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An Assessment of Financial Literacy in Sri Lankan Community

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ABSTRACT

This study assess financial literacy and major determining factors. Recent financial turmoil pointed out the timely need for financial literacy. This research aims to evaluate the financial literacy of the Sri Lankan village-based community financial literacy based on the Monaragala District. This survey considers the 25 participants using purposive sampling. Respondents had to answer the 65 questions which were placed on a five Likert scale where (1=strongly disagree, 2= Disagree, 3=Neutral, 4= Agree, 5= strongly agree). Primary data were collected using a face-to-face interview method with a comprehensive questionnaire. As a research model, the descriptive statistic was used to present the result of the data. SPSS and MS Excel were used to analyze the collected data. The result of the research it has shown increasing positive attitudes about keeping savings while showing negative attitudes about the investing.

INTRODUCTION

Financial Literacy is a major concern of the society due to the development of the financial instruments of the world. This concept has different kind of definition by country to country due to the different financial facility locations; however financial literacy has common definition considering the every kind of other definitions. Financial literacy can be identify as knowledge of the earning about the income and expenses as well as managing of them, ways of the borrowing money, basic knowledge of the different kind of savings methods, investing money on formal and informal ways and apart of these basic dimensions there are some advance features to consider the financial literacy such as knowledge of the insurance and protection, knowledge of the risk and return, awareness of the stock market can be considered. Generally these measures are more common within the countries because every person need to have knowledge on finance literacy to live as an economic being. South Asia considers the lower financial literacy region comparing with others. Sri Lanka also considers the lowest financial literacy country. Sri Lanka records 35% of lowest financial literacy rate (S&P Global Fin Lit survey, 2018). This became a more bad result for the Sri Lankan economy because recently economist identified less financial literacy is drawback for the financial sector development. Recently Sri Lanka face severe problem about the micro lending companies actions against their customers. Micro lenders choose village based people for the lending and they causes the recovery problem and finally transform to the national level tragedy. Main causes for this problem is mismanagement of the loan as an example most of the loan consumers used the loans for the consumption and they didn't have any ways or means to pay back the loan or they didn't have knowledge or schedule to pay back the loan and this became a national tragedy. As a main cause of this tragedy it can be identified that less

knowledge of the loan consumers caused the recovery problem. An apart of that most of Sri Lankan has more complaints against the credit card interest, payments and court cases. Main issue for this problem is lots of credit card consumers don't have financial literacy about the credit card usage. Moreover lot of people deposit their money in unauthorized places for higher interest rates and this became a serious problem because recently lot of depositors has to face to the more inconveniences to withdraw their money or they were not able to get back there money. This also related with the financial literacy related issue because Central Bank of Sri Lanka has notice the authorize financial institutions and qualities of the licensed deposit accepting institutions. Due to the less knowledge of the above institutions day by day customers are depositing their money on them and face to the loss. In Sri Lankan case financial literacy concerned main problem for rich, poor and educated and uneducated every social strata but mostly village based people are lack of financial related knowledge than urban people. Due to the above situation this study is trying to assess the Sri Lankan village based community financial literacy.

LITERATURE REVIEW

Basic financial knowledge is a more important topic due to the current financial situation in Sri Lanka. This problem became a major issue for the Sri Lankan economy and creates financial literacy related issues to the Sri Lankan economy. Financial literacy means someone's capability to realize, analyze and decision making for the financial consequences. (Mason & Wilson, 2000). If anyone is unable to get the decisions about the financial consequences on real time this become a tragedy for the day today finances and loan term funds. Financial literacy is an understanding financial things and capability of manage the finance and take financial decision for short term and long term (Remund, 2010). According

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to Bianchi, financial literacy influence the financial and economic decision making process for the every person. Financial literacy is asset for every human being because it helps the financial decision making and it became a necessary thing of this decade because understanding of the economic and financial information is necessary for the decision making (Xu *et al.*, 2002). Financial literacy influence the analyze the economic and financial information to making financial decisions. Financial literacy creates the ability to get the correct decision for money and other monetary asset management (Patrik & Robb, 2014). With the development of the economy and economic infrastructure facilities every country are trying to enhance their financial literacy of their people. For this they conduct the researches and analyses the financial literacy of their people because it is impossible to continue the country economy without financial knowledge because financial literacy helps the best economic decisions because financially illiterate people are unsuccessful for the rational economic decisions and this illiteracy damages to the economic development of the country. More financial literate people have desirable financial behaviors, regards the deposits, stock market and fund management (Yang *et al.*, 2022). To enhance the financial literacy different countries have done different kind of researches and practices and they measured the financial literacy of the people. Lot of American people do not have basic financial knowledge then they are fail to understand the credit, investment and budget and banking system. Then it is better to enhance their financial literacy to face the financial crisis. (PACFL, 2008). America is the major capitalist economy in the world but they also worry about the financial literacy of the general public not only that but also they identified that financial illiteracy is one of the major problem for the financial crisis. An addition to that, information

