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Assessment of Farm Financial Literacy among Jasmine Growers in Tamilnadu, India

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Abstract

The unique nature of farm financial management calls for farmer to act as an entrepreneur. Being an farm entrepreneur the farmer should have enough financial literacy for effective financial management. Apart from training on production, post-harvest and marketing NAIP had given some information on farm financial management. A study was conducted to assess the financial literacy of jasmine farmers. Standardized knowledge test was employed to assess the financial literacy of farmers. For that, 100 farmers from Erode and 100 famers from Madurai district was surveyed. The collected data were analyzed using percentage analysis, multiple regression and factor analysis. It was concluded that, Erode farmers has high financial literacy than Madurai farmers. The results revealed that, age, education, experience, farm income, years of relationship with the bank, size of landholding, frequency of bank visit and bank account were significantly influenced the financial literacy of farmer.

Key words: Financial literacy, NAIP, knowledge test and factor analysis

1. Introduction

Financial literacy is defined as the knowledge acquired through formal education or by practice, to manage one's own personal financial needs (Garman and Forgue, 1997). It refers to the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being (President's Advisory Council on Financial Literacy, PACFL, 2008). In this study financial literacy is defined as the knowledge on management of farm financial activities viz., farm financial planning, acquisition of finance and allocation of finance.

The complex nature of financial management calls for the corporates, small medium enterprises and family businesses to have separate functional department or personnel for management of finance. In case of farming sector, the commercialization of Indian agriculture calls for the farmer to act as an entrepreneur. Being a farm entrepreneur, financial management becomes very important as farm finance is a critical input for agriculture. Adequate farm finance helps to adopt critical technologies at appropriate time which would influence productivity. The cost reduction due to timely access of farm finance would influence the profitability

of the farm. Financial literacy of farmer would play a vital role in efficient farm financial management. Finance for farm sector was supplied through formal and informal sources. Low level of financial literacy leads to more dependency on informal finance which may be costlier and supplied with strings attached.

Financial literacy of jasmine farmer

Tamil Nadu is one of the leading jasmine producing State in India and it contributes 24.22 per cent of India's share. Being as cash crop, cultivation of jasmine involves frequent inflow and outflow of money and it demands proper farm financial management. The most of the jasmine growers were small and marginal farmers. They don't maintain any farm records and they were managing their farm finance based on heuristics only. The project "Value Chain on Flowers for Domestic and Export Markets" funded under National Agricultural Innovation Project, ICAR, New Delhi was implemented by Tamil Nadu Agricultural University addressed this issue through trainings. The jasmine farmers were trained on different farm financial management aspects such as farm financial planning, acquisition of finance and allocation of finance. This might have significant influence on the financial literacy of farmers and ultimately it would influence their financial management. In this context a study was carried out to assess the financial literacy of farmers.

2. Review of literature

Caratelli and Ricci (2011) interviewed a sample of 299 respondents and asked to select the best option between five series of credit alternatives by proving with an increasing level of details on credit alternatives. The ability to select the best alternative was measured calculating a score based on the Net Present Value criterion, and analyzed as the dependent variable of a regression model with demographic, socioeconomic and financial characteristics as predictors. The finding shows that the amount and quality of available information strongly influence the choice. At the same time, a high level of financial education does not seem to play a significant role but financial maturity results to positive influence the ability to select the best alternative.

Kharchenko (2011) empirically analyzed the determinants of financial literacy in Ukraine and the study reveal that the major factors influencing financial literacy were gender, level of education, occupation, region and wealth. They observed that males perform better than females. People with at most secondary education are less likely to demonstrate sufficient knowledge of finance compared to those with higher education. Unqualified workers and pensioners are less likely to possess high financial literacy compared to qualified workers and financial literacy increases with wealth.

