

A STUDY OF FINANCIAL LITERACY AMONG MICRO ENTREPRENEURS IN DISTRICT KANGRA

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ABSTRACT

Organization for Economic Cooperation and Development demarcated financial literacy as a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. The issue of financial literacy is of greater concern in developed countries than the developing nations. Financial literacy gained far more importance after the financial distresses and become the pre-requisite with the objective to avoid financial crises by attaining financial stability. The aim of the study is to assess the level of awareness of financial literacy among the micro entrepreneurs of district Kangra of Himachal Pradesh. A survey methodology will be used to accomplish the objectives of the study. Structured questionnaire will be designed as an instrument to evaluate the level of financial literacy. Collected data will be tabulated using Microsoft Excel. Descriptive and inferential analysis will be used to examine the extent of awareness regarding financial education among micro entrepreneurs.

KEYWORDS: Financial Literacy, Financial Distress

INTRODUCTION

Aftermaths of global financial distress stimulated the area of financial literacy for policy makers across the globe. Financial literacy impart knowledge regarding the risk and return of financial products to the users and providers of these products. Financial literacy become the pre-requisite with the objective to avoid financial crises by attaining financial stability. This knowledge of financial concerns helps in hedging the risk and maintaining the stability in the financial systems. So for a sound development policy, better knowledge about the elements of financial literacy and investment behavior is of utmost importance. (Bonte and Filipiak 2012)

Organization for Economic Cooperation and Development demarcated financial literacy as a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. The issue of financial literacy is of greater concern in developed countries than the developing nations. It is a vital tool to address the issue of information asymmetry between the financial institutions and the consumers of the services provided by these institutions. It facilitates consumers to know about and utilize the products effectively. Financial education programs are personalized keeping in mind the financial concerns of clients. These make the consumers understand about the financial instruments by which they can discourse the concerns of consumers of their cash flows and managing risk. It also empower the clients by enhancing their skills regarding financial products and their utilizations. The literacy endow them to exercise their rights adequately in consumer protection equation.

Financial Literacy programmes are tailored to be relevant for each group of the society. It spans the formal and informal financial sectors, assisting clients in the usage of varied financial services. Financial literacy creates awareness in common man regarding the financial products and services, thereby generates demand for the same. It makes them to understand the needs and benefits of the products and services offered by the banks and accelerates the pace of financial inclusion (RBI, 2013).

For the achievement of objectives and to cater the requirement of financial literacy, Reserve bank of India initiated the financial literacy program from Karnataka as a pilot state. To make a difference in the life of common man and to make them understand right and responsibilities of Reserve Bank of India, central bank rolled out this financial literacy programme.

The programme was marked by activities like display of information related to financial products and services, interaction of common people with bankers and, adoption of Information and Communication technologies (ICT). The information was disseminated to the target audience by means of presentations, brochures, pamphlets, films etc. In 2012, RBI revised the guidelines related to Financial Literacy Centres (FLC).

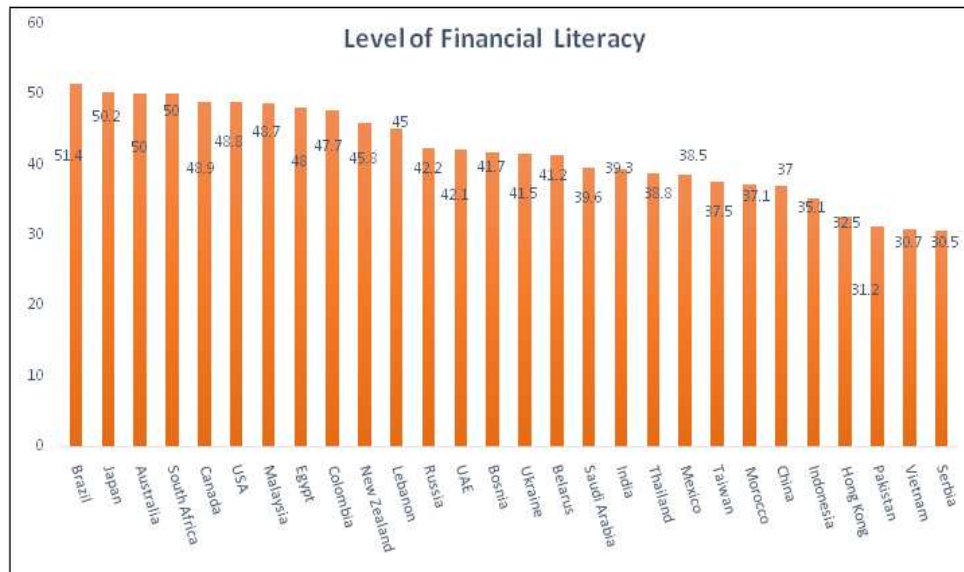
The guidelines advised commercial banks to scale up the financial literacy efforts by means of FLC and all the rural branches of banks. Financial Literacy camps should be conducted at least once a month. And by two essential provisions of 'Financial Literacy' and 'Financial Access' financial inclusion should be facilitated. Besides all, Reserve Bank have engaged commercial banks, NGO's, government machinery, schools, colleges and other agencies actively to execute the programme effectively.

