

Amnesty of debt as a contribution to fight poverty and social exclusion

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Background

The interdependence of poverty and over-indebtedness is evident and has been pointed out repeatedly in the context of the EU Social Inclusion Process.

People experiencing poverty and social exclusion are more likely to become over-indebted and they usually also experience financial exclusion.

Although there is a variety of reason that may lead to over-indebtedness, lack of income (often due to unemployment) has to be acknowledged as a main cause for people to get over-indebted. Imbedding measures to fight over-indebtedness into the broader scope of a social inclusion strategy is thus essential.

People experiencing poverty and social exclusion – and especially over-indebted people – usually have also limited or no access to financial services. Adequate financial services that are handled with the necessary social responsibility by the service providers are missing in most European countries.

A recent survey conducted in the scope of the European cooperation project FES (Improving Financial Education and better access to adequate Financial Services) reports the existence of “unbanked” people in all European countries and highlights the different levels of social exclusion that need to be regarded as both a condition for as well as a consequence of their financial exclusion.

Besides sustainable solutions for debt regulation in most European countries thus adequate financial products offered in a responsible way are as much missing as an understanding of the severe affects of financial exclusion on people’s capabilities.

The general **lack of adequate financial education** needs to be stated for most European countries. This points to the need for financial education programmes that reach out to socially excluded people and that would empower people with low income not only to handle their own finances in the best possible way but also to understand the implications of different financial services and affairs.

Striving to find effective ways to fight poverty and social exclusion, debt solving strategies need to be recognised as an important contribution and should not be missing from any Social Inclusion Strategy. Social Inclusion Strategies thus not only have to include debt settlement regulations but certainly need to go far beyond, introducing measures to generally increase financial inclusion,

safeguarding advise and assistance to those most likely to get over-indebted and ensuring sufficient investment into preventing over-indebtedness.

The Dutch approach

The Dutch approach aims to combine public with market responsibility. Including national legal measures (such as the introduction of both consumer as well as bank laws) as well as establishing locally organised structures of municipal banks, it serves as a good practice example especially with regards to embedding measures against over-indebtedness into the world of finances while at the same time strongly rooting them locally.

With its broad range of products and services it takes a quite **integrative approach**, starting from preventive work and including individual coaching as well as offering specific bank products and support in debt settlement arrangements.

It thus safeguards the involvement of different actors from different sectors and thereby provides a good base for sustainable solutions.

The “voluntary” nature of the involvement of municipalities however needs to be reflected more closely as it obviously leads to **inequalities in accessing support structures and assistance** with regards to debt relief depending on where people live in the Netherlands. While the regional nature in itself should not be questioned, ways to improve a coordinated national – if not European – approach need to be explored.

While the model clearly seems to be imbedded in both the financial world as well as the juridical system, **links with social and labour market policies** seem to be more unclear and less structured but **would most probably help to further improve the approach**, especially when it comes to reaching out to some of the most excluded groups.

An open question from the perspective of the most excluded people would also be to what extent **different target groups** are reached by the measures offered and whether there might be some groups that are more likely to benefit then others.

Challenges to be met on national and European level

1) The need of comparative data and common definitions

The data situation on over-indebtedness needs to be improved on both national as well as European level. Positive attempts to better include data in the EU-SILC processes are a first step but will need to be strengthened and accomplished by additional research. At the same time there is a need for common definitions with regards to the issues at stake.

2) The use of best practice exchanges

Best practice exchanges through social action programme projects, peer reviews and other channels need to be further enhanced in order to increase possibilities of mutual learning and exploring chances to transfer good practices from one country to another. Especially

with regards to the involvement of new member states this has to be regarded as a priority, as debt settlement structures need and are about to be developed in many of the new member states where over-indebtedness is about to become a severe problem in the coming years.

Continuous networking, including different actors from different sectors will be necessary in order to come up with both realistic and sustainable solutions to tackle the problem at national and European level.

3) **Strong involvement of all relevant actors**

Cooperation of different actors/sectors needs to be further strengthened and improved thereby guaranteeing an integrated (interdisciplinary and inter-departmental) approach to solve debt problems.

Clear roles for different actors and sectors (public sector, private sector, voluntary sector) have to be identified; different forms of cooperation may be established in the individual member states.

Creditors responsibilities need to be taken into account, next to ethical codes of conduct more binding regulations need to be discussed and implemented.

People experiencing social and financial exclusion need to be heard and given the possibility to participate in identifying the most effective strategies and measures to solve over-indebtedness.

4) **Mainstreaming solutions to fight over-indebtedness into social, labour market and economic policies**

Existing – and suggested - solutions need to be publicly discussed and to be mainstreamed into social, labour market, consumer protection and economic policy initiatives.

Doing so the interdependence of debt with several other problems (housing, health, education ...) and especially the link between over-indebtedness and unemployment has to be looked at and dealt with in a more integrated and structured way when searching for more efficient and sustainable solutions.