Gaurav (2009) evaluated the impact of financial literacy on adoption of rainfall insurance among 600 small scale farmers in Gujarat and the results reinforce that individuals educated in financial literacy and insurance were more likely to purchase rainfall insurance. The findings from the financial literacy and debt-literacy tests reveal the low financial awareness of the farmers act as a formidable barrier to adoption of complex financial products like rainfall insurance.

Agarwal et al (2010) studied the financial literacy in India by analyzing the data provided by the Investment Yogi Financial Advisory Services and asking questions related to interest rate, inflation and risk diversification. They employed Spearman Rank Correlations to measure the correlation between the correct answers to the questions. The cross correlations are all positive and statistically significant. The correlation for the correct answers to the inflation and diversification question is somewhat higher than that between the correct answers for the inflation and interest question or for the interest and diversification question.

Gaurav (2010) studied the predictors of financial literacy among 600 small scale farmers in Gujarat. The regression results revealed that, age was the statistically significant variable and positively predicts financial literacy. Older individuals are generally more financially literate. However, education does not have any significance in predicting financial literacy. Landholding, caste categories, Cognitive ability were significant predictors of financial literacy.

3. Objectives of the study

The overall objective of the study is to assess the financial literacy of jasmine growers in Tamil Nadu. The specific objectives are,

- To assess the financial literacy of jasmine growers
- To analyze the awareness, knowledge and adoption of farm financial management activities among the jasmine growers
- To analyze the factors influencing financial literacy of jasmine farmers.

4. Methodology

The present study focused on assessment of financial literacy among jasmine growers in Tamil Nadu, India. Keeping these things in mind, NAIP intervention and Non-intervention approach was used for the study. Erode,

Coimbatore and Dindigul were the NAIP intervention districts, from these three districts Erode district was randomly selected for the study. From the non-NAIP zone, Madurai district is randomly selected for the study. From the each selected districts, two blocks were randomly selected and from each selected blocks two revenue villages were selected randomly, in each village 25 farmers will be selected randomly, in total 200 farmers were contacted for the survey and it comprises 100 NAIP farmers and 100 non-NAIP farmers. Standardized knowledge test was developed to measure the financial literacy of jasmine farmers by adopting the procedure followed by Jha and Singh (1970). The collected data were tabulated and analyzed using percentage analysis, multiple regression, factor analysis, awareness, knowledge and adoption index (Sharma, 2002) and significant tests.

4.1 Percentage analysis

Percentage analysis was used to study the general characteristics of farmers which included age, education, occupation, farming experience and land holding size. The percentage is worked out by dividing the number of respondents belonging to the particular category to total number of sample respondents.

4.2 Multiple regression analysis

With a view to examine the relative contribution of various factors responsible for financial literacy of farmer, a multiple regression analysis was carried out. For this, financial literacy score was taken as the dependent variable. Financial literacy of farmers depended on the age, education, farm income, size of landholding, relationship with the bank, distance to formal source of finance, occupation, number of bank account owned by the farmer, frequency of bank visit etc., However a few factors which can be quantified were considered and they were included as independent variables in the model.

The functional and estimable forms of the function are given below:

$$Y = f(X_1, X_2, ...X_9)$$

$$Y = b_0 + b_1X_1 + b_2X_2 + ... + b_9X_9 + U$$

Where,

Y = Financial literacy (Score)

X_1 = Age (years)

X_2 = Education (years)

X_3 = Farm income per hectare (Rupees)

X_4 = Size of landholding (Ha)

X_5 = Relationship with the bank (Years)

X_6 = Distance to formal source of finance (Kilometers)

X_7 = Occupation (1 if agriculture, 0 otherwise)

X_8 = Number of bank account owned

X_9 = Frequency of bank visit (Numbers)

$b_0, b_1, \ldots b_9$ = regression coefficients to be estimated, U = Error term

4.3 Factor analysis

Factor analysis was used to identify the factors influencing the financial literacy of farmers in the study area. According to Cunningham and Maloney (1999), factor analysis is,

$$W = \sum_{k=1}^{k=g} \sum_{j=1}^{j=m} \sum_{i=1}^{i=nk} (Xijk - \overline{Xjk})2$$

Where:

X_{jk}- is the mean value of the variable j in cluster k.
X_{ijk} is the value of an observation assigned to cluster k.
N_k is the number of observations in cluster k.
M is number of variables.
G is the number of clusters.

