

Understanding Financial Literacy in Rural Communities: A Comprehensive Study of Households in Indore District of Madhya Pradesh

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Abstract

Inclusive growth and sustainable development are the new paradigm for measuring economic development of a nation. Inclusive growth means economic growth that aims at generating employment, ensuring access to essential services in health and education, and providing equality of opportunities for the poor population of a country. According to policymakers, the objective of inclusive growth is not possible to achieve without achieving Financial Inclusion. And it is also believed that the road to Financial Inclusion is through Financial Literacy amongst the citizens of the country. Inclusive growth shall occur when not only the urban but the rural population is also financially aware and able to make independent choices in financial matters. This paper aims to analyse the level of financial literacy among the rural population of Indore district in Madhya Pradesh and identify demographic variables influencing the level. In our study we found that the rural population of Indore district had shown a positive level of financial attitude and financial behaviour but low level of financial knowledge. Thus, based on the study on these three variables of financial literacy, we observed a moderately high or above average level of financial literacy in the district. Also, almost all the demographic variables under study had shown positive influence on the level of financial literacy among the rural population. We also identified a correlation between the three variables of financial literacy that are financial knowledge, financial attitude, and financial behaviour under study in this paper.

Key words : Financial Literacy, Financial Inclusion, Inclusive growth, awareness.

Introduction

The concept of Financial Literacy can primarily be understood by defining the two terms that are 'Finance' and 'Literacy' individually, which together form the term 'Financial Literacy'. In general terms, 'literacy is the ability of a person to read and write or, it is the competence or knowledge of a person in a specified area (Oxford Dictionary). On the other hand, 'Finance' in general refers to the money that a person has or,

the management of the supply of money (Cambridge English Dictionary). When we bring together the two terms it becomes Financial Literacy which can be defined as a person's competence in money management (Kimiyaqhalam; Safari, 2015). Financial Literacy is the knowledge of an individual about his or her own money, awareness about various financial products and services available and also the ability to make their own financial decisions. Many studies have been conducted on the concept of Financial Literacy as well as the level of Financial Literacy In different regions. Various scholars have explained the concept of Financial Literacy and thus, many definitions are available on the concept.

Another aspect related to Financial Literacy is the understanding of the variables that helps in determining the level of Financial Literacy amongst individuals in a district or a state or at the country level. The various measures or indicators of the level of Financial Literacy can be categorized into the following:

- Knowledge of Financial Concepts
- Money Management Skills
- Ability to make Financial Decisions
- Competency in Financial Planning

The paper has been organized as follows: Section two gives the existing literature review; Section three gives the objectives of the study; Section four describes the sample and research methodology; then Section five lays out the results of our study; and implications of the study are given in Section sixth.

Literature Review

Agarwalla, Barua, Jacob & Varma (2013) studied the influence of various socio-demographic factors such as gender, education, income on different dimensions of financial literacy among the working young in urban India. The three dimensions considered under study were financial knowledge, financial behaviour, and financial attitude. Gupta & Kaur (2014) studied the level of financial literacy among micro entrepreneurs in the district Kangra of Himachal Pradesh. They concluded in their research that micro entrepreneurs in the district possess low financial skills despite the presence of FLCCs established by the

banks in the state. Ansong & Gyensare (2012) established the relationship between financial literacy and certain demographic characteristics. The paper revealed that age and work experience were positively related to financial literacy. Also, the mother's education was positively related with respondent's level of financial literacy. However, some other demographic variables such as the level of study, work location, father's education were not significantly correlated with the level of financial literacy of the individuals according to their study. Bhargava (2016) discussed various dimensions, needs and importance of financial literacy. The study suggested that the policies for improving financial literacy should be based on bottom-up approach where field surveys, review reports etc. can be created and implementation should be based on top-down approach that is based on the hierarchy of the central – state government to the local masses. Baluja (2016) attempted to analyse the level of financial literacy among women in India. The paper focuses on various hindrances that women have to face in being financially literate in our society, o initiatives and measures being taken by the government to enhance the financial literacy among women in the country. Lusardi & Mitchell (2007) offered an analysis of financial literacy and retirement planning in one of their papers. They investigated financial literacy and planning among workers in their prime earning years. They developed a dataset namely, Rand American Life Panel (ALP) that consisted of questions helpful in analysing financial literacy and retirement planning. The RANDALP survey concluded that there is low level of financial knowledge amongst the respondents.

Objectives

The objectives of our study are as follows:

- 1) To assess the level of Financial Literacy among the rural households in the Indore district of Madhya Pradesh.
- 2) To analyse the impact of various socio-demographic variables on the level of Financial Literacy of the rural people.
- 3) To identify the relationship between the variables of financial literacy if any.

Research Methodology

Sample Description

For the purpose of present study, we have selected the technique of random sampling and convenience sampling to draw a suitable sample. Given the wide geographical diversity, the sample of 200 rural households has been drawn from surrounding rural areas of Indore division of Madhya Pradesh that were geographically feasible to travel and kept into consideration the time and money constraint.

Questionnaire

The questionnaire used for the purpose of gathering primary data has been divided into three parts. The first part relates to general information of the respondents. This part briefly describes the respondent on different attributes which are gender, age, type of occupation, level of education, marital status, and annual income of the family. This information has helped us analyse the responses and the variables that have influenced the responses of the respondents. For the purpose of assessing the level of financial literacy among the rural households in the specified area, we have used questions proposed by the Organization for Economic Cooperation and Development (OECD). The questions are designed in such a manner that will help the researcher in identifying the awareness of the respondents on financial products and services, examining their decision-making capabilities on financial matters, and analysing their attitude or perception towards different financial aspects such as risk and return etc.

