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***CLES bulletin** is a topical summary of articles which have appeared in the professional press. Its aim is to provide a pithy précis of a subject area, drawing out the specific and common issues raised in the individual articles.*

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## **Poverty & financial exclusion**

Millions of people in Britain are victims of financial exclusion, and are consistently refused credit by mainstream lenders. Despite the numerous initiatives aimed at eradicating the problem, the extent to which financial exclusion contributes to poverty in Britain is one of the core factors affecting social exclusion today.

The Government has expressed a commitment to tackling the problems of poverty and financial exclusion. The 2002 Budget report stated that 'the Government is committed to building a fairer and more inclusive society in which everyone can contribute to, and benefit from, rising national prosperity.'<sup>1</sup> The debate surrounding these issues has been ever-present in the media in recent months and this CLES Bulletin looks at some of that press coverage.

**New Start**<sup>2</sup> magazine informs us that high profile branch closures in recent years, and a decade of growing levels of financial exclusion for both businesses and individuals, has led to the view that banks are part of the problem in deprived communities.

*New Start* also reports that banks have been criticised by both the Financial Services Authority and the Treasury Select Committee for failing to promote personal banking facilities to the financially excluded.

*New Start* looks at the response from the industry to these criticisms. A number of banks are tackling financial exclusion, as they are beginning to view this as a commercial opportunity and can see that by helping to stimulate local economies they can create new markets for themselves.

*New Start* reveals evidence that banks are competing for deals with organisations that attempt to boost levels of financial inclusion in deprived areas. This includes a recent report by the British Bankers' Association, which reveals that more than £8m was invested last year by banks in projects designed to tackle financial inclusion. Of this, £3m was allocated to community development finance institutions that offer finance to businesses and individuals who cannot access mainstream loans.

*New Start* concludes that banks, moved by criticism, threats, negative publicity or a new kind of business sense, are beginning to take a closer look at deprived areas. However, it is evident there is a long way to go.

**Economic Development Today** (EDT)<sup>3</sup> presents an overview of Community Development Finance Institutions (CDFIs), defining them as a sustainable organisation whose principal purpose is to provide finance, or finance and access to business advice, for enterprises in disadvantaged communities.

*EDT* tells us that CDFIs have emerged in response to the reluctance of mainstream financial institutions to provide finance to anyone regarded as too risky, usually because the applicant has no track record, no savings and no security. The loans from such sources are often 'hard' on the loan and 'soft' on the terms, and many such funds for this type of loan have been established by enterprise agencies.

*EDT* goes on to explain the history of enterprise agencies and look at growth in the community development finance sector, revealing that the total size of the community development sector in the UK is estimated at around £250 million, with annual lending of no more than around £100 million from around 200 non-bank loan funds.

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<sup>1</sup> 2002 Budget Report Chapter Five Building a Fairer Society  
[http://www.hm-treasury.gov.uk/budget/bud\\_bud02/budget\\_report/bud\\_bud02\\_repchap5.cfm](http://www.hm-treasury.gov.uk/budget/bud_bud02/budget_report/bud_bud02_repchap5.cfm)

<sup>2</sup> Palmer, Henry *A whole new outlook* New Start 13 Dec 2002 pp.14-15

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<sup>3</sup> Irwin, David *Community Development Finance Institutions* Economic Development Today Issue 52 Jan 2003 pp.19-21

EDT concludes that in the short term, given the track record of the CDFIs, it is likely that they will succeed in raising larger amounts of capital, with the encouragement in the form of the tax credit. The potential problem, however, is higher levels of debt.

**The Guardian**<sup>4</sup> highlights one such example of high debt-levels blighting a community. It talks about *Debt on our Doorstep*, a survey of three typical streets on the Meadowell estate in Tyneside, which shows that 85% of households are paying nearly a third of their weekly income to door-to-door credit companies.

The average weekly income is £200 a week; of that, an average of £60 is going to pay loans with interest rates which are many times the rates charged on the high street. Between them, the three estates are paying £374,400 a year to money lenders.

In relation to this, the *Guardian* highlights the findings from a New Economic Foundation report, *Profiting from Poverty*, which argues that predatory lending is stripping out money from poor neighbourhoods in the UK. The report indicates that a typical APR charged on a doorstep loan of £100 paid back over 52 weeks is 164% and on a short six-week loan of £60, APRs are typically 500%.

In the Meadowell estate, a credit union has been set up to help those on low incomes. This offers a choice to those who might normally get into debt because their financial choices are limited.

**Progress**<sup>5</sup> magazine draws attention to Tony Blair's speech in September 2002 on tackling poverty, arguing that this should mark a new stage of a vital debate for the Labour Party – about why inequality matters and why equality must continue to stand alongside liberty and democracy in the vocabulary and values of the left.