Concerned with finding a small number of common factors that linearly reconstruct a large number of variables such that:

$$Zij = \sum Fip\ apj + eij$$

Where,

Zij is the value of the ith observation,

Fip is the set of linear coefficients or factor loadings

eij is the variable's unique factor or residual.

The extracted factors are linear combinations of variables such that,

$$F_{pi} = \sum Qpj\ Zji$$

Where, Fpi is the value of factor p, for individual i for each of the n individuals with observations on k variables and q is the weighting of the pth factor in variable j (Cunningham and Maloney, 1999). A rotated Varimax factor solution was used to interpret results. Following Norusis (1990), small factor loadings of less than 0.5 in absolute value were omitted from the factor analysis solution. The Cronbach Alpha coefficient was used to test the reliability of the importance rating scale.

4.4 Awareness, knowledge and adoption index

The awareness, knowledge and adoption index of farm financial management activities were estimated based on the farmers responses on three point continuum namely, high, medium, no awareness, high, medium, low knowledge and full, partial and no adoption with numerical score of 3, 2 and 1, respectively. The awareness, knowledge and adoption index were calculated by dividing the average score for a given practice with its maximum obtainable score multiplied by hundred.

4.5 Significant tests

The "t" test (Salehin, 2009) was employed to find out if there was any significant difference in different components of financial literacy among the farmers. Chi-square test was employed to test the statistical difference between low, medium and high financial literacy across Erode and Madurai farmers.

Results and discussion

5.1 Financial literacy of farmers

The financial literacy of farmers was assessed through standardized knowledge test and the results are presented in the Table 1.

The results in the table 1 revealed that, 52 per cent of Erode farmers and 72 per cent of Madurai farmers in the study area belonged to medium financial literacy category. About 38 per cent of the Erode farmers had high financial literacy whereas in case of Madurai, it was only four per cent. The average score of Erode farmers (72.35 per cent) was also significantly higher than that of Madurai farmers (57.80 per cent). Higher educational status and financial information gained through NAIP training programs were the major reasons for higher financial literacy of Erode farmers compared to Madurai farmers.

5.2 Components of financial literacy

The data on the functional areas of financial literacy were analyzed and the results are presented in the Table 2.

The average literacy score on financial planning, acquisition of finance and allocation of finance of Erode farmers was higher than that of Madurai farmers. The literacy gap was high in case of acquisition of finance (17.56) followed by financial planning (11.14) and allocation of finance (8.10). T test also revealed that there was significant gap in literacy on financial planning and acquisition of finance between Erode and Madurai farmers. Whereas, in case of allocation of finance the Erode and Madurai farmers were not statistically different. The Erode farmers had better financial planning, both short and long term as they had higher educational status and also they have gained considerable knowledge on financial planning through NAIP training programs. They were able to plan the farm expenditures for next season such as input requirements, land development expenses, development of irrigation infrastructures etc. In case of acquisition of finance, low educational status and lack of exposure to farm financial management activities led to low level of knowledge among Madurai farmers on different sources of finance, various interest subvention schemes and subsidy schemes. Hence, it could be concluded that, Erode farmers have higher financial literacy on different components of farm financial management as they have higher educational status.

5.3 Impact of financial literacy on awareness, Knowledge and adoption on farm financial management

The financial literacy has an important role in awareness, knowledge and adoption of different farm financial management activities. It influences the farm financial activities such as financial planning, acquisition and allocation of farm finance. Hence the data were collected on these aspects and presented in the following Tables 3, 4 and 5.

