Assessing the Level of Financial Literacy among Households: Evidence from Emerging Economies

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Abstract

Financial literacy (FL) is a key variable of financial welfare of a household especially in emerging economies with dynamic financial systems and greater access to financial services. The current research paper seeks to evaluate the financial literacy level with households and analyse it in connection with the other major socio-economic variables like education, income, and employment. The research design used is quantitative and analytical with the primary data, gathered by means of a structured questionnaire among 200 households, and then favored by the secondary one used by the scholars. Data were analyzed with the help of such statistical instruments as descriptive analysis, correlation, and regression. The results demonstrate that FL is average, and the socio-economic factors have a profound impact in this process, the most important of which has proved to be education. The research also shows that increased FL causes better financial behavior, FI and economic stability. Nonetheless, there remain knowledge gaps in the domain of FL, as well as demographic differences, which outlines the necessity of a policy-specific response. In conclusion, the paper finds that greater emphasis on FL is the key towards inclusive and sustainable economic growth in the emerging economies.

Keywords: Financial Literacy, Household Finance, Socio-Economic Factors, FI, Financial Behavior, Emerging Economies, Economic Well-Being

Introduction

FL has become the imperative aspect of economic development especially when it concerns households working in financial systems that are becoming more complex. It is a capacity of persons to learn the financial ideas, judge hazards and make wise judgments on saving, investing, and handling debts. The increasing complexity of financial markets, along with the development of financial products and services, now has caused FL to become a vital life skill of households in both developed and emerging economies (Lusardi and Mitchell, 2014). Financial knowledge is often thought of as a sort of human capital investment which increases the ability of people to efficiently choose financial decisions, as well as to improve economic state in the long run.

FL is more critical in emerging economies because of structural factors like inequality in income levels, low access to formal financial intermediaries, and low rate of education. In those settlements, households tend to have a challenge in utilizing financial services in an effective manner that might cause suboptimal financial behavior, over-indebtedness, and financial vulnerability. The empirical data points to the notion that financially literate people can be more oriented to control credit, prevent financial stress, and be more actively engaged in formal financial systems (Khan, 2022; Lone and Bhat, 2022). This means that FL is very significant in FI promotion and household financial stability.

Recent research has also been duly pointing to the linkage between household financial behavior on the one hand and FL on the other hand. Indicatively, Madeira (2022) established that an increase in FL is largely beneficial in support of household financial reporting and decision-making, especially on issues touching debt management and loan usage. Likewise, the studies on financial well-being show that FL also impacts financial confidence, planning capacity, and financial comfort of people utilizing positive results, which ensures its significance in the household context (Lone and Bhat, 2022). The findings highlight the contribution of FL as one of the most significant determinants of micro and economic levels of financial success and stability respectively.

Further, the increase in the levels of digital finance and FI programs in the emerging economies has also heightened the importance of FL. Although more people have access to digital financial services, which has increased the opportunities households have, it has also left them at a risk of over-borrowing and poor financial management. It is discovered that despite the benefit of digital finance in providing easy entry to credit and finances, poor FL rates may help push households into debt traps and financial hardship (Yue et al., 2022). This shows the two-sided nature of FL as a facilitator of FI and financial risk insurance.

Although the existing literature is increasingly expanding, there are critical weaknesses in the existing literature on the extent of FL of households in emergent economies and the impact of socio-economic factors on the same. A difference in income, education, employment and access to financial service establish disparities in financial knowledge and behavior among different population groups. Thus the household-level of FL assessment is critical in designing effective interventions or financial education programs of the policy.

In that regard, the current research intends to evaluate the FL level among the households in the developing economies and analyze the implication of this on the financial behavior and the economic health. Through principality of socio-economic determinants, the study aims at presenting information about how FL may be improved to facilitate a sustainable and inclusive economic transformation.

Literature Review

FL has gained vast popularity in modern studies as a key determinant of the household financial decisions and economic stability especially in the emerging economies. It involves knowledge and skills that are necessary to make skilled financial management, analyze financial products, and make sound economic decisions. The literature has paid more attention to the comprehension of the role of FL in household behavior, FI, as well as the general well-being of an economy in recent years.

