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The Impact of Microfinance as **Active Inclusion Strategy**

Foreword

The Research Working Group (RWG) of the EMN is proud to present the 5th issue of the Electronic Research Bulletin (eRB). This review is an annual output of the RWG and is intended to promote microfinance research in Europe by giving researchers a permanent forum through which their work can reach a pan-European audience.

On the 18th of November 2013, the Research Working Group, under the coordination of Fondazione Risorsa Donna and the scientific supervision of Prof. Marcella Corsi (Sapienza University of Rome), has organized an EMN debate on "The Impact of Microfinance as Active Inclusion Strategy" in Rome, Italy. This eRB stems from the contributions to this conference.

EUROPEAN MICROFINANCE NETWORK

Microfinance is widely seen as improving livelihoods, reducing vulnerability and fostering social as well as economic empowerment.

The EMN debate has provided a timely opportunity to discuss the various ways active inclusion can be encouraged by giving access to savings, to credit or to financial assistance (e.g., in the form of insurance), reducing the possibility of falling into the poverty trap and, therefore, showing how vulnerable people could benefit in some way from microfinance.
RWG welcomes the participation of all key partners, responsible authorities and stakeholders. The meeting supported the exchange of ideas and encouraged participants to engage in thought-provoking topical debate.

In what follows, a selection of contributions is presented in the form of inspiring projects, reflections, experiences, etc. Particular topics of interest are the following:

- The contribution of microfinance to the construction of a society without gender discrimination;
- The use of microfinance to reduce the actual credit-crunch and help people achieve their basic needs (e.g., housing);
- The identification of microfinance institutions' as social actors looking at poor people as a target market; and,
- The impact of microfinance, in terms of savings, for vulnerable people.

Microinsurance and **Gender**

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After the rapid success of microcredit and, to a lesser extent, microsavings in recent decades, microinsurance has been the third financial service to enter emerging financial markets in the developing world.[1]

Microinsurance intends to help low-income people manage risk and improve their living conditions. In many developing countries, the coverage of public security systems remains below ten percent of the population. Research has shown that many of the alternative strategies applied by low-income people to deal with the consequences of insurable shocks are not efficient and involve high costs in the long term.[2] In this context, microinsurance is seen as a promising instrument to deal with vulnerability and offer better protection to low-income people.

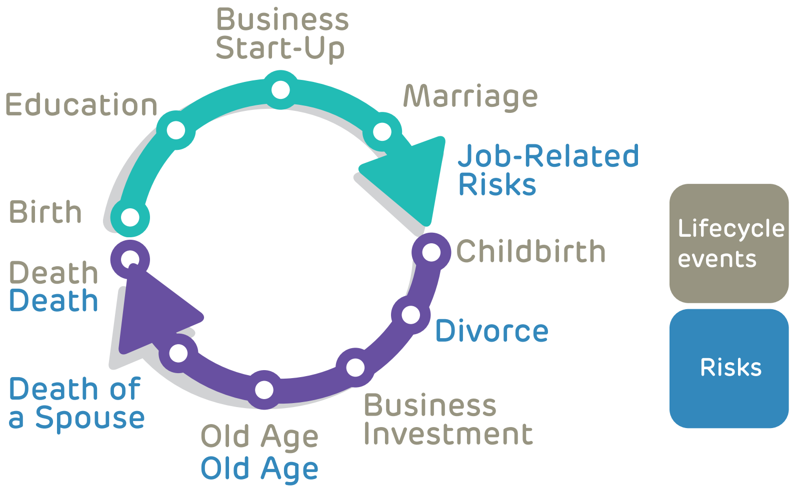
Today, microinsurance products are available to cover many of the most pressing risks for the low-income population in developing countries, such as death or illness to a breadwinner in the household, funerals, property loss, old age poverty and agricultural risks. In order of frequency, products include life insurance (mostly tied to a loan), health insurance, agricultural index insurance, disaster insurance and property insurance.[3] While there has been a focus on the provision of microinsurance to low-income people in developing countries, microinsurance may be offered to the low-income population anywhere in the world. Following the expansion of microinsurance in developing countries, microinsurance has now entered the European microfinance discussion despite Europe's relatively well-developed insurance sector. However, the few existing products to date are largely found in Eastern Europe. They primarily include loan protection policies, life insurance and health care complements.[4]

Gender vulnerability to risk and intra-household relations:

The financial vulnerabilities associated with many insurable risks are found to be different for women and men. As shown in Figure 1, women are particularly prone to shocks such as childbirth, health problems for themselves and family members, the loss of a breadwinner's income due to death or divorce and, relatedly, vulnerability in old age.

Lifecycle Events and Risks for Poor Women

Source: Banthia, A., Johnson, S., McCord, M., and B. Mathews (2009), Microinsurance that works for women: making gender-sensitive microinsurance programs, Microinsurance Paper No. 3, ILO: Geneva.



While men are confronted with several of these risks as well, the impact on women's livelihoods is often said to be far greater. Women typically earn less money (often disproportionately more from informal sector activities) and more women than men are poor.[5] Furthermore, the investment and wealth management practices of women significantly differ from those of men. Generally, women employ less efficient strategies to respond to risks as compared to men. Especially in low-income countries, women are often the primary caregivers and resource manager in the family, making them disproportionately bear the consequences of a household's inability to smooth consumption.[6] In this regard, it is possible that women are 'better' clients for microinsurance, if they can gain more from insurance than men.

At the same time, however, women may also be more excluded from accessing microinsurance due to formal and informal gender-biased rules in society and financial institutions. The opportunity to obtain insurance, as well as the design of insurance, may then be heavily influenced by gender differences in family and social roles or economic status. This could then be one explanation for the observed differences in the financial protection of women and men and indicate that risk coping within the household is not always a joint endeavour. Rather, household members may have conflicting interests regarding the strategies chosen to deal with risk and, consequently, bargain over respective decision outcomes. Hence, whether or not women can satisfy their demand for insurance and secure their own livelihood and that of dependents is likely related to (gender) imperfections in the market in addition to intra-household power relations and financial management. Thus far, however, gender differences in insurance behaviour have not received much attention among stakeholders or in the research literature.

Research on gender differentials in microinsurance participation patterns in Ghana

In the context of a research project investigating the determinants of participation in microinsurance conducted by the German Institute of Global and Area Studies, a quantitative household survey was administered to more than 1,000 households in Southern Ghana in 2009.[7] About a third of these households were microinsured by a micro life insurance policy provided by a Ghanaian life insurer, the Gemini Life Insurance Company, that distributes the policy via rural and community banks and microfinancial institutions. The survey was conducted in the service areas of three rural banks in the Central Region, the Eastern Region and the Volta Region covering 17 (small) towns.

The questionnaire covered demographic and socio-economic characteristics, assets, risks and risk management of the households. Furthermore, a special feature of the survey was to separate some of the modules for spouses in couple households, who then answered the same questions individually. These included questions on the use of insurance and other financial services, as well as risk perceptions, attitudes and integration into networks. Complementing earlier research on the participation in microinsurance at the aggregate household level, this feature allowed us to take a disaggregated view of the behaviour of women and men in the market on both the inter-household as well as the intra-household level.

Results indicate that, at first, women's participation in micro life insurance is not uniform across different household types. Households headed by a (single) woman are less likely to purchase micro life insurance as compared to couple households and single men households. This could be a sign of gender discrimination in the market. However, the finding that wives in couple households are, in fact, more likely to purchase micro life insurance than their husbands disproves this. Interestingly, this is only the case in the two regions dominated by matrilineal societies. In addition, evidence at the intra-household level shows differences in husbands and wives' uptake of micro life insurance. As compared to the husband, the wife's uptake is more strongly associated with informal non-farm activities, bad health, household wealth and a bequest motive towards children. As compared to the wife, the husband's uptake responds more strongly to his perceived risk exposure of the household, indicating stronger pessimism on the value of the insurance for the man in couples. A reallocation motive in favour of a surviving spouse seems to be of little relevance for both spouses. Furthermore, the evidence suggests that a spouse's bargaining power in household decision-making plays a role, especially for the wife's ability to purchase insurance for herself, but not for the husband's decision to purchase it. These findings support the notion that there can be gender differentials in microinsurance participation that are associated with intra-household power relations, though these may be heterogeneous and rooted in the particular local cultural and social background. Overall, the results suggest that spousal preferences on insurance differ and that women are an important target group for the provision of microinsurance.