Existing and planned social policy measures such as a minimum income scheme – as it is currently discussed – need to be assessed also with regards to their impact on financially excluded and over-indebted people.

5) **Stronger cooperation at European level**

European cooperation with regards to finding solutions to fighting over-indebtedness and financial exclusion need to be strengthened on both the level of networking and exchange between member states (including all the different stake holders in the member states) as well as with regards to a better coordinated approach of the work of different DGs on debt-related issues.

The need for an efficient Social Inclusion Strategy

Strong social inclusion strategies that include efficient measures to fight poverty and social exclusion have to be regarded as a key element in the fight against over-indebtedness and financial exclusion.

Implementing the Nice objectives and thus

- a) Guaranteeing access to rights and resources
- including access to a minimum income, social goods and services and high quality labour market integration programmes
- b) Developing measures for the most vulnerable groups
- c) Investing in prevention programmes
- d) Mobilising all actors

can be regarded as one of the most effective ways to also tackle the problem of overindebtedness.

Appendix: European networking against overindebtedness

The relaunch of the European Consumer Debt Network

The European Consumer Debt Network (ECDN) - which is planned to be formally established as a European organisation (under Belgium law) in the coming year – aims to bring together a broad range of actors (organisations, institutions) in the fight against over-indebtedness and financial exclusion, which are active in one (or more) of the following areas:

- + Debt advice / debt regulation
through counseling work, legal advice services and introducing an improved legal framework on debt regulation (private bankruptcy acts etc.)
- + Improving financial literacy
through information work, consumer education programs, developing and implementing better financial education frameworks and strategies
- + Enhancing access to adequate financial services
through developing and implementing adequate financial services for people experiencing poverty, social and/or financial inclusion, improving the relevant legal frameworks, encouraging responsible lending
- + Research on over-indebtedness and financial exclusion
including data collection, research on indicators and definitions

The work of ECDN will be based on the experiences and expertise of its members in analysing and promoting policy solutions in the field of financial exclusion and over-indebtedness and thereby aims to contributing to better tackle poverty and social exclusion at European level. With regards to analysing and promoting policy solutions at European level the work of ECDN will particularly build on

- a) the experiences and the work of the currently running EU project FES (Fighting poverty and social exclusion through improving financial education and better access to adequate financial services) in which many actors from almost all European countries have been involved as either project partners or through contributing to studies and conferences on financial education and access to financial services.

- b) the experiences and the work of the former Consumer Debt Network CDN (1994-2006) that had initially coordinated European exchange with regards to over-indebtedness and initiated the development of European standards and definitions relating to debt advice, budget standards and financial and social inclusion, collected information and data on creditors practice as well as preparing intervention on European legislation (for example in relation to debt settlement, credit rules and bankruptcy laws) and organised learning opportunities for advisers.

In spring 2006 the board of CDN decided to dissolve the current network in order to re-join forces and invest expertise and energy in the establishment of the ECDN-network that has been regarded as the appropriate follow-up to CDN and its activities.

- c) Expertise and experiences of its members in specific areas and on various thematic issues:
- Establishment (or improvement) of debt and money advice services and debt regulations systems through exchange and comparative analysis (ASB, Debt on our doorstep, Guarantee foundation, GP-F, SKEF, OCE, SFZ Mainz, MABS et al)
 - Improvement of financial education concepts and projects (ASB, GP-F, SKEF, OCE, NIBUD, SFZ Mainz, et al)
 - Development of strategies to improve access to financial services, e.g. through European co-operation with consumer protection agencies and lobbying activities with regards to consumer protection legislation and through activities, promoting social lending (ASB, MABS, iff, Debt on our doorstep, SOS, Konsumentverket, Association of Slovak Consumers, RFA, MABS, EKPIZO et al)
 - Data and indicator provision as well as comparative studies and theories on overindebtedness and financial exclusion (GP Forschungsgruppe, OCE, RFA, iff, NIBUD, SFZ-Mainz, EKPIZO et al)

Core activities of the ECDN network will include:

- 1) Influencing existing policies to fight social and financial exclusion
Starting from an evaluation of the existing instruments with regards to integrating the fight against over-indebtedness and financial exclusion as an important measure to tackle poverty and social exclusion, the network strives for an in-depth analyses of the developments in different European countries as well as on European level that will lead to concrete recommendations with regards to future policies in the field.
- 2) Playing an active monitoring role
The network will provide a platform to exchange and develop strategies to improve the members monitoring role with regards to including financial issues in the European strategy to combat social exclusion.
- 3) Raising public awareness – increasing dialogue between all actors and levels of politics
Contact with relevant European actors will be established and meetings arranged, regular information about the network, its positions and activities will be spread to all the relevant actors in the field. Model press releases and lobbying papers will be provided to enable

members to improve their activities with regards to raising public awareness as well as to address other relevant actors.

An ECDN website will provide basic information for the general public.

- 4) Consolidation of membership-structure and improvement of exchange between members
All activities planned for 2007 aim to establish and strengthen the membership-structure of the network.