The highly correlated relationship between FL and household financial behavior has been identified in a large amount of literature covered by Scopus. Indicatively, in the case of van Rooij, Lusardi, and Alessie (2011), more financially literate people are inclined to be involved into financial markets and practice sound investment behaviour. In the same sense, the study conducted by Klapper, Lusardi, and Panos (2013) established that FL would greatly decrease potential chances of over-borrowing and increase management of debts among households, especially in emergent and transition economies. Such studies affirm FL to be one of the key issues to responsible financial behavior and mitigate financial vulnerability.

The other significant aspect of literature that is investigated is how FL improves FI. In their analysis of cross-country data, Grohmann, Kluhs, and Menkhoff (2018) made the conclusion that FL is one of the determinants of FI because it allows citizens to engage in, and successfully use, formal financial services. The research underlines that the mere provision of financial services is not relevant unless financial knowledge is sufficient. Similarly, Morgan and Long (2020) have pointed out that FL should be seen as another contributor in inclusive growth due to the fact that it enhances the use of banking and digital financial services among developing economies.

It is also well studied that the socio-economic and demographic factors contribute to FL. It has been shown that education, income, age and gender have a major impact on financial knowledge and behavior. Potrich, Vieira, and Kirch (2016) discovered that FL is positively linked to the more educated and financially endowed and younger people and women appear to have a relatively lower FL. Such inequalities highlight the fact of the FL gaps between various population groups that might result into financial disparities and weaken economic growth.

Moreover, the connection between FL and household financial well-being has become one of the topics that receive more and more attention. Research indicates that financially educated people tend to have a high likelihood to plan their finances in a long-term, save, and attain financial security. Indicatively, Boisclair, Lusardi, and Michaud (2017) discovered that FL plays a significant role in determining retirement and wealth accumulation decisions. In a similar manner, Allgood and Walstad (2016) highlighted that objective as well as perceived financial thought and understanding is required to enhance financial behavior and well-being, therefore, noting that certainty in financial choices matters as much as the real expertise.

This has increased even further the area of FL studies following the speedy growth of digital financial services. Digital finance has opportunities and challenges to households in the context of emerging economies. Ozili (2018) asserted that although digital financial technologies have brought more access to financial services, they have increased cost of financial leading capability to handle the risks associated with them. This reiterates the increased role of digital FL in making houses function with maximum adequacy on exploiting the contemporary financial instruments without putting themselves at risk of financial destabilization.

Altogether, the literature may indicate that FL is a multidimensional construct that is affected by behavioral, socio-economic, and institutional variables. Although there are researches which give a useful picture of the relationship between financial behavior, inclusion and well-being, there still exists a gap in gathering empirical evidence at household level of assessing FL in emerging economies. These kinds of studies are necessary in the process of establishing the gaps in financial knowledge and coming up with policy interventions directed towards the realization of inclusive and sustainable economic development.

Objectives:

The main goal of the research is to estimate the rate of household FL in the emerging economies and analyze its connection to other socio-economic variables which are income, education, and employment. It also seeks to examine the consequences of FL to financial behavior, inclusion, and general finances within the household.

Methodology:

This paper takes a quantitative, descriptive and analytical research design to evaluate how financially literate the households in the emerging economies are. The data gathered investigate both primary and secondary sources of data, with the primary information being collected via a structured questionnaire, filled into the households and the secondary information being collected through research journals, reports, and official publications. A sample size of 200 households will be used to achieve a satisfactory number of representation and statistical reliability. The researcher is using a convenience sampling methodology; he is determining the respondents depending on their availability and readiness to respond.

Results and Discussion

The data obtained on 200 households were evaluated in order to determine the degree of FL and its association with the socio-economic factors.

