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FINANCIAL LITERACY AND CO-OPERATIVES SUSTAINABILITY: A STUDY AMONG THE EXECUTIVE MEMBERS OF THE CO-OPERATIVES

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ABSTRACT: *Nepal is an agriculture economy with majority population illiterate, the question of financial literacy is still beyond the context. Agri-cooperatives have been the strength for these rural population and these cooperatives are mostly assisted by the not for profit organizations. However, as these organizations withdraw their technical assistance will the cooperatives be sustainable given the fact that most of it's executive members are financial illiterate or have low financial literacy. Financial literacy is important to understand the basic economic concepts needed to make saving and investment decisions. It is more important to executive members of the cooperatives because they have to make the complex financial decisions besides the day to day household management. This study has been conducted using the descriptive statistics to analyze basic level of knowledge the executive members of the agro based cooperative, technically assisted by nonprofit organizations, have in their day to day financial matters and also, identifying their weakness in financial information and understanding. This study demonstrates that executive members still rely over traditional financial decision making process; ignorance of cash flow statement and budgetary analysis. They did not have any idea about the new banking products like debit card, credit card and online banking, were ignorant to financial planning. Moreover, the age group, education level and gender had significant effect on the analysis of interest rate and cost effectiveness, exposing them to inflation and interest rate risk. This shows that it might be hard for the executive members to sustain the co-operative functions when nonprofit organization discontinues its technical assistance. This study has revealed the need for the financial literacy education program and the need for the nonprofit organization to take an integrated approach in local institution building. It shall not only focus on establishing the institution but also transfer the technology along with basic financial knowledge which leads to better financial behavior and financial outcomes. This research is unique in the context of Nepal and will be useful in similar contexts. These findings will be useful in designing the programs by the cooperatives and also the not for profit organizations.*

KEYWORDS: Financial Literacy, Co-operatives, Executive Members, Nonprofit Organization

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INTRODUCTION

Agri-cooperatives has strengthened collective decision of its members mostly in the areas of procurement of the agro inputs, agro processing, storage of the agro products and its marketing & distribution. These cooperatives have also vital role in access to financial services, value chain training and marketing assistance besides negotiation with government for subsidies, fertilizers and the elimination of intermediaries by selling the products directly in the market (Grigoryan, Hakhnazaryan & Kwapong, 2008). Nepalese cooperatives are mostly technically assisted by nonprofit organization through the fundings from the international organizations, foundations and development partners. Most of the members of these co-operatives are poor, disadvantaged and deprived families, including small and marginal farmers.

The role of these agri-coopertiaves are more important, Nepal being the agriculture economy, where it contributes around 34% on GDP and provides employment for more than 66 % people[1]. According to World Development Report "agriculture is around four times more effective at raising incomes among the poor than other sectors" (World Bank, 2008). The significant is the literacy rate for the population of 10 years and above which only 39.6% . There is a wide gap between the literacy rate of rural and urban people. The rural people are more illiterate.

However, high illiteracy, mainly financial illiteracy (lack of financial management skills both book keeping, statutory compliance and financial decision making) might be the biggest hurdle in the process of the sustainable growth of these co-operatives. The concern is whether the efforts of co-operatives in farmers economic empowerment and self sustainability of the co-operatives will be successful in the condition that the executive members (farmers) representing the board of directors of such co-operatives have financial illiteracy or low financial literacy. Whether these executive members are able to manage the operations on its own after technical assistance is discontinued by the CEAPRED.

Lack of Financial literacy might have the following implication:

a) At the Individual Level, farmers may not be prepared to cope with the financial risk due to sudden changes in the price of the product, they may not be to make full utilization of the credit, they may be over burdened with the credit or may also be in position to lose their property by not being able to repay the loans or may also be exploited by the creditors, retailers or by the fraudulent activities.

b) At the Institutional Level, executive members may not be able to segregate or prioritize between the overloaded information. They may even reject the good offers while negotiating with the value chain actors, may sanction credits to the risky agri-business and may not be able to raise the collective voice of the members properly leading to a weaker bottom line.

c) At the Market Level, uninformed members cannot play a monitoring role in the market to weed out bad practices and providers.

Further, co-operative may not be able to make the best use of the product, cope with the financial pressure and avoid financial trouble; know where to turn in crisis; budget well, making their income go as far as possible; and use of savings and credits to plan for the significant growth (Blake and de Jong, 2008). In addition, co-operative may not be able to address the inherent risk associated with the agriculture financing like production risk, credit risk, payment/sales contract risk, price risk, currency risk, diversion risk and buyer's risk along with the associated risk of non compliance with government rules and regulation, customer performance risk, transactional risk, country/political risk, warehouse merchandise and risk on value quality (Charles, 2009).

