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Financial Education of Children and Youth

Abstract: More and more individuals are becoming overindebted and facing difficulties in managing personal finance. On the other hand, financial products are becoming more and more complex, with numerous concealed risks. The level of financial literacy of youth and children is unsatisfactory both in the region and globally. Such a situation could lead to personal problems (financial distress), aggravated financial stability, with reverse adverse implications on economic growth. Many international studies have also confirmed these hypotheses.

The aim of this paper is to point to the importance of financial education of youth and children, as well as to give some guidance on how to develop a national programme for increasing financial literacy. The paper develops a five-step programme with the main topics covering the drafting of a national strategy for developing financial literacy of youth and children and its implementation.

Key words: Financial Education, Children, Youth, Programme, National Strategy.

Jel code: I22 and I25

1. Introduction

The first issue to be dealt with is the definition of financial education. Today, there are many definitions of financial education. The UNICEF (2012) gave the following simple definition: “Financial education inculcates the ability to be both financially literate and financially capable”. Similar definition was given by the Child and Youth Finance International (CYFI) (2016): “Financial literacy is a per-

son's knowledge, understanding and skills to manage their personal finances". The OECD (2012) gave a slightly complex definition under the PISA student assessment: "Financial literacy is knowledge and understanding of financial concepts and risks, and the skills, motivation, and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life".

In principle, it means the ability to use knowledge and skills to make appropriate money management decisions. This is a lifelong process that starts with putting one euro coin into your piggy bank and evolving throughout life into decisions on investments and managing financial assets.

Financial education is supposed to provide knowledge, skills and confidence (CYFI, 2016):

- "Knowledge" means having an understanding of personal financial issues,
- "Skills" means being able to apply that knowledge to manage personal finances, and
- "Confidence" means feeling sufficiently self-assured to make decisions relating to one's personal finances.

The level of financial education provided to youth and children in formal education systems of Montenegro and most of the neighbouring countries is inadequate, while the ability to manage finance is one of the most important life skills. Most children grow knowing nothing or just a little on finance although this is something that people deal with almost on daily basis. Teachers often consider that children who have not mastered reading, writing, and mathematics are unable to learn about finance. Luther H. Hodges, a former U.S. Secretary of Trade, once said: "If ignorance paid dividends, most Americans could make a fortune out of what they don't know about economics". The situation in the region is similar.

Most of transactions in contemporary world are monetary, financial products are becoming more and more complex, so the acquiring of finance management skills that would enable a young person to be competent and full of self-esteem is becoming more and more important. Although social action for improving formal curricula in schools is required, we should still bear in mind that most of education starts at home. The role of parents as primary educators is highly important. Frequently, parents hesitate to learn their children due to failure in their own finance, personal insecurity regarding finance, the desire to protect children from difficult topics, or they simply do not know where and how to start. Some parents believe that the example of their hard work is sufficient for children

to comprehend the meaning of work and money. However, this is not sufficient, except in very rare cases.

Children hear of money in many places outside home: in the street, at school, at sport trainings, etc. As N. S. Godfrey (2006) noted, when little ones start becoming aware of their world, they become aware of money. Therefore, they should start learning on money management principles as soon as possible. Bearing in mind the fact that children are future agents of social and economic development, the problem receives even wider social dimension. The role of financial education is that youth acquire life skills that would be necessary in order to function as active and responsible citizens. On the other hand, as CYFI (2016) noted, financial education helps to:

- Promote financial inclusion,
- Boost the economy,
- Reduce the level of unmanageable debts,
- Reduce poverty levels,
- Ease the burden of social security, reduce costs, etc.

The problem of financial education becomes particularly important during recession or slowed economic growth periods, when revenues are on a decrease, financial products become more expensive, and shortages more and more notable. As a result of ignorance, wrong financial decisions in such circumstances could have long-term impact both on financial welfare of individuals and on general financial stability in the country. Therefore, financial education should serve to prevent such problems.

