

IMPACT OF FINANCIAL LITERACY ON RURAL ECONOMY

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ABSTRACT

Governments and academics from all around the world are paying growing attention to financial literacy as a method to combat poverty in disadvantaged rural areas and promote inclusive economic growth. Taking into consideration a vast majority of 64.13% of Indian population belongs to rural areas and the socio economic condition of the population, this paper evaluates the potential and growing impact of financial literacy on the people. It was evident that people exposed to the essential components of financial literacy were more likely to get out of the generational vicious cycle of poverty as opposed to others who aren't exposed to the same and are more likely to take poor financial decisions .Financial literacy is also vital in generating and sustaining small businesses and other income generating activities as they are mainly dependant on basic knowledge of spending, saving, borrowing and protecting(basic components of financial literacy).

The study concludes that financial literacy is a viable and definite instrument for poverty alleviation. It is thus encouraged that financial literacy be promoted in various forms by including financial education in the core curriculum at formal and informal levels of education communicated at home and through other educational tools.

Keywords: rural economy, poverty alleviation, financial literacy, education, sustainable development goals.

Aim of study

- To investigate impact of financial literacy on rural economy
- Further evaluate analyze the past studies on the same
- To assess the role of FL adopted by the education system

- To Determine its contribution to the sustainable development goals

Introduction

While the need for financial literacy has always been prevalent, today's economy with increasing no. global financial markets and poverty being one of the gravest challenges being faced by today's economies, perhaps it is time we question why do people in rural areas find themselves in this position? How can this problem be minimized? What are the possible ramifications the various solutions such as FL might have?. Financial Literacy can be described as a person's knowledge or ability to make the best use of their financial resources by understanding financial concepts better. If attention is paid by policy makers and researchers, it can be seen that the impact of financial literacy is not only limited to impact on people's financial behavior but also on the individual financial condition (micro) and economic well-being of the country, directly linking it with the stark poverty prevalent in developing countries. This paper aims to discuss and put forward the various potential impacts that FL has on a rural economy. Furthermore, this paper also explores the scope of FL and its global interest and huge role in achieving sustainable development goals such as that of 4 and 8. The paper has referred to specific statistics from those of developing or less developed nations rather than developed nations, factoring in that studies regarding FL are usually confined to developed countries. The paper attempts to contribute to the scanty literature available on FL in less developed countries.

Review of Literature

Impact of Financial Literacy on rural economy

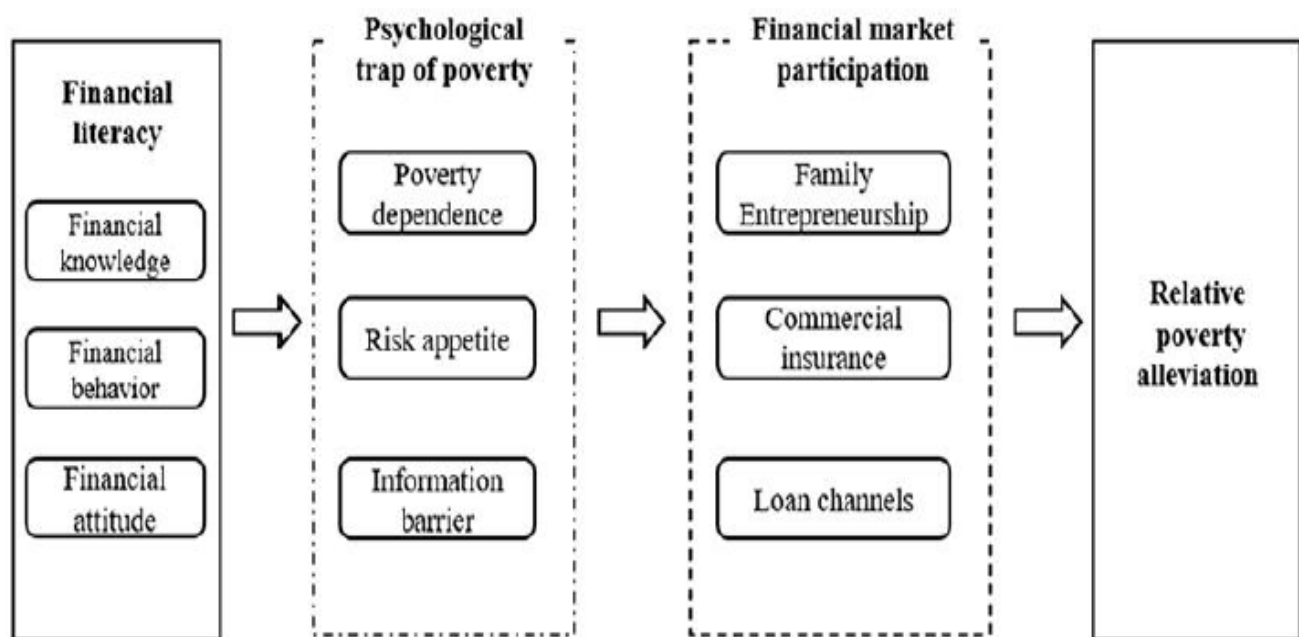
In a developing country like India, where 64.13% of the population lives in rural areas and nearly 76% of them do not understand even the basic financial concepts. It is absolutely imperative that Financial literacy spreads its branches in rural areas to promote inclusive growth and long term development aspects. This in turn will enable individuals to make sensible and well thought of decisions regarding their financial resources and services offered to them and how best to maximize their output to satisfy their needs. Further, better understanding regarding basic financial concepts will improve their credit score, investment behavior and correspondingly leads to increased total income and consumption. Rural consumption has somewhat been a deciding and a huge contributing factor to India's rising national income due to rise in disposable income, making rural development highly significant in terms of the growth of the country.

