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Conceptual Development of the CYFI Model of Children and Youth as Economic Citizens

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Conceptual Development of the CYFI Model of Children and Youth as Economic Citizens[1]

Executive Summary

The vision of Child and Youth Finance International (CYFI) is that all children and youth realize their full potential as economic citizens (2012). For CYFI, economic citizenship is essential for social and economic well-being of children, families, communities, and countries. The CYFI Research Working Group proposed a model of economic citizenship, and a subcommittee compiled existing research findings on the relationships in the model. They issued a White Paper titled *Children and Youth as Economic Citizens: Review of Research on Financial Capability, Financial Inclusion, and Financial Education* at the first convening of CYFI's Child and Youth Summit in Amsterdam in April 2012, and this is a summary and update of portions of that report.

Model of economic citizenship

The White Paper proposes that financial education, social education, and financial inclusion are the building blocks of empowerment and financial capability that underpin economic citizenship for children and youth. While related, these terms are used in specific and distinct ways in programs and research. Several theoretical perspectives—which range from explanations of individual behavior to the ways institutions shape access and opportunity—inform the analysis. They include (a) the theory of planned behavior, (b) the developmental perspective, (c) social learning theory, (d) the theory of possible selves, (e) behavioral economics, and (f) institutional theory.

Conceptual development of financial education

Financial education of children and youth generally incorporates use of age-appropriate content; hands-on, realistic learning exercises; practical skills building; relevant topics; goal setting; encouragement of saving; and opportunities to apply lessons. Programs should consider specific needs and circumstances of children and youth and should be relevant for their social, economic, and cultural backgrounds. Trends in financial education of children and youth include linking financial education with financial services, offering a wide variety of interactive delivery mechanisms, and integrating financial education with other youth development programs. Tailoring financial

[1] This research review was abstracted by Margaret Sherraden and David Ansong with editorial assistance by Tiffany Trautwein. It is based on the CYFI White Paper titled *Children and Youth as Economic Citizens: Review of Research on Financial Capability, Financial Inclusion, and Financial Education* by CYFI Research Working Group members, including Deborah Adams and William Elliott III, University of Kansas; David Ansong, Washington University; Mat Despard and Rainier Masa, University of North Carolina Chapel Hill; Tahira Hira, Iowa State University; Tom Lucey, Illinois State University; Rajiv Prabhakar, London School of Economics; Margaret Sherraden, University of Missouri St. Louis; Fred Ssewamala, Columbia University; and Trina Williams Shanks, University of Michigan. Additional Contributors include Marit Blaak, Uganda Adult Education Network; Tina Malti, University of Toronto; Olga Saweri, Child and Youth Finance International; Alegnta Felleke Shikibom, University of Kansas; Cuthbert Tukundane, Uganda Martyrs University; Abram van Eijk, Child and Youth Finance International; and Jacques Zeelen and Frank Elsdijk, University of Groningen, Netherlands.

education to children and youth—the next generation of economic citizens—is essential for individual and societal well-being, but a comprehensive and effective strategy has not yet emerged.

Conceptual development of financial inclusion

At a minimum, financial inclusion involves access to and opportunity to use a range of products and services. For children and youth, this includes a safe place to keep money and accumulate savings. Financial inclusion can be measured by several dimensions, including accessibility, affordability, appropriateness, flexibility, reliability, and security. However, there is little data on these measures for children and youth, especially in developing countries. By the time the 1.2 billion youth aged 15 to 25—the vast majority of whom (90%) live in developing countries—reach adulthood, many will not have interacted with formal financial services. Given the scale of the challenge, public policies will be required to increase financial inclusion among children and youth.

Conceptual development of financial capability

Although the term financial capability often is used interchangeably with financial literacy, we propose a different definition. In order for people to be financially capable, they must not only be financially literate, confident, and motivated but also have access to quality financial products and services that allow them to act in their best financial interest. Together, ability *and* opportunity contribute to financial capability and improved financial well-being and life chances (Sherraden, 2013). Improving financial functioning and well-being of children and youth requires attention to individual characteristics *and* the external environment. Individual and structural theories inform our understanding of the context for financial capability and should be taken into consideration when conducting further research.

Conceptual development of social education

The White Paper concludes that a rights and responsibilities focus might facilitate full economic citizenship for children and youth. Further, a review of existing research suggests that social education overlaps financial education in an economic citizenship model. Future research should include defining, conceptualizing, and articulating the meaning of social education within the child and youth finance movement. It should detail the rights and responsibilities of economic citizenship and concentrate research efforts on if and how social education furthers economic citizenship for children and youth.

Conceptual development of empowerment

Although empowerment is depicted as a separate construct in the original CYFI model of economic citizenship, financial capability actually incorporates empowerment at the individual level and access and opportunity at the structural level. Essentially, financial capability occurs when children are personally empowered and simultaneously experience financial inclusion, or real access to appropriate financial products and services along with the opportunity to practice using those services.

A note on sustainable livelihoods

The Working Group's model of economic citizenship for children and youth includes the idea of sustainable livelihoods. While it was beyond the scope of our research, the White Paper authors believe this idea deserves a full-fledged effort to gather and review empirical research as soon as possible. An important first step would be to clearly define and specify the meaning of the term *sustainable livelihoods* for the purposes of economic citizenship programs and research.

Conclusion and recommendations

The global effort to establish economic citizenship among children and youth can be undertaken best with a solid theoretical model supported by empirical evidence. Enhancing financial capability of children and youth likely will require financial education and financial inclusion, and the White Paper authors modified the original model of economic citizenship to reflect these findings. In other words, we believe the research to date suggests that educational materials and programs designed to increase financial knowledge and skills along with access to appropriate financial products and services may be required if we want children and youth to be financially capable economic citizens. However, we find insufficient evidence to support the individual components of the model of economic citizenship for children and youth. Future research should include developing a better understanding of the:

- outcomes of specific approaches to financial education;
- discrete and summative contributions of financial education and financial services for children and youth, especially financially vulnerable groups;
- effectiveness of various combinations of financial education, products, and services;
- meaning of social education within the child and youth finance movement and how it furthers economic citizenship; and
- benefits of various approaches to financial inclusion, especially experimental research that assesses impacts for children and youth in developing countries.