This paper is structured in three parts. The first part defines the term financial education, the second part points to the importance of financial education of youth and children and its connection to economic development. The third part deals with practical aspects of improving financial education and serves as a basis for drafting the national financial education programme, i.e. the authors' vision of how the programme should look like. It discusses the issues of agents, strategy, financial education instruments, monitoring, and the like.

2. The importance of financial education

Over the recent years, contemporary world has become significantly complex with changes accelerating rapidly, particularly in finance. The number of financial institutions has been growing, financial assets of advanced economies have

exceeded manifold their GDPs, and the number of financial institutions and financial products has been constantly increasing. Financial products are becoming so complex that many people do not understand their essence and much less prospective risks they carry. On the other hand, financial products (loans and similar) are now more than ever accessible, with commercials “luring” individuals and sometimes even making them feel guilty if they fail to take a loan and thus miss such a great opportunity. This creates risk that individuals will become overindebted which would make it difficult for them to get out of this situation later on.

The macroeconomic aspects of individuals’ wrong decisions are often underestimated. Although these decisions seem minor on individual level, their aggregation could have severe consequences on the country level. Financial education could lead to that that individuals, by adopting better decisions, affect the improvement of competitiveness of financial institutions, better allocation of resources, lower levels of non-performing loans and, ultimately, accelerated economic growth.

Modern generations are facing numerous new challenges and choices that have not been available until recently. We will mention only few of them we are facing nowadays, which did not exist just a few decades ago: cable or ADSL internet access, purchase of cars on loan or leasing, investing in shares or bonds, debit or credit cards, the choice of whether to invest in bank savings, a pension fund or securities, etc. Therefore, financial education of youth is nowadays more important than it was in a relatively near past.

The level of financial education of youth and children is not satisfactory even in developed countries. Global financial crisis triggered immediate changes. The crisis has shown that many individuals lost their property due to ignorance, and the re-emerging question is whether financial ignorance of common people unaware of risks they were accepting was one of the key causes of the crisis. B. Bernanke (2010), the President of the Fed, once said: “One of the key lessons of the recent financial crisis is the importance of personal financial literacy. Besides improving their personal financial decision-making, teaching your students economic principles will help them as citizens understand and make choices about many of the critical issues confronting our nation”. Moreover, it should be borne in mind that individuals learn the best when they are young.

Many scientific studies have shown the importance of financial education. The research conducted by the Institute for Public Policy Research (IPPR) in the USA has shown that children who attended lessons in personal finance will be thirty

thousand US dollars richer than their peers who did not attend such curricula by the time they turn 40. The study of the Teachers Insurance and Annuity Association – College Retirement Equities Fund Institute (TIAA – CREF) has clearly shown that people who are less financially literate accumulate less financial assets, borrow more, pay higher fees, and are less likely to invest during their lifetime.¹ The OECD Study (2005a) “Improving Financial Literacy” has shown that in the absence of financial education in modern globalised world, there is higher proneness to over-indebtedness and bankruptcy. Moreover, many studies have shown that financial lessons that children learn in their childhood are lifelong lessons.²

The latest study of American scientists from Harvard shows that lack of money and care for shortages may lower people’s intelligence and slowdown their thinking (Luburić and Fabris, 2014). The OECD research (2014) conducted under the PISA programme for children aged up to 15 has shown that only 10% of fifteen-year old children can analyse complex financial products and solve non-routine financial problems, while 15% can, at best, make simple decisions about everyday spending, and recognise the purpose of everyday financial documents, such as an invoice.

A study of the New York State University on the sample of 17 and 18 year old children has shown that secondary school pupils barely answered a half of questions on personal finance. The OECD Study (2005) conducted in its member states showed that consumers had low levels of financial literacy and were lacking awareness of the need to be financially literate. Therefore, for example, the United States Congress declared April 2008 the “Financial Literacy Month”. Financial education of children is an important component in their growth into adult and financially accountable citizens.

