

PERSONAL FREEDOM THROUGH DEBT RELIEF

How Social Mentorship Brings People to Financial Autonomy





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Introduction

Debt has always been part of life. In recent years the issue of over-indebted households has reached a historical level with debt becoming an integral part of life, stimulated and presented as normal. However, the current crisis has proven the vulnerability and fallacy of the debt culture. Debt has downgraded a large group of the middle class toward the lower class. It is the middle class who is the engine of the economy — more than big corporations. Once the economic motor fails to convert energy into economic and social power, society comes to a standstill. Subsequently it will take more time and energy to regain the economical pace from that standstill situation. Preventing a total economic standstill by actively and proactively dealing with debt is not only logical, but also urgent.

This raises the question, “what happens if nothing changes?” The answer is quite simple: there will be more socially passive citizens and the balance of people socially contributing and people unable to contribute will become disturbed. This will lead to social polarization that can easily end up in political exploitation and ultimately to exclusion. Dealing with debt, actively and proactively, indirectly contributes to social peace.

There certainly are other pieces of the puzzle that contribute to social peace, though debt is definitely of significant importance. As long as there is a financial drainage due to debt, all invested energy and funds will never convert into a satisfactory return on investment.

This report consists of two distinct parts.

Firstly, the document backs up a number of causes of debt with recent data, gathered by experts on the topic in the Netherlands, United Kingdom, Germany, Denmark, Belgium, Finland, Spain, Hungary and Slovakia.

However, the information is not exhaustive or conclusive as this report is not so much a scientific study, but a solution oriented disquisition. The objective of presenting data in the first part is to illustrate the seriousness and complexity of the problem and to support the call to start working on practical solutions all over Europe.

For more scientific references, we recommend the comprehensive report that was recently published on behalf of the European Commission: 'The over-indebtedness of European households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact'. It can be read online:

http://ec.europa.eu/consumers/financial_services/reference_studies_documents/docs/part_1_synthesis_of_findings_en.pdf

http://ec.europa.eu/consumers/financial_services/reference_studies_documents/docs/part_2_synthesis_of_findings_en.pdf

Then, in the second part, this document aims to present the key success factors of volunteer-based projects for debt relief and its benefits for governmental institutions. It looks specifically at the Debt Aid Companion project in the Netherlands (in Dutch 'Schuldhulpmaatje', a project that is also mentioned in a list of best practices in the before mentioned report of the EC) and the Community Money Advice project in the United Kingdom, both of which have successfully used volunteers over a period of many years to accompany people who are over-indebted through a process of debt reconciliation.

The purpose of Debt Aid Companion is to enable social reintegration, for those who previously couldn't repay their debts that led to financial

exclusion. It is the desire of Encour to see initiatives like Debt Aid Companion multiplied and this document aims to play a key role in alleviating the dangers of household overindebtedness in Europe.

This project has been operationally realized by the Encour Foundation, which has gathered information for this report.

This document presents the proven results based on an independent study by Regioplan of The Netherlands and an analysis by Encour of the underlying critical success factors. The reason for such an elaborated exposition of the success factors is to ensure the project is replicable other parties to repeat the obtained success. It is the goal of Encour to make this knowledge available to society in order to multiply the number of initiatives that can have a real impact on those struggling with overindebtedness. Each factor is detailed in order to highlight various factors that have ensured success.



Definition of debt

What is debt

In this report debt is defined as follows:

A situation in which individuals are no longer in a position to repay money they owe within the foreseeable future and are unable to make payments from existing assets or income without putting their basic living standards at risk, causing a subjective burden on both the individual and the whole household. This can be as a result of expected or unexpected additional expenditure or a decrease in the household or individual's income.

Formal and informal

There is a difference between formal and informal debt. Formal debt refers to money owed to a formal lending institution, like a bank or a credit card company. This is the kind of debt that is measurable, so this is what is meant in all statistics we use in this study.

Informal debt however is another aspect of the debt problems, even if it is not legally enforceable as a debt. Especially if access to mainstream credit is difficult, then people sometimes turn to family and friends which in turn can put real strain on the relationship if they aren't able to keep up with the repayments. Informal debts can also have a domino effect if the person who lent the money is himself in a tight financial situation.

What is not considered as debt

This document does not take into account loans and credit that people are managing to maintain the required repayments on. Although these are still technically debts they are not reviewed in this report.

The question raised is if these 'informal' debts should be considered as an investment or as a debt. The ideal case would be to invest from a positive cash flow. However, reality tells us that in most cases this is not possible. Even family members lend money to each other to provide for a head start or the required finances. The difference is that in most cases the pressure to pay back is lower compared to institutions.



Misconceptions

There are still many misconceptions linked to indebtedness which can create an unfavourable social climate for those needing help. The persistence of the misconceptions, especially when they are supported by public officers, can have a detrimental effect on the restoration process of debtors. We describe a number of most common misconceptions below.

All people in debt have created their own situation

As explained later on, there are two main causes of overindebtedness — circumstantial and behavioural. There are more people with debts than those who are in a financial crisis. People who are indebted because of their behaviour have indeed caused their own crisis. In many cases people have become over-indebted due to an unexpected change of circumstances and so have not directly caused their indebtedness. The idea that whatever their financial situation is was of their making classifies all indebted people as perpetrators, depriving them from the help they need. (While even people who have caused their own problems by their behaviour need help to get out of them.)

Only people at the bottom of society are indebted

The financial crisis has caused the bankruptcy of many middleclass people. The social safety net for self-employed people in most countries is inadequate to help middle-class people cope with their new socio-economical situation. In fact there is an increasing number of people used to a high level standard of life being over-indebted because their income situation suddenly changed.

Successful people do not have debts

People who don't rely on credit are in a minority. Technically every credit or loan is a debt, with people who are classified as "successful" often maintain-

ing several credit lines, mortgages and loans. Not all the assets of successful people are their proprietary capital, but in many cases are owned by the bank. Yes, they have debts but the lenders give them credit. As long as they have credit, they can spend money. Of course not all successful people have debts, but at the same time not all spending is done with proprietary capital.

Debt is simply part of our system

If we look around, it may look that way, though creating a household economy based on debt is a choice. Spending more than one actually has is a choice. It is all about someone's goals and the time one allows himself to attain them. A debt free society is an economical and ecological society. The financial and economical crisis has been caused by debt. And as Albert Einstein already said, "We cannot solve our problems with the same thinking we used when we created them" – it will not be possible to solve the crises by debt, since what has caused a crisis cannot solve it.

Debt is inevitable

This misconception relates to the previous one. We have to admit that we live in societies where it is difficult to plan one's future without a mortgage or investment. However, saying debt is inevitable has everything to do with the plans one makes. The current society has encouraged the concept of having all and having it right now. This can lead to over-indebtedness. It would be better if the government as well as society should promote a 'growth' approach where people are encouraged to live within their means without the reliance on credit, where savings are encouraged and rewarded and where the desired social status is a process of growth.

There are plenty of people who live without debt. So the statement that debt is inevitable does not hold water.

How to neutralise these misconceptions

- By promoting a less consumeristic life style, focused on simplicity, quality instead of quantity.
- By discouraging the use of credit to buy consumer goods.
- By communicating the statistics that show the real picture and not what people think.
- By removing the mask that conceals the reality of what successful people really are.
- By promoting a progressive plan for households instead of trying to have everything immediately.
- By making a distinction between circumstantial and behavioural causes for indebtedness and assisting debtors accordingly, that is: in a way that solves the specific underlying causes.
- By helping to educate people to save for what they want rather than resort to the use of credit.

With the worldwide economic crisis still going on, the amount of households in European countries with financial problems is rising. However, household over-indebtedness is not a new phenomenon. European household debt has been on the rise since the 1980's. In 2007, even before the start of the financial and economic crisis, household debt in the European Union had increased on average by almost 19% since 2001.¹

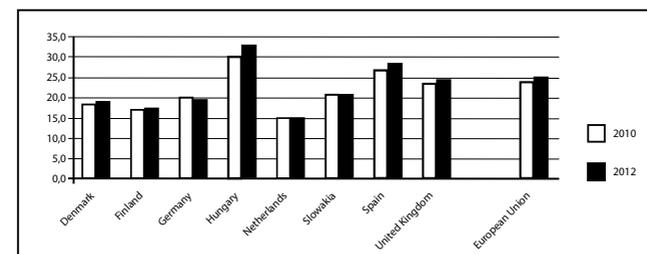
Household over-indebtedness is a considerable contributing factor in the current financial crisis, which in turn, exacerbated the crisis of both public and personal debt problems. The complex variety of causes of over-

¹ Explaining over-indebtedness in the European Union, Julia Gumy, The Research Group, July 2007

indebtedness results in a broad spectrum of social and health issues such as poverty, social exclusion, unemployment and labour productivity.²

For many people, the economic and financial crisis has resulted in a fall in income due to reduced working hours, reduced wages or being made redundant. In autumn 2008, one out of every five households in the EU reported a major drop in income over the previous year. Households who made long-term financial commitments in better times are now often unable to service their debts.³

According to statistics of Eurostat in 2012 124,488,000 people within the 28 countries of the European Union were at risk of poverty or social exclusion. This is 24.8% of the total population.