*Progress* looks at evidence that we live in a world scarred by both gross poverty and inequality, and in the face of this evidence, argues that it is worth addressing the fundamental issue of how we understand equality, before asking – amidst rising levels of prosperity – does inequality matter?

*Progress* explains that equality does matter – to our economy, our society and our politics, establishing that the challenge is to ensure that the debate surrounding inequality moves forward.

**New Statesman**<sup>6</sup> magazine continues the debate on poverty by discussing New Labour's target of abolishing child poverty in 20 years. It summarises a Joseph Rowntree Foundation study which looked closely at what caused the number of children in poverty (defined as those living in families with less than 60 per cent of median income) to fall modestly from 4.4 million in 1996/7 to 3.9 million in 2000/01. More importantly, the study tells us why the billions poured into extra benefits and tax credits for children did not make more of an impact, and how much difference the further billions promised will make by the first deadline in 2004. The report forecasts that assuming stable employment rates, child poverty will have fallen by somewhat less than the target by 2004.

*New Statesman* argues that reducing relative poverty can be achieved only through bloody-minded persistence over a long period with policies that both create jobs and improve benefits and tax credits. It also argues that to sustain such a long-term mission, wide political support is essential and this requires a fine balancing act, in pursuit of a fine aim.

**Regeneration and Renewal**<sup>7</sup> highlights one of the many solutions that are arising around the country in an attempt to tackle financial exclusion and poverty. The Savings Gateway is a scheme to encourage low-income adults to save and accumulate financial assets. The scheme involves significant innovations to differentiate it from ordinary accounts offered by high street banks, including matched payments, whereby, for every pound the individual saves (up to certain limits) will be matched by the Government.

Five pilots were launched in August around the country with a remit to sign up 300 people. Since then, more than 250 people have opened accounts saving nearly £6000, which indicates there is demand for the accounts and that people are using them.

*Regeneration and Renewal* concludes that if the Saving Gateway continues at its initial success, then thousands of people around the country will

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<sup>4</sup> Lawrence, Felicity The agony of living with debt on your doorstep *The Guardian* 2 Dec 2002 p.10

<sup>5</sup> Alexander, Douglas A radical prescription *Progress* Oct/Nov 2002 pp.14-15

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<sup>6</sup> Hisch, Donald Poverty: the uphill struggle *New Statesman* 16-30 Dec 2002 p.26

<sup>7</sup> Paxton, Will Gateway to security *Regeneration and Renewal* 13 Dec 2002 pp.23-24

be able to save, accumulate assets, and enjoy greater security and access to opportunities.

The ***Municipal Journal*** (MJ)<sup>8</sup> also highlights a positive example of efforts to overcome financial exclusion by reporting on community banks, which are offering a lifeline to financially excluded communities through affordable loans and financial services to local people, small businesses and community organisations.

The *MJ* reports that community banks draw their personal customers from the two million UK citizens without bank accounts who are forced to pay exorbitant prices for everything because of their financial situation. It outlines the wide range of services offered by community banks, including business loans to start or expand businesses, rent deposit loans, cheque cashing, financial advice and debt counselling.

***Inside Housing***<sup>9</sup> also reports on community banks, focusing on *Change*, London's first community bank, which was launched recently. It is one of six such initiatives that have been set up so far. *Change* is a not-for-profit organisation and the result of a partnership led by London's largest social landlord London & Quadrant Housing Trust.

*Change* will seek to make a difference by offering financial services, such as accounts, loans and advice within two clear strands:

- ① personal banking;
- ② social enterprise.

It reports that services will enable people to break out of financial exclusion, set up small businesses or community enterprises, get back into employment, manage their debts more effectively and, in some cases, simply get out of the clutches of the loan sharks.

Recent reports highlighting the devastating effect that poverty and financial exclusion has had in many communities throughout the country, has ignited the media's interest in this subject. Government and other initiatives aimed at tackling the problems have been brought to light and, in particular, the establishment of community banks around the country shows some of the ways in

which the Government and other agencies are attempting to tackle poverty and financial exclusion.

There are challenges ahead, as with any major policy issue, and although some forecasts are pessimistic, there is now some emerging commitment from the Government and other organisations, such as banks, enterprise agencies and housing associations to eradicating poverty and financial exclusion.

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<sup>8</sup> Randall, Bill Banking on a change of financial direction  
Municipal Journal 16 Jan 2003 p.18

<sup>9</sup> Randall, Bill The financial lifeline Inside Housing 17 Jan 2003  
pp.18-19