CREDITABLE ALTERNATIVES

An exploration of new models of affordable savings and credit options in use worldwide which may be adapted by the Traveller community in Ireland

EXCHANGE HOUSE
Travellers Service

mabs
Money Advice & Budgeting Service

Creditable Alternatives

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Published by
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ISBN 0 9546010 0 9

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Acknowledgment
This research was carried out with funding received fron The Combat Poverty Agency and Clann Credo.

Design by
Sexton Design and Media

Introduction

Access to legal and affordable savings and credit to purchase basic needs would appear to be widely available in Ireland today, indeed, concern is often expressed about the overuse of credit in our society. However, members of the Traveller community do not find themselves bombarded with legal and affordable savings and credit options, rather the opposite, they find significant barriers placed in their way – barriers related to their way of life and to the way in which Irish society has evolved structures which in fact, have led to social exclusion.

In 1997, Paul Quinn and Thomas McCann carried out research, which highlighted the difficulties Travellers had in accessing credit in the Dublin area. This report led to the setting up of Exchange House Travellers Money Advice and Budgeting Service (MABS) in 1998. During the past five years, Exchange House MABS has linked hundreds of Travellers into local MABS and credit unions. However the issue of access to savings and credit, in particular, to purchase a caravan, has not improved significantly.

At the same time, in the five years since the original research, much has changed in Ireland, and there are now significant numbers of other ethnic minorities living here. Reports from groups representing the new communities, as well as other socially excluded groups, signal very similar problems in the area of access to financial institutions as those experienced by Travellers.

This current research focussed on identifying alternative models of credit and savings options used worldwide which may be appropriate for the Traveller community. It is hoped that the models proposed in this report might have relevance to groups other than Travellers and indeed, might succeed in bringing about a shift in the types of options available to mainstream society as well.

We are indebted to Paul Quinn and Nuala Ní Ghabhann for their research and analysis, in addition to the large number of people who contributed to the research process. The Advisory Group of Exchange House MABS has been an invaluable source of information throughout the research.

We would like to thank the Department of Social and Family Affairs and Liam Edwards, National Co-ordinator of MABS, for their support, both financial and otherwise, to Exchange House Travellers MABS. Thanks must also be given to the Combat Poverty Agency for funding the research and Clann Credo for contributing towards publication costs.

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Chapter 1

General Introduction and Background to the Research

1.1 Background, rationale and objectives of the present research

Exchange House Traveller Money Advice and Budgeting Service (MABS) was set up in 1998 in response to a research report carried out by Paul Quinn and Thomas McCann "Access to Credit Facilities for the Traveller Community in the Greater Dublin Area" (1997). This report was based on a comprehensive survey of 100 Travellers throughout the Greater Dublin area which was undertaken in 1996.

The majority of Travellers surveyed were reliant on social welfare payments as their main source of income and were experiencing difficulties in covering their weekly expenses. It also noted that low literacy levels among the sample hindered some Travellers with the form filling and red tape associated with joining the main banking and credit institutions. Travellers living on the side of the road or in unofficial sites faced particular difficulties in relation to opening accounts and accessing credit facilities. One of the major credit needs for many Travellers in the survey related to the replacement of caravans.

Overall, it was found that those who are disadvantaged in terms of work, education and access to amenities are excluded from what society regards as a right, access to legal savings and credit. This inability to access legal credit drove a significant number of Travellers into the hands of illegal moneylenders, who charged exorbitant interest rates and penalty clauses in relation to delayed or missed payments. Many Travellers remained in debt to illegal moneylenders through repeated top-up loans at punitive rates.

Rationale for current research

While the establishment of Exchange House MABS has facilitated many members of the Traveller Community to address their debt management problems and access mainstream savings and credit facilities, the MABS experience has highlighted many of the obstacles still remaining for the Traveller Community in this area. The Advisory Group of Exchange House MABS approached The Combat Poverty Agency for funding to research this area in order to inform policy at national level.

The specific objectives of the research were to:

- Update the situation in relation to access for Travellers to legal and affordable savings and credit, building on the research carried out in 1997 by Quinn and McCann
- Highlight any additional issues that have arisen due to factors like Equal Status Act (2000), Local Authority Caravan Grant Schemes, etc.
- Identify current problems of debt management facing members of the Traveller Community
- Explore available solutions in Irish situation
- Explore alternative models of legal and affordable savings and credit models and possibilities of social lending from countries world-wide.
- Develop potential models appropriate to Irish situation and the Traveller community
- Make recommendations identifying appropriate sectors in this country.

1.2 Overview of Methodology

The research was mainly qualitative in nature supplemented by some statistical data in relation to the clients of Exchange House Travellers MABS. The methodology included

- A statistical review of data collated by Exchange House MABS over the last three years in relation to their client group and the issues arising.
- Overview of recent changes in legislation i.e. the Criminal Justice Act 1994, the Equal Status Act 2000, the Department of the Environment Caravan Loan Scheme 2000 and the Housing Miscellaneous Provisions Bill 2002, and including

the impact on the Traveller Community and their ability to access legal savings and credit facilities.

- A series of meetings with key individuals working within the Traveller Community and related bodies to ascertain the changes in relation to access to savings and credit for the Traveller Community over the previous three years.
- Review of current options in the Irish context for savings and credit options for the Traveller Community.
- Research on alternative forms of saving and credit options for marginalized communities and social lending world-wide.
- Identification of possible models of social lending and savings and credit options, which may be suitable for use within the Traveller Community.

Comments on the methodology

The main focus of the concern was exploring options of social lending and legal forms of savings and credit models in relation to the area of consumption in general and the purchase of caravans in particular, as this had emerged as the most pressing need among Exchange House MABS clients over the previous three years.

In this respect it was found that while some existing models were designed for the delivery of production loans, the rules and procedures could be adapted to meet the needs in relation to the provision of consumption loans.

Chapter 2

The Legislative Context

2.0 Introduction

The most noteworthy legislative changes over the last eight years, which have impacted on the areas covered by this research are The Criminal Justice Act 1994, the Housing (Traveller Accommodation Act) 1998, the Department of the Environment Caravan Loan Scheme 2000, the Equal Status Act 2000 (including the effect of the European Council Directive 2000/43/EC), the Special Savings Incentive Accounts (SSIA) 2000 and the Housing (Miscellaneous Provision) Act 2002.

2.1 The Criminal Justice Act 1994

The relevant section of this Act deals with anti-money laundering provisions, particularly in relation to the provision of adequate personal identification by new account holders. In order to facilitate the consistent implementation of these provisions, Guidance Notes were issued in May 1995 by the Money Laundering Steering Committee, established under the aegis of the Department of Finance and representing the various sectors of the financial services industry and the regulatory authorities. These guidelines recommended that a customer's identity "should be verified by reference to a document obtained from a reputable source which bears a photograph and signature"

In line with this, the Irish Banker's Federation issued a "Fact File" to member banks to assist them to comply fully with the Criminal Justice Act. This stated that in the case of all persons opening an account for the first time the following evidence is required:

- *A current valid passport or driving licence*
  And
- *A recent household bill such as gas, electricity or telephone*

While it was possible for banks to make alternative arrangements to establish the identity of persons who did not possess the above documents, repeated reports from the Traveller community, non nationals, non home owners, non utility bill holders and people who are unemployed have indicated that few banks promoted such arrangements[1]. This is in stark contrast to credit unions who, while having to work under the same legislation, were willing to accept a much wider range of identification when dealing with an application for membership.

This has impacted on Travellers in general and more specifically those not on official sites or in group or standard housing. At the time of the original report (1996) this did not appear to be a major issue for Travellers, however, from 1998/1999 onwards the situation had changed dramatically. While it is accepted that neither the legislation nor the guidelines had been intended to deny a person experiencing disadvantage or social exclusion from access to savings and credit facilities, this is precisely what has happened.

As a result of submissions from Exchange House MABS and others, the Department of Finance issued "Revised Guidance Notes for Credit Institutions" in November 2001. These were approved by the Money Laundering Steering Committee. The Department advised all banks and credit institutions to implement the new guidelines by May 2002.

The new guidelines clearly state that "any measures adopted to

1. *78 of the 125 Exchange house clients who had tried to open an account had been refused, while a further 24 were only allowed to open accounts after Exchange House Money Advisors had intervened on their behalf with the banks. This was backed up by similar reports from other Traveller organisations.*

establish the identity of a person it proposes to provide the service to should not deny a person access to financial services solely on the grounds that they do not possess certain specified identification documentation such as a passport or driving licence and/or whose name and Irish address does not appear on a utility bill, electoral register or directory" (Guidance notes 2002). It clearly lays out alternative forms of identification as detailed in Appendix 1.

However, since the inception of the new Guidelines, Exchange House MABS has noted an increase in the number of clients being refused bank accounts in the Dublin area. It appears that this is a result of financial institutions choosing to accept a limited range of the ID requirements set out in the Guidance notes. There is a lack of consistency across the various institutions; the only common thread is that many marginalised groups are more excluded now from opening bank accounts than they have been in the past.

The Housing (Traveller Accommodation) Act 1998

The needs of the Traveller Community in relation to accommodation have been well documented and came to a culmination in the report of the Task Force on the Travelling Community written in 1995. Traveller Accommodation and its relationship to the needs and ability of Traveller families to access savings, caravan loans, and credit institutions plays a significant role in exacerbating debt problems among the Traveller community.

Arising out of the Task Force Report, in relation to accommodation, The Housing (Traveller Accommodation Act) 1998 required each of the Local Authorities to adopt and implement by the 31st March 2000 a five year Programme for the provision of accommodation for Travellers[2].

Other related policy developments included the setting up of the National Traveller Accommodation Consultative

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2. *These Programmes must meet both the existing and projected accommodation needs of Travellers, including standard housing, group housing, permanent and transient halting sites and emergency provision.*

Committee (NTACC)[3] and the Local Traveller Accommodation Consultative Committees (LTACC)[4].

Kathleen Fahy undertook a report in 2001, for the Irish Traveller Movement, which examined and critiqued the programmes in each of the Local Authority areas entitled "A Lost Opportunity - A Critique of Local Traveller Accommodation Programmes" (Fahy, K . 2001).

The report highlights that, as of November 2001, 1,017 Traveller families in Ireland lived in unofficial sites or on the side of the road without access to basic facilities such as water, toilets and refuse collection and in fear of eviction by local authorities.

In Dublin there are 237 families with no official accommodation, in addition to 12 transient families (National Traveller Accommodation Consultative Committee 2001)

Effect on Travellers and their access to credit facilities

The insecure and temporary nature of the accommodation of Travellers without official accommodation, significantly diminishes their ability to use of available savings and credit facilities. While it has a direct effect on their ability to join banks, credit unions and other financial service providers, indirect effects such as the impact of such living conditions on mental and physical health and well-being, employment prospects and children's education must be noted.

2.3 The Department of the Environment Caravan Loan Schemes

Despite the many accommodation strategies, five year plans and national and local accommodation committees that have been set up in recent years there has been little progress made in the provision of caravans to the Traveller Community.

Over 50% of queries to Exchange House Travellers MABS in

3. *Set up in 1996 by the Department of the Environment and Local Government to monitor the preparation, adequacy and implementation of Local Traveller Accommodation Programmes.*
4. *Set up in 1998 within each local authority area to facilitate consultation with Travellers in relation to their accommodation needs.*

2001 related to the urgent need for a family to purchase a Caravan.

A caravan which will survive the Irish winter may cost anything from €7,000 to €27,000, depending on size, facilities and condition. In the Irish climate, a caravan will often not last beyond five years.

Prior to the implementation of the Department of the Environment (DOE) Caravan Loan Initiative 2000, Travellers needing to upgrade or replace their caravan, relied on local authority caravan loan schemes. These loans served only those most in need and who were resident on official sites. This excluded a significant number of Travellers. The fact that the loans were discretionary and the lack of transparency in relation to refusal of grant loans, compounded the difficulties for those seeking to access a loan.

Department of the Environment (DOE) Caravan Loan Initiative 2000

Arising from the Housing (Traveller Accommodation Act) 1998 the DOE caravan loan initiative was set up and is being administered through the Local Authorities. For a detailed outline of the general conditions of the initiative see Appendix 2.

