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Microfinance and ASSET BUILDING in EUROPE

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"Microfinance Europe" is the bi-annual EMN magazine. It provides clear insights into European microfinance programmes, with a specific focus on policy measures that could support the development of the sector. Its in-depth articles offer an up-to-date commentary on what is happening in the different European countries, how policies and practices are implemented and evolving and what recommendations can be made by practitioners, researchers and academics to promote microfinance and microenterprise development in the European Union.

EMN gathers articles from different sources. The content of these articles is under the sole responsibility of their authors. They do not necessarily reflect the views of EMN.

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MICROFINANCE Europe

Introduction by Hedwig Siewertsen – Triodos Facet

For this December issue the editorial board has selected the topic 'asset building'. I have strongly supported this topic choice since again a letter from a pension fund arrived on my doorstep. My husband is the type of flexible employee that Europe needs in these times of economic crisis: he works for organizations and companies as and when they need him. This means that he has had many different employers over the past 10 years. Each of these employers had to contribute to pension funds and work inability insurances for him. If you then examine these letters to see what will remain of all these contributions, you start to understand why pension funds and insurance companies are housed in marble buildings; and also why a growing number of self-employed people and flexible workforce is vulnerable to (financial) misfortune.

With this story I want to illustrate the gap that exists between the large and growing group of self-employed and flexible workers and the type of asset building products offered in Europe. If you work for the same employer during your entire life it is possible to buy a house, set money aside for schooling of your children and build up a pension. The moving and flexible workforce contributes to this system but they hardly benefit from it. Piotr Korynski from the Microfinance Centre in Poland and Raydan Salomon and Jean Claude Rodriguez-Ferrera of the Movement of Self Financing Communities (SFC) show us how this lack of investments in housing and schooling reduces the chances for future income and social welfare improvements of this group. Olivier Jérusalmy, Bernard Bayot and Annika Cayrol of the 'Réseau Financement Alternatif' share this conclusion and are surprised that large scale programs promoting asset building (e.g. savings made by low-income people) do not exist today in Europe.

There are certainly alternatives. Sherraden and Zou discuss innovative asset building products such as youth and newborns saving accounts and saving products that are linked to remittances and insurance and pension schemes. Daniel Jae-Won Lee of the Levi-Strauss Foundation (LSF) presents the results of the LSF sponsored Indigo Asset Building Programme. Under this programme, European based organizations have developed asset building strategies for microentrepreneurs. Emmanuel Landais, Adie's Managing Director elaborates on one of these projects: a tailor made insurance product for microentrepreneurs who are supported through Adie. And Tibor Beres from Autonomia in Hungary shares his experience with the adjustment of the USA developed Individual Development Account concept to the Hungarian context.

I conclude from these various articles that in Europe, we lack incentives for asset building. The tax advantages for saving and self-managed pension schemes are non-existent or limited. On top of that, low income people do not receive government support if they own assets (means tested welfare systems) and they cannot open appealing saving accounts with their small amounts of savings. These are certainly disincentives for them to build assets. If it is now being recognized that these barriers are increasing the vulnerability of low income people, I think it is time that the European governments encourage the development of asset building products that are not only paid by all but also made available to all.

Hedwig Siewertsen
Triodos Facet

The Debate

For the present article, EMN asked the representatives of two well-known organisations active in the field of microfinance to answer questions regarding the relationship between Asset Building and microfinance in the European context

Raydan Salomon and Jean Claude Rodriguez-Ferrera are leaders of the Movement of Self Financing Communities (SFC), which is a member of EMN. They are also social entrepreneurs of Ashoka. The SFC model has been replicated in more than 10 countries in Europe, Latin America and Africa. The SFCs have received several international awards, including the «Good Practices Microfinance Europe Award» awarded by EMN and the Giordano Dell'Amore Foundation and the «World Creative Entrepreneur Award» awarded by the Junior Chamber International.

According to Rodriguez-Ferrera, **SFCs** are based on the idea that poor people can save through the community and invest their money - lending to their own community - with high social and economic profitability. This shows, among other things, that the poor want to and can save, and that they are able to invest their money efficiently.

Piotr Korynski specializes in international economic development. He advises the Microfinance Centre on issues related to access to finance, asset building, microfinance policies and research.

Microfinance Centre (MFC) is a Poland-based network of microfinance institutions (MFIs) in Europe and Asia. Since 1997, MFC has played the role of catalyst in bridging the market gap in the provision of financial services and financial education to low-income people through supporting the capacity of MFIs and promoting inclusive finance.

The Debate

What is your definition of asset building?

Jean- Claude Rodriguez-Ferrera: Perhaps the organization that has best defined it is the CFED - The Corporation for Enterprise Development - true engines of the concept of Asset Building: “Engaging in long-term saving and investment behaviour as a Means for Increasing Economic Independence”. We fully agree that micro-savings and micro-equity are two key strategies in the struggle for economic independence and thus for getting out of poverty. The philosophy behind Asset Building is to ensure that poor people are given the resources they need to realize their potential, themselves.

Piotr Korynski: Asset building is a broad concept. Assets can be physical, such as a house, land or enterprise, or financial (savings, retirement accounts, access to affordable credit, etc.) or intangible, such as marketable skills and education. These different assets can provide income stability in times of hardship and support upward social and economic mobility in the longer term. Lack of assets substantially limits people’s opportunities and capabilities to succeed socially and economically. Asset poverty is as important, if not more important, than income poverty which in and of itself is not a precise measure of one’s economic position.

The process of asset building has been defined in various ways. For us, asset building includes public policies and private sector efforts to enable persons with limited financial resources to accumulate and preserve productive assets, in particular savings, investments, a home, education and training, a small business but also precautionary liquidity that shields people from borrowing in times of emergency. These policies are based on concepts of savings, investment and asset accumulation rather than on the concepts of income, spending, and consumption that direct most of the current policies.

Why is your organization involved in asset building?

JC RF: The SFC model, based on the fact that poor people save through the community and invest their money - lending to their own community - with high social and economic profitability, shows, among other things, that the poor want to and can save, and that they are able to invest their money efficiently. For us, a further response, though efficient, sustainable and massive, would be the transformation of informal mechanisms, so that they can offer better accessibility, affordability and safety conditions. Our SFC model (self-financing communities), which certainly has shown its usefulness and adaptability to local communities in different parts of the world, is a response which goes in this direction.

For this reason, with modesty, we are committed to creating a global movement which will, rather than criminalize and punish informal practices, be aimed at transforming these practices, giving them presence and transparency, and transforming them into mechanisms of true education and financial promotion.

P.K: For MFC asset building is a part of its core activities. Our network believes that access to credit is one of the important asset building strategies. **Contrary to the recent views that shift the debate in microfinance towards savings, we think that individuals and in particular enterprises need access to financial resources for growth.** Savings are important and needed, and we strongly encourage them. But if this comes at the expense of current consumption or loss of business opportunities, it may not be the optimal strategy. It is unreasonable to expect that people will start and grow businesses only out of their personal savings and retained earnings of their firms. Both savings and credit are needed.

Of course the terms and conditions of credit play a crucial role. Very expensive credit on complicated and unclear terms may be very damaging. Therefore we are heavily involved in financial education and consumer protection to ensure that borrowers can access credit on reasonable terms and that the lenders behave in a responsible way.

How do you link microfinance and asset building?

JC RF: The microcredit concept quickly evolved into microfinance, which includes other financial products in addition to microcredit. Among them, perhaps the most important is savings. Many of us have been arguing for a long time that to fight against poverty, savings are far more powerful than access to credit. Savings are a very powerful tool for dealing with emergencies, for planning your life, for investing in family education, housing or a business. Savings also have an important psychological component of security and improved self-esteem.

Something so obvious has been partly obviated by the microfinance movement. Even though the discussion was about finances in general and not just microcredit, the latter has been the one that has received increased attention, particularly in Europe.

P.K: As I already mentioned, for us, access to credit is one of the asset building strategies. In fact, you can say that access to credit is a subset of the asset building agenda, and we do not see a contradiction between the two. In this day and age it is hard to imagine promotion of asset acquisition without credit, for example, home ownership or enterprise growth is facilitated by access to appropriate finance.

But in addition to this general focus on safe and responsible access to credit, we also promote specific aspects of asset building. I would like to mention two such recent efforts: micro-savings and in-line messaging. Using methods that include reminders, we encourage people on low income to save systematically to build up buffer savings for unexpected events or towards a specific goal such as skills training or starting business activities. These strategies lower the financial stress for individuals, create liquid resources that can be used flexibly and change people's attitudes towards savings. In-line messaging, short targeted financial training which occurs while people wait in line to receive their money, encourages remittance recipients to open a bank account and save up a portion of their money. Of course there are many other options that we are considering for the future.

What do you think are the main needs of microentrepreneurs in Europe around asset building?

JC RF: Several studies have shown that the majority of people in poverty typically save. People can and want to save. The need exists, but the services intended to encourage such savings are conspicuously absent.

