Assets for children: Experiences in Asia and implications for China

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Abstract: A growing number of national and local governments view child development accounts (CDAs) as an innovative policy tool for social and economic development. This article reviews the global landscape of CDAs, presents three CDA policy cases from Asia, analyzes main themes and discusses potential implications for China.

Key words: CDAs; assets; social investment; savings; China

1. Introduction

Children are the future and it makes sense to invest in them as soon as they are born. Asset-based policies focusing on investing in children are emerging and attracting increasing attention across the globe.

There is no doubt that income is essential for people to survive on a daily basis. However, it is also necessary for individuals and families to accumulate assets to develop capacity over the long term (Sherraden, 1991). From the experience of a multi-site demonstration project of Individual Development Accounts in the United States, low-income households demonstrate that they can accumulate assets via saving over a period of time (Sherraden, Schreiner & Beverly, 2003). Owning an asset, as simple as a savings account, may have positive effects on individuals and families (Bynner & Paxton, 2001; Sherraden, 1991; Sherraden & ZOU, 2005; ZOU & Sherraden, 2009b). In the process of assets accumulation, people are thinking, their behaviors may change, and their surrounding environment may respond as well. Potential positive effects of assets may include economic stability, more optimistic outlook, growth of human capital and enhanced well-being for the next generation (Sherraden, 1991).

A growing number of local and national governments view child development accounts (CDAs) as a promising policy tool to help young citizens accumulate assets for development. The rationales can be summarized as following: First, CDAs could be an effective intervention to break the intergenerational cycle of poverty in low-income households and reduce inequality of the wealth distribution (Nam & HAN, 2009; Sherraden & ZOU, 2009). Second, developing savings at young ages could lead to improved perspectives on governments and financial institutions as they grow older. Third, children will be able to accumulate financial assets for human capital development as they begin adulthood at the age of 18 (Meyer, Zimmerman & Boshara, 2008).

2. The global landscape of CDAs

The idea of “asset building” was first articulated by Sherraden in *Assets and the Poor* (1991). An extensive

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program of demonstration and research followed. Inspired by results from the large “American Dream Demonstrations” (ADD), a number of city and country governments have implemented local or national government policies promoting CDAs.

In the Western world, the United Kingdom launched its nationwide Child Trust Fund (CTF) in April, 2005, targeting at all British children born after September, 2002. The goal of CTF is “to help children understand personal finance and the importance of saving for their future” (Child Trust Fund, 2009). In the CTF structure, every newborn in the UK automatically receives a £250 voucher as seed money in their account. Children from low-income families receive an additional £250. Money saved in the CTF account is not available until children reach the age of 18, when they have freedom to spend the money without restrictions.

In Canada, parents can open a savings account named the Registered Education Savings Plan (RESP) to save towards their children’s post-secondary education. All RESP subscribers can contribute to the account on behalf of their children (the beneficiary) and accumulate tax-free earnings. As an incentive, the government contributes 20% of the first CA$2,500 in annual contributions made to an RESP for children under the age of 18 via the Canada Education Savings Grant (CESG). In addition, the Canadian government offers a Canada Learning Bond (CLB) to assist low-income families to save through an RESP by offering an additional $500 CLB upon opening a RESP and saving $100 for each eligible year (Human Resources and Skills Development Canada, 2009).

In the United States, although there is no national policy on CDAs yet, several federal proposals have been introduced to both Congress and Senate such as the America Saving for Personal Investment, Retirement, Education (ASPIRE) Act, the Saver’s Bonus Act and US Savings Bond (New America Foundation, 2009). Currently, a seven-year initiative named Saving for Education, Entrepreneurship and Down-payment for Oklahoma Kids (SEED OK) is underway, aiming to “test and promote matched savings accounts at birth for all children in the state of Oklahoma” (Washington University, 2008).

The city government of Caguas, Puerto Rico, in partnership with Banco Popular, has newly launched its Baby Bonds Savings Accounts targeting at newborns who reside in the city. The city government offers parents a US$250 voucher to open a Baby Bonds Savings Accounts at Banco Popular and plans to supplement the account when the children complete the sixth grade. Savings in the account are restricted until children reach the age of 18, when they are allowed to use the funds to pursue higher or vocational education or start a small business (Marxuach, 2009).

In Africa, there are commercial savings products available to children and youth. For example, Barclays Bank has child savings accounts in Ghana (Ansong, 2009), Equity Bank and Co-operative Bank offer children’s savings accounts in Kenya (Meyer, Zimmerman & Boshara, 2008). A small-scale matched savings project named SUUBI (meaning “hope” in the local language) targets at orphaned children in Uganda. The goal of this program is to use CDAs as a financial intervention to achieve education and health outcomes, including lowering the risk of these children being infected with HIV (human immunodeficiency virus) (Ssewamala, Alicea, Bannon & Ismayilova, 2008).

