

MICROCREDIT IN UNITED KINGDOM

Vittorio E. Agostinelli

In the last 10 years Microfinance became one of the world's most high-profile and generously funded development interventions. Microfinance is based on the conviction that the small loans can unlock endless opportunities for the world's poorest people.

There is no regulatory framework for microfinance in the UK since microfinance is not listed as a specific sector: most microfinance institutions are not banks and they can not take a deposit. As regards credits for enterprises, self-employed persons and persons outside the banking system, the activity of the CDFIs (Community Development Finance Institutions) that have developed since the 1990s, has become essential. This term CDFI is used in the United Kingdom to indicate any forms of initiatives related to social finance; this includes mutual credit companies, communities of loan capital, social banks and mutual guarantee companies.

There is no usury rate defined in the United Kingdom; this engenders in general a lack of control of the price of the credit.

Persons who need a loan need to pass a test to demonstrate good character ("foot for purpose"), and people convicted of fraud or similar financial crimes are usually excluded; they can address the traditional banks, but this sector is very concentrated and the obtaining of credits without guarantees is difficult.

The creation by the Government of the 2001 Phoenix Fund strengthened the activities in the microfinance sector. In particular the Phoenix Fund was in charge of providing capital to the CDFIs. It is necessary to note that this programme resulted in the setting up of 70 new CDFIs, as well as in the creation of the CDFA (Community Development Finance Association), which has the objective of promoting and supporting the financial sector targeting excluded persons and communities.

The interest of public authorities for microfinance as a tool for the fight against social exclusion also appears through a certain number of programmes set up in the recent years. One can quote the "Small Firms Loan Guarantee Scheme" which provides advantages to banks granting loans to persons who are normally excluded from the system, or the "Community Investment Tax Relief" (CITR) which encourages investments in CDFIs by means of fiscal advantages.

Specialised institutions in the United Kingdom have the right to lend money to businesses, social enterprises and individuals who struggle to get finance from high street banks and loan companies. Although some of these institutions have existed since the 1960s, the sector developed considerably when the Phoenix Fund was set up, providing €42 million between 2000 and 2006 to support existing and emerging organisations. The Fund was formally terminated in 2008.

CDFIs provide loans and support to micro, small and medium enterprises, social businesses, community organisations, charities and individuals. Most lending by CDFIs is to microenterprises and social enterprises. Since 2002 the majority of CDFIs have joined the trade association CDFA (Community Development Finance Association) which now has 70 members. CDFIs who wish to become part of CDFA must adopt the

WORLD NEWS

CDFA Code of Practice. Microenterprise Lending, Microlending, Business Development Services, Multiservice-Provider.

There are many various structures in this area. In some countries like the United Kingdom a broad range of suppliers of pure microfinance exists, but there are also multi-service providers offering both finance and Business Development Services, as well as community networks combining solidarity loans with business support by local volunteers.

The Prince's Scottish Youth Business Trust (PSYBT) helps young people aged between 18 and 25 in Scotland to become successful entrepreneurs, by providing financing and additional support. Since its inception, PSYBT has helped over 12,000 individuals start over 10,000 businesses, 81% of which continue to trade after their first year in business and 60% of which are still trading after three years.

It works with a volunteer network of 750 individuals. Every two years PSYBT organises a conference for volunteers. In 2011 over 200 volunteers from throughout Scotland attended to share best practice and new ideas and discuss hot topics such as social media, sales, marketing and aftercare.

The number of micro enterprises in United Kingdom was 1.495.648 in 2013. The contribution of micro businesses to the economy has been increasing in recent years. The growth in the business population has been driven by micro firms which have increased by 40% since 2000.

On 20th February we have heard the opinion from an expert who works in the economic sector as Lecturer in Economics at the Regent's University of London, *Merim Baitimbetova*. She talked with us about the serious economic division in the country.

"We have got North, Midland and South of United Kingdom. South was always the richest because it was where the London was and where the ports work. So if you are looking at the South, South used to be much richer than the rest."

And what about the North and the Midland?

"If we are looking at how the industries are evolving, quite all of the industries disappeared from the Midland and actually the North of the country. And that is the whole reason why the Brexit actually came alone. Because the North and the Midland say "we don't want immigration, there are too many foreigners!"

Which is the perception of poverty?

"The perception of poverty is necessarily influenced by this division inside the country. Microfinance and



Merim Baitimbetova

Microcredit work particularly for the marginalized people in UK, because it is difficult or much difficult for them to find the access to the money. But also the services able to help them are different depending on where you are: London is living in a own bubble, it is not representative of England, at all. In the South, South-Est in particular, there are more services offered and the unemployment is lower than the rest of UK. In the North and in the Midland the unemployment rate is the highest"

And how the British system is solving the problem to create a job?

"Actually there are not particular projects for the british unemployed or for poor people, but the Government still invest in that area and recently Teresa May said "we will spend more in infrastructures" to follow the European line, according with Brexit".

Although the Brexit and the Global economic crisis, the economic situation in United Kingdom says that the unemployment rate was at 4.8 percent in the period between October and December 2016. The employment rate hit a new all-time high of 74.6 percent as the number of people in work rose by 37 thousand while wage growth slowed. Unemployment Rate in the United Kingdom averaged 7.13 percent from 1971 until 2016, reaching an all time high of 12 percent in February of 1984 and a record low of 3.40 percent in November of 1973.

By a common European strategy in Microfinance and Microcredit, by a serious investment policy and a strong economic structure, we can fight the unemployment and give the possibility to everyone to build a future trying to make reality what now, for million of people in poverty, is just a dream.