[1] Economic Statistics of Nepal, http://www.economywatch.com/economic-statistics/Nepaldy

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Objectives

This study aims to measure the financial literacy of the executive members of the agro based cooperatives. This is to understand the basic level of knowledge the executive members of the fresh vegetable and seed cooperative have in their day to day financial matters including identification of areas where executive members show more significant weakness in the understanding latest financial products, services and different tools used in the financial decision making process.

LITERATURE REVIEW

A compelling body of evidence demonstrates strong associations between financial literacy and house hold well being (Cole& Fernando, 2008). It is also important because well informed, well educated consumers should make better decisions for their families, increase their economic security and well being, contribute to vital, thriving communities; and foster community economic development (Hilget, Hogarth, & Beverly, 2003). The importance of the financial literacy has been further emphasized as i) it helps in defining National Strategy to increase the level of literacy focusing the particular group or community ii) enables policy makers to identify priorities and set targets iii) to provide baseline from which to measure changes iv) learn the ideas of increasing financial literacy and v) evidence of issue faced and the groups with the greatest difficulties (Folinsbee, 2001).

Financial literacy is the ultimate pillar of a sound financial system. A low financial literacy has huge adverse consequences not only to the individual but also on the socio economic level (Jariwala & Sharma, 2011). It leads to limited access to financial services or financial exclusion, misallocation of personal wealth providing disadvantages in personal economic development, over indebtedness, health/mental problem, decrease in workplace productivity, slower development of financial markets and increase in the burden of social security to government. The prior studies conducted by OECD have shown that people must be aware of the appropriate methods for comparison between different products along with different saving schemes available at the market, interest rate for lending and investments to be made to become financial literate (OECD INFE, 2011).

Despite of the above importance, researches have shown that developing countries have low levels of financial literacy. In India, for instance, more than half of laborers surveyed indicated that they store cash at home, while borrowing from money lenders at high rates of interest. This pattern worsens the financial situation (Max Life New York, 2008). In Zambia and six other African Countries, only 29 percent of adults have a bank account and 50 percent use no financial products at all (DFID, 2008). In Zambia, more than two thirds of people are unfamiliar with basic financial products and tools such as checking accounts, automated teller machines, and debit cards (Nicholas G., 2008). Research conducted in Morocco, India, Bolivia, South Africa, Kenya, Poland and Philippines by partners of Microfinance Opportunities and Freedom of Hunger on 2006 shows that financial behaviors often are reactive, people tend to respond to immediate problems and needs with little time to consider option, trade-offs, and longer term consequences. They tend to borrow money on very unfavorable terms, resulting in over-indebtedness and erosion of assets. Many poor people, especially women, feel powerless while dealing in financial issues- in banks, in their business relationships, and with their husbands and other family members. (Sebstad, Cohen & Stack, 2006). Hilgert, Hogarth, & Beverly

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(2003) highlighted that financial knowledge appears to be directly correlated with self beneficial financial behavior. Mandell (2009) stated, financial behavior seems to be positively affected by financial literacy.

Above results shows not only the importance of the financial literacy but also the low financial literacy among people from developing countries leading to the poor negotiation skills. They are also ill equipped to make informed, financial decisions especially in the context of rapid proliferation of new financial products and services from banks and consumer entities. People generally learn about managing money informally through personal experience and from family, friends and peers rather than formal education.

Nepalese government has also realized the importance of the financial literacy among its people, accordingly, in coordination with the government departments, central bank (Nepal Rastra Bank), commercial banks, micro-finance institutions, co-operative federation, development partners including national and international nonprofit organizations have started to provide financial literacy training programs but only as one of the component to increase the access to financial services. Its stakeholders include the people from all the sector and diversity including poor, marginalized and disadvantaged people aimed towards increment of the financial literacy. Nepal government took initiative towards financial literacy in 1968 AD with the establishment of Banking Promotion Board (BPB). Its objective was to promote banking activities across the country by creating banking awareness to the general public in terms of deposit mobilization and credit extension. However, it was not able to tap all the aspects of financial literacy but was limited to business promotion of member banks through publicity, problem identifications and suggestion to Central bank along with the creation of platform for member banks and central bank interaction. Nonprofit Organizations realizing the gap has started to provide trainings to improve the people’s access to finance. However, due to the limited financial resources, trainings were limited mainly to the women’s group formed under micro finance programs.

These studies show the importance of the financial literacy around the globe and how vulnerable people are at the developing countries. Nepalese people have the need for the financial literacy program to manage both personal and institutional finances. It is more important for cooperatives and its members as they need to take complex, unplanned and sudden business decisions considering both members welfare and wealth maximization.