In Asia, Singapore, Korea and Hong Kong, there are national/local policies encouraging children to save via CDAs. This paper discusses these three cases in greater details in the next section. In Taiwan, even though there is no universal CDA policy or program covering the entire population, a few city-level initiatives help older children and youth accumulate assets. The examples are the Taipei city government’s matched savings program Youth Development Account, Taipei county’s Sunshine Career Development Account program and Kao-Shiung city’s Hope Project for the Second Generation (CHENG, 2007). Many countries in Asia have commercial savings products tailored towards children. For example, in Mongolia, XacBank has a long-term savings account for children called Future Millionaire, which restricts children from withdrawing savings until they reach the age of 18 (XacBank, 2009). In Sri Lanka, the Hatton National Bank offers Singithi Kirikatiyo vouchers to newborn parents (Hatton National Bank, 2009). In China, a number of major commercial banks have savings products targeting at children, such as Bank of China and Oversea-Chinese Banking Corporation.

3. Three policy cases from Asia

Three countries in Asia have a policy or a set of policies highly relevant to the discussion of children's savings accounts in Mainland China. These are presented below and summarized in Table 1.

Table 1 Comparison of child development accounts policies and programs in Asia

	Baby Bonus Scheme	Edusave Scheme	Post-Secondary Education Account	Child Development Accounts	Children Savings Accounts for Education	Child Development Fund
Government	Singapore	Singapore	Singapore	Korea	City of Seoul	Hong Kong S.A.R.
Policy goal(s)	• Increase birth rate • Develop a nationwide environment that supports families	Broaden educational opportunities for every child	• Encourage completion of secondary education • Increase household in-vestment in education of children	• Reduce the growing "asset gap" • Increase birth rate • Reduce intergenerational poverty • Stimulate economic growth	• Help 10,000 low-income families with young children to save for their children's education	• Mobilize community to help disadvantaged children • Opportunities for personal development • Encourage "an asset-building habit" • "Financial … as well as nonfinancial assets"
Age range	Birth-6	6-16	7-20	Birth-18	Birth-6	10-16
Financial incentives	• One-time cash gifts: S$4,000 (US$2,823), 1st & 2nd children; S$6,000 (US$3,966), 3rd & 4th children • 1:1 government match for 2nd & subsequent children. Match limits: S$6,000 (US$4,235), 2nd child; S$12,000 (US$8470), 3rd or 4th; S$18,000 (US$12,706), subsequent children	S$4,000 ($US2,823) over ten school years	• Carryover of CDA funds • Progressive yearly "top-up" dependent upon family assets	Government match rate of 1:1. Match limit KW 30,000/month (US$26/month)	Government match rate of 1:1. Match limit KW30,000/month (US$26/month)	• Corporate donor match rate>1:1 • Government award of HK$3,000 at savings program completion
Withdrawal restrictions	No early withdrawal restrictions	No early withdrawal restrictions	No early withdrawal restrictions	Withdrawal prohibited until age 18	Matching funds lost in early withdrawal; savings and interest can be withdrawn early in full	Withdrawal prohibited over the two-year savings period
Usage restrictions	Childcare, early child-hood education, special education, and healthcare	• Education • Remaining balance transferred to PSEA at age 16 or start of secondary school, whichever is later	• Post-secondary educational expenses • Remaining balance transferred Central Provident Fund account at age 30	Post-secondary education, home purchase, and small business start-up	Education	Savings can be used in accordance with participants' personal development plans

3.1 Singapore

Singapore has by far the most comprehensive asset-based social policy covering the entire life cycle of its citizens. Children aged 0-20 are the beneficiaries of three unique national asset-based programs (Loke & Sherraden, 2009).

(1) Baby Bonus Scheme

Targeting at children of 0-6 years old, the Singapore government initiated the Baby Bonus Scheme in 2001 as part of a national effort to increase child birth rates and encourage couples to raise families successfully. As of 2008, the program has two components. The first component is a one-time cash gift of S$4,000 (US$2,823) from the government for the first and second children, and S$6,000 (US$3,966) each for the third and fourth children. The second component is the CDA available only to the second and subsequent children. The government matches the savings in the children's accounts at 1:1 ratio up to S$6,000 (US$3,966) for the second child, S$12,000 (US$7,932) each for the third and fourth children, and S$18,000 (US$ 12,706) each for the fifth and additional children (Singapore Ministry of Community Development, Youth and Sports, 2009). Money saved in the CDAs can be used for expenses in the areas of childcare, early childhood education, special education and children's healthcare. Once children attend elementary school, the remaining balance is automatically transferred to each child's Post-Secondary Education Accounts (PSEA).