Picture 1: Percentage of population at risk of poverty or social exclusion ⁴

² Managing household debts: Social service provision in the EU, European Foundation for the improvement of Living and Working Conditions, 2010

³ Household debt advisory services in the European Union, Eurofond 2012

⁴ Websites:

http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&code=t2020_50

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00104&plugin=0>

Situation in different European countries

Throughout our study the amount of information available on household over-indebtedness was not large. In different countries we found different amounts of statistics on different topics. As a consequence, we have chosen to give a short description of some facts related to debt and poverty, for each country represented.

Denmark

According to RKI (Ribers Credit Information, the largest register of debtors in Denmark), there are currently 225.940 persons who are registered as debtors who have defaulted on their credit commitments (documented debt over 200 DKK). RKI notes that there has been an increase of 3.5% compared to last year.⁵

Another register debtors who fail to pay back is called the Register of Debtors. They have 146.942 persons registered. The number of inhabitants in Denmark are 5,6 million persons. About 5% of the adult population have debts.⁶

30% of Danish households have experienced that they can't always get their regular income to cover their fixed expenditure and consumption. About 17% of these households took loans in order to pay the bills.⁷

5 Website: <http://www.experian.dk/rki/index.html>

6 Website: <http://www.registret.dk/presse/talogfakta.html>

7 Website The Money and Pension Panel:

<http://www.raadtilpenge.dk/da/Presse/Pressemeddelelser/2013/gaeldsatte.aspx>

Finland

In Finland the amount of people with payment defaults rose from 307,500 in 2006 to 356,138 in June 2013. This is about 6.8% of the population.⁸

Between 1985 and 2011, Finnish household debt (including home loans, consumer credits and student loans) rose from about 20 billion euro (less than 2% of disposable income) to 110 billion euro (11% of disposable income).⁹

Germany

In 2010 47.4% of German households had debt. 21.5% had mortgage debt and 34.6% had non-mortgage debt.¹⁰

Non-mortgage debt:

- 19.8% credit line/overdraft debt
- 3.4% credit card
- 21.7% non-mortgage loans

In absolute median values (conditional on having the appropriate debt):

- 12.600 € total debt
- 80.000 € for mortgage debt
- 3.200 € for non-mortgage debt

8 Website Suomen Asiakastieto Oy:

<http://www.asiakastieto.fi/documents/46608/48898/Maksuh%C3%A4iri%C3%B6tilastot+062013/39e66354-4a0a-4b73-bd93-89bf76251c98>

9 Bank of Finland, 2013 (In powerpoint by Federation of Finnish Financial Services of July 2013)

10 ECB Statistics Paper Series No 2 / April 2013

Non-mortgage debt:

- 1.500 € credit line/overdraft debt
- 500 € credit card
- 4.500 € non-mortgage loans

In a more recent statistic from DESTATIS (Statistisches Bundesamt) in 2012 the number of consumer insolvencies were analysed: total 97.608 insolvencies with a total value of € 5.352.345.000.

Hungary

In Hungary there has been an increase in households financial assets in the past few years, but the problem is with the distribution of wealth. Less families are investing their savings, which means - the wealthy part of the population is more and more wealthy, and bigger part of the population has to face difficulties in connection with saving potential.

“This provides a facility to establish that the deposits of 10,089,238 out of the 10,128,609 deposit owners recorded in the banking system as of the beginning of 2013 did not exceed the currently valid upper limit of deposit insurance, which equals EUR 100,000, and it means that 99.6% of domestic depositors are fully protected by NDIF. The number of large depositors holding deposits in excess of EUR 100 ,000 was 39,371 (37,029 in 2012), and they owned HUF 5,171 billion altogether (HUF 5,014 billion in 2012), which is considerable in terms of volume.”¹¹

11 Website National Deposit Insurance Fund (NDIF):
http://www.oba.hu/images/stories/Sajtokozlemenyek/average_deposit_size_slightly_diminishes.pdf

This means that almost 40 thousand people own one third of the bank deposits in Hungary¹².

Netherlands

The economic crisis initially had a modest effect on the growth of poverty within the Netherlands. It has only been since 2011 that the percentage of households below the low-income level began to rise significantly, up to 9.4% in 2012 and again in 2012 for the first time in years, the risk of long-term poverty rose substantially (to 2.7%).

The purchasing power has been declining since 2011, especially for those people with a pension or on social assistance. Since the beginning of 2008 the number of households whose debts exceed their assets has increased significantly. In early 2012 it was about 830,000 households, nearly 2.5 times as many as in 2008. Additionally in 2009 and 2010 the number of households with negative equity increased substantially¹³.

The Association for debt and social banking (NWK) declares in it's latest annual report that since the start of the financial crisis, an increasing amount of people have asked for help with their debt problems, rising from 53,000 in 2009 to 89,000 in 2013. Their average debt also increased from 33,700 euros in 2009 to 37,700 euros in 2013¹⁴.

12 Website:
http://www.oba.hu/images/stories/Sajtokozlemenyek/average_deposit_size_slightly_diminishes.pdf

13 Welvaart in Nederland 2014, by CBS

14 Annual report 2013, NVK

Slovakia

In Slovakia consumer credit grew from 2012 to 2013 by 13% to 2.6 billion euro, double the amount in 2006¹⁵.

In 2010 26.8% of Slovakian households had debt: 9.6% mortgage debt and 19.9% non-mortgage debt (8% credit line / overdraft debt, 5.1% credit card debt, 12.6% unsecured loans), (cf. European Central Bank, 2013, S. 52), equating to 3,200 euros for every participating individual. For mortgage debt the median is 25,000 euro, for unsecured debt 1,000 euro (credit line/overdraft 400 euros, credit card debt 500 euros, unsecured loans 2,000 euros)¹⁶.

The median value for debt service to income ratio (without credit card debt and bank overdrafts) is 12.5% and the mortgage debt service to income ratio 20.4% which is a very high percentage in comparison with the rest of Europe¹⁷.

More recent statistics show an increase of the value of mortgages and personal loans year-on-year by 11.8% and 13.2% respectively. The values of bank overdrafts and credit cards dropped by 4.5% and 2.8% respectively¹⁸.

The share of non-performing loans is 4.2%. 7% of personal loans, 11% of bank overdrafts and 3% of loans for house purchase¹⁹.

15 Website: <http://peniaze.pravda.sk/hypoteky/clanok/296793-byvanie-na-uvervaecsine-ludi-nic-nehovori/>

16 cf. European Central Bank, 2013, S. 56

17 cf. European central Bank, 2013, S. 66

18 Narodna banka Slovenska, Q2 2013, S. 23

19 Narodna banka Slovenska, Q2 2013, S. 26

In the Slovakian context especially the non-home owners have only a small net wealth. The net wealth median for non-home owners is 2,200 euros (mean 10,900 euros)²⁰.

Spain

Families increasingly have less debt with the banks in Spain. Mortgage debt fell, according to the latest data of the Bank of Spain, and stood at 633.482 million euros in March 2014, 26.388 million less than a year ago. Mortgages account for 77.2 % of the total household debt, a ratio that has been maintained for several years.

In total, the volume of Spanish household debt contracted with financial institutions in March was 820.183 million euros, representing a decrease of 4.4% in a year and stands at its lowest level since May 2007.

The decline in mortgage debt can partly be explained as follows:

- 1) less new mortgages are being granted,
- 2) an increasing number of foreclosures (92,000 in 2012),
- 3) growth in the requirement for part cash payments when buying a house,
- 4) rising mortgages delinquencies, up from 0.4% in 2006 to 5.04% in 2013.²¹

United Kingdom

51% of households in the UK have household debts, 18% of individuals consider their debts to be a heavy burden²².

20 European Central Bank (2013). The Eurosystem household finance and consumption survey results from the first wave. Statistics paper series No 2 / April 2013.

21 Bank of Spain, Spanish Mortgage Association (AHE)

22 Office for National Statistics

Money Advice Service research suggests that there are 6.6 million 'over-indebted' households in the UK that perceive debt as a heavy burden or have had arrears of three months or more. This is about 10.3% of the population.

According to The Money Charity (October 2013):

- £ 1,427 billion personal debt end August 2013
- £ 54,141 average household debt in August 2013
- £ 6,020 average household debt excluding mortgages in August 2013
- £ 28,630 average amount owed per UK adult including mortgages in August 2013
- Every 5 minutes and 7 seconds someone is declared insolvent or bankrupt
- Nearly 80% of the people aged between 25 and 44 consider their current level of debt to be a worry²³.

Why debts are more than a financial problem

A variety of UK charities looked at the wider impact that debt has on people. Some of their findings give a good insight to the emotions and difficulties people in debt have and why debts are more than just a financial problem.

