IMPROVING FINANCIAL LITERACY LEARNING IN RURAL AREA OF DEVELOPING COUNTRY VIA SAVINGS AND CREDIT COOPERATIVES (SCC)

Batchuluun Amrita[1*], Joung Yol LIN[2],

[1] PhD Candidate, Dept. of Business Administration, Asia University, Taiwan
[2]Dean of College of Management, Asia University, Taiwan
*Email Address of Contact Author: amrita_mn@hotmail.com

ABSTRACT

One result of the recent financial crisis has been an increased interest in financial literacy. Financial literacy is desire to be forwarded of any approaching situations and thereby avert damage to one’s own finances. In the developed world the means to assimilate these skills are readily available, but in the developing world, particularly in rural areas, this is hampered not only by questions of cost but also lack of access to universities or professional institutions. In Mongolia, for example, the more remote villages have the less chance of connection to the internet. Unfortunately, it is in these areas, where the local economy is fragile and survival precarious that financial literacy is most important. This is national development issue as aims of government are adversely affected by a financially illiterate population, which affects on increase of poverty of the country. In this point, it is an essential to find a right learning method of financial literacy for rural people, indeed the research aims to define the best way by view of rural people in Mongolia. The data bases on questionnaire and focus group interview conducted among rural people concentrated on current methods. The main argument of this paper is that members of the savings and credit cooperatives use financial services in everyday personal or family life to manage their personal or household finances. Hence the best learning methods could be via savings and credit cooperatives. The findings have important implication for policy makers and international organizations with an interest in the promotion of financial security among rural population.

Keyword: learning and knowledge, financial literacy, savings and credit cooperative

1. Introduction

Current developments in technology have rapidly changes the financial market. These changes, in turn, have affected the ways in which people learn. In rural areas of developing nations, however, it is difficult to find innovative technology or its distribution channels; nevertheless a high literacy rate does not necessarily influence financial literacy. For these reasons that channel which delivers financial literacy to rural people at low cost, enabling access for a large population, same time improving their quality of life in areas such as income generation, asset building and financial management is the questionable. Furthermore, an increase in the financial literacy rate will influence the economic development and structural transmission of the country.

Financial literacy is vitally important to people in any country worldwide that it integrates knowledge, skills and attitudes to use money efficiently for earning, spending, saving, borrowing and investing. The concept is a decisive benefit for all individuals' livelihood. From another view point, the savings and credit cooperative is the main financial institution in rural areas of developing countries and the most suitable way to use money, increase their household income and effectively manage their family finances. Despite these unavoidable truths, the majority of the population of developing countries live in rural area although savings and credit cooperatives have become effective and efficient networks to satisfy rural people's needs with low cost and low risk.

In Mongolia, for instance, around 1.19 million people or 42.82% of total population live in rural areas of which total 25 thousand people have become members of 131 Savings and Credit Cooperatives (Financial Regulation Commission of Mongolia, 2011) to share their available resources and experiences and increase their household income. From 2005 to 2007, 29 savings and credit cooperatives were bankrupted due to inadequate financial literacy and lack of financial knowledge. It is a proven fact that such incident leads the public the activities of all these organization in a negative light. If on the hand the savings and credit cooperatives start to concentrate on the financial literacy of their members while increasing their saving habit and collaborate with each other to improve the efficiency of loans and other important financial decisions, then, the situation improves, dangers of bankruptcy recede and more individuals than ever become interested in joining Savings and Credit Cooperative (SCC). In other word, the SCC informs its members of how to manage their day-to -day financial affairs. Financially literate people know how to make decision that affects their daily life positively. Research questionnaire conducted in rural areas of Mongolia, including non members and members of the savings and credit cooperatives have addressed these issues.