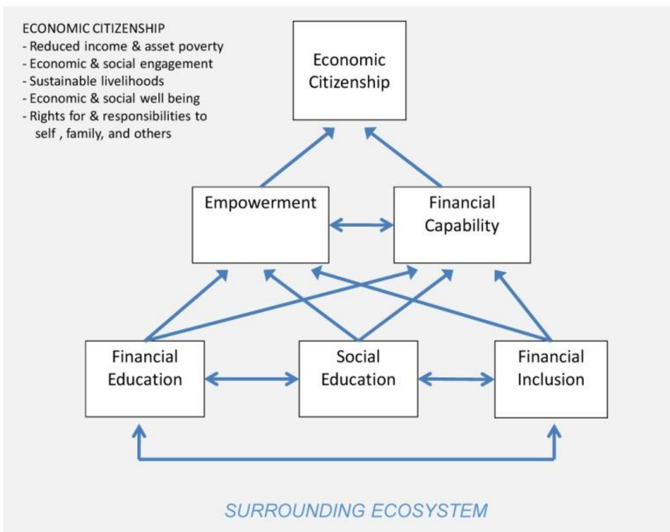
To achieve this level of understanding, we recommend that the CYFI Research Working Group continue to develop a network of scholars in all regions of the world who will undertake empirical research across national and cultural contexts. These scholars can generate rigorous quantitative and qualitative studies, using experimental design and advanced analytical methods that can reveal relative impacts and interactions of financial education and financial inclusion.

Introduction[2]

The vision of Child and Youth Finance International (CYFI) is that all children and youth realize their full potential as economic citizens (2012). For CYFI, economic citizenship is essential for social and economic well-being of children, families, communities, and countries.

In March 2011, the CYFI Research Working Group proposed a model of economic citizenship for children and youth around the world, and a subcommittee of that group agreed to compile existing research findings on the relationships in the model. They issued a White Paper, *Children and Youth as Economic Citizens: Review of Research on Financial Capability, Financial Inclusion, and Financial Education* at the first convening of CYFI's Child and Youth Summit in Amsterdam in April 2012. This is a summary and update of a portion of that report.

Figure 1. Model of Children and Youth as Economic Citizens (From Child and Youth Finance International. (2011, March). *ChildFinance Academic Working Group Meeting Outcomes and Key Conclusions.* New York, NY: Institute of International Education.)



Model of Economic Citizenship

In the model, the working group proposed that financial education, social education, and financial inclusion are the building blocks of empowerment and financial capability that underpin economic citizenship for children and youth (Figure 1). *Financial education* includes instruction and/or materials designed to increase financial knowledge and skills. *Social education* is the provision of knowledge and skills that change individuals' understanding and awareness of their rights and the rights of others. It also involves fostering of life skills. *Financial inclusion* is access to appropriate, quality, and affordable financial services. *Empowerment* is the sense of confidence and efficacy experienced by children and

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[2] Deborah Adams, Tom Lucey, Margaret Sherraden, Mat Despard, Tahira Hira, and the CYFI Research Working Group are the authors of this section in the original report.

youth through controlling their own lives, claiming their rights, and having empathy toward others. *Financial capability* is having financial knowledge and skills and access to financial services that allow people to understand and act in their best financial interests (Johnson & Sherraden, 2007, p. 124; Sherraden, 2013).

While empowerment is pictured as a separate construct in the CYFI model of economic citizenship, financial capability actually incorporates empowerment at the individual level and access and opportunity at the structural level. Essentially, financial capability occurs when children are personally empowered and simultaneously experience financial inclusion, or real access to appropriate financial products and services along with the opportunity to practice using those services. Thus, our review here is of studies addressing the broader construct of financial capability which we believe includes empowerment.

In this review, each concept in the model is examined using available evidence from studies in developed and developing countries. The evidence is restricted to studies available in English. The limitations of this methodology are discussed in the final section.

Theoretical Perspectives[3]

Because personal characteristics *and* the external environment can affect financial functioning and well-being of children and youth, we based the model of economic citizenship on several individual and structural theories:

- *Theory of planned behavior* – Children and youth may be more motivated to save when they receive support and encouragement from adults and recognize that saving can help them achieve goals.
- *Developmental perspective* – Children and youth should be taught about and exposed to financial services in developmentally appropriate ways based on cognitive and psychological stages of development.
- *Social learning theory* – Financial knowledge is influenced by observation of actions and attainments of others, including families especially, which are among the earliest and most robust influences on a child.
- *Theory of possible selves* – Children and youth who are brought into and learn about the financial system at a young age may be better able to envision economic participation and engage in the financial world.
- *Behavioral economics* – Financial systems should be designed to reflect real human behavior.
- *Institutional theory* – Structures must be in place to allow children and youth access to beneficial financial education and services.

Conceptual Development of Financial Education[4]

According to Hogarth (2006), definitions of financial education generally include building knowledge and skills in managing money and assets; understanding basic concepts (such as the time value of money and opportunity costs); and using knowledge and understanding to plan, execute, and assess financial decisions. Content and delivery of financial education for children and youth

[3] Margaret Sherraden and Mat Despard are the authors of this section in the original report.
[4] Mat Despard and Tahira Hira are the authors of this section in the original report.

must be age appropriate. Although there is little consensus, CYFI has proposed a core curriculum that builds on thematic categories in the Programme for International Student Assessment (PISA) financial literacy framework (UNICEF, 2012; OECD, 2013). Financial education for children and youth uses age-appropriate content, hands-on learning exercises, practical skill building, relevant topics, goal setting, encouragement to save, and opportunities to apply lessons (Friedman, 2005).