What can be learnt from the debate on microinsurance and gender in developing countries with regard to the European context?

As mentioned above, microinsurance is a rather new concept in Europe. Products are mainly offered in Eastern European countries, whose poverty rates are often close to those found in developing countries. Generally, it seems likely that microinsurance in Europe is appropriate only for very specific demographic groups and geographical regions given the high coverage of the national social security systems in most countries. However, in other European regions, microinsurance may be an important product to offer in addition to existing microfinance services. In this regard, an exceptional example is the new Credit Protection Insurance (CPI) offered by PerMicro in Italy, primarily targeted at small business entrepreneurs.[8] Such insurance is linked to microcredit and covers the insured in the case of death, disability, admission in a hospital, and unemployment. Additional advantages include a lower interest rate for the clients taking the insurance coverage and the insurance allows for a better credit rating evaluation.

With regard to Eastern Europe, market feasibility studies on microinsurance in countries such as the Ukraine, Armenia, Albania, Georgia and Romania have shown high potential, especially for micro health insurance, property insurance and life insurance.[9] However, impediments to the trade of these insurance products are identified to be a limited understanding of the concept of insurance, strong distrust in the insurance industry and the perception that insurance is too expensive among the target group of low-income people. The relevance of a gender dimension in these potential microinsurance markets is underlined by the discovery that, similar to the case of developing countries, female-headed households typically have lower risk management capacities. At the same time, there seems to be a higher uptake among wealthier, better-educated men in urban areas.

Concerning the initial efforts of introducing microinsurance in the European context, gender dimensions in potential market participation could be a key consideration from the outset. Microinsurance can be of particular interest to MFIs that target women in particular, as it may be one way to empower women to take business loans and/or to improve their families' risk management in terms of health care, old age protection and protection against other uninsured types of risk. Consequently, taking into account women's demand responses, acknowledging gender differences in market participation behaviours, and both the product design and modes of delivery will be important facets to the introduction of European microinsurance.

Endnotes

1. Microinsurance has become commonly defined as "the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved" (Churchill, C. and Matul, M. (2012), Protecting the poor. A microinsurance compendium, Geneva: International Labour Organization, p.8). Thus it functions in the same way as regular insurance except that its clearly defined target group is low-income people.
2. See for instance Dercon, S., Bold, T., and Calvo, C. (2008), Insurance for the poor?, in Barrientos A. and D. Hulme (eds.), Social protection for the poor and poorest. Risk, needs and rights, pp. 47–63.
3. http://www.microinsurancecentre.org/landscape-studies.html
4. See the market and feasibility studies on microinsurance provided by the Microfinance Centre for Central and Eastern Europe and the New Independent States, Warsaw, Poland. http://www.mfc.org.pl/en/publications/research-results
5. In fact, 70% percent of the world's poor are women. See http://www.globalpovertyproject.com/infobank/women
6. Banthia, A., Johnson, S., McCord, M., and B. Mathews (2009), Microinsurance that works for women: making gender-sensitive microinsurance programs, Microinsurance paper no. 3, ILO: Geneva.
7. See also Steiner, S. and L. Giesbert (2010), Microinsurance: a large untapped market, DIW Weekly Report 33, DIW: Berlin.
8. Burlando, R., Solaroli, E., and I. Brianza (2010), Structural models for microfinance in the developed countries. The PerMicro experience and its implications http://www.euricse.eu/sites/default/files/db_uploads/documents/1281096091_n613.pdf
9. See endnote 4.

Microinsurance: PerMicro practice

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The recent financial crisis that has struck Italy increased the number of "moderately poor and vulnerable non-poor" people (Simanowitz, 2007, p. 60)[1] struggling to gain access to traditional credit channels.

These individuals are often immigrants, women, unemployed and youths that, due to lack of stable income and collateral, are unable to satisfy traditional credit scoring requirements. Most of these vulnerable groups do not have financial and management education. Despite these disadvantages, many of them have professional capacities - for example entrepreneurial spirit, technical skills, practical knowledge and family background - to successfully run a small business. They need a specific combination of financial and non financial services (also known as Business Development Services) in order to (1) obtain the initial capital to start up their business project and (2) achieve the managerial and financial knowledge required to manage a sustainable business activity.

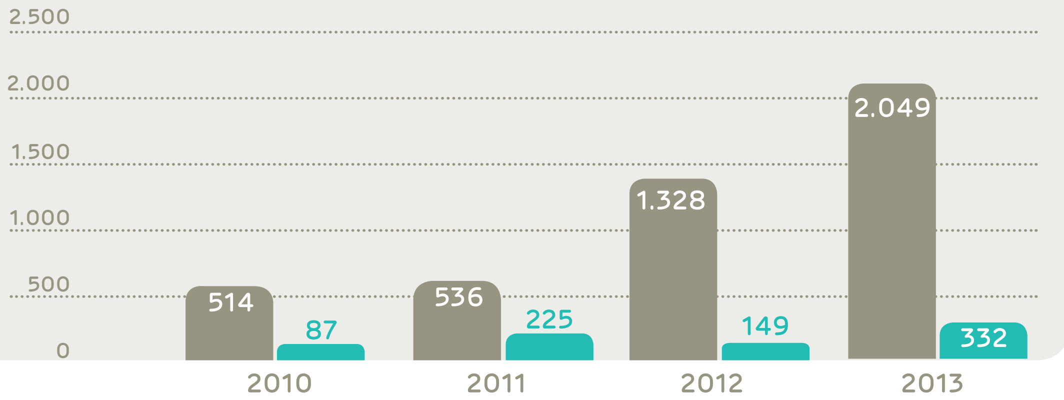
Given this context, **PerMicro** was created in 2007 by two private investors willing to provide access to credit and business assistance to unbanked people.

PerMicro aims to reach complete self-sustainability through the design and supply of innovative financial products relevant for, and easily understandable by its clients. PerMicro's products are characterized by a high degree of flexibility, low formal requirements (especially in terms of documentation) and simplicity.

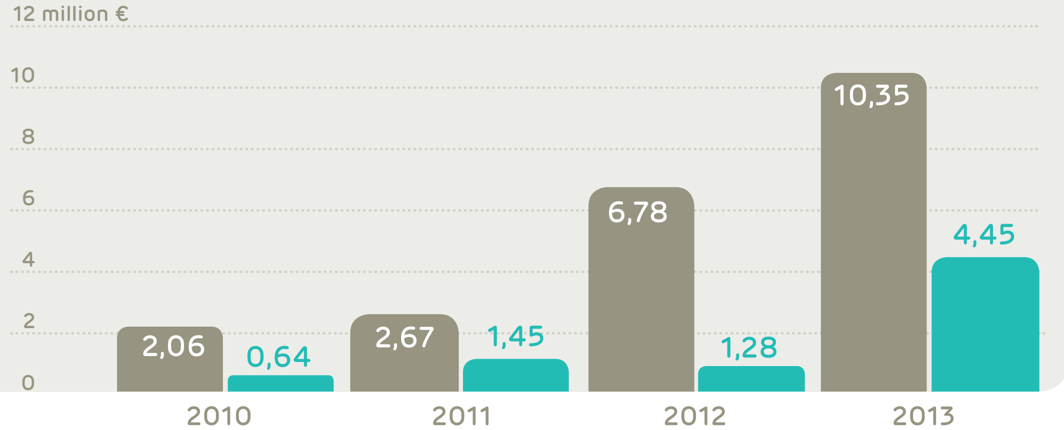
In addition to financial services, micro entrepreneurs receive, during the pre-credit phase, coaching on business plan and cash flow analysis. Following the microcredit disbursement, customers are supported with business mentoring activities. Regarding microcredit that addresses basic family needs, families and individuals receive specific training about financial planning and over-indebtedness risk awareness. To implement even more of these activities, PerMicro endorsed the creation of the **PerMicroLab non-profit association**, which offers specific business coaching throughout a network of qualified volunteers.