In the book "The Portfolio of the Poor", professors Morduch and Rutherford present their research on people in extreme poverty, in which it is shown that the highest percentage of respondents save about a third of their household income. This is not a surprise, and whoever knows the financial practices of the poor also knows that saving even tiny amounts of money, is a necessary strategy to ensure survival. People with serious economic and financial shortcomings save by absolute necessity, because if they fail to do so, the risks of not being able to survive are very high.

In our daily work with poor communities, we realised that when there are no mechanisms to capture these savings in a formal way, poor families are forced to use a series of informal mechanisms that allow them to keep that money more or less secure, for a specified period.

Informal mechanisms that people in Europe and in all countries of the world use to keep these savings - under the mattress, threads, ... - are usually of poor quality as they tend to be insecure and are unable to produce any return that helps to preserve their value over time. This means that for whatever time these people can "save" that money, it is at risk of loss and devaluation, so that these people end up being poorer at the end of that period.

P.K: The needs of microentrepreneurs are typically the same everywhere and I do not think that they differ in Europe. There are at least two important needs: the initial equity or risk capital to start the business and the growth capital to expand business operations. Asset building strategies such as matched savings for enterprise start-up or incentive-based grants could be a solution to the first need.

Also, microfinance institutions could launch save-and-learn loans, products that would encourage new entrepreneurs to save up for the new start-up as they prepare their business plans. Such savings could be matched by a loan. Access to affordable capital is of course the solution to the second need of entrepreneurs to acquire productive assets.

How could asset building be an interesting tool to fight social exclusion in Europe?

JC RF: The concept of Asset Building highlights again the importance of savings, as they are possibly the most important asset a poor person can have. Obviously, when we talk about savings, we are not just talking about the savings in the form of monetary liquidity, as there are many forms of savings; housing, capital goods, etc ... all these assets are clearly those that allow an exit from poverty and a path to achieve full social and economic citizenship.

P.K: Asset building may be a powerful tool for fighting social exclusion. In fact, social exclusion happens in part because our tax systems and policies favour asset building for the middle class through incentives to acquire assets and save. Low-income people should be afforded the same incentives. Assets have significant positive non-economic effects on children, families, and neighbourhoods. In general, there is growing evidence that assets are associated with greater household stability, higher educational attainment, local civic involvement and increased levels of health and satisfaction among adults. The presence of assets is correlated with a decline in marriage dissolution and reduced chances of passing poverty from generation to generation.

What are the main challenges of asset building in the European context?

JC RF: The reality in our countries shows very little experience of promoting savings among low-income people. This is due to the fact, among other things, that most people and organisations assume that the poor have no ability to save. This is an inaccurate and uncertain assumption.

As far as banking systems are concerned, we observe that in Europe, for example, if you save 100 euros in your bank checking account, you may by the end of the year have 95 euros at most, since the payment of the account maintenance, commissions, and other expenses, subtracts from your savings. For a bank, to keep an account with so little capital is not profitable. This actually discourages savings and keeps people with limited resources away from banks and vice versa.

While the middle class looks for their savings to be safe and profitable, the poor look for something that, not to be named differently, we might call “proper distance”. By this we refer to the fact that the poor need to save, but must do so with collection instruments that allow them to keep the money at the correct distance. The money should be far enough away not to yield to the pressure of spending it too soon, but close enough to be able to use it in any real emergency situation.

In addition to the “distance”, the use of savings schemes is linked to the use of time, which is a consideration for poor people when choosing their instruments. The middle class saves and manages to hold these funds “saved” for much longer periods. The poor look for availability so that access the resource is easy as possible when these funds are needed. If a person, especially a woman, must go through a complex process in order to withdraw or deposit, he or she will probably seek out different, more informal mechanisms, as opposed to formal banks. These mechanisms can include threads, periodic and rigid savings with loans in shifts, hidden money and deposit slips through mothers or girlfriends.

We believe that even with all the advances and technological advantages, there will be many years, perhaps too many, before formal banking can provide a truly massive response to the issue of promotion and collection of popular savings. Mobile banking and ATM placement in popular areas are good responses, but cannot solve the issue entirely.

Another issue to be pursued in the future is the investment of those savings, because investment is yet another tool far from the financial literacy of poor people. Efficiently investing the savings of poor communities with good social and economic returns ensures at the same time the incentive to save. This is a great challenge that we face and that will probably be discussed in the coming years.

P.K: I think the main challenge is to understand the role that assets play in people’s lives: how they influence access to economic and social opportunities, how they create inter-generational linkages in wealth building and how they impact the behaviours of people. We need to change our view of poverty measures and consider asset poverty, not just income, as an important indicator of poverty. One of the key obstacles is the current complicated welfare system, which is very traditional. This system focuses on cash transfers for current consumption without any incentives for asset building. In fact, most welfare systems discourage people from saving and accumulating assets which would allow for income stability. We need to develop practical programmes to demonstrate the effectiveness of asset building strategies. These programmes could encourage changes in public policies in the EU.

Bridging

Michael Sherraden, Benjamin E. Youngdahl Professor of Social Development & Director, Center for Social Development
Li Zou, International Director, Center for Social Development - Washington University in St. Louis

The discussion of asset inequality and asset-based policy emerged in the United States in the 1990s (Oliver & Shapiro 1995; Sherraden, 1991), stimulating a body of theory, policy innovation, and research. For simplicity and clarity, the term "asset building" refers here to accumulating financial and tangible resources. These resources, in turn, can be invested for social and economic development—such as education, homeownership, and business capitalization.

Why assets? Income (as a proxy for consumption) has been used as the standard measure of well-being in social policy. To be sure, income and consumption are essential, but income and assets have distinctive properties, and very likely distinctive effects. Development of families and communities occurs through asset accumulation and investment (Sherraden, 1988, 1991). Asset-based policy typically focuses on building financial and tangible wealth aimed at both social protections and social and economic development.

Dimensions of poverty and its distribution are different when approached from an assets perspective. Asset poverty (low stocks of economic resources) may leave people vulnerable to unexpected economic events and unable to take advantage of opportunities offered by a prosperous society. Many studies (Haveman & Wolff, 2005; Oliver & Shapiro, 1995; Shapiro, 2004) have found that the rate of asset poverty is high, and disadvantaged families often lack resources to invest in education, experiences, home, business, and other key life goals.

Because asset holding is inevitably intertwined with financial services, it is common to bridge asset building with microfinance, which is defined as "the practice of providing small scale financial services to the world's poor, mainly loans and savings and increasingly other products like insurance and money transfer" (Platteau & Siewertsen, 2009).

Asset-Based Innovations

The role of assets in the well-being and development of families and communities has expanded over the past two decades. An innovation tool, Individual Development Accounts (IDAs), has in some respects come to symbolize inclusive asset building. As originally proposed, IDAs would include everyone, provide greater support for the poor, begin as early as birth, and be used for key development and social protection goals across the lifespan such as education, home ownership, business capitalization, and retirement security in later life (Sherraden, 1991). As with most proposals for the poor, IDAs have not been adopted as a large strategy, but instead have been implemented as short-term "demonstration" programmes targeted toward the poor. As a result of this extended demonstration period, IDA innovations and research have been widespread, but inclusive asset building has not been implemented on a large scale.

The concepts of universal and inclusive asset building, along with IDA research findings, have generated discussions and influenced policy, financial services, and product development in many parts of the world, including Australia, Canada, China (mainland, Hong Kong, Taiwan), Indonesia, Korea, Mexico, Puerto Rico, Singapore, Uganda, and the United Kingdom. In all of these cases, asset building is a partnership among public, NGO, and/or private sectors. Below are a few examples of innovative asset building.

In Australia, ANZ Bank in partnership with the Brotherhood of St. Laurence has initiated matched saving pilot projects for Community Partnership Savings Accounts since 2002. In 2010, these are being expanded to reach more native peoples in Australia (Macklin, 2010).

In Mainland China, asset-based projects and policy discussion have drawn attention from the central government and mainstream media since the concept of asset building was introduced in 2004. The Center for Social Development at Washington University in St. Louis (CSD) and the Chinese Academy of Social Sciences have jointly conducted research on an innovative asset-building project in Hutubi county's Xinjiang Uygur Autonomous Region, which documents how participants turn "dead" savings in their rural social retirement insurance accounts into "live" productive investments for individual and family development (Zou & Sherraden, 2009).

In Hong Kong, the government launched the Child Development Fund (CDF) in 2006, aiming to assist low-income children aged 10-16 to develop a habit of accumulating financial assets. Over 13,600 children are expected to benefit from this programme (Sherraden & Zou, 2010).

In Taiwan, over six city and county governments have implemented their own asset-based policies and programmes since the Taipei City Government pioneered Taipei Family Development Accounts (TFDAs) in 2000. The success of TFDA was possible with the strong endorsement from the then Mayor MA Ying-Jeou, now President of Taiwan (Cheng, 2007).

In Israel, Isaac Herzog, Minister of Welfare and Social Services, announced a nationwide Child Development Account (CDA) policy initiative in March 2010. This CDA policy initiative is expected to connect savings with the Child Benefit (cash payment) programme, providing enhanced opportunities to all Israeli children to accumulate wealth from birth into adulthood.

