



CAPIC EU project
lessons learned

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1 Personal microcredit...Why?

1.1. Introduction

Mrs & Mr Over are overindebted

They have introduced a legal procedure since 2010 to solve their insolvency, and the car of the family is recently out of order. They risk losing their job since they might incur a mobility problem. Indeed, the family lives in a rural area, their working schedule is irregular, and the company they work for does not accept easily the situation. In this particular case, this couple does not have access to credit because they have a negative registration in a credit database.

Mrs Rety is retired, owner of her apartment, with poor energy efficiency

Since she is over 65, Mrs Rety has trouble to find an adequate credit to finance new double glazing for her windows. Only some credit providers accept, but with really poor terms and conditions.

Mrs Single is a single parent with two teenagers (under 18 years old)

It is hard to make ends meet, being out of job with two teenagers at home. It is also hard to avoid having some IT equipment for the children's studies and entertainment. This equipment would also be useful for her, to get a new job. She can only access a credit card, revolving credit card or money lender services, no appropriate credit is available at a reasonable cost.

Mrs Forlife leaves her companion, discretely, with not much of her personal things...

This was probably the hardest decision Mrs Forlife has taken, to leave her home because her life was in danger, nevertheless she loved her companion so much...

After a short period in a women shelter, she has to find a new place and needs some money for her new rent deposit and to access a minimum basic equipment/furniture.

Mrs & Mr Manikidz have 5 children, are unemployed and it is hard to make ends meet...

Not much opportunity to avoid high cost credit, but the washing machine is broken and no savings are available to buy it cash... How can they avoid shops who sell the good on a weekly-pay basis?

1.2. Common base

The studied initiatives of personal microcredit propose a credit better designed to fit the needs of low-income people (with the ability to repay a credit), but not only. They are also appropriate to fit the needs of people with irregular income, or any other situation of financial exclusion because of a negative risk assessment. The amount is adjusted to low-income creditworthiness, the type is generally a personal credit (duration and instalments are known and fixed). The interest rates are usually under the market average (Be, FR & IT) / under the sub-prime market (UK). Indirect costs are usually close to zero or very low (no insurance contract, no/low administrative fees,...).

The usual minimum requirement, common to all, is the *lack of access to an appropriate credit for a need considered as legitimate* by the provider, although formal refusal by mainstream providers is not requested.

Another transversal condition is often related to the *geographical extent* of the initiative. It can be local, sub-regional, regional, national...

However, exception to the rule, a specificity of the UK practice, via a credit union, is to be open to anyone interested to become member of the credit union (CU). There are no particular restrictions: the CU is open to all, but the most interested people to become members are low-income and/or financially excluded people.

1.3. Differences

Each initiative is built on a specific partnership between public, private and social organisations. Each partnership can have introduced particular conditions and requirement related to their own priorities. In the UK, no particular criteria are usually used for public selection (except when Financial Inclusion Growth Fund provide capital for the scheme), however the scheme is designed for financially excluded people.

Additional criteria observed:

- **Particular status:** to access the credit procedure, the client should be... e.g. unemployed, a social allowances beneficiary, a temporary worker, a student over 18, a pensioner, a temporary worker in specific economic sector (hotel business,...)
- **Income level:** to access the credit procedure, the client (or its household) should have...

e.g. income under a specified threshold, or income minus “rent” and/or “mortgage” and/or “other charges” deducted under a specified threshold...

- **Particular need:** the credit procedure is dedicated to finance specific goods / services' purchases
e.g. electrical goods, second-hand cars, energy saving goods/equipment...