The National Traveller Accommodation Committee is currently undertaking a review of the initiative. Anecdotal evidence to the researchers indicates that some of the smaller local authorities around the country implemented the scheme quickly and with a more flexible interpretation of the definition as laid down by the Department of the Environment in relation to whether people lived on official sites or not. However, most Local Authorities confined the loans to those on official sites thus excluding many Travellers from applying. Lack of consistency across the country led to confusion among Travellers and Traveller organisations as to the implementation of the Initiative.

Nevertheless since 2001, when the local authorities in the Dublin area began initiating the scheme, it became evident that:

- There was more money available to lend therefore more Travellers could access caravan loans;
- Travellers who had been refused the initial local authority caravan loan scheme, were now able to avail of the new scheme;
- There were clearer procedures around applications and transparency in the case of failure to obtain a loan;
- Traveller organisations became involved in providing information about the loan to the Traveller community

However from the experience of Exchange House Traveller MABS and other Traveller organisations in Dublin issues that still remain include:

- People on the roadside, in unofficial sites and homeless Travellers are in many cases excluded from the local authority loan scheme;
- Caravans can only be sourced from suppliers chosen by the council. Such suppliers are considered too expensive by Travellers;
- VAT significantly increases the price of caravans
- The issue of VAT and interest, together with the means test, often means the loan granted is quite small. Many clients apply for €5,000 and are granted €2,000, which would not secure a caravan that would outlive the length of the loan
- The recipient of a caravan loan must come up with 10% of the cost of the caravan. This is often impossible for the recipient who is dependent on Social Welfare benefits and leads them to look for a further loan to cover the 10%;

Finally it should be noted that while the provision for caravan loans presently rests with the Department of the Environment, the recognition that other options, such as a caravan rent allowance scheme subsidised by health boards and similar to that in operation in the private rented housing sector, could provide alternative solutions.

2.4 The Equal Status Act 2000

The Equal Status Act 2000 built on the Employment Equality

Act 1998, and came into effect in October 2000. While complaints are dealt with through the Office of the Director of Equality Investigations, the majority of Travellers go to the Equality Authority for assistance in processing their complaint.

The Equality Authority was established in 1999 and within the terms of its mandate from the Employment Equality and Equal Status Acts, one of its functions is to provide assistance to people taking proceedings under the equality legislation.

The Equal Status Act prohibits discrimination on nine distinct grounds, including membership of the Traveller Community. Of the five areas covered under the Act, this report is concerned with the area of Goods and Services. Within this area there are a number of sub-sections including service facilities for banking, insurance, grants, loans, credit or finance. Issues relevant to this research include:

- With regard to making a claim it should be noted that the statutory limitation is the shortest on record (Equality Authority, 2002). According to the Office of the director of Equality Investigations "Anyone thinking of making a complaint of discrimination under the Equal Status Act, 2000 must, within 2 months[5] of the discrimination occurring, notify the person whom they feel has discriminated against them (the respondent)".
- Many Exchange House MABS clients have experienced difficulties in satisfactorily completing the form, due to low literacy levels
- Based on discussions with the Equality Authority, the Irish Traveller Movement, Exchange House and other Traveller organisations, it is clear that the majority of Travellers do not know the extent of the Equal Status Act, particularly in relation to unfair treatment by Banks, Credit Unions or other Financial Institutions. Very few cases have been taken by Travellers in relation to banks or other credit agencies, despite the high number of Exchange House MABS clients refused access to bank accounts.

5. *In exceptional cases, the Director of Equality Investigations may agree to extend this to 4 months.*

Presently the Equal Status Act 2000 lays the onus of proof on the person bringing forward a case. However the European Council Directive 2000/43/EC which follows on from article 13 of the Amsterdam Treaty will have a direct bearing on both the Employment Equality and Equal Status Acts. Ireland must implement these provisions by July 19th, 2003.

This Directive has important implications for the two acts mentioned above and the shift in the burden of proof is particularly relevant to those who feel they have been discriminated against and may encourage more cases of discrimination to be brought forward.

2.5 Special Savings Incentive Accounts (SSIA)

The SSIA were introduced in the Finance Act 2002 to encourage people to save for a five-year period during which time the government would add 25% tax-free to their savings. The main features of the scheme were:

- Confined to one per adult resident in the state;
- A commitment to save between €12.70 and €254 per month;
- A 25 % top-up from the government on all monies saved;
- A 5 year term with a penalty clause for early withdrawal;
- Accounts had to be opened between May 1st 2001 and April 30th 2002;

From the perspective of the current research a number of issues arise:

- There was no preparatory document;
- No research was carried out prior to its implementation;
- It was not examined from a poverty perspective;
- There was no dialogue with MABS or the social sector;
- There are no plans to have the scheme evaluated;
- Banks, building societies and credit unions set their own minimum requirements[6];

6. *With banks this minimum level can be at the maximum threshold of €254, while some credit unions have set it at €50.*

Anecdotal evidence to date suggests that it not being used by low-income groups; Exchange House MABS data shows that it is not being used by Travellers;

1.2 million people participate in the scheme and it has been reported that many simply moved savings from existing savings accounts to the new SSIA. It is also the case that the estimated cost of the scheme has risen considerably.

The difficulties associated with encouraging people unused to saving, in particular those on low income, to start and maintain the habit has been well documented (Daly and Walsh. (1988) Quinn and McCann (1997) E.S.R.I. (2001) Kempson, E. (2002). In a recent study of people on low incomes it has been noted, "82 % say saving is a necessity but a third cannot afford to save" E.S.R.I. (2001)

An alternative to the SSIA was submitted to the Department of Finance in a pre-budget submission in 2001 by the Money Advice and Budgeting Service in conjunction with the Combat Poverty Agency. This was rejected by the Department of Finance. The proposal was amended for a pre-budget (2002) resubmission. The main criticisms in relation to the original SSIA and the issue of the exclusion of low income households, are as follows;

- the minimum savings required were too high
- five year duration too long
- the incentive provided for smaller savers was too low
- the ban on the use of the scheme to access credit
- there was no provision to facilitate participation in the scheme for those outside the banking system
- there was no incentive for financial institutions to introduce savings products targeted at low income groups

The main features of the alternative proposal were that:
- savings requirements range between €1 to €3 per week,
- participants save for a minimum of 20 weeks in a 26 week phase, there are six separate saving cycles of 26 weeks,
- participants receive an extra €1 from the government for every €1 saved,

- after 6 months an option to use the savings to secure a loan to a maximum value of the amount in the account (savings + top up) is available,
- a savings target of €312 over a 2 year period which can be extended for a further year for those who do not reach the 2 year target;
- tax at 23% on dividend or interest on the SSIA a/c for smaller savers should not be charged at the end of the 2 year term,

The estimated cost of the alternative scheme was €31.2 million (1.2 % of the current scheme). Following criticism of the current SSIA scheme, the Society of Saint Vincent de Paul proposed allowing existing account holders to opt out of their 5-year contract without penalties. The considerable savings from such an intervention could be used to fund a scheme targeted at low income people.

There are a number of points in relation to the proposed alternative scheme, which are of relevance to the current research:

- It would actively target the less well off in society, such as social welfare recipients and others on low income or those less likely to save.
- There would be an onus on financial institutions to make this scheme more accessible. The €1 to €1 top up would make it more attractive for those who have not had a savings habit in the past.
- The Money Advice and Budgeting Service would have an advisory role to encourage participation in the Scheme and mechanisms such as Household Budget, An Post's Billpay and direct electronic transfers are proposed to facilitate direct deductions to the Scheme.
- The shorter time span and the greater flexibility of the scheme compared to the SSIS, addresses the difficulties that low-income groups experience in maintaining a 100 % record in relation to weekly savings
- The fact that money saved could be used to secure a loan would make it even more attractive as a savings option.

2.6 The Housing (Miscellaneous Provision) Act 2002

The Housing (Miscellaneous Provision) Act 2002 makes trespass on private property a criminal offence.

As a result of the above Act the 1,017 Travellers living on the side of the road or on unofficial sites will now be criminalised even though they have nowhere to legally park their caravans. This goes against the thrust of recent legislation detailed above in relation to the provision of Traveller accommodation and effectively lets the Local Authorities off the hook as it were, despite the fact that they are obliged to provide a range of accommodation provision as part of their five year Traveller Accommodation Programmes.

The Act allows for confiscation of the caravan, fines and imprisonment if a person refuses to leave the land. The recent legislation has the potential to impact to the detriment of a large number of Traveller families in relation to debt management. How are people to find the money to reclaim their caravans if they are confiscated? How can people pay fines they cannot afford? What is to become of the children if their parents are imprisoned? Who is responsible if the caravans are damaged while being removed from a property? How can such caravans, many of which have money owing on them, be replaced? Such questions are poised against the backdrop of the inability of Travellers on the roadside or in unofficial sites to access legal savings and credit facilities. The fear of a further forced dependency on illegal moneylenders is heightened dramatically with such new legislation.

Impact of Legislative Changes

The impact of the changing legislative context in the Traveller community from the perspective of debt management and access to credit is likely to be mixed. While there can be no doubt that the Criminal Justice Act was necessary to address money laundering in the state, its implementation is proving to have unintended implications for Travellers.

The Criminal Justice Act 1994 has excluded many Travellers from accessing legal and affordable credit, despite the Revised Guidance Notes from the Dept. of Finance. The fact that the credit union movement in Ireland must adhere to the Criminal Justice Act, yet, in general, will accept alternative forms of ID demonstrates that with cooperation from financial institutions, the Act does not necessarily lead to exclusion.

The implementation of the Housing (Traveller Accommodation) Act reflects the lack of political will at local level at variance with its aspiration, and that taken in tandem with the Housing (Miscellaneous Provision) Act, has created further social exclusion for those Travellers not accommodated on official sites. The Dept. of Environment Caravan Loan Initiative has enabled many Travellers to access finance to purchase caravans, however has precluded the involvement of those at the margins of the Traveller community, who are entirely dependent on such schemes to purchase caravans.

While the Equal Status Act has impacted on Travellers' sense of their rights and entitlements, this has not been reflected in the area of finance and access to credit. The SSIA Scheme has affected Travellers much in the way it affected other sections of Irish society on low income, it has not been perceived as of any benefit at all.

Chapter 3

Debt Management Problems and Credit Needs of Exchange House Traveller MABS Clients

Introduction

We start this chapter by giving a general overview of Exchange House Travellers Money Advice and Budgeting Service, before presenting a profile of the 156 clients who had been supported by the Money Advisors up to 2001, highlighting recently emerging needs. Finally, we give a general outline of the major problems encountered by clients in relation to accessing affordable credit.

3.1 General overview of Exchange House Travellers MABS

Exchange House Travellers Money Advice and Budgeting Service is one of a range of services provided by Exchange House Travellers Service, in the Dublin area including a Family Support Service, Youth Service and After-Schools and adult education programmes.

Exchange House Money Advice and Budgeting Service differs from other MABS in that it is primarily a linking service. It aims to address the lack of access for the Traveller Community to affordable and legal credit, through education, individual client support, lobbying and research.

Through their education programme Exchange House Money Advisors promote budgeting and financial planning as a means of preventing the build up of unmanageable debt within the Traveller community. They support clients who have debt problems by linking them into financial service providers, such as local MABS and credit unions. In turn, local MABS and credit unions are supported in providing an accessible and equitable service for Travellers. Where appropriate Exchange House MABS promotes Traveller issues among credit institutions. This may include challenging banks and credit unions where access for Travellers is a problem.

General Client Profile

Between November 1998 and January 1st 2002, Exchange House MABS worked with 156 clients (135 females and 21 males). The gender imbalance reflects the findings of the Quinn and McCann Report (1997) which found that women were mainly responsible for dealing with financial difficulties and accessing savings options, securing loans and/or other assistance to sort out debt problems.

The age range of clients was between 25 and 54 years of age. While nearly half the clients were married, 28% were separated. Nearly 80% of all clients had dependent children with the average number of children being four.

Access to public services in general, and credit facilities in particular, has become increasingly dependent on or is directly related to the type of accommodation in which a person lives, for reasons already given. In this regard it should be noted that 35% of all Exchange House MABS clients were living on the side of the road, in unofficial halting sites, or were homeless. During the year 2001 this figure rose to 50%.

