

Addressing Poverty through Financial Literacy: An Empirical Analysis of Financial Literacy of Low-Income People in the Rural Sector of Sri Lanka

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1. Introduction

Poverty is a huge problem in Sri Lanka, even though there are many poverty alleviation policies and strategies implemented to reduce poverty. Recently, poverty has increased in Sri Lanka because of economic distress followed by the COVID-19 pandemic. According to the Poverty Head Count Index (PHCI), 14.3% of people in Sri Lanka are poor (Department of Census and Statistics (DCS), 2022). However, sectoral data from the PHCI indicates poverty is a massive problem in the rural sector since 15% of people are poor, and out of the total poor in Sri Lanka, 82.2% live in the rural sector (DCS, 2022). Accordingly, 80.9% of people are multidimensionally poor in the rural sector (DCS, 2022), and 82% of vulnerable people live in rural areas (UNDP, 2023). Hence, special attention should be given to the rural sector in achieving the end poverty target introduced by the United Nations' Sustainable Development Goals. Poverty is multidimensional, and the rural sector often faces many obstacles that people push down to the poverty trap. Thus, paying attention to all possible solutions to eradicate poverty sustainably is essential. Many researchers have highlighted the importance of financial literacy in alleviating poverty (Wang et al. (2022); Koomson et al. (2023); Ling et al. (2024). Accordingly, Xu et al. (2023) have found that higher levels of financial literacy effectively combat poverty in the rural sector in China. However, the financial literacy of low-income people in rural areas in Sri Lanka is not widely analyzed. Hence, it is necessary to investigate whether low-income people have adequate financial literacy to make sound financial decisions and better manage their financial resources. Based on this research gap, this study investigates the financial literacy status and factors that affect the financial literacy of low-income people in the rural sector of Sri Lanka. This study provides valuable insight for policymakers to implement appropriate policies and strategies to overcome poverty in the rural sector by focusing on the financial literacy of the people.

2. Materials and Methods

2.1. Data Collection

Primary data, which was collected from 450 households in the rural sector of Badulla district, were used to assess the objective of this study. Beneficiaries of the Samurdhi program were selected as samples using multi-stage purposive and random sampling techniques. The sample size was determined according to Rosca (1975).

2.2. Computation of Financial Literacy Level

The financial literacy level consists of financial knowledge, financial attitudes, and financial behavior. Hence, the main components of financial literacy were computed using the following methodologies before calculating the financial literacy level.

2.2.1 Computation of Financial Knowledge

Both basic and advanced financial knowledge were assessed. The basic financial knowledge was measured using three questions that can measure the knowledge of basic financial concepts. It is assumed that respondents have good basic financial knowledge if they correctly answer all three questions; otherwise, they have poor financial knowledge.

Advanced financial knowledge was examined using five questions, and assigned "1" for the correct answer and "0" for a negative answer. A score of 3 is used as a benchmark value to identify the people with poor and high levels of advanced financial knowledge.

2.2.2. Computation of Financial Attitudes

The financial attitudes of the respondents were determined using nine structured questions, and answers were measured according to the five-point Likert Scale. Value for each response was assigned, such as 1- strongly disagree, 2-disagree, 3-neutral, 4-agree, and 5- strongly agree. The score ranged from 9 to 45, and 30 was used as a benchmark value to categorize respondents with good and poor financial attitudes.

2.2.3. Computation on Financial Behaviour

Financial behavior is analyzed using 12 questions, and 1 or 0 was assigned for positive or negative answers respectively. The score ranged from 0 to 12, and 7 is used as a benchmark value to determine the high and low levels of financial behavior.

2.2.4. Computation of Financial Literacy Level

Financial literacy level was calculated by summing the score of financial knowledge, financial attitudes, and financial behavior. A score of 40 is considered a benchmark value to determine the high and poor levels of financial literacy.

2.3. Determinants of Financial Literacy of the Low-Income People in the Rural Sector

The determinants of financial literacy were investigated by using the Multiple Regression model. Financial literacy level was taken as a dependent variable while age, gender, education, main income source, income diversification, use of a smartphone, distance to the bank, distance to the ATM, and use of bankcards were considered as independent variables.