asymmetry also major reason for the financial crisis because due to the information asymmetry financial market details are not properly flows to the remote areas. Due to that they are unable to get the correct financial and economic decisions. Some financial information is not flows to the general public due to the Information asymmetry and this affect the financial illiteracy of the community (Oliver *et al.*, 2022). This causes the lower financial benefits and ignorance of the financial benefits for the rural community. To avoid the financial illiteracy every countries have develop the different programs because financial literacy is able to develop the rational decision making background for the every individual and society and it creates the social benefits for long term. Financial literacy is a key factor of the individual understanding of the financial markets (Bottazzi and Lusardi, 2021) Moreover, Financial literacy creates the knowledge for self-employment (Rostamkalaei *et al.*, 2019), convenient retirement Plan (Lusardi and Mitchell, 2007). And financial literacy creates the knowledge for the credit (Xu *et al.*, 2020). Most important thing is people are comfortable to access critical investment opportunities and affordable financial solutions through the rational economic and financial thinking. It is best to identifying the key components of the financial literacy because this concept is worldwide concept and it has different kind of definitions and thoughts. There should be an understanding, skills, attitudes, confidence and personality about the managing money, planning ahead, making choices, getting help. (Subha & Priya, 2014). Moreover holding formal bank account, holding credit card, social/medical insurance, commercial insurance, social pension insurance, participate in the stock market, participate in risk market (Xu *et al.*, 2020). This research also pays the attention to measure the correlation of the financial literacy and determining factors.

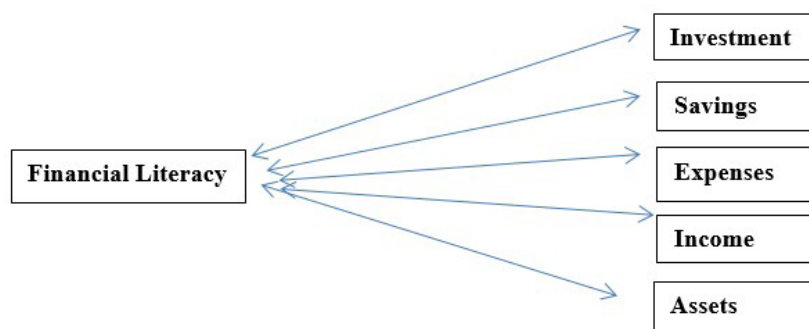


Figure 1: Conceptual framework
 Source: By Researcher

Here financial literacy becomes the independent variable. Investment assesses the knowledge of the excess cash and asset management knowledge. Savings is a basic function of the finance of a person and basically knowledge about savings and means of the savings consider as a basic financial literacy tool. Knowledge about the expenses and identifying necessary and non-necessary expenses also basic finance knowledge of the

person. Knowledge about the new income generation path, analysis about the current income concerned as basic finance literacy measurement. Holding assets as monetary or other physical way and managing them towards the higher profit earning areas, consider the basic finance literacy tool. This study assesses the determined factors of the financial literacy of the Sri Lankan village base community.

METHODOLOGY

This research paper is based on a mix method. This study is regarding with the financial literacy of Sri Lankan village based community. Data obtained for this research from sirigala village based Monaragala District in Uwa province which is situated from six Kilometers away from the Monaragala. This village is near the town but villagers are engaging with the agriculture and traditional jobs as well and most of them are working with government or private sector. Due to this diversity of the community researcher choose this village for a research. The data requirement of this research was attained for primary data source using a structured questionnaire using 26 participants. The questionnaire consisted with 8 parts with demographic details. It comprises 63 quantitative and qualitative questions. For measuring the relative performance of the respondents, respondents were asked to rate questions on a five likert scale where (1=strongly

disagree, 2= Disagree, 3=Neutral, 4= Agree, 5= strongly agree). Purposive sampling method was employed to select the sample. Correlation analysis used for prove the relationship of the data and SPSS and Microsoft Excel were used to data presentation and analysis.