In addition to being age-appropriate, financial education programs should consider the social, economic, and cultural backgrounds and the needs, circumstances, and motivations of children and youth. Financial education should begin in early grades, ensure instructors are trained and well-prepared, and incorporate use of savings tools (McCormick, 2009). Lucey and Giannangelo (2006) recommend student-centered instruction that uses interactive communication, focuses on character and values, and includes parents, family, and the community. Lucey (2007) also states that financial education is not always relevant to youth from all socioeconomic groups and suggests an economic justice framework.

Financial education is conducted in various settings using a range of tools, including radio and television programs, hands-on budgeting exercises, theater and dance productions, comic strips, financial education web sites, online games and contests, and text messaging (The MasterCard Foundation, Microfinance Opportunities, & Genesis Analytics, 2011). For example, the Jump$tart Coalition for Personal Financial Literacy (2011) hosts an online clearinghouse of hundreds of educational materials, including DVDs, online games, and mobile phone applications.

Many efforts at youth financial education can be characterized as "edutainment"—fun ways for children and youth to learn about money and finance. For example, "It's a Habit!" is a group of products and services (e.g., workbooks, music, articles, newsletters, live appearances, and contests) built around a central character—Sammy Rabbit—who teaches kids about saving.[5]

These illustrate a range of intensity, duration, and cost of financial education programs. Distributing comic books and broadcasting radio programs are low-intensity efforts with no direct practitioner-to-youth contact and lower cost. Advantages include the potential to reach larger numbers of children and youth and standardization of content delivery. Disadvantages include inability to reach certain groups (for example, out-of-school and rural youth), shallower learning, and lack of learning through social interactions.

A 20-hour, classroom-based curriculum with practical learning exercises is a high-intensity effort with direct practitioner-to-youth contact and higher cost. An advantage is deeper learning through repetition, trial and error, expert guidance, social interactions, and exposure to more information. Disadvantages include higher costs, inconsistent content and quality of instruction, and reaching only youth who have access and are motivated and willing to devote considerable time and effort to specialized learning.

Thinking about intensity, duration, and cost of financial education allows funders, researchers, and policymakers to perform cost–benefit analyses of various strategies and ask if there are more cost effective approaches.

[5] http://www.itsahabit.com/

Trends in financial education

Financial education linked with financial services

Linking financial education with financial services allows youth to put what they have learned into immediate action to build financial assets, which reflects Sherraden's (2013) definition of financial capability. For example, in the US, the Savings for Education, Entrepreneurship and Downpayment (SEED) demonstration combined financial education with access to Child Development Accounts (CDAs) (Scanlon & Adams, 2009), and the I Can Save project combines classroom-based financial education with trips to the bank and savings clubs for elementary school students (Sherraden, Johnson, Guo, & Elliott, 2010). In Mongolia, XacBank's programs include bank tours linked to youth savings accounts. Hatton National Bank in Sri Lanka has offered financial education to in-school and out-of-school youth since the 1990s along with youth savings accounts and in-school banking (Dias & Siisel, 2011). Plan Kenya and Child Savings Kenya help children ages 8 to 12 open accounts with Postbank while implementing the Aflatoun financial education curriculum. In Ghana, HFC Bank offers financial education and in-school banking as part of the YouthSave project. Innovation for Poverty Action collaborated with Aflatoun, Netherlands Development Organization (SNV), and Ghana Education Services (GES) to implement and evaluate savings clubs and financial education for basic school students in Ghana (Ratan, 2012).

Wide variety of interactive delivery mechanisms

Research suggests that youth are more likely to learn if content and delivery are varied and they have opportunities to practice what they have learned. Employing education in this way also allows researchers and policymakers to analyze costs and benefits of different strategies.

While far from universal, classroom-based financial education appears to be more common in higher income countries (Council for Economic Education, 2009; McCormick, 2009). For example, according to the National Endowment for Financial Education (NEFE) (2007), more than eight million U.S. high school students have received instruction in the High School Financial Planning Program® (HSFPP) since 1984. In Canada, the group Financial Literacy for Youth (FLY) delivers financial education to high school-aged youth through conferences, workshops, and speaker sessions.

Classroom-based financial education is being used in many lower and middle-income countries. The Aflatoun curriculum is being used widely in more than 8,000 schools in almost 100 countries (Aflatoun, 2010). Junior Achievement WorldWide (2009) collaborates with educational institutions to offer financial literacy programs in schools to 4- to 25-year-old children and youth in more than 100 developed and developing countries (Junior Achievement Worldwide, 2009). The Money Champ program in Singapore and Hong Kong organizes boot camps that use interactive games and activities to teach money management skills such as smart spending and saving habits to children from 5 to 12 years old (Money Champ, 2011).

Integration with youth development strategies

An increasingly common strategy is to offer financial education through youth serving organizations (YSOs), which also address health, livelihood, life skills, gender empowerment, HIV/STD prevention, microenterprise, and other youth development services. For example, the Binti Pamoja center in Kibera—a large slum area in Nairobi, Kenya—integrates financial education with other reproductive and women's rights programs and services for 11- to 18-year-old girls.[6] Catholic Relief Services—in partnership with Caritas Rwanda—integrates savings and internal lending community (SILC) groups with livelihoods training for orphaned and vulnerable children (OVC) and has provided basic financial education for 6,200 participants.[7] The YouthInvest project operated by Mennonite Economic Development Associates (MEDA) integrates financial inclusion, financial education, and livelihoods training for youth in Egypt and Morocco.[8] In the US, the Charles Schwab Foundation and Boys & Girls Clubs of America began offering the Money Matters financial literacy program in 2003. Other examples include BRAC and the Underprivileged Children's Education Program in Bangladesh and the Straight Talk Foundation in Uganda.

