“Financial literacy exchange and its challenges in Post-Soviet Georgia”

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FINANCIAL LITERACY EXCHANGE AND ITS CHALLENGES IN POST-SOVIET GEORGIA

Abstract

Financial literacy is becoming an urgent challenge in many countries. This situation is more acute in a developing country with a Soviet experience. The affected population, who are in advanced positions in the international financial machinations of the current period, is unmistakable proof of the low level of financial awareness in Georgia. The present study aims to determine the impact of student financial literacy on consumer behavior in Georgia as a Post-Soviet country. The study uses statistical methods, both probabilistic and non-probabilistic sampling. The paper reviews foreign experience and is a similar study conducted in Asia and Europe. The number of interviewed respondents was 295 students from the Imereti region (there are two universities in the region), which is 35% of the total number of students. The questionnaire consisted of 21 questions. The respondents were interviewed from October to mid-December 2021. The study has shown that financial awareness is relatively low; students do not perceive that they need to raise their financial education and skills, which makes the current situation even more dramatic. Among the positive trends was that 81% of students were ready to raise their level of financial education. The reason is that the Georgian educational system needs to be reformed to raise financial awareness by studying the essence of elementary money and the simplest budget planning models. The study results showed that in conditions of low financial awareness, students cannot plan the budget, control, and use financial services effectively and efficiently.

Keywords financial culture, money, institutional "trap", education, mentality, knowledge, student

JEL Classification B15, A22, D14, P25

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INTRODUCTION

The modern world is in the era of technological innovation. Almost all people have access to the internet, technologies, and information. So, a gap and hidden holes may result from an institutional "trap." Not all are interested in managing their budget, providing a source of income, avoiding financial risks, and getting loans. People, and especially students with this lacking knowledge, are at risk. Developed countries are trying to raise financial literacy, as the students are also future employees and need the proper education.

Georgia is a Post-Soviet Country, and it resisted independence on April 9, 1991. Officially it was celebrated on May 26 as a declared independent day by the First Republic of Georgia in 1918. Institutions of the market economy were new for the generation who gained freedom; as Georgia was part of the CCCR from 1921 and people who lived in the Bourgeoisie age were already dead, there was no institutional memory of the private sector, managing finances (Surmanidze, 2022b). In these challenging circumstances, people had to learn how to survive in capitalism, where a chain of money-product rules the world.

In the Soviet Union, money had a different meaning than in the modern era, so financial literacy since the 1990s has been quite an acute challenge in Georgian life. Accordingly, a “path dependent” theory exists, which tells that when the institution has an ineffective development trajectory in the past, it is impossible to remake it as effectively. According to Puffert (2008), if an institution has an ineffective past trajectory, it may become an institutional “trap” that makes the whole economy insufficient. In this case, the ineffective Soviet trajectory of the money institution is a challenge full of contradictions for today’s Georgian money institution. Those who lived in the Soviet Union today in Georgia created the education system, financial institutions, and others, which can be a clear example of an institutional trap. The most effective way to scrap the institutional “trap” is to raise awareness of innovative technologies and health institutions in society through the education system. That is why it is of the utmost importance to include in the education system about money various primary aspects for raising awareness, which will help young generations to get a healthy footing in the rhythm of modern life. Development of the credit sector is high with its product variety and technological involvement, but unfortunately, education on treating finances, especially for students, is too arduous in Georgia.

The Georgian educational system is organized on a path of dependence trajectory, as it lacks the roots of teaching children about finance at school. This ineffective development led the institution into the “trap” (Surmanidze, 2018). Even though Georgia is a part of Europe, the knowledge of financial literacy is little for young people; traditionally, they live with their parents, giving them little chance of running their finances independently and freely. In addition, they do not take the risk of living alone and managing their finances in Georgia.

