

## Enhancing Citizenship and Inclusive Governance through Financial Empowerment

Note prepared by:

Institut des Finances Basil Fuleihan

### Pillars of Financial Citizenship and their benefits

Financial citizenship refers to people's active participation in financial decision-making processes that have a direct impact on their lives<sup>i</sup>. It requires being well informed on issues related to personal money, making educated judgments about saving, investing, and spending, and understanding the effects of financial actions on one's current and future circumstances. It also strives to empower individuals to exercise their rights and obligations as informed participants in the broader financial system, ultimately reinforcing the principles of active citizenship.

Financial literacy is widely recognized as a pillar of financial citizenship due to its significant impact on individuals, communities, and the overall relationship between citizens and the state. Extensive research on the subject has consistently highlighted the numerous benefits that stem from a well-informed and financially literate population. By equipping citizens with the necessary knowledge and skills to manage their finances effectively, societies can witness improved economic stability, increased trust in the government, and enhanced citizen participation in public affairs.

Another essential pillar of financial citizenship is budget participation, which refers to people's active engagement in decision-making processes involving the distribution of public funds. It is a necessary component of participatory democracy, serving as a bridge between governance and citizenship. By engaging citizens in budgetary decisions, governments can help foster a sense of ownership, openness, and responsibility within citizens, thus enhancing a nation's democratic fabric. Strengthening the link between budget participation and citizenship brings plenty of benefits to both individuals and society as a whole, which include:

- 1. Empowering Citizens:** Budget participation empowers citizens by giving them a voice in the decision-making process. It allows individuals to actively contribute to shaping public policies and priorities based on their needs and aspirations<sup>ii</sup>. By involving citizens in budgetary decisions, governments recognize their role as active participants in democracy rather than mere passive recipients of public services. This empowerment fosters a sense of belonging and strengthens the connection between citizens, their government and country.
- 2. Enhancing Transparency and Accountability:** Budget participation promotes transparency in the allocation of public funds. It gives individuals information on the government's financial decisions and allows them to analyze how resources are being used<sup>iii</sup>. Citizens may evaluate budgeting procedures and hold authorities accountable for their actions, which helps to avoid corruption. Citizens that actively participate in budget discussions become watchdogs of government spending, ensuring that resources are spent efficiently and effectively.

- 3. Building Trust and Legitimacy:** Budget participation is essential for fostering trust between the government and its constituents<sup>iv</sup>. Individuals acquire confidence in their government's commitment to their welfare when they have the ability to influence budget choices. This trust is essential for developing a positive relationship between citizens and their officials, which leads to improved collaboration and social cohesion. Governments demonstrate their commitment to inclusive and responsive governance by including citizens in financial decisions, which improves the legitimacy of their actions.
- 4. Strengthening Civic Engagement:** Budget participation acts as a catalyst for increased civic engagement. As citizens become actively involved in budget decisions, they develop a deeper understanding of public policies and governance processes. This understanding encourages individuals to take an active interest in public affairs, sparking a sense of civic duty and responsibility. Budget participation can lead to the emergence of vibrant civil society organizations, community-driven initiatives, and grassroots movements, further enriching democratic discourse and fostering active citizenship.

## Applications of Financial Literacy and Participatory Budgeting Initiatives: Enhancing Understanding and Citizen Engagement

Financial literacy challenges are prominent in both emerging and developed economies. In China, for example, credit card ownership has more than quadrupled since 2011, reaching 16%. However, only half of credit card holders can perform basic interest-related calculations. Similarly, in the United States, although credit cards are used by 60% of individuals, awareness of financial concepts linked with them is still low, with just 57% of credit card owners correctly answering interest-related questions<sup>v</sup>. As for Europe, in light of aging populations and decreased state pensions governments are asking citizens to assume greater responsibility for retirement planning. However, the data suggests that people are unprepared for this task. Moreover, in Central and Eastern European countries, younger generations appear to be under saving for old age, while older adults lack the financial skills required to deal with the economic constraints of retirement. Finally, the figures in the EU as a whole are not much better: Just 47 percent of people who do not save for old age comprehend fundamental financial principles.

