



CAPIC
**Cooperation for Affordable Personal
and Inclusive Credit**
VP/2011/014

**Key learnings, Conclusions and
Recommendations Report
2013**



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Programme Description

CAPIC Project – All-Inclusive Cooperation between public authorities, private entities and social enterprises in favour of Social Inclusion and Integration into the labour market.

Purpose

"To promote new models for cooperation between public institutions, companies and social enterprises, in order to bring about a more effective and coordinated approach, via the creation of specific partnerships."

Priority theme and type of action

The two following themes are directly treated by the project:

- a) Develop innovative approaches in relation to the services provided and/or to the target groups and promotion of high-quality standards of services;
- b) Access to credit, including microcredit and tax relief, including the identification and validation of adapted financial products for the social economy and the systematisation of previous research in the area.

Objectives

Indirectly, the project will also :

- a) Design assessment frameworks aiming to gather and structure evidence on social impact of social economy activities, in order to improve policymaking;
- b) Study the regulatory/legislative environment of social economy enterprises, including the analysis of the influence of different legal solutions to improve transparency, effectiveness and quality of their work.

Effective outputs

Step 1: Knowledge and Data Collection

Four Case Studies

BE: Crédal / Walloon Region / Belfius Foundation

FR: Secours Catholique / Caisse des Dépôts et Consignation / Fédération Nationale des Caisses d'Épargne

IT: Un Raggio di Lucce / Provincia di Pistoia / Cassa di Risparmio di Pistoia e della Lucchesia

UK: Nottingham Credit Union / City Council of Nottingham / The Cooperative-Electrical

Three Thematic Workshops

1. "Affordable personal Credit: sustainable long-term strategy"
Liverpool John Moores University – October 12th 2012 (68 registered participants)
2. "Who is the target audience for personal micro-loans?"
Caisse des Dépôts, Paris – October 18th 2012 (81 registered participants)
3. "Affordable personal credit: how can partnerships better consolidate and disseminate their experience?"
Biblioteca San Giorgio, Pistoia – November 13th 2012 (69 registered participants)

One Film, three versions.

French, Italian and English language and three additional teasers.

Step 2: Selective Dissemination

It has been done via five training modules to improve / facilitate social credit partnership implementation.

Common base:

1. Film
2. Practitioner presentations
3. Questions/answers
4. Lessons learned
5. Future steps...

5 & 6 March 2013, Offenbach - Germany: hosted by DMI, the Deutsches Mikrofinanz Institut (45 registered participants)

21 & 22 March 2013, Madrid - Spain - hosted by Women World Bank association (38 registered participants)

8 & 9 April 2013, Vienna - Austria - hosted by ASB Schuldnerberatungen – Federation of Debt

counselling services (17 registered participants)

25 & 26 April 2013, Prague - Czech Republic - Hosted by Poradna Foundation (26 registered participants)

16 & 17 May 2012, Bucharest - Romania - Hosted by UNCAR SR (Credit Union Network) (35 registered participants)

Step 3: Broad Dissemination

Via already existing websites and regular newsletters (a total of 14 issues) sent to the respective contact lists:

EFIN – European Financial Inclusion Network - www.fininc.eu

EMN – European Microfinance Network – www.european-microfinance.org

Key learnings

Collaboration / Partnership perspective

The benefit of partnerships between various type of stakeholders has been underlined by all CAPIC participants. The reasons of this positive perception, though it is demanding and sometime complex to implement are:

- A much more nuanced and effective understanding of each other realities, constraints and contexts that improve mutual understanding and reduced preconceptions and misunderstandings.
- An increased capacity to generate "out of the box" solutions and projects to face modern issues;
- The efficiency of the common actions when each partner is active in its "core business"
- The capacity to share the costs but to multiply the positive impacts for each partner.

CAPIC impacts...

- **Participants' views on the way to manage such collaboration**
 - Appropriate meetings, communication and reporting;
 - Clear roles and smooth connexions inside the common process;
 - Professional management standards, results and assessment reporting tools.
- **Participants' views on the way impact should be documented**
 - Social impact measures remain a major issue
 - What are the consequences on public expenditures / public incomes?
 - What are the consequences on the local economy?
 - What are the consequences on the staff motivation and involvement in a private company?
 - What are the consequences on the "business" in a mid-term or long-term perspective?
 - Necessity to develop user-friendly indicators in the reporting
 - Social and demographic description of beneficiaries;
 - Type of credit use;
 - Relation to employability, health, dignity, self-esteem
 - Pedagogical dimension and impact
 - Prevention dimension and impact.
- **Participants' views on the type, role and nature of partnership**
 - All type of stakeholders can potentially play different roles.