A. Siluanov (2013), the Minister of Finance of the Russian Federation, probably presented the essence of financial education in the best way: “A country’s economic development largely depends on its financial literacy ... Therefore, the development and introduction of financial literacy strategies is a vital element of our policy. Financial literacy has become an inalienable part of education in the 21st century”.

¹ For more details, see the study “Teaching Financial Literacy to Kids” on Investopedia

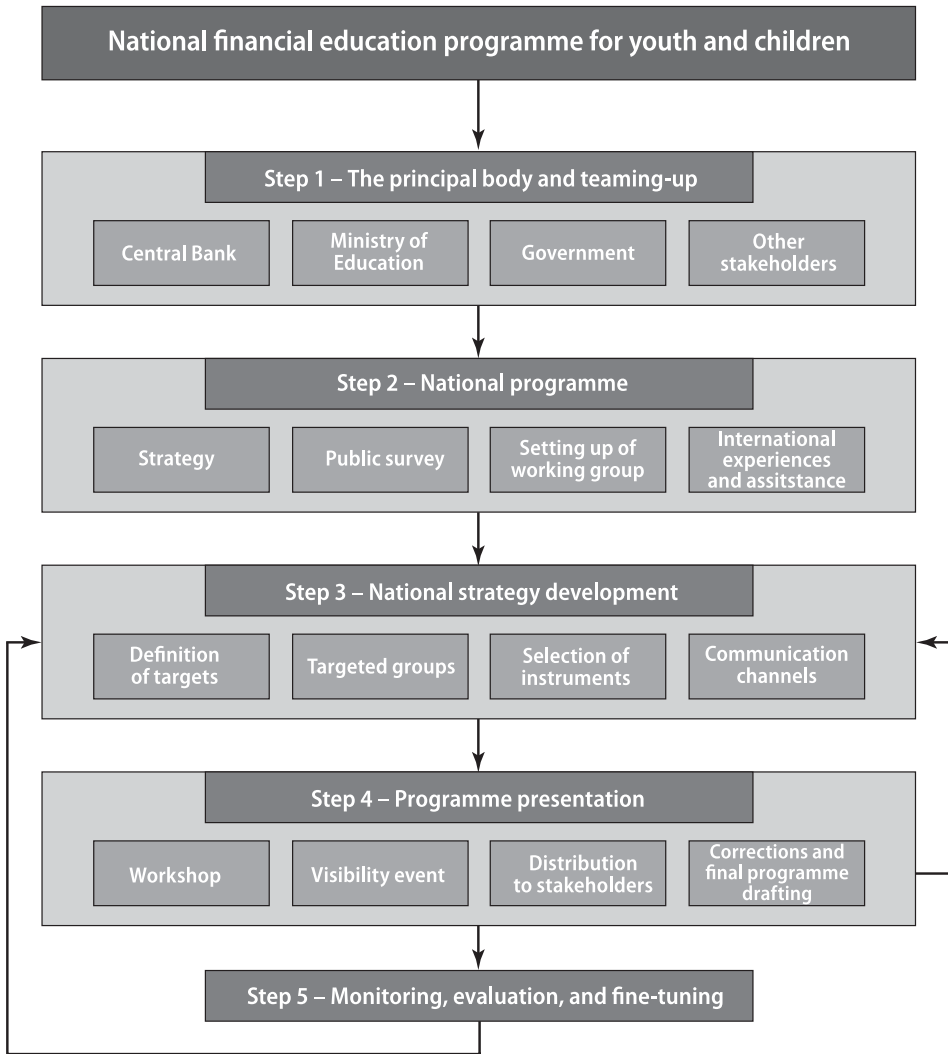
² For more details, see Mundrake, G., et al. (2001) “A Case for Personal Financial Education” and Schug, M. and Bearkey, J. C. (1985) “The Development of Children’s Economic Reasoning”.