Since 2007, PerMicro has issued more than 922 microloans (over 8 mn euro disbursed) for start-up and business development and over 4.692 microloans (more than 23 mn euro disbursed) to improve clients' family life and living conditions (health care, housing, education, social obligations).[2]

Number of microcredits and total amount of credit provided from 2010 to 2013 (*)



Total amount of microcredits disbursed from 2010 to 2013 (**)



Source: PerMicro monthly activity report (31st December 2013 data).
Note: (*) provisions for 2014 are 2.995 loans provided for basic family needs and 839 for start-ups and small businesses. (**) provisions for 2014 are 15,15 m € disbursed for basic family needs and 11,16 m € for start-ups and small businesses.

PerMicro is now operating nationwide with 13 branches in 11 Italian regions.[3] PerMicro's shareholders include foundations (Fondazione **Paideia**, Fondazione **Giordano dell'Amore**, Fondazione **Sviluppo e Crescita - CRT**), impact investors (**Oltre Venture** social venture capital and **Phi Trusts** social investment fund), European Institutions (**The European Investment Funds**), private investors, and **BNL-BNP Paribas Group**.[4] The BNL-BNP partnership highlights the increasing cohesion between commercial banks and microfinance sector, showing the market that poverty alleviation and traditional finance **may go** hand in hand.

Microinsurance key points

Money management is one of the biggest challenges for poor and vulnerable people. Indeed, most of microfinance clients struggle with unstable incomes, and uncertain incomes and cash flow fluctuations. Evidence shows microfinance clients diversify their use of financial services between formal (banks, financial institutions, etc.) and informal sources (friends, relatives, local communities, etc.) due to the fluctuations in their incomes and expenditures. This diversification of financial sources helps them cope with several simultaneous financial needs, mitigating the risks of a liquidity crisis. The role of microfinance institutions is to help clients stabilize their financial situation and to better cope with unexpected expenditures. This same concept applies to insurance: vulnerable people typically insure themselves informally, asking for informal credits to cover unexpected life events (job loss, illness, funeral, etcetera). Given this context, microinsurance has proven to be one of the best tools to mitigate risks and avoid income shocks. Indeed, microinsurance can be defined as a protection mechanism against specific risks in exchange for regular premium payments, whereby the premium is proportional to the likelihood and cost of the relevant risk.

Concerning the supply of microinsurance services, many microfinance institutions have adopted the so-called "partner-agent model". Essentially, the microfinance institution works as an "interface" between the insurance company (the "agent") and the final client, which has no direct contacts with the insurance company. The microfinance institution earns a small commission as the insurance company takes the primary risk.

Classic problems of asymmetric information appear under this model. Problems of asymmetric information - adverse selection[5] and moral hazard[6] – might be mitigated by the following measures: (i) the use of deductibles and/or co-payment systems and (ii) the restriction of the number of diseases that the insurance is covering.

PerMicro microinsurance practice

PerMicro offers additional insurance products using the above-mentioned methodology. Due to positive trends in the sector and the increase of demand, PerMicro management is evaluating the opportunity to expand the supply of products into microinsurance. In fact, for the past 18 months, PerMicro has been analyzing the opportunity to offer microinsurance products together with microcredits. Even if the insurance products are not their core business, PerMicro believes that the additional products may represent an answer to some unfulfilled customer needs and complete the PerMicro's product offering. At present, PerMicro offers clients a CPI (Credit Protection Insurance), which covers the insured in case of death, disability and labour loss. The average premium paid for this product is equal to a third of the market price.

Concerning future developments, PerMicro is contemplating the launch other types of microinsurances, such as:

1) **Labour loss for housemaids:** on the one hand, this group of potential clients runs a high risk of labour loss linked to the death of the assisted persons/employers. On the other hand, housemaids are also able to find another job fairly quickly;
2) **Repatriation of the body:** in order to transfer the costs related to the body repatriation of the insured to the insurance company, enabling the insurance company to unburden the insured's family; and,
3) **Microbusiness:** to be diversified for each type of microenterprise.

The advantages produced by this innovative model would be significant, both for clients and PerMicro. From the clients' perspective, the insurance coverage may lead to a lower interest rate. Moreover, clients can access a professionally managed insurance product and thus benefit from a better "return on investment" than with an informal means of insurance.[7] For the institution in charge of credit disbursements, the insurance coverage allows for a better credit rating evaluation. PerMicro's clients are not obliged to include the insurance coverage in their microcredit contract. However, together with the credit and the business development services, the customer receives training and information about the benefits and functionality of the insurance coverage. This activity, despite being time consuming for PerMicro's staff, is considered relevant for client protection. Indeed, this conversation mitigates trust issues and the lack of awareness that microfinance clients often show regarding insurances. Lack of trust is particularly frequent among vulnerable people. Prospective clients are not sure of being paid out in case of a claim and, even if the do receive a pay out, they cannot take the risk to waiting months before receiving the money. This is another feature related to unstable and uncertain cash flows: if an unexpected event occurs, the individual doesn't have any liquidity "buffer".

PerMicro has a great reputation of transparency among its customers and this reinforces the trust relationship with them. The practice to present the insurance coverage together with the microcredit helps clients to fully understand the product and rest assured on its security and fast disbursement.

Conclusions

The microinsurance market has shown high potential and is still relatively unexplored. Insurance coverage can be especially important for the disadvantaged because they are more vulnerable to unexpected negative events. Many people need insurance for risk mitigation, but they are often excluded from this service. To date, the insurance companies' response has been insufficient. In fact, a significant discrepancy exists between the supply of insurance coming and the composition of the demand. Currently, insurance companies have been able to offer only life insurance or policy insurance in case of death; yet, both have been too expensive for microfinance clients. In addition, insurance companies are not investing enough into these markets and products, mainly due to the lack of data and statistics on potential clients. Several studies (e.g., Cole et al., 2013)[8] suggest that the barriers to buying insurance are related to both price and non-price factors, but the latter appear to be the most constraining to the development of insurance demand. Trust issues, financial literacy and education, low awareness of the product, and flexibility in product design are key points to effectively consider a client's need of risk mitigation. PerMicro is analysing this potential market. Operating as a pioneer in Italy, PerMicro is attempting to to design specific products suitable with its mission of complete self-sustainability and social impact.

Endnotes

1. Simanowitz, A. (2007), "Achieving poverty outreach, impact and sustainability: managing trade-offs in microfinance" in Balkenhol, B. (2007), Microfinance and Public Policy – Outreach, Performances and Efficiency, Palgrave Macmillan.
2. PerMicro monthly activity report (December 2013 data), p. 5.
3. PerMicro monthly activity report (December 2013 data), p. 7.
4. PerMicro monthly activity report (December 2013 data), p. 6.
5. Those seeking insurance are the ones who will probably make use of it most, which makes it costly for the insurer (health insurance).
6. The insured may be more reckless, increasing the probability that the insurance company has to pay (fire insurance, theft insurance).
7. http://www.microinsurancenetwork.org
8. Cole, S., Giné, X., Tobacman, J., Topalova, P. B., Townsend, R. M., and Vickery, J. I. (2013), "Barriers to household risk management: evidence from India", American Economic Journal: Applied Economics, 5(1): 104–135.

Microsavings at Community level: **the SFC approach.** How low-income people can and do save in Europe

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We, as Europeans, believe that microfinance in our countries is for business and not assistance to the poor; that low-income people can not save; that a bank account in our countries is accessible to everybody who wants to save and that savings groups and community financial practices are only relevant in developing countries.