- Social organisations can be a credit provider, a beneficiaries prescriptor, a credit counsellor, a guarantee provider, ...
- Public authorities can be a research operator to document social issues, a guarantee provider, a national/regional/local facilitator, coordinator, a beneficiaries prescriber, a subsidies provider, ...
- Private companies can be a credit provider, a guarantee provider, a beneficiaries prescriber, a subsidies provider, a provider of "goods / services" financed by affordable credit,...

◦ **The partnership nature can take different forms according to the nature of the company involved.**

- The private company can be a bank, but also a private foundation, an electrical/electronic goods provider, a utility (electricity, phone, gas,...) provider, a "car/second-hand car" provider...
- The social organisation can be specialised in the fight against poverty, against overindebtedness, specialised in social housing, budget advice, charity, credit / microcredit and can also be a foundation, a profit-making but socially oriented entity (credit union) or a charitable organisation.
- The public authorities can act at different geographical level (national, regional, provincial or local), and be active in social affairs, social inclusion, housing, the fight against poverty, economical development, self-employment development, training (young / women / migrant,...).

Results and impacts identified for each type of partner

Social organisations

- **Better understanding / improved efficiency**

The approach includes an in-depth analysis of the budget and social conditions of the client households

- **Improved follow-up**

Compared to charity or financial support, credit requires a mid-term follow-up and a more long-term relationship with the beneficiaries.

- **Enlarge the tool box available to improve living conditions of beneficiaries**

For professionals of budget advice, debt counselling (among others), who have the direct appropriate knowledge to implement personal affordable credit analysis and supply, it can be seen as a additional tool / an opportunity to complete the existing set to solve financial or economic difficulties of the beneficiaries.

- **Social impact:**

People who can afford credit rather than charity increase their: self-esteem (ex: access to basic furniture,...) , confidence (because of the confidence of the credit provider), autonomy (the credit confirms the capacity of the beneficiary of its own capacity to deal with this credit appropriately), management capacity (the credit procedure underlines the capacity of the beneficiary to fulfil all the needed conditions), sense of responsibility (the mutual respect that emerges from the procedure).Globally, it increases self-empowerment.

- **Financial impact:**

The budget analysis allows to provide advice to increase incomes / reduces expenditures (are all accessible social supports activated?)

The credit can generate a reduction in on-going costs and improve the budget balance.

- **In a significant proportion, it leads to an increased capacity to get a job:**
via an improved mobility (second-hand car, driving licence, insurance,...), via a professional training, via access to efficient communication tools when searching a job (internet, computer,...).
- **Overindebtedness** **risk:**
The process can illustrate the way to use credit in an appropriate way and reduce risk of inadequate credit use and overindebtedness.

CONCLUSIONS

CAPIC activities, for social organisations:

- Enlarge the range of activities implemented to fight against financial and social inclusion and is an appropriate complementary tool;

- Increase empowerment of the beneficiaries and increased self esteem;
- Provides adequate indicators and impact measures,
- Share the running costs with other partners and multiply positive impacts,
- Prevent overindebtedness.

CAPIC provides:

- Appropriate and cost-effective support in critical moments of vulnerable people's life: people who have a financial difficulty might find a solution by looking for a credit rather than doing a rational analysis of their budget (un)balance,... to propose a credit is much more appealing for these people than to access a debt advice service.
- A considerable contribution to savings (public expenditures related to overindebted people follow-up and unemployment allowances) when effective in overindebted risk reduction and when it allows to reduce unemployment duration because of an increased employability (training, mobility,...).
- Efficient pedagogical transfer via a "learning by doing" method: to build the credit demand, beneficiaries will have to make a detailed budget and estimate the remaining cash to reimburse the credit.

Public bodies

- **Fight against banking and financial exclusion**

Access to appropriate credit to access basic goods and services has a positive effect on:

- Budget management,
- Self-esteem / dignity,
- Building a sound credit history
- Becoming a step towards a full banking inclusion
- Social inclusion
- Local economy

- **Essential learning in the social and economic living conditions of vulnerable citizens**

The nature of the work made with the credit beneficiaries enlarges the scope of traditional social analysis and facilitates design more strategical and fine-tuned policies.

- **Complete the tool set for social and economic supports provided to citizens**

Some of the essential goods and services financed by this type of credit are not available for low-income people in any alternative way, therefore these tools enlarge the tool set proposed to improve living conditions and fight against (social and economic) exclusion .