Financial education in our country is rather neglected and practically starts during secondary school. However, financial education should start in early childhood when an individual's personality is shaped and when they should be taught how to take a correct attitude towards money, spending, saving, and other financial issues. It is of key importance that children learn the value of money and the importance of saving.

There are a number of international institutions and initiatives dealing with this issue. The UNICEF and the UN Committee on the Rights of the Child developed the globally accepted Programme of Social and Financial Education for children aged 6 to 19 that is implemented in ninety countries. This programme provides children with basic knowledge on child rights, self-responsible behaviour, family and community, as well as getting into a habit of saving, planning and implementing activities as a start of entrepreneurship and financial education. Within the International network for financial education, the OECD also provides a policy forum for governments to exchange views and experiences. Moreover, the OECD published a set of publications on financial education for schools, for women, manuals for evaluation of the financial education programme, as well as principles for developing national financial education strategies. Under the Russia Trust Fund, the World Bank developed the guidelines for evaluation of financial education. Child and Youth Finance International (CYFI) is an international organisation dedicated to enhancing the financial capabilities of children and youth. This organisation fosters and assists financial education, financial inclusion and research. The support is also provided by many other organisations like GIZ, UNCDF, USAID, FinMark Trust etc.

3. National Financial Education Programme for Youth and Children

Drafting of the national financial education programme is the starting point without which the level of financial literacy of both the young and general population can hardly be achieved. The elements of developing the national programme presented later on may be applied to raising the level of literacy of children and youth, and of general population. The authors propose a five-step drafting of the programme that may be presented with the following scheme:

Scheme 1: Developing of National Financial Education Programme for Youth and Children

Step 1 – The principal body and teaming-up: Central Bank, Ministry of Education, Government, other stakeholders

The first issue is selecting the principal body for the programme design. For the programme to be successful there have to be an institution that will be the principal body and the programme leader. The objective of the programme's principal

body is to lead the project, coordinate all stakeholders, foster the consensus, define priorities, promote the programme, etc. Of course, the principal body cannot perform all tasks alone. In that context, several options are possible, including central bank, ministry of education or a working group to be appointed by the government.

In our opinion, the best option for the principal body is the central bank, due to several reasons. First, central banks have a high degree of independence that is important for drafting the programme. Second, as institutions responsible for the supervision of some financial sector segments, central banks have access to financial institutions and insight into the situation in the financial system, and thus an overview of the situation when it comes to financial literacy. Third, central banks mostly employ the most competent financial staff. Fourth, this is a financially demanding process, and overburdened state budgets are not prone to allocate for this purpose, unless international institutions largely finance it. Fifth, there are positive experiences of countries where central banks led the programme (Bank Negara Malaysia, Central Bank of Armenia, Central Bank of Philippines, Monetary and Payment Authority of Singapore etc.). Moreover, the World Bank Study (2013) shows that financial supervisors in 71 percent of economies were involved in financial education activities.

Undoubtedly, without the participation of other stakeholders, the central bank can hardly achieve the mission, which requires involvement of other key stakeholders such as the ministry of education, government representatives, NGOs dealing with education, representatives of the formal education system (university, faculties, primary and secondary schools, even kindergartens), representatives of financial institutions (banks, insurance companies, investment funds, etc.), other supervisors of financial sector outside the central bank, potential donors, etc. The inclusion of other stakeholders is important as that increases the programme's credibility, increases the number of experts, assigns tasks, increases the volume of available resources, etc. It is also important that the government strongly supports the entire process. The programme leader needs to be appointed as well and that has to be a person with strong public credibility.

Step 2 – National programme: Strategy, public survey, setting up of working group, international experiences and assistance

Step 2 means defining the national programme. The key element of the national programme is the drafting of the financial education strategy. According to the CYFI data (2016), 48 countries have developed or are developing this strategy.