Because of these beliefs, we would never imagine that we could actually learn from traditional Southern community practices and draw inspiration from them on how to fight poverty in our home countries. We could never imagine that bringing these Southern practices to Europe (under the guise of Self-Funded Communities) could help us discover the roots of microfinance and explore the limits of the European microfinance sector, collectively creating the starting point of an active inclusion path in Europe whereby people can choose what kind of financial inclusion they want for themselves and their communities.

Back to the roots of microfinance

Mohammed Yunus has reminded us that poor people can pay back a loan since most of us had forgotten that during the fifteenth century, the first microfinance institution was born in Europe to fight against usury and moneylenders: the Mount of Piety.

Stuart Rutherford, Daryl Collins, Jonathan Morduch and Orlanda Ruthven have reminded us that poor people can save, since most of us had forgotten that the first savings banks were established in the nineteenth century in Europe as non-profit institutions with the purpose of collecting small savings from the public, mostly low-income people.[1]

Hugh Allen (VSLA), Salomón Raydán (Bankomunales) and the big development institutions (CARE, Plan, CRS, AKF, Oxfam...) have reminded us that poor people can be self-financed and can create sustainable groups at the community level and that the owner-members of such groups set their own rules and help each other build assets and deal with risks. Most of us have forgotten that in the second half of the nineteenth century, worker societies of mutual aid were born to promote solidarity and mutual aid among workers, artisans and professionals, involving more than 926,000 members in 1904 Italy.

Self-Funded Communities (SFC) remind us that community-led financial practices are not microfinance fossils in Europe but key elements for the development of our sector in times of crisis and to accomplish the triple sided mission of microfinance: to fight against usury, financial exclusion and poverty in our countries.[2]

"It is not about money, it is about people"

Despite development in the microfinance sector in Europe, we are still far from offering vulnerable people transparent, tailor-made and quality microfinance products and services to cover their current needs.

In the light of Sen's capability approach[3] - where poverty is understood as a capability-deprivation to live a good life – the best design for a microfinance program is not to provide microloans, but to provide microsavings and microinsurance, along with other non-financial service programs.

SFC's approach is not about loans or being small (micro), it is about people and helping them to reach their potential.[4] It is not about business but about fostering solidarity, social cohesion, informal learning (learning-by-doing and learning by-sharing) and a sense of community. It is not about constraints, it is about capabilities, freedom to choose and take control of our financial lives again.

The Self-Funded Community Model

The Association for Self-Funded Communities (ACAF) is a non-profit organization, which has launched the Self-Funded Communities (SFC) Model in Spain, Portugal, Hungary, Italy and the Netherlands. The SFC methodology provides a framework for the development and management of savings groups in Europe, based on democratic participation, transparent structures and good governance. The main objective of SFC model is to promote community empowerment.[5] Moreover, this initiative reveals the great potential that southern communities can share with developed societies since models such as susu (West Africa), harisan (Indonesia), chit funds (India), tontines (Senegal), san (Caribbean) contribute in solving more than financial problems.

Although the Savings line represents the more visible aspect, this aim would not be achieved without a strong community in a context where the target population lack social networks.

Methodological approach

Low-income, European families can and do save but they have trouble accessing safety financial services that meet their needs. The SFC experience shows that organizing communities through savings is an efficient strategy to help European low-income families to face unexpected living expenses and to make choices that will improve their lives.[6] Learning from Southern microfinance experiences and putting these practices at the forefront, the community indicates that the key to rising out of poverty in Europe is not just credit.

The SFC methodology is based on a community managed microfinance approach. The people, organized in groups (called SFCs) are able to save small amounts of money (microsavings), to borrow money (microcredit), to manage their own finances (financial education) and to earn some income at the end of the financial year (micro investment) coming from the profits of group-lending. The members of each SFC are co-founders and co-owners of the group. The decisions are democratic and the rules are written, shared and known by all group members.

The Self-Funded Communities (SFCs) are small communities of ten to thirty people who invest in creating a common credit fund from which they can borrow if needed. There is no external money and only members can invest in the group. As owners of the funds, they decide the credit conditions – interest rate, terms, collateral – and they receive all the benefits of the credit activity including a share of the interest earned on loans made by the group. The fund is completely self-managed and self-financed. The total sovereignty of the members upon the management of the funds is a differentiating factor with regard to classic models of microfinance. After nine years of operation, the model has been consolidated with the creation of around 95 groups in Europe as a new way of community-managed microfinance.[7]

Results

Within the EU, 95 groups have already been created, totalling approximately 1,600 members and around 5,600 indirect beneficiaries. The average return on savings stands at 12%, equalling a sum of 61,985 euro.

In Spain, up to 78% of the SFC's members are migrants, but due to the financial crisis, saving groups are also becoming an attractive and suitable option for young people and European families. Sixty percent of SFC members say that the group is their only social network. In Hungary, SFCs were set up among low-income Roma groups in rural areas and six pilots project were set up among youth (in Central and Northern Italy), migrant communities (Southern Italy) and people with mental health disorders (Northern Italy).

In Barcelona, where the SFC project was launched in 2004, the cases of two groups clearly indicate that, if given the adequate tools, low income-people can implement a significant program of asset building through savings, regardless of the unfavourable circumstances that may affect them. The PY and XEWEL SFCs of Paraguayans and Senegalese people have managed to achieve saving rates of 314 % and 211% in their first year of existence. The SOMEFI SFC in Naples goes further and the members are sharing their experience among the diaspora from Burkina Faso in Italy, building a common co-development project in order to create a village bank in their home country.

Conclusions

From a theoretical standpoint, SFCs represent a challenge that needs further involvement. Practices of community managed financial capital (strictly interconnected with social capital) implemented in developing countries stimulate a reflection on the possibility of reaching a social and economic balance in European countries, capable of recreating or extending the network of resources of those people whom the current economic system is forcing towards social exclusion and financial illiteracy. Mutualism and community managed microfinance practices in Europe could reinforce the savings culture, increase financial security and reduce vulnerabilities and barriers, fostering a safe way to save and build community resilience and empowerment in European countries. It is definitely a way of moving towards a democratic, transparent, trustable and sustainable microfinance system in which microsavings at community level can be the origin of an active inclusion path in Europe.

Endnotes

1. Collins, D., Morduch, J., Rutherford, S. and Ruthven, O. (2009), Portfolios of the poor: how the world's poor live on $2 a day. Cape Town: Cape Town University.
2. Hirschland, M. (2005), Savings services for the poor: An pperational guide, USA: Kumarian Press.
3. Sen, A. (1999), Development as freedom, Oxford: Oxford University Press.
4. Torcat, M., Rodriguez, J., Raydan, S. (2011), La Otra Microfinanza. Una estrategia distinta y complementaria para masificar los servicios financieros a los más pobres, Fundefir.
5. Fall, A. and Rodriguez Pulido, P. (2013), "How can savings build communities resilience and empowerment?", paper presented at the conference Social Innovation in Micro-Savings, European Financial Inclusion Network (EFIN), Brussels, Belgium.
6. Rodriguez Pulido, P., Lulli, F. and Fall, A. (2013), Community Managed Microfinance Experiences in Europe: the Self-Funded Communities, poster presented at the III Congress of the Italian University Network for Development Cooperation (CUCS), Turin, Italy.
7. Musk, G. (2012), "Asset building in Europe: a community approach", IACD: Practice Insights, Issue 1: Poverty and Community Development, pp.12-13.

Interest rate in personal microcredit initiatives based on partnerships

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The issue of a "fair" interest rate in microcredit initiatives is at the centre of the international debate.