Summary of the conceptual development of financial education

Tailoring financial education to children and youth—the next generation of economic citizens—is essential for individual and societal well-being, but the outcome of financial education—financial literacy—remains poorly defined and imperfectly measured (Holzmann, 2010). Comprehensive and effective strategies for educating children and youth to be successful managers of money and navigators of a complex financial marketplace have not yet emerged (McCormick, 2009).

Conceptual Development of Financial Inclusion[9]

According to the Center for Financial Inclusion, *financial inclusion* is "a state in which all people who can use them have access to a suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients" (Gardeva & Rhyne, 2011, p. 6). At a minimum, this includes savings, credit, insurance, and payments to facilitate economic transactions, manage day-to-day resources, improve quality of life, protect against vulnerability, make productivity-enhancing investments, leverage assets, and build economic citizenship (Center for Financial Inclusion at Accion International, 2009).[10]

Unfortunately, financial *exclusion* is the norm in most low- and middle-income countries, especially among lower income people (Honohan, 2008). Recent estimates indicate that 2.5 billion adults in developing countries lack access to basic bank accounts (Chaia et al., 2009; Kendall, Mylenko, & Ponce, 2010), and between half and three-quarters of adults in the developing world are unbanked (Ardic, Heimann, & Mylenko, 2011; Kendall, Mylenko, & Ponce, 2010). Far fewer young people

[6] See http://siteresources.worldbank.org/INTGENDER/Resources/336003-1280176218337/3_KarenAustrian_AGFE_Savings.pdf
[7] http://www.crsprogramquality.org/storage/pubs/microfinance/MF%20Rwanda%20Case%20Study_for_web.pdf and http://www.mastercardfdn.org/pdfs/YouthSavingsMay2010Web.pdf
[8] http://www.meda.org/web/images/stories/YouthInvest.pdf
[9] Margaret Sherraden is the author of this section in the original report.
[10] Descriptions of financial inclusion products, programs, and policies and examples of financial education programs and approaches are included in a companion report to the White Paper that can be found at the CYFI web site: http://childfinanceinternational.org/.

have access to financial services. In developed countries, young people under age 25 in developed countries are least likely to have access to basic financial services, overdraft protection, and insurance (Goodwin, Adelman, Middleton, & Ashworth, 1999; Russell, Maître, & Donnelly, 2011), but the proportion is much lower in less developed countries. The World Bank's global financial inclusion database, The Global Findex, shows that youth aged 15 to 24 are 33% less likely to have an account and 40% less likely to have saved formally compared to adults aged 25 to 64 (Demirguc-Kunt & Klapper, 2012).

What does financial inclusion mean for children and youth?

For children and youth, minimum basic financial services include a safe place to keep money and accumulate savings (Hirschland, 2009; Nagarajan, 2005), and some groups of children may need access to credit, fixed deposits, insurance, remittances, and transfers (Lubwama & Rekogama, 2011). For example, children whose parents or other relatives are working abroad may benefit from remittance accounts. Financial inclusion also involves protection of individuals' rights to participate (Agarwal, 2007).

CYFI has established minimum institutional and product requirements in its Child-Friendly Product Prototype that may serve as an example for varied and fast-growing financial inclusion initiatives for children and youth. According to CYFI minimum institutional requirements, the financial institution should be licensed under appropriate national laws and regulations; be in good standing with its national regulatory authority; be covered by a deposit guarantee scheme, if applicable; and have a code of conduct, staff training, and development programs for working with children.

CYFI guidelines for child-friendly minimum product requirements include non-discriminatory access to products, maximum control by the child within legal and regulatory frameworks, net positive financial return for the child, no penalty for withdrawals, no or minimal requirements for initial opening deposits, no credit facilities, simple and transparent communication about the product, and financial education.

Specific products and services that benefit children and youth may differ by the child's stage of development, financial knowledge, and cultural preference; the type of economic activity; and other factors. For example, young children may benefit from savings for future school expenses, while older youth might save for technology, entertainment, and clothing (Nagarajan, 2005). Out-of-school youth might need to save for a small business or to return to school, while young mothers may need to save for their children's basic needs (Sebstad, 2011).

Scholars measure financial inclusion of children and youth by examining the reach of banking and non-banking products and services. Dimensions that can be measured include appropriateness, accessibility and ease of use, affordability, financial attractiveness, flexibility, security, and reliability (Sarma, 2008; Sherraden, 2013). To date, little is known about levels of financial inclusion among children and youth.

Trends in financial inclusion for children and youth

Youth-inclusive financial products

The growing interest in serving children and youth has resulted in youth-focused products coming online rapidly around the world (UN Capital Development Fund, 2012). Motivations include tapping a large and growing new market, cross-selling and future revenue generation, customer loyalty, and an invigorated brand (McKee, 2010). Products vary across target age, delivery channels, withdrawal limitations, and promotional techniques (Deshpande & Zimmerman, 2010). For example, XacBank—a community development bank and microfinance institution in Mongolia—offers two savings products for young people: Aspire for girls 14 to 18 years old and Future Millionaire for children under 18 years old. In partnership with Women's World Banking, XacBank also implemented the Girls Savings and Financial Education program to provide young girls with formal savings accounts that they control to help them understand the importance of savings, learn how to save, and develop a saving habit (Banthia & Shell, 2009).