Enhancing individuals' financial literacy and participation in budgeting has been used in many cases throughout the world to foster a better understanding of complicated financial issues, build trust in government, and improve public engagement. In Canada, the national strategy for financial literacy seeks to improve Canadians' financial well-being by providing individuals with the information, skills, and confidence to make sound financial decisions. The approach aims to increase financial literacy among individuals of all ages and demographics, including children, teenagers, adults, elders, and Indigenous peoples<sup>vi</sup>. The improved strategy emphasizes the significance of customized financial education programs that are accessible, relevant, and successful. It also aims to empower vulnerable groups and acknowledges the role of technology in delivering financial education and tools. The strategy emphasizes fostering collaboration among government, private sector organizations, community groups, and educators, as well as implementing targeted initiatives to address specific financial literacy needs and embracing technology and innovation to deliver financial education and tools such as online platforms, mobile apps, and digital resources.

On the other hand, Porto Alegre in Brazil, has received international acclaim for its excellent adoption of participatory budgeting, which has dramatically improved citizen involvement and built confidence in government<sup>vii</sup>. Introduced as an experiment following the Workers Party's election victory in 1989, participatory budgeting has become a fundamental feature of the municipal budget process in Porto Alegre, influencing many other towns and regions in Brazil and throughout the world.

The participatory budgeting process in Porto Alegre combines community-based, direct, and representative democracy, organized by different regions of the city. All citizens have the right to participate in assemblies and preparatory meetings where priorities are set across various themes such as transportation, education, and economic development. These sessions also involve the election of members for the delegates' forum and the participatory budgeting council, as well as the evaluation of the city's performance.

Elected citizen-representatives play a crucial role in preparing the investment plan, which includes detailed allocations by region and project. This plan is integrated into the executive budget and requires approval from the municipal legislature to be implemented.

The impact of participatory budgeting in Porto Alegre has been significant. It has been credited with improving public service delivery, evidenced by increased connections to municipal sewage services, expanded road networks, and higher enrollment rates in public schools. The process has also led to a more equitable distribution of public resources and increased support from the population for approving municipal revenue increases. Furthermore, the Workers Party has experienced repeated electoral success, partly attributed to the participatory budgeting process.

Participatory budgeting has also had broader societal benefits. It has empowered marginalized segments of the population, particularly the poor and women, by including them in decision-making processes. The process has helped foster unity among residents from different socioeconomic backgrounds in their shared responsibility for the city's development. Additionally, participatory budgeting has promoted a more open and less authoritarian attitude among government bureaucrats, promoting transparency, accountability, and citizen-centric governance.

### The Significance of Financial Literacy and Budget Engagement for Citizenship in the Arab World

According to data from the Arab youth survey, most Arab youth feel that rising living costs and unemployment are the most significant challenges confronting the region, with more than a third of young Arabs struggling to pay basic expenses and one-fourth in personal debt. This situation, amidst additional economic strains and a decrease in overall job creation has significantly impacted people's feelings of belonging to their own countries and has increased the desire to emigrate among the youth. In the coming decade enhancing citizenship via improved financial literacy will have to be a top goal for the Arab world for the following reasons:

1. **Economic Empowerment:** Financial literacy equips individuals with the knowledge and skills necessary to make informed decisions about their personal finances. It helps individuals grasp concepts such as budgeting, saving, investing, and managing debt. By empowering Arab youth with financial literacy, they can take control of their economic well-being and make informed decisions that lead to financial stability and independence<sup>viii</sup>.
2. **Entrepreneurship and Job Creation:** Because Arab young suffer significant levels of unemployment, a sizable proportion of them (39%), are interested in working for themselves<sup>ix</sup>. Young people can learn the information and skills needed to establish their own enterprises or become self-employed through fostering financial literacy. Financial literacy enables people to comprehend financial planning, gain access to finance, and negotiate the hurdles of running a business, eventually boosting entrepreneurship and contributing to job creation<sup>x</sup>.
3. **Demand for Accountability:** Financial literacy enhances citizens' ability to hold public officials and institutions accountable for their financial decisions and policies. Seeing that 77 per cent of Arab youth now believe that their governments are corrupt and have increased the demand for this phenomenon to be tackled especially waste and nepotism (35%)<sup>xi</sup>, working towards increasing awareness around economic concepts is essential as a means to allow citizens to critically analyze public budgets, taxation policies, and government spending. This knowledge allows Arab youth to actively engage in public discussions, demand transparency, and hold decision-makers accountable for the allocation and management of public funds.
4. **Financial Inclusion:** Many Arab youth, particularly those from underprivileged communities, incur obstacles to financial inclusion. Financial literacy may help close this gap by allowing young people to comprehend the financial system, get access to banking services, and make educated decisions regarding financial products such as loans, insurance, and savings accounts. This encourages financial inclusion and allows Arab youth to actively engage in economic activity<sup>xii</sup>.