5.3.1 Awareness index on farm financial management

Financial literacy was an important factor, which significantly contributes to the awareness level of farm financial activities. It has vital role in short and long term financial planning, awareness on various financial institutions, schemes and proper financial allocation. Hence the details on awareness of different farm financial activities were collected and presented in the Table 3.

It could be explained from the table 3, Madurai farmers has less awareness on financial planning as indicated by higher level of awareness gap (12.05 and 17.22 per cent) between Madurai and Erode farmers respectively. In case financial acquisition, the awareness gap on financial institutions and schemes were 20.85 and 19.74 per cent respectively. The awareness gap on financial allocation was very low (4.07 per cent) between Madurai and Erode farmers. Hence, it could be concluded that, the Erode farmers, who has higher financial literacy showed higher level of awareness on different farm financial activities compared to Madurai farmers.

5.3.2 Knowledge index on farm financial management

Knowledge on farm financial management depends on the financial literacy of the farmer. Financial literacy significantly contributed to the knowledge on financial planning, acquisition of finance and allocation of finance. Hence the data were collected on these aspects and presented in the Table 4.

It could be inferred from the table 4, the Erode farmers has higher knowledge on short term plan (64.85 per cent) and long term plan (49.67 per cent) compared to Madurai farmers. The knowledge gap on short term and long term plan between the Madurai and Erode farmers was 7.80 and 11.24 per cent respectively. There was a wide difference in knowledge on financial acquisition such as knowledge on financial institutions (21.34 per cent) and different financial schemes (15.84 per cent). Erode farmers has good knowledge on financial allocation (78.86 per cent) when compared to Madurai farmers (63.29 per cent). Through training programs the Erode farmers had exposed to different financial institutions such as public sector banks, private sector banks, cooperatives, and NBFCs. They also gained good knowledge on various schemes offered by these institutions through training programs. Hence it could be concluded that, the Erode farmers had high knowledge on farm financial management aspects as they have scored higher marks on financial literacy test compared to Madurai farmers.

5.3.3 Adoption index on farm financial management

Application of farm financial management strategies largely influenced by the financial literacy of the farmers. The adoption index on different farm financial management activities was calculated and the results are presented in Table 5.

It could be explained from the table 5, there was a wide gap in the preparation of short term plan (23.50 per cent) between Madurai and Erode farmers as indicated by higher adoption index of Erode farmers (52.41 per cent). Utilization of different financial institutions (64.37 per cent) and financial schemes (47.12 per cent) was higher among Erode farmers when compared to Madurai farmers 46.83 and 32.48 per cent respectively. The Madurai farmers did not properly allocate the farm finance as it was indicated by low level of adoption index (38.41 per cent) and higher level of adoption gap (32.04 per cent). The Erode farmers had higher adoption index in financial allocation. Because of the training programs the Erode farmers had gained good awareness, knowledge and application of farm financial management aspects. Hence it could be concluded that, higher level of financial literacy would led to proper planning, acquisition and allocation of farm finance.

5.4 Factors influencing the financial literacy of farmers

An attempt was made analyze the factors influencing the financial literacy of famers by employing multiple regression method. The regression model was fitted by taking financial literacy score as dependent variable and socio-economic factors as independent variables. He multiple regression results were presented in the Table 6.

It could be inferred from the significant R^2 value (0.679) that, 67 per cent of the variation in the financial literacy was explained by the different independent variables included in the model. The significant F ratio also indicated the best fit of the egression model. The regression results showed that, age, education, Experience, farm income, years of relationship with the bank, size of landholding, frequency of bank visit and bank account were significantly and positively influenced the financial literacy of farmer.

