

Financial Literacy as an Antecedent of Financial Inclusion: An Empirical Study among Rural Poor in Kurunegala District, Sri Lanka

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Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society. As this concept has direct relationship with financial sector as well as of economic development of many countries in the world, it has become a globally important phenomenon and is gaining the attention of most of the socio-economic researchers. Previous researchers have explored many antecedents of financial inclusion and divided into two main categories such as demand side antecedents and supply side antecedents. Further, many researchers argue that financial literacy has greater importance for increasing financial inclusion among the rural poor. However, the most important argument is whether it is become a real demand side antecedent of financial inclusion in Sri Lankan context.

Therefore, the present study mainly focuses on exploring the impact of financial literacy among rural poor on their preference towards adopting the formal financial system in Sri Lanka. The sample for this study was drawn from under privileged families who live in *five Gramaseva divisions in Kurunegala District. Some undergraduates were employed as enumerators for data collection. Altogether 400 questionnaires were distributed and 373 completed questionnaires were taken in for final analysis. Degree of Financial literacy was tested based on 22 items identified by previous researchers and Principle Component Analysis was employed to determine the key factors of financial literacy. Degree of financial inclusion was tested by using a scale developed by the researchers based on the previous literature. The reliability of scales was measured by Cronbach's Alpha Coefficient. Exploratory factor analysis was employed to determine the key factors of financial literacy and multiple regression model was adopted for determine the impact of deferent components of financial literacy on degree of financial inclusion among selected respondents. The findings revealed that, in general, financial literacy has a significant impact on financial inclusion among the rural poor. However, when considering the under separate dimensions, financial knowledge and financial skills have the significant impact of the financial inclusion among the selected respondents. Further, it was noted that perceived knowledge about the financial system among respondents does not have significant impact on the degree of financial inclusion among the rural poor. Therefore, the study concludes with the finding that financial literacy can be considered as a major demand side antecedent of financial inclusion in Sri Lankan context as well. Finally, the study provides suggestions for government policy decision makers to develop financial literacy level for attracting under privileged people towards formal financial system.*

Key words: *Demand side antecedents, Financial inclusion and Financial literacy*