5. Long-Term Financial Planning: Financial literacy encourages Arab youth to consider long-term financial objectives such as education, property acquisition, and retirement. Young individuals can make better financial decisions if they grasp concepts like compound interest, investment vehicles, and risk management<sup>xiii</sup>. In the face of economic problems, this fosters financial stability and resilience.

## References

- <sup>i</sup> M. Khalil, 2020, Financial citizenship as a broader democratic context of financial literacy, Sage Journals, 20(1), <https://doi.org/10.1177/2047173420948411>
- <sup>ii</sup> World Bank, 2012, Participatory Budgeting: An Experience in Good Governance, Retrieved from <https://www.worldbank.org/en/news/feature/2012/09/10/participatory-budgeting-an-experience-in-good-governance#:~:text=Supported%20by%20the%20World%20Bank,mutual%20trust%20and%20social%20peace>
- <sup>iii</sup> World Bank, 2013, Opening Budgets Can Improve Citizen Participation and Government Accountability, Retrieved from <https://www.worldbank.org/en/news/feature/2013/12/19/opening-budgets-can-improve-citizen-participation-and-government-accountability>
- <sup>iv</sup> World Bank, 2018, Participatory Budgeting Manual for County Governments in Kenya, Retrieved from <https://documents1.worldbank.org/curated/en/391701588140468143/pdf/Participatory-Budgeting-Manual.pdf>
- <sup>v</sup> L. Klapper, A. Lusardi & P. Oudheusden, 2015, Financial Literacy Around the World: Insights from the standard & poor's ratings services global financial literacy survey, Retrieved from [https://gflec.org/wp-content/uploads/2015/11/3313-Finlit\\_Report\\_FINAL-5.11.16.pdf](https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf)
- <sup>vi</sup> Renewing Canada's National Strategy for Financial Literacy, 2021, Canada's Banker's Association, Retrieved from: <https://cba.ca/renewing-canadas-national-strategy-for-financial-literacy>
- <sup>vii</sup> S. Tanaka, 2007, Engaging the Public in National Budgeting: A Non-Governmental Perspective, OECD Journal on Budgeting, Retrieved from <https://www.oecd.org/gov/budgeting/43412013.pdf>
- <sup>viii</sup> T. Kaiser & L. Menkhoff, 2017. Does Financial Education Impact Financial Literacy and Financial Behavior, and If So, When?, Retrieved from <https://openknowledge.worldbank.org/handle/10986/27968?locale-attribute=en>
- <sup>ix</sup> Arab Youth Survey, Retrieved from <https://arabyouthsurvey.com/en/findings/>
- <sup>x</sup> F. Weidenkaff & M. Witte, 2019, From school to business: Policy support to youth entrepreneurship and self-employment, International Labor Organization, Retrieved from [https://www.ilo.org/wcmsp5/groups/public/--ed\\_emp/documents/publication/wcms\\_790106.pdf](https://www.ilo.org/wcmsp5/groups/public/--ed_emp/documents/publication/wcms_790106.pdf)
- <sup>xi</sup> Arab Youth Survey, Retrieved from <https://arabyouthsurvey.com/en/findings/>
- <sup>xii</sup> Impacts of Financial Inclusion on Youth Development: Findings from the Ghana YouthSave experiment, 2015, The YouthSave Consortium, Retrieved from <https://resourcecentre.savethechildren.net/document/impacts-financial-inclusion-youth-development-findings-ghana-youthsave-experiment/>
- <sup>xiii</sup> Wagner, J. & Wallstad, W., (2018), The Effects of Financial Education on Short-Term and Long-Term Financial Behaviors, *Journal of Consumer Affairs*, 53(1), 234-259, <https://doi.org/10.1111/joca.12210>