Securities and Exchange Board of India had also made continuous efforts in disseminating information related to financial markets and spreading financial literacy. To have participation of more investors in India's growth, SEBI has conducted various programs for the different sectors of the society. With the intention to involve all the sectors of society, apart from ground steps, SEBI had also launched a website to cater various needs of investors. Sanchayan has been recognized as an investor association by SEBI for conducting financial literacy programs.

Along with this, American Academy of Financial Management India (AAFMI India) constituted Financial Literacy Advisory Board India (F-LAB India). The board was established under section 25 of the companies Act, 1956 with the mission to create a Financially Aware and Empowered India.

Developing countries have been marked with low level of financial literacy. Indian statistics reveal that more than half of laborers surveyed store their cash at home and borrow from money lenders at higher interest rates. (Max New York). While, a study on Global Financial Literacy indicated that India has been ranked 23rd out of 28 markets on VISA 2012 Global Financial Literacy Barometer. The study pointed that Indians are very conscious regarding their savings and show highest saving rates among its global peers, but the awareness in households about investments is very low.

Supporting the above results, another survey in 2013 has shown that India has become more proficient in savings and financial planning for retirement and unexpected happenings. But Indian masses are still lacking in basic money management. As per the findings of the survey conducted among 16 Asia-Pacific region, India stood at bottom with a score of 59 Index points on annual MasterCard index for overall financial literacy.



Source: Visa's International Financial Literacy Barometer 2012

Figure 1: Level of Financial Literacy among Different Markets of World

LITERATURE

Servon and Kaestner (2008) examined whether technological literacy can serve as an entryway to financial literacy. The article analyzed a demonstration program on information and communication technologies mounted by a major bank to study the impact. Using both quantitative and qualitative data the study advocates that through increased financial literacy and less-expensive banking alternatives, Information Technology can expand access to greater financial freedom for Low and Moderate Income households and poor inner-city communities.

Meier and Sprenger (2010) with the help of a field study provided the evidences for the correlation between individual decisions with financial information. The study showed that individuals which had acquired financial education have higher discount factors than those who do not have attained.

Barte 2012 assessed the financial skills of fish vendors of Pasil in Philippines. Questionnaires and interviews were conducted of 123 fish vendors selected randomly. Findings of the study indicated that vendors are lacking in financial skills. A significant number of vendors do not keep record of their transactions and profits and losses. Vendors are deficient in cash management practices and are confined to high interest loans.

Bonte and Filipiak (2012) conducted a large scale survey to investigate the relevance of social interaction and caste affiliation on saving patterns of India. Taking into consideration individual awareness regarding financial instruments the study posed positive association between financial literacy and social interaction. There was lower probability of awareness about financial concerns in backward caste people. In contrast, the study found a weak empirical evidence for the effect of social interaction and caste affiliation on investment behaviours of households.

Ramasawmy (2013) assessed the level of awareness of financial literacy among management student. The study considered four fundamental aspects of financial literacy viz. level and importance, definition and theories, constraints and measures. Based on the survey performed, it was analysed that there was no impact of age, gender, language, race and income level on financial education.

RESEARCH METHODOLOGY

Objective of the study is to assess the level of financial literacy among the micro entrepreneurs of district Kangra. To meet the objective of the study, a descriptive research has been carried out. The data was collected from both primary as well as secondary sources. The former was collected through a structured questionnaire. The items included in the questionnaire were based on the previous surveys conducted by various researchers. Probing questions were also the part of the instrument used.

