The Exigency of Financial Literacy for Young Children: Literature Review

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Abstract. The literature review aims to present an explanation about the exigancy of financial literacy for the younger generation and how to take a practical approach to financial education for early childhood. This research will examine a few articles from various national and international journals/proceedings/websites. The most effective learning approach to financial literacy is based on several principles. First, incorporate financial concepts and money management skills into the child's daily social interactions with adults and other children. Second, provide appropriate activities that take cognitive limitations into account. Third, implement a series of learning activities related to the child's personal experiences, so that the child have meaningful learning.

Keywords: education, financial literacy, early childhood.

1 Introduction

Literacy is a popular word today, its appearance as the ability to read or be literate. As time goes by, the meaning of literacy has also adapted to the demands of today's world. Literacy is not just the ability to read and write but extends to a more practical sense, namely the ability to understand information and communicate verbally through systemic procedures. The 2007 Education for All (EFA) Global Monitoring Report: Literacy for All concluded that literacy is fundamental in modern life and is increasingly complex and connected globally. Today's society is closely related to communication technology, including social media. If it is not appropriate to process information and understand the message and the truth of the data, it will easily cause conflict and division. In Indonesia, the literacy movement has been rolling out since March 2016. The GLS (School Literacy Movement) program is carried out in the context of strengthening character as stated in Law No. 23 of 2015. Apart from that, literacy, competency, and character are part of the 21st-century skills agenda[13]. Along with the widespread use of this term, types of literacy have developed into several categories, one of which is financial literacy. Financial literacy deserves attention from society and schools because this literacy is related to human abilities in understanding financial practices, such as managing money to fulfill needs and achieving prosperity. OCBC NISP's Financial Fitness

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Index (FFI) 2022, is an annual research that describes the financial health condition of Indonesia's young generation. Research shows that the financial health score of the young in Indonesia. This score's year is 40.06, an increase of 2.34 points compared to last year. However, it turns out that there are still many people who make wrong decisions when it comes to spending. As many as 35% admitted to impulsive lifestyle shopping in the last six months, including concerts, traveling, or excessive shopping. Meanwhile, 60% of those who are impulsive come from demographics with an income of 5 to 8 million per month. This research shows that achievement scores are not yet optimal, and destructive economic behavior is still being detected and triggered by inadequate financial knowledge and skills. A comprehensive understanding of financial management will help a person sufficient confidence and power over the decisions taken. Financial education must be carried out as early as possible by providing opportunities to form the foundation and mindset of children not to be consumptive and wise in spending their money so that they become financially healthy people. A financially healthy society doesn’t just happen, the knowledge, habits, and attitudes must start from the beginning of life (young age). Therefore, it is necessary to understand what, who, and how financial education is carried out among young people to form solid and comprehensive knowledge.

2 Method

This is a literature study(library research) with data collection methods through literature review. The technique used is to review articles that have been published in national,and international journals, websites, and research papers using literature-based analysis. The number of articles reviewed was 29 articles. Information from sources is collected and summarized to conclusion. This article focuses on the introduction of financial literacy in early childhood including, definition, scope, objectives, and benefits as well as financial literacy education practices.

3 Result and Discussion

3.1 Interpreting Financial Literacy in Early Childhood

This literacy offers a set of knowledge and skills to manage financial resources. Literacy then directs people to make wise decisions. [16][28][29]. Knowledge and skills to manage finances are needed because human needs are unlimited, while the existence of natural resources and human resources is limited, so humans need to know and set priorities and have skills in using the resources they have. Financial literacy will also describe economic behavior, like how someone spends money and manages expenses. Someone who is financially literate will be able to use their money in a quality manner. Several studies explain the effect of financial literacy on financial decisions, financial behavior, and family health [20][28][2]. Financial literacy prevents people from consumptive behavior, fraud, and the hope of profit from fraudulent investments [25]. Being literate takes a long time because knowledge is evolving, and we must continue to learn. The ability to manage finances should also be done from the beginning so that it becomes a habit for humans, which then has an impact on their welfare in the future. Professor James Heckman said that the best investment is in human resource development. Investment in human resources since the beginning of life has a higher economic return than at a later age. Investment in children's education from an early age will produce knowledge and skill, resulting in a higher rate of return. Heckman explained that many studies have concluded that children who learn about finance from an early age have better productivity than older, so the benefits are higher than education that is only pursued in adulthood [12][18].

3.2 Financial Scope in Early Childhood

The scope of financial literacy includes various materials or knowledge related to finance itself, such as (1) understanding economic transactions and various types of practices; (2) understanding economic resources, which include natural resources and human resources; (3) introducing the concept of spending as a fulfillment of basic needs, which includes a priority scale, lifestyle and consumer science; (4) understanding the concept of saving traditionally and modernly including saving, insurance and investment; (5) understanding the concept of sharing which includes charity and taxes; and (6) understanding the concept of unhealthy financial practices, as well as financial crimes such as corruption, fraudulent investments or other financial crimes [23]. Financial literacy is also explained by Chen and Volpe, divided into several scopes as follows [3]:

1) Understanding some of the things that are part of basic knowledge about personal finance.
2) Saving and borrowing.
3) Insurance, knowledge of insurance, and various insurance products.
4) Investment, recognition of investment, risk, mutual funds, and others.

Furthermore, the scope of financial literacy at the primary and early childhood education levels is diverse because of the broad financial concepts and products. It was explained by the Gerakan Literasi Nasional (GLN) initiated by Kementerian Pendidikan dan Kebudayaan (Ariyani, 2018), covering the following scope:

1) Definition of economic transactions and various types of practices

In the economic concept, the fulfillment of necessity is pulled of by barter and purchase. Children need to know that life's necessities (food, drink, clothing, shelter) cannot be obtained for free.

