

CAPIC

Cooperation for Affordable Personal Inclusive Credit

VP/2011/014

Lessons Learned

Réseau Financement Alternatif

Financed by the European Commission, DG Employment, Social Affairs and Equal Opportunities



SUMMARY

- Personal microcredit...Why?
- Personal microcredit...Reaching the public.
- Representative provisions – some figures.
- Who does what? Roles in a partnership.
- Why does an entity decide to become a partner?
- Context facilitation elements
- Weakness elements
- Some ongoing debates

Personal microcredit...Why?

Introduction

- Mrs & Mr Over are overindebted
- Mrs Rety is retired, owner of her apartment, with poor energy efficiency
- Mrs Single is a single parent with two teenagers (under 18 years old)
- Mrs Forlife leaves her companion, discretely, with not much of her personal things...
- Mrs & Mr Manikidz have 5 children, are unemployed and it is hard to make ends meet...

Personal microcredit...Why?

Common base



- Credit better designed to fit the needs of low-income people (with the ability to repay a credit)
- Amount is adjusted to low-income creditworthiness
- Interest rates are usually under the market average
- Indirect costs are usually close to zero or very low
- Usual minimum requirement = lack of access to an appropriate credit for a need considered as legitimate by the provider
- Geographical extent of the initiative

Personal microcredit...Why?

Differences



- Specific partnerships between public, private and social organisations
- Particular status
- Income level
- Particular need

Personal microcredit...Why?

Lessons Learned



- Clear and transparent criteria to access the credit proposed
- Appropriate credit
- Meaningful and fair

Personal microcredit... Reaching the public.

Common base



- Potential clients are identified by professionals in contact with the target public
 - ...which ensures direct check of the requirement conditions
 - ...which implies each professional has to know procedures well

Personal microcredit...Reaching the public.

Differences



- Identification can be made by:
 - One or more of the partners
 - A selection / network of professional services working in contact with the target





Personal microcredit...Reaching the public.

Lessons Learned







- Clear role for each partner
- Close communication between partners
- Communication strategy size and media adjusted to the credit capacity


Representative provisions – some key figures.

				
Minimum amount	€ 500	€ 300	€ 1.000	€ 230 is the most common (no minimum)
Maximum amount	€ 10.000	€ 3.000	€ 7.000	€ 800 is the average (no maximum)
Interest rate	4,5 % - 5 % APR	2,5% - 6% defined by each bank	2% - 3% in 2012	26.7 %





Representative provisions – some key figures.

				
Duration	6 – 48 months	12 – 36 months	Max 5 years	Usually > 12 months – higher amounts up to 2 years
Average amount	€ 4.000 – 32 months	€ 1.800	€ 4.500	€ 400 (circa)
Main purposes	<ul style="list-style-type: none"> • Mobility & work • Family grouping • Housing equipment & furniture 	<ul style="list-style-type: none"> • Mobility & work • Housing equipment and furniture • Other 	<ul style="list-style-type: none"> • Mobility & work • Training • Health and overindebtedness assistance 	<ul style="list-style-type: none"> • Purchase of electrical consumer goods • Furnishing new tenancies


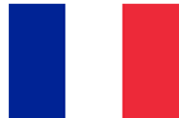


Who does what? Roles in a partnership.

				
1st contact with beneficiaries	Some social services – debt counsellors	Secours Catholique (SC) field workers - nationwide network of meeting points	Un Raggio di Luce (URdL): 4 outreach offices in 4 municipalities of Pistoia	Social housing associations Credit unions Social and community networks City council of Nottingham
Pre-contract activities	Crédal's paid team	Secours Catholique volunteers' team	UrdL volunteers' team	Credit union workers (volunteers / paid)
Credit decision-makers	Credit committee: voluntary base with stakeholders' representatives	Classic bank credit committee + SC workers	1 st filter by the social entities 2 nd filter by the bank committee	Credit union credit committee or credit union loan officers within limits


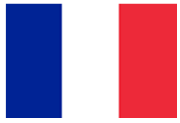


Who does what? Roles in a partnership.

				
Credit follow-ups	Crédal	Bank in collaboration with Secours Catholique	Bank transmission of arrears to social entities	Credit unions' standard debt collection procedures
Arrears collection	Crédal when amicable, otherwise lawyer	SC when amicable, otherwise by the bank but due to the cost, there is "in real life" no legal action		Standard debt collection procedures – technically possible to take to Court and enforce action – but rare since small sums. Arrears written off after one year of no payment


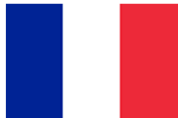


Who does what? Roles in a partnership.