As CYFI (2016) noted, the purpose of developing National Strategy is not simply to create a document, it is to create changes. The strategy elaborates on the issues changes that are to be achieved, their schedule, and what instruments are to be used. The High-Level Principles on National Strategies for Financial Education (OECD, 2012a) define a national strategy for financial education as “a nationally coordinated approach to financial education that consists of an adapted framework or program that:

1. recognizes the importance of financial education, including possibly through legislation, and defines its meaning and scope at the national level in relation to identified national needs and gaps;
2. involves the cooperation of different stakeholders and the identification of a national leader or coordinating body/council;
3. establishes a roadmap to achieve specific and predetermined objectives within a set period of time; and
4. provides guidance to be applied by individual programs to efficiently and appropriately contribute to the NS.”

The starting point for the strategy should be to answering to the questions of where we are now and where we want to be. To answer the question of where we are now, it may be useful to conduct a national survey that could later serve to compare the starting point with the status of the objectives' fulfilment. The survey may be a useful guide pointing to gaps in financial literacy that need to be bridged. Still, it should be borne in mind that the national survey requires significant financial assets and time. Since many countries apparently have a low level of financial literacy in the conditions of limited resources, this step may be skipped.

Without the national strategy, financial education activities will be uncoordinated and scattered in a number of other strategies and programmes, with the risk of duplicating of activities and without a clear strategic focus. The objective of this phase is the delegation of straightforward tasks in drafting the national strategy. The key task of the strategy is to define the plans, actions, principal bodies, and objectives. Since many countries have developed their strategies that are often publicly available, a cost effective strategist could start by analysing international experiences that could be tailored to fit the local requirements³.

³ Drafting and implementation of the national education programme may be a very expensive project, which costs may exceed tens of millions of euros.

With a view to successfully creating the national strategy, it would be necessary to establish working groups to be responsible for drafting individual segments of the strategy. Working groups should involve all key stakeholders and be defined so that they can contribute to developing and implementing the national strategy of financial education.

Bearing in mind that there are many international institutions dealing with this issue and having plentiful experience, it is useful to consider asking for their assistance since it would enable the implementation of best international practice and avoid mistakes made by other countries.

Step 3 – National strategy development: definition of targets, targeted groups, selection of instruments, communication channels

The objectives should be clearly defined, attainable, relevant for financial education, as well as measurable. The ultimate objective is to increase the financial literacy degree of youth and children, i.e. ensuring that the target groups:

- learn when and how to use financial products,
- learn the benefits of using financial products and the risks related to their use,
- learn to manage private finances, and
- have confidence to do all the above.

The strategy objective is not to make target groups financial experts but individuals capable of managing their own finances. These would be individuals capable of making good decisions when it comes to choosing between saving and spending, preparing personal budgets and planning future finances, who avoid to be overindebted, who are able to avoid financial risks, who know how to manage their savings and how to avoid to be victims of financial frauds, capable to adapt to changes, and so on.

Pre-school and school children, students, parents⁴ but also vulnerable groups should be defined as target groups. It would be necessary to prepare adequate financial education programmes for all these groups to be tailored to their specific features.

⁴ It is very important to include parents into the education as many studies have shown that the youth most efficiently learn through practical examples like: paying in a shop, when using credit cards, making household budget, etc.

The concrete instruments to be applied include the financial education curricula for all formal education system levels, training of teachers and other presenters, organising workshops for target groups, creating a national website, printing different publications and personal guidebooks for managing public finance⁵, preparation of educational TV programmes, etc.

The curricula could be incorporated into some of the existing courses or given as several separate courses. It is simpler to cover them into one course since fewer teachers should be trained then. The programmes have to be interesting, with the training of presenters as an important aspect since teachers in schools are often insufficiently trained and unaware of their personal finance management.

