Hector Kobbekaduwa Agrarian Research and Training Institute

HARTI

AN ASSESSMENT OF FINANCIAL LITERACY OF FARMERS IN THE DOMESTIC AGRICULTURAL SECTOR IN SRI LANKA

Chathura Jayampathi
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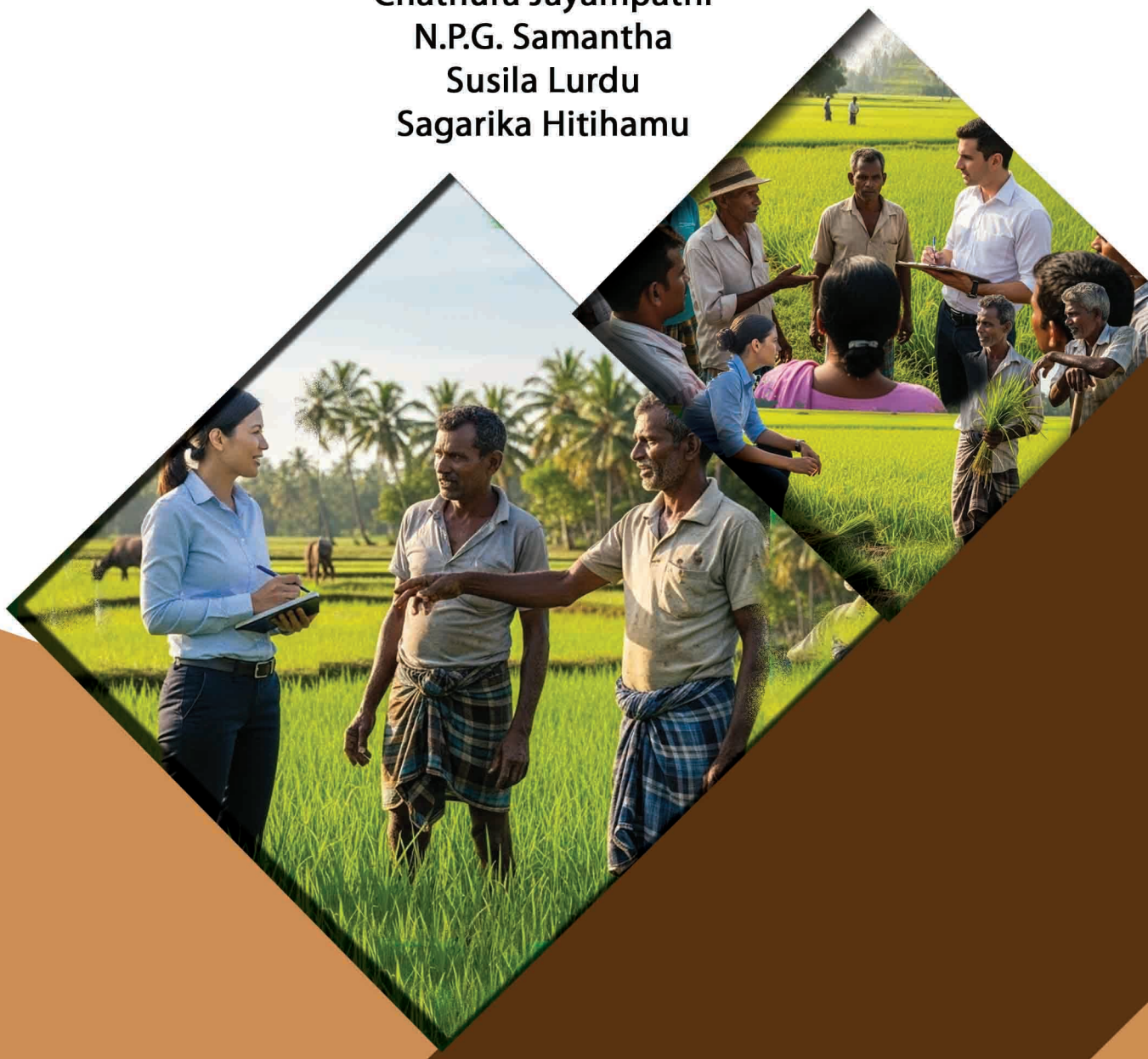

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FOREWORD

This timely and important study evaluates the financial literacy of the farming community within Sri Lanka's domestic agricultural sector and offers valuable recommendations to enhance their financial inclusion and overall wellbeing. The research was carried out in three major agricultural districts—Ampara, Anuradhapura, and Kurunegala—selected for their significance in country's food production and extent of agricultural land cultivated.

Employing both qualitative and quantitative methods, the study yields critical insights and policy recommendations aimed at improving the financial literacy of farming community. The findings reveal that financial literacy among agricultural households is relatively low, with financial knowledge emerging as the weakest of the three key components—financial knowledge, financial behaviour, and financial attitude. This deficiency is clearly reflected in the limited use of financial products and services among respondents, underscoring the widespread financial exclusion experienced by the majority.

The study further identifies that among the variables tested, education and income positively influence financial literacy, whereas age has a negative impact. Based on these insights, the study recommends the integration of financial literacy into formal education systems and calls for targeted initiatives to raise the income levels of rural agrarian households. These efforts are essential for promoting financial inclusion, which is both a driver and a result of improved financial literacy.

Overall, considering the relevance and timeliness of the study, along with its findings and policy implications, I am confident that it makes a significant contribution to HARTI's mission to support the development and wellbeing of the agrarian community.

Prof. A.L. Sandika
Director/Chief Executive Officer

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The success of this study was made possible through the support, cooperation, and collective efforts of numerous individuals and institutions, to whom the research team extends its deepest gratitude.

First and foremost, the research team wishes to express sincere appreciation to Prof. A.L. Sandika Director/CEO of HARTI, for his unwavering motivation, inspiration, and the generous administrative support provided throughout the course of the study.

Special appreciation is extended to the representative from the Central Bank of Sri Lanka and the Board of Governance of HARTI, whose foresight in identifying the need to assess the financial literacy of rural agricultural communities and recommend appropriate policy measures laid the foundation for this timely study.

Gratitude is also due to the Ministry of Agriculture, Ministry of Finance, and the Treasury of Sri Lanka for providing the essential financial support, which served as the lifeline for this research.

The Research and Training Committee of HARTI deserves special recognition for their valuable guidance and insightful contributions, which were instrumental in ensuring the successful completion of the study.

The cooperation extended by the Department of Agrarian Development and the District Commissioners of the three selected districts is greatly appreciated. Sincere thanks are also due to the Agrarian Development Officers in the selected Agrarian Development Centers and the Agriculture Research and Production Assistants (ARPAs), whose active involvement ensured the smooth and efficient conduct of the field survey.

Heartfelt gratitude is also extended to the leaders of Farmer Organizations, from whom the survey sample was drawn, for their facilitation and the warm hospitality offered to the field teams during the data collection process.

The enumerators, who carried out the survey on the ground with great dedication and enthusiasm, deserve the sincere applause of the research team.

Last but certainly not least, the research team is profoundly thankful to the survey respondents, whose willingness to share their time and insights made this study not only possible but meaningful.

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EXECUTIVE SUMMARY

Most of the economic and social issues prevailing in Sri Lanka's rural agrarian sector can be attributed to low levels of financial literacy. This study was conducted in three main agricultural districts in the country, namely Ampara, Anuradhapura and Kurunegala with the main objective of assessing the financial literacy levels of the farmers in the domestic agricultural sector. The specific objectives of the study were: (i) to discuss the factors affecting the financial literacy of the farmers in the domestic agricultural sector, (ii) to examine the distribution of household expenditure, and (iii) to make policy recommendations to improve financial literacy and inclusion of rural agricultural community.

The study adopted a descriptive quantitative research design and administered a sample survey as the primary method of data collection. The sample consisted of 300 farmer-households randomly selected from 12 farmer organizations. Data analysis was performed using both descriptive and inferential statistical techniques. The inferential methods included multiple regressions, t-tests, one-way ANOVA, and correlations analysis. Financial literacy was assessed based on the average weight of the 3 components such as financial knowledge, financial behaviour and financial attitude. Each of these components was measured separately using indicators on 10-point Likert scale indicators.

The average financial literacy level of the total sample of respondents was 52.5%. Whereas, the average scores of the three components of financial literacy, namely, financial knowledge, financial attitude and financial behaviour of the total sample participants were 45%, 68% and 44%, respectively. Levels of financial literacy of males and females were 53% and 52% respectively with no statistically significant difference between the two groups. While, income and education had a positive impact on financial literacy, age and sex had a negative correlation and impact. Notably, younger respondents demonstrated a higher level of financial literacy.

The study also found a statistically significant relationship between financial attitude and financial behaviour among the respondents while their level of education showed a statistically significant relationship to financial literacy. Similarly, financial literacy had a statistically positive significant relationship with respondents' income while there was no statistically significant relationship between gender and financial literacy.

Although the majority of respondents did not maintain budgets or monthly plans for spending, saving or investing, they generally demonstrated discipline in spending and managing their expenses within their income. For an average household, food consumption accounted for nearly 40% of its monthly income. Investment levels and interest in income-generating beyond agriculture, were generally low with most respondents showing a risk-aversive attitude. A few respondents having skills and potential to pursue more lucrative alternative sources of income like those engaged in entrepreneurial activity were found wasting their time and skills due to lack of

confidence and startup capital. Nevertheless, the majority of respondents lacked the skills and talents to engage in alternative livelihoods and sources of income or they have not adopted modern techniques to their only livelihood which is farming. The credit requirements of the respondents as against it was found in literature, were met by the formal sector and no incidents of credit defaulting was reported. In addition, the use of financial products and services prevail low, reflecting the poor financial knowledge. Among all factors, education and income were the most significant contributors to higher financial literacy.

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LIST OF ABREVIATIONS

ADC	-	Agrarian Development Center
AFP	-	Awareness of Financial Products
AI	-	Agriculture Instructor
ANOVA	-	Analysis of Variance
ARPA	-	Agrarian Production and Research Assistant
ASIC	-	Australian Securities & Investments Commission
ATM	-	Automated Teller Machine
CBSL	-	Central Bank of Sri Lanka
DO	-	Development Officer
FGD	-	Focus Group Discussion
FO	-	Farmer Organization
HARTI	-	Hector Kobbekaduva Agrarian Research and Training Institute
KI	-	Key Informants
MSME	-	Micro, Small and Medium Enterprises
OECD	-	Organization for Economic Co-operation and Development
OFC	-	Other Field Crops
PM	-	Payment Mechanism
SB	-	Savings Behaviour
SPSS	-	Statistical Package for the Social Science
YSR	-	Yeduguri Sandinti Rajasekhara

CHAPTER ONE

Introduction

1.1 Background of the Study

Today, it is accepted that financial literacy is widely recognized as a key factor in improving the economy and the overall standard of living among poor and marginalized people in developing countries. According to Rai (2019), a sufficient level of financial literacy is essential for an individual's and their family's financial well-being. Poor management of money influences the behaviour of individuals in such a way that makes them more sensitive to a financial crisis. Citing the Australian Securities and Investments Commission (ASIC) report (2003) Rai (2019) also notes that financial literacy has been worldwide recognized as an important element of economic and financial stability and growth.

Financial literacy is defined as a combination of awareness, knowledge, skills, attitudes and the behaviour, necessary to make sound financial decisions and ultimately achieve personal financial wellbeing (OECD, 2021). According to Akande (2023), poor financial literacy and resulting financial exclusion have consistently trapped the poor in a cycle life of perpetual poverty.

According to Braunstein & Welch (2002), financial literacy is essential for individuals to be aware and minimize the chances of being misled in investment decisions. Poor financial literacy causes financial exclusion, a situation in which people do not have access to mainstream financial products and services such as bank accounts, credit cards, insurance policies, and loans from formal financial institutions (Alanso, 2022).

Accordingly, poor financial literacy that causes financial exclusion can also cause other related loss of opportunities and increase the chances of being victims of financial frauds of various sorts. As such, poor financial literacy is a definite threat to the financial and economic wellbeing of the individual households as well as the communities at large. As a result, in many third-world countries, it is obvious that lately, scholars and practitioners involved in the development and wellbeing of poor, marginalized sectors have identified poor financial literacy as one of the significant causative factors of poverty and the poor state of life and economic hardships faced by individuals and the communities. Existing literature shows that the majority of third-world countries have lower level of financial literacy, which directly contributes to the higher levels of poverty exists.