In the modern world, accessing finances has become easier than in the early years, especially in Georgia. It results in the threat of borrowing the credits without planning their payment. “Financial literacy” is getting an actual challenge. Various foreign literature explains its definitions and significance. There is not a single country that is not affected by this “literacy.”

1. LITERATURE REVIEW

As technological innovation develops in the modern world, most people have access to financial resources, deposits, and credits. Nevertheless, only some people are interested in financial risks, avoiding unexpected results, future perspectives, planning the budget, providing a source of income, getting loans, and investing (Lusardi, 2019).

Financial innovation explains as follows: new financial markets make it with financial instruments, technologies, and various products (Akintoye et al., 2022), which gives people access to and borrow credits on indefinite terms. This problem is especially significant for the students – the society preparing for their future careers. However, when they need to own the proper knowledge of planning their budget and future financial perspective, they need help. It is called financial literacy – the only way to the prudent distribution of finances for students (Velychko et al., 2022). Their financial literacy also depends on the improvement of self-education. It is an actual challenge for Georgia.

In current socioeconomic conditions, the concept of “financial literacy” transcends political, geographical, and socioeconomic boundaries; the need for financial education of the population grows exponentially. It is primarily because digital technologies facilitate the process of purchasing goods and services; Consequently, the risks of irrational economic behavior of consumers are increasing. Issues related to the financial education of the population are discussed in their scientific works by researchers Atkinson, Lusar-di, and Remand. Atkinson defined financial literacy as a combination of skills, awareness, and knowledge to make wise decisions that contribute to the financial well-being (Atkinson & Messy, 2012). Remund analyzed various definitions and indicators of financial literacy (Remund, 2010). Lucard studied the level of financial literacy among certain demographic groups of the population (e.g., people without the education) (Lusardi & Mitchell,

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2007). T. B. Veblen, V. Pareto, D. Kaneman, and A. Tversky focus on the irrational model of consumer behavior. The essence of this model is that consumer behavior is only sometimes mentally justified. Economic and non-economic (buyer preferences, habits) factors often determine the decision to buy goods (Veblen, 1899).

People's financial goals are individual; they are motivated by their state of life and their socioeconomic status of the individuals. Accordingly, financial education, in the authors' view, should be seen as an ever-changing state of attitudes, knowledge, and skills that affect age, family, and culture.

Financial culture has become another vital element in the system of skills and rules of conduct in today's evolving and rapidly changing world. Financial knowledge allows a person not to be dependent on circumstances and the will of other people. An educated person chooses the ways of life that are most attractive to him/her, which creates a material basis for the sustainable development of society (Neale & McElroy, 2004).

Financial literacy is becoming significant in modern knowledge (Aprea et al., 2016; Huston, 2010; Nicolini & Haupt, 2019). General approaches to the measurement and a simple definition of financial education are not accessible to figure it out properly (Huston, 2010). Huston (2010, p. 309) thinks that financial literacy has two conditions: human capital and financial knowledge, but there are more explanations for financial literacy. Adewumi (2022) explains financial literacy as an essential indicator for engaging students in risky business. Ravikumar et al. (2022) concluded that financial literacy helps manage personal finance well.

Widiyanto et al. (2022) argue that financial literacy has a negative effect on student consumption, which means that the more financially literate a student is, the less likely he or she will engage in it. Financial knowledge affects investment intentions, and financial behavior also positively affects Indonesian students' investment intentions (Widagdo & Roz, 2022).

According to Remund (2010) and Huston (2010), financial education aims to calculate the level of financial knowledge, use it with confidence, solve problems in the short term, and manage long-term financial plans in the background of a variable world. Knoll and Houts (2012) allow that definition should include programs, society, and financial education. Despard and Chowa (2014) conducted a study with five thousand respondents and used statistical methods to reveal financial skills. Lusardi and Mitchell (2011) also pay attention to various behaviors: they consider that social demographic conditions define financial behavior more than financial education (Agnew et al., 2013). The research conducted in Australia proves this information. At the same time, in Germany, individuals with low education face some problems and rarely possess a private retirement account (Honekamp, 2012).