Conceptual Framework

OECD (OECD INFE, 2011) have assessed the financial literacy by measuring the status of i) financial control in a day to day management ii) financial planning includes savings/insurance plans iii) financial decisions choosing the appropriate methods and iv) financial knowledge and understanding to have a knowledge of products and key concepts that includes consumer’s rights, and use and choice of advisers. Lusardi and Mitchell (2008, 2011) have used three concepts i) numeracy and capacity to do calculations related to interest rates, such as compounding interest, ii) understanding of inflation, and (iii) understanding of risk diversification as measures of financial literacy in the United States and Aboard. Hung Parker & Young (2009) have also assessed financial knowledge of basic economic and financial concepts, as well as the ability to use that knowledge and other financial skills to manage financial resources effectively for a lifetime for financial well being to measure financial literate. However, as per my knowledge there has been no prior research in Nepal including executive members of the co-operative as their prime interest.

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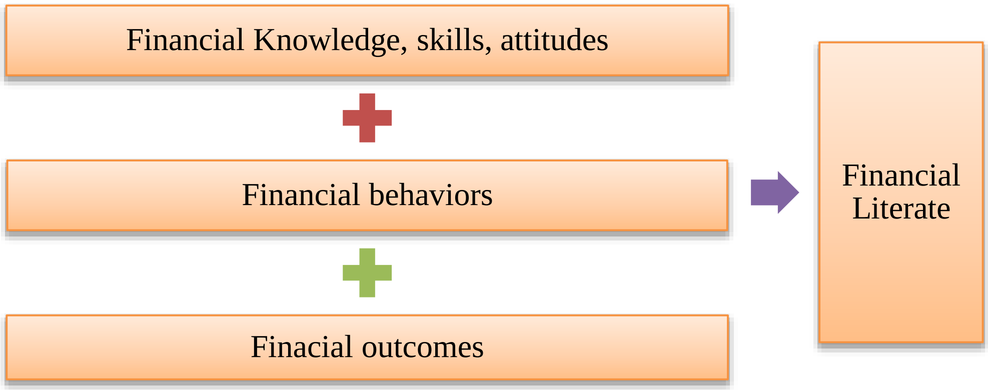

Figure 1: Framework for the Financial Literacy

Knowledge is what the person should know or the information they require to adopt the desired financial behavior. Skills are what the participant must have in order to adopt the behavior. Attitudes are what the participant must have in order to adopt the behavior. Financial behaviors are the way a person acts or responds to a situation and event. Above indicators are derived from the five thematic areas of the financial education; budgeting, savings accumulation, debt management, effective use of bank services, and financial negotiations.

Knowledge of financial concept include understanding of the financial concepts such as understanding the purpose of a budget or the elements of a savings plan, understanding of the loan terms and conditions, difference between various type of financial institutions. Skills to translate behavior include how to make a spending plan, opening a savings account, calculation of interest rate, or obtaining information of the products and services offered by a particular financial institution. Attitude include the change in the perspective of the people; commitment to stick to a spending plan, discipline to save regularly or confidence to seek information from formal sector rather than relying more on informal sector. Improved financial knowledge, skills and attitudes contribute to translate the financial behavior which, in turn, leads to financial outcome. Such outcomes might be achievement of the financial goal (reaching a savings target, establishment of emergency saving funds, decreasing debt, or addition/procurement of new assets), reduction of the financial stress (reduction in pressure due to relentless financial demands and worries), and financial satisfaction (sense of financial control and financial well being). All these decisions relates to the financial stability, welfare of both individual and the institution. Improved financial literacy might also be indicated by the reduction in the amount of time spend on financial matters or the number of times that personal financial issues interface with work of other tasks (Kim et al., 2004)

RESEARCH METHODOLOGY

Study Population and Sample

Three representatives each of forty one co-operatives (total 126) were invited on a workshop where a printed survey questionnaire was distributed. The representatives were the pro-active members of the co-operatives and were self nominated by the co-operatives to represent them. These members were chosen as the purposive sample as the study was conducted to analyze the financial literacy among the executive members of the agro based co-operatives. Only 114 executive members responded to the questionnaire. To assess the individual's ability,

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controlled environment was created where discussion with other members or answering on groups were not allowed. The examination have been made through respondents self assessed ability, understanding and behavior in regard to using and managing money, along with their knowledge about the financial products available in the market.

Survey Questionnaire

The questionnaire set by the OECD (OECD INFE, 2011) has been modified to address the country specific context. Questionnaires were administered in Nepali language as most of the respondents were representing the remote hilly areas of Nepal; those areas have low literacy rate. However, the themes of the questionnaire were not modified and were divided into three categories a) core questions, to identify a knowledge, attitude or behavior or an aspect of knowledge that indicates good financial literacy skills and outcomes, b) Socio Demographic Questions: allow for analysis for groups of interest such as young people, women or the unemployed, and c) Supplementary questions, provide additional details about financial literacy.

Data Collection

The required data for the study were collected using both primary and secondary source. The data collected were later transcribed on the SPSS, where the coding of the answers was done. Collected information was analyzed and interpreted in the light of given conceptual framework using the descriptive tools as it quantitative research.