2) Introduction of economic resources (earnings)

Children recognize resources that are capable of producing desired goods and services.

3) Introduction to the concept of spending

Spending is one way for humans to fulfill their daily needs. Parents equip children with knowledge about the concept of shopping well and correctly.

4) Introduction to the concept of saving

After understanding the concept of spending, children learn about saving. Children need to know what and how to spend and set aside some money for saving.

5) **Introduction to the concept of sharing**

One of financial intelligence is the ability to invest. Investment is complicated for children to understand, so make it possible to simplify into charity activities. In Islamic studies, alms is a profitable investment in the long term. A verse in the Quran says, "He who spends wealth in the way of Allah is like a seed that grows 70 stalks, on each stalk there are 100 seeds. Allah multiplies to whomsoever He wills, and Allah is All-Wide and All-Knowing" and "Verily, those who give in charity, both men and women, and lend to Allah a good loan, will have their reward multiplied to them, and for them a great reward."

The process of financial literacy in early childhood does not only include dimensions of knowledge related to financial products but also accompanied by skills and attitudes such as being assertive and responsible, critical and creative (21st-century skills), diligent, thrifty and non-consumptive [4]. Frugal and critical in recognizing what is needed rather than what is wanted. Firm and responsible for the choices made and able to control oneself.

3.3 Goals and Benefits of Financial Literacy in Early Childhood

Financial literacy aims to provide adequate awareness and understanding of basic concepts to form good behavior and skills in the future. Elaborates that educating children at an early age can shape behavior and habits in adulthood [18].Children who know the concept of money and fulfilling their needs will form selective behavior patterns. Children will realize that money is gained through work or certain sacrifices, so they will be motivated to be independent and responsible in using money. Apart from that, financial education trains children to save so that when they want certain goods and services later, they can buy them without using the debt system. Children learn to be careful and critical in making decisions because they know resources are limited.

3.2 Financial Literacy Practice

Financial education is considered necessary in achieving a community of children who have good financial literacy. Literacy education can be done by parents, teachers and the community around the child[17]. The Article on Financial Education for Preschoolers[5] describes some of the most effective learning approaches for financial literacy. First, incorporate financial concepts and management skills into daily social interactions with adults and other children, and provide relevant activities that take into account their limitations, and second, make the experience closely related to the child's personal experience. This approach is in line with early childhood characteristics and ways of learning. Early childhood captures information through play activities because children are active learners and learn through sensor-motor so involvement in play activities/exploitation using the senses will activate awareness and build better knowledge. In addition, because children's cognitive abilities are still in the concrete operational stage, learning activities also need to be facilitated through learning methods and real media in the field.

Apart from the children's development, knowledge, experience, and financial situation, families also influence the determination of learning programs or financial education in early childhood [5]. Knowledge and skills internalized in attitudes must be sustainable between society, school, and home [1]. The assumption is that the portion of time spent at home is the largest of the three so socialization and education in the family are considered to have the greatest role in increasing financial literacy in early childhood. Several studies examining parental involvement in pedagogical activities related to financial literacy state that financial literacy prerequisites through PEI (Preschool Educational Institution) activities can be impressive if parents are involved.

Some of the financial education practices in early childhood are:

1) **Improve understanding of the needs and wants.**

   Understanding the difference between needs and wants is very important because it influences the decision-making process. When we prioritize our wants over our needs, we may find ourselves in a situation where we can't fullfill our needs. Identifying the needs and wants of children at a very young age is not directly related to financial or product aspects. When a child is hungry and fussy, parents can help to find out the cause and explain the child's current needs. Excessive crying is a child's desire because he is hungry and can be restrained. After the child eats, he will understand that crying is wrong, and he can ask his parents in a kind/good way.

2) **Introduction to the concept of money as a financial product and economic transaction.**

   Children need to know that everything in this world has value. For example, when a child buys goods at the supermarket, parents can say that when the child gets a drink, the child has to spend some money.

3) **Teach a responsibility**

   We can encourage a sense of responsibility in our children by giving them tasks to complete and developing their sense of responsibility in simple ways. Around the age of 2-3 years, Children can learn to try eating by themselves, brushing their teeth, and washing their hands. Around the age of 4-5, children build independence to dress, clear the dishes, and assist in cooking. At the age of 6 years and above, children can organize and take care of their belongings and do any domestic tasks in the home, manage their budget, and save money. Assigning tasks according to the age and development of the child can contribute to their becoming a self-sufficient individual.

4) **When shopping at the supermarket, children can also see that the goods or services they want to get require sacrifice**. One needs to walk to the market to get goods. To own them, a person must work to earn money, like when a child sees a cashier job.

5) **Children can also learn that if money is used continuously without consideration, it will run out.**

   If it happens, we won't have the resources to get the goods and services we want. Children can learn to set aside a small portion of their money. Practice in other ways.

Kids can go to the market and compare the prices they want to buy an item to make a profit or save it for later.

6) Adults can teach children to invest through charity and almsgiving.

It is related to religious and moral values through financial literacy and many study have shown that givingback or charity improve mental dan emotional well-being.

4. Conclusion

The paper attempts to describe financial literacy for early childhood and bring out why children should be educated about finance and what the benefits will be in the future. Children need to be equipped with knowledge, skills and attitudes related to financial decisions but in providing analogies, it does not always have to be related to financial products, for example, teaching responsible behavior can be through approaches that are close to the child's world, such as how he takes care of his favorite toys.

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