Mongolia has a population of 2.8 and is landlocked between The Peoples Republic of China and Russia. It occupies 1.6 million square km, which is the 19th largest and the most sparsely populated country in the world (World Bank, 2011). The total adult literacy rate is 97 percent as of 2008 (UNISEF, 2010). Developing countries are characterized as having limited markets, incomplete information, scarce physical resources, weak infrastructure and a shortage of technical innovation (Hadjimanolis & Dickson, 2001). Similarly, Mongolia has poor transport and communication systems, which exacerbates the problems facing rural people by rendering them more remote.

2. Development of an Argument

The main argument of this research is “How can savings and credit cooperatives adhere to standards of financial literacy while changing actual financial behavior of rural people in developing countries?” Additionally financial literacy activity decreases the negative consequences of financial coordination and the fights against poverty within developing countries (UN, 2003). By World Bank (2010) estimation, there are 155 developing countries in the world and argument tried to be approved base on Mongolian case.

We assume that first rural people become members of savings and credit cooperatives due to a demand for financial services and products, such as saving, borrowing money for personal, family or business. Second, the savings and credit cooperatives deliver financial literacy and financial services and products simultaneously to its members. Third, members of the savings and credit cooperatives increase their family profit while sharing their financial knowledge and thereby further improve their financial literacy. The above assumption is framed in Figure 1, which demonstrates how savings and credit cooperatives can be an efficient way to improve the financial literacy of rural people; this will validate the main argument.

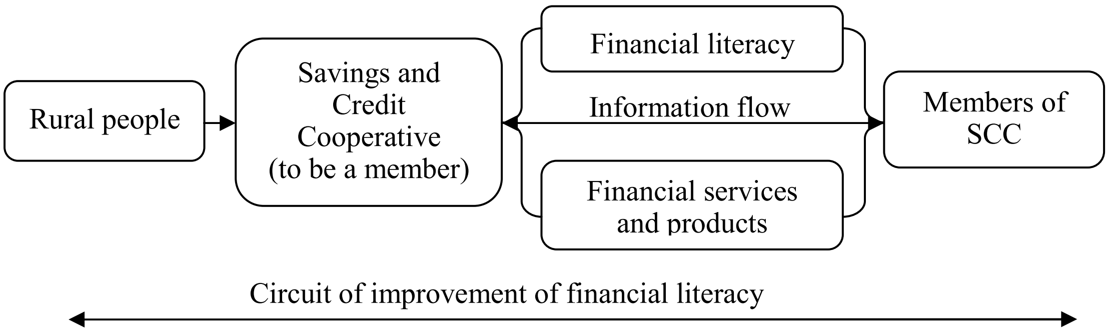


Figure 1. The possible action of improvement of financial literacy

In this scenario, the savings and credit cooperative is the main player in that all information flow is downstream to members. Moreover it will solve the problem of how policy makers can improve financial literacy among rural populations.

3. Empirical Evidence

The theoretical base of this research focuses on the linkages between financial literacy and the saving and credit cooperative. The term financial literacy for rural people refers to the skills and knowledge of finance that individuals make effective decisions for their livelihood and people are becoming more optimistic about their own financial situations. Braustein and Welch (2002) found that people learn about finance via 1) TV, radio, newspaper; 2) Brochures; 3) Video presentation at home; 4) Internet; 5) Informational seminars among community and 6) Formal courses. However they also defined that the most effective way to learn financial literacy is by their own personal financial experience, sharing experiences with their friends and family members. Based on this finding, the intermediary channel, who will deliver the complex information to rural people to meet their needs and enhance financial literacy - is the savings and credit cooperative. As Murphy (1990) identified that literacy cannot be given or taken, taught or learned. Literacy is participation of people.

Kozup and Hogarth's (2008) research found that consumers gain in financial education through the acquisition of useful pieces of information then they process those pieces relating to their life, tastes, and preferences; and use the output to make decisions to "purchase" financial products and services. Accordingly, the members of the savings and credit cooperatives work together sharing their information to cooperate efficiently and effectively and link the product and market characteristics to enrich further sustainable competitive advantage and begin changing the financial future for the better.