It has been noted in section 2.3 that this has serious implications in relation to the ability of those on the roadside or on unofficial sites to avail of the DOE Caravan Loan Initiative or open bank accounts.

Low Literacy Levels

The lack of adequate and permanent accommodation inevitably has had a bearing on Travellers' ability to access education for their children. This has resulted in continued prevalence of low literacy levels among the Traveller community as a whole.

Quinn and McCann (1998) found that there was a direct link between low literacy levels and the use of street and door to door begging in order to cope with difficulties associated with weekly expenditure on basics[7].

This link was also found in relation to a higher reliance on illegal moneylenders, and lower levels of membership of banks, credit unions and other mainstream credit facilities.

Main Source of Income

The research highlighted the fact that 87% of Exchange House MABS clients are women and that 96% of these rely on Social Welfare payments as their main source of income. Given that social welfare payments remain below income adequacy levels, the demand for credit to deal with emergencies such as funerals, illness etc, is likely to be high.

Initial Needs of Clients and their level of indebtedness

While clients are referred to Exchange House MABS from a variety of sources it is worth noting that the vast majority of referrals happen only when the individual has reached a point of crisis.

Client statistics for the period November 1998 until January 2002 reflect the following initial needs:

- 35% of clients contacted the service with a need to gain access to legal and affordable credit.
- 16% illegal debt
- 15% of the client group wished to save with a credit union.
- 10% had a problem with legal debt
- 10% needed financial assistance with an immediate crisis
- 8% wished to open bank accounts for the purpose of employment.
- 5% requested assisted in Household Budget management.

The remaining clients contacted the service for a variety of

7. *"Basics 1" would relate to difficulties finding money to buy items such as fuel and food. "Basics 2" would be those purchases which are bought on a slightly more irregular basis such as shoes, clothes, school items. Basics 3 would relate to areas such as household bills, bus fares, tax for the car etc*

reasons. However it is important to note that many clients came for a multiple of reasons, and often revealed the existence of an illegal debt after initial contact about another issues was made. While the needs of the clients were varied, the most striking point was in relation to clients with an urgent need to upgrade their caravan. The reality for the vast majority of clients is that if there is no access to legal and affordable credit or to interventions, such as the DOE Caravan Loan Scheme, then there is no alternative but to turn to illegal moneylenders.

Amount of Indebtedness
With regard to the 26% (40 clients) in debt when contacting Exchange House Traveller MABS the following table gives a breakdown of their level in Euro.

Table 1
Level of Debt

Amount of Debt	Illegal Debt No. of people	Legal Debt No. of people
€400 - €500		2
€501 - €1,000	1	7
€1,001 - €2,000	3	2
€2001 - €5,000	20	0
Over €5,000	1	4
Total	25	15

So why do individuals resort to the use of illegal moneylenders? In a survey carried out in 1988 by Daly and Walsh, it was noted that "The lower cost of other types of credit, while a major advantage for most borrowers, is not of great significance to the low-income borrower because a) she or he frequently does not have sufficient information to evaluate the true costs of different types of credit: b) the need is frequently so great that it over-rides a consideration of the costs of credit in the short term."

Interestingly, the perceived barriers for the use of both banks and credit unions were fairly similar including lack of savings or collateral and inability to fulfil other conditions such as having an account or, in the case of credit unions, being a member. This was an especially significant barrier to the use of credit unions.

Moneylenders on the other hand provide individuals with credit under the following terms:

- informal with little or no questions asked and virtually no form filling.
- loans granted on the spot so cash available instantly.
- repayments are weekly and collected
- no collateral is needed

When viewed in this light the advantages of borrowing from an illegal moneylender are more obvious. However for the majority of Exchange House MABS clients, choosing between illegal credit and legal is frequently not an option.

Finally it is important to remember that some of the larger loans from illegal moneylenders, may have started out quite small. Small loans quickly become large due to the exorbitant rates of interest and other punitive sanctions. This points to the need for the provision of small, easy to access loans in order to stop this particular cycle.

Legal debts among the client group identified above tend to be of a smaller size and relate to rent, telephone and gas arrears. However 4 of the loans were for over €5,000 and were obtained from credit unions in order to pay for funerals and related costs such as headstones.

3.3 Credit Union Membership and Loans received

The role the credit union movement has played will be examined in chapter 4 of the report. Chapter 3 is solely concerned with Exchange House Traveller MABS Client membership of credit unions.

Looking at the total number of clients that Exchange House Traveller MABS have dealt with over the last three years, 56% were now members of a credit union, of whom the majority (81%) were assisted in obtaining membership by Exchange House Traveller MABS.

With regard to the 67 clients who were still not members of a credit union the reasons for this were:

- inability to save 39%
- general lack of interest 27%
- living on the side of the road 24%
- address outside any common bond 7%
- insufficient Identification 3%

Purpose of Credit Union Account

The following table details the way in which Client credit union members use their accounts.

Table 2

Purpose of Credit Union Account

Purpose of Account	Total
To purchase a caravan	47%
Savings with a view to a loan	29%
Communion	8%
Wedding	5%
Christmas	5%
Funeral	3%
Car Insurance	2%
Headstone	1%

The fact that 29% used the credit union as a means of saving money supports the many reports that have identified the lack of access to a savings institution for the purpose of general saving as a precursor to difficulties meeting both planned and unexpected financial needs (Daly and Walsh, 1998, Quinn and McCann, 1997).

The main stated purpose (47%) to which Clients wish to utilise their accounts is to borrow in order to purchase a caravan.

Level of Bank Accounts within the Client Group

In chapter 2 the difficulties that arose from the Criminal Justice Act 1994 and the narrow interpretation which the banks took in relation to the identification procedures for new clients opening up accounts was noted. This is reinforced by the fact that only 47 (22%) of Exchange House MABS clients stated they had bank accounts. Of those, 90% were assisted in opening the accounts by Exchange House MABS in order to facilitate FÁS direct payments, direct payments from employment or to cash cheques.

Of the remaining client group approximately 1/3 did not wish to open a bank account. However the majority were refused access to a bank account for a number of reasons, including lack of passport, drivers licence and/or utility bill. In some cases people were refused as they were unemployed or did not live in the general vicinity. The following alternative forms of identification were offered by Exchange House MABS:

- EU Drivers Licence;
- Provisional Driving Licence
- Exchange House MABS photo identification;
- Child Benefit Book;
- Loan parents Payment Book;
- PPS card
- Letter from Local Authority
- Medical Card

In these specific cases, clients were not facilitated to open bank accounts, with consequent implications in terms of ability to join a training course or take on employment where wages are directly transferred into bank accounts.

This was also the case in relation to their potential involvement in FÁS courses as it is also common practice for these payments to be paid directly into bank accounts. This difficulty is evident from Tallaght Traveller Community Development Programme. Participants from this programme were unable to open accounts and this meant increased levels of administration and time costs involved in paying out weekly cash payments.

While not as significant as access to a credit union account, nonetheless, the refusal of banks to accept the above forms of identification over the last three years may have pushed some of Exchange House Traveller MABS clients towards an increased use and reliance on illegal moneylenders with all the consequent problems.

3.5 The Credit Needs of Exchange House MABS Clients

This final section of this chapter summarises the credit needs of Exchange House MABS clients in relation to size of loan and whether emergency or otherwise. This has implications for the type of response to those needs.

This table demonstrates:

- the overlapping and evolving nature of many of the credit needs in question;
- areas which are currently being catered for;
- areas where proposals have already been formulated and are either in the process of being implemented or will form part of the overall recommendations;
- the need for alternative models

We divided the size of loans needed into four sections and the circumstances of the need into two sections.

Table 3
Summarised credit needs of the Traveller Community

Size	Emergency	Planned
Large (€2,500 - €6,500)	Caravan	Caravan
	Wedding	Wedding
	Funeral	Funeral
		Vehicle
Medium (€1,300 - €2,500)	Wedding	Wedding
	Fines	Car Insurance
	Funeral	Vehicle
Small (€200 - €1,300)	Household Goods	Car Insurance
	Fire	Christmas
	Family	Death
	Sacraments	Fines
Micro (€0 - €200)	Sick Child	Attend Funeral
	Car Repair	Attend Wedding
	Household goods	School Expenses
	Basics	Household Repairs

Micro loans

These are extremely important across the two areas of emergency and planned loans. As was the case in the Quinn and McCann report, some of Exchange House Traveller MABS clients are borrowing relatively small amounts of money on order to pay for what would be considered to be basic household expenditure. This demonstrates the difficulties associated with trying to provide for the needs of a family on inadequate levels of social welfare. It is also linked to the inability of many Traveller families to access affordable small loans from mainstream lending institutions, thus forcing them to seek and obtain loans from illegal moneylenders.

Because of the nature of these illegal loans, small loans can very quickly become medium or large loans over a relatively short period of time due the excessive rates of interest and penalty clauses associated with these type of loans. Therefore there is a need for the provision of easy access to small and affordable loans for some emergency and planned situations. Recommendations will be made in this regard in chapter 5.

Small Loans

When an emergency arose these tended to relate to a fire, a death in the family, fines or the urgent need to replace a household item such as a cooker, fridge etc. In these situations some clients had no option but to seek out loans from illegal moneylenders. Planned expenditure in this range would tend to be associated with Christmas, car insurance and sacraments (Weddings, Communions, etc.).

Overall these types of loan requirements can best be accommodated through membership of a credit union, however we have already highlighted the fact that a significant number of Travellers have experienced difficulties in joining a credit union. Again this is an area where we will be making recommendations in relation to providing an adequate service for this group.

Medium Loans

The need for emergency loans in this area tends to be as a result of a death in the family, a fine, and areas associated with “the sacraments". Planned loans are associated with the need to pay car insurance, purchase a van or are associated with the receiving of sacraments. Again this is an area, which ideally should be catered for by the use of credit unions, but the same problems as outlined above apply. It is worth noting that all of the clients who had existing loans in this range when contacting Exchange House MABS had borrowed from illegal moneylenders. A number of these loans would have started out as small loans from illegal moneylenders as outlined under the earlier section.

Large Loans

As has already been pointed out the majority of large loans are associated with the need to purchase a caravan. Others are associated with weddings, funerals, fines and the need to purchase a van. It is worth noting that of the clients who came to Exchange House MABS with existing loans over €2,500, 84% were with illegal moneylenders while 16% had loans from credit unions.

It must be noted that none of the clients surveyed had taken out a loan from a bank.

The reality for many clients who come to the attention of Exchange House Traveller MABS is that they are already in debt, yet still need to urgently purchase a caravan or borrow for other emergencies the importance of accessing legal and affordable credit options for such clients before a crisis situation occurs is paramount if people are ever to escape from the grip of illegal moneylenders.

Chapter 4

Existing Credit and Savings Structures in Ireland

Introduction

While there are many existing credit structures in Ireland the main legal credit structures used by Exchange House clients are credit unions and banks and we have seen from the previous chapter that none of Exchange House clients received credit from banks. So, apart from small loans from members of their family or the use of illegal moneylenders for larger loans, their main source of legal credit came from credit unions and the Society of Saint Vincent de Paul (SVP) Pilot Caravan Loan Fund.

4.1.0 Credit unions in Ireland

The first credit union was set up in Ireland in 1958 in response to the cycle of deprivation visited on Dublin's working class at the hands of the hire purchase companies, pawnbrokers and moneylenders. A credit union is a financial co-operative owned and controlled by its members. It is run to benefit its members who are joined in a common interest through the credit union common bond, which may be geographical or occupational. Members, as shareholders in their credit union, receive dividends on their savings and are eligible to apply for loans. While there are four categories of credit unions (Community, Industrial, Vocational, Association), the majority (90%) in Ireland are community credit unions with a geographical common bond.

The underlying philosophy of the credit union movement is seen in their operating principles and their stated goals in relation to social responsibility as put forward by the Irish League of Credit

Unions (ILCU).

“These principles are founded in the philosophy of co-operation and its central values of equality, equity and mutual self-help. Recognising the varied practices in the implementation of credit union philosophy around the world, at the heart of these principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community” (ILCU, 1996)

As part of the social goals of credit unions we note that the “vision of social justice extends to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decisions should be taken with full regard for the interest of the broader community within which the credit union and its members reside” (ILCU, 1996).

