



HARTI

POLICY

BRIEF

2024 – 07

ISSN

3030-797X online

3030-7988 print



An Assessment of Financial Literacy of Farmers in the Domestic Agricultural Sector in Sri Lanka



Introduction

Financial literacy is a key factor in ensuring wellbeing of the poor and marginalized people in developing countries. According to Rai (2019), for achieving financial prosperity financial literacy of sufficient level is essential. Invariably, poor financial management can influence a person's behavior, making him more vulnerable to a financial crisis. Financial literacy is a combination of awareness, knowledge, skills, attitude and the behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing (OECD, 2021). Akande (2023) states that poor financial literacy and financial exclusion have perennially conditioned the poor to a life of perpetual poverty. According to Sandra & Carolyn (2002), financial literacy is essential to be aware and minimizes the likelihood of being misled in investment decision. Poor financial literacy causes financial exclusion, a situation in which people do not have access to mainstream financial products and services which include bank accounts, credit cards and insurance policies including insurance and loans from formal financial institutions (Alanso,2020). Accordingly, poor financial literacy is a definite threat to the financial and economic wellbeing of individual households as well as communities at large.

57.9% in 2021(CBSL, 2021). Also, certain pockets especially in rural agricultural sector have been identified with even lower levels of financial literacy. It is evident, generally in the rural agriculture sector, there definitely prevail issues that are directly related to and attributable to poor financial literacy and its consequences. Therefore, financial literacy of rural agricultural people should be improved for the greater wellbeing of masses at household level as well as at the community level at large.

Study Problem

Literature on the domestic agricultural sector reveals that farmer households suffer from numerous issues Damayanthi, (2013), De Silva, (2015) & Gamage (2012). Further, there is a clear connection between these issues and poor financial literacy. Therefore, it is timely to identify and devise strategies to improve the level of financial literacy of rural farmer community. Thus, the problem of this study was to find the level at which the financial literacy of rural agricultural farmers stands and how their financial literacy can be improved.

Objectives of the Study

Major objective

The major objective of the study is to assess the financial literacy of the farmers in the domestic agricultural sector in Sri Lanka.

Specific objectives

1. To identify the factors affecting the financial literacy of the farmers in the domestic agricultural sector
2. To identify the distribution of household expenditure
3. To make suggestions to improve the level of financial literacy of farmers in domestic agricultural sector.

Research Hypothesis

The study was guided by the following hypothesis

H_1 : There is a significant relationship between the financial attitude and financial behavior

H_2 : There is a significant positive relationship between education and financial literacy

H_3 : There is a significant relationship between monthly household cost and financial literacy

H_4 : There is a significant difference of gender to financial literacy

Methodology

The study was conducted using the descriptive quantitative design. This research design that allows the use of both descriptive and quantitative data analysis and is more appropriate to the problem addressed in this study.

Data Collection and Data Analysis

Data collection consisted of both primary and secondary techniques of data collection. Primary data collection was done on a sample of 300

farmers from the three study districts, Ampara, Anuradhapura and Kurunegala. These three districts were selected considering the extent of land cultivated and the production in food crop agriculture (Central Bank, 2022). Besides the sample survey, focus group interviews in each sample district and key important discussions were held with Agrarian Development Officers in the sample ADCs and the Agricultural Instructors attached to the divisions. In addition, the office bearers in farmer organizations from which the sample was selected were also interviewed with semi structured questionnaires. The main instrument of primary data collection was the structured questionnaire administered on 300 sample farmers. The questionnaire was also pilot tested in a similar setting to the sample area.

Data analysis was done using both descriptive and inferential statistical techniques.

Study Location

The study location consisted of 12 Farmer Organization (FO) areas including 2 FOs each from 6 Agrarian Development Center (ADC) area, of three sample districts. The sample ADC areas were Namalthalawa and Uhana from Ampara district, Ahatuwea and Mahagirilla from Kurunegala district and Andiyagala and Thambuththegama from Anuradhapura.

Findings of the Study

- Average level of financial literacy of the total sample of 300 respondents was 52.5%. (Assessed using weighted average scores of 3 components such as financial knowledge, financial attitude and financial behavior measured each with 10 Likert scale indicators or questionnaire)
- Average values of three components, financial knowledge, financial attitude and financial behavior of the total sample respondents were 45%, 68% and 44% respectively.