1.4. *Lessons learned*

- **Clear and transparent criteria to access the credit proposed...** are necessary to limit misunderstanding within the partners or with the potential external collaborators who may play identify the “client” (social services, social housing, temporary job agency,...) or, of course, with the potential clients, to reduce false expectations. This is also necessary for an easy and cost-efficient check of the requested requirements.
- **Appropriate credit: a relative notion!** For example, some people consider that being able to access revolving credit is an “ok” solution to include financially excluded people. Opinion that is not shared by other countries. On the other hand, a credit duration that exceeds the use duration of the product financed can be one criteria to distinguish appropriate from inappropriate duration.
- **Meaningful and fair:** generally, the process to access such credit is going to be demanding for the clients, therefore, to increase the capacity to build a confident relationship, using meaningful and fair criteria as well as process is very important.

2 Personal microcredit... Reaching the public.

Most of the time, the experience is limited in its extent and therefore, there is a risk to over communicate and create a flood of demands that can not be handle by the initiative. In the UK, where the full initiative covers the whole country, with many credit unions involved, there is a need to increase demand, and marketing campaigns are programmed.

2.1 Common base

The identification of the potential clients is made by professionals in contact with the target public.

This approach allows a direct check of the requirement conditions (which limits frustrations of potential clients).

Each professional needs to receive a good information of the whole process to be able to act responsibly.

2.2 Differences

The identification can be made by:

- One or more of the partners – the social organisation but also the bank institution, sometimes the local public authority informs the public;
- A selection / network of professional services working in contact with the target: social workers, debt counsellors, HR services, social housing, public/private foundations,...

Rare are the large-public communication plan because, so far, the initiatives developed have been generally made at a pilot dimension (local / regional...). However, for nationwide initiatives, the communication can be already more significant, but still limited to avoid the risk of demand flood.

2.3 Lessons learned

- **Clear role for each partner:** each partner should know precisely its role and its limits.
- **Close communication between partners:** the *ones who identify* should receive information on the follow-up of the people they have sent. This is essential to help them – a) to understand and know the process that follows their first step action – b) to maintain them involved and motivated – c) to increase the quality of the provisions
- **Communication strategy size and media adjusted to the credit capacity** of the partnership. Being careful on communication, unfortunately, may limit the information available to the target group and therefore limit their access to this adapted credit. Large scale initiative can reduce this risk, if it includes an ambitious communication strategy.

3 Representative provisions - some figures.

	Belgium	France	Italy	United Kingdom
Minimum amount	€ 500	€ 300	€ 1,000	No minimum but 230€ is the most common
Maximum amount	€ 10.000	€ 3.000	€ 7.000	No maximum, but the average is 800€
Interest rate (APR)	4,5 % - 5 %	Defined by each bank – from 2,5% to 6%	2% / 3% in 2012	26.7 %
Duration:	6 – 48 months	12 – 36 months	Max 5 years	Normally over 12 months – higher amounts up to 2 years
Average amount	€ 4.000 – 32 months	1.800 €	€ 4.500	Circa 400€
Main purposes	1) Mobility & work 2) Family grouping 3) Housing equipment & furniture	1) Mobility & work: 73,2% 2) Housing equipment and furniture: 14,1% 3) Other: 12,7%	1) Mobility & work 2) Training 3) Health and overindebtedness assistance	Purchase of electrical consumer goods Furnishing new tenancies

4 Who does what? How to structure a partnership?

Each initiative has developed a particular organisation between partners that can be appropriate considering the context in which it evolves, therefore all observed structures are below presented.

	Belgium	France	Italy	United Kingdom
First contact with beneficiaries	A selection of social services – debt counsellors	The social organisation (Secours Catholique (SC)) ground workers, who has a nationwide network of meeting points	The social organisation (Raggio di Luce) has 4 outreach offices in 4 municipalities of the Pistoia province	Social housing associations Credit unions Social and community networks City council of Nottingham
Pre-contractual activities	Crédal's paid team	Secours Catholique volunteers' team	Un raggio di Luce (UrdL) volunteers' team	Credit union workers (volunteers / paid)
Credit decision-makers	Credit committee: voluntary base with representatives of each stakeholders	Classic bank credit committee + SC workers: this point is essential to balance the decision power	First filter by the social organisations Second filter by the bank committee (one out of the 7 bank partners)	Credit union credit committee or often delegated to credit union loan officers within limits (no need to send all loans to committee)
Credit follow-ups	Crédal	Bank in collaboration with Secours Catholique	Bank transmission of arrears to social organisations	Credit unions' standard debt collection procedures
Arrears collection	Crédal as long as amicable,	Secours Catholique as long as		Standard debt collection procedures –