Credit union members are encouraged to save on a regular basis no matter how small the amount. This develops a good savings habit, as well as building up credit worthiness. It also increases the capacity of the credit union to give loans.

The MABS Service countrywide works closely with the credit union movement in relation to clients who are experiencing difficulty with budgeting and debt management. Each local MABS office operates a Loan Guarantee Fund (LGF), which guarantees loans for certain clients in their local credit union, in times of crisis. The LGF is there to provide a source of credit to those whose access to credit is restricted. As a guideline, any individual guarantee should not exceed €400.

As already stated, Exchange House MABS is an exception in this instance, as it does not operate a Loan Guarantee Fund, instead links Travellers into their local MABS, Credit Union and other local financial service providers.

The system of loan guarantee is an option which may be of assistance to a small number of Travellers with whom MABS are dealing, and who have an account with a credit union. However this research shows that most Exchange House MABS clients require larger loans, mainly for the purchase of a caravan.

4.1.1 Exchange House MABS clients and credit unions

Credit unions are used by all income groups and have played a vital role in providing many low-income families with affordable credit. While credit unions were originally set up in order to provide savings and credit facilities to the poorer members of Irish society, it has proved difficult for some Travellers to become members. Travellers living on the roadside, in unofficial sites or homeless within the geographical area can be deemed to be outside the common bond even if they have lived there for many years. Some Travellers are also reluctant to open credit union accounts because of an inability to read, fear of refusal, or a lack of information. One specific Traveller site in Dublin does not fall within the common bond of any credit union and residents on that site have been unable to become full members of a credit union.

More outreach work by credit unions so that all within the common bond may become members and a clear policy on membership for those who live within the common bond but not in standard housing, would facilitate the inclusion of many Travellers. In addition, a more proactive approach by credit unions to include halting sites within their common bond would ensure a more equitable access to the benefits of credit union membership.

Internationally, while it is accepted that credit unions traditionally are associated with a social ethos and the poor, it has been noted, “that there is no systematic focus on low-income households and communities in industrialised countries. (Mayo, E. 1996). However in stark contrast to such a policy the 200 or so Community Development Credit Unions in the USA operate purely from an anti-poverty perspective. Community Development Credit unions will be examined in detail in Chapter 5.

However the autonomy of each credit union and adherence to the original mission of the movement was demonstrated in the case of a credit union in Dublin who accepted membership from a client living on the roadside and also went on to lend a substantial sum of money to the client on the basis that an illegal debt needed to be paid.

Social Audits within the Credit Union

While Credit Unions in Ireland have provided a very good service for a wide range of individuals in Irish society there has been very little focused research as to how effective they are as a remedy for the financial needs of low-income households in general and the Traveller Community in particular. A Social Audit would have the potential to reinforce the original mission of the Credit Union Movement in Ireland and lead to further engagement with those on the margins of society.

In 2000 VanCity Credit Union in Canada put together a detailed Statement of Values and Commitments, which came about as result of a Social Audit involving a broad cross-section of VanCity staff, their board, members and other representatives within the community.

Part of this Statement of Values and Commitments concerns their philosophy of leading by example and using their resources and expertise to effect positive change in their communities. This includes the creation of solutions to social, environmental and economic issues. The thrust of this includes a wider vision than just providing for their members but includes the whole community in which they live. In order to ensure that they are continually making progress in meeting their aims Van City conducts a Social Audit every two years, which is externally verified and published.

As quoted in the introduction to their 1999 report "The Social Report is an account of our ongoing journey - a journey guided by our long-standing commitment to social and environmental responsibility, democratic decision-making, and outstanding member service. It presents a reliable, transparent and balanced account of our social and environmental performance and the views of our stakeholders. It is the product of our social audit process, which enables us to measure, understand, and report on how well we are doing. The results of the process then indicate where we need to make improvements".

4.2.1 The Society of Saint Vincent de Paul Caravan Loan Fund[9]

An innovative pilot project was set up by the Society of St. Vincent de Paul (SVP) and Exchange House Travellers MABS in November 1999 to provide loans to the most disadvantaged Traveller families living in unofficial sites, homeless or on the side of the road. This was in response to an urgent need for an alternative form of legal credit for the purchase of caravans.

The SVP provided a fund of £30,000, over a 12-month period. The loan scheme was confined to Travellers in the Greater Dublin area. Loans were interest free, and administration costs were covered by the SVP. It was agreed to limit each loan to a maximum of £3,000. Targeted specifically at Travellers in unofficial sites, many Travellers in official sites also requested assistance as none of the four local authorities had implemented the new DOE Caravan Loan Initiative at that time. It was agreed to try to accommodate them.

Selection of applicants and loan procedure

Referrals came from a number of sources, such as Exchange House Social Workers, Local Authority Social Workers, Local Traveller Groups, members of the Loan Committee and Travellers themselves.

Following a referral, Exchange House money advisors visited the applicant to explain the process and assess the situation. The money advisors explained in detail how repayments were made. After agreement with the applicant on how much they could afford to repay weekly, the applicant filled in a Saint Vincent de Paul Loan Form and the An Post Household Budget Form (see Appendix 3). Letters of support were requested. The application was then submitted to the Loan committee. Once the loan was approved, the SVP notified the Department of Social Community and Family Affairs and An Post, in order that deductions were

9. This is taken from a report supplied by Exchange House MABS made through the Household Budget Scheme. The loan cheque was issued after the first weekly repayment was deducted.

The pilot project lasted to the end of 2001.

In total 22 applications were received and 14 loans granted. Of the 14 successful applications, 8 were living on the side of the road, 2 in unofficial sites and 4 in official sites. Loans ranged from £700 to £3,000 and weekly repayments from £5 to £12.

The main achievements of the scheme were:

- Fourteen families or individuals in the Dublin area were successful in upgrading their accommodation.
- All participants felt their living conditions improved with the granting of the caravan loans.
- The participation of the loan recipients in deciding the weekly repayments gave them more control over their finances.
- Access to such a Fund ensured that the participants did not have to approach an illegal moneylender to upgrade their caravans.
- All participants had access to an affordable and legal form of credit.
- All participants were exposed to the benefits of the credit union and where possible, with the assistance of Exchange House Traveller MABS, have joined their local credit union.
- The Fund through its success has demonstrated the viability of replicating such a scheme under the auspices of the local authority.

Feedback also indicates:

- Applicants on Supplementary Welfare Allowance or Widows Pension could not avail of the scheme as Household Budget does not accept deductions from either of these payments
- As the Fund was limited to £30,000, the maximum loan granted to any individual was £3,000. Unfortunately this limited the quality of caravan that could be purchased.
- As the loan cheques were not issued until after the first deductions were made, 33% of recipients were forced to wait up to 8 months from the time of application. All applicants recommended that this be improved upon.

- As the local authorities failed during this period to implement the Department of the Environment Loan Fund, demand also came from people living on official sites. This resulted in a greater demand in caravan loans than was anticipated.

Overall Analysis of SVP Loan Fund and lessons learned

Despite its short duration the loan fund was regarded as a success. Only one applicant defaulted (They received the loan before signing the An Post Household Budget Form and subsequently never made any repayments). In another case, the loan was converted to a grant due to exceptional circumstances.

The one-year pilot project highlighted that clients who may be deemed high risk in relation to defaulting on loans (those who are living on the side of the road or in unofficial sites) successfully demonstrated their credit worthiness. This has implications for the future in that it shows that if the Loan scheme is constructed and administered appropriately then both the funders of the scheme and the clients can have a mutually satisfactory outcome.

Overall loan recipients professed themselves satisfied with the Fund. It enabled them to access legal credit and it dramatically improved their living conditions. The spin off such improvement in accommodation has in other areas of life, such as health and education, has been well documented in research over the past number of years, and is evident from feedback from clients and related agencies.

There is a continuing need for this type of loan fund offering interest free loans to

- Travellers who have been refused loans from their local authority;
- Travellers who are not eligible to apply for council loans, for example, those on the side of the road, homeless or in unofficial sites;
- Travellers who are unable to access membership of their local credit union.
- The SVP pilot scheme provided a workable model that has proven itself effective, relatively simple to administer and accessible to those most in need.

Chapter 5

Alternatives to Mainstream Credit Facilities

Introduction

5.0 People on low income are generally regarded as high risk in relation to credit by mainstream financial institutions, and at a global level, find it difficult to access credit. The growth of the community development movement has contributed to the development of the concept of social lending at local and regional levels.

> *Social lending has a social purpose rather than merely a financial/profit purpose and has assumed greater importance in anti-poverty policy with the increased difficulties faced by low-income groups and communities in accessing mainline financial services. Social lending is different to other forms of lending in that it is generally local, personal, simple and transparent. Perhaps as a result, loss rates on such loans have been shown to be lower than the commercial sector which indicates that the risk factor perceived in lending to low income families is much overstated - further it indicates the viability of social lending"*
> (Credit and Debt Policy Group, 1996)

Equally the growth of small-scale savings and credit schemes world-wide has also become evident in recent years. Such schemes vary in structure and size, from simple organic schemes to more complex externally supported schemes.

This chapter examines five examples of social lending and savings and credit initiatives from around the world. Such examples have not only provided access to savings and credit for the economically poorest members of society but have also inspired the growth in social lending throughout the world. Finally, we look at possible sources of funding for such schemes such as the introduction of a European Union Community Reinvestment Act, and the use of funds unclaimed from dormant bank accounts in Ireland.

5.1 Rotating Savings and Credit Associations (ROSCAS)

ROSCAS are organic savings clubs formed by small groups of people. They are established within the group rather than being imposed by an outside agent. They can be found operating under a variety of names throughout the world such as “Chilimba” in Zambia, “Savings clubs” in Zimbabwe, “Tontines” in Senegal and Cameroon, “Esusu” in Nigeria and “Partner” and “Bond Committees” in the UK.

ROSCAS tend to be set up by groups of people who know each other well and are either unable to access mainstream credit, or choose not to do so. They are simple to operate and rely to a great extent on trust. They are used for consumption and productive purposes, have a strong cultural link between members and are organised amongst extended families, ethnic groups, market women and farmers. Throughout the world there tends to be a very strong commitment amongst members and default on contributions is rare.

ROSCAS vary in how they operate within different communities. Usually they consist of a group of individuals who come together on a weekly basis to make a regular, fixed cash contribution. The fund can operate as simply or as complex as required by the members of the group. A simple ROSCA will rotate the full amount of the fund weekly from one member to another until all members have received the full sum. A more complex ROSCA may increase the amount paid to the member who has to wait the longest. The group decides on the order of rotation and the general rules and regulations of each ROSCA. Members use ROSCAS to pay for school fees and buy household goods etc.

In Cameroon it is noted, “while we generally hear about the formal banking sector in relation to Cameroon’s economic growth it has been noted that almost 35 % of domestic savings by households and individual operators - went through the tontines” (Nzemen, M. 1989).

In Zimbabwe, each club elects a chairperson and treasurer who are jointly responsible for keeping the accounts. Most clubs meet once a week and these meetings are not only used to discuss savings but are also times when information and experiences are shared thus strengthening the solidarity of the group. Over time participants in these groups gain in self-confidence and in economic independence as control over their savings grows.

While ROSCAS operate predominantly in the less developed parts of the world, they exist quite successfully in the industrialised world mainly amongst ethnic minorities.

In Ireland, among immigrant African Communities, groups of women come together to assist each other in saving for deposits on rented accommodation, to send money to families back home or to purchase car insurance. ROSCAS may fulfil both financial and social support needs among communities who wish to establish their own method of financial independence.

Such a reflection is also evident in the UK where ROSCAS have been in existence among minority ethnic groups for over 50 years. The following two examples show how ROSCAS that have been brought to the United Kingdom by ethnic groups have been adapted to counteract the difficulties experienced in accessing high street credit.

The “partner” scheme within the African Caribbean Community in the UK, is very similar to the ROSCAS described in other parts of the world and has been in existence since the 1950’s. It originated among the first immigrants who used the “partner” to pay for the passage of family members to the UK. Because of the reliance on trust, the “partner” tends to operate amongst friends and family and close groups of other kinds. The social ties therefore act as a safeguard against default.