Many countries have developed websites for the promotion of financial education. Sometimes, these are websites for the promotion of general financial education like in New Zealand (www.sorted.org.nz), Australia (www.moneysmart.gov.au), the United Kingdom (www.pfeg.org), and sometimes websites solely made for youth and children, like the website of the Central Bank of Malaysia (<http://www.duitsaku.com>). The success of the website means presentation of financial education in an interesting manner, through many illustrations, useful information, knowledge quizzes, and games for children. If this were a plain website, it would be treated as one of numerous websites on the internet, and would not record any significant success.

Key lessons that youth and children have to learn include accountable spending, the importance of saving, where to invest available financial funds and the related risks, responsible borrowing, making personal budget, avoiding financial frauds, using typical local financial products, and the like.

With a view to promoting financial education, all contemporary communication channels should be used, including the internet, TV, newspapers, radio, public gatherings, conferences and similar. The activities on increasing the awareness of importance of financial education could also be useful such as declaring the financial education month/week, the appearance of experts in the media willing to promote this, publishing popular articles, preparation of thematic shows, and so on.

⁵ The authors of paper are preparing the publication for financial education of children and youth.

Step 4 – Programme presentation: workshop, visibility event, sending to stakeholders, corrections and final programme drafting

After preparing the first version of the strategy, the next step should be its visibility event. The objective of public promotion is to enable other relevant stakeholders that have not been included in its creation to give their opinion. This could contribute to the strategy improvement as there is always a danger that something may have been overlooked regardless of the fact that it has been drafted by experts. Its public promotion should be organised through many activities like organisation of workshops, publishing the strategy on the internet, invitation to public discussions and delivering comments, direct sending to all stakeholders (NGO, experts, financial institutions, educational institutions, the media, international organisations, donors, etc.).

After receiving the feedback and comments, the strategy should be fine-tuned and its implementation started.

Step 5 – Monitoring, evaluation, and fine-tuning

After the implementation of the programme, the objective of its monitoring is to follow up the progress. The evaluation should determine whether and to which extent the programme objectives are being achieved. These activities may serve to identify potential risks in the early phases of implementation that could lead to the programme failure and for taking corrective measures, if necessary. Basically, this phase should determine whether the programme is implemented as scheduled, the coverage of youth and children in the programme, and whether the strategy is yielding expected results. The primary objective of this phase is to take corrective measures if it is concluded that the strategy has not given expected results.

In order to make the monitoring and evaluation objective, it is recommended that the process is guided by an independent institution not included in drafting the strategy. Regarding this step, we should be aware that financial education is a long-term process and that significant raising of the financial literacy level should not be expected in short term. We should particularly be aware that the real results of the strategy can be seen only when the youth and children have become independent adults.

4. Conclusion

Changes in the contemporary world have accelerated, financial products are becoming more and more complex, and their risks are becoming more difficult to detect. On the other hand, the number of overindebted citizens has increased and numerous studies have pointed to unsatisfactory levels of financial literacy. Moreover, many studies have confirmed the connection between financial literacy and economic development. The objective of improved financial education is changed behaviour and thus it is not just the knowledge of financial concepts that matters but a change in habits and behaviour.

Particularly worrying is the situation when it comes to children and youth who do not receive adequate knowledge either in the formal educational system or at their homes from their parents. All this creates risks that many young people will not be able to adequately participate in the society. As the World Bank (2013) pointed out: “Only informed and educated users of financial services can be fully empowered by the opportunities modern financial system provides.”

The fact that today's children are the agents of future economic development calls for taking necessary measures to improve their financial literacy. When the insufficiently financially educated youth is included in the financial society, then it not only creates problems for them on an individual level, but also for the whole society. In such circumstances, individuals would become overindebted, which will have a negative impact on financial stability, they will make wrong financial decisions, which will have negative impact on the development of the society and their living standard, resulting in growing social problems and requiring increased expenditures from the budget, and so on.

Therefore, the authors believe that it is necessary to run the national campaign to raise financial literacy of youth and children. This paper presents the framework for drafting a five-step national programme to achieve this objective.

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