	otherwise by lawyer	amicable. Otherwise by the bank but due to the cost, there is “in real life” no legal action		technically possible to take to Court and enforce action – but highly unlikely given the small sums involved. Arrears written off after one year of no payment
Guarantee funds	Regional authorities	National public guarantee funds (50%) + specific guarantee funds supported by the social organisations	Partial guarantee by a private foundation + partial risk assumed by the banks. In some cases, a partial public guarantee is available. Total amount: €1.060.000.	None except many CUs still retain Financial Inclusion Growth Fund capital for on-lending to low income groups.
Funds provision (for the credit)	Crédal	Banks	Banks (€ 2.000.000 from 7 banks)	CU capital and in some cases residual Financial Inclusion Growth Fund capital (now subsumed into CU capital)
Staff funding	50% public authority 50% private foundation	Volunteers	Volunteers + private foundation support	No specific staff funding allocated to the project. Project administration undertaken as part of core CU staff responsibilities.

Others costs	50% public authority 50% private foundation	Covered by social organisation funding (private and public)	Private foundation support	Credit union covers admin. Costs. Some support from the Co-operative Electrical that gives CU 3 % commission on sales Third parties – e.g. housing associations cover own costs. In some places, social housing providers given funding to promote the scheme (e.g. Prince Bishops)
Annual budget dimension	€ 216.000 (2011)	Not available	Not available	No budget determined. However, long-term national sales goal = £1million to assure the the scheme's viability.
Staff resources	Crédal: €181.000 (3,5 Full time equivalent – 0,3 coordinator / 2,8 credit adviser / 0,2 arrears debt	Secours Catholique: In Paris microcredit coordination is monitored by the “social business” manager, as a part of his job.	URdL; 1 micro finance program manager, 1 director (part-time) and 2 volunteers (part-time) Province of Pistoia: 30 hours a month	Credit union staff – as part of normal operation of the credit union One Co-operative Electrical business manager

	collections/ 0,2 administrati on) (2011)	He is supported by a volunteer. In the local delegations (about 90 in France -but they are all involved in microcredit) two volunteers coordinate the work of the volunteers present in the different meeting points.	Banks: 3 days/month	(spends 20% of time on the personal microcredit project)
Other costs	€ 35.000 (2011)			Marketing and promotion – unspecified
Number of interviews / year	832 interviews (2.000 first contacts) (2011)	Data not available; Secours Catholique welcomes about 1 million people each year; but these people are “the poorest of the poors”; consequently only a few of them can repay a microcredit.	Since March 2009: 666 interviews (550 first contacts)	Circa 1.000 nationally
Number of credit	516 credits (in 2011)	2.000 microcredits since the experimentation started; 400 in 2012	216	2.655 orders for electrical goods nationally (since 2010) – 643 in Nottingham