The “partner” schemes tend to be associated with those who are in employment. Generally there are 10-12 people involved and weekly contributions range from £10 - £25. However, this does not preclude unemployed people who wish to save smaller amounts. They are still predominantly used in response to limited access to the high-street credit market, and are regularly used to pay for household goods and holidays.

Similarly the “Bond Committees” in Oldham have been developed by the local Pakistani Community and appear to serve the same purpose as a credit union. They operate on essentially the same principal as the African-Caribbean “partner” schemes and can be traced back to the early years of Pakistani immigration to Britain.

However, in contrast to the African-Caribbean community, the British Pakistani Community uses the bond committees in preference to high-street banking as they offer interest free loans (in keeping with Islam), The committee also appears to be a powerful symbol of ethnicity and ethnic solidarity within the community.

The popularity of ROSCAS world-wide is due in some part to their adaptability to meet small loan needs of group members and to their reliance on the group ethic to ensure against default. They facilitate saving among people on very low income, enabling them to make financial commitments.

ROSCAS do not encourage large-scale capital accumulation or make large or long-term loans. They provide useful models in relation to micro and small loans. They can be used for both consumption and productive purposes and have proved flexible in relation to the various countries, economies and lifestyles of their members.

5.2 Mutual Guarantee Schemes (MGS)

The main element in Mutual Guarantee Schemes (sometimes referred to as peer lending schemes) is that a group of savers act as a guarantor for an individual loan which is received by one member from a central fund. In this way each individual has the ability to use the accumulated credit rating and collateral of the group to avail of loans, which they would be unable to obtain on their own. Access to subsequent loans is dependent on successful repayment by borrowers. Risks and administrative costs per borrower are thus reduced and the group guarantee serves as a substitute for collateral requirements. Loans can be used for either consumption or production purposes, but are mostly evident in Europe for small scale production purposes, by individuals who wish to set up a sole trading business but are unable to obtain mainstream financial credit.

Mutual Guarantee Schemes are mainly managed by Community Development Finance Institutions (CDFI) who specialise in the promotion of small-scale enterprise. Before borrowing begins, the group of potential borrowers undergoes a process of team building and business training. Following training, individual members of the group then have access to the loan fund. The loan funds are administered by the CDFI and may be accessed from a number of sources such as Government loans, grants, borrowing from a social finance bank or a mainstream bank. In this respect it has been noted "a combination of peer support and peer pressure can make lending to members of a group much safer than lending to an individual, even if the group has to be constructed first." (Douthwaite, R. 1996).

An example of such a CDFI is the Women's Employment Enterprise and Training Unit (Weetu) in the UK. Set up in 1988 it operates a scheme called "Full Circle", which consists of lending circles of 4-6 women, each with their own business proposals who wish to access credit for production purposes. The circles offer each other practical advice and support as well as assessing one another's loans. Circles are set up once women have completed both a training scheme enabling them to test the feasibility of their business idea, and a business skills course. At the end of this they will have developed individual business plans. As a group they each then have access to the loan fund administered by Weetu. The maximum amount that can be borrowed as a first loan by a "Full Circle" member is £1,000 over 20 months. Following a second loan, members are encouraged to move into the commercial banking sector, although further loans can be made if necessary. The interest rate on loans is 1.5 % above the rate at which Full Circle can borrow from the Charity Aid Foundation.

The success of the Full Circle in targeting loans to women who are excluded and would otherwise experience difficulty in accessing mainstream credit is evident from the fact that since 1999, 27 % were in low paid part-time work; 15 % were unwaged/unemployed; 27 % were lone parents; 7 % belong to an ethnic minority (only 1 % of the local population do); 5 % have English as an additional language and 10 % have a disability or long term sickness. (Review, 2000 - 2002).

The Women's Self Employment Project (WSEP) in Chicago is another example of a mutual guarantee scheme set up in 1986 to help lone mothers on welfare with no credit records to break out of poverty through self-employment.

In Chicago, groups of five women from the same area attend part-time courses lasting 6 to 10 weeks. Over this time they develop a sense of commitment to each other and are taught business skills and how the WSEP Full Circle Fund works. They also open accounts at banks where the WSEP has negotiated special low-cost or no-cost terms for them, so they can manage their money better and have a place to save. Once they have been recognised as a Circle they meet for approximately three hours every second week " for continuing support and assistance". (Douthwaite, R. 1996).

The interest rate on loans is 15 %, which according to Connie Evans, one of the founders of WSEP is not excessive in view of the high administrative costs that lending this way involves. In addition to the loan being backed by the group, 50 % of the loan is backed by collateral from the woman receiving the loan. WSEP is not just going through the motions – it will seize whatever the woman pledges if the loan turns sour. The repayment rate has been 97 %. When the first loan is repaid the next loan can be $2,000 more and so on up to a maximum of $10,000.

As is the case with ROSCAS, the vast majority of participants involved in Mutual Guarantee schemes are women. While trust plays a significant role as in the ROSCAS, the Mutual Guarantee Schemes go one step further in that they combine the ability of a number of people to access and guarantee external loans on behalf of the individual. The high priority given to training and the fact that the process is seen as a step towards accessing mainstream credit in the future is an important one. It is also the case that MGF's are set up by independent organisations and can therefore be adapted for both consumption and production purposes.

5.3 Social Finance Institutions

Social Finance Institutions demonstrate how banks at a national and regional level have the potential to become more involved in social lending and social investment and as such can lend for social as well as financial gains.

Clann Credo is one such Social Finance institution. Over the last seven years Clann Credo has successfully developed and promoted the concept of Social Finance in Ireland. It has established a Social Investment Fund of €8.7 million, which is utilised to generate inclusive prosperity and contribute to the elimination of poverty and social exclusion. The investment capital has been made available to Clann Credo by a number of religious congregations in Ireland.

It is a general aim of the organisation to promote the regeneration and empowerment of local communities. This is turn facilitates the resolution of social problems that arise primarily from lack of opportunity and systematic exclusion. Clann Credo achieves this by, for example :

- making socially directed investment in targeted sectors
- developing social investment products and investment mechanisms.
- initiating and contributing to appropriate research to inform and complement its work.
- developing Joint Initiatives with other private and public organisations in the sector for effective Cooperation in

promotional and investment work.
- according particular priority to Projects addressing the needs of the Traveller Community, Physically and Mentally Disabled, Asylum-Seekers, Refugees and the Immigrant Community.

Community & Voluntary groups and others without access to traditional forms of finance are advanced capital by Clann Credo once it is demonstrated that the project would deliver a Social as well as a Financial Dividend.

Operating differently, Banca Etica was set up in Italy in 1999, as a meeting point between responsible savers and non-profit organisations intent on improving common welfare. This was the first time in Italy that a proper financial institution specialising in ethical and alternative finance was given the opportunity to operate. The bank participates in the growth of non profit organisations by improving their competitiveness. In 2002 it had €13 million of social capital and 18,300 members.

Banca Etica accepts deposits from both individuals and organisations. It has branches in over 70 Italian towns, each having its own ethical committee. Investors can indicate when they open their current account, which area they would like funds to be invested in, for example, ecology. Transparency is an essential element of the bank.

Banca Etica does not loan to individuals. However they finance co-operatives which are engaged in micro enterprises for marginalised groups. Such co-ops are made up of people from socially excluded groups, for example Banca Etica lends to co-ops for ex offenders, people with mental or physical handicaps, disabilities, the homeless etc. Such co-ops aim to employ their target group in particular work activities, such as gardening in public areas or working in libraries. Banca Etica may lend to such co-ops for the purchase of equipment to assist in the profit making of the co-op and thus the income of the individual. Banca Etica also funds projects abroad. They have lent to charities working in Iraq and are presently branching out to projects in Latin America and Africa.

In May 2002, the UK Charity Bank became the UK's first not-for-profit bank. "Its sole business will be to accept deposits in order to create a source for affordable loans to the charitable sector - for those who might otherwise find it difficult to access finance on terms they can meet. For people wanting to use their wealth to help benefit others, Charity Bank will be a secure and transparent solution that allows depositors to retrieve their savings when they need them - and offers a modest financial return on their investment but a greater social return. And as a registered charity, all operating surpluses will be reinvested in the charity sector " (Charity Bank. 2002).

The bank evolved from a pilot initiative, which was launched in 1996 called "Investors in Society". Over the last six years it accumulated a fund through a returnable deposit scheme of £10 million, which was used several times over to loan money to over 200 charities.

5.4 Government-run Social Funds

Whether or not governments should be involved in lending to individuals is a question for debate. Economists justify such intervention for two reasons, to help correct market failures and to promote equity. The introduction of such loans also allows government resources to assist a greater number of people.

The UK Social Fund was set up in 1988 to provide loans at a zero rate of interest to people finding it difficult to cover incidental costs out of regular income. The Social Fund is geared towards people on specific qualifying Social Welfare benefits. Since 1988, the Social Fund has granted almost 17 million loans, totalling over £3 billion, with the net cost to the government totalling £492 million. The Social Fund awards two types of loans.

- budgeting loans are interest free and are offered to those receiving Income Support or Income Based Job Seekers Allowance for 26 weeks or more. Loan applicants can apply to cover the cost of large items such as furniture, which is difficult to save for, or non-weekly expenses such as clothing.

- crisis loans are also interest free and available for emergencies such as burglary or family breakdown. Both types of loans are administered by the local benefits agency, and repayments deducted from source.

In 1999/2000, 1,680,000 applications for Budgeting Loans were received and 1,017,000 loans were made. The average size was £389 (Department of Social Security Statistics 1999/2000, Section 1.3)

Following improvements made to the Scheme in 1999, research was undertaken in 2000. The research found the following:

- on the whole the scheme was highly valued by applicants, although their knowledge of how it had changed was only acquired once an application had been made. Consequently they were more aware of the simpler and quicker application process than they were of the rule changes;

- respondents commented in particular on: the shorter claim form; the broader categories under which they could apply for a loan; and most respondents noted that the process of claiming seemed faster than before;

- respondents generally had no understanding of how repayment rates were set and many felt that they were set too high. However, all respondents were managing to pay the set amounts and they felt that the repayment by direct deduction of their benefit was a main advantage of Budgeting Loans and helped them to keep up with their repayments.

- most of the loans related to the need to buy essentials such as household appliances, furniture or clothing and to pay bills;
- loans ranged from £40 to £1,000 with most between £300 and £500;
- repayments ranged from £3 to £16 a week, (Whyley et al. 2000).

However while the research above highlights the positive aspects of the Social Fund, further considerations raised by The Network for Fair Finance, “Debt On Our Doorstep” (2000) and Palmer and Conaty “Profiting from Poverty” (2002) include:

- a person considered too poor to repay does not get a loan however great the need. The number of Social Fund Loan Applications refused on the grounds of “inability to repay” increased from 4,856 in 1997/98 to 362,000 in 1999/2000.
- the size of award differs from area to area depending on the amount of money in the local benefit agency’s budget,
- grants and Crisis loans are purely discretionary and budgeting loans are inconsistent from area to area.

Nevertheless the UK Social Fund provides a very valuable credit facility for low-income families, a facility not offered in Ireland. The fact that it is interest free and deducted directly from benefits is seen as a positive element by borrowers of the Social Fund.

However for such a fund to be considered in Ireland the following reforms put forward by Whyley et al (2000) and Palmer and Conaty (2002) in relation to the UK Social Fund need to be considered:

- a considerable increase in the budget for grants to include essential items such as furniture and household equipment, pregnancy grants, household and safety grants and child development grants,
- the removal of the list of excluded items for which a social fund payment cannot be made, except where another authority has a duty, as opposed to the power to provide them,
- a minimum income standard sufficient to keep people out of poverty, should be established by government as a target for benefit rates.

5.5 Community Development Credit Unions (CDCU)

While traditionally credit unions are associated with a social ethos and people on low income, it has been noted, “that there is no systematic focus on low-income households and communities in industrialised countries. The exception to this is the 200 or so USA Community Development Credit Unions" (Mayo, E. 1996).