Financial literacy is considered a basic need for financial inclusion which refers to access to financial products and services. Since the early 2000s, the concept of financial literacy has evolved significantly largely in response to efforts to understand the causes of financial exclusion (Mouna, 2017).

In Sri Lanka high general literacy rate is defined as the ability to read and write - financial literacy remains comparatively low with an estimated rate of 57.9% in 2021 (CBSL,2021). According to the same source, certain areas, particularly within the rural agricultural sector exhibit even lower levels of financial literacy. Hence, it is evident generally in the rural agricultural sector in Sri Lanka, there prevail issues that are directly related to and attributable to poor financial literacy and its consequences. Therefore, it is required to pay due attention to enhance the financial literacy of rural agricultural communities because it is important for the wellbeing of not only the individual household, but also the broader community and the nation as a whole.

1.2 Research Problem

Evidence from studies on the rural food crop sector and the broader domestic agricultural sector indicates that farmer households suffer from higher poverty and numerous related issues. While these issues stem from diverse factors, it is obvious that some of the major issues faced by the farmer community are directly due to poor financial literacy. Research findings on the domestic agricultural sector reveals that most of the borrowings of farmer households are from informal money lenders with high interest rates. Some farmers fall into debt traps and borrowing just to pay back unsettled loans, which leads to higher default rates (Dharmawardana, 2019). Farmers are also often alleged for easy borrowing from informal money lenders without considering the terms and conditions or even without a worthy purpose (De Silva 2015).

Similarly, many farmers are known to have no records on their spending and show little interest in saving or learning how to manage their expenses better. Also, most do not have any idea of investment or to explore alternative income sources to support their households. In practice, many also lack retirement plans or other means to ensure financial security in old age when physical involvement in economic or income-earning activities is no longer possible. Additionally, limited awareness about reducing the cost of production and the failure to use appropriate technology are said to result both high-cost and low productivity - key indicators of poor financial literacy (Rai, 2019).

Accordingly, all of the points outlined reflect the current realities faced by rural farming communities and clearly indicate their low level of financial literacy. Therefore, improving the financial literacy of rural farmers is an urgent priority. In response, this study explores ways to improve financial literacy among rural agricultural communities.

1.3 Objectives of the Study

General Objective

The general objective of the study was 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, and their relationships;
2. To look into the distribution of household expenditure;
3. To make recommendations to improve the level of financial literacy of farmers in strengthening the domestic agricultural sector.

1.4 Research Hypothesis

The **s**tudy was guided by the following hypotheses:

H_1: There is a significant positive correlation between the financial attitude and financial behaviour.

H_2: There is a positive correlation between education and financial literacy.

H_3: Gender has a significant effect on financial literacy.

1.5 Significance of the Study

Although the agricultural sector contributed only 7.5% to Sri Lanka's Gross Domestic Product (GDP) in 2024 (CBSL, 2024), over 80% of the population continues to reside in rural areas (World Bank, 2023). A significant proportion of this population is directly or indirectly dependent on agriculture for their livelihoods. Furthermore, poverty levels are notably higher in agricultural districts compared to the national average. More than eight out of every ten (80.9%) people who are poor live in rural areas, underscoring the fact that poverty in Sri Lanka is predominantly a rural phenomenon. (DCS,2023).

Studies have identified several logical and justifiable reasons for the phenomenon with low profitability in the agriculture sector cited as a primary cause. As Gamage (2012) notes, people's interest in agriculture is losing and especially the youth are increasingly turning away from the sector due to persistently decreasing income and other discouraging factors.

As Damayanthi (2013) points out, this situation has pushed many especially youth disillusioned with agriculture toward alternative, often less productive, livelihoods such as three-wheeler (taxi) driving, or working as construction helpers or security guards, mainly in urban areas. Additionally, some household members, particularly women, have migrated overseas in search of income. However, as De Silva (2015) notes, these shifts have not significantly improved household income or financial stability. Paradoxically, this trend has led to the abandonment of agricultural land, posing serious risks to the country's food production.

Gamage (2012) identified low income as a key factor contributing to high poverty levels in rural agricultural communities and the gradual shift of farmers away from agriculture. This is linked to issues such as low productivity, limited or no access to

formal credit, high production costs, poor extension services, lack of market information, ignorance of available information, extreme weather conditions, lack of production planning, and disunity among farmers. Many of these challenges are also rooted in poor financial literacy. Therefore, limited financial knowledge and poor financial management contribute significantly to poverty and the low standard of living in rural agricultural communities.

Rural poverty has led to numerous socio-economic issues that are rampant in rural agricultural areas today. These include higher rates of suicides, domestic violence, poor education, higher dropout rates, high malnutrition, migration of unskilled young mothers as housemates to Middle East countries, which in turn causing many social issues. These problems are all undoubtedly due to poverty to which poor financial literacy can be directly attributed. Therefore, it is crucial to assess the level of financial literacy encompassing financial knowledge, attitudes, and behaviours among rural agricultural households. Raising awareness among policymakers about the need to improve these areas is essential, as doing so would benefit both the farming community and the broader national economy.

1.6 Organization of the Report

The report is organized into six chapters. Chapter One provides an overview of the study, including its background, objectives, and significance. Chapter Two presents a comprehensive review of the relevant literature. Chapter Three outlines the methodology employed in the study. The findings are presented in Chapters Four and Five. Chapter Four examines the socio-economic conditions of the sample households. Chapter Five analyzes farmers' financial literacy levels and explores the influence of factors such as gender, income, and education on financial literacy among the respondents. It also investigates the relationship between financial literacy and financial attitudes, knowledge, and behaviour, as well as the credit obtained and its usage by the sample respondents. Finally, Chapter Six concludes the report with a summary of key findings, conclusions, and recommendations.

CHAPTER TWO

Literature Review

2.1 Financial Literacy

Although financial literacy has only recently gained recognition as a key factor influencing the financial and economic wellbeing of especially rural agricultural and marginalized communities, a substantial body of literature has already emerged on the subject. Financial exclusion can lead to debt, disconnection from essential services, and a deep sense of financial insecurity.

According to Patel (2023), financial literacy means being knowledgeable about finance. He explains that a person is considered financially literate if they have the knowledge or skill to manage their finances effectively. Financial literacy or the financial knowledge includes awareness and knowledge to decide on savings, borrowings, and planning for future income.

Similar to Alsnaso (2023), Patel emphasizes that financial literacy is the driving force behind financial inclusion—a process that ensures affordable access to financial services for underserved and excluded groups. He also states that financial literacy means having a basic, functional understanding of money and how to manage it. Besides financial literacy influences the everyday financial decisions households face—such as budgeting, renting or purchasing a home, funding children's education and securing income for retirement. Safitri (2021) defines financial literacy as the public's knowledge and awareness of formal financial institutes, including the benefits, features, costs, risks, obligations, and rights associated with financial products and services.

According to Remund (2010) as cited by Safitri (2021) financial literacy refers to a person's understanding of financial concepts, along with the ability and confidence to manage personal finances by making appropriate short terms decisions, engaging in long term financial planning, and staying informed about economic events and conditions. Similarly, Huston (2010) defines financial literacy as the awareness and knowledge of financial instruments and their applications in both business and everyday life. Accordingly, it is clear that financial literacy is a crucial factor that enables individuals to improve their economic wellbeing by better managing their money more effectively and increasing income and profit through informed, or knowledge-based decisions. This is strongly supported by Patel's (2023) insights into financial literacy from the perspective of farmers.

Financial literacy, in the agricultural context, refers to a farmer's ability to understand the fundamental principles of agribusiness and financial management. This includes awareness of the time value of money, cash flow, purchasing, credit and debt management, inventory control, and market dynamics. Patel (2023) further says that "Individuals and enterprises who are financially literate have access to useful and

cheap financial products and services that fit their needs - transactions, payments, savings, credit, and insurance – that are offered in a responsible and sustainable manner. Financial access improves daily life and assists families and businesses in planning for everything from long-term goals to unexpected emergencies. People who have accounts are more likely to use other financial services, such as credit and insurance, to start and expand enterprises, invest in education or health, manage risk, and weather financial shocks, all of which can improve their overall quality of life."

2.2 Farmer's Financial Literacy: Findings from Similar Contexts

A study titled "An Analysis of Indonesian Farmer's Financial Literacy" by Safitri (2021), conducted on a sample of 53 farmers from Lahat Regency, South Sumatera, found that poor education is a key factor contributing to low financial literacy and financial exclusion. Guru (2017), in a study based on secondary data on women's empowerment through financial inclusion in the YSR Kadapa district of Andhra Pradesh, India, highlighted the need to enhance women's financial inclusion by expanding and delivering financial services through innovative models and effective measures. The author emphasizes that improving women's access to timely credit is crucial for their socio-economic empowerment and development.

Ing, K. (2022). conducted a study examining farmer livelihood systems and debt recovery strategies in Takeo Province, Prey Kabas District, in Cambodia. The findings revealed that households with larger landholdings, whose livelihoods are tied to agriculture, were most likely to fail in repaying their debts. Additionally, these households exhibited the lowest levels of financial literacy, which contributed to both the inability to repay debts and their ongoing debt-related struggles.

Akande (2023) conducted a study examining the impact of financial literacy and financial inclusion on the sustainable livelihoods of rural agrarian settlers in the Eastern Cape Province of South Africa. Using variance-based structural equation modelling on a sample of 283 farmers, the study concluded that financial literacy positively and significantly influences financial inclusion and the achievement of sustainable livelihoods.

2.3 Studies of Financial Literacy in Sri Lanka

In Sri Lanka, although there have been no studies available specially focused on the domestic agricultural sector, it was found several studies done on the financial literacy of different targeted segments of the society to be available.

Karunathilaka (2016) in the study *"Financial Literacy of Rural Community in Sri Lanka: With Special Reference to Kurunegala District"* analyzed the financial literacy of the rural sector using a sample of 250 individuals. The study found that financial literacy is positively correlated with income, level of education, the use of banking products and knowledge of simple economic concepts. Similarly, Kumari (2018), in the study "*Financial Literacy as an Antecedent of Financial Inclusion: An Empirical Study among*

Rural Poor in Kurunegala District, Sri Lanka" using a sample of 373 rural households, revealed that financial literacy generally has a positive impact on financial inclusion among the rural poor.

Wewala, (2021) conducted a study comparing the impact of financial literacy on retirement planning decision among public and private sector workers in Sri Lanka. The study categorized financial literacy into three components such as savings behaviour (SB), payment mechanism (PM), and awareness of financial products (AFP) and tested these variables in relation to retirement planning decisions. Using a structured questionnaire survey with a convenient sample of 662 currently employed workers in the public and private sectors, the study found a significant positive relationship between savings behaviour and retirement planning decisions. However, awareness of financial products was found to have a negative and non-significant relationship to retirement planning decisions. The study also revealed that public sector workers generally had lower financial literacy than their private sector counterparts, despite the fact that retirement planning decisions were more prevalent among public sector workers. Based on these findings, the study recommends increasing awareness among public sector workers to encourage voluntary retirement planning, rather than relying solely on government-funded retirement options.

"Financial Literacy: As a Tool for Enhancing Financial Inclusion among Rural Population in Sri Lanka" (Kumari, 2020) is a study conducted across all 25 districts of the country with a sample of 450-respondents. The study explores whether financial literacy is a significant determinant of financial inclusion in Sri Lankan context and finds that financial literacy has a positive and significant impact on financial inclusion in rural communities in Sri Lanka. When examining the separate dimensions, the study reveals that financial knowledge and financial attitudes have the most significant impact on financial literacy among rural communities. Based on the findings, the study concludes that financial literacy is indeed a crucial determinant of financial inclusion Sri Lanka's rural areas. Accordingly, the researchers also provide policy recommendations to government policy decision makers to address financial exclusion and promote the financial inclusion of rural communities in Sri Lanka.

