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Bridging the Financial Literacy Gap: An Analysis of Financial Literacy of Low-Income Rural Households in Sri Lanka

Anupama Dias NKL¹, Dammika Padmakanthi NP², Jayaweera GKR³

¹*Independent researcher*

²*Department of Economics, Faculty of Social Sciences, University of Kelaniya*

³*Department of Economics, Faculty of Social Sciences, University of Kelaniya*

Background: Sound financial decision-making is one of the key factors affecting the socioeconomic well-being of individuals, households, and ultimately the country's development, while poor financial decision-making contributes to the cycle of poverty. The rural sector of Sri Lanka suffers from limited facilities and many inherent disadvantages, resulting in rural people having a low socioeconomic background. Hence, it is crucial to investigate whether low-income rural households are adequately financially literate to make sound financial decisions.

Objective: This study investigates the current status of financial literacy and its determinants in low-income rural households.

Methods: Primary data, which were collected from 400 low-income households using purposive and random sampling methods in the Rathnapura district in Sri Lanka, were used to analyse the objectives. Financial literacy level was computed by considering financial knowledge, attitudes, and behaviour. A multiple regression model was employed to identify the determinants of financial literacy.

Results: The majority of households have a low level of financial literacy, often accompanied by poor financial knowledge. Around 90% of households do not have knowledge of basic financial concepts, and particularly, numerical and calculation skills are poor. However, nearly 75% of households have a high level of financial attitudes, but financial behaviour is low, especially because of low income. Socioeconomic factors and the availability of infrastructure facilities significantly influence financial literacy.

Conclusion: Rural low-income households do not have an acceptable financial literacy level to make sound financial decisions. Conducting specially designed programs to enhance the financial knowledge and financial management of adults in rural low-income households is recommended. The implementation of finance-related infrastructure facilities, such as financial institutions in marginalised areas, is also essential. Further, it is crucial to implement mechanisms to boost income since low income highly influences poor financial behaviour.

Keywords: Determinants of financial literacy, Financial literacy, Low-income rural households.