Presentation and Analysis

Respondents Profile

Majority of the executive members have a poor education background, 68.42% have not completed the higher secondary level education, are aged 35 years and above (63.15%), to 40, have a family size of more than two (99%), income level below NRs. 4,000 (28.95%). 50% of the respondent find it hard managing their basic needs, another 42.11% can manage only can manage food and cloths only, 2.63% refused to disclose their economic status while 5.26% only were able to afford the luxurious items. to The gender representation shows the males dominance over the positions (Male 84%, Female 16%) and also, caste representation is 15 (39.47%) from Chettri community, 12 (31.58%) from Bhramin community, and remaining 11 (28.95%) from marginalized and disadvantaged community. Graphical presentation is given below:

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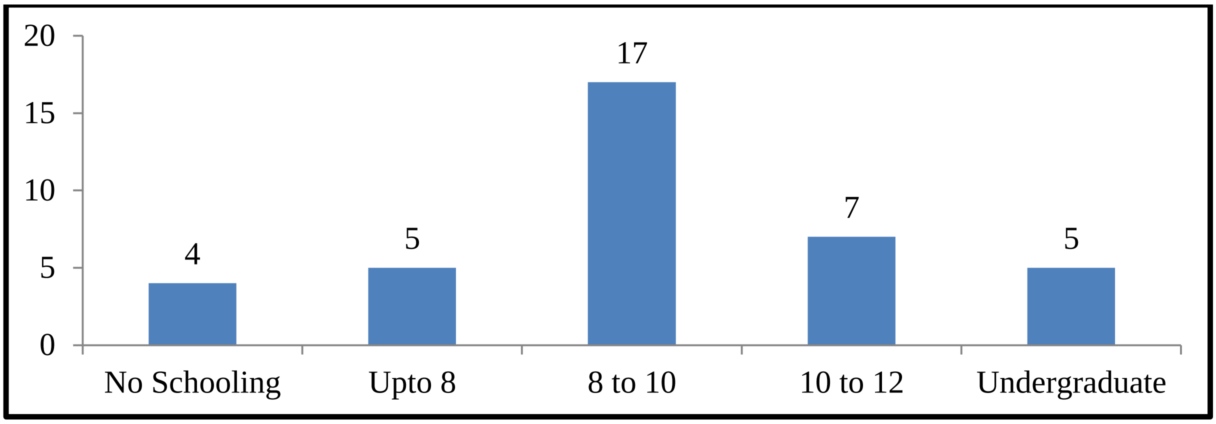