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

5 Why does an entity decide to become a partner?

Country	Stakeholder	Reasons
Belgium	Social organisation: not-for-profit Credit cooperative CREDAL	<ol style="list-style-type: none"> 1. Statutory mission to solve financial exclusion 2. Regional authority support: <ul style="list-style-type: none"> - feasibility study - pilot financial support for staff & other costs - guarantee funds for 100% of the credit default risk 3. Effective social needs 4. Effective social effects
	Public authority Walloon region	<ol style="list-style-type: none"> 1. Overindebtedness prevention complementary measure to existing free debt counsellors' services; 2. Fight against financial and economical exclusion; 3. Improve the living conditions of vulnerable public
	Private company Bank foundation Belfius foundation	Microfinance is one of the selected activities supported by the Foundation.
France	Social organisation: not-for-profit Charity Secours Catholique	<p>Assess the difficulties to access credit for small business activities, and, consequently, for private purposes (related to the AZF Toulouse accident). Credit has a different impact on people's situation than charity and it modifies the relationship between SC and "poor" people. It builds a deeper relation "before" the credit contract signature and, potentially, after, during the reimbursement period.</p>
	Public authority Guarantee funds Caisse des Dépôts (CdD)	<ul style="list-style-type: none"> - CdD manages the "Social Cohesion Fund (which delivers a state guarantee on 50 % of the loans) which gives a strong boost to the project. - To support the microcredit activity is part of its public interest functions to fight banking and financial exclusion. - To document and assess this type of initiatives.
	Private company Credit providers representative Savings Bank Federation	<ul style="list-style-type: none"> - History and values: a long-term involvement in financial inclusion (created upon the concept of microsavings in 1818) - Sustainability in the long-term and innovation: growing vulnerability and job insecurity and

		erosion of the Welfare State affect our clients. There is a need, for deeply territory-rooted banks, for securing clients paths, and to be able to respond to the need of clients that face difficulties;
Italy	Not-for-profit Social organisation Un Raggio di Luce Foundation	<ul style="list-style-type: none"> - Microfinance is one of the institutional activities of the foundation (but the Foundation is not a credit provider). - The objective is to fight poverty and social exclusion and to promote ethical finance. - Willingness to effectively promote financial inclusion of poor households - Promote self-empowerment of vulnerable people - Willingness to share specific knowledge and practices with other partners
	Public authority Pistoia Provincia	<ul style="list-style-type: none"> - Support microcredit as a tool to maintain social cohesion even for the weakest individuals with low-income via guarantee and staff support. - Granting microcredit to citizens helps to understand a specific social situation: a need for financial education and money management appears.
	Private company Bank Cassa di Risparmio de Pistoia e della Lucchiesa	- Beside corporate social responsibility (CSR) dimension of the business model, the personal microcredit enables the organization to mature expertise in microfinance, understand the needs of the different people involved, focus on critical issues - as well as on the positive aspects of the endeavour, give the organization a keener perception of the growing expectations placed in this sector.
United Kingdom	Social organisation Credit provider Nottingham Credit Union	<ul style="list-style-type: none"> - Savings and credits are the core activities of a CU. - The project fits with the credit unions mission and commitment to serve low-income and financially excluded people - The project builds links with other partners – e.g. the social housing sector
	Nottingham City Council	- Fits with the financial inclusion strategy for the City.
	Private company Commercial	- Fits with the mission of the Co-operative to support the credit union sector and to support

	partner Coop Electrical	services for low-income communities. - This project fits with the social responsibility of the Co-operative. - It is also a commercial venture and relationship with the credit union sector. The project needs to make £1million sales per annum to achieve long-term commercial viability.
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6 Context facilitation elements

6.1 Legal context

- Credit activities can be implemented by cooperatives (in particular circumstances) and not-for-profit associations can also be registered as a credit intermediary (BE);
- Personal microcredit is fully part of consumer credit regulation (contract form, interest rate cap, credit registered, ...) (BE)
- National public Social Cohesion fund (significant size) to guarantee micro finance activities (up to 50% of the loans) by banks;
- Specific regulation for microfinance activities to be developed (IT)
- The importance of knowledge and of compliance with consumer credit legislation for DEBTOR-CREDITOR-SUPPLIER (D-C-S) relationships. The fact that credit unions were not exempt from consumer credit legislation for D-C-S relationships for the CAPIC project has seriously impacted its development. Understanding the requirements of consumer credit act compliance has been the most significant learning point of this project. No credit unions are exempt from consumer credit relationships for DEBTOR-CREDITOR RELATIONSHIPS (UK).
- The importance of sharing knowledge and information about consumer credit compliance throughout the credit union sector. The project being developed at Halton Credit Union to establish standard credit agreements and associated literature is designed to inform the entire credit union movement of the practical implications of consumer credit compliance for D-C-S RELATIONSHIPS (UK).