Research by Dr John Gathergood of the University of Nottingham found that among people with the most difficult debt situation, including arrears on mortgage or rent payments, the rate of mental health problems rises to three times higher than in the general population.

23 The Money Charity (October 2013)

He also found that people who face tough debt problems find the stress and anxiety spills over into other areas of their lives. "One striking finding of my research is that many people with debt problems describe feelings of being unable to concentrate on day-to-day activities or make normal decisions. This has wider effects on their attitudes and general health."

Most people with mental health issues struggling with debt believed their debt had made their mental health worse and their mental health had made their debt worse. Source: Mind Mental health charity.

Stepchange found that debt problems had adversely affected the relationships, that 37% of the 372 clients surveyed, have with their partners, and 22% with their children. Nearly half of those questioned said their problems had a very negative impact on their health, with some suffering a nervous breakdown, loss of hair, palpitations and cessation of menstruation. Only 6% said it had no effect.

Debt problems are affecting almost every aspect of people's lives, having a damaging impact on their work and home lives, family relationships and health, according to the results of a Citizens Advice survey published in late 2012.

Around half of all respondents in employment and struggling with debt said their work performance was suffering (51%). Of these, 1 in 2 find it hard to concentrate at work (54%), while more than 1 in 3 (36%) find it difficult to do their jobs well.

Over 1,700 people experiencing debt problems completed an online survey that ran from 18 September to 26 November 2012. Most owed between £1,000 and £20,000 but around 1 in 10 owed more than £30,000.



Causes of indebtedness

Nearly 3 in 4 (74%) said debt worries were having an impact on their mental health, while more than 1 in 2 (54%) said their physical health was affected. Of those having health problems, just over half had experienced a panic or anxiety attack (51%). At most 4 out of every 5 (79%) said they were losing sleep most nights because of debt.

Around 1 in 4 people in debt are trying to take their minds off their money worries by drinking (29%), eating (24%) and smoking (29%). Nearly 2 in 5 (38%) were taking no action to tackle their debts and hoping the problem would go away.²⁴

Identified causes of indebtedness

Very often a combination of changes in circumstances contribute to increased indebtedness: whether it be loss of job, relationship breakdown, loss of overtime/bonuses, long periods of irregular income through self employment, new children or periods of illness. So it is hard to point out one specific factor as the defining reason as to why someone ends up in deep personal debt. However, the main causes of debt are identified in this chapter.

In Germany research was done in 2012 regarding the causes of debt and were partly grouped like this:

1. Unemployment 26%
2. Separation, divorce, death of the partner 14%
3. Sickness, addiction, accident 13%
4. Inefficient housekeeping 12%
5. Failed-self-employment 8%
6. Failed real-estate financing 4%

It is justified to assume that these factors also play an important part in debt problems in other countries, even though there were no studies found to prove exact correlation. Based on the German findings 7 different main causes for debt problems in this study have been identified and are analysed for each country accordingly. Additional to the 6 causes mentioned above, 'Irresponsible spending' has been added as a 7th main cause.

²⁴ Debt & Mental health article published in the Economic Journal 2012.

These causes bring to light the following two main categories of causes of debt: circumstantial causes and behavioural causes.

Circumstantial causes

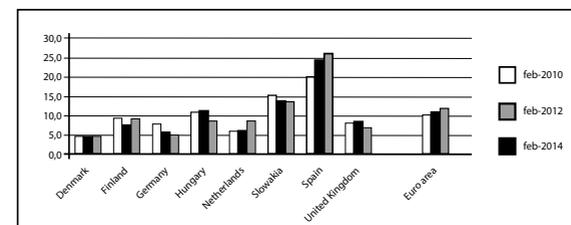
These are causes that have come about due to external factors affecting the individual. These can be sudden changes in the individual or households circumstances outside of their control. The main factor that pushes a person into a debt crisis is the lack of resilience to cope with these sudden changes.

It is key to point out that debt is the constant factor. In case of circumstantial causes it is not the debt itself that changes, merely the inability to adapt to the new situation. The often optimistic financial planning of families can lead to low level of financial resilience in cases of circumstantial changes. An over-optimistic and unrealistic forecast of the duration of the new situation can lead to an escalation of the crisis. Consequently even in the case of circumstantial causes this can lead to over-indebtedness. A persons attitude and behaviour towards finances will play a key role in the capacity to deal with a critical financial situation.

Here are a number of identified circumstantial causes for indebtedness.

1. Unemployment

In Germany 25.6% of over-indebted people are unemployed. It ranks as the number 1 main cause.



Picture 2: Unemployment rate: percentage of labour force²⁵

Research done in 2010 amongst 500 people by the Netherlands Budget Information Bureau (Nibud) and CentriQ, showed the following financial consequences of unemployment. The income of half of the respondents fell by € 500 per month. 40% had no idea how much their new income would be and 20% estimated an amount which was too high. Half had less than € 1,000 buffer, had at least one payment in arrears, and almost 80% were not saving. One fifth of the people experienced financial problems directly after becoming unemployed and a quarter borrowed money. More than half had no idea about their new financial situation²⁶.

In the UK there have been falls in unemployment, yet personal debt has risen. The number of people out of work fell by 48,000 to 2.47 million in the three months to September, 2013 according to the Office for National

²⁵ Website: <http://www.tradingeconomics.com>

²⁶ <http://www.nibud.nl/over-het-nibud/perskamer/overzichtpersberichten/persbericht/artikel/nibud-helpt-werklozen-levert-per-maand-500-euroin.html>

Statistics. The value of outstanding personal debt is £1.425 trillion in the UK, up from £1.421 trillion last year, according to financial charity The Money Charity. StepChange Debt Charity said a third (34%) of the 22,262 adults aged under 25 who sought its help in 2012 claimed that unemployment was the trigger for their debt problem. This compared with a quarter (24%) of those aged 25-to-39 who approached the charity and 23% of the 40-to-59s who sought advice. Only 10% of the 60+ age bracket said joblessness was a key factor in their debt problems.

2. Separation/divorce/death of partner

14.2% of over-indebted Germans mentioned a change in their relationship situation. It ranks number 2 as main cause.

The crude marriage rate, that is the number of marriages per 1,000 inhabitants, in the EU-28 declined from 7.9 marriages per 1,000 inhabitants in 1970 to 4.8 marriages per 1,000 inhabitants by 2008. Thus, a reduction of 3.1 marriages per 1,000 inhabitants occurred over nearly four decades, resulting from an overall decline of 39 % in the number of marriages. Marriages in the EU-28 became less stable, as reflected by the increase in the crude divorce rate, which doubled from 1.0 divorces per year per 1,000 inhabitants in 1970 to 2.0 divorces by 2010. In 2012, based on the available data, there were around 2 million marriages concluded in the EU-28, while there were about 1 million divorces recorded²⁷.

Relationship breakdown can be caused by the stress of being in debt as well as by other factors contributing to debt issues. In the UK the average cost of a

²⁷ Website Eurostat,
http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Marriage_and_divorce_statistics

divorce is £13,000 and in 2013 in the UK 157,000 couples divorcing led to a 10.2% increase in the level of UK debt²⁸.

3. Sickness/addiction/accident

In the German Statistic 12.7% of the people with overindebtedness mentioned this cause. It ranks number 3 as main cause.

4. Failed self-employment

In the German Statistic 8.3% of the people with overindebtedness have an experience with failed self-employment. It ranks number 5 as main cause.

5. Failed real-estate financing

3.6% of the people with over-indebtedness in Germany have failed real-estate financing. It ranks no. 6 as main cause.

In Slovakia the development of the real estate prices are predestinated for debt problems based on failed real-estate investments. From 2002 until 2008 the real-estate prices almost tripled (from 592 €/m² to 1511 €/m²). Since then are continuously falling and are now at 1226 €/m² which is a little lower than it was in 2007²⁹.

In early 2012, the median household wealth in the Netherlands amounted to 27,000 euros. That was almost half less than the beginning of 2008, when it was still 51,000. This decrease is largely due to the depreciation of home ownership. Nearly six in ten households are owning their own home. The average value of a house increased between 2008 and 2012 from 256,000

²⁸ Debt support trust
²⁹ Website: <http://www.nbs.sk/en/statistics/selected-macroeconomic-indicators/residential-property-prices/residential-property-prices-by-regions>, 4.5.2014

to 231,000 euros. At the same time, the mortgage debt rose from 143,000 to 163,000 euros. The majority of house owners have a mortgage. In early 2013, 1.4 million households had mortgage that exceeds the value of their home. That is 34% of all house owners, nearly three times as many as at the beginning of 2008³⁰.

In the past, Hungarian families have tended to choose cheaper loans in foreign currencies to buy their properties. Half the borrowers (287,000 households) have mortgages based on euros or Swiss francs (CHF) rather than on Hungarian forints (HUF). Of these 21% were reported to be having difficulties in 2011 repaying these loans. These loans currently amount to around HUF 2,800 billion (€ 9.4 billion as of 13 June 2012)³¹.