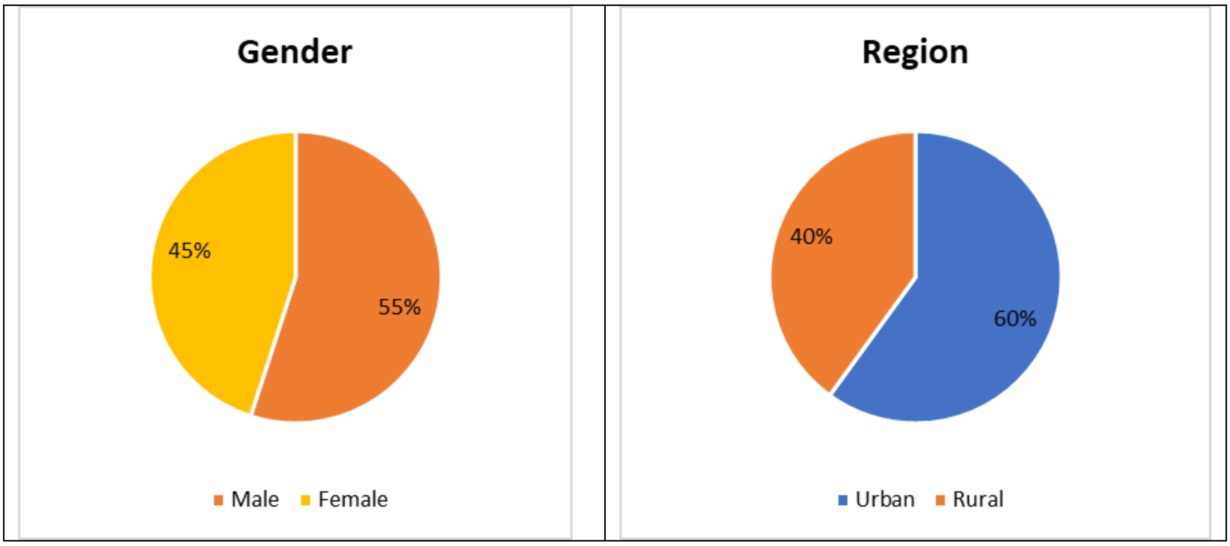

Fig. 1 Demographic

The sample will be split 55 per cent male and 45 per cent female and a greater number of urban house-holds will be used (60 per cent) than rural households (40 per cent). This distribution offers a balanced point of view but with a little tendency favoring the urban financial behaviour patterns.

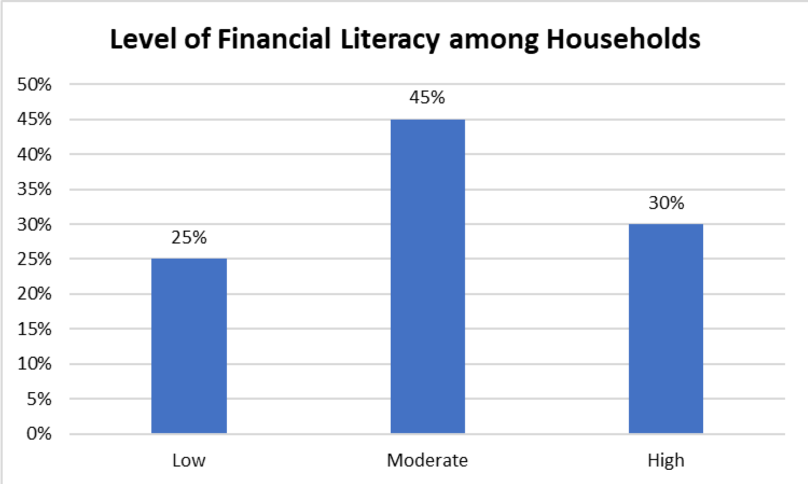

Fig. 2 Level of FL

Most of the respondents (45) are moderate in FL and only 30 percent have high FL. The 25% in the low category gives an indication that there is a huge disparity in the financial awareness of households.

Table 1 Mean of FL Dimensions

Dimension	Mean	Standard Deviation
Financial Knowledge	3.72	0.68
Financial Behaviour	3.85	0.72
Financial Attitude	3.95	0.64
Overall Literacy	3.84	0.68

The type of financial attitude (Mean = 3.95) is highest and this means that financial attitude of the households is positive with financial knowledge (Mean = 3.72) being quite lower thus depicting a difference between awareness and practice.

Table 2 Relationship between FL and Socio-Economic Factors

Variables	FL
Education	0.65**
Income	0.58**
Employment	0.52**

FL is significantly and positively related to all the socio-economic variables. Education shows the strongest correlation (r = 0.65) which means that it has the greatest contribution in enhancing financial knowledge and behavior.