However, it should be noted, there are hundreds of organization now involved in financial education and literacy activities (Wolfe-Hayes, 2010), but the fundamental issue is to reduce the cost of delivering financial literacy to rural people and improve the competitiveness in terms of individual preferences (Thornton & White, 2001) while maintaining and applying a broad understanding of financial management. Many researches confirmed that rural people have low income and lack of diverse financial opportunities (Kempson, 1996; Jones, 2008, and Wolfe-Hayes, 2010). The number of academic and professional papers recognized as studying savings and credit cooperatives (SCC) (Williams, 2004; Jones, 2008 and Siddiqui, Khan & Akhtar, 2008), can help to maximize the members' financial performance and minimize the cost within a short period as they reach each individual. Bouman (1995) identifies savings and credit cooperatives as a way to meet the basic financial service needs of rural local communities, who cannot obtain these services through the existing banking system. In other word, it enables members to make informed choices about financial products and services, avoid high cost services, and develop saving habits (Jones, 2008 and Williams, 2004). Moreover, the SCC becomes a less costly delivery channel of financial literacy rather than outside consultants or trainers (Carr –Hill, Roberts & Currie, 2010).

In general, financial literacy will promote the sustainable development of the cooperatives in rural areas. In this context, the savings and credit cooperatives that offer incentives for family support for financial planning are noteworthy and the value of community partnership has been widely acknowledged (Kumar, 2005).

4. Data Collection

The research based on questionnaires and focus group interviews collected in rural areas of Mongolia included the general public as non-members and members of savings and credit cooperative. Total number of participants was 204 people, including 115 members of SCCs and 89 general public (non-members). Financial literacy is strongly associated with a person's age, gender and socioeconomic characteristics, despite this the study were not restricted by age, gender or social positions. 156 participants were female and 48 were male. 48% of the total was small and medium entrepreneurs, 32% work in state agencies and private companies, and remainder are retired and unemployed people and students. 19% of participants were below the minimum level of income, being categorized as at the poverty level.

The first phase was a questionnaire distributed to members of the SCCs and the general public. The questionnaire consisted of general questions directed at the demographics of participants and questions to identify major gaps in financial literacy and knowledge of SCC members and the general public to understand their attitudes to household budget management, financial planning for the future and review how rural persons learn best. The questionnaire tried to know the people's concern and relationship with money, entrepreneurial skills and rational decision-making based on personal self-interest.

In the second phase, focus group interviews were conducted with those, who completed the questionnaire. We sought to encourage their interest in institutions, which provide financial training services in rural areas. We also assessed the current systems of financial education and potential methods of using information technology (mobile phones, television or MP3) to enable learning options. Respondents were open and responsive to new and diverse perspectives on how they view the level of financial literacy; what they see as the most important issues in financial education; what they consider the main obstacles to learning; who will learn better (woman or man); and whether they have attempted to measure the effectiveness of their financial education programs.

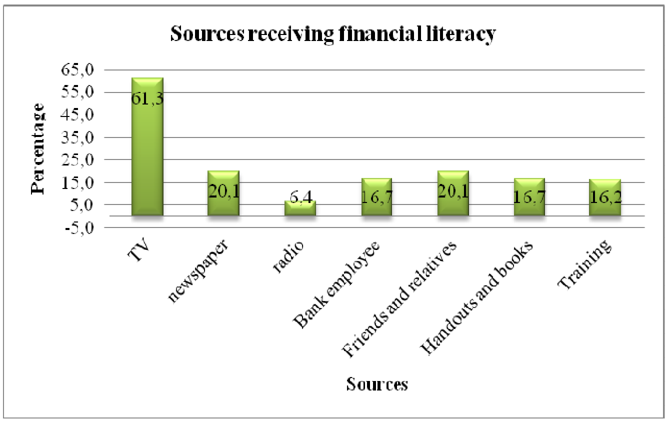
5. Findings and Result

Why should people want to be members of an SCC? To increase their income, save money, apply for a loan, to collaborate with others and to share their experience. Why would people not want to be a member of an SCC? They are perceived as threatening to some who think they will lose their assets and cannot get their money back should they become members.