Population of the study included the micro entrepreneurs in district Kangra of Himachal Pradesh. The study has considered the micro entrepreneurs of one block of the district. A total of 100 micro entrepreneurs, selected randomly formed the sample for the study. Questionnaires were distributed to all the 100 respondents. Among which, six respondents were not interested in revealing the information and seven respondents provided incomplete information. So the final respondent number that was considered for the results remain restricted to 87.

The collected data was tabulated using Microsoft Excel spreadsheet with appropriate coding. Further the data was also analyzed using Microsoft Excel. Financial skills of micro entrepreneurs were assessed using different parameters including record keeping, awareness regarding various institutions, saving and investment plans, saving management, various credit or loan policies.

DISCUSSIONS OF RESULTS

Table 1: Summary Statistics of Socio Economic Profile

	Frequency	Percentage
Age Distribution		
20-30	17	19%
31-40	27	31%
41-50	19	22%
51-60	11	13%
61-above	13	15%
Category		
General	68	78%
OBC	14	16%
SC	5	6%
Civil Status		
Married	76	87%
Single	11	13%
Education		
Illiterate	3	3%
Upto matric	30	35%
10+2	19	22%
Graduate	29	33%
High	6	7%
Years as Micro Entrepreneur		
1 – 5	19	22%
6-10	21	24%
11-20	16	18%
21-30	13	15%
31-more	18	21%

Source: Primary Data Collected by Author

The youngest micro entrepreneur is 21 years old, while the oldest is 86. Majority of the micro entrepreneurs belongs to general category. 87% of the micro entrepreneurs are married and rest are single. Out of the sample size of 87, 35% micro entrepreneurs have educational status upto matric, 29% are graduate and only a few (6%) are highly qualified (Refers to Table 1).

Among various financial institutions majority of the micro entrepreneurs are familiar with the Commercial Banks (62%) while the awareness regarding other financial institutions in micro entrepreneurs is restricted to a limit of 51% for insurance companies, 45% for co-operatives, 31% for mutual funds, and least for the Non-Banking Financial Corporations (8%) and leasing companies (3%) (Figure 2). In evident from figure 3, micro entrepreneurs are much aware regarding facilities of banks and so most of them (90.77%) opt to have loan from banks.

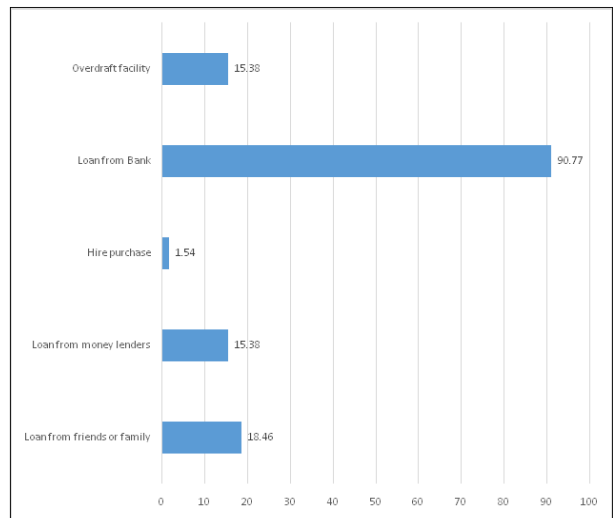
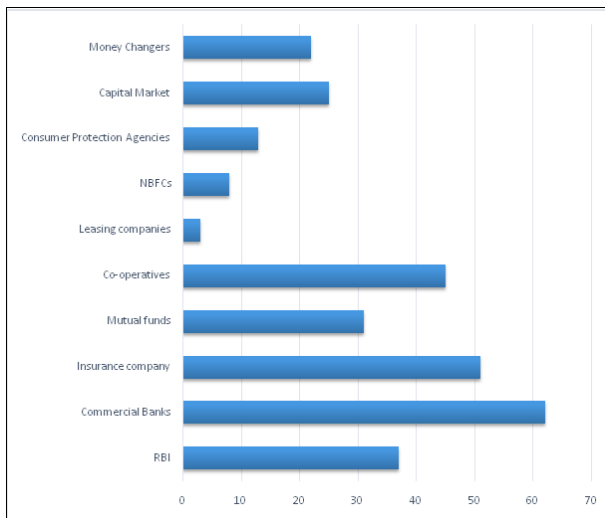