CDCUs are credit unions with a special mission of serving low-income people. Like all credit unions, they are non-profit financial co-operatives, owned and operated by and for their members. But CDCUs also have a strong commitment to serving the broader community. They demonstrate this commitment through community outreach, through participation in government programs, through partnerships with the private sector in community revitalisation efforts, and by their collaboration nationally with other members of the National Federation of CDCU's.

The National Federation of Community Development Credit Unions (NFCCDCU)
"Works to strengthen the credit unions that serve low-income communities. Organised in 1974 as a voice for America's financially underserved communities, today the National Federation represents and serves 200 community development credit unions in 40 states, the District of Columbia, and Puerto Rico (NFCDCU, 2001).

There are two particular aspects of the NFCCDCU worth noting at this point. The Capitalisation programme, established in 1982, and Predatory Relief and Intervention Deposits (PRIDEs), which came into effect in May 2002.

The objective of the NFCDCU Capitalisation Program is to assist member CDCU's throughout the country in fulfilling their mission of supplying financial products and services to underserved, low-income individuals. It therefore acts as the fundraiser for the NFCDCU, raising funds from social investors, financial institutions and Government, which it channels into CDCU's.

In this respect it is worth noting that the US Treasury Department's Community Development Financial Institutions Fund was established in 1994 and during its first five years of operation, more than 50 CDCUs received $19.2 million in awards from the fund, while $5 million was received by the NFCDCU Capitalisation Program10.

While much progress had been made by the NFCDCU and the local CDCU throughout the 1990's the reality was that at the start of the 21st century, the income gap between the rich and the poor in America was greater and predatory lenders were more prominent than ever within the financial landscape.

Predatory lenders are high-cost, exploitative lenders such as Payday Lenders[11] tax-refund anticipation lenders, automobile title lenders, and unscrupulous home equity lenders. These fringe providers drain income and wealth from low-income communities, charging annual interest rates as high as 500% or piling on fees that can plunge homeowners into default and foreclosure. As a result, in 2000 the NFCDCU in conjunction with a number of its members began designing a new Capitalisation Programme product - Predatory Relief and Intervention Deposits, or PRIDEs. As of May 2002 local community development credit unions can receive assistance in relation to the provision of PRIDE loans, which aim to get members out of the hands of such predatory lenders. CDCU's offer short-term, medium-term and long-term PRIDE loans and the interest charged are 3 and half, 4 and three quarters and 5 percent respectively.

Potential sources of Government initiated funding

Possible sources for Government initiated funding include a Community Reinvestment Fund, the Dormant Account Scheme and funds recovered from the Criminal Assets Bureau and proposed Corruption Assets Bureau.

The Community Reinvestment Act in the USA

The US Community Reinvestment Act (CRA) 1977, was enacted as a response to a history of discrimination against

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11. Payday lenders are not formal financial intermediaries. They are usually "check cashers". People who do not have a bank account or account at a credit union but are paid by check go to them to get their checks cashed. The fees for simply cashing the checks have become enormous. Then those same "organisations" have more recently begun giving out loans in return for post-dated checks. A loan of $85 dollars for two weeks backed by a check for $100 translates into a per annum interest rate of about 459%. In most states usury laws do not cover check cashers. And, of course, some states still do not have usury laws.

residents living in low-income or black and Hispanic neighbourhoods" (Louis, E.T. 1989). The act emphasised the continuing and affirmative obligations of lending institutions to meet credit needs and make loans as well as take deposits; to actively promote and market their services in the community, including those of low and moderate income areas (Centre for Community Changes, 1981). The Act further allowed banks to meet their obligations by investing in community finance institutions such as credit unions.

The CRA did not force banks to locate branches in low-income areas or to engage in imprudent lending. However, the fact that the Act obliged banks to report on the distribution of their lending meant "the issue of access to financial services had become the focus for an intense political struggle between the financial services industry and local communities" (Mitchell, J. 1990).

Furthermore, the Act authorised the Federal Reserve and other federal regulatory authorities to determine compliance through periodic examination and reports filed by financial institutions. CRA ratings are a matter of public record, and an institution's statement is open to examination during business hours. In addition, banking regulators must consider how well an institution complies when it applies to open a new branch or to merge with or acquire another bank (Mayo, E. 1996). It has been noted that it is usually at the time of one of these applications that a CRA compliance record gets into the news (Kinder, Lydenberg and Domini, 1993).

As a result of the CRA ratings, local groups have been able to negotiate landmark community reinvestment agreements, such as the Chicago Reinvestment Alliance, which was able to secure funding of $200 million over 5 years from a number of banking institutions.

The necessity of such a Community Reinvestment Act has been noted in Europe. This is highlighted by a report undertaken by the European Commission entitled "The Social Responsibility of Credit Institutions in the EU: Community Reinvestment and other Opportunities for the Development of Social Economy

Banking" (Institut Für Finanzdienstleistungen, E.V. 1997). The authors suggest that the USA Community Reinvestment Act regulations "also respond to the problems analysed for the European market. It is a good starting point for a new approach in banking regulation where banking is no longer evaluated only by safety and soundness towards its own customers or the stability of the currency, but monitored on its impact on a community, a city or a region".

Speaking in relation to how the private sector can contribute to anti-discrimination practices they note that:

"In this respect the USA example is indeed interesting. Just because equal distribution of economic and social opportunities is a generally accepted public good in Europe provided by States and the European Commission through subsidies and home State action, private efforts to support such policies are less developed than they should be. As it is generally assumed that public efforts will no longer suffice to counteract rising tendencies towards regional and social discrimination, Europeans have good reason to take a closer look at the US system of Community Reinvestment for elements which could be incorporated into an emerging European system of more private responsibility for the public good in general".

They go on to say that:

- Banks should have an opportunity to develop more positive incentives through the use of social banking procedures in marketing, product design and public relations.

- The European market would equally have to consider the existing state owned banks, co-op banks and specialised financial institutions with social purposes and give them preferential treatment if they can show that they emphasise community reinvestment more than the legislation requires.

Calls by Carmel Foley, The Director of Consumer Affairs in Ireland, for the introduction of Social Loans adds weight to the argument of the need for legislation to encourage banks to recognise social as well as financial profit. Foley called on the

Irish Bankers Federation to set up a special lending scheme for individuals who do not qualify for mainstream credit. This she argues would act as an alternative for the 18% of adults in Ireland who use moneylenders. Irish Banks, according to Foley, "have a responsibility to help the disadvantaged gain access to the normal banking system" (Sunday Times, 21/07/02). Foley's proposal, called for the Irish Bankers Federation to start such a scheme with the National Money Advice and Budgeting Service.

The introduction of a Community Reinvestment Act in Ireland would create a significant impetus for banks and other credit institutions to reinvest in low-income communities and meet the credit needs for the more socially marginalised in our society including the client group of Exchange House Traveller MABS.

The Dormant Account Scheme and other new Initiatives

In July 2001, the Dormant Account Act became law and in the same year an estimated €165 million was reclaimed from such accounts. The Act ensured that any funds from bank, building society or An Post accounts, not used for 15 years or more and not reclaimed by an account holder or beneficiary by the 30th of April 2003, would be redistributed for the benefit of society. "Broadly speaking the projects or programmes to benefit, will be those designed to alleviate poverty or social deprivation, or to assist those who are physically disadvantaged" (Dormant Accounts Bill, 2001, Dept of Finance). The Dormant Account Scheme, responsible for the disbursement of funds, was expected to be operational by the summer of 2003. It will be governed by an independent board with legal responsibilities to fund projects for the disadvantaged.

Similarly between €25m and €35m has currently been recovered by the Criminal Assets Bureau (CAB), from the proceeds of crime according to Independent Deputy for Dublin North Central, Finian Mc Grath. He recently called for this money to be "released immediately to fund projects for the elderly, disabled and youth in disadvantaged areas" (City Wide News, North East Edition, 14/07/02). In addition, action by CAB has led to the payment of €56m worth of back taxes and €36m in interest, (Irish Times 28/07/02, Mark Hennessy). Although the redistribution of CAB money has not been legislated for, as in the case of Dormant Accounts the potential for such legislation exists.

A further initiative, the Corruption Assets Bureau, was recently announced by an Taoiseach, Bertie Ahern, with similar potential.

As the Dormant Account Scheme will hold a substantial resource of capital initially, which will reduce over time, it may be more suited to endowing capital finance for MGFs, CDCUs, and social finance banks rather than committing to continued funding of projects. The same method of distribution could be used for monies recovered from CAB and the newly established Corruption Assets Bureau.

Chapter 6

Alternative Models in the Irish Context

6.0 Introduction

This chapter presents six possible models of alternative forms of legal and affordable credit and saving options, which could be adapted to the Irish context and implemented to suit the needs of the Traveller Community.

The importance of acknowledging the distinct culture and way of life of Travellers is critical in the development of any new initiative which targets Travellers specifically. It is also vital that any proposed model accommodates potential participants with low literacy levels. This is of particular significance in relation to application forms.

The proposed models have been developed from the examples identified in chapters four and five and address a variety of operation, structure, regulation and funding sources.

While the proposed models take account of the socio-cultural elements of the Traveller Community, they also acknowledge the importance of a financial return, highlighting the importance of an intersectoral approach in design and implementation. This approach reinforces the financial, socio-cultural and the structural viability of each model, thus ensuring greater potential for sustainability.

We begin each section by briefly detailing the proposed structure of each model. The strengths and weaknesses of each model will then be looked at in relation to its relevance to the Traveller community. Potential stakeholders are then identified.

6.1 ROSCAS

Rotating Savings and Credit Associations (ROSCAS), as noted in Chapter 5, operate world-wide, and while predominant in the less economically developed parts of the world, can exist quite successfully in the industrialised world alongside more formal financial establishments.

However it is worth noting that their existence in the industrialised world is usually a result of a coming together of a number of people from the same socio-cultural group who are part of a minority in that society. The continued growth and success of ROSCAS world-wide may be due to factors such as the inability of many members to access mainstream savings and credit, the absence (unlike in mainstream credit institutions) of formal applications or assessments of potential members, and the strong cultural link between group members, which allows for a degree of trust to exist, which is imperative for the successful operation of a ROSCA.

The operation of the ROSCA may be as simple or complex as the group requires. The rotation of the fund can be decided by lots or requested by members. For example, if a member wished to receive the fund on week 7, to finance a family wedding, this may be requested. Some ROSCAS reward members who have to wait until the last week for their turn, both for the wait and the risk involved in the wait. Therefore on occasion, the member who receives the fund first, may only receive a percentage of the full fund while the people who receive last may get slightly more. Some ROSCAS also bank a percentage of the fund to spend as a group or for emergencies. The most important point to note is that the group agree the rules and amendments.

In relation to the Traveller Community, the potential of ROSCAS being developed by a group of friends or a number of family members is obvious, given the tightly knit family structure of the community. Traveller Women's Groups have already expressed interest. The organic nature of ROSCAS ensure that ownership and control remains located within the group and the community.

In relation to the needs of the Exchange House Traveller MABS client group identified in chapter 3, ROSCAS would address small and micro borrowing needs, such as car insurance. In relation to school expenses, where all members of the group would need the loan at around the same time, the more complex ROSCA could operate. For example the group may decide that the recipient on that particular week actually receives slightly less, as they are receiving their payment on the most popular week.

ROSCAS would also allow members to plan for future spending such as weddings, communions and Christmas. This would encourage financial planning and develop a sense of personal control over financial matters among the group members.

As ROSCAS are informal savings groups, the only funds necessary for their establishment is the figure the group decides should be contributed weekly. Therefore such a group can remain completely autonomous and independent of outside influence.

Overall the possibility for the development of ROSCAS within the Traveller Community is highly encouraging. However some issues should be highlighted. Firstly, in order for such savings groups to be successful they must be developed from within and must not be imposed from outside. As in any project, the possibility of failure will always exist, however as it is up to the group to decide its composition and rules, it is also up to them to take every measure to ensure success. Finally it is important to highlight that as such, ROSCAS, as is the case with all models presented, are not a substitute for existing forms of formal and legal savings and credit structures. Rather they are proposed as an additional option.