6.2 Political context

- Overindebtedness is a political concern for more than 20 years (BE)
- No cultural taboo to use credit to fight/prevent overindebtedness and social exclusion (BE)

- Financial support at Regional level via subsidies and guarantee funds (BE)
- Awareness about the lack of access to appropriate credit by vulnerable people and financial exclusion issue: studies and observatories (FR);

6.3 Institutional context

- Human and significant financial support by a Bank Foundation (BE);
- Large range of saving banks (60% market share), cooperative banks with effective CSR actions thanks to top management involvement. Banks are assuming the “credit provider” function and the back office for a reduced opportunity cost (FR/IT);
- Effective existing volunteers network to do the follow-up of credit beneficiaries (otherwise rather expensive) (FR);
- A national public body (Caisse des dépôts -FR) is financing an important impact study on Personal microcredit (results expected in 2013);
- Widespread understanding of financial inclusion strategy in UK;
- National political concern about the high cost and detriment of sub-prime credit to low-income borrowers in the UK. This project is a practical initiative to combat sub-prime lending (UK)
- National political concern of overindebtedness in low-income communities – this project has the support of national money and debt advice agencies (UK)

6.4 Others...

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

7 Weakness elements

- Lack of banks involved in the process: no banks in Belgium with a significant CSR position (BE);
- No strategic involvement of banks: when coming for communication reasons or to please policy-makers on the short term, their involvement is not strong enough to help the development of the programme.
- Public image / position of associations dealing with the beneficiaries: being too much known to deal with poor people can be a handicap to develop a microcredit activity.
- The weakness of the UK CAPIC project has arisen from the time taken to clarify the legal position to offer credit union credits for supplier goods. This has been a very contested area and taken time and financial investment to obtain legal advice.
- Situation of constrained public finances which leads to use microcredit as an alternative to public benefits... It is a really serious issue for the future of microcredit (first signs of such a bias seen in France).

8 Ongoing debates...

8.1 Interest rate level...

- When there is no interest rate cap, microcredit providers compete with extremely accessible (but extremely costly) money lenders. The question is the level of the cap: too low it prevents the sustainability of the microcredit institution – when microcredit is seen as a submarket, but too high it leads to their inability to compete with money lenders.
- If microcredit is not seen as a market product, but a social tool, a very low level of activities is totally compatible with the “not-profitable” model available in France or Belgium.

8.2 How to implement constructive arrears collection?

- A challenging point is to build an arrears collection procedure to avoid, on the one hand, that the beneficiaries consider credit as a gift because no debt collection procedures are implemented in case of arrears and default and on the other hand, that the financial situation of the beneficiaries is worsen by

the procedure when the personal situation of the beneficiaries is deteriorated by external circumstances...

8.3 What should be the place of microcredit between market and social action?

If microcredit is a tool to answer needs which are ignored by market mechanisms, its success might be the number of people asking for it and getting a funding. While if it is seen as a “product” within a submarket for bottom of pyramid (BoP), the success lies in the number of people having access to microcredit (not considering to look for alternatives when people ask for a funding).

It changes the way microcredit schemes are working as well as what is expected from these schemes. For example, if it is seen as a product, stakeholders would wish that microcredit expands and becomes more and more popular. While if it is seen as a social response to needs ignored by market mechanism, stakeholders could hope that market actors (i.e. mainstream credit providers) would learn and provide in the near future more appropriate credit products, and that public bodies would also learn to provide more accessible grants for the needs which cannot find a market answer.

The role given to microcredit will have an impact on:

- The type of partnerships: is it normal that social organisations work for free while credit providers try to develop a profitable business model;
- The indicators of success: beyond the reimbursement by borrowers (which would be the bottom line if microcredit would be a market product) what about the larger impacts for borrowers (like better financial inclusion) as well as impacts for stakeholders?