In South Korea, the Korean national government implemented a nationwide Child Development Account (CDA) programme targeting institutionalized children in 2007. The Seoul Metropolitan Government has launched the Seoul Hope-Plus Savings Accounts programme for low-income adults and a CDA programme for low-income children. The Hope-Plus Account Programme has won a United Nations Public Service Award in 2010. Seoul Mayor Oh Se-Hoon has adopted savings as a key theme in his "Seoul Welfare Model" and is rapidly expanding CDAs as well as savings for adults (Nam, Sherraden, Zou, Lee, & Kim, 2010).

In Singapore, every citizen benefits from a comprehensive set of asset-based policy schemes, such as the Baby Bonus Scheme, the Edusave scheme, Post-Secondary Education Accounts (PSEA), and the Central Provident Fund (CPF) (Loke & Sherraden, 2008).

In the United Kingdom, the Blair government launched the Child Trust Fund (CTF) (Loke & Sherraden, 2008), a CDA providing all newborns in the UK with a savings account at birth. The Blair government also launched the Saving Gateway scheme, modeled on IDAs, to assist low-income people in building savings and wealth. Unfortunately, the new coalition government in the UK, focused on budget cutting, stopped support for the CTF and Saving Gateway in 2010. This raises the obvious challenges of sustainability.

MICROFINANCE: AN EVOLVING FIELD

In recent years, the field of microfinance has demonstrated increased maturity, efficiency, and sustainability. Microfinance institutions are branching out from their emphasis on credit to introduce a whole range of financial products, from savings to remittances to insurance. At the same time that commercial banks have begun tapping into the microfinance market, a number of microfinance institutions have evolved into formal, regulated banking institutions. Below are a few examples of innovations in microfinance.

The Grameen Pension Scheme links microloans to a mandatory pension product for low-income clients. A number of features—such as small monthly payments, a high interest rate on savings, and the ability to break the contract if needed—make this Grameen Bank scheme popular with low-income clients. Clients often see the money they accumulate in the pension product as additional savings to be used to achieve life goals, such as paying for a child's education and wedding (Dowla & Barua, 2006).

Asociación Dominicana para el Desarrollo de la Mujer (ADOPEM), a microfinance institution in the Dominican Republic and a member of the Women's World Banking network (WWB), offers innovative products for low-income clients (particularly women) in the Dominican Republic that link remittances to asset-building investments such as houses, school fees, and small business. ADOPEM won the best microfinance award from Inter-American Development Bank (IDB) for its provision of innovative products to underserved populations (IDB, 2010).

Challenges Ahead

Looking back at the evolution of microfinance, we can see that the field has grown from a narrowly defined focus on credit-centered service to encompass a much broader set of financial services. Both asset building and microfinance share the common goal of assisting low-income individuals, households, and communities to have economic resources and participate more effectively in the economy.

Of course, there are large challenges:

Inclusion of the entire population, the rich and the poor

The greatest challenge is designing and extending policies and financial services to include the entire population, especially the poor who are traditionally left out. If inclusive and integrated asset building is useful as a policy framework, policymakers may want to explore building options that support asset building in a manner that is more universal, lifelong, flexible, progressive, and adequate. These options could include: (1) emphasizing inclusion; (2) taking a lifelong, flexible approach that adjusts to changes over an individual's life course; (3) providing incentives for building assets to low-income families and minimizing disincentives such as asset limits in means-tested public-assistance programs; (4) building capacity to support adequate levels of accumulation in a meaningful way (Sherraden, 2005).

Improved financial services through advanced technology

The challenge of providing financial services to the poor is compounded by the expense of providing physical access to banking services. Technological advances in information and communication services have the potential to significantly increase access to financial services for a portion of the world's population that is currently underserved, especially those living in rural and remote areas. Internet banking, cell phone banking, automated teller machines (ATMs), point-of-sale (POS) terminals, and biometric identification technologies are either in use or being tested in both developed and developing countries. Such technologies lower the delivery cost, and some newer technologies are revolutionizing financial service delivery systems. For example, India's ICICI Bank implemented online banking services, ATMs, and cell phone-based "mobile" banking services to reduce the number of transactions at branches (Ivatury, 2006). South Africa's WIZZIT Company, a division of the South African Bank of Athens, has implemented mobile phone banking services specifically for the 16 million low-income customers allowing customers to make payments, transfer money, purchase airtime for mobile phones, and purchase electricity using a cell phone (World Resources Institute, 2007).

Increased engagement of governments worldwide

The role of governments is a topic of debate. As illustrated in examples presented in this article, the asset-building field has seen different governments make tremendous progress on assisting the rich and the poor in the acquisition of assets through incentive-based savings programs. Government-based credit schemes are not ideal, with problems ranging from low repayment rates to outright graft, and rigid regulations that discourage financial innovation (CGAP, 2006a). However, it is important for all governments to create and cultivate a policy environment conducive to the promotion of financial inclusion and asset building.

Concluding thoughts

The complexity of poor people's financial lives suggests that credit alone may not be sufficient to promote long-term well-being. Rather, a range of financial services is needed. Saving, often called "the forgotten half of microfinance" (Robinson, 2001), has been receiving increasing attention and recognition over the past decade and has always been the primary emphasis in asset building. As savings-led microfinance continues to evolve as an alternative to credit-led microfinance, we are confident that asset building and microfinance will continue to intersect in the effort of providing superior financial services to the poor and assisting them in accumulating financial resources.

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Creating and Asset B

Daniel Lee, Executive Director, Levi Strauss Foundation

Daniel Jae-Won Lee is the Executive Director of the **Levi Strauss Foundation**. He joined Levi Strauss & Company and the Levi Strauss Foundation in 2003 as Community Affairs Manager for the Asia Pacific Division in Singapore, where he managed and implemented corporate social responsibility programs, employee volunteerism and grant making in three global giving areas – HIV/AIDS, worker rights and asset building.

Established in 1952, the **Levi Strauss Foundation** is an independent private foundation that is grounded in pioneering legacy and enduring values of Levi Strauss & Co.: originality, integrity, empathy and courage. The Foundation advances the human rights and well-being of underserved people touched by its business by taking courageous risks, supporting innovative community partnerships, and promoting the practice of good corporate citizenship.

What is Asset Building?

Asset building is based on the belief that low-income working people, when given the right incentives and support, will save for long-term goals. Building assets has profound effects on individuals and families and their ability to break the poverty cycle: it enables them to plan for the future, avoid risky behaviour, and weather unexpected financial storms. Ultimately, it can make home ownership and entrepreneurial job creation a genuine possibility. Assets can reframe the way families think about their futures and make substantial differences in the long-term outcomes of vulnerable children. As such, asset building represents a long-term, innovative anti-poverty strategy that pushes the limits on what is possible.

The emphasis in asset building is on savings as opposed to relying solely on credit and loans as a strategy to help people out of poverty. It draws on a continuum of opportunities including access to mainstream financial services, to savings, to investment opportunities to asset preservation measures. Asset building incorporates the idea of assets, as opposed to only income, as crucial to sustainable and long-lasting community development and economic security.

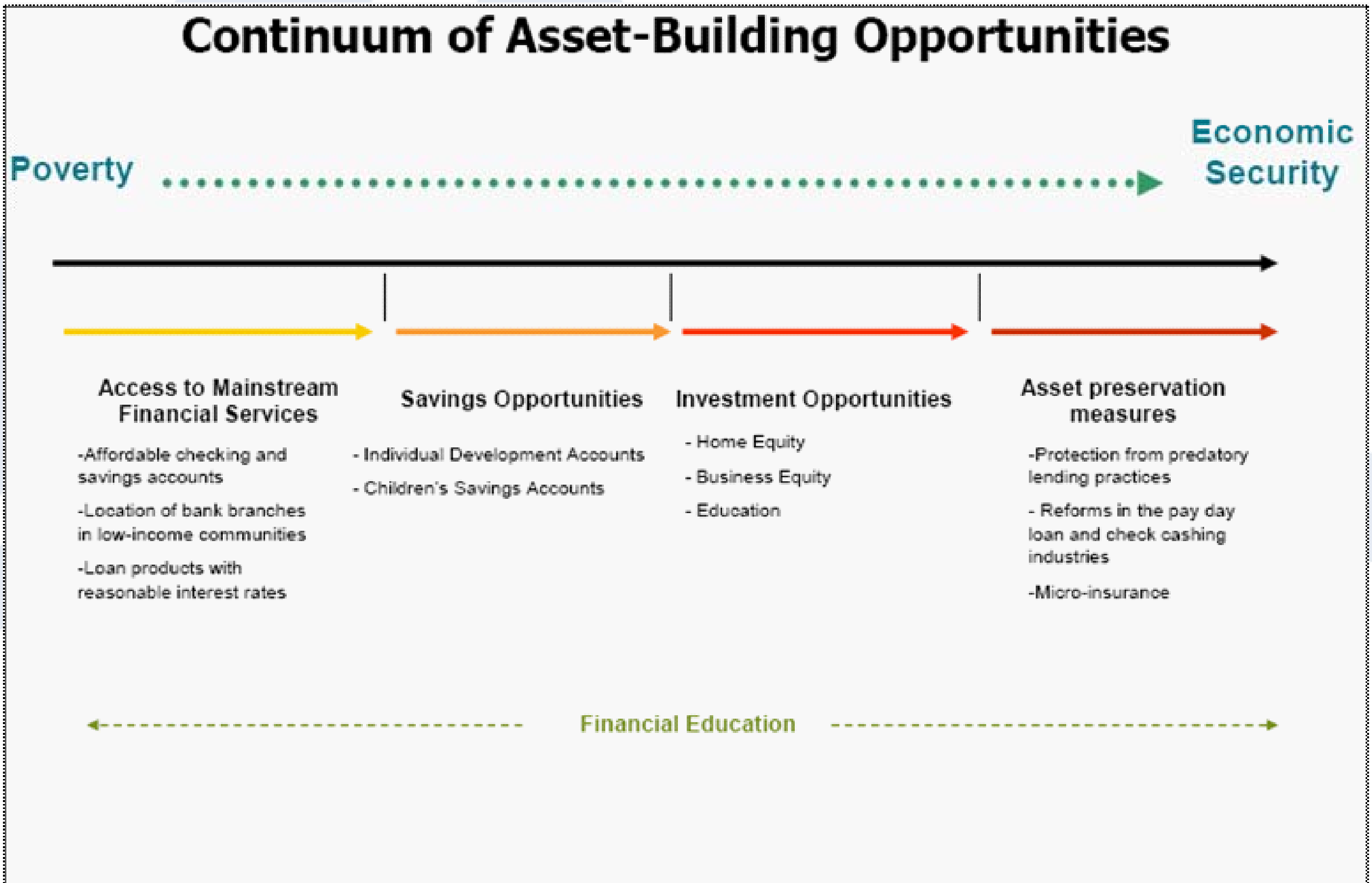
Background of Levi Strauss Foundation and Asset Building in Europe

The Levi Strauss Foundation's (LSF) commitment to the asset building movement began in the U.S. with its support of the American Dream Demonstration in 1997. This pioneering pilot programme – the first-ever large-scale asset building demonstration project – matched savings accounts for working poor people devoted to purchasing a home, paying for college or skills training or starting a small business. The results of the American Dream Demonstration powerfully showed that low-income people, when given the right incentives and support, can and do save.

Recognizing the potential of asset building to transform the lives of socially and financially excluded people around the world, the LSF has been a driving force in cultivating the asset building field in Europe. It is the only corporate foundation funding asset building model development, policy advocacy and direct services that enable low-income people to accumulate and protect assets across Europe.

Between 2004 and 2008, LSF supported 25 organizations across Europe to introduce, test and promote asset building as a new development model. This first phase of the development programme was designed to plant the seeds for the field of asset building in Europe, primarily partnering with emerging microfinance and micro-enterprise organizations.

Over the five-year period, targeted LSF grants allowed partners to adopt, adapt and invent new asset building strategies in their distinctive geographic areas of operation—with an emphasis on targeting underserved migrant



From *Building Assets While Building Communities*, by Heather McCulloch for the Walter and Elise Haas Fund 2006

youth and women. Grant investments helped local partners research and develop new tools for microfinance, financial management, savings and small enterprise-building; create access to affordable finance; protect assets against predatory lenders; build awareness of asset building as a new approach to poverty elimination and social integration; and design advocacy to influence policy that can help bring asset building programmes into the mainstream.

About the Indigo Network

LSF's asset building work in Europe led to the development of an informal regional network of around 10 practitioners that accumulated invaluable knowledge and experience through their pilot programmes. These groups expressed interest in learning and expanding the field of asset building. In 2005, the Levi Strauss Foundation responded to this need by establishing the Indigo Network. Its purpose is to facilitate communication, build and strengthen relationships and stimulate the scaling of successful practices.

Supported by the LSF with an investment of over $2.2 million to date, the aim of the Network is to catalyze systemic social change by creating opportunities for social innovators to connect, challenge and learn from each other at face-to-face events and virtually via the Indigo Network website. Practitioners share outreach approaches, diagnostic tools to assess the efficacy of microfinance loan funds, methods to build capacity among socially marginalized groups, and training strategies for enterprise support. Indigo also fosters new approaches to envisioning assets such as alternative currencies and mapping of unacknowledged and neglected assets in communities. These exchanges equip LSF to provide more effective and targeted grant support to help build this emerging field.

The International Association for Community Development (IACD) facilitates the Indigo Network by providing support to help make the Indigo Network an active community of practice. This support includes disseminating and sharing practices, maintaining and updating the Indigo website and convening and coordinating meetings.

Indigo Project Profiles

To date, through the Indigo Asset Building Programme, the Levi Strauss Foundation has supported initiatives in nine countries throughout Europe. Below are examples of on-the-ground asset building programs developed through the Indigo Network.

Micro-Insurance in France : L'Association pour le Droit à l'Initiative Économique (Adie)

Created in 1989, Association pour le Droit À l'Initiative Économique (Adie) is a non-profit that helps people outside the labour market and the banking system to create their own businesses and employment through microcredit. Adie helps individuals who are excluded from the labour market to create their own profitable job, and regain independence and dignity. Micro-entrepreneurs often face difficulties accessing insurance: disproportionate cost, appropriateness of the service offer to meet key requirements and characteristics ("excess insurance"), psychological preoccupations, complexity of policies, limited access for certain population groups or certain occupations being just a few examples.

In response to the need for better access to insurance for certain groups, Adie, in partnership with Axa and Macif, launched its own micro-insurance facility at the end of 2007, specifically for microcredit clients. Subscriptions can run for a maximum of three years, after which the micro-entrepreneurs purchase commercial insurance. This micro-insurance product has been designed for a specific customer base that is disempowered and has a real need for simplified contracts and tariffs. The product is designed to allow customers to insure, or better insure, their business. Thus better equipping clients to overcome unexpected difficulties. Improving client reliability also allows Adie to better control its own risks.

Development of Self-Financed Communities in Spain : Associació Comunidades

Associació Comunidades is a non-profit organization, which began in Spain to help local communities set-up community banks (CAFs or SFCs, 'self-managed financial communities') for groups with limited financial means and access to financial services, especially Spain's growing immigrant population.

Associació guides a CAF with the set-up process through knowledge transfers, provides all necessary training during a CAF's formative stage, and attends monthly meetings until a CAF is self-managing. A CAF is essentially a fund set-up by its members, generally ranging in size between 10 and 30 members, with each member buying shares of the CAF. Members are both owners and customers. ACAF provides its members with a social network, the chance to learn about potential employment opportunities through this network, along with more traditional financial services, namely access to credit to buy anything from a new washing machine to their children's textbooks, and insurance. By providing fast and simple access to credit, a CAF helps to encourage savings and furthers its members' financial education.

Benefits are distributed to the members depending on the number of shares a member owns. While each CAF sets its own rules of operations and coordinates its own activities, Associació Comunidades conducts regulatory audits of the CAFs. ACAF helps communities meet indispensable economic needs and provides essential financial services that are otherwise unattainable to its members. Associació Comunidades' methodology has become recognized as a best practice in the region of Catalonia.

IndigoKredit: The Learning Account Loan

Germany : KIZ (Communication and Innovation Centre) GmbH

KIZ (Communication and Innovation Centre) GmbH, was established in 1997 to encourage entrepreneurialism and to support people to start up their own business. In the past ten years, KIZ has assisted over 10,000 entrepreneurs and their businesses through consulting, training, and coaching, and has become one of Germany's leading personal and professional development consultancies. Its body of work includes building up structures for microfinance, supporting self-employment, supporting regional networks, helping people to recognize and identify their own potential and excellence, and showing how individuals - through aspiration building - can earn money through entrepreneurship and self-employment.

KIZ also provides microcredit help to existing entrepreneurs or start-ups to finance their business when banks have rejected their loan application. KIZ looks to help groups that are often neglected by mainstream banks, such as migrant women. KIZ worked in partnership with the German Microfinance Institute and the city of Offenbach to develop Indigo-Kredit - a project to help foreign-born women in Germany start their own business. The project provided its participants with management training, business planning, funding through micro-lending, and technical support. As part of the training process, participants were required to complete an online course for which they would collect points that would reflect their accumulated knowledge and progress. Depending on the number of points a participant collected, she would then be granted a credit of up to €5,000 over two years. Levi Strauss Foundation also supported KIZ's "entrepreneurial license" project which was aimed at young people leaving school without qualifications. Through coaching sessions, participants underwent training to assess their entrepreneurial skills to help avoid future unemployment or build their upward mobility.

The PostBank, United Kingdom : New Economic Foundation (nef)

Founded in 1986, New Economic Foundation (nef) is an independent think-tank that combines rigorous analysis and policy debate with on-the-ground practical solutions to address pressing social issues. It works to create and measure progress toward increased well-being and economic and social justice. Nef believes that appropriate and affordable financial services should be available to all—from an individual looking to open a bank account, to an enterprise looking for a loan, to a small business looking for equity investment. By increasing access to financial services, for example, individuals are provided with the opportunity to improve their standard of living by realizing savings enabled by being fully banked. Nef received funding from the Levi Strauss Foundation for a project to link together for the first time two parallel strands of nef's work – financial exclusion and the value of Post Offices to local communities. The aim of the project was in line with the Levi Strauss Foundation's definition of asset building – as a process to help individuals and communities to build, own or have access to financial, social, human or physical resources, which enable them to exert control over their lives, and participate in the economy and society in a meaningful way.

The project resulted in a research report, Keeping Britain Posted: How post office banking could save the network and combat financial exclusion (2008). This illustrated how UK Post Offices have the potential to enable individuals and communities to build up assets that will both empower and financially include them in the economy and society. The report was an innovative contribution to the debate on how financially excluded individuals and communities can become more included by utilizing existing infrastructure and available resources. The report illuminated many issues and made a number of connections between the potential for financial inclusion in the UK and the value offered by Post Offices to local communities.

Looking Ahead

The Levi Strauss Foundation is committed to investing in systemic change in Europe's asset building field. In 2011, LSF embraces the following approaches to build the global asset building field:

- Drive asset building programme innovations to scale and sustainability;
- Advance asset-based policy to promote savings and protect assets among low-income working people;
- Influence the asset building field to pay greater attention to disparities on the basis of race, ethnicity and immigration; and
- Support emerging international asset building networks.

Additionally, in concert with the Indigo Network (an EMN Asset Building Working Group), LSF plans to pilot and test savings models in five to seven countries. The Foundation is also working with the Runnymede Trust, based in the U.K., to develop a new European network on ethnicity, migration and asset building policies. This network will carry out research and hold national workshops in each of seven target countries – as well as connect with U.S.-based advocates addressing issues of racial wealth gaps.

Bernard Bayot, Managing Director – Master in Law – 15 years experience as a lawyer, 9 years expertise in social and ethical finance, financial exclusion, consumer credit, alternative financial providers, over-indebtedness, socially responsible investments and corporate social responsibility;

Olivier Jérusalmy, Coordinator and Senior Research Analyst – Master of Economics, Master of Political Science - 10 years expertise in a cooperative not-for-profit organisation, 2 years as Managing director of the Observatory of Credit and Over-indebtedness, 3 years expertise in financial inclusion and microcredit;

Annika Cayrol, Senior Research Analyst – Master of International Trade and Hispanic Studies, Master in Environmental Management – 3 years expertise in ethical finance, microcredit and socially responsible investment.

Réseau Financement Alternatif (RFA or Alternative Financing Network) is a citizens' movement for financial responsibility and solidarity that started in 1987 in French-speaking Belgium. Today, the RFA carries out public awareness campaigns urging a more responsible use of money and develops tools to encourage its members to invest responsibly and government to take more action to promote ethical and social finance.

Overview of Asset Building in Europe

Asset building is a concept that came to Europe from the United States where it has developed during the last twenty years. The idea is for low-income earners or poor people to engage in savings and investment schemes to achieve more economic independence rather than only receiving income support from social public authorities (Robinson Josephine Bias, 2008). Asset building is therefore considered a good way to complement income support policies. This article will summarise the situation in Europe, point out policy priorities and stress how these recommendations are both in line with the Open Method of Coordination (OMC) implemented by the European Commission and innovative in their potential execution.

Poor people and savings

A lack of savings is a major cause and consequence of financial insecurity which makes low-income households extremely vulnerable, when faced in particular with life's difficulties, but also with any purchase that exceeds the household's monthly resources. For them, the slightest "accident" can have disproportionate effects and serious consequences, not only economically and financially but also psychologically.

Research shows that the cost of banking services and the belief that having money in a savings account can disqualify people from the right to certain welfare benefits are among low-income households' main obstacles to regular savings (CFA, 1997). Additionally, people may think that saving is not worthwhile, since only small amounts can be put aside; people may also succumb to the potential social pressure within certain circles when other members of the circle are in need.

Other recent studies reveal that levels of savings are not directly linked to the level of income; in certain circumstances, low-income people save proportionally more than those with higher incomes (Schreiner, M./M. Sherraden, 2007). Such results underline the importance of other factors in household savings habits, such as professional status, family culture (urban/rural) and level of education.

In a survey published in 2010 by Crédoc, four reasons for having a savings account are most frequently mentioned and ranked in the same order by lower-income households. They are respectively: saving for 'a rainy day'; to help family members; for the interests paid on this type of account; and for future purchases (Jauneau,P./C.Olm, 2010). In the same study, half of the interviewed people mention an income that is too low as an obstacle to saving, while just under a third of them do not think they need a savings account. The second reason is undoubtedly partly related to the first one.

Based on this data, low-income people have many reasons to save, and moreover are perfectly aware of these reasons. However, urgent expenditure needs often remain the priority.

Decline in saving habits, increase in financial commitments of European households

Saving trends in Europe vary considerably from one country to another. Between 1997 and 2008, the savings rates reported in Eurostat have increased in some cases (AT, DE, SE, SI), while they are relatively flat in other countries (BE, FR, IE, ES, CZ, DK) and there is a clear downward trend in others (EE, IT, LV, HU, NL, PL, FI, SK, PT, RO, LI, GR). The most frequent trend is thus a decreasing savings rate. However, it is not possible, solely on the basis of this data, to draw many other conclusions. The existence of extremely different saving situations illustrates the important role of the national context, which includes a hodgepodge of cultural (savings plans for children), political (tax incentives for savers) and economic aspects (ease of use and cost of savings products available on the market).Simultaneously, households' financial commitments as percentage of disposable income has generally increased in Europe between 2000 and 2007 (credit represents more than 90% of financial commitments). The weight of credit is growing throughout Europe (with the notable exception of Germany), albeit to different extents, as the maturity of credit markets varies considerably between countries with different traditions (Anglo-Saxon countries, Nordic countries, Mediterranean countries) and with different histories.

The general trend towards an increase in household indebtedness conceals changes in the savings volumes at a European level. Savings habits are part of a complex decision-making process, which, although clearly involving economic and financial elements, is not limited to these aspects.

Scope of the "non-saving" phenomenon, potential target group

To apprehend the reality of the lack of savings among some households, the starting point is the Statistics on Income and Living Conditions (SILC) data available at EU level. Two of the various "material deprivation" indicators illustrate situations without savings: first, the inability to deal with unexpected financial expenses and, secondly, the inability to afford a week's annual holiday away from home.

When cross-tabulating these two "material deprivation" indicators with the at-risk-of-poverty rate, there are significant margins. On average, in EU25, the inability to deal with unforeseen expenses (34%) is twice as high as the at-risk-of-poverty rate (16%) this suggests that a significant proportion of European households with income above the poverty threshold does not have any savings.

If saving is or could become a reality for a small proportion of the households with an income below the poverty threshold, then a significant proportion of European citizens could be reached by a savings incentives programme.

Current experimentation

Savings can be an effective means of improving social, financial and also psychological situations of low-income groups. Different innovative projects are exploring how to eliminate the numerous obstacles to savings such households are facing.

Large-scale programmes promoting micro-savings (savings made by low-income or poor people) do not exist today in Europe. As a matter of fact, the most popular tool to promote and stimulate saving behaviors is a tax relief on interests paid on a savings account. However, this mechanism is not very effective for low income households, due to the low interest rates proposed on such accounts as well as the weak savings capacity of low-income households. These two elements have to be understood as particular barriers for low-income people; in the general population, such saving accounts are very popular[1].

The lack of policy measures targeted to promote microsavings led to the recent implementation of pilot experiments in two European countries: the United-Kingdom and Hungary. The results in the UK are encouraging, and they open doors for transposing the project to other EU countries.

Four more national experiments have started or are about to start; they will test a mix of new, innovative and complementary pedagogical tools: financial education and behavioral learning (incentives to save).

In Poland, an experimental project will test three types of incentives schemes to increase savings of social security beneficiaries – one-to-one match, lottery and reminders.

In Belgium, a project will provide two complementary incentives to low-income people: a financial incentive trough a matched savings programme and financial education training to remove the beneficiaries' resistance towards regular savings.

In Hungary, the programme to be implemented aims to promote savings among poor and historically underprivileged groups, such as the Roma.

In the UK, the pilot project will compare three different types of intervention: self-help, face-to-face intervention and financial incentives.

Policy priorities

Poverty is a phenomenon which cannot be measured solely in monetary terms, since it comprises numerous other dimensions such as level of education, social capital and level of employment. As early as 1975 the Council of Europe's definition[2] referred to the multiple aspects of poverty and its consequences.

To combat poverty, a first priority is to encourage projects which aim to test systems that facilitate regular savings by poor people. The existence of a modest but significant amount of savings reduces some of the particularly harmful consequences of poverty, namely:

- exposure to increased financial insecurity when facing life's uncertainties, with the risk that the situation will worsen without adequate resources: over-indebtedness, losing one's home, insufficient access to healthcare...
- the lack of means to finance studies/higher education;
- the inability to make a purchase without relying on credit and having access only to the least attractive loans on the market, which often exacerbates situations because these loans carry unfavourable terms and conditions;
- the inability to build up savings which are indispensable for people considering becoming home owners.