				
Guarantee funds	Regional authorities	National public guarantee funds (50%) + specific guarantee funds by social entities	Partial guarantee by a private foundation + partial risk assumed by the banks. In some cases - partial public guarantee.	None except many CUs still retain Financial Inclusion Growth Fund capital for on-lending to low income groups.
Funds provision (for the credit)	Crédal	Banks	Banks (€ 2.000.000 from 7 banks)	CU capital and in some cases residual Financial Inclusion Growth Fund capital
Others costs	50% public authority 50% private foundation	Covered by social organisation funding (private and public)	Private foundation support	Credit union covers admin. costs. Some support from the Co-operative Electrical Third parties cover own costs.


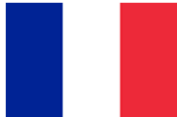


Who does what? Roles in a partnership.

				
Annual budget	€ 216.000 (2011)	Not available	Not available	No budget determined. However, long-term national sales goal = £1million to assure the scheme's viability.
Staff resources	Crédal, (2011: €181.000 3,5 FTE = 0,3 coordinator / 2,8 credit adviser / 0,2 arrears debt collections/ 0,2 administration	SC: In Paris microcredit coordination = part-time manager + 1 volunteer. In the local delegations coordination = 2 volunteers	URdL: 1 microfinance program manager, 1 director (part-time) and 2 volunteers (part-time) Pistoia Province: 30 hours a month Banks: 3 days/month	Credit union staff – part-time 1 Co-operative Electrical business manager spends 20% of time on the personal microcredit project

Who does what? Roles in a partnership.

				
Other costs	€ 35.000 (2011)			Marketing and promotion – unspecified
Number of interviews / year	Crédal, 2011: 2.000 first contacts - 832 interviews	Data not available; SC sees 1 million poor people each year; but only a few can repay a microcredit.	URdL: since March 2009, 550 first contacts - 666 interviews	Circa 1.000 nationally
Number of credit	Crédal, 2011: 516 credits	2.000 microcredits since the beginning; 400 in 2012	216	2.655 orders for electrical goods nationally (since 2010) – 643 in Nottingham

Who does what? Roles in a partnership.

				
Total credit amount / year	€ 2.122.000 (2011)	Total amount since the beginning: €3.633.900	€ 986.000	€ 941,059 (since 2010) nationally - € 268.217 in Nottingham
Default rate (and formula)	Crédal, 2011: calculation on credit provided from 2003 to 2008: 529 credits. 23 credits with unrecoverable amounts €28.199/€1.633.006 = 1,72% .	From the beginning 203 credits were declared unrecoverable (10,42%) for a total amount of €12.192 (6,94%)	7% (judicial proceedings and 6 months arrears – 37 contracts / €19.751)	5%

Why does an entity decide to become a partner?



Stakeholder	Reasons
Social organisation: not-for-profit Credit cooperative CREDAL	<ul style="list-style-type: none"> - Statutory mission to solve financial exclusion - Regional authority support: <ul style="list-style-type: none"> - feasibility study - pilot financial support for staff & other costs - guarantee funds for 100% of the credit default risk - Effective social needs - Effective social effects
Public authority Walloon region	<ul style="list-style-type: none"> - Overindebtedness prevention complementary measure to existing free debt counsellors' services; - Fight against financial and economical exclusion; - Improve the living conditions of vulnerable public
Private company Bank foundation Belfius foundation	Microfinance is one of the selected activities supported by the Foundation.

Why does an entity decide to become a partner?



Stakeholder	Reasons
Social organisation: not-for-profit Charity Secours Catholique	<ul style="list-style-type: none"> - Assess the difficulties to access credit for small business activities, and, consequently, for private purposes. - Credit has a different impact on people's situation than charity and it modifies the relationship between SC and "poor" people.
Public authority Guarantee funds Caisse des Dépôts (CdD)	<ul style="list-style-type: none"> - CdD manages the "Social Cohesion Fund (which delivers a state guarantee on 50 % of the loans) - Support microcredit is part of its public interest functions to fight financial exclusion. - Document and assess this type of initiatives.
Private company Credit providers representative Savings Bank Federation	<ul style="list-style-type: none"> - History and values: a long-term involvement in financial inclusion - Sustainability in the long-term and innovation

Why does an entity decide to become a partner?