In Hungary households being unable to repay their mortgage credit installments has been a major problem since the beginning of the economic crisis in 2008. After the start of the economic crisis, an increase in unemployment caused a large numbers of households, to be unable to keep up repayments due to a decline in the value of the national currency - primarily those who undertook foreign currency credits³².

30 Welvaart in Nederland 2014 by CBS

31 RINDT, Zsuzsa: "Households in debt: one outcome of the crisis." 25-06-2012, Solution4.org, website:
<http://www.eurofound.europa.eu/ewco/2012/02/HU12020311.htm>

32 SZIVÓS, Péter – BERNÁT, Anikó – K SZEGHY, Lea: „Managing household debt: Hungarian country report“ July 2011, Country report commissioned by Eurofound, website:
http://www.habitat.hu/files/Managing_household_debt_Hungarian_country_report_2011_Tarki_Habitat_for_Eurofound.pdf

Behavioural causes

A second group of causes leading to over-indebtedness are causes induced by the person itself. These causes can be the result of wrong choices, optimistic planning, addictive compensating behaviour, social disconnection, lack of responsibility, et cetera. In most cases behavioural causes are the symptoms of a deeper problem. This is why a Debt Aid Companion is more focused on the causes than on the symptoms.

In this document we elaborate on two documented causes, though these causes are certainly not the only behavioural causes generating over-indebtedness. For the sake of clear documentation we focus only on the causes for which we have substantial information.

1. Inefficient bookkeeping/problem budgeting

What is meant here, is inefficient bookkeeping and the struggle people have with overseeing their spending. In the German study 11.6% of the people with over-indebtedness mentioned this problem. It ranks number 4 as main cause.

According to a report by Tamara Madem and Anna van der Schors in 2012, researchers on the staff of the Dutch National Institute for Family Finance Information (Nibud) 45% of the respondents with payment arrears stated they couldn't organize their bookkeeping properly and 40% stated that this was not a priority, suggesting lack of motivation.

They state: "Although people in arrears of payment seldom acknowledge the fact, financial skills also affect the likelihood of financial problems. People who keep track of their income and expenditure, and plan ahead, are at less

risk of such problems. So are people who keep specific records of their finances. Maintaining a savings account also reduces the likelihood of financial problems, for it says something about people's awareness of financial facilities and their ability to make use of financial products."

In the UK cost of living rises and changes to the welfare state have caused significant debt issues. Short term high interest so called 'payday loans' are also a massive issue causing people to have to borrow to pay off borrowing!

In Hungary 172,000 households were over one year in arrears toward utility companies, and 413,000 households got into arrears over 3 months toward utility companies in 2012, according to the Hungarian Energy and Public Utility Regulatory Authority³³.

This problem has also to do with a rise in housing costs (especially energy costs) that is out of all proportion to the rise in incomes (affected by increased unemployment and inactivity rates) over recent years. Some experts estimate that the number of households in serious arrears with utility bills is as high as 500,000³⁴.

33 Éves jelentés a lakhatási szegénységről I - Gyorsjelentés, Habitat for Humanity, May, 2013.

34 SZIVÓS, Péter – BERNÁT, Anikó – K. SZEGHY, Lea: „Managing household debt: Hungarian country report“ July 2011, Country report commissioned by Eurofound, website:
http://www.habitat.hu/files/Managing_household_debt_Hungarian_country_report_2011_Tarki_Habitat_for_Eurofound.pdf

2. Irresponsible spending

Besides the fact that people can have problems with bookkeeping (the previous point), many people with debt problems get in trouble because they simply spend more than they can afford, using credit cards or 'buy now pay later' offers. We added this as an extra main cause of debt problems.

Legislation, definitions and habits on credit cards vary greatly between countries. The organisation Eurodiaconia sees a common trend that its members have reported on the danger of ("revolving") credit cards as they see vulnerable people falling easily into over-indebtedness through this facility. Credit cards allow the consumers a continuing balance of debt, subject to interest being charged. If the full credit card balance is not paid at the end of the month, the bank will charge interest on the amount still owed. Carrying a balance from month to month is called revolving the debt. This can be very convenient and is a very common practice in some countries (as the UK), however it can also be dangerous due to high accumulating interest rates.

The 2011 over-indebtedness analysis by the Banque de France confirms the danger of this service as it reports that revolving credits are linked to 76,9% of the cases it has been dealing with between October 2006 and September 2011. In average, there are about 4 revolving credits per file, amounting to 16,100 euros (the average total amount of the debt per case dealt with is 36,000 euros).³⁵

Easy access to unsecured credit generally has contributed to over-indebtedness in the UK. When the banks were deregulated in the 1970s, the market for credit cards boomed: it went from having two products,

35 Baromètre du surendettement 2011

Barclaycard and Access card, to thousands, and by the year 2000 over half the adult population in the UK owned a credit card and more than 50% of money spent was on plastic. By 2013 there are 56.4 million credit cards in use in the UK³⁶. During September 2013 alone £1.527 billion was spent using plastic. Unsecured lending stood at £158.6 billion equating to £162 million of interest being paid every day³⁷.

In the last ten years, a rapid increase of outstanding debts took place in Hungary. The proportion of outstanding debt in relation to households' disposable income rose from 7.5% to 52.5% in Hungary (between 2000 and 2009). The proportion exceeded 40% of disposable income when the financial crisis began in 2008. Although it is not especially high in international comparison; it equals the one experienced in both the Czech Republic and Poland³⁸.

According to the data of the Hungarian National Bank there is a decrease in the number of debts owned by the households in the last few years, but there is a significant increase in the number of the 'problematic debts' (in arrears). "At the end of June 2013, 18.0 per cent of household loans were more than 90 days overdue, indicating that their ratio to the total stock of household loans remained unchanged to the first quarter. Loans with more

36 UK Card Association

37 The Money Charity

38 SZIVÓS, Péter – BERNÁT, Anikó – KÖSZEGHY, Lea: „Managing household debt: Hungarian country report“ July 2011, Country report commissioned by Eurofound, website:
http://www.habitat.hu/files/Managing_household_debt_Hungarian_country_report_2011_Tarki_Habitat_for_Eurofound.pdf

than 90 days overdue accounted for 46.4% within the restructured loans at the end of the reporting period.”³⁹

In the Netherlands the amount of credit cards rose from about 4 million in 1998 to 6 million in 2008. In 2008 55% of the population owned a credit card, especially for use in foreign countries or to buy things online or by telephone. Most of these people have only one credit card. In the Netherlands credit cards are rarely purchased as a replacement for a personal loan, or to be able to do payments at times when their bank account doesn't allow it.

At the same time it seems that once people have a credit card, they start using it for such occasions. In 2008 6% of the people with a credit card used it once in a while to withdraw money from the bank when their bank account was inadequate, while 12% sometimes payed with it to postpone the payment. Between July 2008 and July 2009, the number of credit card contracts with outstanding debt grew by 8% to over 800,000. The total outstanding loan balance during the same period grew by 4%.⁴⁰

Credit cards are a big problem in many countries but often go hand in hand with consolidation loans and other forms of credit. Clients of debt advice agencies very rarely have only credit card debts: often people have needed to use credit to pay off credit.

39 MNB (Hungarian National Bank): “INFORMATION NOTICE - Composition of loans extended to the household sector 2013 Q2”, 15 August 2013, website:
http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Statisztika/mnben_statistikai_idosorok/penzugyi-stabilitasi-statisztikak/H34_Tajekoztato_2013_q2_en.pdf

40 Credit card use in the Netherlands, De Nederlandsche Bank 2009, website:
http://www.dnb.nl/binaries/Creditcardgebruik%20in%20Nederland_tcm46-229628.pdf



The consequence of the growth in indebted households

Correlations between indebtedness and different social layers

One's inability to pay back debts affects a number of social layers. First the challenge is restricted to one's private household. As soon as the debt issue can no longer be solved privately, the local government has to intervene. Sometimes government intervenes at an early stage, such as in the Netherlands, but on others only at bankruptcy stage, such as in the UK.

The first crisis layer is the individual or household. Though very soon friends, family and even colleagues are affected. People who are incapable of paying their debts can often withdraw, affecting social cohesion with other people. The distance between those who have and those who have not becomes more apparent, potentially leading to a sense of devaluation and social exclusion.

This sense of exclusion can evolve into a feeling of becoming a social burden. The feeling of having to ask for help and advice may disrupt the equilibrium within the community. Especially if people label those who need support as solely responsible for their debt problems. In the case of behavioral debt this might be the case, yet with circumstantial debt this might not be the case. It is not always easy to make a clear distinction between both cases. Often behavioral and circumstantial debt are related and very complex.

Once debtors are perceived by the public as perpetrators, solidarity is questioned. First, people start to put a labels on people who cannot pay back their debts. This is followed by a cry for a change of policy. Some politicians could pick up this cry and convert it into a political program.