"Financial Literacy and its Determinants: A case of Professionals in Colombo District, Sri Lanka" by Madushani (2023) examines the financial literacy levels of professionals working in Colombo District, Sri Lanka, including Doctors, Engineers, Managers, Lawyers, Aviation and Navigation professionals such as Captains and Pilots. The study, based on a quantitative survey of 300 respondents from the Colombo district, revealed that basic and advanced financial literacy among professionals is at a medium level. However, the study found that financial literacy was particularly unsatisfactory among non-management professionals, particularly doctors and lawyers. A regression analysis identified several determinants of financial literacy, including economic and financial education, self-analytical skills, the field of employment, and monthly income level as independent variables reveals that they are all influential determinants of financial literacy. Accordingly, the study emphasizes the importance of implementing a national strategy to improve financial and economic educational programmes,

particularly for individuals who are not working in the professions related to management. The study by Balagobei, (2023) aimed to investigate the influence of financial literacy on investment decisions of individual investors in the Jaffna district. The study examined the impact of financial knowledge, financial behaviour and financial attitude on investment decisions of two hundred individual investors, randomly selected from the Jaffna district. Based on the primary data collected through a structured questionnaire, the study found that financial literacy positively influences investment decisions of individual investors. Therefore, the study recommends the implementation of effective financial literacy programmes, especially those focused on enhancing financial knowledge, behaviours and attitudes to support informed investment decisions among individual investors.

Gamage (2021), conducted a study with a sample of 200 undergraduates pursuing a management degree at a state university in Sri Lanka to explore the relationship between financial literacy and the financial behaviour of an undergraduate. The study found that financial literacy, particularly in the areas of saving, credit and budgeting has a significant positive effect on the financial behaviour of individuals. Heenkenda (2014), explored the existing patterns and disparities in functional financial literacy within the Sri Lankan context, mainly using quantitative data collected from a sample representing the three main settlement types: urban, rural and estate sectors through a multi-stage sampling technique. The study generated five 'domains' of financial literacy scores to assess respondent's relative skills. The findings revealed a strong association between socio-economic demographic characteristics and financial literacy levels. In addition, the study highlighted that while majority of the respondents demonstrated a modest financial knowledge - classifying them as literate - the level of functional financial literacy varied significantly and was largely influenced by factors such as education, income, gender, age, etc. The study by Priyadharshani (2021), conducted with a sample of final year student at the University of Kelaniya, Sri Lanka, aimed to identify the factors influencing personal financial literacy among university students. The study which used the statistical test - Pearson Chi Square to test the hypotheses, found that faculty, relevant course, work experience, and monthly financial support received were significant determinants of students' financial literacy of undergraduates while gender, education of parents, ethnicity, financial management skills were not the significant determinants to personal financial literacy. According to Jayakody (2020), entrepreneurial financial literacy has been identified as one of the major competencies necessary for the successful establishment and management of Micro, Small and Medium Enterprises (MSME). The study aimed to examine the effect of financial literacy on the entrepreneurial performance of MSMEs in the Gampaha district. Using an inductive in approach, the research was guided by five objectives and corresponding hypotheses. A sample of 100 entrepreneurs, representing all the entrepreneurial MSMEs in Gampaha district has been surveyed for the primary data collection with a structured questionnaire. The findings indicate that financial literacy has a statistically significant impact on the entrepreneurial performance. Furthermore, the components of financial literacy - namely financial knowledge, financial influence and financial behaviour - were also found to have significant positive effects on entrepreneurial outcomes.

Ing, K. (2022) conducted a study examining the mediating role of financial inclusion on the relationship between financial literacy and women's economic empowerment among rural women in Sri Lankan context. The study surveyed 426 rural poor women, living below the poverty line across all nine provinces in Sri Lanka. Using a multilevel mixed sampling method, the unit of analysis was women-headed households in rural areas, with primary data collected through a structured questionnaire. The findings revealed that financial literacy has a significant positive impact on women's economic empowerment and this impact is further strengthened through the mediating role of financial inclusion among the rural poor women in Sri Lanka. The study highlights the necessity of implementing financial literacy development programmes to facilitate greater participation of rural women in the formal financial sectors, thereby supporting their economic empowerment.

2.4 Synthesis of Literature Review

From the above discussion, it is evident that although a few studies have been conducted on financial literacy in Sri Lanka have been conducted from diverse perspectives and in varying contexts, their findings and recommendations tend to converge significantly. The literature consistently highlights financial literacy in Sri Lanka, as a critical requirement for promoting financial inclusion and enabling individuals to make informed decisions. Moreover, financial literacy is recognized as a key contributor to economic and financial advancement, individual empowerment, and the overall wellbeing of communities.

Financial literacy has been found to have a positive correlation with its determinants such as education, employment, age and gender. Nevertheless, as highlighted in the literature review, even educated professionals often exhibit lower levels of financial literacy unless they have received education specifically related to the field. This underscores the notion that financial literacy is a critical knowledge area which should be universally accessible. Therefore, it is imperative to implement policies that ensure that widespread financial literacy education for the public. This is particularly important given that poor financial literacy has been identified as a root cause of numerous economic and social challenges at the individual, household and national levels—including persistent poverty, underdeveloped entrepreneurship and the mismanagement or wastage of scarce resources.

2.5 Conceptual Framework

The conceptual framework for this study is grounded in its primary objective: to assess the level of financial literacy among the target population and to examine the relationships between relevant variables identified through existing literature. Financial literacy is widely recognized as comprising three core components—financial knowledge, financial attitude and financial behaviour. These three components are influenced by a range of demographic and socio-economic factors such as education, income, age, gender and awareness. An individual's level of financial literacy, shaped by these factors, significantly determines their degree of financial inclusion, which in

turn is essential for achieving economic wellbeing. Therefore, policy interventions should be strategically aligned to enhance the determinants of financial literacy, thereby fostering greater financial inclusion and contributing to the broader economic advancement of individuals and communities. Figure 2.1 presents a graphical representation of the conceptual framework, illustrating the abstract relationships and constructs that explain how financial literacy and the financial inclusion are interconnected and determined within the context of the domestic agricultural community.

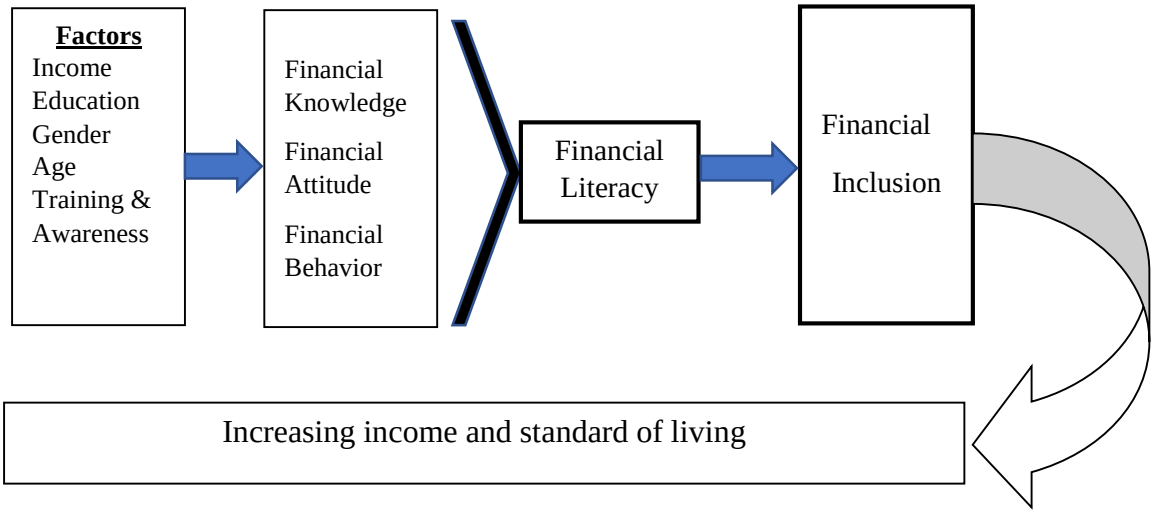


Figure 2.1: Conceptual Framework

2.6 Operational Definitions

The operational definitions of the key abstract concepts mentioned in the conceptual framework are provided below. These definitions clarify how each concept is measured and applied within the context of the study. In particular, the indicators used to assess the three main components of financial literacy such as financial knowledge, financial attitude, and financial behaviour have been clearly outlined and supported through the literature review discussed earlier.

Financial Literacy

Financial literacy is a combination of having financial knowledge to make informed financial decisions, the right attitude towards using and managing financial products, and the behaviour to manage finances effectively.

Financial Knowledge

Financial knowledge means understanding the financial concepts, making informed financial decisions, and having the knowledge and skills to use financial services and products effectively.

Financial Attitude

Financial attitude means respondents' characteristics and tendencies towards financial actions or the behaviour.

Financial Behaviour

Financial behaviour means financial actions taken by individuals that reflect their level of financial knowledge, attitude or overall financial literacy.

Financial Inclusion

Financial inclusion means using financial services and products productively and actively engaging in economic activities that improve the household income.

CHAPTER THREE

Research Methodology

3.1 Research Design

Study was conducted using descriptive quantitative design. This research design allows for the use of both descriptive and quantitative data analysis as undertaken in this study. Descriptive surveys attempt to establish the range and distribution of social characteristics such as income, education, occupation, training, location, etc., and how these characteristics are related to certain behaviour patterns or attitudes Zurmuehlen (1981). Descriptive research, in contrast to the research designs focused on understanding how or why something has happened, is more concerned with what has happened (Gall & Borg (2007). The focus of descriptive research design is to describe a phenomenon and its characteristics. As a result, descriptive research often uses observation and survey tools to gather data. In descriptive survey design, the research investigates multiple variables and unlike in experimental research, it is not possible to manipulate the variables. According to Kraemer (1991), survey research has three main characters. First, it quantitatively looks into the relationships among variables of specific aspects of a population concerned. Secondly, a survey collects subjective data from a sample of the study population. Thirdly, findings from the survey are generated back to the population from which the sample is derived.

3.2 Data Collection

Data collection includes both primary and secondary techniques of data collection. Primary data collection basically was made from a sample of 300 farmers from the three study districts namely: Ampara, Anuradhapura and Kurunegala. These districts were selected considering the land extent to food crop agriculture. Accordingly, these districts have the highest in extent cultivation, particularly paddy, as reflected in the statistics related to paddy (Central Bank, 2021).

In addition to the sample survey, focus group interviews were conducted in each sample district and key discussions were held with Agrarian Development Officers at the selected Agrarian Development Centers (ADCs) and the Agricultural Instructors (AIs) attached to the divisions to extract information related to farmers' knowledge of financial literacy. In addition, the officers in farmer organizations from which the sample was selected were also interviewed using semi structured questionnaires as key informants to provide necessary primary data of the study. The main instrument of primary data collection was a structured questionnaire administered to a randomly selected sample of 300 farmers. The questionnaire was pilot tested in a similar setting to the sample area, with 15 farmers whose main income source was agriculture.

3.3 Selection of the Sample for Questionnaire Survey

A total sample of 300 farmers, whose primary source of income is agriculture, was selected for the study. This included 100 farmers from each of the three selected districts. In each district, farmers were drawn from four farmer organizations (FOs), with two FOs selected from each of the two most agriculturally active Agrarian Development Centre (ADC) divisions. The selection of FOs was also based on the extent of land cultivated by each FO. Accordingly, the total sample of 300 farmers was drawn from 12 FOs across 6 ADC divisions in the three districts. From each FO, 25 households were randomly selected from the list of member households. Equal representation from each FO was ensured, as the selected FOs had nearly the same number of members.

