

Role of Financial Inclusion (As a Formative Mediating Variable) on Financial Literacy and Economic Empowerment: With Special Reference to Rural Poor Women in Sri Lanka

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Introduction

As citizens of a developing country, Sri Lankan women in rural areas have to confront many challenges so as to obtain financial knowledge. A 52% of the entire Sri Lankan population is composed of women, these women are poor in financial literacy (Fin Lit) and particularly, lack of knowledge and proper financial attitudes and therefore, poor in financial decision making. In comparison to a number of other Asian countries, Sri Lanka has a financial inclusion (Fin In) rate as high as 73.4%, as stated by the Little Data Book on Fin In, 2018. All adults (above 15 years) who possess an account in the formal financial sector were considered as “Financially Inclusive”. Globally, a 35% of men are financially literate as opposed to a 30% of women. When considering, the Sri Lankan adult population, only 35% are financially literate and this turns out to be a severe drawback in women’s Fin Lit and their wellbeing. In accordance with the above discussion, the researchers noted that Fin Lit and Fin In can be considered as crucial areas which need to be further investigated with relation to Women’s Economic Empowerment (WEE). Hence the main purpose of this study is to investigate and analyse the effect of financial inclusion as a mediator among the financial literacy level and economic empowerment of rural women in Sri Lanka

Methodology

Present study was designed based on the deductive approach in a positivist research paradigm, conceptual framework and hypotheses were developed based on sound theoretical and literature background. A survey method was adopted for primary data collection, a researcher administrated questionnaire was employed as the research instrument (Sekaran & Bougie, 2016). The target population was taken as rural poor women lining under the poverty line in Sri Lanka. Further, the sample size 386 was based on the Cochran’s sample size estimating formula. The multilevel mixed sampling method was adopted. Confirmatory Tetrad Analysis (CTA) was conducted to confirm the formative nature of the Fin In (Hair, Gudergan, Ringle, & Sarstedt, 2018). The researchers employed the Smart-PLS 3 as the main analytical software due to the formative nature of the mediator in the conceptual model (Hair, Hult, Ringle, & Sarstedt, 2017).

Findings

Based on the output, initially direct relationship between the Fin Lit and WEE was tested

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and after that mediation relation was estimated. According to the bootstrapping **t**-test results it was clearly noted that the direct path is not significant after introducing the mediating variable.

Hence, mediation effect is clearly identified based on the specifications given by Memon, Cheah, Ramayah, Ting & Chuah, (2018) and Ringle, Sarstedt, Mitchell, & Gudergan, (2018). Therefore, the hypothesis which was made, that the financial inclusion mediates the relationship between financial literacy and WEE was empirically supported in the present research context.

Conclusion

After considering all the factors, the researcher concluded that the women's economic empowerment among rural poor communities can be enhanced with the highest level of financial literacy through financial inclusion. When considering the research findings, it was found that, with the higher level of participation in the formal financial sector, women's economic empowerment could be further uplifted.

This study makes special contribution to existing literature and for the financial institutions as it provides a clearer understanding of the impact of and financial literacy on women's economic empowerment with the mediating effect of financial inclusion.

Keywords: *Economic Empowerment, Financially Inclusive, Financial Literacy*

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