also, raising the financial literacy index at the national level and compiling programs to raise the standards of personal financial literacy, as well as introducing special projects to improve financial literacy and allocating the necessary financial allocations for the same are very important processes that can ensure the rise in personal financial literacy. Through these, it is possible to create a group with advanced financial literacy. This will create a group of people who can properly manage their financial affairs and in view of their decisions, not only in the village but the city and the country will also be developed.

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