- **Prevention against overindebtedness**

- Affordable personal credit provides a good experience to learn an appropriate use of credit
- To access this credit, one has to document his/her credit worthiness in detail, and therefore calculate the remaining amount available for the credit reimbursement.

- **Public expenditure reduction**

- When public money supports debt counselling services, the follow-up of overindebted people can be long and costly. The public investment in supporting social loan access is much less costly, as shown in the Belgian case study.
- When increased mobility / employability accelerates the access to a job, there can be a real long-term reduction of the unemployment allowances payment (see Belgian case study p.42)
- Improvements in the living conditions of the beneficiaries have positive but hard to measure positive side effect on health (more precise when the credit improves the heating system, the sanitary conditions,...), mental health which impacts positively social security expenditures.

- **Public income increase**

- The credit's positive impact on economic activities applies as well for affordable personal credit,
- It increases trade at local / regional level and revenue from the related taxes.
- It increases, when a job is obtained, revenue from the taxes on professional income.

- **Public authorities might provide two main types of support**

- Guarantee funds:
 - This is a key role to facilitate partnerships with banks as "credit providers". It has been shown in France and Italy that a 50% guarantee is appropriate to compensate the limited additional risk encountered in this credit niche.
 - The final cost of the guarantee fund is usually limited and has a great multiplier effect, which make this tool very cost effective.
- Subsidies for general activity costs
 - Depending on the national context, financial support on the running costs of the activities might be relevant AND cost-effective when they are maintained under the threshold composed by the sum of the saved amount in public expenditures increased by the income generate by the post credit activities. The balance is generally easily positive in countries where unemployment allowances are paid.
 - When public support is provided, it impacts:
 - The long-term sustainability of the program,
 - The capacity to maintain a reduced interest rate (which is important for the social perspective).
 - The capacity to propose this type of credit where interest rate cap make it impossible to achieve a break-even.

Private companies

Two categories of private companies should be made in this perspective: the one related to the banking sector and the others.

Banking companies / Bank foundations

- Corporate Social Responsibility**

Develop tangible corporate social responsibility (CSR) activities which provide effective assessment tools (number of interviews, number of budgeting support, number of credit, type of goods and services financed and relations with employability – health – dignity - ..., default rate, ...).

- Human resources policy**

- Internal communication on this type of collaboration consolidates the positive image of the company for a broad range of workers.

- Partnerships might require volunteers to do financial analysis, to participate to credit committee decisions: this can improve and generate motivation. In one case, a particular strategy targeted people close to their pension and encountered a great success.

- New prospect / innovation**

Improve understanding to better serve the growing vulnerability of a significant range of people in the society – unemployed, people with temporary working contracts or part-time contracts for example.

These learnings might be effective enough to generate new risk assessment method (credit score / behavioural score) adequate for these new target groups and to serve them in a "mainstream but adjusted" approach.

Charity activities dedicated to support programmes / actions in the "financial" environment. Some bank foundations consider as an added-value to support activities related to their core business. In this perspective, social microcredit can be an appropriate tool.

EU Commission Recommendations

Access to affordable personal credit for everyone is a major issue in the financial inclusion perspective.

In order to achieve this goal, actions should be taken at various levels:

- Promote research experiments, pilots and practices:** to increase knowledge, awareness and innovation.

This action might not impact the market directly at a significant level, but it:

- Might maintain and develop the credit provision for the vulnerable part of the population which needs a in-depth follow-up to adequately manage a credit;

- Might be a necessary step to prepare the industry and the other stakeholders to push forward innovation at an "industrial-level".

- Incite financial institutions to integrate such partnerships.** The EC could facilitate

financial institutions to integrate such partnerships through tools that limit the credit risk (such as **guarantee funds**). This kind of scheme at a national level has been mentioned as effective.

- **Support impact assessment measure and indicator tool set creation and use:** so far, evidence exists on the positive social impact for the beneficiaries, but, until now, a significant lack of scientific “cost/benefit” analysis remains for the various stakeholders, and, in particular, the public authorities involved.
- **Develop and promote an objective and EU-compatible “Corporate Social Responsibility” measurement and rating for financial institutions,** based on financial inclusion indicators.

Only a public authority at EU level can develop an objective rating that all EU citizens will be able to trust.

In order to reduce the market failure (not served or inappropriately served vulnerable clients), this first step will increase the information quality available to the market actors (consumers and providers) and reduce the information asymmetry. Consumers will be able to express their preferences when choosing their financial providers thank to this rating.

This will increase a positive market dynamic among providers to better serve all citizens, as such rating could include not only the level of credit access by vulnerable groups but also the arrears and default rates they encounter (are they appropriate or do they generate use difficulties?).