The impact of debt can extend to the work floor. Once the salaries of debtors are seized in order to pay debts this will impact the relationship with the employers. The HR manager will be challenged in managing this situation. The seizure of salaries do not only affect the debtor, but also the one paying the salary. This extraordinary situation creates an extraordinary kind of relationship. This means relationship is now in need of special attention and care, in comparison with before.

Another impact over-indebtedness has on societal level is to do with culture. People who are over-indebted are usually limited in their resources to attend cultural events or access cultural education. Even the subscription for a library is a luxury (except in countries where it is free of course). Since the austerity measures cultural events receive less in the way of grants and the private world is required to contribute more. The higher the required cultural contribution from the public, the less access over-indebted people have to culture. Culturally challenged people become less socially participative and become confined within a smaller world. This small world is a passive less participative world.

Economically, over-indebtedness has a draining effect. The social funds are not invested in the future but in fixing the past, implying a financial drainage. It reduces the growth potential of the indebted household, but since the indebted household is part of a wider community, the community will also suffer the consequences. Supporting people to fix their past, will reduce the availability of funds to invest in the future. Less funds to invest in the future economy affects everyone. The challenged economical growth may well be blamed on those who "derail" the social funds, potentially leading to social polarization and conflict. The stigmatisation of growth retarders could be taken advantage of by extreme parties who then present a collective enemy to fight — not the system but the people.

Consequences of household over-indebtedness if nothing is done

For households with large debts, it is very difficult to turn the tide. If nothing is done, the problems pile up, not only financial but additionally in other areas of people's lives. Five main types of consequences that arise from debt problems have been identified.

1 Financial problems

- a. inability to pay bills
- b. eviction, risk of becoming homeless
- c. facilities cut off
- d. future credit limitations (or necessity to turn to more expensive credit (payday lending))
- e. compensation behaviour (even more spending)
- f. lack of access to bank account
- g. reduced purchasing power

2 Work problems

- a. reduced productivity
- b. loss of working hours
- c. wages freeze by creditors
- d. stealing
- e. loss of job
- f. inability to secure further employment
- g. need to work more hours to increase income, multiple jobs

3 Health problems

- a. inability to make health insurance payments
- b. health problems
- c. addictions to drugs, alcohol, gambling
- d. disorders
- e. eating, spending
- f. stress, failure fear, shame, depression

4 Social problems

- a. social isolation
- b. avoiding contact
- c. divorce or relationship breakdown
- d. children problems
- e. social exclusion, mistreating

5 Legal problems

- a. fines due to non- or late payments
- b. communication with legal enforcers such as lawyers or bailiffs
- c. detention
- d. problems with social support
- e. insolvency, bankruptcy

Debt problems can have serious consequences. It is therefore important to provide effective assistance in time. When problems are addressed early, they are easier to solve.

1 Financial problems

Looking at the goals of the EU-Commission for 2020 (Europe 2020 strategy), you can conclude that there are levels of poverty and unemployment defined, forming part of Europe 2020 poverty reduction target.

People at risk of poverty or social exclusion (total) 2012 (EU28) – 24.8%

Broken down as follows:

- a. people in household with very low work intensity (i.e. less than 20%) – **9.9%**
- b. people with risk of poverty after social benefits – **16.1%**
- c. people severely materially deprived – **4.9%**⁴¹

Situation in some of our countries

United Kingdom

More than half of UK adults are struggling to keep up with bills and debt repayments, a major survey of people's finances has suggested. Some 52% of the 5,000 people questioned said they were struggling, compared with just 35% in a similar study in 2006, the Money Advice Service said.

79 properties are repossessed every day (based on Q4 2013 trends), 103 mortgage possession orders are made every day and 354 landlord possession orders are made every day⁴².

41 Europe 2020 indicators – Headline indicators: here poverty:
http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

42 The Money Charity debt stats

Utility companies always say, 'we never cut anyone off, we look after people'. However, giving someone a pre-payment meter effectively cuts them off as you have to pay in advance, and if they can't then they're cut off. In England, the people with the lowest income pay the most for fuel, gas and electric. And on top of that, £1.92 out of every £10 that goes into a key meter is a standing charge.

Households with an income of less than £25,000 are more likely to be rejected for credit than households with a higher income. This gives rise to real fears that they will be vulnerable to aggressive selling practices by sub prime lenders and illegal loan sharks.

Table 1: Likelihood to be rejected for credit: % rejected for product⁴³

	Credit card	Unsecured loan	Overdraft	Store card
Annual household income less than £25,000	36%	46%	33%	33%
Annual household income more than £25,000	20%	28%	31%	15%
All households	24%	33%	29%	19%

43 BIS, Credit, Debt and Financial Difficulty (2009/10), Table A10

Payday lenders have increased their business from £900 million in 2008-2009 to more than £2 billion – accounting for around 8 million loans – in 2011-2012. The number of people resorting to loan sharks has increased to 310,000 people⁴⁴.

There are currently 1.4 million people in the UK who do not have a transactional bank account, and almost one million who have a bank account but who do not utilise it, operating instead primarily within a cash economy. Each year an estimated 4 million people incur penalty charges resulting from the use of their bank account, either through unauthorised overdrafts or returned transactions. A previous estimate in 2011 put this figure as high as 6.6 million people incurring charges greater than £100 per year. In 2011, customers incurred £1.72 billion in these penalty charges, with the Office of Fair Trading (OFT) finding they were disproportionately borne by those on the lowest incomes.

Netherlands

2,02 million households had payment arrears in 2011. These arrears pertain to loans, systematic bank overdrafts or credit card debt. In the Netherlands, there are 7,2 million households⁴⁵ which means 27,8% of all households have problematic debts. In 2010 this was 26,7%, and in 2008 27,0%⁴⁶.

110.000 (1,6%) households that were registered with the Central Office of Credit Registration (BKR) in The Netherlands indicated restrictions on their ability to make purchases on credit.

44 Guardian article

45 CBS-Statline

46 Website:

http://www.nibud.nl/fileadmin/user_upload/Documenten/PDF/2012/Monitor_Betali

5,0% of the households (352.000) indicated that they received a letter from the bailiffs regarding payment arrears. Half of these letters resulted in a visit by the bailiffs, or a payment plan. Of those households with payment arrears for gas, water, electricity or phone bills (5,8%) more than a quarter (27,4 %) said they were cut off from these facilities⁴⁷.

In 2013, the health insurance company UVIT (4,2 million customers) announced more than 4,000 requests for payment plans each month! In 2012 that was 3,000. The insurance company CZ with 3.3 million insured, announced 5.000 each month.

When payment is not forthcoming, a penalty of up to 130% of the debt can be applied. Then, the insurance company can apply for a distraint order on wages to their employers. The employer is legally obliged to comply⁴⁸.

2 Work problems

Looking at the goals of the EU-Commission for 2020 (Agenda 2020), you can conclude that there are statistically acceptable levels of employment (or unemployment) defined. This means that for the 20-64 year olds 75% employment is targeted. In 2013 in the EU28 the level was 68.9%. However men account for 74% and women 62.5%⁴⁹.

47 Pantea, Monitor Betalingsachterstanden, 2008, website:

<https://zoek.officielebekendmakingen.nl/kst-24515-143-b1.pdf>

48 Website:

<http://financieel.infonu.nl/verzekering/81636-betalingsachterstandzorgverzekering>.

49 Europe 2020 indicators – Headline indicators: here unemployment and education, website:

http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

But even with people in work there is a risk of poverty, according to the Eurostat statistic In-work at-risk-of-poverty rate. For example: The share of persons who are at work and have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers). In 2012 the number of people in this category was 9.1%⁵⁰.

United Kingdom

Research indicates that reduced productivity can include “higher absence or worse presenteeism, meaning you are thinking about handling your bills and talking to your friends about the bills at the water cooler, you have more industrial accidents and the list goes on” (Garman). Nearly all of the symptoms associated with employee debt are costly and counterproductive to an organisation’s performance⁵¹.

As well as highlighting the impact of the economic downturn on the individual, the experts also noted a range of effects expected within the organisation. “You’re going to see issues around performance and you’re going to see issues around risk. Those are the two main concerns for employers” (Cotton). “Stress over financial worries will lead to absenteeism at work. Employees who can’t concentrate on their jobs leads to reduced productivity, strained relationships with colleagues and managers which can lead to disciplinary issues” (Watson).

50 SILC, website:

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tesov110&plugin=1>

51 Personal finance foundation

“Financially distressed employees, for example, may experience distractions from their duties, including worrying, talking with coworkers about their financial problems, taking calls from creditors and talking to others on the phone about their financial woes” (Prawitz). “In general employees are more likely to be stressed and anxious in the workplace, so organisations are likely to find morale and productivity are affected” (Cox).⁵²

It would seem that living standards have been supported by a greater reliance on personal debt. The level of personal debt rose from 45% of national income in 1981 to 160% in 2007, a three and a half-fold increase.

