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Anti-poverty practice and the changing world of credit unions: new tools for social workers

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Introduction

Whatever its changing fortunes or fashions, whatever competing purposes different governments require it to pursue, the enduring condition of social work, across more than a century, remains its engagement with people whose lives have been shaped by the experience of poverty. During the 1980s and 1990s, Government Ministers denied the existence of poverty in the United Kingdom, dismissing the condition of the least well off as simply the outcrop of inequality. In that period, social work as a profession found itself in the front-line of practical action to combat poverty in the lives of those most badly affected by recession, unemployment and a retreating welfare state. A series of major studies (e.g. Jordan, 1987, Becker 1997, Jones 2001) traced the impact of changing policy on social service users and suggested ways in which social workers might generate a practical response.

When a neo-liberal, Thatcherite agenda was being pursued, it was relatively easy for social work to recognise and understand where the battle-lines had been drawn, and where a response was required. New Labour has proved more ambivalent territory partly, at least, because its record on poverty issues has been significantly better. There have been real achievements in lifting children out of poverty (Hirch 2006) . For the first time ever, pensioner incomes have caught up with the non-pensioner population during a period of sustained economic growth (Palmer et al. 2006) . Unemployment has been reduced to levels not seen since the 1970s and investment in public services has increased at a substantial rate (Hills and Stewart 2005).

Yet, below that surface, the lives of those least connected to the mainstream have benefited the least during the New Labour period. The Institute for Fiscal Studies latest review of Poverty and Inequality in the UK (Brewer et al., 2007) concluded that since 2004/05 incomes of the richest fifth of the population have risen by 1.5%, while those of the poorest fifth actually fell by 0.4%, to a point where the Gini coefficient, the most common measure of income inequality, had reached its highest – that is to say, worst - level since 2001/02 and is now at a statistically higher level than when Labour took office in 1997.

From the perspective of this paper, the relationship between poverty, savings and indebtedness is especially important. According to most recent research (Post Office Ltd 2007) 24 per cent of the UK population have no savings at all, while a further third (32 per cent) report saving only infrequently. The savings ratio – the proportion of post-tax income saved rather than spent – currently stands at 2.1 per cent, the lowest level since 1959. The Financial Services Authority, in 2006, reported even less encouraging figures, suggesting that 43% of people have no savings at all, with a further 15% having savings which totalled less than half their monthly income (FSA 2006:43). As the Treasury Select Committee (2006:3) concluded, 'even a small cushion of savings can make a great deal of difference to the personal finances of those on lower incomes'. Research in Wales (Welsh Consumer Council 2002) has shown that, in least well off areas, more than 40% of all households report having no savings whatsoever, on which to fall back in times of difficulty. As far as indebtedness is concerned, in the Welsh context, Whyley (2003: 67) concluded that households most most likely to have consumer credit commitments amounting to more than a tenth of annual household income were 'generally less affluent and financially secure than other high borrowing households'.

Credit unions thus operate in a social and economic context where indebtedness is strongly correlated with social class and geographically concentrated in particular localities. The importance of these characteristics , from a social work perspective, is the illumination they casts on the conditions of contemporary practice. While general prosperity may be rising, that tide –

as hysterisis theory would predict (Deacon 1997) - has failed to reach those trapped in conditions of long-term unemployment and social distress – in other words, the groups most likely to be found on the caseloads of social work practitioners.

This article begins from the premise that social workers have always been in the business of helping construct ladders which bridge the gap between those who have least and the life of the community around them. It suggests one highly practical way in which that action can be taken in relation to poverty and financial exclusion.