A unit increase in age of the farmer would result in 0.48 per cent increase in financial literacy of farmers. There is a possibility of increasing financial literacy by 0.78 per cent by a unit increase in educational status of farmers. The increased educational status would lead to increased financial literacy. The farming experience directly related to the financial literacy of the farmers. A unit increase in farming experience would result in 0.56 per cent increase in financial literacy. A unit increase in farm income, size of landholding, relationship with the bank would results in 0.54 per cent, 0.66 per cent and 0.52 per cent increase in financial literacy of farmers. About 0.67 per cent of financial literacy could be improved through one unit increase in frequency of bank visit by the farmers. There was a possibility of increase in financial literacy by 0.52 per cent, if the farmer holds a bank account. It could be concluded that, the farmers with higher educational status, higher farm income and maintaining more years of relationship with the bank would have higher financial literacy, as it was indicated by the higher regression coefficient of the variables. It was recommended that, the government should concentrate on improvement of educational status of the farmers to enhance the financial literacy of the farmers.

5.5 Determinants of financial literacy

The major factors determining the financial literacy of jasmine farmers in the study area were collected, analyzed and the results are furnished in Table 7 and 8.

Factor analysis

Factor analysis is a multivariate statistical technique used to reduce the large number of variables in to smaller number of variables called factors or components. The 14 variables have been reduced into six factors based on component matrix, Eigen values and communalities. From the table 8 it could be observed that first six components explained 74.17 percent of the variability in the original 14 variables. So we can reduce the original data in to six factors (Eigen values greater than one) with minimum loss of information (25.83 per cent).

Rotated component matrix

The factors are rotated with the Varimax Kaiser Normalization rotation method. We have used principal component analysis method for factor extraction and considered only those factors whose values more than 0.50 for the purpose of interpretation. From the table 9 it shows that Factor 1 explained about 19.25 percent of total variation and heavily loads on education, farm income, size of land holding and occupation. The factor 2 explained about 15.12 percent of the total variation and this factor loads heavily on experience, bank account and number bank of bank account. The variable frequency of bank visit have high loading on Factor 3 and it explained about 13.20 percent of the total variation. From the table we find variables like age, relationship with the bank, and distance to the nearest bank have high loading on Factor 4 and this explained about 9.56 percent of the total variation. Factor 5 explained about 9.33 percent of the total variance and this factor heavily loads on the loan outstanding. Factor 6 explained about 7.68 per cent of the variation and it heavily loads on education and frequency of bank visit.

Conclusion

The study revealed that, Erode farmers had higher financial literacy than Madurai farmers as the Madurai farmers received some information on farm financial management through training programs. The Erode district farmers have more awareness, knowledge and adoption of farm financial management activities than Madurai farmers. The training programs influenced the Erode farmers to have good awareness, knowledge and application of farm financial management aspects. The regression results showed that, age, education, Experience, farm income, years of relationship with the bank, size of landholding, frequency of bank visit and bank account were significantly and positively influenced the financial literacy of farmer. It was confirmed through the factor analysis that, the above factors had high factor loadings and communality value. It could be concluded that, the farmers with higher educational status, higher farm income and maintaining more years of relationship with the bank would have higher financial literacy. It was recommended that, the government should concentrate on improvement of educational status of the farmers to enhance the financial literacy.

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Financial literacy score

S. No	Financial literacy score	Erode		Madurai	
		No. of farmers	Percentage	No. of farmers	Percentage
1.	High (> 78.51)	38	38.00	4	4.00
2.	Medium (78.51 to 51.64)	53	53.00	72	72.00
3.	Low (< 51.64)	9	9.00	24	24.00
Total		100	100.00	100	100.00
Calculated χ^2 value: 37.2, Table χ^2 value: 5.99					

Table 2 Components of financial literacy

S. No	Category	Financial literacy score		Financial literacy gap
		Erode	Madurai	
1.	Financial planning	58.57	47.43	11.14*
2.	Acquisition of finance	75.04	57.48	17.56*
3.	Allocation of finance	76.33	68.23	8.10

Table 3 Awareness index on farm financial management

S. No	Category	Erode	Madurai	Awareness Gap
1	Financial planning • Short term plan • Long term plan	 87.37 68.46	 75.32 51.24	 12.05 17.22
2	Acquisition of finance • Financial institutions • Financial schemes	 92.98 84.45	 72.13 64.71	 20.85 19.74
3	Allocation of finance	85.39	81.32	4.07