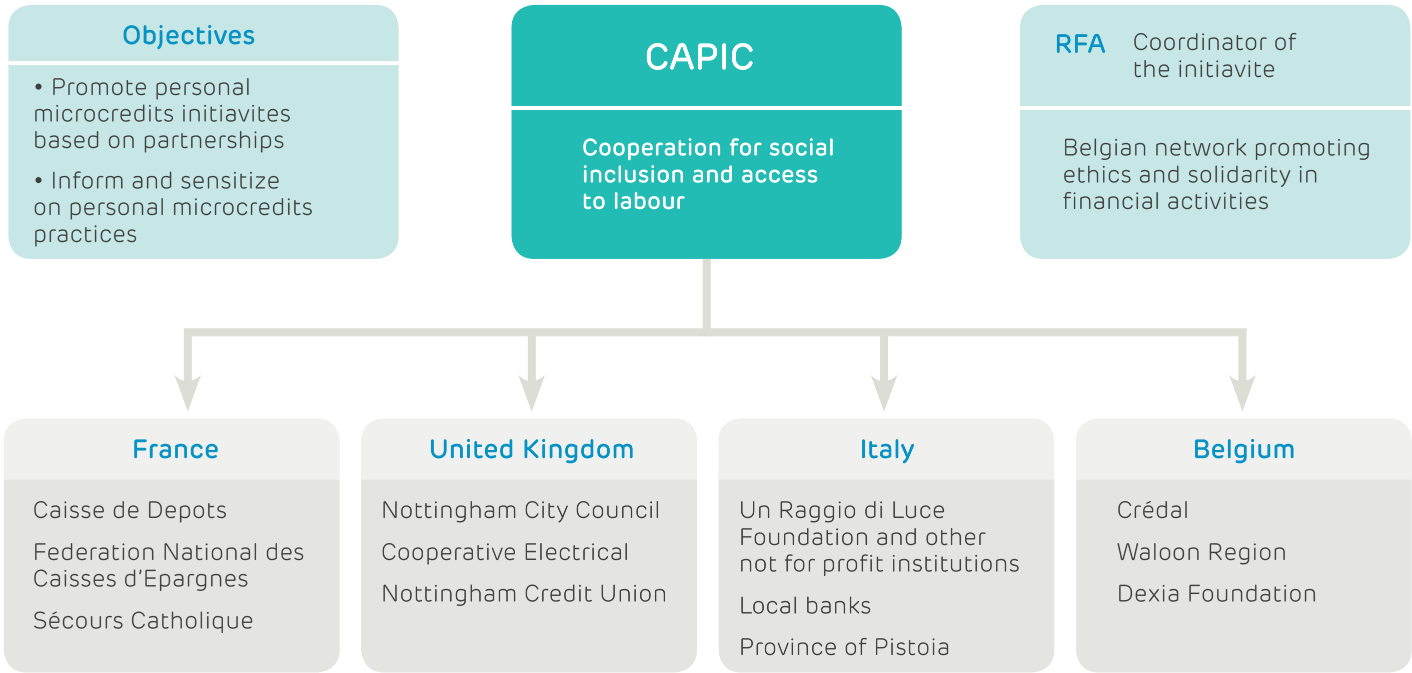
A lot of studies and papers have been published on the topic and, with particular reference to microfinance programs in developing countries, a large portion of the literature highlights the challenge of providing credits at interest rates that are sustainable for the providers and affordable for the recipients. Indeed, if interest rates have this double characteristic, credits are considered valuable instruments for the empowerment of the low-income population and also for the durability of lending providers.

The primary purpose of this article is to share a few considerations on the issue of interest rates as they unfolded in the CAPIC project – Cooperation for Affordable Personal Inclusive Credit – a European initiative co-funded by the European Commission, coordinated by the Belgian NGO Réseau Financement Alternatif, and carried out in Pistoia (Italy) by the Foundation **"Un Raggio di Luce Onlus"**.

The objective of the project was to analyse personal microcredit initiatives implemented in four selected countries: France, Belgium, Italy and the United Kingdom. The analysis aimed to highlight best practices in the sector and diffuse them among European stakeholders. The four CAPIC case studies were selected for their common characteristic of being based on a large partnership between three main actors: public institutions, non-profit organizations and financial providers.

The project highlights the strengths, weaknesses, differences and similarities of the four initiatives and analyses how each specific national context could influence the effectiveness of personal microcredit programs.

In summary, the CAPIC project can be described by the following picture.

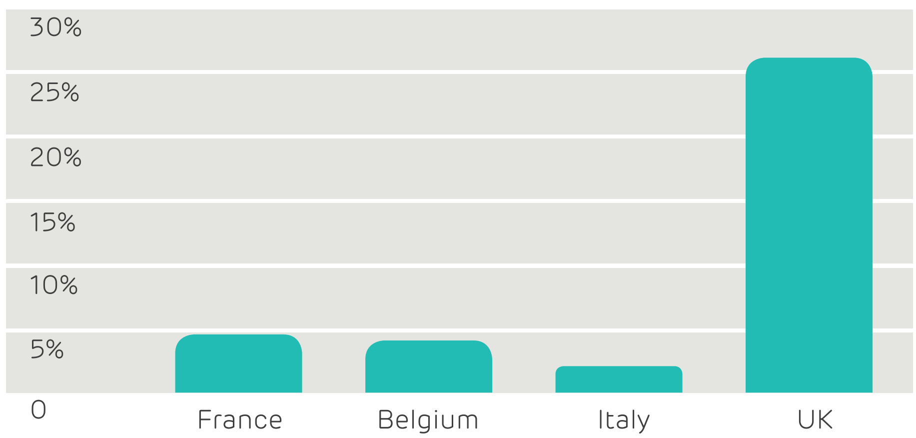


Thanks to the parallel analysis of the four CAPIC case studies, the project allowed all the partners to research two key elements when interest rates in microcredit are considered: (i) the context in which the initiatives are carried out; (ii) the contribution level of partners for the credit provision.

All microcredit initiatives are implemented in specific regulatory, financial, social and economic contexts. These characteristics determine the structure of a microcredit project and define the general framework in which microcredits are provided. The CAPIC project provides evidence on how contextual characteristics imply differences in interest rate policies.

The interest rates of the project's four case studies are presented in the following figure:

CAPIC average interest rate



A particular element determining the interest level in the four national contexts is whether usury laws are present or not.

As shown in the table above, national contexts where no usury laws are present allow microcredit projects with interest rates that can be considered very high. Indeed, in the UK, where no interest rate cap legislation exists and street lenders normally lend at a very high costs (commonly up to 300% APR), the CAPIC case study shows an APR of 26% represents a worthwhile lending alternative allowing vulnerable people to access to "personal and affordable" loans to purchase essential electrical goods. Conversely, where interest rate caps exist (as in France, Italy and Belgium) and microcredit initiatives are primarily established with the contribution of multiple partners and interest rates are fixed at around 6-7% maximum per year because of the law considers credits with higher rates as illegal and also because they wouldn't be considered acceptable by clients (cultural dimension).

In the UK, of the 310,000 users of illegal money lending, 2% of them are members of the low-income population, rising up to 6% when it comes to the most deprived communities.1 In this context, the easy and legal availability of high cost credit creates a cultural and socio-economic environment where the cost of credit is not considered a taboo and people are used to dealing with long term and complex loan cycles. Providing consumer credits at 30% interest can make all the difference and represent a real alternative for people in need of credit in order to satisfy basic needs.

The CAPIC initiative shows that, apart from the interest rate, a number of important elements should be taken into consideration in order to make credits affordable for clients: (i) the adjustment of credit according to low income people's cash flow; (ii) the flexibility of credit terms and conditions; and, (iii) the offer of non-financial services (monitoring and coaching) associated with credits.

Analysis of the CAPIC case studies, and particularly from the implications highlighted by the interest rate issues, caused two questions to spontaneously appear:

(i) Are usury laws a sufficient condition to guarantee that credits are "personal" and that illegal lending practices are avoided?

(ii) Are Interest rate ceilings sufficient to ensure a healthy credit market for vulnerable people?