Stakeholder	Reasons
Not-for-profit Social organisation Un Raggio di Luce Foundation	<ul style="list-style-type: none"> - Microfinance is one of the institutional activities of the foundation. - Fight poverty and social exclusion and to promote ethical finance. - Willingness to effectively promote financial inclusion of poor households - Promote self-empowerment of vulnerable people - Willingness to share specific knowledge and practices
Public authority Pistoia Provincia	<ul style="list-style-type: none"> - Support microcredit as a tool to maintain social cohesion for low-income people. - Grant microcredit to citizens to understand specific social situations.
Private company Bank Cassa di Risparmio de Pistoia	<ul style="list-style-type: none"> - Corporate social responsibility dimension - Mature expertise in microfinance

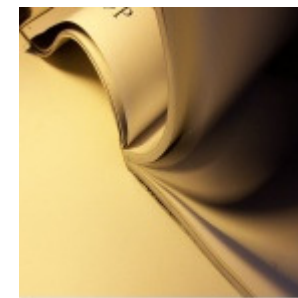
Why does an entity decide to become a partner?



Stakeholder	Reasons
Social organisation Credit provider Nottingham Credit Union	<ul style="list-style-type: none"> - Savings and credits are the core activities of a CU. - The project fits with the credit unions mission and commitment to serve low-income and financially excluded people - The project builds links with other partners
Nottingham City Council	<ul style="list-style-type: none"> - Fits with the financial inclusion strategy for the City.
Private company Commercial partner Coop Electrical	<ul style="list-style-type: none"> - Fits with the mission of the Co-operative to support the credit union sector and to support services for low-income communities. - Corporate social responsibility of the Co-operative. - Also a commercial venture: the project needs to make £1million sales per annum to achieve long-term commercial viability.

Context facilitation elements:

Legal context



- Credit activities can be implemented by cooperatives and not-for-profit associations (BE);
- Personal microcredit in consumer credit regulation (BE)
- National public Social Cohesion fund guarantees microfinance activities by banks (FR);
- Specific regulation for microfinance to be developed (IT)
- Knowledge and compliance with consumer credit legislation for DEBTOR-CREDITOR-SUPPLIER (D-C-S) relationships (UK).
- Sharing knowledge and information about consumer credit compliance throughout the credit union sector (UK).

Context facilitation elements:

Political context



- Overindebtedness is a political concern for more than 20 years (BE)
- No cultural taboo to use credit to fight/prevent overindebtedness and social exclusion (BE)
- Financial support at Regional level via subsidies and guarantee funds (BE)
- Awareness about the lack of access to appropriate credit by vulnerable people and financial exclusion issues: studies and observatories (FR);

Context facilitation elements:

Institutional context



- Human & significant financial support by a Bank Foundation (BE);
- Large range of saving & cooperative banks with effective CSR actions (FR/IT);
- Volunteer network to do beneficiaries' credit follow-up (FR);
- A national public body (FR) finances an important impact study on Personal microcredit (results expected in 2013);
- Widespread understanding of financial inclusion strategy (UK)
- National political concern about the high cost and detriment of sub-prime credit to low-income borrowers (UK)
- National political concern of overindebtedness in low-income communities (UK)

Context facilitation elements:

Others



- Dialogue between the various stakeholders brings an added value on the project design and implementation: co-construction is stronger than an isolated initiative (FR, IT, UK);
- Partnership between the 3 types of entities is a major added value for this particular activity (BE, FR, IT, UK)
- CAPIC project has opened up credit unions to managing debtor-creditor-supplier relationships under the consumer credit act. This is a major step forward and will assist credit unions to offer credit for other supplier products (e.g. Offering credit for travel passes and for car loans).

Weakness elements:



- Lack of banks involved in the process (BE);
- No strategic involvement of banks: when in for communication reasons or to please policy-makers, their involvement is not strong enough to help the development of the programme.
- Public image of associations dealing with the beneficiaries: if too known to deal with poor people can hinder microcredit activity.
- UK CAPIC project taken time to clarify the legal position to offer credit union credits for supplier goods.
- Constrained public finances which leads to use microcredit as an alternative to public benefits... serious issue for the future of microcredit (first signs of such a bias seen in FR).

Ongoing debates:



- Interest rate level
- How to implement constructive arrears collection?
- What should be the place of microcredit between market and social action?

Thank you for your attention !

Project summary

January 2012 to June 2013

Réseau Financement Alternatif

Financed by the European Commission, DG Employment, Social Affairs and Equal Opportunities