Youth-inclusive financial programs

Youth-inclusive financial programs generally are organized by non-governmental organizations (NGOs) that partner with one another, financial institutions, and sometimes local or national governments and target financially vulnerable population groups (for example, girls, out-of-school youth, orphans, refugees, or minority groups). Programs usually include some aspect of youth development and often offer a range of additional support services. One example is Padakhep, an NGO in Bangladesh that provides both non-financial (vocational training, psychological counseling, etc.) and financial (credit and savings) services in their effort to improve the lives of street children in Dhaka. Padakhep's savings program provides flexible savings and withdrawal options, as well as flexible terms and conditions of other financial products suitable to the needs of urban street children. As of June 2009, nearly 7,000 street children have borrowed through Padakhep (Ahammed, 2009).

Youth-inclusive financial public policies

Some governments have taken active roles in expanding access to financial services (Ehrbeck, Pickens, & Tarazi, 2012). Youth-inclusive financial public policies aim to reach large numbers of children and youth to achieve development objectives such as building assets and savings, reducing inequality and poverty, and achieving financial inclusion (Deshpande & Zimmerman, 2010). Some policies are directed to all youth, while others are aimed at specific groups (Loke & Sherraden, 2008). Some focus on financial inclusion and asset building, while others, such as conditional cash transfer programs, may add youth financial services to other policies. For example, Oportunidades—Mexico's conditional cash transfer program—includes a youth savings component that encourages beneficiaries to complete secondary education. The program provides children with MXN 4,500 (USD 336) in a savings account upon completion of high school or grade 12. The program covers approximately 5 million poor households (Fiszbein & Schady, 2009).

Informal financial products and services

Overall, informal financial services are widespread—especially in developing countries—but under-researched among children and youth. Youth save informally for convenience, because they lack information and access to formal financial services, and because of their mistrust in and the high costs of formal financial services (UNCDF, 2012). In sub-Saharan Africa (SSA), most people, including youth, tend to use informal savings mechanisms because they are readily available and familiar (Aryeetey & Udry, 2000; Robinson, 2001). Young mothers, in particular, say they save money informally because they can access it easily and quickly (UNCDF, 2012). Informal saving and credit transactions are unregistered and in some cases time-bound. Many are group-based but also include individual and bilateral initiatives (Collins, Morduch, Rutherford, & Ruthven, 2009).

Group-based instruments

In group-based instruments, people come together to form clubs and associations owned and operated by the members. Examples of group-based saving devices are saving-up clubs, rotating savings and credit associations (RoSCAs), accumulating savings and credit associations (ASCAs), and salary timing. In saving-up clubs—very common among SSA students—members save toward a particular event such as a religious festival, school field trip, or excursion. In RoSCAs, a fixed number of people contribute a fixed amount of money into a common pool, and at fixed intervals, one member takes the entire amount until the cycle is complete (Collins et al., 2009). Young people may be attracted to RoSCAs because there are no operating charges to contributors and they must commit to saving toward a lump sum (Aliber, 2001; Dagnelie & LeMay-Boucher, 2007). In ASCAs, members accumulate funds that are loaned to other members with interest charges (Collins et al., 2009). Like RoSCAs, ASCAs help members accumulate large sums that would take a long time to save individually. In salary timing—used mostly by employed low-income people in South Africa (Collins et al., 2009)—two or more people make informal arrangements to share salaries throughout the month as each gets paid. ASCAs and salary timing may appeal to some employed youth.

Bilateral savings instruments

Bilateral saving is another popular informal method in which the saver lends money to another party, usually with interest, or asks the other party to serve as the custodian of the saver's money. Examples include reciprocal interest-free lending, lending privately on interest, moneylending, money guarding, and pawning (Collins et al., 2009). When a young person does not have a bank account and cannot join one of the savings clubs and associations, saving with one's parents, relatives, friends, or neighbors might be the best alternative.

Individual or personal instruments

In the absence of safe saving institutions, some youth resort to keeping money at home. Rutherford (2000) explains that some people in SSA even store and save money in holes dug in the ground. This method requires self-discipline and a commitment to saving because of the ready availability of the money. For youth who do not have a lot of money or cannot access banks, saving at home might be a more natural choice for accumulating savings (Ansong & Chowa, 2010).

Semi-formal financial products and services

More formal institutions are venturing into the informal sector and vice versa. Banks in South Africa have established *Stokvel* accounts (savings accounts for a group of people who save together), while *Susu* collectors in Ghana, *Kafo* groups in Gambia, and *Tontines* in Cameroon often have bank accounts (Bouman, 1995). In developed economies, the line between formal and informal financial services also is becoming blurred as both sectors provide check cashing, mobile banking, and online person-to-person (P2P) lending (FDIC, 2009).

Current youth-oriented microfinance institutions are examples of the emerging semi-formal sector, which is able to tap into the formal sector's ability to mobilize savings and the informal sector's ability to accumulate and access information about customers' behavior. This new direction eventually could diminish the informal savings sector as the field becomes more automated and regulated. This raises many questions about the effect of this evolution on the financial inclusion of young people.

Challenges in reaching children and youth with financial products and services

Despite the potential advantages, efforts to extend financial services to children and youth face significant demand, supply, and contextual barriers.

Challenges facing youth

On the demand side, youth face many barriers similar to those faced by other underserved populations (Beck, Fuchs, & Uy, 2009; Islam & Al Mamun, 2011). Barriers include lack of important documents or residency requirements, poverty, inability to afford costs and fees of bank products and services, inadequate and inappropriate products and services, lack of trust in financial institutions, isolation (social, geographic, economic, or political), and lack of education, financial knowledge, and financial skills (Agarwal, 2007; Hirschland, 2009; Stein, Randhawa, & Bilandzic, 2010). However, some barriers hinder children and youth in particular, including lack of parents' financial inclusion, physical mobility, ability to act on their own behalf (babies, for example), age (in many countries, the minimum legal age for signing contracts is 18 years), and regular income streams (Kalyanwala & Sebstad, 2006). There is a perceived credit risk of lending to young people, and youth often are excluded from group credit arrangements by adults who believe that they are not ready (Donahue, James-Wilson, & Stark, 2006).