Table 4 Knowledge index on farm financial management

S. No	Category	Erode	Madurai	Knowledge Gap
1	Financial planning • Short term plan • Long term plan	 64.85 49.67	 57.05 38.43	 7.80 11.24
2	Acquisition of finance • Financial institutions • Financial schemes	 75.12 62.08	 53.78 46.24	 21.34 15.84
3	Allocation of finance	78.86	63.29	15.57

Table 5 Adoption index on farm financial management

S. No	Category	Erode	Madurai	Adoption Gap
1	Financial planning • Short term plan • Long term plan	 52.41 25.73	 28.91 19.41	 23.50 6.32
2	Acquisition of finance • Financial institutions • Financial schemes	 64.37 47.12	 46.83 32.48	 17.54 14.64
3	Allocation of finance	70.45	38.41	32.04

Table 6 Factors influencing the financial literacy of farmers

Variables	Co-efficient	Standard error	T-ratio	P value
Age (Years)	0.483*	0.117	4.128	0.00
Education (Years)	0.781*	0.231	3.381	0.015
Experience (Years)	0.567*	0.142	3.993	0.00
Farm income (Rs)	0.547*	0.183	2.989	0.003
Size of land holding (ac)	0.662***	0.410	1.615	0.108
Relationship with the bank (Years)	0.529*	0.170	3.112	0.002
Distance to nearest bank (Km)	-0.371	0.297	-1.249	0.213
Occupation	2.773	1.785	1.554	0.122
Frequency of bank visit	0.674*	0.185	3.643	0.000
Bank account	0.521**	0.231	2.255	0.0271
R^2 value: 0.679, F-ratio: 20.42				

(Note: * 1%, ** 5% and *** 10% level of significance)

Table 7 Total Variance Explained

Component	Initial Eigen values		
	Total	**% of Variance**	**Cumulative %**
1	2.311	19.257	19.257
2	1.815	15.121	34.378
3	1.585	13.209	47.587
4	1.148	9.566	57.153
5	1.121	9.339	66.492
6	1.104	7.684	74.176
7	0.836	6.969	81.145
8	0.731	6.089	87.234
9	0.638	5.317	92.551
10	0.569	3.121	95.672
11	0.483	2.254	97.926
12	0.457	1.023	98.949
13	0.404	0.996	99.945
14	0.007	0.055	100.000
(Extraction Method: Principal Component Analysis.)			

Table 8 Rotated Component Matrix

Variables	Components						communalities
	1	**2**	**3**	**4**	**5**	**6**	**h^2**
Age	-0.010	0.053	0.099	**0.560**	0.209	0.021	0.718
Education	**0.813**	-0.104	0.376	0.034	0.353	**0.871**	0.817
Experience	-0.165	**0.622**	-0.353	0.102	0.028	0.421	0.550
Farm income	**0.739**	-0.126	-0.351	0.146	0.127	0.036	0.723
Size of landholding	**0.520**	0.172	0.238	0.043	0.450	0.087	0.562
Relationship with the bank	0.315	-0.109	0.015	**0.562**	0.153	0.257	0.450
Distance to nearest bank	0.087	-0.174	0.024	**-0.793**	0.257	0.378	0.733
Occupation	**-0.636**	0.014	-0.438	0.041	-0.117	0.123	0.612
Frequency of bank visit	-0.107	-0.117	**0.870**	0.131	-0.134	**0.671**	0.841
Bank account	0.051	**0.711**	-0.140	-0.371	-0.176	0.121	0.696
Number of bank account	0.005	**-0.752**	-0.191	-0.152	-0.251	0.423	0.688
Loan outstanding	0.019	-0.064	0.173	-0.001	**-0.898**	0.052	0.591
Variance Explained	**19.25**	**15.12**	**13.20**	**9.56**	**9.33**	**7.68**	**74.17 (Total)**

(Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization)