Scaling up for financial inclusion

Key findings

Lack of access to affordable credit leads to unaffordable debt for low-income households. This debt has social and economic consequences, including higher incidence of depression, poor health, relationship break-ups, crime and unavailability for paid work.

Financial exclusion is concentrated in areas of deprivation where government programmes such as neighbourhood renewal initiatives are investing much money and resources. However, nearly equal amounts of money are draining out of these areas due to household being reliant on extortionate lending practices of door-to-door moneylenders.

There are many organisations in the community banking sector, namely credit unions, community development finance institutions, banks, housing associations and advice agencies, working to tackle financial exclusion. But with a few exceptions these services are very local and do not provide the range of services required.

There needs to be “width” (serving a local authority area) and “depth” (range of financial services) plus a commitment to scale-up in any strategy to tackle financial exclusion. Basic financial services should include: access to affordable credit, advice and budgeting services, basic bank accounts, savings facilities, financially literacy course and also access to the ATM network, insurance products and card accounts,

Agencies need to co-operate or create partnerships to provide the “width” and “depth” of financial services needed to tackle financial exclusion. There are some new models of agencies working together in a few area of the country - for example, the Community Banking Partnership in Birmingham and the Financial Inclusion Forum in Sheffield. In addition, city-wide credit unions, in cooperation with other agencies are providing a range of services, including, instant/ emergency loans. But these models need to be scaled-up and replicated so that all households living in the most deprived neighbourhoods have access to a range of affordable financial services.

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New models of co-operation will vary from area to area, depending on the capacity and existence of local community finance organisations. No one model will fit all situations, but collaborative or partnership working needs to be a feature of delivery mechanisms.

Credit unions already exist in over 80 percent of the 88 most deprived LA areas (sources: ABCUL and the web). The CDFIs providing personal loans are also concentrated in these areas. These organisations need to extend and expand their operations and be used as springboards to provide financial inclusion. In many cases this collaborative partnership will come into being under the umbrella of a Financial Inclusions Partnership.

Local authorities need to act as overall “drivers”, through Local Strategic Partnerships, to ensure that financial inclusion is being tackled in their areas. In rural and non-metropolitan areas Regional Development Agencies could play an important “driving” role.

Within the community finance sector there is a debate between subsidies versus sustainability in the provision of affordable credit.

A certain amount of tension exists within the sector over a community-based and “small is beautiful” ethos, as opposed to becoming larger, more efficient and financially sustainable. It is possible to scale-up but still have a local presence and local involvement.

Current government policies and resources provide a real opportunity to tackle financial exclusion.

Resources to scale-up

It is difficult to put an exact cost on scaling up because there is no “one solution fits all”. Every area is starting from a different base level. Some areas will have active and thriving credit unions, advice centres and voluntary sector organisations with supportive housing associations and local authorities. Others will not. But resources will be needed to support the formation of partnerships in the most deprived areas. In districts where there is no organisation driving the financial inclusion agenda, resources may be needed to support the work of Local Strategic Partnerships or Community Legal Service Partnerships.

In December 2004 the Chancellor announced £120 million for a Financial Inclusion Fund to promote financial inclusion. This fund should be used to support the development of partnership arrangements that will deliver the range of financial services to the most deprived neighbourhoods.

The Community Banking Partnership project estimates that setting up partnerships in six pathfinder areas will cost a total of £2million over 3 years. But the Community Banking Partnerships usually build on the capacity of existing local organisations and have also managed successfully to mobilise funding from the private sector.

In Sheffield the cost of developing the four strands of the Financial Inclusion Forum - savings, loans, money advice and financial literacy will cost a maximum of £3.3 million over 5 years.

The main expenditure for setting up FIPs will occur in the first year, when capital expenditure will be needed for premises, equipment and salaries for development workers. The need for external inputs will gradually decrease as agencies within the partnerships become more financially sustainable. But there has to be recognition that certain services, such as advice and financial education, will never be able to achieve financial sustainability.

Using a ball-park figure extrapolated from the experiences of the CBP and Sheffield, the cost of developing FIPs in the 88 most deprived local authority areas, would cost £30 –50 million in the first year. Before receiving any funding from the Financial Inclusion Fund, costed business plans should be provided. These should include outputs for the first five years of investment and plans for sustainability.