Figure 2: Familiarity with Financial Institutions

Figure 3: Awareness Regarding Loan and Credit Products

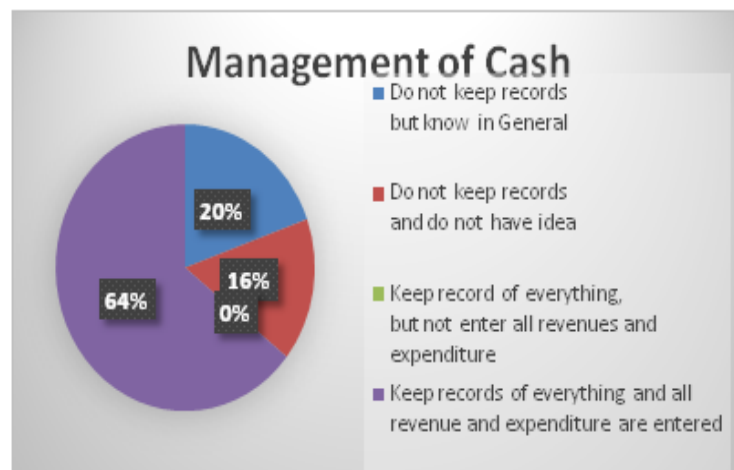


Figure 4: Record Keeping of Funds by Micro Entrepreneurs

64% of respondent admitted that they keep proper records of their all revenue and expenditures and for proper record keeping they take the services of professional accountants. While, against this 20% respondents neither keep any record nor keep any idea for their expenditures and revenues (Figure 4).

All the 100% respondents are holding saving bank accounts in different banks. Most of the respondents open a

bank account on the basis of proximity with the bank employees. The decision of the micro entrepreneurs for opening bank account is mostly influenced by the information provided by newspapers (59.7%), Television or Radio (58.2%) and information from the bank branches (52.3%) (Refer to Figure 5). But the saving habits of the respondents differs. 11% respondents don't have any specific plans for their savings, 13% respondents don't save anything, 30% respondents save a fixed amount and spends the rest while, remaining 46% spend money as per their daily needs and save the left out money (Figure 6).

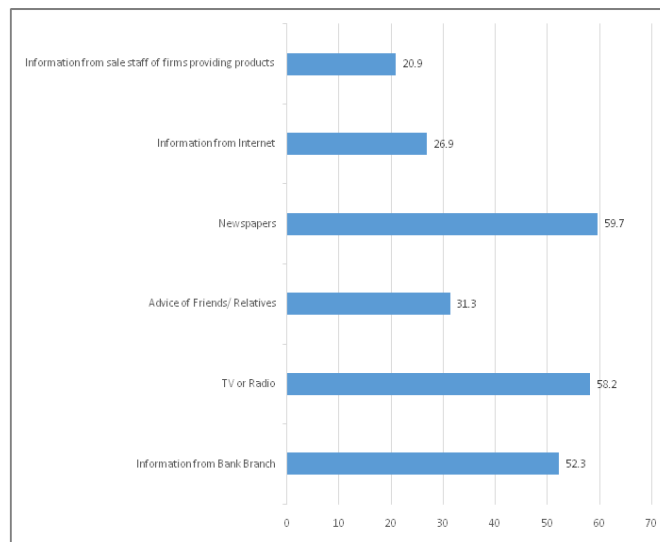


Figure 5: Different Sources of Information Influencing the Decisions of Micro-Entrepreneurs