Financial literacy is a significant direction that includes financial knowledge, as it is one of the parts of financial literacy (Huston, 2010; Nicolini et al., 2013). The research shows it is significant to know that society evaluates itself in various ways with its financial literacy, which is pre-defined by its financial behavior (Allgood et al., 2013; Hung et al. 2009). According to Mottola (2013), if a woman has a lower wage and financial literacy than a man, she has less confidence and lacks math skills than him. Tumba et al. (2022) concluded that financial illiteracy is a cause of poor business performance among women entrepreneurs. That is, there are fewer chances for women entrepreneurs with low financial knowledge to be more successful. Hopelessness, financial satisfaction, and religiosity are financial literacy variables, but the last two indicators are significant for properly defining financial education (Murphy, 2013). According to additional research (Van Rooij et al., 2011), if people do not know what bonds and stocks mean, their prices, or their challenges, individuals with a lack of financial literacy knowledge are less likely to invest in bond or stock markets.

The research has shown that practically not a single state in the world community has been affected to some extent by the abovementioned problem. In several countries, programs and projects aim to promote the development of the national philosophy of "self-reliance" to improve the population's financial literacy so that each citizen can achieve financial independence and maintain it in old age (Simon, 1959). Having an extremely accurate un-

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derstanding and unambiguous interpretation of the concept of "level of financial literacy" is vital.

As for Georgia, as a Post-Soviet country, in 2016, the National Bank of Georgia, with the support of the Savings Bank Fund (SBFIC – Savings Banks Foundation for International Cooperation) and with the involvement of government agencies, the private financial sector, and civil society, developed and approved a National Financial Education Strategy. The financial education strategy is an essential part of the consumer protection framework, and it serves to support financial stability and the financial well-being of individuals in the country. The strategy aims to increase the knowledge of the population of the country about the benefits of financial education, expand educational opportunities, and, due to the complexity of the task of raising financial education, deepen coordination and cooperation between stakeholders (Finedu, 2022).

The government of Georgia should promote education in fields such as entrepreneurship, innovation, and technology (Maglakelidze & Erkomaishvili, 2021). According to the latest data, there are 19 state and 44 private higher education institutions in Georgia. By 2021, the total number of students in private and higher education institutions totaled 159,000 (National Statistics Office of Georgia, 2022). Over the years, the number of students in both public and private schools in Georgia has increased yearly, but the number of graduates decreased. Students are an extensive social group of the Georgian population. According to the data for 2020–2021, students who are classified in the classification of labor force statistics as an economically inactive part of the population, "de facto," have an independent source of income and are employed in various sectors of the economy. In addition, the peculiarity of the student segment is that the part of unemployed students during the study period will soon establish in the labor market with the status of young specialists (Edu.aris.ge, 2022).

In the financial market, the share of students is proliferating. They start making financial decisions at an early age (pocket money, spending on a cell phone, internet); in addition, at an early age, not only the culture of financial literacy is the foundation, but the incentive for learning and education maintains throughout life. It is crucial to analyze the level of financial education of student youth and compare their consumer behavior. It explains how financial literacy skills can help young people make the right decision when purchasing a different product or service.

According to the original research, there was a big gap because only some students, the younger generation, have enough knowledge and information about financial literacy and general finances. Nevertheless, most international and local experts believe that the sooner young people learn about the role of money in personal, family, and public life, the sooner they will develop proper financial habits that will help avoid many mistakes, which will provide a stable private sector in the future in Georgia. That is why it is worth understanding how students understand finances, how they plan to spend and what for, what the primary source of their income is, and how they are ready to borrow credits.

The present study aims to determine the impact of student financial literacy on consumer behavior in Georgia, a Post-Soviet country in the background of the modern world and technologically innovative era.