ADC divisions and the respective FOs from which the sample was selected are as follows

Ampara District
Uhana (Kahatagasyaya & Mahakandiya)
Namalthalawa (*LB-06 & LB-05*)

Anuradhapura District
Thambuththegama (*408 D1 & 405 D1,2,3*)
Andiyagala ("*Shakthi*" & Kaluarachchiyagama)

Kurnegala District
Ahatuwewa- (Hunugallewa "*Gamunu*" & Makulewa "*Parakum*")
Mahagirilla- (Thimbiriyawa "*Mahasen*" & Paluswewa "*Pubudu*"

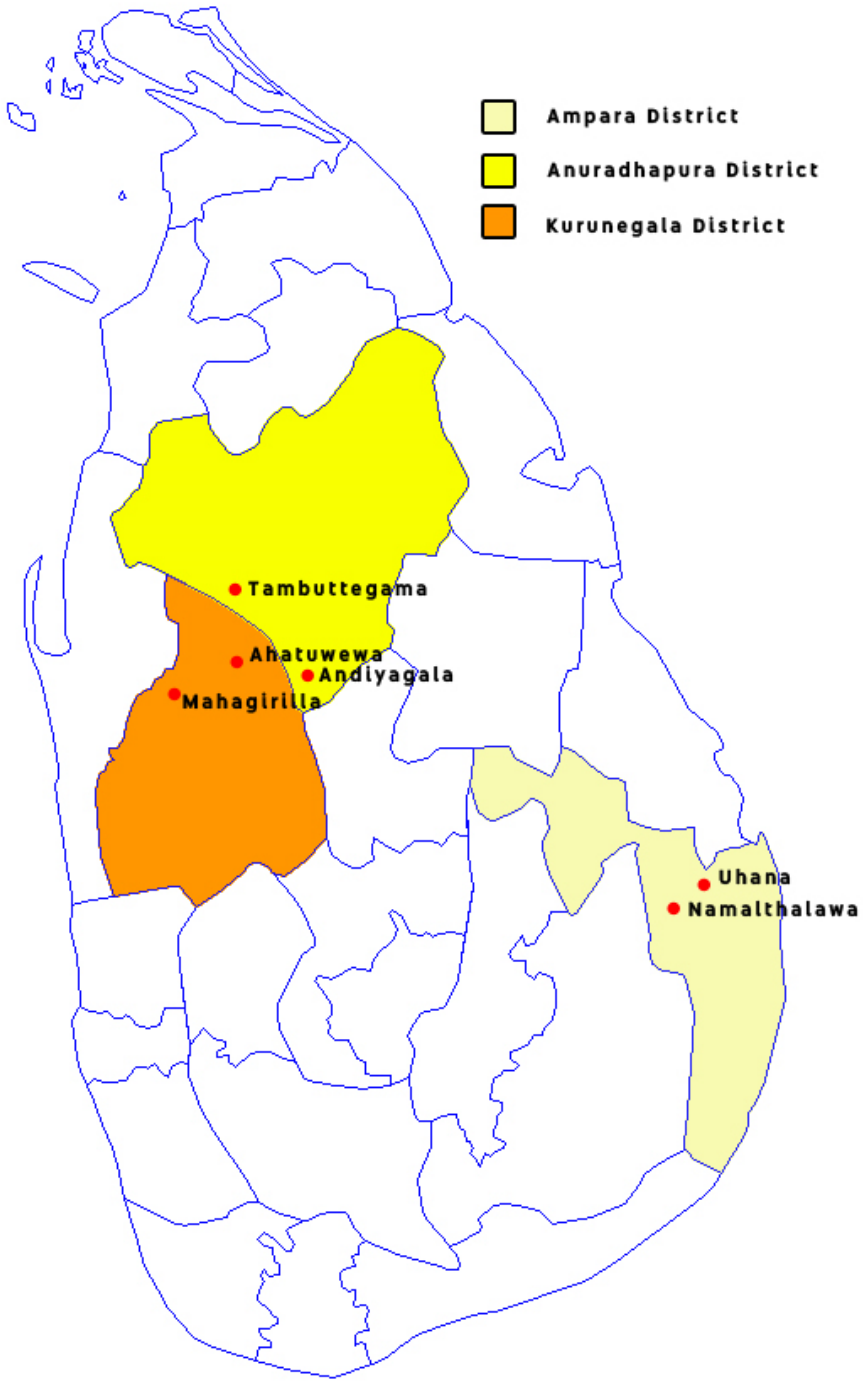


Figure 3.2: Study Location

3.4 Secondary Data Collection

Secondary data was gathered from previous related studies, books, and journal articles. Additionally, published reports and other relevant documents available at the selected Agrarian Development Centers (ADCs) and the Farmer Organizations (FOs) from which the sample was selected were also reviewed.

3.5 Data Analysis

Data was analyzed using both descriptive and inferential statistical techniques. Descriptive analysis included tables, graphical methods, percentages, means and value of st-deviations while inferential techniques included cross tabulations, correlation, t-tests, liner and multiple regressions.

FLi = βo + β1age + β2education + β3income + β4gender + β5no.of trainings received + ei`
FLi = Financial Literacy
Bo = constant
β1 – β5 = are regression coefficient which is a determinant of change to FLi
ei = error term
FLi, is the level of financial literacy of farmers 1, 2, 3, ... n; $\beta 0$, $\beta 1$, $\beta 2$, $\beta 3$, ……. are the parameters to be estimated.

The level of financial literacy among farmers was measured using an index constructed from responses to a series of questions related to the components of financial literacy. The formula used to calculate the financial literacy index for each respondent separately is based on methods Safitri (2021).

$$Farmer\ financial\ literacy = \frac{index\ 1 + index2 + index3}{3}$$

Index 1 represents the farmer's financial knowledge, Index 2 represents financial behaviour, and Index 3 reflects the financial attitude of farmers. These three indices together determine each individual farmer's overall financial literacy level, as calculated using the formula described earlier. The highest possible score for each index is 1, equivalent to 100%. Accordingly, all values derived from the formula are presented as percentages in this report. For instance, an overall average financial literacy score of 0.525 is reported as 52.5%.

Each index was constructed using 10 indicators that accurately capture the corresponding dimension of financial literacy. Respondents rated each indicator using a 5-point Likert scale, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), with 3 representing a neutral stance. The index score for each respondent was calculated by dividing the sum of their scores across the 10 indicators by the maximum possible score (i.e., 50).

The specific indicators used to construct each index are listed below. These were developed and adapted based on insights and evidence drawn from the literature on financial literacy.

Financial Knowledge

1. I am usually able to balance my income and expenditure
2. I have income sources that are sufficient to meet my expenses

3. I have an investment plan aimed at generating higher income
4. I usually do not feel disappointed with my financial decisions
5. If inflation rate was 5% last month and 2% in this month, it still means the cost of living has increased compared to last month
6. Inflation is an important factor in my investment decisions
7. I often use ATMs for financial transactions
8. I frequently use a credit card
9. I feel comfortable conducting transactions with formal financial institutions
10. I am comfortable using online banking services

Financial Attitude

1. I believe money can provide me a comfort life
2. If I have sufficient money to buy either a car or tractor, I would buy the tractor
3. Prioritizing needs helps in balancing the budget
4. Borrowings should often be made from formal financial institutions
5. I prefer investing money over simply saving it in banks
6. Borrowing money for right investing is not wrong
7. Team work is more profitable than work alone
8. Promises of higher interest should not be the main factor in saving decisions
9. Having a monthly plan helps managing expenses
10. My financial wellbeing is my own responsibility Index of financial behaviour of farmers is based on their responses to the following 10 questions:

Financial Behaviour

1. I prioritize my needs when I spend money
2. I am always alert to profitable income opportunities
3. I have already made some investments
4. I obtain loans only from formal lending institutions
5. I always use borrowed money for its intended purpose
6. I record my daily income and expenses
7. Before making important financial decision, I make an effort to be well informed and knowledgeable
8. I often bargain when making purchases
9. I set a monthly income target
10. I have some money saved

Table 3.1: Objective, Variables, Data and Method of Analysis

Objectives	Data to be Collected	Sources of Data	Data Collection Method	Data Analysis
To assess the financial literacy	Data that measures financial attitude, financial knowledge, and financial behaviour	Sample respondents	Structured questionnaire survey	Calculation of weighted average.
To identify the factors affecting financial literacy	Age, gender, level of education, income and number of awareness or training programmes attended	Sample respondents, Key informants	Structured questionnaire survey	Correlations, regressions, Mean tests
To identify the distribution of household expenditure	Household expenses include food, education, health, clothing, communication equipment, electricity, water, vehicle fuel, alcohol, and agricultural costs	Sample respondents, FGD, Key informants	Structured questionnaire survey, FGDs and key informant discussions	Descriptive analysis, correlations, cross tabulations
To suggest ways to improve the level of financial literacy among farmers	On savings, use of financial products, credit, purpose of saving, investments and types of investments, and alternative income sources	Farmer respondents, Key informants	Structured questionnaire survey, Key informant interviews and FGDs	Descriptive and inferential analysis which include t-test, correlation, multiple regression

CHAPTER FOUR

Socio-Economic Situation of the Sample Households

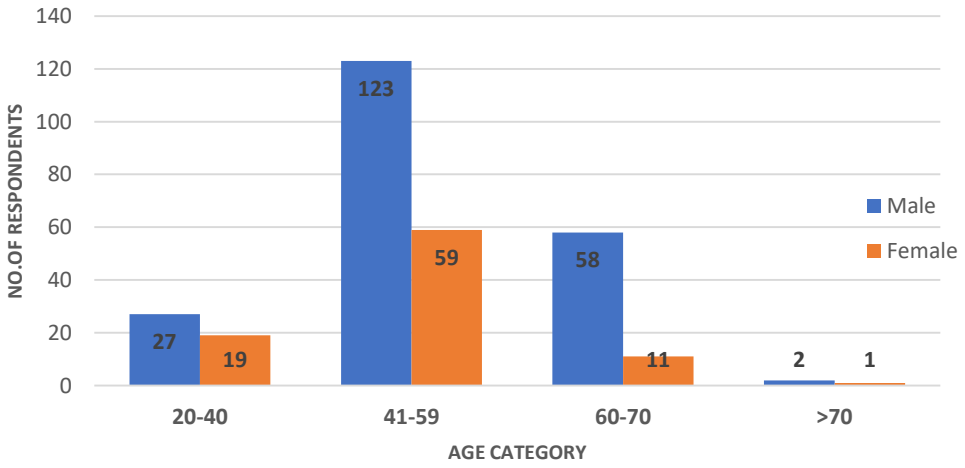
4.1 Introduction

This chapter presents information on the socio-economic situation of sample respondents. Accordingly, it mainly discusses their demographic and economic characteristics, sources of livelihood as well as information related to land use and crops cultivated by them.

4.2 Demographic Information of the Sample

4.2.1 Gender and Age Distribution

A total sample of 300 respondents was randomly selected from all three districts, consisting of 210 males and 90 females, all of whom are heads of their households. The sampling procedure is described above under 'Sample Selection'. Figure 4.1, below presents a summary of the age distribution of the sample. The data clearly show that the majority of both male and female respondents fall within the 41–59 age group, accounting for 66.6% of the total sample. This is followed by the 60–70 age group, which represents 23%. Thus, it is evident that the majority of those engaged in agriculture in the study area are over 40 years old, making up 84.9% of the total sample.



Source: Survey Data

Figure 4.1: Gender and Age Composition of the Studied Sample

According to the survey data on family size and the age structure of the 300 sample households, it was found that the total population consisted of 1,169 individuals including 560 males and 609 females. As a result, the male population accounted for 48% of the total, while that of females made up 52%. Table 4.1 summarizes the age

structure of the household members. The data presented in the table supports the fact that Sri Lanka's population is aging. This is evident when comparing the numbers for each age category in the sample, particularly the low percentage of individuals under 14 years of age (17.6%), while those over 60 account for 16% of the sample. Additionally, the average family size of 3.9 reflects the impact of the low population growth rate, which can be attributed to the long-term effects of family planning initiatives encouraged during the 1970s and 80s, and which have been widely adopted since.

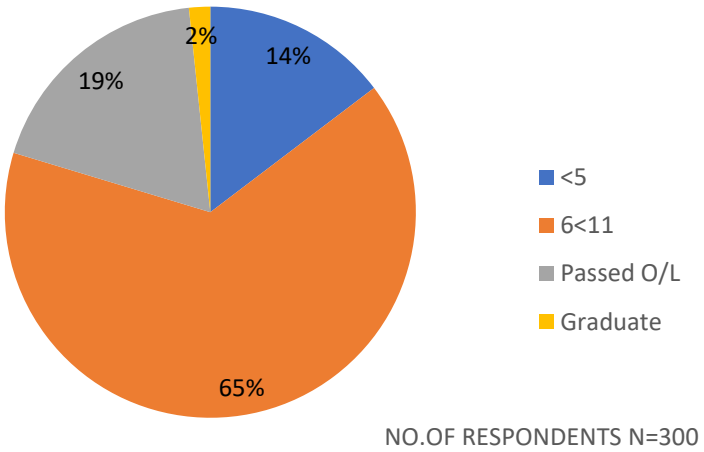
Table 4.1: Age Structure of the Sample Household Members

Age category (Years)	No. of male	No. of female	Total	Total (%)
<5	16	21	37	3.1
5-14	80	91	171	14.6
15-59	381	394	775	66.3
60-70	65	76	141	12.2
>70	19	26	45	3.8
Total	**561**	**608**	**1169**	**100**

Source: Survey Data

4.3 Level of Education of the Sample Respondents

Figure 4.2, shows the level of education of the sample respondents. Accordingly, the majority of respondents (81%) have received education up to grade 11. Likewise, a considerable percentage of the sample respondents had education only up to grade 5 while a small percentage had never attended school. Despite this, a few graduates were engaged in agriculture and made it a successful livelihood. Several of them had also never been engaged in any other employment or livelihood and showing no intention of leaving or giving up agriculture.