A second priority concerns education and, in particular, the financial education of adults (including young adults). It shows that savings are indeed an option that can improve the quality of life for people who are currently convinced that savings do not concern them.

1 In France (Livret A : tax relief for deposit under € 13.500 and in Belgium (tax relief on the generated income up to the limit of € 1.730 interest a year (in 2009). Beyond this limit, 15% of tax is due). France and Belgium are two countries with a relativeley high rate of saving in the EU.

2 '… people are said to be living in poverty if their income and resources are so inadequate as to preclude them from having a standard of living considered acceptable in the society in which they live. Because of their poverty they may experience multiple disadvantages through unemployment, low income, poor housing, inadequate health care and barriers to lifelong learning, culture, sport and recreation. They are often excluded and marginalised from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted'.

In tune with the times

On the basis of the Commission Communication «Working together, working better: A new framework for the Open Coordination of Social Protection and Inclusion Policies in the European Union», the European Council adopted in March 2006 a new framework for the social protection and social inclusion process. One of the three main objectives is to promote «social cohesion, [..] equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies».
Indeed, financial exclusion and its interrelation with social exclusion has been one of the main priorities of research and mutual learning of European projects financed by the European Commission[3] and there now exists a solid documentary base on this subject.

One of the dimensions of financial exclusion is the link between over-indebtedness with life's misfortunes (loss of employment, sickness, separation, etc.). Although, the underlying element is the occurrence of an unforeseen event, the determining element is above all the lack of adequate financial means to overcome this difficult period without mishap. Poverty and over-indebtedness are indeed closely linked.

Consequently, when an unforeseen event which requires the mobilisation of financial resources occurs, the household might have to rely on risky strategies if it has no savings; this can aggravate the situation: an unsecured loan from family or relations, or expensive loans from lenders charging high interest rates, with substantial financial penalties.

Therefore, savings can be a tool to prevent over-indebtedness and, consequently, to prevent financial or social exclusion. It is thus essential to test systems that can reduce this risk of exposure among poor households and reduce inequalities, by enabling them to build up savings. This would also make it easier to contain the gap which is developing between poor and other households and to solidify equal opportunities by promoting savings projects dedicated to financing the higher education of children, buying a home, etc. These examples can play a decisive role to break the inter-generational transmission of poverty[4].

Conclusion

Policy-makers should encourage socially innovative projects that promote savings among low-income households for them to achieve more equal opportunities. The asset-building pilot-projects described earlier are testing active social inclusion policies and, if proven successful, could be experimented on a wider scale.

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3 "Mutual Learning on Financial Inclusion" 2008-2009 " "Financial services provision and prevention of financial exclusion" 2007–2008 RFA has coordinated these two EU projects.

4 "...The results suggest that inequality of opportunities remains a serious problem and that people from disadvantaged families still face considerable obstacles in realizing their full potential and achieving better living standards for themselves and their children. The EU-SILC module provides strong evidence that coming from a low-educational background represents a major obstacle to achieving a high level of education. » p .58 in Child poverty and Well-Being in the EU: Current status and way forward - European Commission - Directorate-General for Employment, Social Affairs and Equal Opportunities - Unit E.2 - Manuscript completed in January 2008 - http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2008/child_poverty_en.pdf

Micro-insurance: A new way to cover the risk

Emmanuel Landais, Adie's Managing Director, with the editorial collaboration of Danièle Defert, volunteer at Adie.

After graduating from EDHEC in 1989, Emmanuel Landais began his career with various experiences in the commercial sector. He then joined the associations' sector, first as project manager for a charity working with foreigners, then for Adie in 1992. With Adie, he was counsellor before taking a position as head of development. Since 1996, he has been the Managing Director as well as manager of several structures created by Adie, including Adie International.

Adie has developed micro-insurance products tailored to the needs of the entrepreneurs who wish to start their own business, to whom Adie gives microcredit. Adie believes that it is essential for someone who creates his or her own job to protect his or herself against life's unexpected events.

The principle of starting a business through the provision of microcredit is now well identified. This system, aimed at those excluded from the banking system, unemployed or beneficiaries of social benefits, began some twenty years ago, when Adie transposed the experiment conducted in Bangladesh through the GrameenBank by Muhammad Yunus, whose Nobel Peace Prize crowned this initiative in 2006, into France. By adapting this model, Maria Nowak, President and Founder of Adie, leaned on three key ideas that today appear as premonitory:

- Microenterprise meets the needs of the new economy and the changes in society

The disintegration of the industrial fabric left an entire segment of the population on the floor. Since the 80's, unemployment has continued to rise, bringing in its wake a trail of casual workers and working poor. For many people, creating their own job appears to be the only way to get back into the economy. Add to that the rise of services and the development of the Internet that allow remote working.

- The demography and mentality changes favour self-employment

The population is aging and increasingly requires services at home. There exists now a whole pool of new outreach activities. The rise of individualism leads to a stronger commitment to the grip on one's professional life, especially since a majority of the population now understands that it will not be able to have a lifelong wage-earning employment. For many, entrepreneurship is seen as a significant route to insertion. In 2006, 40% of new microentrepreneurs were previously unemployed.

- In order for anyone wishing to become an entrepreneur to realise their goal, we must facilitate access to capital for the poor. This is what microcredit does.

People temporarily or permanently excluded from the labour market have no access to bank loans. Yet they need a small capital base to get started. Moreover, Adie made the assumption that just because people are poor or with low education does not mean they are "without resources". It is often sufficient to give them the chance to reveal their hidden talents.

This act of faith in the individual and his potential has not waned since Adie's inception in 1988. That is proved by the 80,000 microenterprises it has funded, whose success rate is aligned with the national figures (68% survival rate after 2 years).

From the identification of needs to the development of an appropriate offer

Since the beginning, Adie has always sought to change its product offer for microentrepreneurs to better meet their expectations. It quickly set up free coaching to allow each new entrepreneur to properly prepare his/her project and put it back on track in the best conditions. This is why it attaches a group training offer or an individual coaching offer to each microcredit to enable them to acquire the basics that they are sometimes lacking in terms of management, accounting, legal questions or commercial development. If this aspect is important to secure the path of the client in his/her new activity, it can also contribute to a better reimbursement of the repayments related to the microcredit.

By Emmanuel Landais – Adie

OF MICROENTREPRENEURS

Similarly, it seems pretty clear that clients who start a new activity must be protected from hazards that may arise. We have to keep in mind that microentrepreneurs financed by Adie come from the "bottom of the pyramid", that they are mostly unemployed or former beneficiaries of social benefits. More than others, they must be eligible for full and efficient insurance coverage so as not to jeopardize their new work. If something unfortunate happens (theft, fire, water damage, a temporary cessation of activities due to illness, etc.), they rarely have the financial capacity to cope, and it is their whole project that collapses, with potentially dramatic consequences in terms of debt. Indirectly, micro-insurance is also involved in risk control, which is a key aspect in the microcredit client management.

The observations made by Adie through its practice show that the small size of an enterprise does not preclude the risk of accidents or disasters. It is also necessary to convince the new entrepreneurs of this reality and to offer them affordable solutions to address those risks. A 2006 survey by the Chair of Entrepreneurship of ESSEC (French Business School) among 600 entrepreneurs who had benefited from a microcredit from Adie revealed that 40% of recent microentrepreneurs did not deem it useful to take out insurance and 20% of them admitted not having the means to afford it.

The idea of a new offer to add to the range of Adie's services therefore seemed quite natural. Since 2005, contacts have been established with insurance companies to develop a range of micro-insurance products to be attached to the grant of a business microcredit. Two important insurance companies, Axa and Macif, quickly got involved in this project, wishing to participate in a solidarity-based approach. This led to the development of insurance products tailored to the problems of very small businesses, which constitute the bulk of Adie's clientele.

Trust logic vs. statistical logic

We also had to convince our partners to put their trust in this particular clientele. Many prejudices still persist with regard to this population, and in the eyes of insurance professionals, it may be less reliable than their traditional clientele. Adie realised over time that there really were prejudices, despite the fact that customers who ask for a microcredit have repayment rates rather better than the average of borrowers. The delinquency rate is only 8%, which is very low. This is mainly due to the way business creation files are analysed and the relationship established between loan officers and customers. The basis of the relationship between customers and loan officers is trust. It was therefore important for Adie to have its insurance partners understand that the nature and quality of this relationship should prevail over misconceptions, and even over assumptions built on a purely statistical logic.

The micro-insurance offer consists of four contracts: professional multi-risk, household multi-risk, car multi-risk, and decennial insurance, primarily related to the building trade. These products were first subjected to an experiment in four regions and then gradually extended to the entire territory. In total, almost 1,500 contracts have been signed so far.

A professional insurance two to three times less expensive than conventional insurance

Micro-insurance contracts offered are in the form of packages combining different insurances, with coverage limits. These products are different from the ones offered by the market; they cover limited risks at different levels, especially adapted to the situation of microentrepreneurs. The formulas are simple, the options limited, the idea being to offer a product simple and inexpensive. Overall, the cost to policyholders is less than 300 euros per year, which is two to three times cheaper than conventional insurance.