Credit Unions

Credit unions have moved from being at the margins of financial services in the UK only twenty years ago, to much closer to the mainstream. Many social workers reading this journal will already know something about credit unions and they way they operate, drawing on a growing body of literature (see, for example, Collard and Kempson 2005; Goth et al. 2006) around financial exclusion. There are, of course, limitations to what credit unions can provide. They are, by their nature, local organisations in an era of globalisation; they operate, primarily, amongst the ‘respectable’ poor and can, as our own research concluded, work actively to exclude groups who do not fit the basic paradigm of self-help and mutuality. The collapse of the Christmas hamper company, Farepak, late in 2006, however, brought more public attention to the work of credit unions than ever before in their history (see the Pomeroy Review 2007 for a full account of this episode), while the Northern Rock ‘credit crunch’ crisis of 2007 has kept the general issue of debt and banking firmly in the public gaze. Yet, the standard operation of credit unions has meant that, for many social work users, they have been of limited practical value. Traditionally, credit unions have been co-operative savings and loans organisations, in which members with a record of saving have been able to borrow money at very low rates of interest. In that context, the beleaguered financial circumstances of many social work users meant that it was impossible to get a foothold on even this most user-friendly form of credit. High levels of indebtedness and a weekly income which was already wholly committed meant that building even the most modest savings record was impossible (see Drakeford and Sachdev 2001).

In a rapidly changing world, however, the range of services which Unions now offer, and the ways in which they are able to provide them, hold out the prospect of making credit unions a far more useful tool in the social work armoury. This possibility begins, we acknowledge, from a low base. Until recently, as reported below, credit unions have been more preoccupied with their own internal development than with forming links with other organisations, such as social work departments. The practise and preparation for social work itself has shifted from an engagement with wider social determinants of life-chances to an ever greater preoccupation with the micro management of individual behaviour (see Lynch and Ford 2006, for example, for a discussion of these issues in the community social work context). In the latter case, at least, there are signs of change. This paper reports on research recently carried out in Wales into the diversification of activity which the credit union movement here has developed, including new links with social work practitioners. It aims to demonstrate the synergies which can be made between the new services on offer and the needs of social work users.

Welsh Credit Union Research

The research project took the form of a [*do we have a number to use?]* series of interviews with paid and volunteer staff of [*again, an exact number would be good]* credit unions across Wales, discussing with them the means by which the credit unions have sought to develop and expand their membership. Emerging from the data gathered are detailed accounts of the various initiatives implemented by credit unions better to serve their current and future membership as well as their local communities. Our key conclusion, from the research, has been that successful credit unions are those which have embarked on a deliberate strategy of diversification. Moving beyond their base-line activity as savings-and-loans organisations, these successful unions have expanded their membership through providing a wider ranger of services and benefits. In the account which follows, we set out three different ways in which this new approach can be of particular interest and practical use to social workers and those who rely on their services.

In doing so, we focus upon new ways in which credit unions are able to deal with making loans, responding to indebtedness and offering the prospect of savings.

Making loans

As noted earlier, traditional credit union practice has required a fixed period of saving from each new member before any loans could be provided. That, in itself, proved to be a substantial barrier to those whose circumstances provided no possibility of saving. Even for those with some limited room for manoeuvre, the Union practice of calculating loans as multiples of an individual's savings - £50 in savings, for example, typically capping any potential loan at £100 - has meant that membership has had limited utility for those with low savings levels and facing unexpected – or 'lumpy' – expenditure, such as replacing a broken washing machine. Recent debate in the credit union movement has focused on the provision of instant loans, available immediately on membership, and this has now become a widely accepted service.

Instant loans are designed to offer those people in acute financial need a means of tackling their immediate problem without mounting up further debt. At the same time, individuals are encouraged to use their membership to develop a savings record, thus making themselves eligible for future loans in the normal way. Some Welsh credit unions in our research had taken a decision to use a portion of loan repayments to build up savings in this way, in an effort to turn 'instant' members into long-term users of the service. In this way the instant loan is used to attract a group of people to the credit union who could never have been reached by the traditional save-first approach. It shows them the benefits of the low cost credit union loan and the benefits of saving with the credit union

A number of credit unions in our research have embarked upon making instant loans entirely from within their own resources, and without any form of external investment or support. Others, however, have been unable to act in this independent fashion, largely because their own financial reserves have been insufficient to under-write an inherently risky development. Instant loans have received a substantial boost, in this context, from new funding from the Department for Work and Pensions (DWP), provided in response to the 2004 Treasury report, *Promoting Financial Inclusion*. A sum of £36 million has been made available, through the DWP's Growth Fund, to promote the work of third sector lenders, including new capacity for credit unions and community development finance institutions (CDFIs) to offer low cost loans to the financially excluded. In order to increase the number of affordable loans being made available to low income individuals in areas of high levels of financial exclusion the money is used to support credit unions in providing instant loans, where they would not have been able to do so from their own resources. The Growth Fund is designed to promote the long term aims of sustainable affordable personal lending services to financially excluded people; a reduction in the cost of loan repayments for excluded people in comparison with high cost, alternative lenders; and to retain the value of each loans fund for the long term benefit of the community.

