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Financial Capability of Youth and the Future of Sustainable Finance: Educating the Next Generation

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Abstract

This conceptual paper explores the role of youth financial capability in shaping the future of sustainable finance. With increasing global emphasis on environmental, social, and governance (ESG) factors, youth must be equipped with the financial knowledge and tools necessary to support sustainable economic development. This study proposes a theoretical framework that integrates financial literacy, access to digital financial tools, institutional support, and behavioral intention as core drivers of sustainable financial engagement. This framework contributes to the academic discourse by offering a foundation for future empirical research and policy development focused on empowering the next generation for a sustainable financial future.

Keywords: Financial Capability; Sustainable Finance; Financial Literacy; ESG Awareness; Digital Financial Tools; Behavioral Intention; Institutional Support; Financial Education

1. Introduction

Sustainable finance is becoming a very important part of the global effort to fight climate change and also to support the economic growth. It involves making financial decisions like where to invest money or how to manage resources and it also help to protect the environment and support social well-being. As the world moves toward more sustainable ways of living and doing business, it's important that everyone, especially young people, understands how their financial choices can make a difference in the society. The young people are the future workers, business owners, leaders, and consumers. So, they play a key role in this. The way they manage money and the values they carry into adulthood, will shape the world's financial and environmental future. That's why it's important for youth to have strong financial skills and also understand environmental sustainability.

Earlier, financial education has focused mostly on practical topics like saving, budgeting, or avoiding debt. But today, it is also important for young people to learn how their financial choices affect the society also. This includes knowing about responsible investing, avoiding harmful consumer habits, and supporting businesses that are environmentally and socially responsible.

This study helps in better understanding of different factors that influence young people's financial knowledge, behavior, and attitudes, especially in relation to sustainable finance. The study suggests a well-rounded model that brings together different influences of sustainable finance, such as education, digital access, personal values, attitudes and trust in financial institutions. By exploring these areas, this study shows how to help youth become more financially capable in a way that also supports a more sustainable and fairer world.

2. Literature Review

(Makhija et al., 2021) This research presents a timely and relevant exploration of financial literacy among women and youth, with a particular emphasis on the role of financial technology (fin-tech) in enhancing socioeconomic well-being. The study's integration of data mining techniques and focus on financial attitudes and adds valuable insights to the ongoing discourse on financial empowerment especially among youth. A notable strength is its attention to the uneven distribution of fintech benefits, pointing out the urban-rural divide and the need for greater integration of technology into rural financial practices. The paper effectively underscores the role of government in promoting financial literacy and the importance of global awareness campaigns. Additionally, the linkage between financial literacy, entrepreneurship, and self-reliance among youth is well-articulated.

(Sinnewe & Nicholson, 2023) This paper explores young adults' financial habits and decision-making processes as they transition into the workforce, drawing on 28 semi-structured interviews with Australian university graduates. The study examines how their motivation to engage with personal finances and their subjective financial literacy and how it contributes to the development of healthy financial behaviors. Findings reveal that social context and past exposure to financial hardship play a more significant role in shaping financial habits than financial confidence alone. Participants in romantic partnerships, in particular, demonstrated a stronger future orientation, which translated into more active financial engagement through their goal setting. These insights offer valuable implications for policymakers and educators, suggesting that social context should be a key consideration in designing financial health interventions. Furthermore, financial education programmes would benefit from focusing less on general literacy and more on complex, long-term financial decisions, including investment planning and retirement preparation.

(Jespersen, n.d.) This thesis offers a well-structured and insightful examination of the financial and non-financial drivers behind sustainable investing, moving beyond the traditional financial paradigm focused solely on risk and return. By adopting a behavioral finance perspective, the study recognizes the complexity of investor behavior and incorporates personal, socio-cultural, and psychological factors that may influence sustainable investment choices. The use of both experimental (conjoint analysis) and empirical (factor and regression analysis) methodologies adds robustness and depth to the findings. Addition to this, the discovery of four main drivers that is, self-expression, financial, social-context, and opportunistic with three showing significant positive relationships to sustainable portfolio composition, provides practical insights for academics, policymakers, and financial service providers.

(Yang, 2024) This study offers a timely and insightful contribution to the literature on green entrepreneurship by examining the factors that influence university students' green entrepreneurial behavior. It identifies institutional support and green knowledge transfer as key antecedents and explores the mediating role of absorptive capacity and the moderating role of environmental responsibility, presenting a comprehensive moderated mediation model. The use of a lagged research design and a robust sample of 434 Chinese university graduates adds methodological strength and credibility to the findings. The study effectively demonstrates that both institutional and knowledge-based support systems significantly enhance students' engagement in green entrepreneurship, with absorptive capacity and environmental responsibility shaping the strength and nature of these effects. In nutshell the study gives an understanding of how academic and environmental factors jointly influence the emergence of sustainable entrepreneurial behavior among youth.