Challenges facing financial institutions

On the supply side, serving unbanked children and youth has many potential advantages, including tapping a large and growing new market, eventual cross-selling and revenue generation from other financial services, customer loyalty, and an invigorated brand (McKee, 2010). However, it takes longer for financial products for underserved populations—including children and youth—to achieve financial sustainability (Hirschland, 2009). Financial inclusion initiatives for children and youth require thoughtful planning, engagement, time, and evaluation (Lubwama & Rekogama, 2011).

The cost of providing financial services to children and youth, especially the most vulnerable, is comparatively high (FAO, 2002; Hirschland, 2009). Generally, young people are small depositors and borrowers, banks have little potential for cross selling in the near future, and assessment of young people's credit worthiness is costly (Hirschland, 2009). Financial institutions may find ways to overcome high costs by developing low-cost delivery channels, keeping youth as long-term clients or serving their family members, or accounting for high costs as fulfilling corporate social responsibility obligations (Hirschland, 2009). Mobile phone technology may allow low-cost delivery for youth (Center for Financial Inclusion at Accion International, 2009). Reaching vulnerable youth likely will require bundling services, financial incentives to retain youth and encourage savings (Hirschland, 2009), and staff training for work with youth (Nagarajan, 2005).

Policy and country context challenges

Contextual barriers, such as banking policies and political conflict, may make it difficult to reach youth (Nagarajan, 2005). Complicated and restrictive rules and onerous documentation requirements result in young people perceiving formal savings mechanisms as unattractive (Ansong & Chowa, 2010; Deshpande, 2006; Okoye & Okpala, 2001). Age restrictions often prevent younger youth from opening accounts in their own name without their parents' consent and involvement. Regulated financial institutions are obligated to comply with know-your-customer rules that require client identity checks and verification (Orozco, 2006). Even though these requirements and procedures are meant to guard against abuse and fraud (Beck, Fuchs, & Uy, 2009), they often are obstacles to youth financial inclusion. Finally, conflict and violence prevent children and youth (and their parents) from using financial products and services.

Summary of the conceptual development of financial inclusion

Bringing the unbanked into the formal financial services sector is a growing priority in many countries, but less attention is focused on financial inclusion of children and youth. By the time the 1.2 billion youth aged 15 to 25 currently living—most of whom (90%) live in developing countries—reach adulthood,[11] many will not have interacted with formal financial services, although more may have experience with informal financial products and services. Given the daunting challenges of reaching children and youth with formal financial services, it is likely that public policies will be required to increase financial inclusion among them.

Conceptual Development of Financial Capability[12]

Although the term financial capability often is used interchangeably with financial literacy, we propose a different definition. In order for people to be financially capable, they must not only be financially literate, confident, and motivated but also have access to quality financial products and services that allow them to act in their best financial interest. Together, ability *and* opportunity contribute to financial capability and improved financial well-being and life chances (Sherraden, 2013).

[11] http://social.un.org/youthyear/
[12] Margaret Sherraden and Mat Despard are the authors of this section in the original report.

Theoretical background on capability

The concept of *capability* is derived from the seminal work of philosophers Amartya Sen and Martha Nussbaum (Johnson & Sherraden, 2007; Sherraden, 2013). According to Sen, "Capabilities . . . are notions of freedom in the positive sense: what real opportunities you have regarding the life you may lead" (Sen, 1987, p. 36). To Nussbaum, the idea of capability takes into account people's *internal capabilities* (e.g., ability, knowledge, skills) and the *external conditions* and array of opportunities available (e.g., access to products, services, and institutions) (2000, p. 85). Internal capabilities may exist when external conditions do not, and vice versa. According to Nussbaum: "a society might do quite well at producing internal capabilities but might cut off the avenues through which people actually have the opportunity to function in accordance with those capabilities" (2011, p. 21). These capabilities are interactive and "developed, in most cases, in interaction with the social, economic, familial, and political environment" (Nussbaum, 2011, p. 21). For Nussbaum, policies, laws, regulations, and practices provide opportunities for all individuals to develop the full range of capabilities that lead to human well-being.

Applying this notion of capability to people's financial well-being, we propose that people make financial decisions based on their abilities, knowledge, skills, and circumstances. Real options in the environment shape an individual's assumptions and understanding of possibilities. It is this link between individual and environment that influences people's attitudes, motivation, confidence, self-efficacy, and behavior. The external environment becomes internalized as perceptions, expectations, and behavior (Nussbaum, 2000; Reynolds & Pemberton, 2001).

Individual and structural theories

Our concept of financial capability is based on several theories. Individual-level perspectives focus on how a person's thoughts, behaviors, and interactions with others affect decisions about money. Structural-level perspectives focus on how social structures and institutions (e.g., schools, banks, and governments) shape access and decisions.

Theory of planned behavior

Ajzen's (1991) theory of planned behavior posits that intentions to behave in certain ways are influenced by attitudes about the behavior, subjective norms, and perceived behavior control. Applied to financial behaviors, this theory suggests that children and youth may be inclined to save money if they think (a) saving is a good idea and will benefit them or their families, (b) influential people approve, and (c) they are capable of saving money and face no constraints. According to the theory of planned behavior, financial education may help children and youth form favorable attitudes about making wise spending choices and saving money.

Developmental perspective

Developmental and life span theories and perspectives (e.g. Baltes, 1987; Zastrow & Kirst-Ashman, 2012) state that growth and change is a lifelong process with biological, social-emotional, and cognitive dimensions. The ability to develop financial knowledge and skills is affected by cognitive and social abilities at different developmental stages (Berti & Bombi, 1988; Strauss, 1952). Children can understand various financial concepts as early as four years or younger (Holden, Kalish, Scheinholtz, Dietrich, & Novak, 2009) and grasp basic economic concepts during primary grades (Sonuga-Barke & Webley, 1993; Sosin, Dick, & Reiser, 1997). These concepts form the foundation of more complex understanding as children mature (Leiser, 1983; Ward, 1974).