Source, Survey Data

Figure 4.2: Level of Education of the Sample Respondents

4.4 Household Income

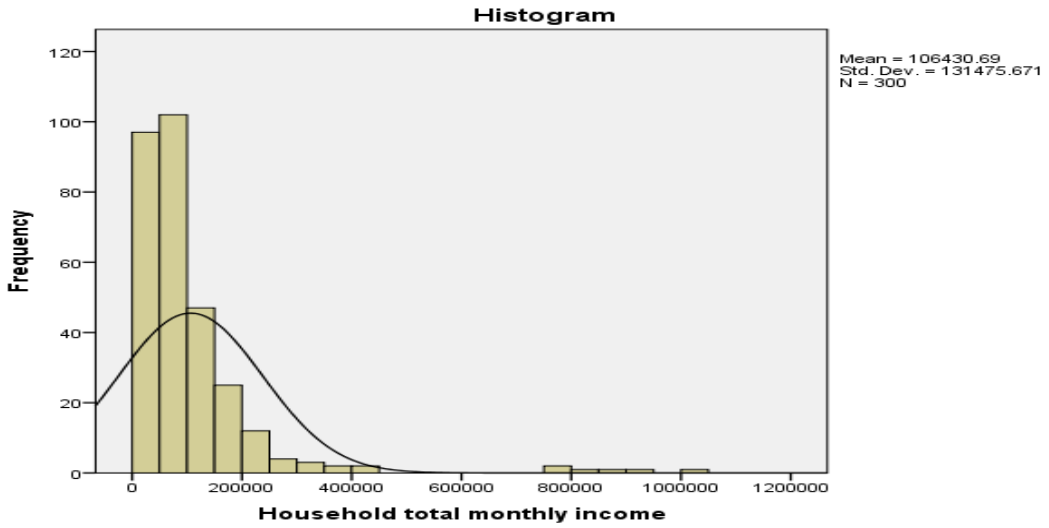
Table 4.2, shows the main components of household income of the sample and the average income from each component. Accordingly, the average contribution of all three components to the household income varies marginally. Nevertheless, except in Anuradhapura district where salaried income is comparatively higher than that of agricultural income, agricultural income remains the highest contributor to household income in most other cases, though by a small margin. On average, agricultural income accounts for 40.5% of the monthly household income across the 300 sample households, while salaried employments and other livelihoods were 26.6% and 31.7% respectively.

Table 4.2: Components of Average Household Monthly Income (Rs.)

District	Agriculture	Salary	Other Livelihood	Average Monthly Income
Kurunegala	55,356.00	40,026.00	38,789.00	135,197.00
Ampara	42,589.00	21,105.00	31,483.00	95,320.00
Anuradhapura	31,544.00	37,338.00	30,937.00	88,864.00
All Districts	43,163.00	28,289.00	33,744.00	106,431.00

Source: Survey Data

However, government financial subsidies or donations to the income of beneficiary households was only 9% of their monthly income. As such, they do not appear to have a significant impact on improving the livelihoods or living standards of respondent households. Only 65 households, or 21.7% of the total sample, reported receiving such assistance. There is a considerable variation in income among the sample households with the standard deviation of average monthly household income reaching as high as Rs.131,475. Figure 4.3 clearly illustrates that majority households earn a monthly income close to that of average or less than that while there are only a small number of households earn above the average or mean income.

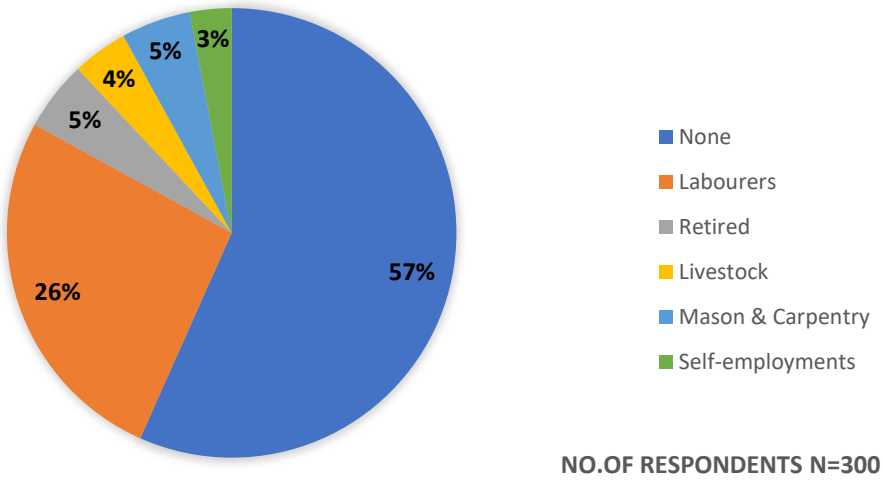


Source: Survey Data

Figure 4.3: Total Monthly Incomes of Sample Households

4.4.1 Sources of Secondary Income

In addition to agriculture, it was found that some households have other supporting income sources. A total of 165 households (55%) had at least a single member being employed in public or private sector. In some households, respondents themselves were retirees of military forces who later turned to full time farmers. Figure 4.4 shows the secondary sources of income among the sample respondents. Accordingly, the majority of the respondents are not engaged in any secondary source of income and engaged only in agriculture as their sole livelihood or source of income. The main secondary income source among respondents is agricultural labour, accounting for 26% of the sample. However, more than half of the respondents—170 individuals (56%)—are not engaged in any secondary income-generating activity. Notably, participation in livestock farming (5%) and other forms of self-employment (3%) is very low, which is a significant characteristic of the sample. As shown in Figure 4.4, the majority of respondents rely solely on agriculture for their income. This situation should be addressed, especially considering that the mean age of the respondents is 49.9 years, indicating that they are still physically and mentally capable of learning and engaging in additional income-generating activities.



Source: Survey Data

Figure 4.4: Sources of Secondary Income of the Sample Respondents

A one-way ANOVA test was conducted to examine whether there is a statistically significant difference in average monthly household income across the three studied districts. The results indicated a significant difference at the 95% confidence level, with a p-value of 0.026 ($p < 0.05$). This variation in income is primarily attributed to the relatively lower agricultural income observed in Anuradhapura compared to the other two districts. Notably, a considerable number of farmer households in the Thambuthegama Agrarian Development Centre (ADC) division refrained from cultivating paddy during either the *Yala* 2023 season, the *Maha* 2022/2023 season, or both. This decline in cultivation, which directly impacted agricultural income, was largely due to water scarcity resulting from inadequate rainfall.

Furthermore, as shown in Table 4.2, agricultural income remains the primary component of household income for rural farming households. Consequently, when agricultural income declines, total household income also tends to be lower. This underscores the need for any intervention aimed at improving the wellbeing or income generation of rural agricultural communities to focus on strengthening the agricultural sector. Additionally, the findings highlight a lack of income diversification in these areas, with household incomes predominantly dependent on agriculture.

4.4.2 Composition of Household Agricultural Income

Table 4.3 presents information on the composition of average household agricultural income during *maha* and *yala* seasons based on two main crop components such as paddy and Other Field Crops (OFC). Accordingly, Kurunegala district recorded the highest paddy income during both seasons while OFC is concerned, in Ampara district the respondents had received highest income. These mean values related to both crops and seasons were found to have considerable deviations. For example, in considering the total average paddy income deviation for both *yala* and *maha*

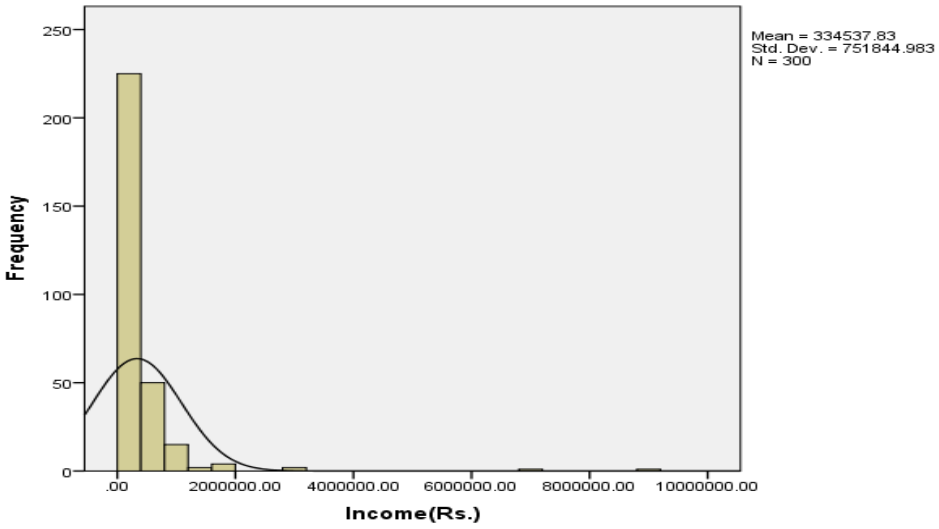
amounts to Rs.751,844 while for OFC it was Rs.538,857. In all three districts, income from OFC is less than that of paddy, with paddy contributing 66% of the total agricultural income of the entire sample of 300 respondents. Basically, the lower income from OFC is largely attributed to factors such as water shortages due to insufficient rainfall, limited access to and high cost of fertilizer and quality seeds, as well as crop damage caused by wild animals.

Table 4.3: Contribution of Paddy and OFC to Total Agricultural Income

District	Paddy Income (Rs.)		OFC Income (Rs.)		Total	
	Maha (2022/23)	Yala (2023)	Maha (2022/23)	Yala (2023)	Paddy (Yala /Maha)	OFC (Yala /Maha)
Kurunegala	213,822.00	208,658.00	172,666.00	21,137.00	422,481.00	193,803.00
Ampara	172,534.00	153,433.00	89,420.00	110,232.00	324,433.00	199,652.00
Anuradhapura	137,165.00	119,533.00	71,242.00	48,888.00	256,698.00	120,130.00
All Districts	174,507.00	160,565.00	111,109.00	60,086.00	33,4537.00	171,195.00

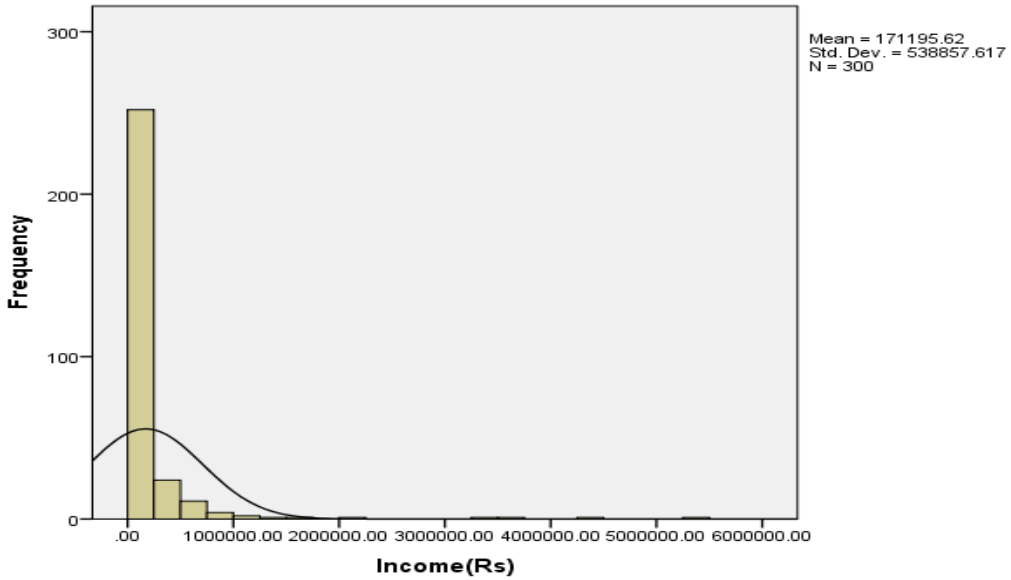
Source: Survey Data

An ANOVA test was also conducted to determine whether there is a statistically significant difference of total combined average income from paddy and OFC during both *yala* and *maha* seasons across the studied districts. Accordingly, the results indicated that there is no statistically significant difference in the mean average income of both paddy and OFC among the three districts. However, it was found that the income of Anuradhapura district shows a fairly considerable difference compared to other two districts. Figure 4.5 and Figure 4.6 below respectively illustrate the distribution of average total income of paddy and OFC of the entire sample households during both seasons. Accordingly, the left-skewed nature of both distributions clearly indicates that the majority of respondents earn less than the mean income for both OFC and paddy cultivation. This suggests considerable potential to enhance both production and income levels for the majority of farmers.