6.2 Mutual Guarantee Schemes

Mutual Guarantee Schemes (MGS) detailed in chapter 5, assist individuals who do not fit the criteria laid down by mainstream institutions for securing a loan, by bringing together a small number of people, who as a group, will guarantee each other's loans. MGSs usually exist as part of a greater structure, which supports many MGSs. It is such a structure that usually acts as a middleman, by borrowing from a mainstream creditor and lending on to the individual. MGSs are best envisaged as a first step for the individual towards mainstream credit and as such should not be used by mainstream credit institutions for refusal of direct applicants.

Within the Traveller Community, the potential for such MGSs are considerable. As discussed in relation to ROSCAS, the existence of tightly knit families within the Traveller Community, together with the tradition of self employment may provide the potential for a group of Traveller men or women who each have business ideas but need capital, to come together and mutually guarantee each others loans.

As noted in Chapter 5, before borrowing begins, the group undertakes a process of team building and business training. Much like ROSCAS many of the decisions are team based, however as borrowing takes place externally, the lender may influence some decisions.

While it is essential that ROSCAS are developed and managed by the participants themselves, the establishment of MGSs may need the assistance of Traveller Support Groups and experts on micro lending. This is due in part to the fact that the overall umbrella of MGSs would have to find an established lender to borrow from. Funding would be needed to cover operation and training costs. This would be likely to come from a variety of sources, funds from the Dormant Account Scheme, monies collected by CAB, Corruption Assets Bureau, or through introduction of a Community Reinvestment Act.

The research highlighted client needs in relation to consumption loans, whereas MGSs are usually used for production purposes. However, they would also cater for medium sized loans for consumption purposes.

It is also possible that an initial consumption loan could tie in with production. For example a loan for car insurance may directly promote the continued operation of collection of scrap or selling of carpets and may allow such a borrower to establish his business on a more professional footing.

There is considerable potential for the establishment of MGSs within the Traveller Community, taking due account of Traveller culture and the increased effectiveness of responses which develop from within a community. Adaptation would be required, as models which work in Bangladesh or the USA may not necessarily suit the Irish Traveller context. Therefore like every successful micro lending enterprise, the needs of the community must be identified and the structures of the scheme adapted to suit the target group. Finally as highlighted with ROSCAS, MGSs must not be seen as a substitute for people's access into mainstream credit, but as an additional option.

6.3 Social Finance Institutions

The existence of Social Finance Institutions, which lend for social as well as financial gains, can be found in many European countries. Examples include the Charity Bank in the UK and Banca Etica in Italy. As was noted from Banca Etica, any individual can open an account specifying the desired area of social investment. The bank then invests in projects, as opposed to individuals, with a social purpose.

The Vincent de Paul Pilot Caravan Loan Scheme, examined in chapter 4, established the viability of social lending in relation to accommodation. Taking that model a step further, a social finance institution would be in a position to pave the way for a Traveller Accommodation Association much like the growing number of Housing Associations in Ireland.

The difficulty many of the population, particularly minority groups, have in accessing mainstream banks, together with the ethical question over the areas such banks invest in, and the ever increasing charges they impose on customers, raise regular debate about their benefits. However like it or not, in order to function in mainstream society it is more and more necessary to hold some form of account. Most employers pay staff salaries directly into accounts, posing considerable problems for people with no access to one. In order to obtain a mortgage, borrow for a car or obtain a credit card, it is essential to have some history with a bank.

The existence of a social investment bank could provide not only the Traveller community, but all individuals, with an alternative in both savings and credit to that provided by mainstream banks

A social investment bank could provide the funding for projects such as the Mutual Guarantee Fund described above. Likewise it could invest in accommodation, employment, education and training projects. Finance for such a bank could come from the private, public and charitable sectors in society. Traveller projects and charities could avail of the opportunity to open accounts with the social investment bank, in addition to individuals who might exercise ethical considerations in relation to banking. Start-up finance could be secured from the Government from the Dormant Account Scheme, and monies recovered by CAB and the Corruption Assets Bureau, and promoted further by the introduction of a Community Reinvestment Act, which would enter into law the existing principles of the social investment banks.

In relation to the expressed needs of Exchange House Traveller MABS clients, such a social investment bank would address the wish to access a bank account, and could provide the funding for projects aimed at addressing the acute problem of accommodation. Unlike the two previous models, the setting up, management and operation of such a bank would operate externally to the Traveller community. Travellers could play a significant role in lobbying for the establishment of such a bank in Ireland.

6.4 A Government-run Social Fund

The UK Social Fund as described in Chapter 5 is a government-lending scheme for social welfare recipients. Repayment methods are similar to the Household Budget system of payment in Ireland. The fund could be extended to incorporate a savings element, as with a credit union. This could be further developed to become an alternative SSIA, similar to that proposed by the

Combat Poverty Agency and described in chapter 2. In this way participants would have the choice of saving as well as borrowing. By saving small amounts weekly, and receiving the government top up, the participant would also be in a position to borrow against the amount saved.

Such a system would not only serve to promote savings and encourage planning and budgeting for the borrower, but at the same time would ensure repayment methods for the lender. However unlike the credit union, whereby a member must build up a record of saving in order to borrow, we would suggest that this is not the case here. While hopefully it may change in the future, human nature is such that many of our clients only come to us when they are in desperate need of financial assistance. Presently we rely on the goodwill of the credit union, and this often means encouraging credit unions to bend their rules should the client's record of saving be non-existent or limited. However the model described above would allow for immediate assistance for clients who do not have a savings record. In addition to this, by partaking in the scheme, the options for saving with either the scheme or the credit union can then be encouraged.

Within the Traveller community, like any community, the more options made available to the individual, the more the individual will be able to choose the most appropriate for their situation. It also promotes competition thereby ensuring a reduction in the cost of credit to the consumer. The above model would be particularly beneficial to one parent families who may find it difficult to plan and budget for children's birthdays, communions and Christmas. It may also be beneficial for the taxing and insuring of cars and home improvements. By encouraging savings, the fear of unplanned expense is diminished, as the existence of savings could cover the cost of expenditure, or reduce the negative prospect of borrowing.

As model 4 would be based on the structure of the social welfare system, it is proposed that it be government run, with the first step being a revisiting of the alternative SSIA proposal. An advisory committee made up of experts from the UK who have reviewed the scheme, the non-statutory bodies in Ireland who deal with low-income groups and the Combat Poverty Agency who proposed the alternative to the SSIA should be established. Possible sources of funding could come from proposals put forward by the Society of Saint Vincent de Paul and described in Chapter 2, that a clause be implemented in the present SSIA scheme which would eliminate penalties for those wishing to opt out of the scheme before the 5 years. The proposal estimates a saving of €17m per year, which could provide a substantial sum of money.

The potential of Government run Social Funds to benefit all low-income families within the settled and Traveller Communities should be explored. It would be extremely useful for Traveller families who are in need of micro (€0 - €200) and small (€200 - €1,300) loans as described in Table 6. This would be particularly helpful for those who are living on the side of the road, homeless or in unofficial sites and who are excluded from current legal credit options, and are therefore often forced into the hands of illegal moneylenders for such expenses identified above.

6.5 An Integrated Community Development Credit Union

Community Development Credit Unions (CDCU) exist in certain low-income areas in the USA. Chapter 5 identified the benefits they bring to such communities. Such benefits derive from the fact that the CDCU's identify the needs of their members and then strive to meet such needs, thus the establishment of Pride loans, a local solution to a local problem. While there is no doubt regarding the benefits of the Irish Credit Union Movement, its success has in some cases allowed it to stagnate. Although the social face of Ireland has changed dramatically in the last 10 years, there is evidence of a lack of reflection on the part of many credit unions to the needs of marginalised groups living within their common bond.

The social audit, which has proved such a success in Vancouver (chapter 4), has never been undertaken by any credit union to date in Ireland. This is evident from the example given in chapter 4 of one particular credit union who only lend to those in rented accommodation if they have the loan guaranteed by a homeowner. In the economic climate of today, such obvious social exclusion is far from the philosophy of the founders of the credit union movement. As many of our clients are part of the most socially, and economically excluded in society, such actions on the part of some credit unions, impact very harshly on them.

There may be reservations in regard to setting up of CDCUs separate to that of mainstream credit unions, mainly due to the possibility of further exclusion by what may be viewed as a “poor man’s” credit union established only for marginalised groups. The integration of a community development element in all credit unions would counteract that possibility..

Funding for such an element could come from a percentage of credit union income and in this way fulfil the philosophy that local savings are ploughed back into the local area. For such a hybrid of CDCUs to be successful, they would need to be managed and controlled by the credit unions they exist within, while at the same time being guided by the Irish League of Credit Unions.

While in the USA, the CDCUs identified a particular need within the locality, it would likewise be essential that a social audit take place before the establishment of any form of CDCU in Ireland. Such an audit may be undertaken with the social partnerships and local support groups in the area. From the needs of our present client group, it is envisaged that such a model could serve our clients in need of large sized loans. Thus the present demand for caravan loans, ranging from €2,500 to €6,500, could be accommodated under such a scheme. Furthermore, by amalgamating this model with the final model we will look at in this report, the possibility of guaranteeing such large loans could also be considered.

The viability of such an element within the local credit union is evident from the positive example we identified in chapter 4 on local credit unions in Ireland, and how some have evolved with the changing needs in their area. However in order for such developments to take place, it is essential to have the backing of the ILCU. For this to occur serious representation would have to be made and this could only succeed if detailed research is undertaken.

6.6 Revolving Loan Guarantee Fund

The final model proposed is a Revolving Loan Guarantee Fund. A Loan Guarantee Fund would seek to raise capital from socially concerned investors, and work in partnership with the credit union movement.

A partnership involving Exchange House Traveller MABS, a social finance agency in Ireland, together with the credit union movement, has developed a facility to enable Travellers to access caravan loans through the credit union. The strength of this approach is that Travellers who may not have a previous savings or credit record may gain access to emergency credit union loans.

The Social Finance agency established a fund, which will be used where necessary to guarantee large loans from credit unions to enable clients to purchase caravans. Such loans would be unattainable if not for such a guarantee, as a decent caravan costs in excess of €3,000 and client savings do not generally allow for a first loan to be this high. Agreements have ensured that both the agency and the credit union share an equal amount of risk.

In this way the credit unions' responsibility to the member is not diminished. Furthermore should the member default, their savings are also written off against the outstanding loan further reducing the liability of the guarantor. The improvements to the original proposal have ensured the least amount of risk possible for the guarantor.

However as only one guarantor exists, it is proposed that a model be looked at whereby a group of donors, from both statutory, and non statutory bodies come together to set up a central fund that could be accessed to guarantee loans by many Traveller members of credit unions nation-wide. The fund would serve the demand for large loans to secure safe and secure accommodation. With regard to the participants of such a fund, there may be a role for the Department of Social and Family Affairs as the manager of the MABS. The Department of Finance could contribute from the Dormant Accounts Scheme, monies recovered by CAB and the future Corruption Assets Bureau, while the Department of Health and Children has a responsibility in the welfare of children. The Department of the Environment might also consider involvement to maximise the impact of the Caravan Loan Initiative.

Non-governmental involvement could take the form of local partnerships and local credit unions. This is where model 6 may tie in with model 5. Model 5 discussed the possibility of a version of CDCUs existing within the credit union in Ireland. By amalgamating with model 5, the credit union may not solely act as the creditor, but may also contribute to such a locally based social fund, thus ploughing back some of their profits directly into the community.

Should such a Revolving Loan Guarantee Fund be established, it would be essential that the funders manage it. However in order not to overlook the needs of the Traveller community, Traveller representation would be essential. Therefore the importance of both financial and social representation is paramount to its successful operation. We would also envisage that the management committee would establish a loan guarantee committee to decide on successful recipients of the guarantees. Again representation from both the funders and the Traveller Community would be essential. Guidance on this element could be taken from the pilot caravan loan scheme operated by the Society of Saint Vincent de Paul and described in chapter 4.

In order for the project to operate efficiently, a Fund Manager would have to be employed to deal with the day to day running of the project, to prepare applications for presentation to the loan guarantee committee, and to monitor successful applicants repayment records. It is also worth noting at this point the possibility of repayment through the Household Budget, which proved very successful for the Vincent de Paul pilot scheme.

This model is proposed for people with no credit or savings record. It is also important to note that the loan guarantee should remain a confidential agreement between the loan guarantee committee and the credit union, and as loans are repaid money will be freed up to guarantee other borrowers through the same system.