2. METHOD

This study uses statistical methods, both probabilistic and non-probabilistic sampling. The survey of respondents was conducted throughout the Imereti region, Georgia. The number of interviewed respondents was 295. The questionnaire is given below in the sector of appendices. These bellowed shown 21 questions revealed possibilities to understand the main challenges and impact of financial literacy, their experiences, and the student's knowledge. The respondents were interviewed from October to mid-December 2021, as this is when the students actively attend and participate in lectures, seminars, and other activities. After the interviews, the authors sorted their answers according to the main directions, outcomes, and hypotheses. So, the results became too significant.

Most respondents belonged to the age group of 18 to 22 years, of which 54% were women, and 46% were men. Among the respondents, 23% were in

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the first year of undergraduate studies, 12% in the second year, 18% in the third year, 32% in the fourth year, and the remaining 15% were first- and second-year students of the master's program, without taking the faculties into account. All the students were Georgians.

3. RESULTS AND DISCUSSION

As a result of the student survey, intermediate results were obtained. First of all, to the question "Do you have your income?", 73% of students answered that they did not have their income. Therefore, 27% of respondents had a source of income. The primary sources of income were scholarships (12%) and money from parents (82%). Also, among the respondents were employed students who received a regular salary (6%).

Regarding the question of what they spend most of their financial resources on, the respondents answered: food (12%), shopping (17%), university fees (19%), entertainment (18%), for various expenses (3%) (see Figure 1).

The majority of respondents did not have savings (63%). Those who have savings need these savings for leisure (41%), "at least" storage (12%), and education (14%). 34% of respondents plan their budget out of them, and 51% said they plan their budget through mobile apps.

Relationship to loans: 35% of respondents were neutral towards loans. One in five respondents expressed a negative attitude toward loans. 84% of respondents planned to wait to take a loan, 12% were ready to take a loan, and 4% were ready. It was likely that students needed to gain experience in borrowing. In addition, students reported that their households have loans (51%), mainly bank credit cards (35%), and mortgages (14%).

The most obscure and difficult-to-understand financial services for students were investment products (51%), loans (14%), microloans (17%), and deposits (18%). The easiest to understand financial services were bank cards (only 5% mentioned that it was a complex and incomprehensible product).

Students generally had information about what investment assets were. However, 39% chose the wrong answer to the question, "Which of the following belongs to investment assets?" 14% of respondents found it difficult to answer, and 47% of them answered the correct answer.

Respondents were asked the question: "The signs of the financial pyramid are: ..." where 38% of respondents could not distinguish the main signs of the financial pyramid.

32% of the surveyed respondents evaluated their level of financial education with 4 points from the five-point assessment, and 21% of the respondents – with the highest 5 points. At the same time, 29% of the respondents gave a neutral assessment (3 points), while 9% of students gave a negative assessment of the level of financial education (1-2 points).

The Internet was the most popular source of information for the financial education of university