These Growth Fund loans have specific criteria which mean that the requirement of savings is not relevant in the granting of a loan. Moreover, the whole of the Fund has to be applied to people on low incomes, currently defined as £123 or less a week for a single person; up to £215 a week for a loan parent with two children and up to £400 per week for a household with four children.

Loans, of course, have to be repaid. Standard credit union loans operate at a maximum interest rate of 1%, or an APR of 12.6%. Put simply, this means that a loan of £100, paid back over 32 weeks, would amount of £104 in total. An identical arrangement, taken in the form of a Provident Loan – that is to say, from the respectable end of door-step lending - would require a repayment of £160 over the same period. Given the unsecured nature of instant loans, most credit unions charge 2% interest in these cases. With a repayment of around £110, over the same period, however, that still very clearly makes the credit union option highly advantageous.

Our argument here is two-fold. The ability to offer instant loans means that the number of unions who are capable of offering helping to social work clients has increased substantially because social work users are so often at the sharpest end of financial difficulty. Promoting membership ought to be a part of any social worker's effort to assist in that everyday struggle which users face in managing the chronic conditions of persistent poverty and responding to the acute difficulties which occur when faced with the sudden demands of a utility bill or unexpected need to purchase an essential household item. Credit unions, however, are not simply there to help individuals today through instant loans, but to help them to help themselves tomorrow, through long-term participation. Our argument is that the broker role which social workers occupy has a wider opportunity to assist users in building the longer-term, trust-based relationships through which the credit union membership can be retained and turned into a lasting asset.

Dealing with Debt

If instant loans have responded to one of the impediments to membership, a second barrier to credit union participation which faces the least well off has been the need to find a way of responding to deep indebtedness. In South Wales, a number of credit unions have been supported by the Coalfields Regeneration Trust to provide Debt Redemption and Money Advice (or DRAMA). DRAMA differs from the standard instant loans described above because the help provided is targeted on those individuals who, because of owing money to others, are threatened with the immediate loss of a major social asset such as utility disconnection, eviction for rent arrears or imprisonment for fine default. DRAMA action focuses around three main techniques: clearing highest interest loan with another financial institution; settlement of outstanding bill(s) such as utility bills, or the purchase of essential household items where no lower cost alternative (primarily the Social Fund) exists. In this scheme the credit union “buys-out” and re-schedules the debt of the individual, so as to remove the immediate threat and to make long-term financial viability more likely. Because the DRAMA scheme is generally operated in partnership with local money advice services such as the Citizens’ Advice Bureaux, this ensures a comprehensive review of the individual’s circumstances, in which the immediate loan is accompanied by a budgeting plan, dealing with both present and future circumstances and prospects. Even more so than in instant loans, good practice in DRAMA places an emphasis on building up savings while loans are being defrayed, in order to allow individuals access to long-term affordable credit through the Union.

DRAMA thus offers a means of reaching out to new, potential, members whom the credit union would not previously have been able to reach. In terms of this paper, it means that Union membership is brought within the reach of many social work users in a new way. Debt rescue, or debt redemption techniques are growing within the wider credit union movement, as recent publications from its major umbrella organisation, the Association of British Credit Unions Ltd (2007) demonstrate. They remain essentially localised responses to deep indebtedness, but as researchers from Fuller (1998) onwards have demonstrated, while financial exclusion occurs in very local contexts, the conditions in which it is created are reproduced in many different places. While the Welsh DRAMA scheme has operated in former coalfields communities, therefore, it does suggest that its principles and core practices are replicable as a means of assisting those with pressing indebtedness. The approach has the potential o become a standard part of the social worker’s repertoire, with a particular emphasis on using the chance it offers of linking immediate help with longer-term improvement.