And the facts prove that the additional financial effort is not in vain: during the last two years, one customer out of eight who took out a micro-insurance through Adie submitted a claim to their insurance company! An impact study conducted in 2008 showed that 98% of clients were satisfied with this new service offered. The service set up is a quality service; files are managed in a very effective way, with advance payments if needed. Adie personnel, employees and volunteers mobilise themselves to help customers submit full claims, the precondition for a rapid indemnification. Most often, this occurs within one month after the accident, except when sending an expert delays the process somewhat.

The micro-insurance system allows the first three years of activity to be covered. After this period, customers will switch to a standard insurance product in connection with one of the partners involved. Insurers that have developed this type of contract can be assured of continuity with this new clientele.

Prospects

For Adie's employees the main challenge lies in learning a new profession, highly regulated and more complex than credit. This requires a large training and internal animation effort so that the offer is more consistently available to customers of the association.

Examples of indemnification

Mrs K. opened her restaurant in the Hautes-Pyrénées through a microcredit disbursed in 2007. She suffered water damage in February 2009. Thanks to her micro-insurance, she received a deposit of €1,000 from her insurance company upon receipt of her claim, in order to start the restoration work. She then received an indemnification of €2,400 in August.

Mrs. P., florist in the Landes, was a victim of the storm of January 2009. Given the magnitude of the storm, the insurance company removed the franchise, and paid her an indemnification of €5,350 to cover the replacement of goods and equipment destroyed, as well as the cessation of activity resulting from this accident.

Mrs. B., jewellery designer in Paris, received €1,000 after her premises had been damaged by water.


RISK

Adaptation of IDA

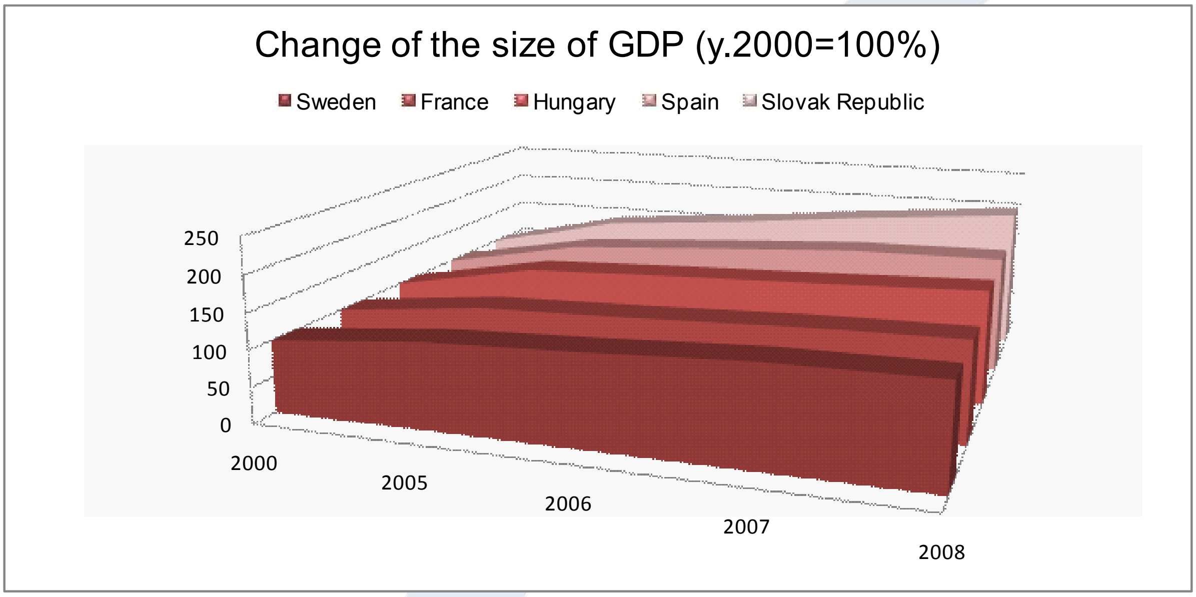
Tibor Beres has a degree in sociology and non-profit management. He has been working for the **Autonomia Foundation** since 1995 as programme manager. He managed various projects during this period: grant-making (funded by the EU, private and governmental donors), pilot projects (in the field of financial development) and local development initiatives. He is working on his PhD, studying the allocation system of EU funds for regional development. Some publications are available on the Autonomia website (www.autonomia.hu).

The Autonómia Foundation is an independent private foundation that was founded in 1990. Its mission has been to contribute to the emergence and support of the non-profit sector through a number of different programs, with a special focus on the Roma community. This has been achieved through the support of local civil initiatives designed to mobilise the resources of the community. A major part of the Foundation's activities involves the development of new programs and the adaptation of international models to the Hungarian socio-economic environment. In the last few years, the Foundation has placed special emphasis on pilot programmes designed to support financial education with micro-financing methods. One of the most influential new methodologies is the IDA (Individual Development Account) tool, developed in the US. Autonomia often faced the financial problems of the poor in Hungary which are usually caused by the debt trap and poorly managed household budgets. The IDA seemed to be appropriate for tackling this complex problem based on the logic of helping the poor to reach their individual asset building goals with savings and matching funds. With the OSI fund (Open Society Institute, New York and the Levi Strauss Foundation), Autonomia piloted a project using the IDA. The background to the project and the lessons learned are summarised in the following article.

Economic and social situation in Hungary

A society of contradictions. In the nearly two decades following the fall of communism, there has been a growing appetite for consumer products, but the country's economic output has not been able to finance the desire to follow first-world consumer models.

Graph 1: Change in GDP 2000-2008



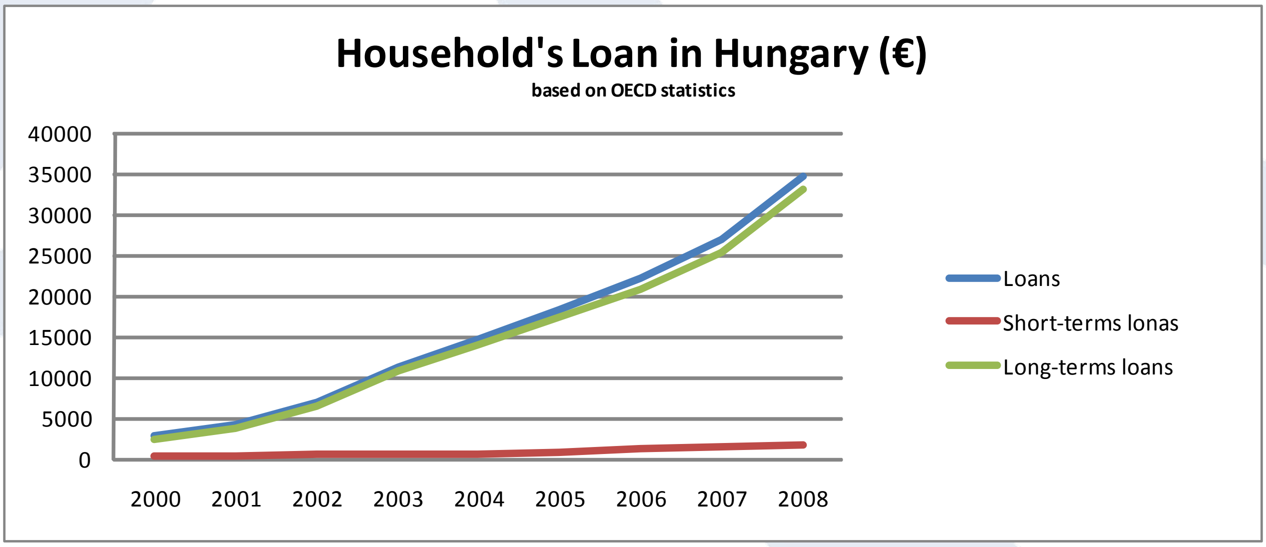
All the graphs are produced by the Autonomia Foundation based on data from the OECD website (http://stats.oecd.org/Index.aspx).

Tibor Beres, Autonomia Foundation
I would like to tank my colleague Marton Gosztonyi for his contribution to this article.

(Individual Development Account) Methodology in Hungary

Until 2008, household indebtedness under various borrowing arrangements grew at a pace never seen before. A considerable part of the debt was denominated in foreign currencies, particularly Swiss francs. With the weakening forint, monthly repayment obligations grew by as much as 30%, and as households often misjudged their ability to withstand financial stress, this rendered many of them unable to repay or manage their debts. This situation has been exacerbated by the growing unemployment that accompanied the economic crisis.