- A significant relationship between financial attitude and financial behavior was found with P value for the test .000.
- So was the level of education to financial literacy with the same P value
- Financial literacy has a significant positive relationship to the respondent's income with P value of .000
- Average financial literacy for male and female were 53% and 51%, respectively and it was found there to be no significant difference between the two group
- With regard to financial behavior, majority (over 95%) does not plan ahead their finances, budget, save or cut down expenses. Also, the majority is risk averse. Besides, majority of over 90% respondents do not keep records of their expenses.
- Cost of production of both paddy and OFC had a significant positive correlation with financial literacy with respective P values of .012 and .021. This can be assumed and attributed to poor concern to reduce the cost irrespective of the level of financial literacy.
- Monthly total average household cost for the entire sample was Rs.65578, and the average cost of food consumption was Rs.25033 which is 38% of the total monthly household cost. This amount does not include cost on rice, other, cereals and vegetable so much as the majority households produce their own supply by themselves.
- There was also no significant difference found in monthly household cost between and among the sample respondents of the three study districts
- The second highest cost of households is for education of children which is 13% while 12% was incurred on fuel and only 9% on loan repayment.
- From the entire sample of 300 in three districts, loans from any source have been obtained only by 160 (52.6%) respondents.
- Respondents had approached the following sources for their credit needs. They are government banks, Samurdhi Bank, Govijana Bank, village death donation society, leasing companies and relatives or friends.
- As many as 83 (27%) of the entire sample which is more than 50% of those obtained loans, have obtained their loans from government banks. While the next highest which is 22% respondents from the entire sample or 13.75% of those obtained loans, have received their loans from the Samurdhi bank. However, it was found that no respondent had obtained loans from informal money lenders.
- Most of those who have not obtained loans were found to have pawned their jewelry when in need of money.
- However, in paddy cultivation, majority was found to have borrowed inputs from input traders on the promise of selling paddy to the input traders to compensate the purchases. It was revealed that such transactions were not in favor of the farmer as often they were charged higher rates for the inputs.
- No cases of loan defaulting have been reported among the sample.
- However, it was found that majority of those who had not obtained loans from any source are generally averse to loans.
- Majority (82%) was found not to have made any investment either in agriculture or any other sector.

- In general, respondents had little knowledge with regard to investment. Saving is the only option they were familiar with.
- It was found that majority (83% of the sample) had ATM cards but the use of other financial products was minimum. Also, the use of credit cards and online banking facilities was found to be as low as 3% and 2%, respectively. However, the entire sample had bank accounts while 21% used it only to receive the fertilizer subsidy.
- From the entire sample only 2% had an insurance policy.
- Majority, (90%) had no specific retirement plan
- Only few (3%) was found to make extra effort and using modern technology to reduce the cost and increase production while the majority follow the same procedure, without proper extension support.
- Majority, as much as 63% were satisfied with their financial and economic situation and not inclined to earning a higher income.

Policy Suggestions

1. Financial literacy has a positive relationship with education. As a result, it is required to make measures to provide financial literacy through formal school education.
2. As income has a positive bearing on achieving higher financial literacy, measures are needed to increase income of the agricultural community through entrepreneurship, investment opportunities and facilitation to improve knowledge, skills and talents required for creating alternative livelihoods. Training
3. Strengthening Farmer Organizations. In concerning the power and responsibility vested on farmer organizations it can contribute so much to increase the income of farmer household, and contribute to reduce cost, provide credit and create alternative sources of income and investment opportunities. These potential developments in Farmer Organizations is a definite boost to improve financial literacy and financial inclusion of rural agricultural people and thereby development of agricultural community.
4. Subsidizing the cost of agriculture equipment for adopting new technology. This will encourage farmers to bring modern technology into their farm and draw youth to agriculture reaping higher profit.
5. Holding farmer awareness and training programs are needed from time to time to provide them with the new skills and knowledge on various aspects such as cost-effective farming methods, alternative livelihood opportunities, investment opportunities, climate resilient methods. Programs to change attitude and develop confidence and self-reliance should also be in place. Such skills and attitudes will help farmers face challenges and take risk in investing. The Department of Agriculture and Department of Agrarian Development can conduct such programs specially targeting young farmers at least at divisional level on a regular basis.
6. Village level officers all should be made compulsorily stay in the "*Gramam lekam Karyala*" whole working hours at least a day per week so that people can get services

required from them and build healthy relationship with the officers.

7. Wildlife damage and water scarcity was a common issue that cause crop damage and abandoning land uncultivated in the entire sample area. Long term and short-term measures are needed to resolve these issues.

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Required citation: De Silva, P.C.J., Lurdu, S., Samantha, N.P.G., and Hitihamu, S. (2024). *An Assessment of Financial Literacy of Farmers in the Domestic Agricultural Sector in Sri Lanka*. HARTI Policy Brief, No. 07. Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI), Colombo, Sri Lanka.

Findings of this policy brief have been adapted from the HARTI research study *An Assessment of Financial Literacy of Farmers in the Domestic Agricultural Sector in Sri Lanka*.

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