The current state of the rural sector prevents foolproof financial inclusion due to financial illiteracy, lack of infrastructure and banking connectivity.

Previous studies have concluded People with higher financial literacy are likely to recognize the

need and the benefits of participation in financial markets, and therefore may also spend more by increasing their leverage or borrowing.

Poverty is not exclusive to particular countries, however relatively more concentrated in less developed countries. Financial literacy provides a practical solution to the problem of bringing financial services to the unbanked or rural sector of India via financial inclusion. Financial inclusion refers to the initiative by traditional financial institutions to ensure vulnerable groups and low-income groups have access to the necessary financial products and services at an affordable cost. Access to finance gives people the opportunity to engage in economic activities that lead to growth, Hence making financial inclusion one of the reasons to boost the economy, by reducing economic inequality .It has been established that financial literacy leads to increased participation in financial markets and wealth by rural households. However, the issue of how to efficiently apply financial literacy to help farmers and the rural sector eliminate poverty haven't gained due attention. Financial literacy has short-term, long-term and dynamic effects on poverty alleviation in rural households and/or effectively improving poverty status. With decrease in poverty in rural households, the marginal effect of households' economic growth stabilizes .At a micro level, existing literature and inclusion of finances has focused individuals' qualities, characteristics and behaviors, on the impact of human capital such as education, work experience and financial literacy, on farmers' poverty. Other human capital affecting factors such as nutrition and health prevent farmers from falling into the generational poverty trap", hence reducing the incidence of poverty.



Role of School Curriculum/ NGO

Financial literacy is derived from financial education and just like any acquired skill set or branch of education the process should start from the family and then be refined and strengthened at school.

With the flow of time, FL is gaining relatively more attention even in rural areas however its reach is not quite effective. Adults who are settled soon after securing a job and a stable flow of income realize the importance of financial literacy as that is the stage where they have to make hard decisions about allocating their resources in the right place. However, people don't realize that if the idea of financial literacy is ingrained in the minds of the children during the schooling stage itself, they would automatically grow up to be financially literate individuals.

Academic curriculum is proven to be a great medium to spread financial literacy at the grass root level. Introducing students to age-appropriate media such as street plays, story books etc. on money and banking, and games that teach them about financial education would be the best way to imbibe the concept in their minds.

This can be an initiative taken up by local NGOs in rural areas as well as included in the nation wide academic curriculum. It is popularly believed that primary education is the core human capital element that affects poverty in rural areas.

Effect on Sustainable development goals

Financial literacy bridges the socio-economic gaps and income inequality by improving financial inclusion thus contributing to global economic growth and sustainable development.(SDG8) Financial inclusion also incorporates benefits such as Improving earning potential for women, thus encouraging women empowerment by, reduction in the costs of transactions, easy accumulation of funds, etc (SDG 5). A better access to financial services enables the people even in the rural segments of any country to have better access to funds and other related financial services. This enables people to come out of poverty and thereby enabling the SDG 1 by Eliminating extreme poverty. Better financial inclusion in rural areas also enables the people working in the primary sector to manage their finances responsibly. Thus yielding higher production of food and generating food security in the economy(Reducing hunger and promoting food security, SDG 2).. Increased availability of funding options has removed the barrier of monetary constraints which stop people from getting educated. People are encouraged to invest in educating their children and this enables the achievement of the fourth SDG i.e. Fostering quality education (SDG 4).

While financial literacy does not directly target achieving the SDG's, greater access to financial

services has enabled achieving a number of sustainable development goals.

Conclusion

The study discussed the various effects of financial literacy. Financial literacy leads to responsible financial decisions, which can enhance living conditions and mitigate the effect of poverty on households especially in rural areas. It positively affects employment and regular income levels in turn helping the economy develop. Financial education should be taught at home and as part of the formal curriculum by schools and other educational institutions such as NGOs to equip children adequately with financial decision-making skills.

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