New Ways of Saving

Credit Unions are organisations which offer the chance of saving as well as borrowing money. Early research in UK Credit Union development (Berthoud 1989) suggested that, counter-intuitively, least well off individuals valued Unions more for the chance they offered to save money than as a source of cheap credit. In the years which have followed, the flight of financial institutions from poorest areas (see, for example, Speak and Graham 2000) has compounded the difficulty which anyone living in an area without banks, building societies or (increasingly) post offices face in depositing modest amounts of weekly savings.

It is against this background that Unions have set out to find new ways in which they can respond to the savings needs of potential members. In our research we focused primarily on an experimental scheme, funded by the Welsh Assembly Government, which has attempted to forge links between credit unions and the Child Trust Fund (CTF). The CTF is the Government's "baby bond", essentially a mechanism to develop the savings habit and provide an asset to all young people when they reach the age of 18. The Government pays an initial £250 for every child born from September 2002 with another £250 paid to those children who live in a household in receipt of maximum Child Tax Credit. This arrives in the form of a voucher which parents have to use to open the account and to which they can add further sums of money over the years. The Westminster Government has already announced an additional "top-up" to individual funds, as children become seven years of age, with a firm indication of a further top-up in early teenage years. In Wales, the Assembly Government has already legislated to provide an annual CTF top up for children in local authority care, and now intends to provide an additional, and universal £50 top-up for all children starting school in Wales, with £100 for most disadvantaged children (Welsh Assembly Government 2007).

In the earliest stages of the CTF, Credit Unions were not included amongst those financial institutions eligible to receive deposits. Following pressure from the sector this has now been amended and, over the past twelve months, Unions have been able to add this facility to the menu of services on offer to members. As the change in arrangements is very new only a few credit unions currently operate the scheme. In Wales the Assembly Government has funded a demonstration scheme to assist credit unions in recruiting deposits from those who are least likely to have made use of vouchers of their own volition. Early figures from HM Revenue and Customs indicate that, while the overall rate of CTF voucher deposits is high, the parents least likely to have done so is exactly that group for whom asset based welfare has most to offer – that is to say, the least well off (HM Revenue and Customs 2007).

Early evidence from the two Welsh experiments suggests that success has been achieved in attracting new depositors from this group. Those involved on the ground report that many parents were attracted to the credit union as a trusted, not-for-profit community group run by local people. The simplicity of the credit union offer – a non stakeholder, deposit/savings account – was a positive advantage, when compared alongside the potentially more lucrative, but risky, range of options provided by banks and building societies. We have previously explored some of the persuasive arguments for social worker involvement in asset-based welfare in general, and the CTF in particular (Gregory and Drakeford 2005). The point we make here is a more general one. A critically engaged social work, which aims to rediscover and reanimate the radical impulse which has always formed one strand in its history (see Lavalette and Furguson 2007 for an elaboration of this argument) is a precondition for the sort of practice we have advocated here. While that strand has weakened over the past twenty five years, it has never been extinguished completely, and the possibility of its revival has been actively canvassed in recent times (see, for example, Butler and Drakeford 2006). The particular arguments for social workers deploying credit unions in anti-poverty practice extends to the way in which unions provide a convenient and acceptable means of saving, as well as responsible sources of credit. If social workers are about building up assets – in social capital, as well as economic assets – then the developments taking place in credit unions offer an intensely practical way of doings so.

Conclusion

This paper has outlined three new ways in which UK credit unions are developing and diversifying. Our argument has been that each of these innovations has the effect of increasing the utility of unions to social worker users. The fundamental nature of social work is unchanging. It remains a craft practised amongst those whose connections with mainstream society have become frayed and fragile. Poverty is the most corrosive source of this unravelling. Whenever practical means of counteracting its impact, and thus rebuilding social capacity, come to hand, then social workers need to have them at their disposal. Credit Unions have long been amongst the means available to community-based practitioners. Now, we have argued, that tool has been strengthened and its usefulness for the future increased.

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