The project also proved that in a country where no interest rate ceilings are present, personal credits can be affordable and offered in an appropriate way if a suitable lending methodology is used, comprehensive integrated products and services are offered and a good level of transparency in the credit relationship is maintained. In fact, in contexts such as in Italy, France and Belgium, where governments have established ceilings with the objective to protect clients, illegal practices are encountered as well, showing that, despite the presence of usury laws, clients can be harmed. For instance, in Italy, sanctions imposed by the Italian Antitrust Authority (Autorità Garante della Concorrenza e del Mercato) confirm the persistence of illegal practices in the financial sector. In the last quarter of 2011, the Antitrust Authority imposed sanctions on small brokers for a total amount of 140,000 euro, as well as penalties to important financial banking groups for violations in the provision of interest rate information.[2] Additionally, these "regulated" countries also include microcredit initiatives that can't manage to serve the clients that are really in need (risky clients) because the maximum interest rates are "too low" and the institutions are pushed to focus more and more on average income clients.

Consequently, in order to evaluate the effectiveness of a personal credit initiative and its social accomplishments, it is important not only to look at the interest rate charged to clients but also to scrutinize how the microcredits are structured, how services are offered and how the clients are treated. National regulators must start focusing on client protection to promote healthy credit markets. Indeed, supervising institutions need to check on the behaviour of financial providers and verify whether clients are truly served through a comprehensive microcredit offer, if the customer's rights are protected and transparency in the credit contracts is ensured. In fact, together, these elements prove that credit is "personal" and supports people in their empowerment and inclusion process.

Another element influencing interest rate policies in microcredit as it emerged from the CAPIC is the financial and operational contribution of partner organizations. To this regard, the project shows that when several partners unite to provide contributions and grants, credits are offered at relatively lower interest rates than if the credits were provided by dedicated microfinance institutions that don't rely on constant external contributions. In fact, these specialized institutions offer a wider range of financial and non-financial products to clients, work mainly with professional human resources and deal with cost management (operational and financial costs). Furthermore, the interest rate, together with the fees and commissions charged on credits, represents the main source of income and the solution in covering the principal costs of providing microcredit. Consequently, it is unavoidable to set up an interest rate, which is "market oriented", sustainable and higher than rates charged in microcredit programs.

In short, even if they share the same social purpose, microcredit institutions and microcredit projects based on partnerships illustrate totally different business models. When comparing the two models, it is essential to take into account a number of elements rather than judging them solely on interest rate levels. Moreover, a national regulatory framework should take into account both models and attempt to create a friendly legal environment whereby the initiatives can co-exist to promote the financial inclusion of vulnerable people.

Several solutions are available to effectively offer credit to low income clients. These solutions are translated worldwide into programs and entities that all face the challenge of finding the right mix of organizational processes, lending methodologies and product offerings to serve poor clients in a proper manner (and with a fair interest rate) while pursuing efficiency and sustainability goals.

Endnotes

1. Source: Policis/BIS (2010).

2. Source: Banca d'Italia (2010), "Credito revolving concesso con carte di credito: cautele e indirizzi per gli operatori", Rome.

Housing microfinance: An oversight from the European Union

RICCARDO PETROCCA
LOOKING FOR VALUE SRL

Lack of access to adequate sanitation and decent housing conditions represents a serious threat to people's livelihoods and health and is increasingly becoming a problem due to overpopulation, increase of migration flows and concentration of the urban population. Traditional finance for housing is not able to meet people's needs for decent housing, especially from the perspective of the low-income population.

The need for housing represents a serious concern, not only for the developing countries where poverty is a consolidated reality affecting most of the population; it deserves consideration as well as for European countries. A CECODHAS study from 2012 shows some interesting figures relating to the European Union (EU) (CECODHAS Housing Europe, 2012);[1] in particular, based upon a survey, results highlight a set of issues that the European population struggles to cope with such as meeting rent and mortgage reimbursement deadlines, material deprivation, accessing energy and clean water on a continuous basis and meeting bill payments. The number of households exposed to poverty risk and requiring social housing is facing a increasing trend (e.g., UK, France).

One of the main constraints faced by private households is represented by the lack or decreasing access to funding from financial institutions. Figure 1 provides an overview of the total household loans as provided by monetary financial institutions from 2005 to 2012;[2] it clearly shows a net decline of both loans for consumer credit and home purchases from 2007 to 2009, the lowest peak of the tail. Loans then experienced a weak increase with another severe drop in 2012.

Total loans granted to households

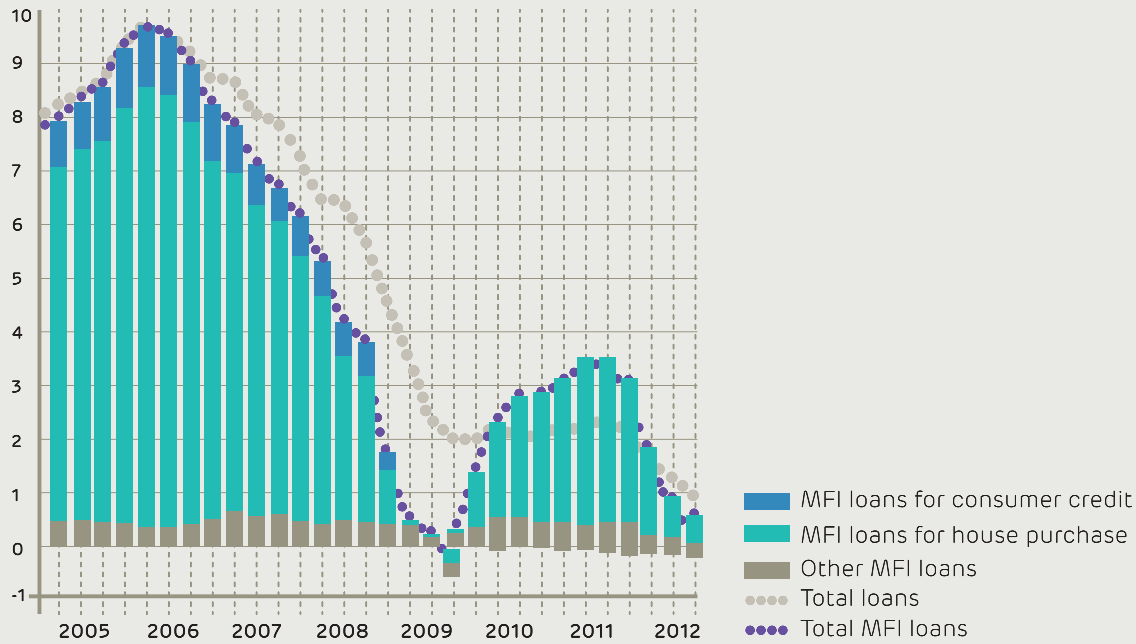


Figure 1

On the supply side, banks have significantly reduced the level of credit supplied to both individuals and enterprises and tightened eligibility requirements for mortgages. The net decline in demand for housing loans is due to various factors effecting both household eligibility and consumer confidence (such as low household income levels), increase of unemployment, increase of informal and unofficial income, increase of fixed-term basis loans, temporary employment, lack of property qualifying as collateral, the decreased supply of houses and the increase in housing prices, with particular regard to urban areas. These issues have increasingly contributed to make households less qualified to apply for formal loans to cover both short or medium term needs, such as rent, repair or interventions, and long-term needs such as home building through direct purchase or progressive building. Access to housing is considered to a large extent as it should include a range of proximity services, which play an important role in a community's social life, such as a sport centre, good provision of water and electricity, internet connection, libraries, shops and community centres.

Housing represents a pillar of the EU social protection policy system. We may see some variation across Europe as social housing is more developed in western and northern European countries where social protection is higher. Conversely, social housing is much less developed and delayed in both southern and Eastern European countries where social protection in less advances regarding social protection systems. Some countries are setting up social funds to provide guarantees on rent payments and mortgages for a specific subset of population, such as young or unemployed people.

Definition of housing microfinance and main features

Under this context, housing microfinance is a financial tool aimed to provide access to decent and sustainable housing. It aims to meet the needs of people who can't access to standard banking loans (e.g. mortgages) to improve or expand their house, to build a new one or to buy a land. Housing microfinance targets low-income and even poor segments of the population, and does not yet meet the needs for the extreme poor. However, we have to bear in mind that the definition of "poor" is strictly dependent on the specific context and parameters; housing microfinance, indeed, targets low-income people with limited expenditure power that are unable to meet formal loans' legal requirements. For example, housing is a concern in the context such that, on average, an unbalanced ratio exists between household income and the cost of housing (for both renting and purchasing). This background makes housing unaffordable even for people who are not considered as poor.