Descriptive Analysis

This chapter consists of a descriptive analysis of the study. As the first step, univariate analysis was performed to demonstrate the composition of the sample by different characteristics of respondents. Bar charts were used to visualize the sources of income of the households. In bivariate analysis, two-way tables were used to demonstrate the distribution of willingness to invest and opinions about saving methods by education level.

Composition of Sample by General Information of Respondents

Table 1: General information of the sample

Characteristic	Count	Percentage (%)	95% Confidence Interval for Percentage	
			Lower Limit	Upper Limit
Gender				
Male	16	61.5	40.7	78.9
Female	10	38.5	21.1	59.3
Education				
Primary	10	38.5	21.1	59.3
Secondary	3	11.5	3.47	32.1
Diploma	2	7.69	1.75	28.1
Degree	11	42.3	24.2	62.8
Religion				
Buddhist	17	65.4	44.3	81.8
Hindu	1	3.85	0.468	25.4
Catholic	0	0	0	0
Other	8	30.8	15.4	52.0
Ethnicity				
Sinhala	24	92.3	71.9	98.3
Tamil	2	7.69	1.75	28.1
Muslim	0	0	0	0
Other	0	0	0	0
Age				
11-20	0	0	0	0
21-30	5	19.2	7.73	40.4
31-40	9	34.6	18.2	55.7
41-50	9	34.6	18.2	55.7
51-60	0	0	0	0
60+	3	11.5	3.47	32.1
Average Monthly Expense in Rupees				
Less than 100,000	24	92.3	71.9	98.3
100,000-500,000	0	0	0	0
500,000 – 1000,000	1	3.85	0.468	25.4

More than 1000,000	1	3.85	0.468	25.4
Saving Types				
Rosca	16	61.5	40.7	78.9
SDB / Rural Banks	2	7.69	1.75	28.1
Microfinance Institutions	2	7.69	1.75	28.1
Banks	6	23.1	10.1	44.4

Source: Survey Data

According to table 1, about 62% of respondents in the sample were men. Majority of respondents had a degree and also, considerably higher number of respondents had only a primary education. About 65% of respondents

were Buddhists and about 92% of them were Sinhalese. Also, average monthly expenses of about 92% of respondents were below 100,000 rupees. Rosca were the mostly used transaction method.

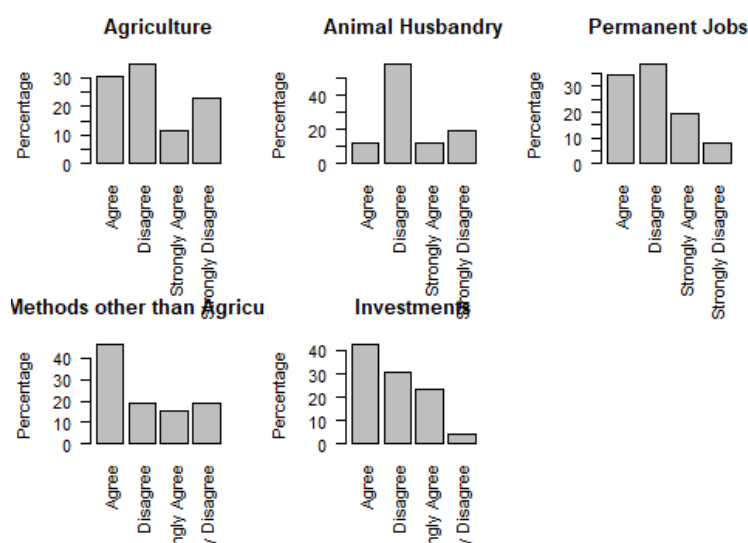


Figure 2: Sources of income that provide high income to the households

Source: Survey Data

According to the figure 01, majority of households do not get a high income from agriculture and animal husbandry but they earn high income from permanent jobs, investments, and methods other than agriculture.

According to table 02, majority of respondents who had a positive attitude about investing money had a degree while majority of respondents who had a negative attitude about investing money had only a primary education.

Table 2: Distribution of willingness to invest by education level

	Education Level			
	Degree (%)	Diploma (%)	Secondary (%)	Primary (%)
Investing is more important than keeping money on hands				
Strongly Agree	4 (66.67)	0 (0.00)	0 (0.00)	2 (33.33)
Agree	4 (80.00)	0 (0.00)	1 (20.00)	0 (0.00)
Disagree	3 (23.08)	2 (15.38)	2 (15.38)	6 (46.15)
Strongly Disagree	0 (0.00)	0 (0.00)	0 (0.00)	2 (100.00)
Investing is more rewarding than keeping money on hands				
Strongly Agree	3 (60.00)	0 (0.00)	0 (0.00)	2 (40.00)
Agree	4 (100.00)	0 (0.00)	0 (0.00)	0 (0.00)
Disagree	4 (28.57)	2 (14.29)	2 (14.29)	6 (42.86)
Strongly Disagree	0 (0.00)	0 (0.00)	1 (33.33)	2 (66.67)
Investment protects money				
Strongly Agree	3 (60.00)	0 (0.00)	0 (0.00)	2 (40.00)