(2) Edusave Scheme

Since 1993, all Singaporean school-aged children at age of 6-16 have been the beneficiaries of the government-funded Edusave Scheme. The goal of this program is to broaden every child's educational opportunities. The national government gives every child an interest-earning account in which they expect to receive S$4,000 (US$2,620) over ten years of schooling. Children can use the savings in their Edusave accounts for educational enhancement purposes and transfer the remaining balance in the account to the PSEA when they turn to the age of 16 or leave secondary school, whichever is later (Loke & Sherraden, 2009). The government contribution is supported by the earnings from the S$5.8 billion (US$3.3 billion) Edusave Endowment Fund.

(3) Post-Secondary Education Accounts (PSEA)

The Singaporean government launched the PSEA in 2008, with the goals of encouraging its citizens to complete post-secondary education and supporting household investment in child education (Singapore Ministry of Education, 2009). PSEAs are automatically opened for all eligible children between 7 and 20 years old. Children's family members can contribute to the PSEA before children turn to the age of 18. Savings in the accounts can be used only for post-secondary educational expenses. Unused savings in the accounts can be transferred to the account holder's Central Provident Fund (CPF) account when s/he turns to the age of 30.

3.2 Korea

The government of South Korea launched their CDA program nationwide in April 2007, as part of larger efforts to reduce the growing assets gap and boost birth rates. The goals of CDAs are to reduce intergenerational poverty and invest in young generations for national economic development. CDAs serve as a mechanism for the government to deliver financial education to underprivileged children, and for these children to accumulate assets for life goals. All children in the child welfare system at the age of 0-17 are eligible for CDAs. Each child has two accounts, a savings account into which they and their sponsors can deposit, and a fund account into which the government contribute the matching fund at 1:1 ratio. The maximum monthly deposit eligible for the match fund is US$30 (exchange rate: $1=1,000 Korean Won). Children and their sponsors can make additional monthly deposits up to $50, but these will not receive the government match. At the age of 18, children can withdraw the

CDA funds for education, housing, microenterprise start-up, medical costs or wedding expenses (Nam, Sherraden, ZOU, Lee & Kim, 2009). Early evaluation results indicate that CDAs may have promising outcomes (Nam & HAN, 2009). As of March 2009, 34,348 eligible children had participated in the CDA program and 90.3% of these children had saved in their accounts with a total accumulated savings of KW18.2 billion (US$18.2 million) and average total deposits per child of KW28,701 (US$ 28.7) (Korean Federation of Child Welfare, 2009).

Inspired by the Korean national government, the Seoul city government initiated the Hope Dream Project aiming to assist low-income families in the city of Seoul. A special program called Children Savings Accounts for Education is available to help 10,000 low-income families with young children at the age of 0-6 to save for their children's education. The maximum monthly deposit eligible for the government's 1:1 match is US$30. Savings can only be used for children's educational expenses. In the case of early withdrawal, participants can receive their savings and interest in full, but not the matching fund (Seoul Metropolitan Government, 2008).

3.3 Hong Kong

The Hong Kong government officially implemented the three-year Child Development Fund (CDF) initiative in November 2008. According to the Hong Kong's Secretary for Labor and Welfare, Mr. Matthew Cheung Kin-chung, the goal of CDF is to "capitalize on the strengths of various sectors in the community to help our disadvantaged children and to provide the participating children with more personal development opportunities, and … to encourage these children to develop an asset-building habit and to accumulate financial assets as well as nonfinancial assets" (Sherraden & ZOU, 2009). The beneficiaries are children from low-income families at the age of 10-16. More than 13,600 Hong Kong children are expected to benefit from this program. Children at the age of 14-16 are expected to account for 70% of this program. The monthly savings target for each participating child is HK$200 (US$26). This target applies to all participating children and their families during the two-year savings period. Corporate and/or private donors contribute to the matching fund. The matching rate is set at a minimum of 1:1. Children who complete the two-year savings period will be rewarded with HK$3,000 (US$387) in the third year. Children are allowed to spend the savings in accordance with their personal development plans (Government of the Hong Kong Special Administrative Region, 2009).

4. Analysis of CDA main themes

Although the three featured CDA policies and programs in Asia are unique in their own way, several consistent themes emerge regarding policy design, financial incentives and withdrawal restrictions.

4.1 Policy design

Even though not all CDA policies are exactly the same, two aspects of CDA policy design have laid a foundation to facilitate all participating children to succeed in asset building. One is the breadth of coverage, which in some cases extends to universal coverage. Currently, the Korean CDA programs mainly focus on institutionalized children such as orphans, children in foster care and disabled children. The Hong Kong CDF program focuses on children with disadvantaged economic and social backgrounds at the age of 10-16. Children outside this age range are not eligible for the program. Singapore's Baby Bonus Scheme has universal coverage that benefits all Singaporean children. Both Korean and Hong Kong governments have plans to scale up eligibility to include all citizens if the current programs are successful and well-received.