Table 3 Impact of Socio-Economic Factors on FL of Households

Variables	Beta (β)	t-value	Sig. (p-value)
Education	0.34	4.21	0.000
Income	0.27	3.45	0.001
Employment	0.22	2.98	0.003
R^2 = 0.49			

FL can be explained by the regression model to 49 percent (R2 = 0.49). The influence of education (b = 0.34) is most influential, then it is income and employment. The influence of all the variables is statistically significant ($p < 0.05$), which proves their contribution to the levels of FL.

The null hypothesis is rejected because the relationship between all socio-economic variables is statistically significant ($p<0.05$). This helps to prove that socio-economic determinants play great roles in determining FL among households.

As the analysis indicates, FL of households in the emerging economies is mediocre, and socio-economic factors play an important role. Among the most important factors, education becomes the most crucial, then income and employment. The results show that proving FL demands individual measures of learning and economic empowerment. Empowerment of these areas can increase FI, encourage a better financial decision-making process, and foster the financial well-being of the household in general.

Discussion

The results of the conducted study give a clear indication that the FL of households in emerging economies is at the moderate level, and the differences among them depend significantly on the socio-economic factors. The findings on the descriptive level show that even though the families display quite positive financial attitudes and behavior, their financial knowledge is relatively weak. This implies that there exists a discrepancy between knowledge and real knowledge about financial concepts and consequently, it could be a hindrance to making good financial decisions. This kind of discrepancy indicates necessity of organized financial education programs that are not only accompanied by good attitudes but also reinforce any conceptual understanding.

The correlation analysis and regression further support the fact that the socio-economic variables specifically the education, income, and employment have a great role in the determination of FL levels. Education was the most impactful factor which implies that people having higher level of education are more competent to perceive financial products and be competent to manage their money effectively. This observation conforms to the human capital view, through which education improves the intellectual capacity and ability to make decisions. On the same note, both income and employment condition enhance the aspect of FL as individuals will have more exposure to financial systems, and accessibility to formal financial services becomes easier.

Another key feature identified in the results is the essence of FL in fostering FI and economic stability. The higher the FL of households, the higher the chances of saving, investing, and borrowing responsibly and thus minimizing financial vulnerability. The fact that a high percentage of the respondents had extremely low levels of FL, however, shows that there are still large numbers of households that face the risk of making awful financial choices such as over-indebtedness and poor financial planning. This is especially applicable to the case of the emerging economies, where financial innovation and digitalization can occur at high rates, which presuppose people having greater financial power.

Moreover, the research outlines inequalities among the various demographic groups, especially the urban and rural households. The FL levels of urban respondents will probably be high since they will access more education and financial institutions and information. Conversely, rural families tend to have a lack of access to financial services due to the financial awareness and lack of access to formal financial services. Such differences indicate that interventions with regional focus should be carried out to dispel the gap in FL.

In general, the discussion highlights that FL is not a personal skill but a socio-economic performance which is affected by structural elements. Addressing FL is a complex task which involves education, economic and institutional empowerment. Enhancing such dimensions will be essential in enhancing the household financial welfare and inclusive economic growth in emerging economies.

Conclusion

It concludes that the FL of households in the emerging economies is moderate with large variations depending on the socio-economic indicators of education, income and employment. The results show that although households have positive behavioral and attitudinal financial attitudes, there are still gaps in financial knowledge, which inhibit positive decision-making. Education comes out as the most essential factor of FL that puts human capital to fore in increasing financial capability. Also, the paper confirms that increased FL leads to increased financial behavior, FI, and financial well-being at the household level. Nevertheless, the fact that low FL levels are observed among a significant proportion of households implies that special measures should be undertaken to fill the gaps and develop FI.

Recommendations

Depending on the findings, it is advised that the policy makers and financial institutions should emphasize on financial education programs that would help enhance the basic financial understanding and decision making abilities among households. Particular attention is to be given to the inclusion of FL in regular academic institutions and awareness efforts against rural and underserved communities. There should also be an attempt to increase access to financial services using digital platforms as well as users being well trained to handle financial risks. Also, income generation and employment opportunities initiatives can indirectly enhance FL whereby individuals have to be exposed to financial systems. Government, educational institutions, and financial organizations should coordinate their activities to increase the rate of FI and enhance the general financial stability.

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