An important matter to consider when promoting financial education is household planning. 43.6% of participants occasionally keep household records of income and expenditure; 28.4% always and 27.9% never. This stems from the fact that household budget is planned on an ongoing basis without taking future events into account. When budgeting only for ongoing expenses, a household is unprepared to cope with emergency expenses on its own, thus 76.5% of all participants have run out of money in the last three years for some reason, for example, school tuition fee, business expansion, anniversaries and holidays, treatment in hospital or other emergencies. This shows that people have a lack of financial literacy and proper planning for household finance. Worse, 39.7% of them run out of money once a year, 31.4% twice a year and 30.8% more than three times a year. Saving is directly correlated with planning and is another matter to be addressed when promoting financial education as financial education positively influences savings (Bell & Lerman, 2005).

It should be emphasized that 148 participants or 72.5% save and 56 or 27.5% do not save at all. However, members of the savings and credit cooperatives save and each has a savings account. But non-members do not have a saving account due to (1) not enough income; (2) all income is spent on family needs; and (3) micro entrepreneurs often believe that money must be immediately invested in merchandise rather than be kept idle.

The decision on borrowings came out more easily for members than non members, who face difficulties with collateral and interest rates. Although people go to individuals, pawn shops and banks to borrow money at high interest rates, they then encounter problems with repayment. The cash management behavior of people is basic as 76 people keep their cash at home, with no use of a savings account with limited financial education and unsatisfactory products and services being offered by banks or SCCs and they do not trust its activities. The majority of rural people receive information about financial literacy through television programs, then from newspapers, friends and relatives, from handouts, a bank employee or from different training courses and through radio programs, respectively as shown on Graphic 1.



Graphic 1. Sources of financial literacy

How do rural people want to learn about finance? People prefer to learn while sharing their experience and involvement in discussions, which makes them able to take a positive direction in a worsening situation. It is suggested by members of SCCs that the best approach to a basic understanding of financial literacy is via TV or sharing information with others.

In addition, and perhaps more importantly in the longer run, an increasing number of members stress the knowledge of financial markets, basic understanding and benefits of savings and investment.

Only 11 percent of total participants attended classroom trainings on financial literacy programs, as organized by international projects and Government agencies, such as accounting, risk management and loan management trainings from 2004 to 2006, within a 2 year period. It shows that the level of financial literacy programs is still weak and requires more attendance from people.

Another finding is women are more active than men in rural areas and female participation in society has increased and had a direct influence on their husband decisions thereby giving them the power to make financial decisions on behalf of the family.

6. Conclusion and Implication

The study acknowledged the main argument that SCC members are: (1) know the basics on how to keep household budgets; (2) attempt to use techniques of financial management, and (3) generally they are financially literate at least at the basic level, but there are certain groups who face particular challenges on household finance. However, data shows that non members of the SCC or the general public have very low levels of financial literacy and still have a negative attitude to closer tracking of a given budget, then experience challenges on personal financial management. If people become a member of savings and credit cooperatives, then they will have more responsibility and accountability within their financial activities. Also, the TV and radio programs enable members to speak of their practices and experiences to others, which will encourage the general public to become members of SCCs.

If savings and credit cooperative links to financial literacy, it is obvious that financial literacy remains in the non-profit domain. But, it can be profitable. Government policies shall support the savings and credit cooperatives by reducing tax burdens, persuading people and rewarding achievement. Furthermore, the encouragement of collaboration with the financial training agencies will help to optimize the result, reduce unemployment and bad credit and create valuable long-term techniques.

As a result, people in rural area will build a culture of financial savvy among them, develop, implement and communicate new ideas to others and demonstrate mastery of personal finance by building their own assets. Assets are basis for economic security and the beginning of fundamental wealth creation in developing countries (Sebstad & Cohen, 2003). More financially literate people increase the demand for financial services, help to underpin financial market stability, and contribute to wider economic growth and development of the region.