Housing microfinance is a subset of microfinance loans and includes an array of financial services such as loans, savings and insurance products aimed to support low income people not only build a new house, but also assist in home maintenance, repair and improvement interventions, provision of necessary and basic services such as sanitation, energy and continuous clean water procurement.[3] As the primary financial tool applicable to housing is represented by mortgages, whose current negative trend signifies a major barrier, we tried to provide a summary of the main features[4] characterizing housing microfinance in the following list:[5]

- Focus is more on financing progressive building or interventions such as repair and improvements rather than the purchase of either existing or new houses/ land;
- Amount to finance is relatively small and duration is a relatively short or medium timeframe but longer as compared to microcredits. Term structure might be defined as follows, for instance, from 3 to 36 months for home interventions and from to 2 to 5 years for land purchase or construction;
- Mortgages are not included as a stand alone financial tool nor as a guarantee;
- Repayment should be structured according to family cash flows;
- Housing finance products rely on savings, often used as a mandatory form of collateral;
- Revolving loans may be employed for financing progressive interventions;
- Housing microfinance targets individual households, microenterprises and small groups; small groups represent a good target for community loans aiming to finance the procurement of basic facilities and services when missing in a specific small neighbourhood, such as efficient and on-going access to energy, clean water and sanitation;
- Pricing of housing microfinance must be sustainable, thus covering costs and providing a mark-up; usually, interest rates are similar to standard working capital loans;
- The amount is usually higher than average working capital loans;
- Collateral may be represented by savings, co-signers or, sometimes, land ownership (rare, but normally request of collateral on property should be limited);
- Housing microfinance may be supported by non-core services such as technical assistance, land registration, self-help building techniques, etc.
- Housing microfinance might be combined with microfinance programs involving microinsurance coverage and access to energy programs (e.g. renewable energy microfinance).

The features we point out also describe how housing microfinance differs from commercial mortgages. However, housing microfinance is not always an adequate instrument to use; for instance, housing microfinance should not be provided to households standing on the extreme poverty line (e.g., homeless people, etc.) or people exposed to over-indebtedness.

Case studies from Europe

Housing microfinance is mostly developed and delivered in developing countries; however, the current social and economic context in Europe makes this financial service a necessary tool to offer as the need and demand for housing are increasing.

Microfinance Centre and Habitat for Humanity are two important organizations engaged in acting to solve the housing issue in Europe. In Azerbaijan, VF AzerCredit has widened its microfinance services portfolio through housing microfinance and has benefited from the technical assistance and training provided to its personnel by the Microfinance Centre (Poland) who has entered into a partnership program in collaboration with Habitat For Humanity International to support MFIs on housing microfinance.[6] This intervention has been aimed to provide support to low-income populations on progressive house building.

Within this context, we count other initiatives based on the collaboration between Habitat For Humanity International and members of the Microfinance Centre, respectively, IMON (Tajikistan), LOK (Bosnia & Herzegovina)[7] and MicroFond (Bulgaria).[8] The partnership between Habitat for Humanity Bulgaria and Microfond EAD Bulgaria was established in 2008 in order to provide clients with housing microfinance services to fight the lack of access to affordable housing throughout the country. Another similar partnership exists between Habitat for Humanity and the LOK Microcredit Foundation Sarajevo (Bosnia).

Finally, the evidence from work carried out by Lafarge, a global player in the building materials market, involved to a large extent in providing Affordable Housing, provides interesting insight. Against this background, a Housing Microfinance Program accounting for national initiatives providing affordable and efficient housing in India, Indonesia, Honduras and France recently launched. The Group, through its Affordable Housing Program aims to implement a range of initiatives to provide decent affordable housing and financing for home extensions and renovations for a total of 2 million people by 2020. Moreover, the financial housing microfinance products are supported by a set of additional services such as free training in cost effective concrete solutions promoting the use of specialized products for affordable housing applications. This program is based on a long-term approach and aims to provide solutions tailored to the local challenges and specific needs of the population. The program focuses on the involvement of development agencies (e.g. collaboration with AFC, the French Development Agency), real-estate developers and government bodies to foster affordable housing in both developing and developed countries, the latter through social housing.

Conclusions

Housing microfinance could be a tool to support EU policies on social housing. England is already very active on social housing. Housing microfinance could be also be a last relief tool for low-income, poor and homeless people by combining housing microfinance to a program of social re-inclusion whereby loan repayment represents a social bet. Since access to housing might be limited for different reasons across European Countries, HMF should be a flexible tool in order to respond to the different population needs and to match its social mission. However, features we observed should be considered general and this financial tool should be readily integrated and/or revised according to each country's related macro and micro economic and social features.

Housing microfinance as a stand-alone product is not likely to solve the need for housing. Government intervention is also needed. With regards to the EU, an efficient use of the budget through structural funds and alignment of national policy measures might provide effective support, especially for coping with the current economic and social context caused by the financial crisis. Another instrument the government might leverage is represented by European project bonds and social bonds, which can target social infrastructures and facilities.

Endnotes

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2. European Central Bank (2012), Monthly Bulletin, http://www.ecb.europa.eu
3. CGAP (2004), "Helping to Improve Donor Effectiveness in Microfinance", Donor brief no. 20, August.
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5. Merrill, S. and Mesarina, N. (2007), "Expanding Microfinance for Housing", USAID MicroNote no. 26, www.microlinks.org.
6. Microfinance Center, http://www.mfc.org.pl/en/content/mfc-deliver-housing-microfinance-support-partnership-habitat.
7. Challenges and opportunities in housing microfinance partnerships: The case of Habitat for Humanity and the LOK Microcredit Foundation.
8. Challenges and opportunities in housing microfinance partnerships: The case of Habitat for Humanityand Microfond EAD Bulgaria.

Microsavings experiment in Belgium: **A tool for an active inclusion**

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RÉSEAU FINANCITÉ

Can people on low incomes save? What makes them save? Does the Belgian system encourage disadvantaged people to save? This paper describes the impact of a Belgian microsaving experience among low-income people measuring the utility of such a scheme in the national financial inclusion context.

Context

In the framework of the European project, "Social innovation and mutual learning in microsavings" (SIMS), Crédoc, a research centre for the study and observation of living conditions, has evaluated several pilot projects aiming to promote positive savings behaviours among low-income people in Hungary, France and Belgium.[1] The main goal was to distinguish changes in savings behaviours between a treatment group benefiting from the experience (i.e. a financial incentive to save, financial education modules or both of the two elements) compared to a control group.

Belgians are considered big savers: the total sum of money in savings accounts is 245 billion euro and steadily increasing. However, very little data exists on how these savings are distributed among the population. The only public incentive to save is a tax exemption on income relating to deposits of up to 1,250 euro, indexed to 1,880 in 2013.[2]

However, this incentive is clearly not for low-income households, since the low-income households are not always taxable and have a low capacity to save.

Promote microsavings among low-income people

The question is: can low-income people save? A pilot project in Belgium took on the challenge. More precisely the objectives were to:

- "Promote savings behaviours" such as:
  - encouraging people to save rather than buy on credit;
  - getting them out of their day-to-day approach to budget management; and,
  - removing any barriers to saving/reluctance.
- Create collective momentum and sustain the formed groups as saving groups in the longer term." [3]

This experience targeted low-income people according to three criteria:

- Have a monthly income below a set limit (1,021 euro for a single person, plus his/her rent, plus 181 euro per dependent person; 1,392 euro per household for couples, plus their rent, plus 181 euro per dependent person);
- Be a long-time unemployed person; and,
- Be nearing the end of a collective debt settlement procedure (between 6 months before and 3 months after the procedure end date at the time of signing up for the programme).[4]

The idea is to reach low-income groups and, for people answering the last two criteria, people who will soon need to manage new revenues.