Figure 2: Education Level of the Executive Members

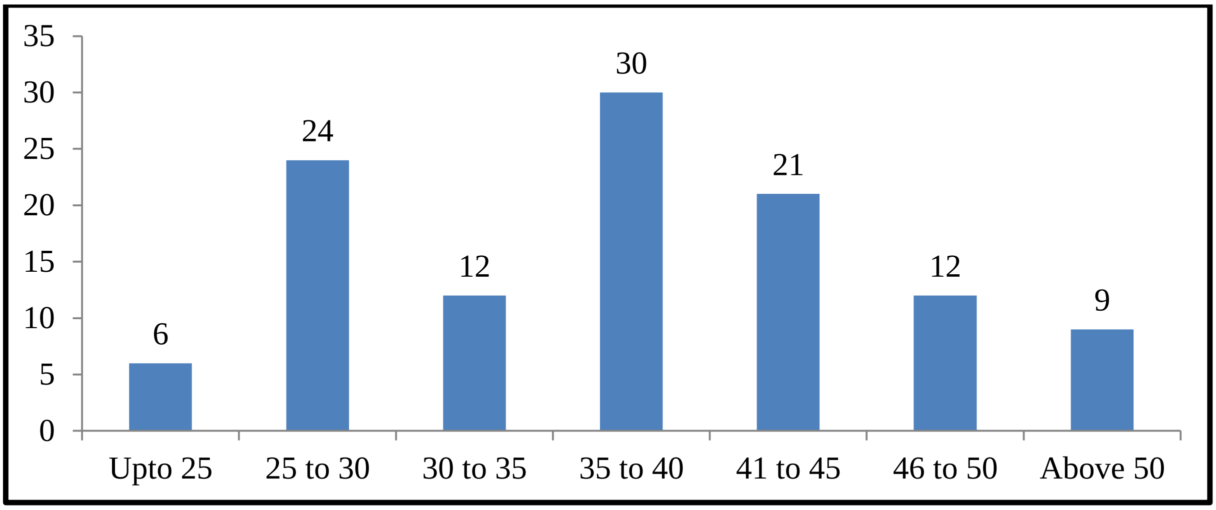

Figure 3: Age Group of the Executive Members

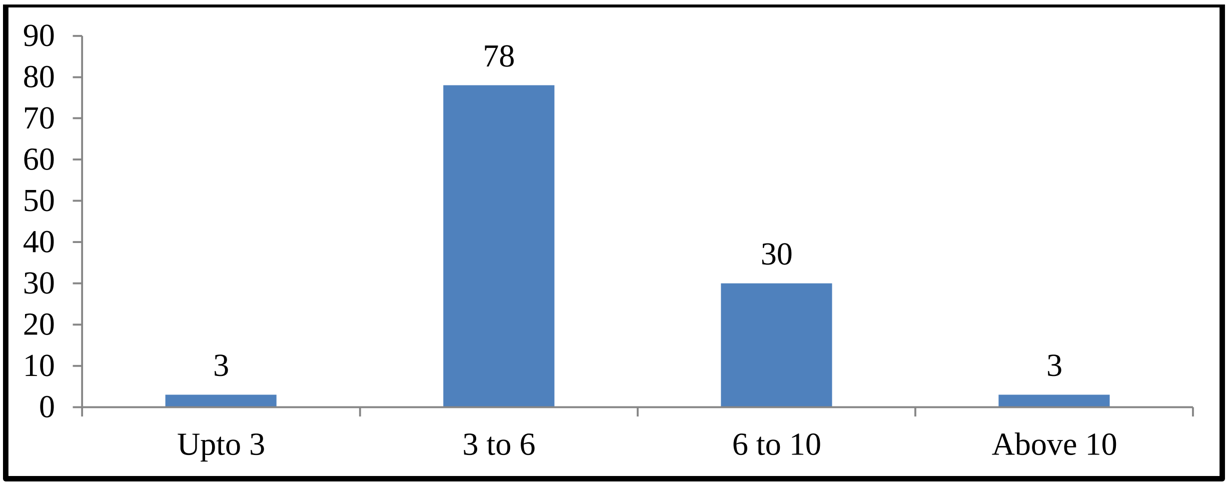

Figure 4: Family Size of the Executive Members

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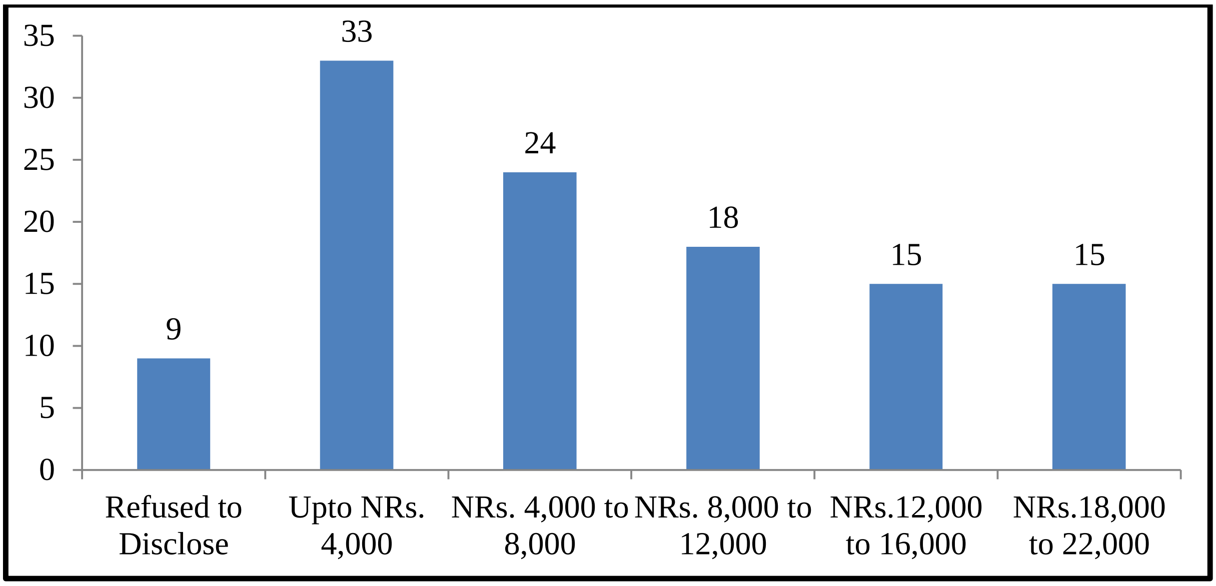