Source: Survey Data

Figure 4.5: Combined Income of Paddy during Y*ala* and *Maha* seasons



Source: Survey Data

Figure 4.6: Combined Income of OFC during *Yala* and M*aha* Seasons

Apart from the points discussed above, the left-skewed and high standard deviation of income shown in both Figure 4.5 and Figure 4.6 clearly indicate that few respondents earn significantly higher incomes than the average received by the majority. This disparity is mainly due to the larger extent of land cultivated and additional efforts made by these respondents such as striving to obtain and use quality seeds and applying recommended amount of fertilizer despite the higher costs.

4.5 Extent of Land Cultivated and Production

The relationship between the extent of land cultivated and production of paddy in both *maha* and *yala* seasons is presented separately in the Table 4.4. Accordingly, it is evident that 2-tailed correlation is significant at the 0.01 level for each district in both seasons, indicating a statistically significant relationship between the extent of land cultivated and the production. Moreover, since the Pearson Correlation Value for each test is positive, it confirms a positive relationship between extent of land and paddy production, regardless of the season. Nevertheless, this positive relationship appears stronger during *yala* season compared to the *maha* season as reflected in correlation values. This difference can be attributed to comparatively better access to fertilizer during the 2023 *yala* season, and lower pest damage and the fact that only plots with irrigation were cultivated - resulting in reduced crop damage due to water scarcity. In contrast, according to respondents, the 2022/2023 *maha* season experienced inadequate rainfall, which led to damage in many paddy fields.

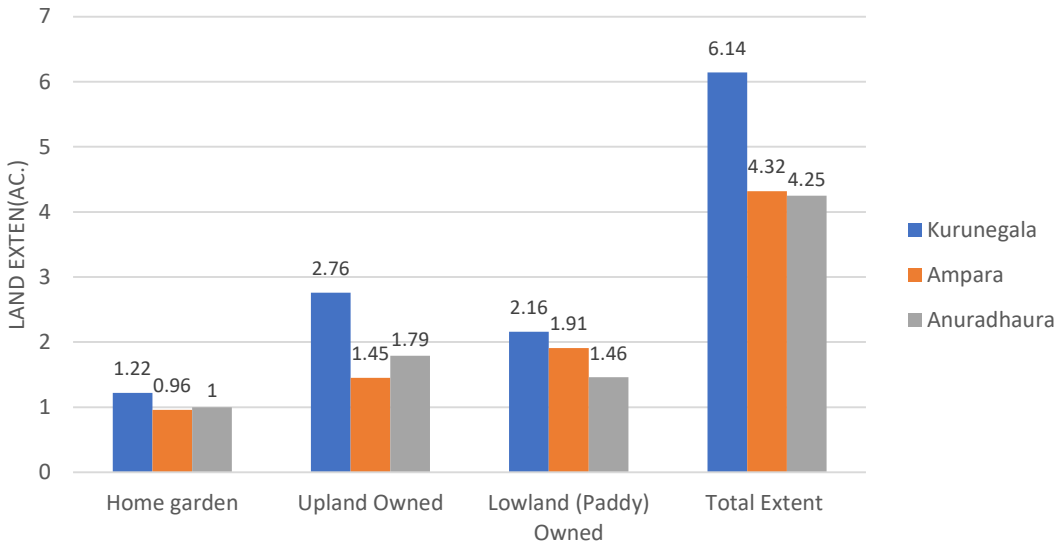
Table 4.4: Correlation Results; Production and Extent of Land Cultivated

District	Maha Season (2022/23)		Yala Season (2023)	
	Correlations (Pr)	Sig. or P(value)	Correlations (Pr)	Sig or P (value)
Kurunegala	0.747	0.000	0.672	0.000
Ampara	0.601	0.000	0.806	0.000
Anuradhapura	0.451	0.000	0.844	0.000
All Districts	0.461	0.000	0.763	0.000

Source: Survey Data

4.6 Land Owned by the Sample Households

Figure 4.7 shows the land ownership of the sample household. Accordingly, in Kurunegala district there seems to be a slightly higher average in all three types of land compared to other two districts.



Source: Survey Data

Figure 4.7: Extent of Land Owned by the Sample Respondents

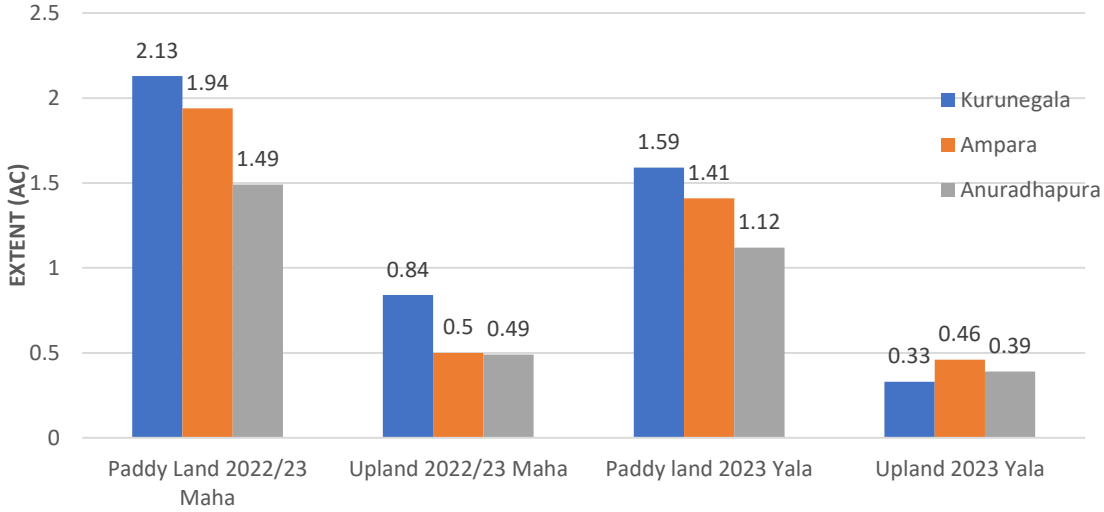
Nevertheless, regarding the deviation from the mean of the land extent owned by sample respondents in three districts, Kurunegala district recorded the largest deviation in all three types of land, as shown in the SPSS output in Table 4.5.

Table 4.5: Information on Agricultural Land Cultivation in Kurunegala District Statistics

		Extent home garden (Ac)	Extent Upland Owned (Ac)	Extent paddy land owned
N	Valid	100	100	100
	Missing	0	0	0
Mean		1.2267	2.7627	2.1600
Median		1.0000	2.0000	1.5000
Mode		.50	1.00	1.50
Std. Deviation		1.05173	2.76709	1.97731
Sum		122.67	276.27	216.00

Source: Survey Data

4.7 Extent of Land Cultivated with by the Sample Households



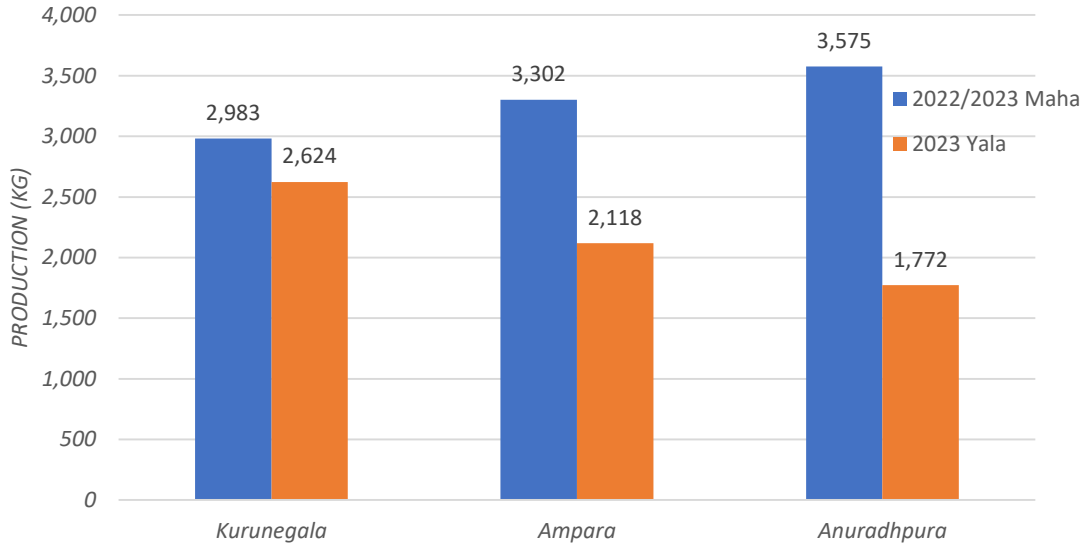
Source: Survey Data

Figure 4.8: Average Extent of Land Cultivated by Sample Respondents in 2023 *Yala* and 2022/23 *Maha*

Figure 4.8, shows the average extent of paddy and upland cultivated with other crops by respondent households during the 2022/2023 *maha* and 2023 *yala* seasons. Accordingly, it was found that in Kurunegala district entire average amount of paddy land owned by the respondents was cultivated in *maha* season while only 73% was cultivated in the *yala* season. As shown in Figure 4.7, in Ampara and Anuradhapura districts, the average extent of paddy land cultivated by the sample in the *maha* season slightly exceeded the average land owned as some respondents also cultivated leased land. This is because some respondents cultivated leased land obtained in addition to their own land. However, in all three districts around 25% of paddy land owned by the sample respondents was not cultivated during the *yala* season.

4.8 Paddy Production in the Sample Area

Figure 4.9 presents the average paddy production in the three sample districts individually, along with the combined average for the total sample of 300 respondents. The data clearly show that Anuradhapura district recorded the highest average production during the *Maha* season, whereas Kurunegala district achieved the highest average production during the *Yala* season. Further, when land productivity is calculated by considering the extent of cultivated land and average yield, Anuradhapura district demonstrated 58% higher productivity during the *Maha* season compared to Kurunegala. In contrast, during the *Yala* season, Kurunegala district not only reported the highest average production but also the highest land productivity among the three districts.



Source: Survey Data

Figure 4.9: Average Production of Paddy (kg) - (2022/23 M*aha*, 2023 *Yala*)

CHAPTER FIVE

Findings of the Study

5.1 Introduction

This chapter mainly discusses the major findings of the study, especially in relation to the study objectives and hypotheses which guided the study. Accordingly, the chapter presents findings on financial literacy and literacy levels, as well as the influence of factors such as gender, income, and education on financial literacy among the sample respondents. The chapter also explores the relationship between financial literacy and financial attitude, knowledge, and behaviour. Besides, the chapter also discusses the credit obtained and its usage by the sample respondents.

5.2 Information on Financial Literacy of the Sample

The average financial literacy level among the total sample of 300 participants was 52.5%. The average scores for the three components, namely, financial knowledge, financial attitude and financial behaviour of the total sample respondents were 45%, 68% and 44% respectively. A statistically significant relationship was found between financial attitude and financial behaviour ($p = .000$) as well as between education level and financial literacy ($p = .000$). Additionally, financial literacy showed a significant positive relationship with respondents' income ($p = .000$).

Also, it was found that there was no statistically significant mean difference in financial literacy between and among the respondents of three districts, suggesting that the financial literacy levels of the domestic agricultural communities are of more similar than different.