The second aspect is that CDAs are viewed as one of the mechanisms in governments' greater efforts to promote social development and expanding opportunities for children. All three governments put great emphasis on investing in children and have committed significant financial resources with this goal in mind.

4.2 Financial incentives

One distinctive difference between commercial child savings products and CDAs is the financial incentive. All three governments hope to maximize the benefits of their new policies and programs. Two governments out of three contribute a matching fund to eligible participating children at 1:1 ratio up to a certain amount. Singapore’s financial incentives include both cash deposits and 1:1 matching fund. Cash deposits are distributed upon the opening of a CDA account for the first and second children. The matching fund is available to every subsequent child excluding the first one. The Korean government offers a matching fund to participating children up to US$30 per month. While corporate and/or private donors provide the matching fund, the Hong Kong government offers cash rewards to children when they complete the two-year savings program. Financial incentives vary in forms and serve for different purposes. This seed fund serves as a foundation for future deposits and motivates parents and other family members to deposit regularly. The matching fund helps children increase the CDA value at a more rapid pace. The exit reward acknowledges children’s savings efforts and may encourage them to save in the future.

4.3 Withdrawal restriction

As discussed, CDAs are incentivized with government funds. These funds have particular purposes. Restrictions on withdrawal help discipline children and their parents, and protect savings from being spent on non-beneficial progress. In Singapore, children participating in three different savings schemes have opportunities to withdraw deposits at different stages for specified usages, such as daycare costs, preschool tuition and school-related activity fees. In Korea, children cannot withdraw the deposits in CDAs until they are 18 years old. Only at that time can they invest the savings on education, houses and small businesses. CDFs in Hong Kong discourage children from early withdrawal by withholding all matching funds contributed by a corporate or private donor.

5. Implications for Mainland China

5.1 Why should China care?

With the 256.9 million children, China has the world’s second largest population of children under the age of 15, second only to India (Population Reference Bureau, 2009). These children will grow up into adults in less than a decade and will interact with financial institutions sooner or later. Sooner would be better. The potential impact for CDAs in China is enormous and the nation could benefit both socially and economically.

In China, there is no nationwide asset-based policy in place supporting CDAs. But there are commercial savings accounts targeting at children from affluent households. For example, Bank of China has an account called Loving Finance Management Account for children at the age of 0-18; OCBC has a Junior Financiers Savings accounts for children from wealthy families; and the Bank of East Asia has a Smart Children Account for children under the age of 16. These commercial savings products for children are still at an emerging stage available only in large financial institutions. They could represent a financial saving base upon which to build a more comprehensive CDA policy.

5.2 What could the Chinese government do?

There is a role for government to play in helping children build financial assets and increase financial knowledge, and the Chinese central government becomes aware of this. It is noteworthy that “universal increase of household wealth" is one of the government's key directives for building a "harmonious socialist society" by 2020. In addition, the statement "Conditions will be created to enable more citizens to have property income" was announced in the 17th National Congress of the CPC in October 2007. These are significant policy goals towards asset-based social policy (Xinhua News Agency, 2006; 2007; ZOU & Sherraden, 2009a).

Regarding human capital, the government has put great emphasis on educating the next generation and making education accessible to everyone. Tuition has been removed for the required nine-year education (from the first grade to the ninth grade) for all children in both rural and urban areas (The Central People's Government of the People's Republic of China, 2006; Xinhua News Agency, 2008).

The government could consider using CDAs as a policy tool to help children accumulate savings through a centralized system to invest on post-secondary education, home purchase and entrepreneurial activities. In the process of saving, children could develop financial knowledge, learn money management skills and make financial plans for themselves. Once they enter adulthood, they would have some resources and be more likely to lead financially secure and productive lives.

If the CDAs are initiated by government, the delivery channels could be served as an institutionalized tracking system for every child (especially rural children), and other potential social benefits could reach children using the same system. Since CDAs are individual accounts, the government could make sure that the benefits go directly to the targeted children, instead of going through provincial and local governments, thus avoiding management burdens and potential misdirection of funds.

The current global economic crisis may offer a unique opportunity for the Chinese government to consider greater investments in children and the role of savings in families and communities.

6. Conclusion

The three cases discussed in the paper illustrate how local and national governments implement CDAs. With advances in information technology, governments and financial institutions could create joint efforts to cultivate a new generation of savers. This may be especially relevant for countries like China, which have commercial child savings products, but as yet, no national CDA policies in place.

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