

# The Effect of Financial Literacy on Farmer's Financial Behavior: A Review

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## Abstract

Financial literacy is related to financial behaviors and consequently to borrowing, saving, and investments decisions of individual farmers, which affects farmers to hedge against financial risks and improve their household's welfare. This paper presents a summary of current knowledge on options to support the farmer, in achieving welfare through farmers' financial behavior. The review was based on five studies that were conducted in developed and developing countries including US, China, Zimbabwe, Thailand, and Rwanda. Moreover, those studies were conducted in industries, informal businesses, financial institutions, individuals of middle-class people, and agriculture cooperatives. It begins by reviewing the considerable effect of financial literacy on financial behavior, and reviewing savings and credits decisions. Furthermore, there are different methods to measure those effects, including Instrumental variables Probit (IV-Probit), Probit Model, and Instrumental Variables (IV) Regression. That econometric results show that financial literacy positively influences credits and savings behaviors. Policy interventions that foster financial literacy are needed to improve individuals' financial behaviors. This finding implies that there is a need for further research to provide empirical evidence of farmers' financial literacy and its impact on their financial behaviors.

**Keywords:** Financial literacy, financial behavior, saving and credit, IV-Probit, IV-Regression



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