5.2.1 Factors Affecting the Financial Literacy

From the literature reviewed, the study identified four main factors associated with the financial literacy of the sample. It included income, education, age and the gender. Initially it was assumed that the number of awareness or relevant training programmes attended by respondents might also contribute to their financial literacy. However, the findings revealed that, overall, the respondents had received little to no such training or awareness programs during their tenure as farmers.

Accordingly, the study found multiple regression teste conducted on those factors such as education, gender, total monthly income and age to have a statistically significant relation to the financial literacy of the sample with a p-value of 0.000. The respective "R" value which is 0.452 indicates that chosen factors, or independent variables explain approximately 45% or nearly half of the variation of the financial literacy of the studied sample.

5.2.2 Gender and Financial Literacy

Table 5.1 shows that the average financial literacy levels of male and female respondents are 53% and 52%, respectively. Besides, the average scores of all three components of financial literacy such as financial knowledge, financial attitude and financial behaviour are also nearly identical for both male and female with only a slight difference in the values of financial behaviour between the two as reflected in the table. Accordingly, the t-test results confirm that there is no statistically significant difference in the mean financial literacy between male and female respondents in the sample.

Table 5.1: Financial Literacy Scores of Male and Female Respondents

Sex	Financial Knowledge	Financial Attitude	Financial Behaviour	Financial Literacy
Male	0.45	0.68	0.44	0.53
Female	0.45	0.68	0.43	0.52

Source: Survey Data, 2023.

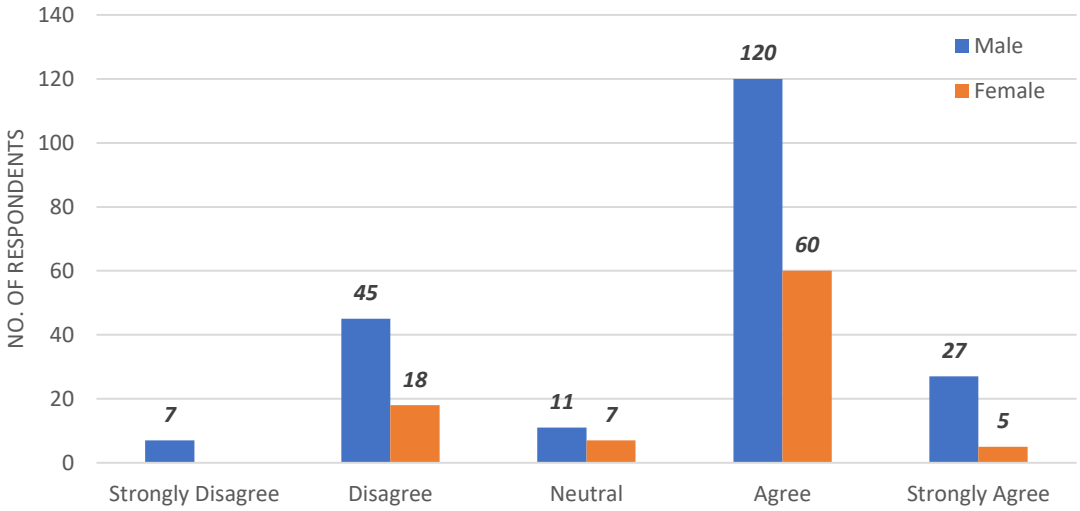
Besides, a cross tabulation test was conducted to examine whether male and female respondents differ in their opinion on the statement, “If I have money, I prefer investing to saving”. The SPSS output Table 5.2 shows that the cross-tabulation test result, pertaining to the particular Likert Scale Statement. By comparing the 'Count' and 'Expected Count' values for male and female respondents across each Likert Scale Level, it is evident that males are more inclined to invest money if they have it, whereas females tend to prefer saving over investing.

Table 5.2: Cross-tabulation Test: “If I have money, I prefer investing to saving”

		Gender		Total
		Male	Female	
Strongly Disagree	Count	7	0	7
	Expected Count	4.9	2.1	7
Disagree	Count	45	18	63
	Expected Count	44.1	18.9	63
Neutral	Count	11	7	18
	Expected Count	12.6	5.4	18
Agree	Count	120	60	180
	Expected Count	126	54	180
Strongly Agree	Count	27	5	32
	Expected Count	22.4	9.6	32
Total	Count	210	90	300
	Expected Count	210	90	300

Source: Survey Data

Although the cross-tabulation results suggest that males prefer investing over saving more than females do, Figure 5.1 indicates that the majority of both males and females prefer investing to saving. As a result, it is important to support and empower individuals by increasing and helping them to identify suitable investing opportunities by improving their knowledge, skills and talents. This enables them to make informed investment decisions and develop into entrepreneurs in their preferred fields.



Source: Survey Data, 2023.

Figure 5.1: "If I Have Money, I Will Invest Rather than saving"

In addition to the findings from Figure 5.1, the focus group discussions also revealed that respondents prefer to invest any surplus money in profitable industries or services rather than depositing it in banks. They rightly recognized that simply saving money in a bank yields lower returns compared to the potential gains from well-planned investments.

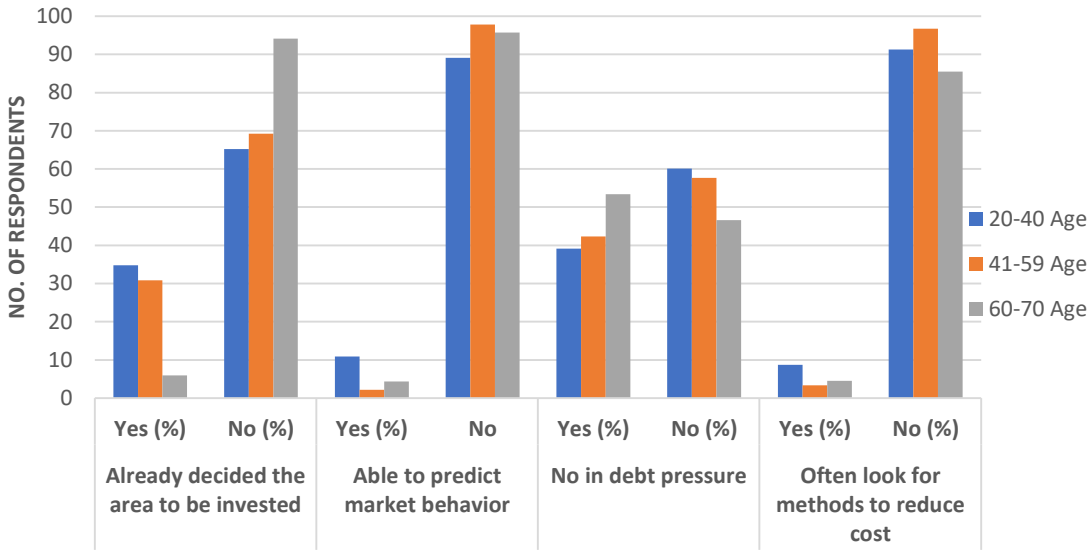
5.2.3 Respondent's Age and Financial Literacy

Table 5. 3 presents the financial literacy of the respondents across four age categories. It shows that the younger respondents across four age categories. It shows that younger respondents scored higher in all aspects of financial literacy. A Pearson correlation test revealed a moderately strong and significant relationship between age and financial literacy ($p < .001$). This suggests that in the three districts studied, younger farmers involved in the domestic agricultural sector tend to be more financially literate than older farmers.

Table 5.3: Respondent's Age and Their Level of Financial Literacy

Age (years)	No. of Respondents	Financial Knowledge	Financial Attitude	Financial Behaviour	Financial Literacy
20-40	46	0.48	0.71	0.47	0.55
41-59	182	0.46	0.68	0.45	0.53
60-70	69	0.41	0.66	0.39	0.49
>70	03	0.34	0.66	0.40	0.47
All	300	0.45	0.68	0.44	0.52

Source: Survey Data



Source: Survey Data, 2023

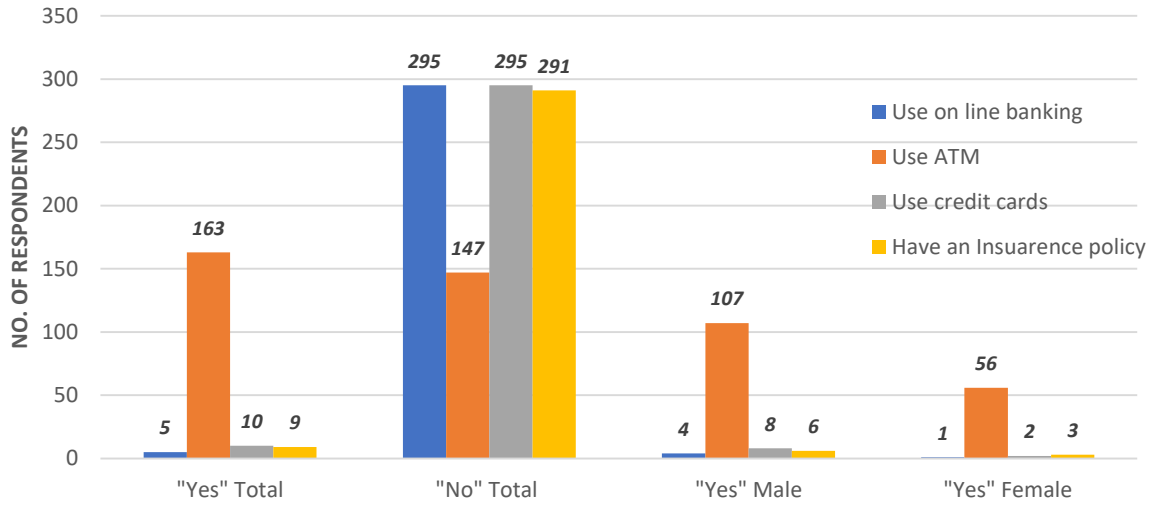
Figure 5.2: Age based Responses on Financial Literacy Indicators

As the findings revealed, younger respondents tended to have relatively higher level of financial literacy. Nevertheless, improvement in financial literacy is a key need for all. This is evident from the fact that the majority lacked adequate knowledge on most aspects of financial literacy covered in the study. Figure 5.2 shows that, many respondents were uncertain or unclear about where or how to invest, even if they had the financial resources to do so. Furthermore, the study found that only a negligible percentage of respondents considered market demand before deciding which crops to cultivate. Additionally, only a small number of respondents made extra efforts or sought ways to reduce their cost of production, which is a key characteristic of a financially literate farmer.

5.2.4 Using Financial Products by Respondents

Figure 5.3, presents data on respondents use of financial services and products. Accordingly, besides using ATM cards, the majority of respondents make minimal use

of other financial products. According to the information in the figure, only remarkably a few respondents reported using services such as banking, credit cards or even insurance — except vehicle insurance. Although all respondents had bank accounts, it was also found that 21 of them representing 7% of the sample, used their bank accounts solely to receive the fertilizer subsidy. This indicates a low level of engagement with financial services, likely stemming from limited financial knowledge. In addition, the figure reveals that female respondents use financial products even less frequently than their male counterparts, in proportion to their representation in the sample.



Source: Survey Data

Figure 5.3: Usage of Financial Products and Services of the Sample Respondents

5.3 Household Expenditure

Table 5.4 presents the monthly household expenditure of the sample households for October 2023. The monthly expenditure was categorized based on key household spending areas to assess whether any unnecessary or avoidable expenses could be linked to poor financial literacy. However, the findings indicate that, on average, households hardly make a very few unnecessary or irrational expenditures, or wasteful expenditures and in contrast they appear to have a sound understanding of their financial priorities and demonstrate discipline in managing their spending according to essential needs.

Accordingly, the average total monthly household expenditure for the entire sample was Rs.6,557, and the average expenditure for food consumption was Rs.25,033, representing 38% of the total. The second highest expenditure was on education of children at 13%, while 12% was incurred on fuel. No significant difference was found in the monthly household expenditure among the respondents of the three study districts. The high expenditure on education is largely attributed to spending on

private tuition, which parents identified as a financial concern due to the high fees charged by tuition providers.