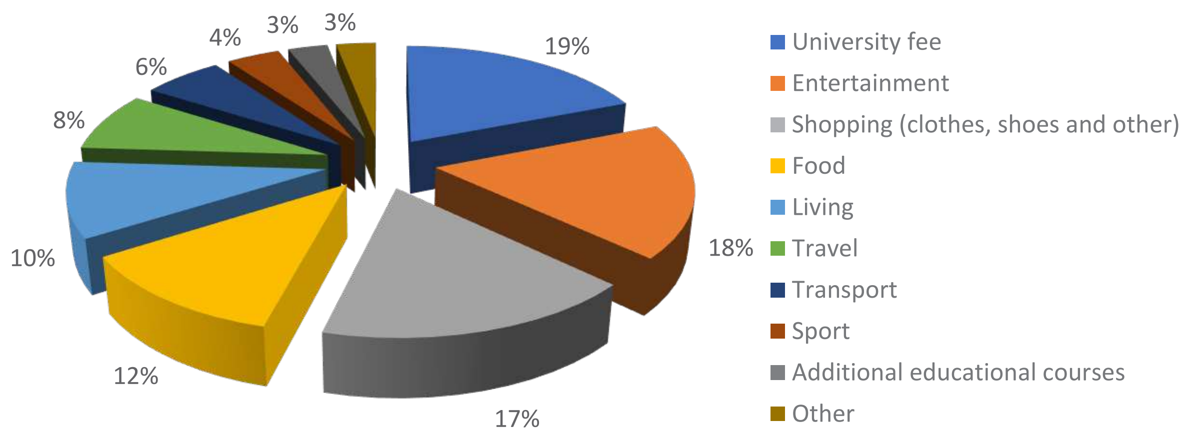

Figure 1. Grouping the respondents according to the expenditures

students (39%). Respondents also used financial books and magazines (12%).

Among the positive trends was that 81% of students were ready to raise their level of financial education.

The most exciting topics that students wanted to study within the framework of financial education (see Figure 2) were personal budget planning (16%), banking services (24%), and taxes (12%). Respondents were less interested in questions about the functioning of the systems of pension (6%) and insurance (4%). However, 3% of respondents were not interested in any of the topics presented.

According to the official statistics of financial literacy rates, 71% of the population took Denmark, Norway, and Sweden; 68% – of Canada and Israel, and The United Kingdom – 67%; for Georgia, or generally the Caucasus region, less than 20% are financially educated population (Wafula, 2022).

The answer to the first question shows that the country's economic situation and problems in the employment market are quite acute for students because they do not have the opportunity to get a job during studying. According to the presented article, 73% of interviewed respondents do not have jobs, and in the U.S., it was 5.7% among recent graduates by December 2021 (Statista.com). In 2021, Georgia's unemployment rate was 20.1% (Geostat.ge, 2022). However, in the United States, it was 5.1% in 2021 (BLS, 2021).

As the unemployment rate is higher in Georgia than in the U.S., it is understandable why this coefficient is also high in Georgia. That is why the primary source of income logically comes from parents (82%).

The answers to the third question further confirm the complexity of the social situation in the country when the most significant part of the total income directs to the needs of primary consumption, unlike the students of the U.K., they spent 65% of their income on grocery and household goods per week in 2021.

Georgian students also do not tend to have savings (65%), the low-income reason, and it is not a surprising fact. In addition, it is a common circumstance that the rest of the students are trying to use their savings to plan to cover their future study fees.

As a source of income does not exist, students are trying to be away from loans; students explained during the interviews that as their families already have loans, these students attempt to help their parents cover these obligations. They assumed that banks play a significant role in raising financial awareness. Georgian banks often offer customers to collect money proportionally when carrying out various operations, using the func-