Graph 2: Household loans in Hungary

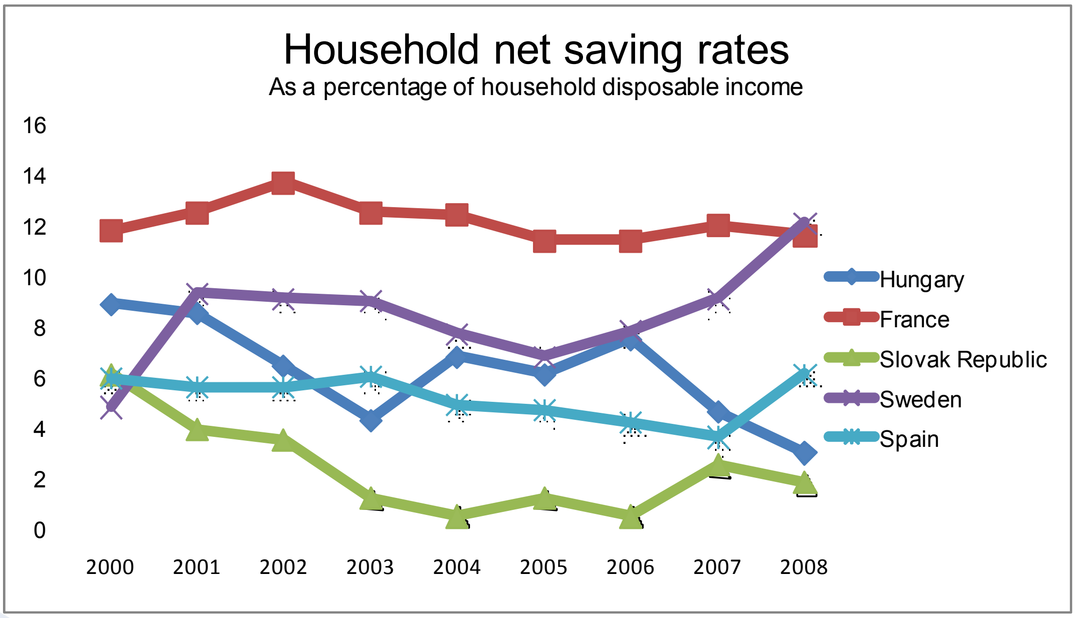


Low-income households attempted to follow consumer models that they simply could not afford. We have encountered numerous examples where borrowers took out a loan (sometimes by giving false information in the credit rating procedure) in full awareness that they would not be able to repay it. Such situations inevitably led to the termination of the loan agreement and enforced debt collection, which places the delinquent borrowers on a debtors' blacklist. This in turn automatically deprived the borrowers of the chance to receive affordable bank financing, even for reasonable purposes.

One the key characteristics of Hungarian society is a small middle-class and the absence of middle-class values or models (such as thriftiness). Savings are almost completely absent in the lower middle class and in low-income groups in general. An objective explanation could be that the ability to save does not exist due to low income levels (Hungarian per capita GDP is 63% of the European average[1]); but there is a strong argument that the absence of cultural models can also contribute to this situation. It is simply a fact that thriftiness is not an attractive alternative for low-income households (and this is where the IDA methodology can play a role).

1 Source: Eurostat (2009 figures)

Graph 3: Household net savings rates



The majority of homes in Hungary are privately owned and renting is not popular. In this climate, however, owning a home can be problematic, as most of the beneficiaries of our program cannot make their mortgage repayments in their entireties. In some cases, the ensuing debt of homeowners is higher than the market value of the home.

In the past few years, critics of Hungary's welfare programmes have warned that welfare support granted unconditionally can create a culture of dependency. It has been argued numerous times that Hungary is an overdeveloped welfare state that spends more than its resources allow, especially in times of economic downturns. Partly for this reason, and partly as a result of initiatives that encourage a more participatory approach in government and a sense of individual responsibility, there have been considerable changes in social services. However, these changes were often based more on the political rhetoric that blames the poor for their own problems and less on a coherent and sustainable strategy formulated after a careful analysis of its potential effects. This rhetoric is clearly discernible in the case of housing support schemes.

This situation particularly affects the Roma population. In the stereotypical image that the majority society has and that is cultivated by the right-wing parties in Parliament, the Roma live exclusively on welfare support and are unwilling to do anything to improve their financial situation. This stereotype explains a great deal about the recent restructuring of social services, which represents the introduction of a more restrictive approach that ignores incentives. Instead of making an effort to introduce initiatives that promote real self-reliance and self-sufficiency, policymakers are engaged in indirect communication and coded speech. Policymakers are not aiming to offer comprehensive intervention where necessary, while taking into account the beneficiaries' currently low motivational levels. Moreover, policies that specifically affect but do not benefit the Roma are introduced even if direct references to them are avoided (the term "underprivileged" is used instead). Housing and employment are the two areas where the absence of a coherent strategy and effective intervention techniques are the most prevalent but where the most urgent action is required.

The IDA housing program

Relying on the lessons learned in its successful IDA programme in 2005-2008, the Autonómia Foundation announced a more complex programme with a wider scope in 2009. Although the programme was advertised to the public and the participants as a housing programme, the main goal has been to consolidate the financial situation of the participating households, with the key incentive being the achievement of certain housing goals (such as refurbishment and the installation of amenities) for participants.
The following elements of the earlier programme have been retained:

- Home savings (these were the most popular and are aligned with the logic of the asset building approach);
- Mandatory financial education – on the basis of a course developed by the Autonómia Foundation (this involves a series of informal discussions designed to organize the participants' existing knowledge into a coherent outlook);
- Matching fund (but only at 100% rather than the earlier 300%)
- Local mentors who keep contact with the participants, on a weekly basis if necessary;
- Recruitment of local financial partners (savings banks).

New elements in the housing programme include:

- Engineering advice on the assessment of homes, building materials and construction know-how. For this purpose, the Autonómia Foundation entered into a cooperation agreement with Habitat for Humanity Hungary;
- Option of borrowing to replace higher matching funds;
- Involvement of local governments (guarantees for one-third of the total lending in the given community; employment of advisors; building homes with own construction teams). Individual advice if necessary, e.g. on debt management.

Lessons learned

The Autonomia foundation encountered many unexpected problems in the implementation of the programme. Due partly to the economic crisis and partly to the changes in social service programmes, there has been a decline in the income of the targeted households, which hinders recruitment for the programme and makes it difficult for the participants to achieve their savings goals. It should also be mentioned that the financial scandals of the past few years and the general loss of confidence in the banking sector created an environment where the programme is often met with suspicion and is believed to be a Ponzi, pyramid or multi-level marketing scheme.

Response to the programme by local governments has varied greatly. In many cases, local governments have refused cooperation in connection with the intended, mainly Roma, families, saying that these households will not want to save and the programme is a waste of resources. Therefore, launching the programme has represented a double challenge: in addition to the recruitment of participants, the reservations of local governments also have to be dispelled.

When the programme was originally started in 2008, a government housing assistance scheme was still in effect. The scheme offered many opportunities for abuse by building contractors; yet with the combination of government assistance and the IDA programme, the construction of new homes appeared feasible. After the launch of the programme, however, the government abolished the housing assistance scheme. Therefore, Autonomia was forced to modify the goals of the programme and to focus on the refurbishment of existing homes. In theory, this requires less funding; unfortunately, the condition of many houses is so poor that the feasibility of refurbishing them is highly questionable, or the costs of the necessary works (waterproofing, complete reconstruction of roofing, etc.) are far higher than the amount of the available assistance.

The laws on lending also changed in 2010. Under the new rules, loan-based assistance to blacklisted borrowers is no longer possible. In the absence of a loan, the available funds for many participants fell below the level that was required for the planned works. As a result of these problems and legislative changes, participation has remained well below the planned 150 families to date. By raising the income threshold used in the selection process, the recruitment of families in a better financial condition would be possible, thereby increasing the chances of the programme's success. However, this would be incompatible with the pilot nature of the programme and run contrary to its underlying purpose. Therefore, Autonomia will counteract these problems by extending the programme to new locations and by prolonging its term.

Summary

The purpose of the programme is to introduce a new method in Hungary2 by developing and testing a complex model that is based on the combination of IDA methodology and quality-assured construction works. It is also planned to prepare a proposal for its wider adaptation with support of national or EU funding.3

Quality assurance and control in connection with the construction works are very important, because past experience shows that typically the people for whom the IDA housing programme is designed are the ones who fall victim to dishonest building contractors, and they cannot protect their interests or expect support from other parties. Such a programme can also offer secondary benefits. In addition to the consolidation of their finances, participants receive housing assistance that, due to their own contribution and in many places the involvement of the local government, represents a significantly higher value than the amount actually paid. The effects of financial education courses on community development are also significant.

However, the primary goal of the programme, which even programme managers remind themselves of at times, is to offer financial education to participants and to help them achieve financial stability.

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2 Arrangements based on similar principles exist in Hungary: a scheme offers 30% government assistance and cut-rate loans to clients who agree to save a given amount regularly for a prolonged period of time. However, this programme is not available for people who cannot access the services of commercial banks due to their poor financial situation and low income levels. Its purpose is not to educate or raise awareness of financial matters, but to select a "reliable" clientele with the help of a savings-based housing assistance scheme.

3 In an important and positive development, the European Commission, in Regulation No 832/2010, approved the application of monies from the European Regional Development Funds towards the refurbishment of private homes. Under the Regulation, local governments that have qualifying assistance programmes in place can receive Community funds to implement projects that are similar to our IDA program. This would represent a significant opportunity for the programme to obtain co-financing and to increase the recruitment of new participants, i.e. synergies between the two instruments (Community financing and financial development) could be achieved. Before this can be implemented, however, Member States will have to restructure their assistance systems.

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