Figure 5: Monthly Income Level of the Executive Members

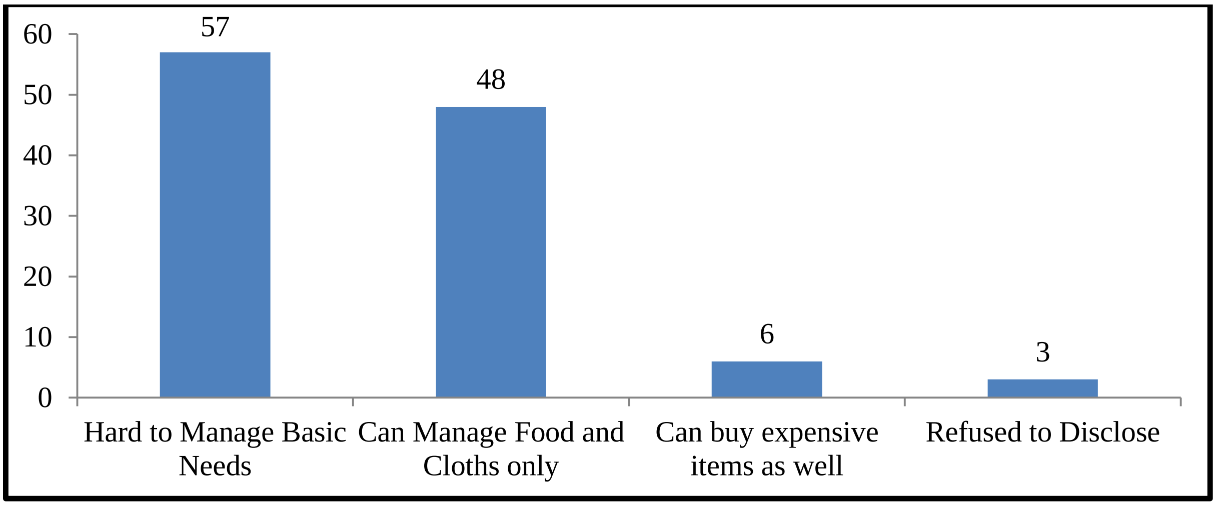

Figure 6: Economic Status of Executive Members

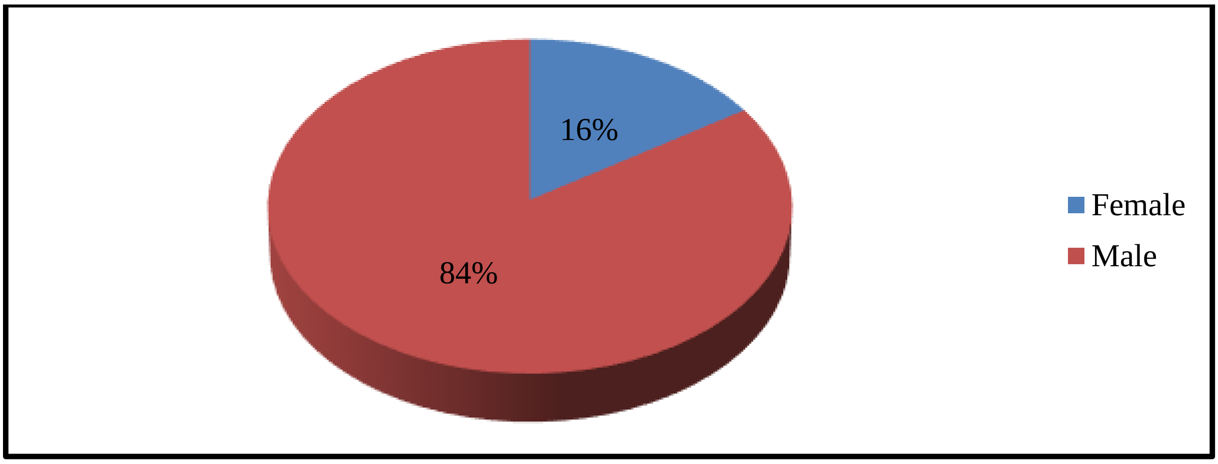

Figure 7 Executive Member Disaggregation by Gender

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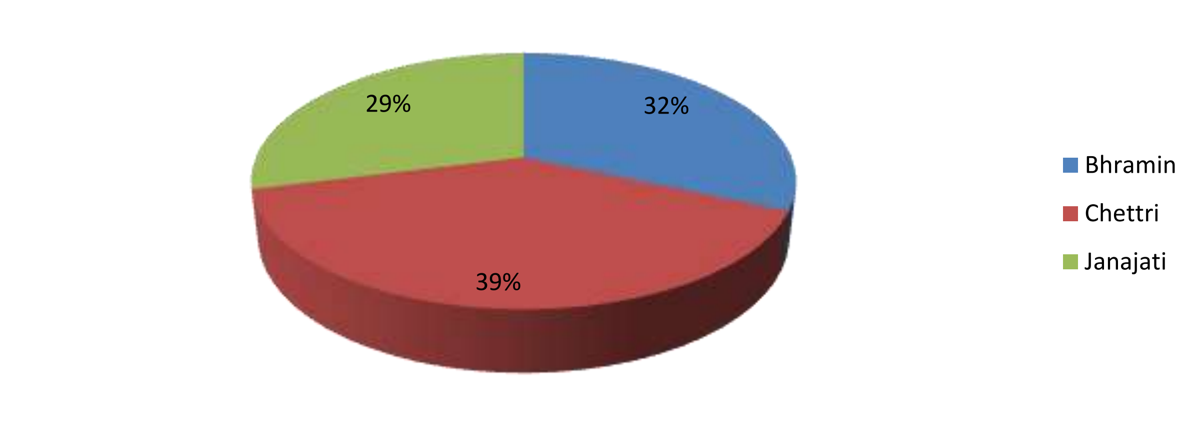