Social learning theory

Social learning theory may help explain how youth attain financial knowledge. An individual's appraisal of self-efficacy often is influenced by observation of actions and attainments of others, particularly if the individual is uncertain of abilities and has had little relevant experience (Bandura, 1997; Bandura, 2005). This theory may help explain the process by which youth change when financial education occurs in the classroom or other social situations.

Economic and financial socialization of children is influenced by family, peers, teachers, media, and culture (Beutler & Dickson, 2008; Bodnar, 2005; Furnham & Argyle, 1998; McNeal, 1987; Roland-Levy, 1990). Families have the earliest and most important influence in shaping values, attitudes, standards, norms, knowledge, and behaviors that may contribute to "financial viability and well-being" (Schuchardt et al., 2009, p. 86; see also Kourilsky, 1977; Moschis, 1985; Rettig & Mortenson, 1986). Research suggests that children whose parents provide opportunities to learn about money have more understanding of money than children whose parents do not (Marshall & Magruder, 1960). Another study (Webley & Nyhus, 2012) suggests that allowances, parental modeling, and learning self-control affect children's future financial behaviors, but more research is required.

Possible selves theory

Possible selves theory (Markus & Nurius, 1986) suggests that an individual's self-concept is based on a potential future self (or selves). Motivation to become more financially knowledgeable may be affected by how a youth thinks of himself or herself in some future state (e.g., as a college student, parent, or small business owner), which may then result in saving money rather than using it for short-term, consumptive purposes (Pettigrew, Taylor, Simpson, Lancaster, & Madden, 2007). Destin and Oyserman (2009) find an association between perceived availability of financial assets and an "open-path" mind-set among students, which affects their planned academic effort. Elliott, Sherraden, Johnson, and Guo (2010) find that children who participate in a school-based savings program are more likely to associate saving with going to college than a comparison group.

Behavioral economics theory

Behavioral economics theory posits that individuals do not always act in ways that maximize their economic self-interests and fail to take advantage of opportunities and resources because of inertia, procrastination, or psychological biases (Thaler & Sunstein, 2008). Key principles include simplicity, constraining choices, "automaticity," mental accounting, and the creation of social norms. According to this theory, many people lack will power and self-control, and externally imposed controls (e.g., reminders to make deposits, being aware of peers' saving, setting specific savings commitments, services that make it very easy to make deposits, and incentives) are necessary (Pathak, Holmes, & Zimmerman, 2011). Youth especially need help to overcome psychological hurdles to saving (e.g., hyperbolic discounting or instant gratification of smaller rewards in the short term).

Institutional theory

Institutional theory suggests that use of financial products and services is shaped not only by behavior but also the financial services landscape. Institutional constructs in relation to financial products and services that shape saving action include (1) access, (2) information, (3) incentives and financial returns, (4) facilitation or ease of use, (5) expectations and goals, (6) restrictions on unwise use, and (7) security (Beverly et al., 2008; Sherraden, 1991; Sherraden & Barr, 2005).

Summary of the theoretical development of financial capability

In sum, improving financial functioning and well-being of children and youth requires attention to individual characteristics *and* the external environment. Individual and structural theories inform our understanding of the context for financial capability and should be taken into consideration when conducting further research.

Implications and Recommendations[13]

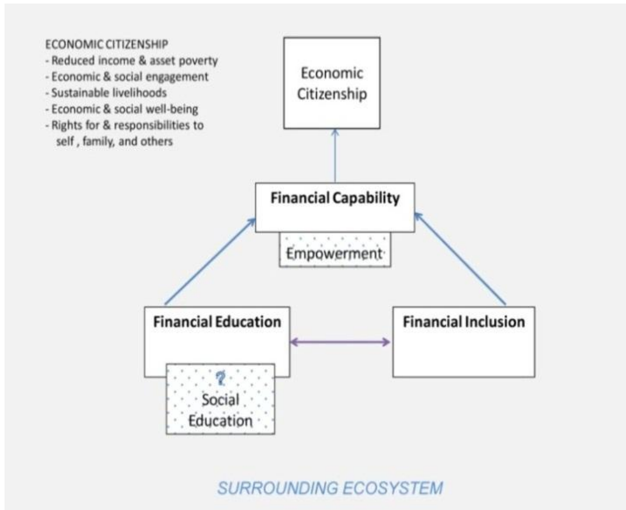
This CYFI Working Group's White Paper and this summary provide a review of research on three key constructs in CYFI's model of economic citizenship for children and youth: (a) financial education, (b) financial inclusion, and (c) financial capability. While related, these terms are used in specific and distinct ways in policy, programs, and research. We provide definitions of these terms and find that enhancing financial capability of children and youth likely will require financial education and financial inclusion. In other words, we believe the research to date suggests that educational materials and programs designed to increase financial knowledge and skills along with access to appropriate financial products and services may be required if we want children and youth to be financially capable. In coming to this conclusion, we also had the opportunity to draw implications for CYFI's model of economic citizenship.

Implications for the Conceptual Model of Economic Citizenship

The White Paper concluded with a revised Model of Children and Youth as Economic Citizens (Figure 2). As described in the introduction, CYFI's model of economic citizenship for children and youth includes an understanding of one's rights of and responsibilities to self, family, and others. A focus on rights of and responsibilities to self, family, and others is integrated into some, but not all, social education approaches (Lucey, 2007; Lucey & Giannangelo, 2006). It became clear in our review of the literature that the term *social education*—which scholars generally use to refer to citizenship education of one type or another—has been used in a different way within the child and youth finance movement. Further, we found that social education has not been included in empirical analysis of financial inclusion or financial education. Social education, then, was beyond the scope of this paper and requires additional scholarly attention in the future.