Methodology

Since there is no particular scale on which all the questions belonging to a particular category fall, we have assigned scores as per the responses received to be able to sum up these scores and thereby, determine the level of the respondents in each of the categories. The approach of assigning scores has been adopted from the one recommended by OECD. The response to each of the questions belonging to different categories was given a score 1 if it indicated a desirable response, the score was otherwise zero.

In order to determine the level of Financial Literacy three variables were identified: financial knowledge, financial behaviour, and financial attitude. For our study, we have added up the scores of 12 questions making it a total of 12 scores. Thus, we can determine the level of Financial Literacy for each respondent in a manner that if the score of the respondent is equal to or greater than 8, then he/she is supposed to have high level of financial literacy, if the total of score is 6 or 7, then the respondent has an average level of financial literacy and if the score is 4 and below, then the respondent is assumed to have low level of financial literacy. For assessing the influence of socio-demographic variables on the level of financial literacy, we have analysed their influence on the level of financial literacy. The socio-demographic variables considered under study are gender, age, type of occupation, level of education, marital status, and annual income of the family. To analyse the influence of socio-demographic variables on the level of financial literacy we have used One Way ANOVA analysis as the regression model seems to be unfit for this analysis.

Results and Analysis

In our analysis of determining the level of Financial Literacy among the rural households in the district of Indore of Madhya Pradesh, we found that there is an Above average level of financial literacy among the respondents. On summing up the scores of the questions under study for each respondent we got an average score of 7.35 which indicates an average level of financial literacy among rural population of the Indore district. On an average, about 55% of the sample is found to have slightly high or above average level of financial literacy as per the score methodology. Refer Table 1 below for the results. According to the survey reports of OECD, the average score of India on the Financial Literacy survey came to be 13.8 out of the total 21 which lies in the range of average scores of 15.1 to 21.4, thereby, concluding the level of Financial Literacy of the country to be Average.

Table 1: Percentage of responses for different variables of financial literacy

Response Variables	Number of Responses	Percentage of Responses (%)
Financial Knowledge		
High Financial Knowledge	94	47.2
Average Financial Knowledge	75	37.4
Low Financial Knowledge	31	15.4
Financial Behaviour		
Positive Financial Behaviour	119	59.6
Average Financial Behaviour	42	21
Indifferent Financial Behaviour	39	19.4
Financial Attitude		
Positive Financial Attitude	114	56.8
Average Financial Attitude	52	26
Indifferent Financial Attitude	34	17.2
Financial Literacy		
High Financial Literacy	109	54.53
Average Financial Literacy	56	28.13
Low Financial Literacy	35	17.34
Total	200	100

Source: Survey

We also did One Way ANOVA analysis to find out the influence of various socio demographic variables on the level of financial literacy by comparing the average score of financial literacy of each respondent with different socio-demographic variables. Refer table 2 for the actual results. The results implied that Gender, Age, Education, Occupation and Annual Income do have a significant influence on the levels of financial literacy but Marital

Status of the individuals seems to have no significance on the level of financial literacy of the respondents. The p value of the statistic is found to be lower than .05 for all these variables indicating significant differences in the response variables between the groups of different socio-demographic variables and higher than .05 for those having no significant differences in the response variables.

Table 2: Results of ANOVA for Financial Literacy

Characteristics	F-Statistic	Sig.
Gender	88.872	.000
Age	6.024	.003
Education	43.744	.000
Occupation	29.126	.000
Marital status	.938	.333
Annual Income	50.788	.000

Source: Survey

In our study, we also found a linkage between the three variables of financial literacy that are financial knowledge, financial behaviour, and financial attitude. Refer table3 below for the result. We observed that there is a positive correlation between these pairs of variables. There is a positive and high correlation between financial knowledge and financial behaviour, a positive correlation between

financial attitude and financial behaviour implying a moderate level of correlation between them. Also, there is a positive but not significantly high correlation between financial knowledge and financial attitude. Overall, we can say that there is a strong linkage between the three dimensions of financial literacy that is financial knowledge, financial behaviour, and financial attitude.

Table 3: Pearson's Correlation Analysis

	Financial Knowledge	Financial Behaviour	Financial Attitude
Financial Knowledge	1	.516	.354
Financial Behaviour	.516	1	.394
Financial Attitude	.354	.394	1

Source: Survey

Implications for Theory and Practice

Theoretical implications of our study are that it shall bring a broader perspective for further research in terms of different variables of financial literacy and their relationship. The methodology used in this research have been used by organizations and have been proved efficient for conducting studies at district levels. Most of the studies have identified demographic variables affecting financial literacy as done in this paper as well but a very few have conducted studies on determining the level of financial literacy at the district level in the country. Thus, the paper provides an opportunity to the researchers to understand and use the methodology and findings in determining the level of financial literacy in different districts of the country.

Practical implications are that the authorities such as the government and the banks can make use of such research works to identify the issues such as areas where there is extremely low level of literacy, or the reasons of higher level of financial literacy in other areas, influence of socio-demographic variables on the level of financial literacy and thus, train the professionals accordingly to enable them to focus on the right path towards achieving financial literacy. The state government, banks as well as other higher authorities in the district should implement its strategies related with Financial Literacy and Financial Inclusion more rigorously at the ground level to make sure that the targeted audience gets the maximum benefit out of such policies and its implementation.

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