Table 5.4: Monthly Household Expenditure of Sample Households

Item	District & Cost (Rs.)				
	Kurunegala	Ampara	Anuradhapura	Average	%
Food	2,6074.75	22,330.85	266,96.03	25,033.88	38.17
Other household essentials	4,174.22	4,162.18	3,986.40	4,107.60	6.26
Education	9,699.19	7,365.00	8,694.60	8,586.26	13.09
Electricity	2,985.05	2,567.61	2,911.29	2,821.32	4.30
Health	3,999.90	2,869.60	3,280.00	3,383.18	5.16
Drinking water	655.65	1,907.10	640.51	1,067.75	1.62
Communication	1,471.54	1,450.82	1,478.23	1,466.86	2,24
Fuel	7,478.14	7,365.00	7,663.50	7,502.21	11.44
Gas	182.10	313.49	350.47	282.02	0.43
Insurance	749.00	2,114.00	5,657.60	2,840.20	4.33
Charity and functions	4,747.50	3,572.00	2,839.00	3,719.50	5.67
Other	4,729.54	9,206.00	470.40	4,801.98	7.32
Total	**66,486.08**	**65,223.81**	**65,027.52**	**65,579.14**	**100**

Source: Survey Data

It should be mentioned that household expenditure on food includes minimal spending on rice, fruits or vegetables as the sample households rarely purchase these items, thereby avoiding additional expenditure. Furthermore, the findings indicate that households consciously adjust their spending to remain within their income limits. It was also evident from their financial behaviour rather that, than seeking to increase household income through a variety of possible alternative income sources and exploring new opportunities, the households have chosen to live within the limits of their existing, familiar sources of income. This tendency appears to be driven by a lack of skills, talents or confidence to pursue alternative livelihoods, as well as an ability or necessity to survive on minimal resources.

Table 5.5: Income and Financial Literacy Correlations

		Monthly Household Income	Level of Financial Literacy
Monthly Household Income	Pearson Correlation	1	.264**
	Sig. (2-tailed)		.000
	N	300	300
Level of Financial literacy	Pearson Correlation	.264**	1
	Sig. (2-tailed)	.000	
	N	300	300

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Data

5.4 Household Income and Financial Literacy

As previously mentioned, household income was considered a factor influencing the level of financial literacy in this study. In addition, the literature strongly supports the existence of a positive relationship and the mutual dependence between income and financial literacy, indicating that individuals with higher level of financial literacy tend to earn higher the income and vice versa. In considering the level of financial literacy and the income of the sample respondents as shown in the SPSS output presented in Table 5.5, the findings confirm that financial literacy has a statistically significant positive correlation with the income among the sample respondents.

However as evident from the correlation test result, although the relationship between financial literacy and income among the sample respondents is statistically significant, it is relatively week relationship, as indicated by the Pearson Correlation coefficient value of 0.264.

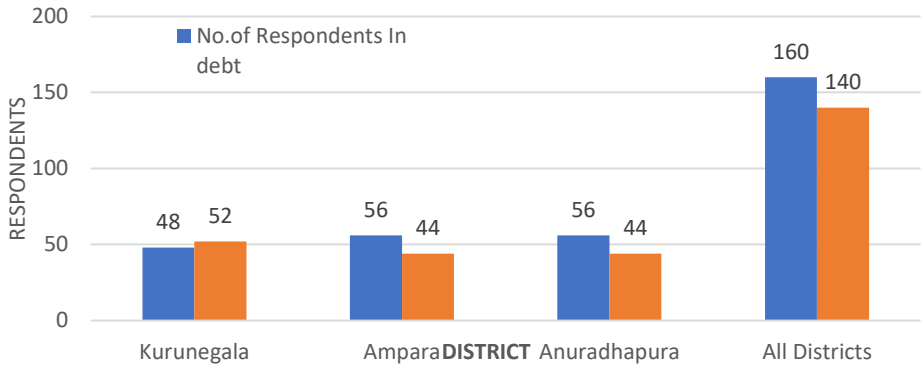
5.5 Credits

According to the Figure No 5.4, there is no substantial difference between the number of respondents who have obtained loans and those who have not. At the time of survey, 53.3% of the sample respondents had taken out loans. The figure also illustrates that loan uptake was slightly higher in the Ampara and Anuradhapura districts, whereas in the Kurunegala district fewer respondents reported having obtained loans. The survey revealed that considerably a higher number of respondents were reluctant to obtain loans. It is mainly due to fears surrounding the uncertainty prevailing in the ability of repayment. Additionally, some expressed the belief that being in debt is shameful. This mindset has not only discouraged borrowing but has also prevented them from engaging in potentially more promising economic activities or ventures, even when they possess the necessary resources to do so.

Due to the fear or uncertainty associated with loan repayment it was evident that loans were typically obtained only by households with a stable source of secondary income. Generally, this aversion to borrowing stemmed from a lack of confidence and a sense of complacency, which was particularly noticeable among older respondents. However, this mindset appears to be a significant barrier to economic advancement and the overall well-being of both respondents and their household members. The study found that some respondents had abandoned promising investment opportunities - well aligned with their skills, capabilities and available resources, simply due to fear-driven unwillingness to take out loans.

Nevertheless, all those who obtained loans were found to be repaying them, and the majority of those respondents had obtained loans for agricultural purpose. Majority of those who had not obtained loans were found to have mortgaged their jewelries instead of borrowing money for their urgent financial needs. In addition, a few others had sought help from relatives or friends few others had sought help from relatives or friends when they were unable to manage on their own.

It was also found that respondents across all three districts were aware of the risks and disadvantages associated with borrowing from informal sources. Accordingly, none of the respondents were reported borrowing from informal moneylenders. However, the study revealed that a considerable portion—34% of the total sample—relied on the input trader for their agricultural needs, obtaining inputs on credit with the agreement in return to sell their harvest to the trader. Although respondents were aware of the financial losses involved in this arrangement, still appeared to prefer it over borrowing from either formal or informal sources.



Source: Survey Data 2023.

Figure 5.4: Information on Obtaining Loans by Respondents

A correlation test conducted between household income and borrowing behaviour found the Spearman's rho value was negative .056 with corresponding "p" value with 0.331, indicating that the relationship is not statistically significant. Nevertheless, the findings suggest that, although the correlation is extremely weak, there appears to be a higher tendency of low-income households to be more inclined toward borrowing.

5.6 Objectives of Borrowing

The reasons for borrowing among respondents were primarily related cultivation and house construction purposes. Specifically, 52% of the households reported borrowing money for agricultural needs, while 28% borrowed for building their houses. This means that 80% of those who obtained loans did so for either cultivation or housing purposes. Accordingly, as much 80% of those obtained loa did so for either cultivation or or housing purposes. In addition, 7.5% of respondents borrowed money to purchase a vehicle, and 5.6% borrowed to start or support a business. A few others cited reasons such as household events, medical expenses, and children's education. The sources of borrowed funds included government banks, private banks, Govijana Bank and the Village Death Donation Society. Besides, the study findings also reveal that, majority of the respondents - over 95% - engage in financial planning related to savings or investments. Additionally, 90% of the participants do not keep records of their expenses or prioritize their needs when managing their income. Besides, most respondents were also found to be risk averse, expressing concern over income uncertainty, as their source of income is agriculture, which is highly vulnerable to threats such as wild elephant attacks, floods, droughts and other forms of crop failure.

CHAPTER SIX

Conclusion and Recommendations

6.1 Conclusion

The study was conducted in three main agricultural districts, such as Ampara, Anuradhapura and Kurunegala, using a sample of 300 households, with the main objective of assessing the financial literacy of farmers in the domestic agricultural sector. Financial literacy levels were assessed using weighted average scores across three main components: financial knowledge, financial behaviour and financial attitude. These components were evaluated using 30 indicators on a 5-point Likert scale. Accordingly, it was found that overall mean financial literacy of the respondents was at a lower level, which stands in contrast to the country's high basic literacy rate. However, the study found no significant difference in mean financial literacy between the male and female respondents. Basically, respondents demonstrated low levels of financial knowledge and financial behaviour although their financial attitude was comparatively stronger. The majority of respondents were above the age of 50 with the average age of the sample being 51 years. Notably, considering the financial literacy level of the sample respondents, it was found that younger respondents possessed comparatively a higher level of financial literacy than older ones. It was also found a statistically significant relationship between financial attitude and financial behaviour as well as between education level and financial literacy of the respondents. Similarly, financial literacy was found to have a statistically significant positive relationship with respondents' income. In contrast, there was no statistically significant relationship between gender and the financial literacy.

The respondents' remarkably low use of financial products and services reflects their poor financial knowledge. Although nearly all respondents had bank accounts, a significant number of them found to use them only to receive the cash grant for fertilizer subsidy. Majority of the respondents had saving accounts, and a few had mentioned that they have fixed deposits while not a single respondent had a current account. The majority who had ATM cards were not able to operate them independently. In addition, only a small number of respondents had insurance policy, credit cards or the skills necessary to use online banking. Similarly, very few had any form of retirement plan. Investment awareness was also notably low, with only a handful having made investments outside of agriculture. Nevertheless, the majority expressed a preference for investing their money if given the opportunity.

However, it was also found that most respondents had no clear understanding of where or how to invest. For majority 'investment' simply meant cultivating a few more acres with a seemingly profitable perennial crop or starting a boutique. Also, fewer respondents who had skills and potential to engage in a more lucrative livelihoods or entrepreneurial activities were found to be underutilizing their abilities-mainly due to a lack of confidence and the absence of initial capital. Yet, another segment of the

respondents, despite having a higher likelihood of success had not started their own entrepreneurships or ventures due to their aversion to loans and unwillingness or lack of confidence to take financial risks. Overall, the findings suggest that most respondents appeared content with their current standard of living and lacked the motivation or willingness to pursue new challenges or take risks for economic advancement.

As evident from the findings discussed above, it clear that there is a need to enhance the financial knowledge of rural agricultural communities. This involves equipping them with relevant skills, improving their financial understanding, and nurturing their capabilities, while also encouraging them to take calculated risks and explore alternative livelihood opportunities. Such efforts would contribute to increased income levels, greater financial inclusion, and improved financial literacy—factors that are crucial not only for the wellbeing of individuals and the development of their communities but also for broader economic growth and country's economic stability.

6.2 Recommendations

Followings are the recommendations and policy suggestions of the study:

1. Financial literacy has a positive correlation with education. As a result, it is essential to integrate financial literacy into the formal school curriculum.

2. Since income has a positive influence on achieving higher financial literacy, it is important to implement measures aimed at increasing the income levels of the agricultural community by introducing, facilitating alternative livelihoods opportunities, while also improving the knowledge, skills and talents required to pursue such endures. In particular, the Department of Agriculture, through its extension service mechanisms, should take these initiatives with the support and involvement of collaborative institutes.

3. Strengthening Farmer Organizations.

   Given the power and responsibilities vested in farmer organizations, they hold significant potential to enhance the income of farming households by reducing costs, facilitating access to credit, and creating income-generating opportunities. Moreover, these organizations can evolve into cooperative business venture, offering farmers a reliable platform for investment and profit-sharing. Such developments would not only improve household incomes and living standards but also promote financial inclusion and, consequently, elevate the financial literacy of the rural agricultural community.

4. Subsidizing the cost of agriculture can play a crucial role in encouraging farmers to adopt modern technology. This not only helps improve productivity and profitability but also makes agriculture more appealing to younger generations.

5. Conducting farmer awareness and training programs is essential to equip them with new skills and knowledge in areas such as cost-effective farming methods, alternative livelihood options, investment opportunities, and climate resilient methods. These programs should also aim to shift attitudes, build confidence and foster self-reliance reliance among farmers. Developing such skills and attitudes empower farmers face challenges, take calculated risks in investing and pursue entrepreneurial activities. The Department of Agriculture and Department of Agrarian Development should take the lead in organizing these programs regularly, at least at the divisional level on a regular basis.

6. Village level officers such as the *Grama Niladhari, Samurdhi Niladhari,* and Agricultural Research and Production Assistant (ARPA) should be made compulsorily to remain at the *Grama Lekam Karyala* (village level office) during whole working hours, at least one day per week. This will help better serve the needs of the rural agricultural community by ensuring that relevant services and support are easily accessible to them.

7. Wildlife damage and water scarcity are prevalent issues that lead to crop damage and in some cases, the abandonment of cultivation across the entire sample area. Therefore, it is crucial for authorities to implement both taking short-term and long-term measures to address these challenges. Such efforts will not only help safeguard livelihoods and increase income but also contribute to improving the financial literacy of the agricultural community.

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