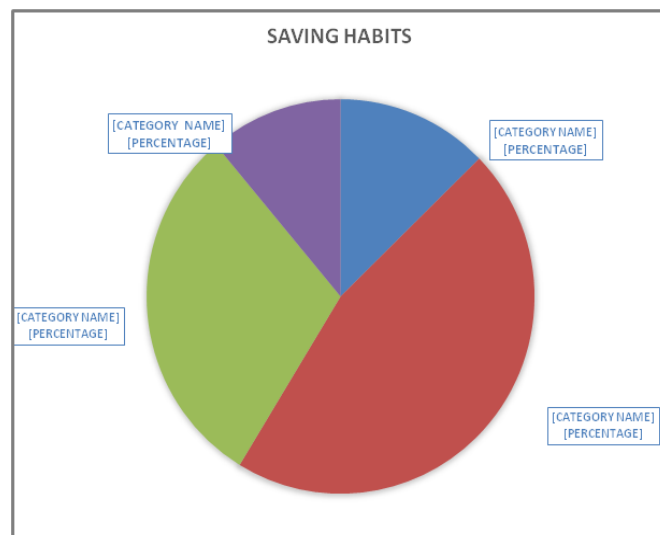


Figure 6: Management of Savings by Micro Entrepreneurs

Among all the respondents, 54% have taken loan for their business purposes. Approximately 91% respondents are aware about the loan facilities provided by the banks. But the other credit/ loan facilities are less known to the micro entrepreneurs (Refer to Figure 7). While opting for loan from banks, behavior of the bank's personnel affect the decisions of respondents the most. Bank's reputation and the interest rates and costs of different banks almost equally affects the choice of micro entrepreneurs (Refer Figure 8).

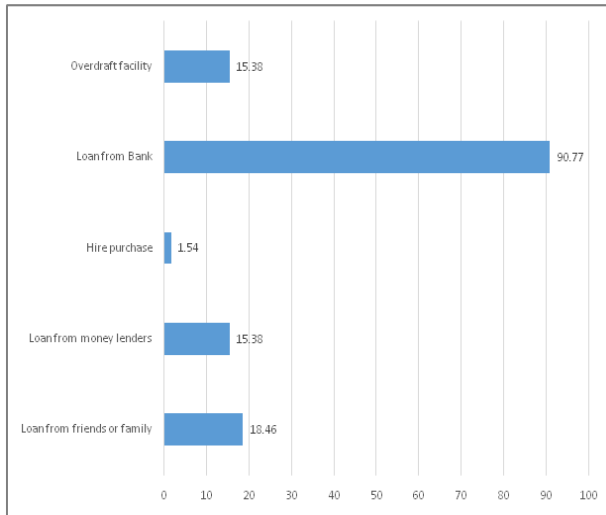


Figure 7: Awareness Regarding Different Credit/ Loan Products

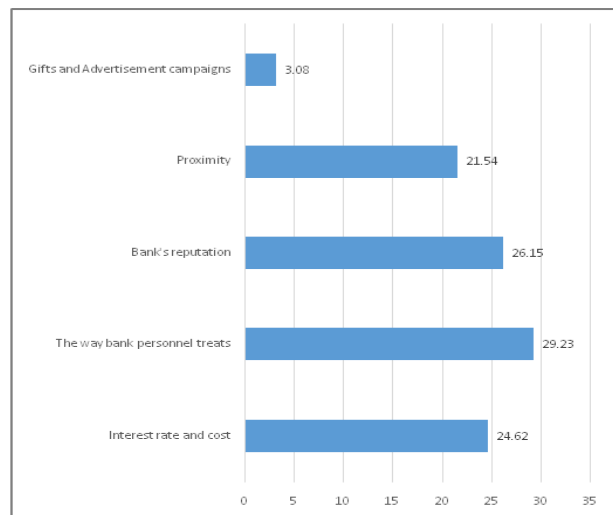


Figure 8: Factors Contributing to the Choice of Micro Entrepreneurs for Taking a Bank Loan

CONCLUSIONS

According to the Economic survey of Himachal Pradesh, all the districts of the state have their own Financial Literacy and Credit Counselling Centers (FLCCs) established and operationalized by the banks in the state. This is the achievement which should provide with the highest rates of financial literacy in the state. But the results of the present study are not supporting the expected ones. The study shows that micro entrepreneurs in district Kangra possess low financial skills. These are revealed by deficient record keeping practices, poor cash management, improper saving habits, and less awareness regarding different financial products and instruments.

These constraints make the micro entrepreneurs ill equipped in using their resources well and conducting the affairs of their concerns. The combinations of these constrictions are becoming a contributing factor in affecting their income as well as growth to some extent. It can be concluded that, to some extent these micro entrepreneurs are lagging behind in the adoption of formal financial practices. The financial literacy programmes organized by the authorities should be directed to approach each sector of the society. Apart from households, micro entrepreneurs should also be targeted and made aware about different alternatives available to benefit them.

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