Figure 8 Executive Member Disaggregation by Caste

Descriptive Analysis

Among the one hundred fourteen respondents 28.95% have access to financial education program; rest did not have any idea. Only 2.63% responded that they have all the required knowledge to be a financial literate, 36.84% responded they have little information while 33.33% did not have any knowledge at all. Among the respondents who dint have access to financial education program, 51.85% responded that they have few basic required knowledge while 44.44% responded they did not have most of the financial knowledge

Financial decisions on household level were made in consultation with the spouse 44.74%, followed by family members 28.95% and self-centered 18.42%. In addition, when asked about the decision making tools budget and cash flow statement, 13.16% responded that they do not know about the budget and 68.42% have no information about the cash flow statement. Further, those having idea about the budget 54.55% responded that they prepare budget on monthly basis and remaining 45.45% though knew about the budget were making the decisions without its aide. However, when they were asked about the components of the budget 21.05% could not point out the components, 31.58% respondents pointed income and expenditure, 21.05% pointed income, expenditure and saving (cash), 26.32% correctly pointed income, expenditure, saving and loan. Similarly, in case of the cash flow statement 31.58% responded that they have heard about this tool, however, 80% among these respondents dint knew the use, importance and method of preparation of cash flow statement.

Similarly, when respondents were asked to classify the financial plan to long term, short term and regular expenditure only 21.05% were able to classify it correctly, 29.61% classified it incorrectly while remaining 49.34% had no idea about it. In terms of knowledge on the existing and latest financial products, only 37.13% responded that they know about the financial products share/bonds, savings at banks and financial institutions, insurance policy, micro credit loan, debit card, credit card, collateral free loan, mortgaged loan and retirement plans. Responded mostly knew about mortgaged loan (55.26%) and saving accounts (65.79%) as the product and services offered by banks and financial institutions, while majority of the respondents did not have any information about the collateral free loan (55.26%), retirement plans (63.16%), credit card (84.21%), debit card (84.21%), micro credit loan (84.21%), insurance policy; health, accidental and life insurance (57.89%), and shares and bonds (57.89%). Respondents discussed about the financial products and services among the family, friends, and relatives on daily, weekly and monthly basis representing 34.21%, 15.79% and

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42.11% respectively. Half of the respondents were found discussing about the financial products and services it frequently within a week's time. Cooperative employees were the source of information about the financial products and services for 81.58% respondents and other probable sources like newspapers, magazines, radio, televisions, informal groups like friends and close relatives had nominal impact with each individual percentage below 27%. Saving, if any, at the end of the month were deposited into the bank account by 57.89% respondents, kept safely at home by 2.63%, buying goods of daily needs by 7.89%, investment in other sector including agriculture by 21.05%, buy gold, ornaments or other assets by 7.89%, and providing loan to informal groups by 2.63%.

Further, 68.42% respondents had a saving account at co-operatives/banks and financial institutions, and among them 71.05% knew about the interest rate that the financial institutions were offering to them. 52.63% of the respondents also knew that the tax is deducted at source on the interest provided on the saving accounts maintained by them with the financial institutions. They were also asked about their financial decision in handling the the liquidity crunch where 13.16% respondents had no clue on handling such situation, while 42.11% responded that they will bring down their expenses or use savings they had made previously, 21.05% responded that they will be putting extra efforts to increase their earnings like overtime, 13.16% responded they will borrow the deficit amount from co-operative while remaining 10.53% responded that they will borrow from informal groups.

Half of the respondents have a loan to manage their household, children's education and investment in agriculture and other similar sectors. 44.74% responded that they consider all three basic component interest rate, service fee, and loan sanction time while making decisions on the different loan alternatives, similarly another 44.74% respondents considered interest rate only, 2.63% considered service only and other 5.26% considered loan sanction period. 50% of the respondents prioritized income source as their highest priority to be taken care of before deciding to take the loan, 26.32% considered the feasibility of the project feasibility, followed by repayment schedule 23.68% and interest rate 18.42%.

It is observed that 52.63% of the respondents were able to correctly determine the interest rate effect on the product, similarly 86.84% correctly considered the discount rate while determining the available product alternatives. The correct percentage was more than 50% for interest rate while analyzing from both gender and office bearer perspective, except for vice-chairperson where he/she could not correctly analyze it. Additionally, education level had no significant effect on the calculation, as 75% of the respondents with general read and writing skills were able to correctly answer it while, it was 70% for class eight passed respondents. Also, Caste wise chettri's were poor in analyzing the correct interest rate. In the age group, respondents with age of 41 and above seem to have difficulty in analyzing the correct interest rate, with correct answer rate being as low as 16.67 %. However, for the cost effectiveness most of the respondents were correct, the lowest percentage being 29.47 % on the education group. The detail is given on Table 8.2-1 above.