The costs to those affected, in stress and mental disorders, relationship breakdown and hardship is immense. But so too is the cost to the nation, measured in lost employment and productivity and in an increased burden on public services maxed out report.

To freeze wages by creditors can only be done in Scotland. In England and Wales the creditor has to go through the court process and then obtain an attachment of earnings order to be able to take lump sums out of an individuals wages/benefits.

The data may still be sketchy and the evidence largely anecdotal, but there are signs that shoplifting food is becoming an austerityera shoplifting phenomenon: more people stealing to eat because they cannot afford basic groceries.

52 Pasted form Employee debt Expert article

Teenage asylum seeker Amine Ahnini was almost destitute when he stole a sandwich from Sainsbury's last year. Ahnini, who is not allowed to work, had £35 a week for food, clothes and travel, and said he would often go for one or two days without eating.

But it is not just asylum seekers driven to desperation thefts. Charities and police say that as living costs rise and incomes shrink, "stealing to eat" is increasing and the shoplifter demographic is widening. Officers say food shoplifters can be mothers struggling to feed their children, or hungry pensioners. In many cases they have no criminal record. The rise is more marked in deprived areas.

For instance, cases logged by South Yorkshire police include four instances of grocery shoplifting by mothers in 2012. Among them were a 31-year-old who stole baby milk and fabric conditioner worth £17.50, and a 19-year old who took baby milk and clothes worth £70. All told police they had shoplifted to feed and clothe their children. Three of the four had no previous convictions.

Netherlands

A survey of 547 professionals in human resource management in October 2012, showed the following effects: 79% of the surveyed companies had employees with financial problems. 75% had instances of wage claims by creditors, which cost at least one hour in processing time. The loss of productivity was estimated to be at least 20%. Loss of working hours as a result of financial problems was estimated to be at least 9 days⁵³.

53 Website NIBUD:
http://www.nibud.nl/fileadmin/user_upload/Documenten/PDF/onderzoeken/2012/P_O-peiling_2012_Nibud.pdf

3 Health problems

Statistics from Eurostat clearly show correlation between income and health. More people with the lowest than with the highest income perceive their health status as bad, see themselves limited because of health problems, experience unmet needs in health care and do actually have a long-standing illness or health problem.

Table 2: Self-perceived health by income quintile (%) – Europe (28 countries) in 2012⁵⁴

Incomelevel	Very good	Good	Fair	Bad	Very bad
First quintile group of equivalised income (Q0_20)	20.5	40.1	25.2	11.2	3.0
Second quintile group of equivalised income (Q20_40)	19.9	41.5	25.3	10.5	2.8
Third quintile group of equivalised income (Q40_60)	22.3	44.9	22.9	7.8	2.1
Fourth quintile group of equivalised income (Q60_80)	25.3	47.6	19.7	5.8	1.5
Fifth quintile group of equivalised income (Q80_100)	28.9	50.0	16.2	3.9	0.9
Total	23.4	44.8	21.9	7.9	2.1

54 Self-perceived health by sex, age and income quintile (%), website:
http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_produc

Table 3: Self-perceived long-standing limitations in activities in usual activities due to health problem by income quintile (%) – Europe (28 countries) in 2012⁵⁵

Incomelevel	Some	Severe	Non
First quintile group of equivalised income (Q0_20)	19.9	12.1	67.9
Second quintile group of equivalised income (Q20_40)	20.5	11.7	67.8
Third quintile group of equivalised income (Q40_60)	18.4	9.0	72.6
Fourth quintile group of equivalised income (Q60_80)	15.5	7.0	77.4
Fifth quintile group of equivalised income (Q80_100)	13.2	4.6	82.2
Total	17.5	8.9	73.6

55 Self-perceived long-standing limitations in usual activities due to health problem by sex, age and income quintile (%) [hlth_silc_12], website: http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_produc

Table 4: Self-reported unmet needs of medical examination by income quintile - with reason 'too expensive' (%) – Europe (28 countries) in 2012⁵⁶

Incomelevel		Incomelevel	
First quintile group of equivalised income (Q0_20)	4.5	First quintile group of equivalised income (Q0_20)	35.1
Second quintile group of equivalised income (Q20_40)	2.8	Second quintile group of equivalised income (Q20_40)	36.4
Third quintile group of equivalised income (Q40_60)	2.0	Third quintile group of equivalised income (Q40_60)	32.3
Fourth quintile group of equivalised income (Q60_80)	1.2	Fourth quintile group of equivalised income (Q60_80)	28.3
Fifth quintile group of equivalised income (Q80_100)	0.5	Fifth quintile group of equivalised income (Q80_100)	24.9
Total	2.2	Total	31.4

Table 5: People having a long-standing illness or health problem, by income quintile (%) – Europe (28 countries) in 2012⁵⁷

Note: The first quintile group represents 20 % of population with lowest income and the fifth quintile group 20 % of population with highest income.

56 Self-reported unmet needs of health care, website: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=hlth_silc_08&lang=en
 57 Long-standing illness or health problem, website: <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

Other local German statistics (only published in German) indicate the dependency of poverty or unemployment and increasing health issues and shorter life expectancy.

We could not find statistics of people recorded who actually went from a high-income level to a low one because they had health problems – in which cases debt did not cause debt problems but conversely, health problems gave rise to debt problems. Such cases have been observed in practice.

Germany

A German report shows that all debt measures to be strongly correlated with health satisfaction, mental health and obesity. They found evidence that household debt also causally deteriorates physical and mental health⁵⁸.

58 Keese & Schmitz, "Broke, Ill & Obese", The Effect of Household debt on Health", website:
http://www.rwiessen.de/media/content/pages/publikationen/ruhr-economicpapers/REP_10_234.pdf

4 Social problems

United Kingdom

In the UK Mental Healthy a charity has studied the social impact debt has with the following conclusion.

Often debt can cause mental health problems such as anxiety and depression. Anxiety can cause longer-term symptoms and changes in behaviour, these can include withdrawing from social activities, avoiding social events, friends and family, even work. It is not uncommon for anxiety sufferers to take up smoking, drinking or taking drugs. Anxiety sufferers can find that in order to try and gain perceived control over their lives, they increasingly avoid situations that make them anxious. This can lead to increased isolation and anxiety.

The Money Advice Trust's report The Debt Trap looked at the correlation between debt and relationship breakdown. Problem debts can have a severe impact on family relationships. Of parents currently in arrears on one or more bills, 57% said that their financial situation had led to their current or most recent relationship being put under strain, with 7% saying it led to their most recent relationship breaking up.

77% of those seeking debt help who are in a couple said debts affected their relationship.⁵⁹

In more extreme cases but nevertheless important to note from an Information leaflet for families in crisis: Family violence is more common

59 CAP Statistics

when families are in crisis that can lead to physical or emotional abuse of a partner, elder parent or child. Children may be hurt due to pent-up anger.

Netherlands

One in ten minors in The Netherlands, more than 371,000, grew up in a family with a high chance of poverty in 2011. That is 55,000 more than in 2010. The growth is especially pronounced with children under 12. Debt problems can only make this situation worse.⁶⁰

Families can fall apart after an eviction, children can be removed from parental care because there is no longer adequate housing, social networks and structures become seriously disturbed.

Families are forced to rely on food-banks when income is inadequate.

“The effects of the financial crisis is becoming more visible and disturbing. One out of three of those with problematic debt are struggling with other problems, mainly of social and psychological nature. They are also asking help from other social agencies. The combination of social, financial and psychological problems is making a concrete solution to solving the debt problems almost impossible!”⁶¹

60 Website: <http://www.cbs.nl/nl-NL/menu/themas/inkomenbestedingen/publicaties/artikelen/archief/2013/2013-3805-wm.htm>

61 Joke De Kock, Chair of the NVVK (Netherlands association of social credit agencies), April 2014

5 Legal problems

People with debt problems eventually can get into legal problems as well.

United Kingdom

The following have been taken from Legal problems Ministry of Justice Judicial & Court statistics or the Money Charity Debt statistics. They show the legal consequences that can happen in the UK if debts escalate. 1,537 Consumer County Court Judgements (CCJs) are issued every day⁶².

1,553,983 civil (non-family) cases related to non- or late payments started in 2011, a fall of 4% compared to 2010. This continues the general downward trend seen since 2006, which is mainly due to decreases among specified money (typically debt-related claims, claims for the recovery of land and insolvency petitions).

Once a judgement has been made, further steps may need to be taken to enforce it through Bailiffs attachments of earnings/benefits etc. There were 263,527 warrants for enforcement in 2011 (sending Bailiffs in), a decrease of 6% compared with 2010. 275,938 applications were made for enforcing a monetary judgment amount (via warrants of execution, attachment of earnings orders, charging orders and third party debt orders) in 2011. Debts can also lead to problems to get social support. Department of Work and Pensions (DWP) statistics show that nearly 600,000 jobseeker's allowance (JSA) claimants have had adverse benefit sanctions taken against them in the eight months before June 2013. According to the DWP, there were 553,000 sanctions between November 2012 (the first full month of the

62 Q4 2013 trends The Money Charity Debt Stats



The solution for indebtedness

new regime) and June 2013, compared with 499,000 from November 2011 to June 2012.