3. Results and Discussion

3.1. Socio-Economic Information

Out of the total sample, 31% of respondents were female, and 69% were male. The majority of decision-makers have education up to an ordinary level or less, while very few have formal vocational training. Income diversity was very low, except some households had more than one income earners. All the respondents had bank accounts since they were compulsory for Samurdhi beneficiaries, but the majority used them to administrate Sumurdhi benefits only. The use of debit cards and ATMs is limited because of unavailability, lack of knowledge, and problems in trust.

3.2. Financial Knowledge

Advanced financial knowledge for all is zero since none of the respondents correctly answered any questions that measured advanced financial knowledge. The information on the respondents' basic financial knowledge is illustrated in Table 01.

Table 01: Basic Financial Knowledge of the Low-Income People

Level of Financial Knowledge	Percentage of Respondents
Zero basic financial knowledge	62
Poor basic financial knowledge	28
High level of basic financial knowledge	10

Source: Author calculated based on the primary data

Table 02: Financial Attitudes of the Low-Income People

Level of Financial Attitudes	Percentage of People
Low level	81
High level	19

Source: Authors calculated based on the primary data

The results indicate that low-income people in the rural sector do not have adequate financial knowledge to make sound financial decisions. Without having at least knowledge of basic financial concepts, those people cannot fruitfully manage their financial resources. Table 02 illustrates the information on financial attitudes of low-income people.

The majority of low-income people have poor financial attitudes. Especially they do not have positive attitudes toward controlling their expenditure or planning their financial transaction since they spend income mostly only on essential expenditures, which cannot be avoided or postponed.

3.3. Financial Behaviour

The details of the financial behavior of low-income people are illustrated in Table 03.

Table 03: Financial Behaviour of the Low-Income People

Level of Financial Behaviour	Percentage of People
Low level	82
High level	18

Source: Authors calculated based on the primary data

The results indicate that most low-income people have poor financial behavior, especially accompanied by poor financial knowledge and attitudes. Accordingly, limited income and essential expenditures that cannot be delayed or ignored prevent them from planning their financial decisions. However, it is essential to educate them to have good financial practices and wisely use their limited financial resources.

3.4. Financial Literacy

Financial literacy consists of financial knowledge, attitudes, and behavior. The details of the respondents' financial literacy status are illustrated in Table 04.

The majority of low-income people do not have the appropriate financial literacy level to take wise financial decisions. Hence, it is worth to educate them to improve their financial literacy. Such knowledge is a good motivation for low incomers to increase their income so as to achieve their financial targets and manage their financial assets to get rid of poverty.

Table 04: Financial Literacy Level of the Low-Income People

Financial literacy level	Percentage of People
Low level	92
High level	08

Source: Authors calculated based on the primary data

3.5. The Determinants of Financial Literacy of the Low-Income People in the Rural Sector

The determinants were examined using a multiple regression model, and the results are illustrated in Table 05.

Table 05: The Determinants of Financial Literacy

Determinants	Co-efficient	P-value
Age	0.034	0.10
Gender	-0.051	0.03
Education	0.520	0.01
Main income source	0.043	0.06
Income diversification	0.032	0.09
Use of smartphone	0.017	0.07
Distance to a Bank	0.061	0.08
Distance to an ATM	0.070	0.06
Use of debit card	0.034	0.08

Source: Author calculated based on the primary data

According to the regression analysis, socio-economic factors such as income, age, gender, education, income diversification, and availability of related infrastructure facilities such as banks, ATMs, use of debit cards, and smartphones are the key determinants of financial literacy.

4. Conclusion and Recommendations

Low-income people in the rural sector have poor financial literacy highlighting the importance of improving financial literacy so as to make appropriate financial decision-making to get rid of poverty.

Since education has a significant positive impact on financial literacy, it is essential to take necessary action to increase education since most children in low-income families face many barriers to continuing education. Developing infrastructure facilities by establishing financial institutions and ATMs in rural areas, is also essential. Accordingly, the provision of appropriate training and awareness programs is also worthwhile. Implementing relevant policies and strategies to boost income from regular income sources is also important since the financial literacy of low-income people is directly associated with regular income.

5. Keywords:

Financial literacy, Determinant of Financial Literacy, Rural Sector, Low-Income People

6. References

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