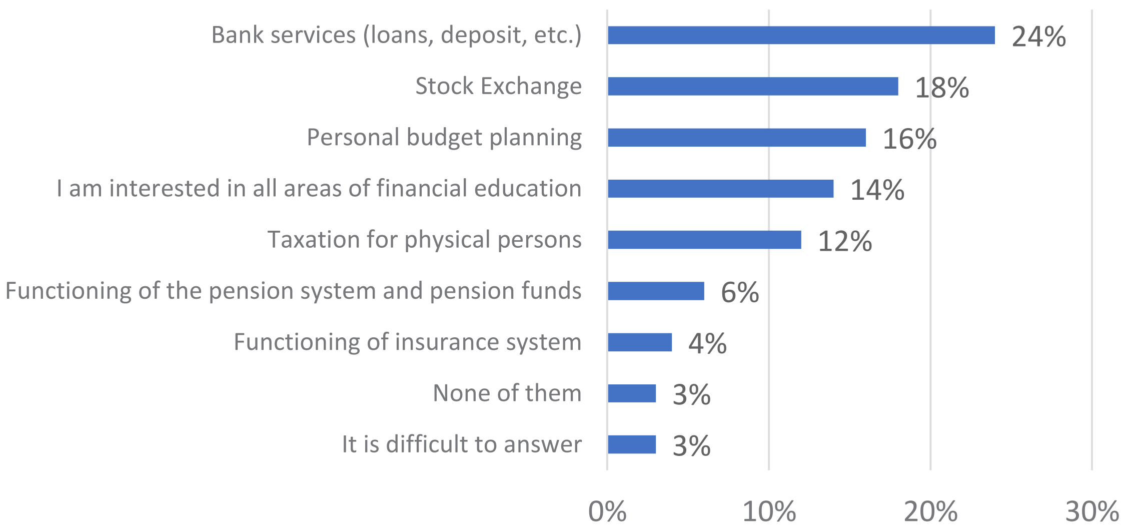

Figure 2. Grouping students according to the study of desired issues within financial education

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tion of a piggy bank, which may become an encouraging perspective for the formation of savings in the future.

High-interest rates can explain the negative attitude toward loans, adjusting according to existing incomes and living standards. On the one hand, bank regulations strictly control access to finance, and people with low incomes are less likely to get a loan. In contrast, mortgage loans are more popular than unsecured, and banks give this type of loan more quickly because their risks are less in this way.

Banking products are one of the most developed in Georgia, but there are statistically frequent cases when users need help understanding their content. This is a challenge for both a bank and its customers because the result has a negative feedback on solvency, and students need to realize how big problems they face at the time, for example, in the case of signing a loan agreement without reading it. It once again clarifies the need to raise financial literacy.

The answers to the next question confirm the lack of financial awareness, as students hardly understand the essence of assets. According to the current legislation of Georgia, the employer is responsible for paying taxes; accordingly, the employee remains unknown at what rates and how his salary is taxed. Accordingly, if a person is not an employer himself, he may not have a direct connection with the tax system throughout his life, which creates a big gap between people and financial awareness. In this case, business administration students are closer to financial literacy because they will study finance courses directly than those from other faculties.

The lack of ability to recognize financial pyramids directly exposes the savings of individuals to open risk. The ability to detect these schemes is of the utmost importance, which was proven again in 2022 when the population of Georgia was among the top 5 victims of the world's most viral online financial pyramid scheme.

An even more acute problem emerges when the answers to the question show that students do not perceive their lack of financial education. This indicates that they will only try to get a little information in the future.

In Georgia, the Internet coverage area is almost all over its territory. Therefore, if students see that they need to raise their financial awareness, they will familiarize themselves with Internet materials. In this context, it is worth noting that today distance education is quite widespread in the education system around the world (Tarasov et al., 2020). Though it is a pleasure that they are ready to be informed in this direction (81%), it is imaginable how much students are at risk. It is why they are interested in getting more information about personal budget planning (16%), banking services (24%), and taxes (12%).

These results gave the authors an accurate picture of how a lack of financial literacy impacts student (consumer) behavior and how they face financial challenges.

The study showed that the unhealthy development trajectory of the past has been leaving traces on the essential institution of the market economy, finance, for the fourth decade. Therefore, the system is in an institutional "trap." The way to overcome it is to transform the existing education system and remove the vicious Soviet Union mentality from the most effective education system. Especially when it is already so obvious how far the 70-year annexation of Georgia left behind the level of European development. It has a big challenge that should be quickly broken through the frameworks and correctly introduced principles of the market economy into the consciousness of modern Georgians.