The study gives significant evidence in support of sustainable development of developing countries based on a framework for delivery of financial literacy to rural people. Research aimed at building a future planning approach towards technical assistance by international organizations and policy makers, which will attempt to recognize the main distribution channel so as to reach large number of people and facilitate enhanced performance of financial literacy.

Financial education could change the behavior of people; promote the awareness of benefits of budgeting for future expenses; and projecting anticipated income. A mind open to aspirations of financial literacy at that create prosperity and financial freedom for a household in any developing countries can address local economic structure by financial development and aim at reducing poverty in the country. Savings and credit cooperatives transform financial challenges into financial winners and its members overcome financial disadvantages and become more self-sufficient, productive and prosperous.

7. Reference

[1] Bell, E. & Lerman, R.I. (2005). Can Financial Literacy Enhance Asset Building? *The Opportunity and Ownership project*. Washington D.C.: The Urban Institute.

[2] Bouman. F. J. A. (1995). Rotating and Accumulating Savings and Credit Associations: A Development Perspective. *World Development, 23*(3). 371-384.

[3] Braustein. S., & Welch. C. (2002). Financial literacy: an overview of practice, research and policy. *Federal Reserve Bulletin,11*. 445 -457.

[4] Carr –Hill. R., Roberts. F., & Currie.E. (2010). Approaches to costing adult literacy programmes, especially in Africa. *International Journal of Educational Development, 30,* 428–437. doi:10.1016/j.ijedudev.2010.01.003

[5] Financial Regulatory Commission of Mongolia. (2011). The Savings and Credit Cooperatives. Retrieved from: http://www.frc.mn/engnew/

[6] Hadjimanolis. A. & Dickson. K. (2001). Development of national innovation policy in small developing countries: the case of Cyprus. *Research Policy, 30*. 805–817.

[7] Jones, P.A. (2008). From tackling poverty to achieving financial inclusion—The changing role of British credit unions in low income communities. *The Journal of Socio-Economics, 37,* 2141–2154. doi:10.1016/j.socec.2007.12.001

[8] Kempson, E. (1996). *Life on a Low Income*. United Kingdom: Joseph Rowntree Foundation

[9] Kozup, J. & Hogarth, J.M. (2008). Financial Literacy, Public Policy & Consumer's Self Protection – More Question, Fewer Answers. *Journal of Consumer Affairs, 42*(2), 127-136. DOI: 10.1111/j.1745-6606.2008.00101.x

[10] Kumar, A. (2005). *A study for Access to Financial service in Brazil*. Washington D.C.: The World Bank.

[11] Murphy, E. (1990). *1990 Year of Literacy*. Retrieved from: http://www.nald.ca/library/research/moved/1990/1990.pdf

[12] Sebstad, J. & Cohen, M. (2003). Financial Education For The Poor. *Financial Literacy Project.* Washington D.C.: Microfinance Opportunities Organization

[13] Siddiqui. A., Khan. M., & Akhtar. S. (2008). Supply chain simulator: A scenario-based educational tool to enhance student learning. *Computers & Education, 51,* 252–26.

[14] Thornton.J., & White.L. (2001). Customer orientations and usage of financial distribution channels. *Journal of Services Marketing, 15*(3). 168 -185. United Nations. (2003).

[15] United Nations Children's Fund (UNISEF). (2010). *At a glance: Mongolia-Statistics*. Retrieved from: http://www.unicef.org/infobycountry/mongolia_statistics.html

[16] Williams, M. (2004). *Financial Services for People of Modest Means: Lessons from Low-Income Credit Unions*. Chicago: Woodstock Institute.

[17] Wolfe-Hayes. A. M. (2010). Financial literacy and education: An environmental scan. *The International Information & Library Review, 42*, 105 -110

[18] World Bank. (2010). Databank of Mongolia. Retrieved from http://data.worldbank.org/country/mongolia