Other obstacles may emerge. Members of a management committee may come from many different backgrounds, agreement in the management of such a fund may be difficult. However careful and consistent negotiation much like that undertaken by the social partners should help to overcome this obstacle. The fear that credit unions may insist that all future loans taken by Travellers are guaranteed is an issue that should be addressed at the outset by the establishment of clear and consistent guidelines. Such guidelines may state that guarantees are only given to first time borrowers or participants with no history of saving in the credit union.

Furthermore it might also be agreed that a member may only have one loan guaranteed, and any subsequent loan must be given on the merit of the members' savings and the goodwill of the credit union. Finally it may be the case that should a client know that their loan is guaranteed by a stranger, the necessity to repay may not be as strong as if guaranteed by a family member. Therefore the importance of confidentiality in the scheme is essential.

In conclusion, it is worth noting that all models presented are based on non-charitable models of operation, and as such promote the idea of community development and sustainability within the Traveller community. Models 1 and 2 build funds on the contributions of savers, and this is partly the case for models 3 to 6. However where outside involvement is necessary, the financial involvement suggested comes from sources as yet unused, such as dormant accounts, or from once off donors, where the money contributed will be used for guarantees and not handouts. It is also important to state that all models are presented for discussion and are open to changes and improvement, and that the needs of the Traveller community, particularly the client group identified, should be kept in focus.

Chapter 7

Recommendations

The research has identified the problems experienced by the Traveller community in accessing mainstream legal and affordable savings and credit. It explored the alternative forms of savings and credit models and the possibility of social lending from countries worldwide.

The question of whether such non-exploitative savings and credit structures meet the needs of the Traveller community has been addressed in theory in this research, by building potential models appropriate in the Irish context and to the Traveller community in particular. However practical proof of the viability and sustainability within the community is something that now needs to be explored further.

Issues such as gender equality, the geographical location of such services, and the time constraints and criteria used in granting loans, are issues that must be taken into account when the proposed models are examined by the Traveller community and other potential participants.

Furthermore the importance of the empowerment of all users through participation, education, and awareness raising must take place, together with a proofing of the structural, economic and financial viability if such schemes are to be sustainable.

In order for this to be achieved, the following strategies are recommended:

1. A committee of experts is set up of Travellers to culturally proof the proposals, the social finance sector to financially proof the proposals and the anti-poverty sector to poverty proof proposals put forward.
2. The research is disseminated within the wider Traveller community and used as a discussion paper on the possibility of putting the models into practice.
3. The research is presented to interested parties such as the MABS structures in Ireland, credit institutions, possible funders, social finance agencies and other marginalised groups experiencing exclusion.
4. That working groups are set up within the Traveller community to debate possible models and proposals.
5. That sub-groups are established to take steps forward on specific models.
6. That a panel of experts be brought on board and act as an Advisory Group to the process and include potential members of:

   - social finance institutions,
   - credit unions particularly those with expertise on CDCUs,
   - participants of small scale savings and credit structures,
   - experts in the field of developing small scale savings and credit structures,
   - potential funders,
   - researchers in the field of social finance,
   - other ethnic minorities.

In order for such developments to occur it is proposed that:

- exchange House MABS take responsibility for disseminating the research and presenting the models proposed.
- exchange House MABS facilitate the setting up of working groups within the Traveller community to debate possible models and sub-groups to help implement such models.
- exchange House MABS facilitate bringing together panels of experts on all areas necessary for the successful establishment of such models
- once such models are established they are managed by

experts in the field of finance and representatives of the Traveller community at large.

This research, based as it is on the experiences of one specific MABS intervention and the identified needs of the clients of that service, should be seen within the context of contributing to the debate on alternative forms of social lending for Travellers and other marginalised groups within Irish society. In addition, it proposes an examination of the issue of ethical banking for those in Ireland who want to invest and save within an ethical context and who currently have no option to do that in the banking system.

The proposed solutions will have wider applicability outside the Traveller community and could lead to a significant shift in the savings and credit institutions in this country.

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Appendix 1

HOW TO ESTABLISH IDENTITY
BUSINESS CONDUCTED FACE TO FACE
(PARAGRAPHS 45 – 47)
RESIDENT PERSONAL CUSTOMERS

45

Whenever possible, there should be face-to-face contact with the prospective customer.

(i) The following information should be obtained from prospective resident customers:

- true name;
- correct permanent Irish address, including postal code where applicable; (In addition, date of birth should also normally be sought and recorded).

(ii) The true name used should be verified by reference to a document obtained from a reputable source which bears a photograph and signature. Wherever possible a current valid full passport should be requested and *copied. In circumstances where copying facilities are not available at the office of the credit institution,* reference numbers and other relevant details *should be* recorded.

There are of course other documents that customers might produce as evidence of their identity (*e.g. Drivers Licence with photograph, Age Card issued by the Garda Community Relations Section*). It is for each credit institution to decide the appropriateness of such documents in the light of other security procedures operated and other information available at account opening.

(iii) In addition to the name verification, it is important that the current permanent address should also be verified. Some of the best means of verifying address are:

- Checking the Electoral Register (local registers are held at Post Offices, Libraries and Garda Stations);
- Making a credit reference agency search;
- Checking a local telephone directory or available street

directory;
Requesting sight of original copy of any of the following
Current utility bill, bank, building society *or financial institution* statement.
Notice of Determination for Tax Credit.
Current Balancing Statement from Revenue Commissioners.
Social Insurance documents.
Current Household/Motor Insurance Documents.
Revenue Commissioners C2 Tax Certificate.

(iv) *Where a prospective customer does not possess evidence of identity and/or address verification as outlined in (ii) and (iii) above, the credit institution may adopt alternative identification procedures details of which are set out below.*
In these cases the credit institution should require the prospective customer to complete and sign a form indicating the specific documentation that the customer does not hold (e.g. passport/driving licence, utility bill).
The credit institution may use either of the following methods, as an alternative to a passport/driving licence, to verify name:
Identification form with photograph signed by a member of the Gardaí (see Appendix I) or
Documentation/cards issued by a Government Department showing the name of the person and *Letter/statement from a person in a position of responsibility (e.g. a solicitor, accountant, doctor, minister of religion, teacher, social worker, community employment scheme supervisor) who is in a position to confirm the person's identity to the credit institution. In such instances the person providing the letter/statement must present themselves to the relevant credit institution providing proof of their own identity and verifying their status to the credit institution.*
The credit institution may accept any one of *the following, as an alternative to the items listed under 45(iii) above, to verify* address:

Letter/statement from a licensed employment agency that the person has recently arrived in Ireland and is commencing employment or from an employer that the person has commenced employment and in each case stating that the person is not in a position to produce a utility bill or other document which shows an Irish address. In addition, in such cases the prospective

customer should be required to submit follow-up documentation (e.g. utility bill) confirming Irish address in due course.
Letter/statement from a person in a position of responsibility (e.g. a solicitor, accountant, doctor, minister of religion, teacher, social worker, community employment scheme supervisor) who is in a position to confirm the person's address to the credit institution. In such instances the person providing the letter/statement must present themselves to the relevant credit institution providing proof of their own identity and verifying their status to the credit institution.
Documentation/cards issued by a Government Department showing the address of the person.

(v) An introduction from a respected customer, personally known to a member of management in the branch or office in the credit institution concerned, may assist in the verification of the name and/or address of a person for whom a credit institution proposes to provide a service. In such a situation, details of the introduction should be recorded on the customer file and signed by the member of management concerned.

(vi) In respect of joint accounts, the name and address of all account holders, not just the first named, should be established and the address of each verified.

Appendix 2
Circular Letter No TAU 1/2000 - 7th February 2000
Department of the Environment and Local Government

SCHEME OF LOANS AND GRANTS FOR THE PURCHASE OF CARAVANS BY TRAVELLERS

GENERAL CONDITIONS OF THE LOAN SCHEME

A loan of up to a maximum of £5,000 will be available for the purchase of a new / second hand caravan;

The loan will be repaid over a period ranging from 1 - 5 years. The amount of loan sanctioned will be dependent on each applicant's ability to pay, which will be determined by the local authority. “Top up” loans will be at the discretion of the local authority, but it is envisaged that these will only be granted in exceptional circumstances;

Applicants must satisfy the local authority that they are in need of accommodation and their circumstances are such that they cannot provide it from their own resources;

The caravan must be purchased from a reputable supplier registered for VAT purposes. The local authority and the applicant must satisfy themselves that the caravan to be purchased represents value for money, and that it meets the needs of the Traveller household concerned, before the loan is sanctioned. The granting of assistance by the local authority shall not imply any warranty on the part of the authority in relation to the state of repair or the condition of the caravan or in relation to its fitness for use as habitable accommodation.

The local authority will satisfy itself that the existing substandard caravan is disposed of, where relevant;

The loan will be repaid at regular intervals i.e. weekly, monthly etc. The preferred method of payment is through the Household Budget Scheme. It will remain a matter for the local authority concerned, following consultation with the applicant, as to alternative arrangements for repayment of the loan;

The Traveller concerned must be assessed by the local authority as being in need of accommodation. Travellers normally resident outside the State will not be eligible to apply for the loan scheme;

The normal local authority house purchase interest shall apply to the loan;

The Traveller applicant will contribute at least 10% of the purchase price of the caravan;

Access to future loans will be denied where an applicant defaults on the loan repayments. The local authority will take appropriate steps to recover the outstanding loan;

In the event of cases of extreme hardship, the local authority may, at its discretion, extend the period for the repayment of the loan and/or reduce the amount of each repayment to assist the Travellers concerned.

GENERAL CONDITIONS OF THE GRANT SCHEME

A once off grant (calculated at 10% of the purchase price of the caravan, subject to a maximum of £500) will be off set against the cost of a caravan for a first time purchaser. This grant will be deducted from the loan amount repayable to the local authority, by the Traveller, where relevant.

The grant will not be payable retrospectively, i.e. it shall only be payable from the date of introduction of the scheme;

In the case of a joint application for a grant, if one of the applicants has obtained the grant previously, then this will render the other applicant ineligible to claim the grant;

Appendix 3
The Household Budget Scheme

The Household Budget Scheme enables people on certain social welfare payments to pay a regular amount of money weekly towards various bills by direct deductions from their welfare payments. The service is operated for the Department of Social, Community and Family Affairs by An Post. It is intended to help people on certain social welfare payments manage their finances. The service is free for the person having the deduction made.

Presently people on Widows Contributory Pension, Disability Benefit, Old Age Pension and Carers Allowance are not entitled to participate in the Household Budget Scheme. All other payments are included in the scheme. For those who receive a book payment, for example Loan Parents, their method of payment must change to a card payment to enable deductions be made. However such a change in method of payment does not change the type of payment a person is on.

Participants of the scheme fill out a Household Budget Form, which can be picked up from any post office. The application is usually processed and the first deduction made within 6 weeks of application. Total payments deducted weekly from the Household Budget scheme cannot exceed 25% of the participant's basis weekly payment. This is to ensure the participant is left with enough disposable income for other expenses.

After An Post has made the weekly deduction from the participant's social welfare payment, the payment is passed on to the creditors bank account within 4 working days of receipt. The creditor receives an itemised account from An Post stating the amount paid and the account number the payments are received from. The creditor is charged a nominal fee by An Post for this service, (25p for each transaction).

Participants can cancel any deductions agreed to by writing to An Post. Two weeks notice must be given and it may take another 2 weeks before deductions cease.

EXCHANGE HOUSE
Travellers Service

"The Money Advice and Budgeting Service is aware of the obstacles faced by many of its clients nationally in accessing financial services. The proposed alternative models are welcomed as a positive step towards new developments in this area"
Liam Edwards *(National Co-ordinator of MABS)*

"The ILCU welcomes this research as a positive step forward by the Traveller community in accessing financial services and in exploring ways in which the credit union movement can better serve society as a whole"
Liam O Dwyer *(Director ILCU)*

"This research highlights the ongoing difficulties members of the Traveller community have in accessing legal forms of savings and credit. Hopefully the recommendations contained in this research will lead to more options being available for Travellers and people on low incomes to access savings and credit facilities."
Thomas McCann *(Equality Officer, ITM)*

Combat Poverty Agency
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