[13] Mat Despard, Deborah Adams, and the White Paper Committee are the authors of this section in the original report.

Figure 2. Revised Model of Children and Youth as Economic Citizens (From Child and Youth Finance International. (2011, March). *ChildFinance Academic Working Group Meeting Outcomes and Key Conclusions*. New York, NY: Institute of International Education.)



We think that including a rights and responsibilities focus might facilitate full economic citizenship for children and youth and suggest that social education should overlap financial education in an economic citizenship model (see Figure 2). Future research will need to address the question, "What is social education, and what does it have to do with economic citizenship for children and youth?" Related recommendations for future work in this area include clearly defining, conceptualizing, and articulating what is meant by social education within the child and youth finance movement, detailing the rights and responsibilities of economic citizenship, and concentrating research efforts on if and how social education furthers economic citizenship for children and youth.

Although empowerment is pictured as a separate construct in the original CYFI model of economic citizenship (see Figure 1), financial capability actually incorporates empowerment at the individual level and access and opportunity at the structural level. Essentially, financial capability occurs when children are personally empowered and simultaneously experience financial inclusion, or real access to appropriate financial products and services along with the opportunity to practice using those services. Thus, the review of studies addressing the broader construct of financial capability includes empowerment. We suggest that future research begin with the understanding that empowerment is one part of the broader construct of financial capability.

Recently, life skills education has been proposed as part of the child and youth finance movement. Life skills education seeks to instill in children "a greater sense of belonging and confidence in their ability to make important decisions and take positive actions in their lives" (UNICEF, 2012, p. 8). According to this conceptualization, life skills overlap with empowerment, and life skills education provides a social context for financial education.

The studies we review in this paper provide some guidance for a model for economic citizenship for children and youth. Although the studies do not disaggregate the relative importance of financial education and financial services, they do suggest that both are important. If both are important—

perhaps for different reasons—this underscores the potential benefit of integrating the two more closely, as has been attempted in experiments for matched savings and other incentive-based savings schemes, commitment accounts, text message reminders, and financial education.

Research about the interaction of financial education and financial services for children and youth, especially in developing countries, is lacking. Future applied research should focus on understanding the discrete and summative contributions of financial education and financial services in this population, including diverse groups of financially vulnerable children and youth. Resources are particularly needed for further research in the developing world.

Research also should explore if effectiveness differs by type of financial education, across variations in financial products and services, and in different combinations. Offering financial education and a savings account with automatic deposit features, for example, may have stronger effects on savings than offering financial education and a matched savings account.

A Note on Sustainable Livelihoods

A need for more research on the role of sustainable livelihoods in economic citizenship for children and youth emerged during the course of the White Paper research on financial education, financial inclusion, and financial capability. CYFI's model lists *sustainable livelihoods* as one of several elements of economic citizenship (CYFI, 2012b). A recent publication on child social and financial education suggests that sustainable livelihoods – along with financial and life skills education – are a necessary part of inspiring "children to be socially and economically empowered citizens" (UNICEF, 2012, p. 3). Sustainable livelihoods—a necessary component of economic citizenship—deserves a full-fledged effort to gather and review the empirical literature on this subject. While it was beyond the scope of our research, we believe that a similar effort by academics with expertise in this area should be undertaken as soon as possible. We also suggest that an important first step would be to clearly define and detail the meaning of the term *sustainable livelihoods* for the purposes of economic citizenship programs and research in the future.

Study Limitations

This review is limited to studies written in English, due to limitations of time and resources, and therefore, coverage of research from non-English-speaking countries is limited. In the future, we urge more funding for research on economic citizenship of children and youth in all countries and regions of the world. Resources should be routinely available for translation of key studies across languages.

Conclusion

The review of theoretical and empirical literature presented in the CYFI Working Group paper points to a number of directions for future research on economic citizenship, including financial education, financial inclusion, and financial capability among children and youth. In addition to the implications for modeling economic citizenship discussed above, some key findings that emerge from this review are as follows:

- Work in the field is proceeding at a much more rapid pace than research on financial capability, financial inclusion, and financial education among children and youth.
- Tailoring financial education to children and youth is essential for individual and societal well-being, but no single comprehensive and effective strategy has emerged.
- Overall, theoretical and empirical work to date suggests that financial inclusion, in addition to financial education, will likely be necessary to build the financial capability of children and youth.
- Future research should include clearly defining, conceptualizing, and articulating what is meant by social education within the child and youth finance movement, detailing the rights and responsibilities of economic citizenship, and concentrating research efforts on if and how social education furthers economic citizenship for children and youth.
- Sustainable livelihoods is a component of economic citizenship that requires a research effort similar to the one taken in producing this paper. A review of the research will require the gathering and commissioning of a group of scholars with expertise in training and education for jobs, entrepreneurship, trades, and careers for children and youth as prepare for and reach adulthood.
- There is an especially compelling and immediate need for more rigorous research designs that can help disentangle the effects of "bundles" of financial education and financial inclusion interventions. Fortunately, some research projects are underway to help us begin to assess comparative contributions to the financial and economic well-being of children and youth.

Access to financial services and financial capability among children and youth will require major changes in banking products, practices, and outreach, as well as public policy and regulatory overhaul. Existing research suggests that enhancing economic empowerment of children and youth likely will require financial education and financial inclusion. In other words, *scholarship* to date suggests that educational materials and programs designed to increase financial knowledge and skills *along with* access to appropriate financial products and services may be required if we want children and youth to be financially capable. In coming to this conclusion, the CYFI Working Group has modified the model of economic citizenship and laid the groundwork for future research and discussion.

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