Matched savings to incite saving!

The pilot project combines a cognitive approach stemming from financial education sessions and a behavioural approach by real saving practices. Indeed, programme beneficiaries must attend three training modules out of the five given and save at least seven times out of the twelve months of the programme to obtain matched savings. The financial incentive equals 50% of the saved amount, with a maximum monthly 10-euro ceiling.

The training sessions are given collectively in groups of about twelve people on the following topics: budget, consumption credits, over-indebtedness, collective saving methods, feedback on the programme and participants' future plans.

The financial incentive consists of 50% of saved amounts, i.e. up to 120 euro for the year, to be paid at the end of the project.

This financial incentive structure aims to spur the desire to save among participants. The training sessions should reinforce this behaviour as soon as the advantages of this practice are recognized among participants.

How is the impact measured?

To measure the effect of the training sessions and the monetary incentive, a survey was held among the beneficiaries and a control group at two key moments: at the start of the experiment[5] and a year after the end of the experiment. The survey aimed to define, with the use of the socio-demographic participants' data, their opinions and behaviours related to the banking system, budget management, savings and credit.

In addition, a dashboard lists the participation rate of the training sessions and with regards to saving behaviours, the transaction amounts and frequency. Finally, qualitative interviews with various stakeholders were also held.

Out of the 180 recruited beneficiaries, only 52 completed the two questionnaire waves, signifying less than 30% of all initial programme participants. With regards to the control group, 215 people were solicited to answer the questionnaire but only 52 went through the two waves, less than a 25% response rate. It is interesting to note that for both the beneficiaries and the control group, attrition is associated more to a loss of contact than a denied desire to participate.

Indeed, the target population is often unstable and/or looking for a job, partially explaining the frequent loss of contact.

Although there was a significant attrition rate for the survey, the three tools still allowed Crédoc to take a decisive assessment of the experience's impact.

What results?

Three types of positive impacts are observed for the beneficiaries. The first is the positive attitude and action regarding saving behaviours. Indeed, even if both groups agree to the benefits of savings, only the beneficiary group thinks it is useful to do so on a regular basis. Furthermore, almost half of the beneficiaries saved regularly in the last twelve months. The saved amounts are between 22 and 30 euro per month, with an annual average of 136 euro. Moreover, a medium term positive impact is observed: 21% of beneficiaries declare to save every month (compared to 15% who answered positively during the first questionnaire), 7 months after the end of the experience. The evaluator also noticed that the beneficiaries better understand the link between saving and personal projects. Finally, beneficiaries better plan their budget and follow their expenses more closely.

The second positive effect is an increased cautiousness when confronted with a credit offer. This effect is not only linked to the pilot project since this increased cautiousness is both observed in the beneficiary and control groups. However, the beneficiaries more frequently tend to use informal credit (friends and family) after the experience as compared to the control group. This might indicate increased distrust towards banking products.

The third positive effect is the self-confidence acquired by the beneficiaries and the feeling of social inclusion developed through the training sessions. Beneficiaries have declared "feelings of pride" by managing to put money aside in a regular way. Also, a few participants mentioned meeting other people in similar situations during the training sessions as a positive outcome. Moreover, two groups continue to exist after the pilot project and are now organized into self-financed communities that continue to meet and to save.

Pilot project strengths

The pilot project demonstrated two major strengths: a positive impact in terms of behaviour vis-à-vis savings and positive social inclusion. This type of project really allowed low-income people, often lacking self-confidence, to get their foot on the ladder and put money aside. Seven months after the experiment, 25% of beneficiaries are saving more often than before and almost half of them saved on a regular basis during the pilot project. These low-income people acquired financial and budgeting competencies, which may lead them towards concrete projects in the future.

The second strength of a project with such a collective approach is the social inclusion aspect. Both the friendly atmosphere during the training sessions and the financial incentive are mentioned as important motivational elements. These often-isolated people were able to develop positive social ties. In addition, those who participated and succeeded in reaching the bonus claim to have acquired a sense of pride and self-confidence.

Possible improvements

Two factors could be improved for future projects: achieve a better participation rate from beneficiaries and concentrate more on the partner mobilization. Only half of the beneficiaries actively participated in the programme. Although achieving better participation rates presents a challenge,[6] such an attrition rate must be improved. In order to reach this goal, the reasons of non-attendance must be understood. Primarily, reasons for non-attendance seem to be family-related. Perhaps greater flexibility in session schedules or a babysitting service could reduce this absenteeism? Moreover, emphasis on the collective dynamic side of the experience to motivates participants to persevere: fun and interactive content related to personal projects beneficiaries are essential.

The second element to improve is mobilization with partners. Out of the 400 potential partners contacted, only 11 CPAS **(Centre Publique d'Action Sociale)** and one cultural organization responded. Regarding the CPAS, the lesson is to employ a formalized partnership to better mobilise organizations and their employees. As noted in the report, these partnerships can be used to:

- Help address the confidence and trust-related reservations expressed by beneficiaries and social workers;
- Increase the programme's legitimacy, as it would have the benefit from the institutional reputation; and,
- Allow the programme to use such organisations as intermediaries in communicating the scheme and promoting good practices.[7]

A missing piece in the Belgian puzzle of financial inclusion devices?

As previously identified,[8] people on low incomes did not, until the experiment, have a device to facilitate savings in Belgium. This pilot project implementation demonstrates that disadvantaged people, by combining financial education training sessions and a financial incentive, can save.

With reference to Belgian legal policies regarding financial inclusion, mechanisms exist to ensure a basic bank account and regulate credit. As a reminder, financial inclusion refers to a "process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong." [9]

Thus, for bank accounts, a basic banking service has been implemented since 2003 and provides access to a bank account for any citizen with residence in Belgium. In addition, the CPAS pay the living wage "welfare" accounts designed by Belfius.

On the credit side, a comprehensive legal framework exists regarding consumer credit laws. The "positive" database, created in 2001, lists individual credits and helps to prevent over-indebtedness, as the database must be consulted by credit operators prior to lending. A debt mediation service for indebted people aims to establish an indebted person's budget and reorganize his/her debts to find a compromise with his/her creditors. Finally, a collective debt settlement procedure, if mediation fails, ensures (total or partial) repayment of liabilities in suitable conditions for the indebted person.

However, in terms of savings, there is no device targeted towards low-income people. Tools currently used, such as the tax exemption as mentioned above or the regulated savings account deposit protection up to 100,000 euro, do not provide incentives for low-income people to save. However, this pilot project has a strong positive impact: it demonstrates that low-income people, with the right tools, can save and increase feelings of self-confidence. What would happen on a larger scale? It would be interesting to measure potential costs and benefits of a similar action, for example, at a national level.

Conclusions

To conclude, the microsavings pilot experiment has had a positive impact on the low-income target audience. Almost half of the participants were able to save on a regular basis and have gained a sense of pride and increased self-confidence. They are also able to prepare a budget for future projects and are more cautious about consumption credit.

The Belgian legal framework is fairly well equipped to ensure financial inclusion of disadvantaged people, at least with regards to bank accounts and credit. However, the measures put in place to promote savings do not adequately target this low-income segment. What would happen if this type of product was implemented in a more comprehensive way to encourage the low-income segment to save? This would complement the already available tools for an active financial inclusion. Meanwhile, Réseau Financité continues to promote collective savings for those interested by assisting in the creation of self-funded communities in Belgium.

Endnotes

1. Interested readers are invited to view the SIMS project film: http://www.fininc.eu/on-going-eu-projects/social-innovation-on-micro-savings-2011-2013/final-conference-workshops,en,151.html
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3. Evaluation Report of the SIMS project in Belgium, Crédoc, July 2013.
4. Idem.
5. For technical questions, the first survey was held in the pilot's 7th month. However, only the first financial training session had been provided by then.
6. Indeed, the attrition rate is close to the ones in similar projects in the United States.
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