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Table 1 Demographic Analysis, Interest Rate & Cost Effectiveness Calculation

Particulars		Interest Rate		Cost Effectiveness	
		Correct	**Incorrect**	**Correct**	**Incorrect**
Gender	Male	50.00%	50.00%	87.50%	12.50%
	Female	66.67%	33.33%	83.33%	16.67%
Education	Bachelors	80.00%	20.00%	80.00%	20.00%
	Intermediate	71.43%	28.57%	71.43%	28.57%
	SLC	47.06%	52.94%	94.12%	5.88%
	Eight	60.00%	40.00%	80.00%	20.00%
	RW	75.00%	25.00%	100.00%	0.00%
Caste	Bhramin	83.33%	16.67%	75.00%	25.00%
	Chettri	26.67%	73.33%	93.33%	6.67%
	Janajati	54.55%	45.45%	90.91%	9.09%
Office Bearer	Chairperson	50.00%	50.00%	85.00%	15.00%
	Vice Chairperson	0%	100.00%	83%	16.67%
	Secretary	63.64%	36.36%	90.91%	9.09%
	Member	50.00%	50.00%	100.00%	0.00%
Age Group	Up to 25	100.00%	0%	100.00%	0%
	26 to 30	62.50%	37.50%	75.00%	25.00%
	31 to 35	50.00%	50.00%	100.00%	0.00%
	36 to 40	80.00%	20.00%	90.00%	10.00%
	41 to 45	16.67%	83.33%	83.33%	16.67%
	46 to 50	20.00%	80.00%	80.00%	20.00%
	Above 51	33.33%	66.67%	100.00%	0.00%

Limitation

The study is conducted among the fresh and vegetable seed cooperatives executive members and hence, might not represent the entire agriculture co-operatives that exist in Nepal. The actual scenario may differ with the geographical location as well, as this study has been conducted only with the co-operatives established at the hilly region of Nepal. Small sample size and use of quantitative method only are also the limitations of the study.

CONCLUSION

It can be said that the majority of the executive members rate themselves having at least basic financial knowledge, despite the fact that they demonstrate lower financial literacy similar to the findings by Lusardi and Mitchell (2011). Access to financial education program was minimal among the co-operative executive members suggesting the level of knowledge they have might be limited to what they learn from their own financial experiences. Most of them had no information about the latest financial products in the market like debit card, credit card and online banking. They were still focused on the saving account for deposits and mortgaged loans for obtaining a loan. The basic financial decision making tools like cash flow statement and household budget were not know, and those knew were also not using it in real life, making them more vulnerable to cash management and working capital management. They were not able to segregate the financial planning, indicating their ignorance towards planning for future. Self centric, family and families consultation in household decision indicates towards either their ignorance towards co-operative personnel (who are expert in the field) or reliance on the traditional decision making method, although their major source of information about the financial products and services are Cooperative personnel's.

The saving at the end of the month was either deposited in the bank indicating executive member's regular banking habits. They were also conscious about the interest rates, tax deductible at source on the interest earned. Similar, consciousness was also observed about the loan, the primary things to be considered while taking a loan like current income level, income source, interest rate, repayment schedule, and project feasibility. However, while managing the liquidity crunch at household level, most of them still borrowed from either informal groups or reduced their own expenditure pattern, showing their reluctance to adapt the small scale loans from formal sector.

In this study, substantial implication of the age group on financial literacy was also observed. One with slightly older age was particularly vulnerable, similar to the findings of Lusardi and Mitchell (2011). They were not able to analyze the interest effect on the product but were able to analyze the discount factor effect on the alternative products. This implies that the person with low market knowledge were able to choose between the alternatives but not the correctly identify the interest rate effect, exposing them to the inflation risk and interest rate risk.

This study raises concern that the executive members of the agro co-operatives have low financial literacy. This is global phenomenon irrespective of the level of financial market development (Lusardi and Olivia, 2011). Executive members have difficulty managing the household level financial decision making; efficiently handling the complex business decision for the co-operatives are beyond the context. This shows that it might be hard for the executive members to manage the co-operative operational and marketing activities, making it viable source of income and work for the welfare of the co-operative members when nonprofit organizations discontinues their technical assistance. This study revealed the need for the financial literacy education program, that is interactive, localized and provides real life example shall be provided differently to different age group taking into consideration their education level as well. Nonprofit organizations shall take an integrated approach in local institution building. It shall not only focus on establishing the institution but also transfer the technology along with basic financial knowledge which leads to better financial behavior and financial outcomes. This study further provides the insight to the government, policymakers, nonprofit organization, private sector and similar stakeholders the importance of the financial literacy among the co-operative executive members. It also paves the way for further research on the subject.

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