CONCLUSION

This study aims to explore the impact of student financial literacy on consumer behavior in Georgia as a Post-Soviet country. The findings of interviewed 295 students from the Imereti region of Georgia indicate the following: If students did not have an average level of financial literacy, they did not yet understand specific areas of the financial sector (most students had no idea what investments were and could not distinguish signs of financial pyramids), as well as prudent loans. Students need more time to be ready to use certain types of financial services. The primary source of students' income comes from parents (82%). One in five respondents expressed a negative attitude toward loans. The most obscure and difficult-to-understand financial services for students were investment products (51%), loans (14%), microloans (17%), and deposits (18%). The easiest-to-understand financial services were bank cards. Nevertheless, the students themselves believed that their financial knowledge was exemplary. 32% of the surveyed respondents evaluated their level of financial education with 4 points from the five-point assessment, 21% – 5 points, 29% – 3 points, and 9% – 1-2 points. The Internet is the most popular source to improve financial knowledge for the third part of interviewed respondents-students of Georgia (39%). The fourth part of students who wanted to study within the framework of financial education chose the topic of banking services (24%). Furthermore, in 2022, the population of Georgia was among the top 5 victims of the world's most viral online financial pyramid scheme. During the research, its results and discussion revealed other directions of the future objects of research, for instance, what and how the government should act to avoid the lack of financial literacy at schools, universities, and in the country, in general.

AUTHOR CONTRIBUTIONS

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Data curation: Natia Surmanidze, Khatuna Tabagari, Maia Akhvlediani.
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Funding acquisition: Zurab Mushkudiani.
Investigation: Natia Surmanidze, Khatuna Tabagari.
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Validation: Natia Surmanidze, Khatuna Tabagari, Zurab Mushkudiani, Maia Akhvlediani.
Visualization: Natia Surmanidze, Khatuna Tabagari, Maia Akhvlediani.
Writing – original draft: Natia Surmanidze, Khatuna Tabagari, Maia Akhvlediani.
Writing – review & editing: Natia Surmanidze, Khatuna Tabagari.

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APPENDIX

Questionnaire

1. Do you have an income?
a) Do not have their income
b) Have a source of income

2. The main source of income is
a) Scholarships
b) Money from parents
c) Regular money

3. What do you spend most of your financial resources on?
a) University fees
b) Entertainment
c) Shopping (clothes, shoes and other)
d) Food
e) Living
e) Travel
f) Transport
g) Sports
h) Additional educational courses

4. Do you have savings?
a) Yes
b) No

5. What do you need the savings for?
a) Leisure
b) "At least" storage
c) Education

6. Do you plan your budget?
a) Yes
b) No

7. What do you plan your budget for?
a) Via mobile application
b) Other

8. What is your attitude to the loan?
a) Neutral
b) Positive
c) Negative

9. Do you plan to take a loan?
a) Do not plan to take a loan
b) Ready to take a loan
c) ready to take a loan

10. Do your household have loans?
a) Yes, we do
b) No, we do not

11. What kind of loans do your households have?
a) Mainly credit cards
b) Mortgages
c) Other

12. What is the most obscure and difficult to understand among financial services?
a) Investment products
b) Loans
c) Microloans
d) Deposits

13. What is the easiest to understand financial services?
a) Bank cards
b) Other

14. Which of the following belongs to investment assets?
a) Wrong answer
b) Difficult to answer
c) Right answer

15. Please, complete: the signs of the financial pyramid are …
a) Wrong answer
b) Right answer

16. Please, evaluate your level of financial education with 4 points from the five-point assessment

17. What is the most popular source of information for the financial education of university students?
a) Internet
b) Financial books and magazines
c) Other

18. Is the internet the most popular source of information for the financial education of university students?
a) Yes
b) No

19. Are you ready to raise the level of financial education?
a) Yes
b) No

20. What are the most interesting topics that students want to study within financial education?
a) Personal budget planning
b) Banking services.
c) Taxes

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21. What are the most interesting topics that students want to study within the framework of financial education?

a) It is difficult to answer
b) None of them
c) Functioning of insurance system
d) Functioning of the pension system and pension funds
e) Taxation for physical persons
f) I am interested in all areas of financial education
g) Personal budget planning
h) Stock Exchange
i) Bank services (loans, deposit, etc.).