Research Gap

The existing studies contribute important insights into individual aspects of youth financial behavior, literacy, and sustainability, but they do not offer a comprehensive view of how these elements interact to shape the financial capability of young people in the context of sustainable finance. While Makhija et al. (2021) highlight the role of financial literacy and fintech in socioeconomic well-being, and Sinnewe & Nicholson (2023) emphasize the influence of social context on financial habits, neither study addresses how digital financial access and institutional support jointly affect sustainable financial behavior. Jespersen's (n.d.) work focuses on behavioral drivers of sustainable investing, but does not consider the foundational financial capability or educational pathways that prepare youth for such decisions. Similarly, Yang (2024) sheds light on green entrepreneurial behavior and institutional influences, yet does not link this to broader financial engagement or digital access. Collectively, these studies lack an integrated approach that connects financial literacy, digital financial access, institutional support, and behavioral intention to sustainable financial engagement. This creates a research gap in understanding how these factors interact to develop the financial capability of youth and how education systems can effectively prepare the next generation for a financially sustainable future.

3. Methodology

This study adopts a conceptual research approach aimed at developing a theoretical framework that links youth financial capability to sustainable financial engagement. The methodology for this paper includes three key stages: comprehensive literature review, thematic synthesis, and model construction. Financial Literacy (FL), Digital Financial Access (DFA), Institutional Support (IS), Behavioral Intention (BI), and Sustainable Financial Engagement (SFE) are the major five themes which considered for the study and also develop a model showing relationship between them. The model proposes that FL, DFA, and IS influence BI, which in turn leads to SFE. Additionally, Institutional Support is positioned as a moderating factor that strengthens the impact of FL and DFA on BI.

4. Conceptual Model for Youth Financial Capability and Sustainable Finance

There are five main parts in this model:

1. Financial Literacy (FL)

This means understanding of money that is, how to budget, save, invest, and also how financial decisions affect the environment and society considering the ESG (Environmental, Social, and Governance) principles.

2. Digital Financial Access (DFA)

This is about being able to use digital tools like mobile banking, online investment platforms, robo-advisors and different financial apps. It helps young people manage money more easily and gives them access to sustainable finance options like green investments.

3. Institutional Support (IS)

This refers to help from schools, colleges, governments, NGOs, and financial institutions. They provide financial education, tools, and programmes that make it easier for young people to learn and act responsibly.

4. Behavioral Intention (BI)

This is what youth intend or want to do with their money. It reflects their mindset and attitude towards finance. That is, are they interested in supporting ethical banks, buying responsibly, or investing in sustainable businesses etc.

5. Sustainable Financial Engagement (SFE)

This is the end goal or actual behavior that want to reach. It's when youth take action such as investing in ESG funds, using ethical banks, or avoiding harmful financial activities leads to.