Money from other sources - Neighbourhood Renewal Funds, Community Legal Services Partnerships, trust funds, banks and charities - could also be used alongside the Financial Inclusion Fund to develop FIPs.

Recommendations

1. The Neighbourhood Renewal Unit should promote activities that tackle financial exclusion in all the Neighbourhood Renewal Areas.

2. All local authority areas within the 88 most deprived areas should draw up a Financial Inclusion Strategy (FIS). This should be done through the Local Strategic Partnership. The FIS would outline the financial inclusion products needed. These are:
   - Affordable credit,
   - Savings facilities,
   - Money advice and budgeting services and
   - Basic bank accounts.

3. The FIS would identify all the local agencies able to delivery services and concerned with financial exclusion. The Financial Inclusion Fund should be channelled via the FIS, but only on the basis of a robust business plan dealing with issues of long term sustainability, coordinated service delivery and clear targets for growth and delivery of service.

4. Local Strategic Partnerships should be able to draw down on the Financial Inclusion Fund to plan and develop the FIS.

5. A lead agency should be appointed from local organisations to coordinate the delivery of the FIS. This would be done through partnership working. Working in partnership could include formal community banking partnerships, group structures or looser partnerships based on city-wide credit unions working with other agencies to deliver the full range of products. The lead agency's main task would be to guarantee delivery of all products in all areas where they were needed.

6. Delivery should be through "one-stop shops", located in local shopping centres, or near to where customers live. People should be able to access the full range of products and advice in one location

7. Local Authorities and housing associations should be encouraged to provide support and resources. Such support could be in the form of premises for one-stop-shops and grants from the FIF should be available for the renovation of such property.

8. Services provided through any financial inclusion partnership should by widely promoted. This could be done through information sent out with rent and community charge bills and through voluntary sector organisations and housing associations. Other agencies such as Primary Health Trusts, Sure Start and Home Start could also disseminate information.

9. Financial inclusion partnerships should always provide bridges to the formal banking sector. Local banks should be able to refer, when necessary, customers they cannot help to local credit unions and other community banking institutions.

10. To build capacity of the community finance sector to tackle financial exclusion credit unions should be able to administer the following products:
    - Basic bank accounts
    - The Child Trust Fund
    - The Savings Gateway
    - Benefits
    - Grants from the Financial Inclusion Fund.

11. Consideration needs to be given to the establishment of a national Financial Inclusion delivery agency to work alongside the Neighbourhood Renewal Unit and the Financial Inclusion Task Force in promoting the roll-out of a national programme. Such an agency would share good practice and promote research and development of new products and initiatives by working with existing public, private and voluntary stakeholders. The agency would also pay special attention to areas where there are no “drivers” for financial inclusion by working closely with the local authority and housing associations.

Conclusion

In conclusion, for many families debt means that substantial parts of their weekly income are spent on servicing loans, and usually for goods already consumed, such as food, petrol or clothing. The consequences of servicing high levels of debt are financially crippling, and have disastrous effects on these families’ health and wellbeing. Access to affordable and available credit would go some way to ameliorating this situation.

With relatively small amounts of public investment to enable local community finance organisations to scale-up their operations and work with other agencies, vulnerable households could be provided with affordable credit and other financial services as an alternative to predatory lending. This scaling-up process and the development of partnership working would ensure the delivery of financial products for those households currently excluded from the banking system.

About the report

This report examines the social and economic consequences of over-indebtedness and extortionate lending and proposes a possible framework for delivering affordable credit and other financial services to low in-come households.

This report is an attempt to bring together material and research that is already in the public domain. In proposing solutions to scaling-up it relies on the experience of existing organisations and the views of people who are forced into unaffordable debt as a result of no affordable alternatives.

It has been prepared by Jenny Rossiter with Niall Cooper for Debt on our Doorstep, and is based on a series of seminars, visits and interviews with key stakeholders in the field of debt and financial exclusion during 2004.

Copies of the full 36 page report, price £5.50 plus £1.50 postage and packing are available from Debt on our Doorstep, c/o CAP, Central Buildings, Oldham St, Manchester, M1 1JT. Tel 0161 236 9321. Copies can also be downloaded from the Debt on our Doorstep website free of charge at www.debt-on-our-doorstep.com

Published for Debt on our Doorstep by Church Action on Poverty Ltd, Reg charity no 1079986