Agree	3 (100.00)	0 (0.00)	0 (0.00)	0 (0.00)
Disagree	5 (31.25)	2 (12.50)	2 (12.50)	7 (43.75)
Strongly Disagree	0 (0.00)	0 (0.00)	1 (50.00)	1 (50.00)
Investment adds more value to the money				
Strongly Agree	3 (50.00)	0 (0.00)	1 (16.67)	2 (33.33)
Agree	4 (57.14)	1 (14.29)	0 (0.00)	2 (28.57)
Disagree	4 (36.36)	1 (9.09)	2 (18.18)	4 (36.36)
Strongly Disagree	0 (0.00)	0 (0.00)	0 (0.00)	2 (100.00)
The money from the investment is utilized efficiently				
Strongly Agree	3 (60.00)	0 (0.00)	0 (0.00)	2 (40.00)
Agree	4 (57.14)	0 (0.00)	1 (14.29)	2 (28.57)
Disagree	4 (33.33)	2 (16.67)	2 (16.67)	4 (33.33)
Strongly Disagree	0 (0.00)	0 (0.00)	0 (0.00)	2 (100.00)

Source: Survey Data

Table 3: Distribution of opinions about savings methods by education level of the respondents

	Education Level			
	Degree (%)	Diploma (%)	Secondary (%)	Primary (%)
It is profitable to keep savings as cash (fixed deposits, bank accounts)				
Strongly Agree	1 (9.09)	1 (50.00)	0 (0.00)	2 (20.00)
Agree	6 (54.55)	1 (50.00)	1 (33.33)	2 (20.00)
Disagree	4 (36.36)	0 (0.00)	2 (66.67)	6 (60.00)
Strongly Disagree	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
It is profitable to keep savings as assets				
Strongly Agree	4 (36.36)	1 (50.00)	0 (0.00)	3 (30.00)
Agree	4 (36.36)	1 (50.00)	3 (100.00)	2 (20.00)
Disagree	3 (27.27)	0 (0.00)	0 (0.00)	5 (50.00)
Strongly Disagree	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
It is profitable to keep savings in both of the above ways				
Strongly Agree	2 (18.18)	1 (50.00)	0 (0.00)	3 (30.00)
Agree	7 (63.64)	1 (50.00)	2 (66.67)	2 (20.00)
Disagree	2 (18.18)	0 (0.00)	1 (33.33)	4 (40.00)
Strongly Disagree	0 (0.00)	0 (0.00)	0 (0.00)	1 (10.00)
Giving cash to get an interest is profitable				
Strongly Agree	2 (18.18)	0 (0.00)	1 (33.33)	4 (40.00)
Agree	3 (27.27)	1 (50.00)	0 (0.00)	2 (20.00)
Disagree	5 (45.45)	1 (50.00)	2 (66.67)	1 (10.00)
Strongly Disagree	1 (9.09)	0 (0.00)	0 (0.00)	3 (30.00)
It is profitable to invest savings in stock market				
Strongly Agree	3 (27.27)	0 (0.00)	1 (33.33)	2 (20.00)
Agree	2 (18.18)	0 (0.00)	0 (0.00)	0 (0.00)
Disagree	3 (27.27)	0 (0.00)	1 (33.33)	1 (10.00)
Strongly Disagree	3 (27.27)	2 (100.00)	1 (33.33)	7 (70.00)

Source: Survey Data

By table 03, it can be seen that increased levels of education had been lead to increase positive attitudes about keep savings as cash and assets, but it had been lead to increase the negative attitudes about giving cash

to get an interest. Also, regardless of the education level, majority of all the respondents had negative attitudes about investing savings in stock market.

CONCLUSION

This research reviewed and summarized the previous research carried out by several researchers and academics covering related to financial literacy and economic factors relating to. The literature review helps design the research questionnaire and other parts of the research. According to the chosen methodology research was carried out to measure the relationship between economic factors of the financial literacy. The research has shown increasing positive attitudes about the keeping savings while showing the negative attitudes about investing. Rosca was the mostly used method for their day today transactions. Here the author suggests there should be a proper program to enhance the knowledge for the investment.

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