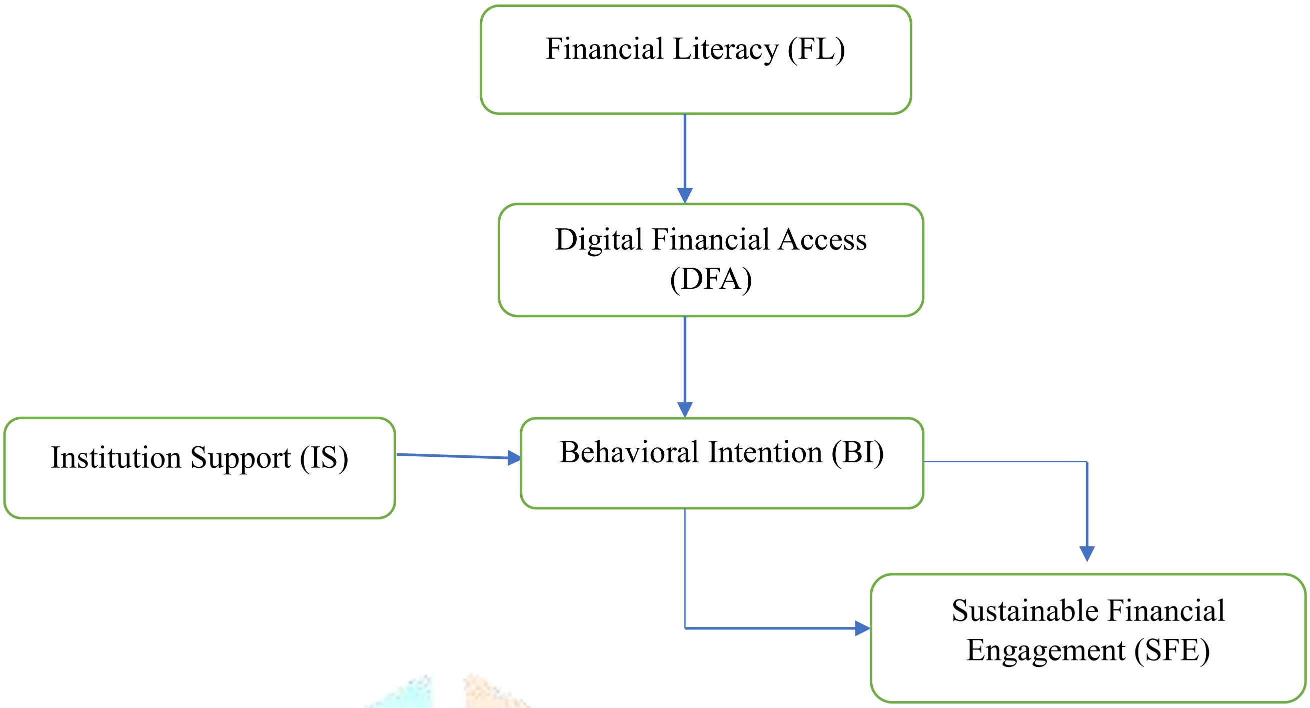

Figure 1: Conceptual Framework Linking Financial Capability Dimensions to Sustainable Financial Engagement

How the Model Works (as shown in the figure)

- **FL, DFA, and IS → BI:**

When young people are financially literate, have access to digital financial tools, and receive support from institutions, they are more likely to act rationally and ethically. This would promote sustainable finance. Financial Literacy (FL) helps them understand how to manage money and recognize the importance of making responsible financial decisions. Digital Financial Access (DFA) makes it easier for them to use online tools, apps, and platforms to act on that knowledge, such as investing in green funds or tracking spending habits. Institutional Support (IS), such as education programs in schools or sustainable product offerings from banks, reinforces these efforts by encouraging the young people to take ethical and informed decision-making. Together, these three factors also motivate the youth doing the right thing with their money with confidence. This, in turn, supports the growth of sustainable finance by shaping a generation of financially responsible and environmentally conscious individuals.

- **BI → SFE:**

Behavioral Intention (BI) is about what young people are thinking or planning to do with their money, especially when it comes to making choices that are good for the environment and society. This includes wanting to support green businesses, invest in ethical companies, or avoid spending on harmful products. When these intentions are strong, they often lead to real action. This is called Sustainable Financial Engagement (SFE). SFE is when young people actually follow through with their plans, like using banking services that support clean energy or choosing to buy from socially responsible brands.

- **IS as a Moderator**:

Institutional support (IS) doesn't help directly; it also strengthens the effects of FL and DFA on BI. This means that when schools, governments, or financial institutions provide good support, young people are more likely to turn their knowledge into real intentions to act sustainably. For example, a student who understands how to manage money (FL) and has access to digital tools (DFA) might still not be very motivated. But if their school teaches about green investing, or if a bank offers youth friendly sustainable financial products, the student becomes much more likely to want to make responsible choices. So, IS acts as a boosting factor which helps knowledge and digital access into strong motivation for action.

5. Implications for Research

This conceptual framework offers important implications for future research by highlighting how youth financial capability can influence sustainable financial behavior. By integrating financial literacy, digital financial access, and institutional support into one model, it expands traditional financial capability research to finance sustainability. Future studies can explore how young people understand and apply sustainability concepts in their financial decisions, and how their intentions lead to real action. Behavioral Intention (BI), as a central part of the model, provides a useful area for research on what motivates youth to act responsibly which can be knowledge, values, or social influence. The inclusion of Digital Financial Access (DFA) also opens new paths for examining the role of technology in shaping youth engagement with financial tools and sustainable products. Institutional Support (IS) is shown to strengthen these effects, suggesting that schools, banks, and governments play a crucial role in guiding youth. Researchers can also apply this model across different cultural and economic contexts to see how social norms and infrastructure influence outcomes. This framework encourages the development of better tools to measure financial literacy, intention, and sustainable engagement among youth, and supports research that evaluates the impact of educational and financial programmes..

5. Policy and Educational Recommendations

- Incorporate ESG topics into national financial education curricula.
- Promote digital literacy initiatives with a sustainability focus.
- Develop government incentives for youth participation in sustainable investment programs.
- Facilitate partnerships between fintech companies and educational institutions.

6. Conclusion

This conceptual paper offers a holistic framework that underscores the critical role of youth financial capability in advancing the future of sustainable finance. By integrating key constructs namely, Financial Literacy, Digital Financial Access, Institutional Support, Behavioral Intention and Sustainable Financial Engagement. The model highlights how these interconnected factors contribute to shaping responsible and sustainability-oriented financial behaviors among young individuals. The framework not only bridges existing gaps in the literature but also presents a forward-looking perspective that aligns with global efforts toward inclusive and sustainable economic development. The study is focused on youth because they are the active participants and the future investors also. The paper emphasizes the need for education systems, policymakers, and financial institutions to work collaboratively in building the capacities of young people through accessible digital tools, supportive institutions, and targeted behavioral interventions. Future research should empirically test and contextualize this model across diverse geographic and socioeconomic settings to validate its applicability. The real-world testing of the framework to ensure it works across different youth populations and can help shape fair and impactful financial education and policy.

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