49,724 insolvency petitions were made in 2011. 266 people are declared insolvent or bankrupt every day (based on Q4 2013 trends). This is equivalent to one person every 5 minutes 25 seconds.⁶³

⁶³ The Money Charity Debt Stats

Introduction

The success of any project is directly linked to a number of key success factors. Sharing experiences without highlighting the factors responsible for a success would reduce this document to nothing more than a public relations campaign.

Two major volunteer-based programmes in Europe have contributed significantly over the past years to alleviating the problems of indebtedness.

Community Money Advice in the UK and Debt Aid Companion (Schuld-HulpMaatje) in The Netherlands.

Since it is the objective to multiply the success of volunteerbased programmes and to share the benefits with the rest of the world, this chapter will elaborate on the factors inducing the obtained results. We will elaborate on

- The Christian principle(s) behind Debt Aid Companion
- The key principle behind the elimination of indebtedness
- How to go from principles to solution
- A forecast of the societal impact of the solution on short and long-term
- A forecast of the impact of the Debt Aid Companion on different societal layers
- Description of the building blocks of the actual solution(s)
- The results (Key Performance Indicators) of the solutions for the individual
- How Debt Aid Companion resolves the intermediate cause(s) of indebtedness

- The benefits of Debt Aid Companion approach for the society
- The benefits of Debt Aid Companion approach for the individual
- How Debt Aid Companion converts these benefits
- Aspirations for 5 to 10 years
- What Debt Aid Companion will never compromise on

Each point will be extensively elaborated in order to give the reader clear insight in the dynamics and mechanism delivering the desired outcome.

The Christian principle(s) behind church-based volunteer programmes

First of all we emphasise (as described in CPFE publication 'a community of values') that the 'Jesus principles' or Christian values described here are in fact historically European values and that they are applied by Christians and non-Christians in Europe.

They represent Europe's heritage of the Christian conversion where the ideal of solidarity and social empathy is highly valued. Therefore the European values as applied today in European societies cannot be detached from their Christian roots. It would come as no surprise that the more emancipated Christian communities are more involved in helping socially challenged people. One major reason for the universal applicability of Christian values and their conversion into community-based solutions (also in non-Christian communities) is that these principles are all relational principles. They are universal because they regulate the relationship with all people on Earth. Though being part of the Christian faith and doctrine, Christian values do not discriminate on the basis of world view. Jesus'

command to love the enemy excludes every discrimination of any group in relationship to care. As these values are universal, and every human being is a relational being, these principles can be applied by any community striving for just relations and freedom of debt.

Programmes developed by Christians are based on the principle of voluntary social responsibility and subsidiarity. The Christian community adopts the term 'deaconship'. Taking care of the weakest members of society is inscribed in the DNA of Christianity. In fact, one cannot think of authentic Christianity without an active deaconship. In the early Christian community a deacon was a minister to administer charity. Through the ages, the government has increasingly taken over the role of caretaker. However, because of austerity measures, this role becomes more and more challenging for the government.

In a way the austerity measures forces the Christian community to rethink their position and responsibility toward socially challenged people. More and more subsidiarity is seen as the direction for the future of Europe. This doesn't imply that government gives space to subsidiarity, but that citizens have to fill in the space provided to them. For the Christian community, taking care of socially challenged people is a fundamental commandment. The entire Christian doctrine of Jesus Christ is based on 3 cardinal commandments: "Love God with all your mind, heart and strength". The second is the same as the first commandment and adds "love your neighbour as yourself". These two commandments are inseparable. The love for God can only be expressed through the love for the 'neighbour'. There is no humanistic paradox where God is put in opposition to people. In the doctrine of Christ there is no conflict between a Theocentric and a Anthropocentric paradigm. God puts people in the centre of his worship.

The third commandment that Jesus gave is “do unto others like you want others do unto you”. He explains that all the Judeo Christian doctrine is based on this Golden Rule. This Golden Rule transcends religion, philosophy and political views. It is universal. No one with a sane mind could oppose such a commandment. For Christians, these 3 Jesus Principles are not negotiable and not to be compromised. The message of Jesus is a message of hope. He says (Luke 4), I have come to set captives free. People who are in debt are captives. They are prisoners who don't have the freedom they want. Activating the 3 fundamental commandments of Christ is bringing people as near as possible to the expression of the Kingdom of Heaven. A utopia that is only imaginary because of the egos of people.

This explains the reason why the Christian community can rally a large number of volunteers to be actively involved in debt relief programs. It is simply their DNA. There is no direct return expected for the volunteer. Unconditional love (Agape) is at the centre of the motives of a true Christian believer. This altruistic approach is fundamental for people who are assisted. They need to know that the interest in helping them is authentic — it is about their freedom. There should not be a hidden agenda.

The key principle behind the elimination of indebtedness

As explained in the chapter 'Causes of indebtedness', the two main streams of causes that lead to debt are environmental and behavioural. Managing the financial aspect of indebtedness might be technical. However the causes or the process to get out of debt, involve the entire person — body, soul and spirit. In the case of behavioural indebtedness, the causes are emotional (psychological), the result of a damaged or unhealthy soul.

The ability to discern one's actions require the capacity to transcend one's self — one's ego. This capacity is a spiritual capacity. The origin behind one's behaviour is one's motives. These motives define one's values. Choices and attitudes are driven by values. In other words, the origin of behaviour is a balance between emotional and spiritual motives. The financial problems are just the repercussions of a series of choices and attitudes. Choices are influenced on psychological (soul) level. The solution needs to be offered on the soul level. It requires a strong selftranscending spirit to steer the soul, since it is the spirit that discerns. The soul can only feel and express. The understanding that behavioral indebtedness is induced on soul level, asks for a caretaker that is able to fathom the dynamics of the soul and bring people to a spiritual level. A level where the soul is no longer the dictator, but where people can see their purpose in life from outside themselves — from outside their ego.

In the case of environmental indebtedness, induced by causes beyond a person's control, the process of getting out of debt requires the full involvement of body (intellect), soul (psyche) and spirit (self-transcending part). Behaviour and choices are not merely a rational process, but is an equilibrium between the rational and the emotional. A mere rational approach to indebtedness would miss the mark. Hence the need of holistic oriented caretakers who have spiritual insight in the dynamic of the body, soul and spirit.

This explains part of the success of debt aid through volunteer service.

The Jesus principles, or Christian principles as one may put it, is at the very heart of the success of volunteer-based debt relief aid. This does not imply that people with other world views are lacking of a driving principle to care

for indebted people. The spiritual (self-transcendent) motivation to take care of a socially challenged person, however, is a very strong one. This chapter only wants to lay out the reason why the concept of deaconship of churches is reliable and successful.

Volunteering

A recent survey has shown that at least 3 out of 10 Europeans volunteer and 80% of Europeans say that active participation in society is a crucial part of their life. (Special Eurobarometer 273) This highlights that there are many people who, for whatever reason, are not engaged in voluntary activity. Whilst many EU countries have established traditions in volunteering and the concept of volunteering is well accepted and put into practice with highly developed voluntary sectors, in others, the voluntary sector is much less advanced. Variations in levels of engagement can be explained for many reasons such as the history and contextual background of a country, or differing types of welfare regimes, there are also socio-economic or socio-political reasons that explain trends in volunteering in Europe. Overall however, research suggests that there has been a general upward trend in the number of volunteers active in the EU over the last ten years. This has been attributed to various reasons such as increased awareness of social and environmental concerns, growing numbers of volunteers needed to support the delivery of public services, increased involvement of older people, and the change in public perceptions, particularly in the new Member States.

Volunteering in diaconia

Volunteering in diaconia can take place in both diaconal institutions and in church congregations. Today, most diaconal institutions are mainly employee run organisations but volunteers are still very much relied upon and are vital to the sustainability of many of their services. We also see many volunteers carrying out diaconal work within church congregations engaged in activities such as clubs for children and youth, soup kitchens, and visits to homes for the elderly et cetera. From this approach diaconia is the task of the local church community. This type of work is connected with the vision of the local church as a “diaconal community” since in principle diaconia is the responsibility and task of the whole church and not only of specialists. Indeed there may be people who are especially mandated to perform a diaconal ministry, but the local community bears the responsibility to care for both the members of the congregation and the local community. Therefore, in both institutions and churches, volunteers are today highly important agents of diaconia and contribute enormously to civil society.

Using volunteers to assist the debt reconciliation process

Volunteers are engaged in a diverse range of activities, such as the provision of education and services, mutual aid or ‘self-help’, advocacy, campaigning, community and action. Volunteering is a means of social inclusion and integration. It contributes to a cohesive society creating bonds of trust and solidarity and, thus, social capital. Volunteering is one of the ways in which people of all nationalities, religions, socioeconomic backgrounds and ages can contribute to positive change.

Benefits from volunteer contribution

Substitution: volunteers do activities which are being done elsewhere by staff from a debt aid organization. Prevention and after care: thanks to the involvement of the volunteers the (renewed) requests for debt aid by people can be prevented.

Raising return debt aid: prevention of fall out ratio. Crisis situations: prevention of costs by preventing someone's eviction, being cut off from gas, water or electricity et cetera. Support in organising the household finances and teaching budget skills.

Volunteers from Churches – the economic impact

In the Netherlands volunteers are engaged in a diverse range of activities, such as the provision of education and services, mutual aid or 'self-help', advocacy, campaigning, community and action.

Volunteering is a means of social inclusion and integration. It contributes to a cohesive society creating bonds of trust and solidarity and, thus, social capital. Volunteering is one of the ways in which people of all nationalities, religions, socio- economic backgrounds and ages can contribute to positive change.

Volunteers are recruited from churches because they are highly motivated to 'love their neighbour as themselves' and commit time and energy to helping. A time commitment of about four hours weekly is requested, together with a commitment to a permanent learning process, a three day training and annual recertification.

Volunteers are selected after an intake session with the case manager. It is encouraged that all test sites work together with volunteers, is applicable. Volunteers are trained in personal money management and administration, setting up a budget, legal ramifications of their debt reduction and mapping potential social help in their community.

It is well known that the unpaid work of volunteers contributes greatly, not only in the development of social capital but also in hard economic terms. Using volunteers to assist people through the debt reconciliation process yields a significant "socioeconomic return" on the money invested in training and empowering volunteers.

Voluntary hours have a high economic value! A study carried out by the Rotterdam City Council in 2008 showed that the total value of volunteer help given by church members amounted to between 29 and 35 million euros every year! A 2011 study carried out by the Central Bureau of Statistics showed that on average Dutch people give 4 hours a week to voluntary work.

A survey under the auspices of the Protestant Church in The Netherlands showed a value of 260 million euros which is placed on volunteer work.⁶⁴

⁶⁴ Protestant Church of The Netherlands report "Dienen, delen, doen." March 2015.

How to go from principles to solution

We have described the Jesus Principle that motivates Christian caretakers to be altruistically involved in helping people to get out of debt. Also we have elaborated on the interrelationship between the body (intellect), soul (psyche) and spirit in regard to what drives people to get indebted. We also explained the need for a right equilibrium between these 3 human dimensions to help people through the process to get out of debt. How do we go from here? How do we evolve from these principles to a solution?

The solution lies in the conversion of these principles into a process. The end of the process produces the desired result.

In other words, what is it that we can convert, what are the priorities and how much resources do we employ.

Here are a number of factors that convert the principles into a solution:

- First create order, then start to build again.
- First seek help from people who are the closest.
- Simplify life to reduce the spending.
- There should be a sincere interest in the person. His or her financial freedom is the key motive.
- The Debt Aid Companion is a helper, not a technician or enforcer.
- The Debt Aid Companion looks at all the aspects of an indebted person's life — not only looking at numbers.
- Let the indebted person look at his or her situation from a distance to allow him or her to have a clear overview of the magnitude of his or her status.

The impact of the solution on short and long-term

Evidently the benefits of helping socially challenged people out of debt are multiple. The first and immediate benefit is financial and economical. Financial, in the sense that a person out of debt has more financial means thanks to the reduction of financial drainage caused by debt.

The economical benefit is on the side of the lender. By recuperating the loan partly or entirely, the lender has the availability of assets to invest in the economy. An economy where the cash flow of a business is in the hands of insolvent debtors is the main cause of bankruptcy. It is an underestimated fact, that many companies that are deprived of their cash flow need to knock on the banks' doors for more credit.

The state of bankruptcy would turn companies into debtors themselves, in need for support. The availability of cash means that companies do not need to file for bankruptcy.

The perpetuation of debt fuels a cycle of debt, debtors generating more debtors. In other words, debt is an economical retarder. It is not without reason that the Rabobank in the Netherlands participates in Debt Aid Companion by allowing employees to work as volunteers.

On social level, people who are debt free are socially more active. They can participate fully in life. Often debtors consider themselves as being excluded from society. Though being in many cases the cause of their own problems, they see themselves as victims. They isolate themselves from relationships because of the embarrassment. Being socially active does require financial means. Museums, concerts, pubs, restaurants, et cetera

cost money. Not being able to pay for all this, will reduce the social space to move. Debtors will decline invitations of friends and family to social activities, because of lack of financial resources.

This leads to social polarisation from both angles. People who are socially active and have the financial resources are tempted to see indebted people as a social burden. The debtors who feel socially excluded and forced to decline what others enjoy, view the financially capacitated people as a heartless elite flaunting their wealth. Debtors view them as part of the money class, while they are part of the moneyless class. This will lead to jealousy.

Jealousy will induce envy. Envy will induce covertness and covertness can easily lead to criminal behaviour. Once the value system is discredited, there is no reference point to calibrate one's behaviour. Anarchy is inevitable.

The social benefit of a debt free society is a society where people feel less threatened and where social polarisation is reduced. There is peace and rest and people are more open toward each other. There is a higher participation because there is less exclusion. The reduction of social polarisation will lead to more subsidiarity and more active citizens helping each other.

On personal level, a debt free person has all the potential to reach for his or her aspirations. When the family becomes part of one's aspirations, the whole family will benefit from the new financial power of person. The elimination of financial drainage allows more means to be invested in what a person finds meaningful. A liberated debtor is now able to invest in his or her purpose in life. The relationship with the society around him or her is restored, because he or she feels more connected with his or her environment. Finally, one feels more valued since one's entourage will

show appreciation for one's achievements. Purpose, connection and value are the 3 prerequisites to have a meaningful life.

The impact of the Debt Aid Companion on different societal layers

In a Dutch (Delft) research (December 2011) conducted by Social Force and Regioplan into the effects of three volunteer projects to help people alleviate debt problems, the following findings were affirmed.

Many voluntary organisations dealing with household finances receive subsidies from municipalities. In a period where local government is cutting costs in the implementation of debt aid and is sensitive to the question what the investment of public funds brings in, voluntary organisations are being asked if their projects have benefited the community and on what scale.

To determine whether there is a benefit, a cost-benefit analysis has been done for three volunteer projects. Using the results the following question will be answered:

'What are the benefits of the volunteer projects for the municipality and for parties working together in the area of household finances?'

The answer is that in all three researched projects the benefits (saved costs) are higher than the costs of the projects. *The ratio varies from 1:1.3 to 1:2.9. This means that for every euro that the volunteer project costs, an amount varying from 1.30 euro to 2.90 euro is gained in costs saved elsewhere.*

In the case of the debt relief program in Delft, which was the Debt Aid Companion project, the social economic return was the highest at 1:2.9 and the direct profit was:

Table 6: Overview of costs and return

Costs	€ 43,094
Return	€ 121,150 - € 130,900
Increase rentability communal debt relief aid	€ 9,740 - € 19,490
Prevented costs due to crisis intervention	€ 102,550
Substitution activities communal activities	€ 8,860
Prevention and follow-up	-

In the preparation of the cost-benefit analysis the researchers worked with actual figures regarding the benefits of debt aid and with cautious estimates of the results of the volunteer projects. The researchers have also not been able to quantify all the effects of the projects. This means that the real benefits could be (a good deal) higher than what the researchers have worked out here.

The research looked at four kinds of effects they could quantify into benefits:

Substitution: volunteers do activities which are being done elsewhere by paid staff from a debt aid organisation.

Prevention and after care: thanks to the involvement of the volunteers the (renewed) requests for debt aid by people can be prevented.

Raising return debt aid: prevention of fall out ratio.

Crisis situations: prevention of costs by preventing someone's eviction, being cut off from gas, water or electricity et cetera.

When performing the cost-benefit analysis it became clear that the researchers were unable to ascertain how often a volunteer project prevents the situation that someone does a (renewed) application for debt aid. Prevention and after care have not been included in the calculations. Because it is evident that there are situations in which the involvement of a volunteer prevents that someone does a (renewed) application for debt aid, one can only expect that the calculated benefits are minimum amounts. It is likely that the real benefits are higher.

In calculating the saved costs in crisis situations we have taken an extra factor into account. The research examined how often, because of the involvement of the volunteer project, an eviction or energy disconnection has been prevented. It is known from practice that in such crisis situations neighbours, friends or family or a (church) crisis fund will often help out. To do justice to this practice, the assumption is that, from the announced evictions and disconnections, a quarter would not have taken place even without the mediation of the volunteer organisations.

Additional benefits

Besides the immediate benefits a number of additional benefits have been recorded.

- Reduction of the number of eviction and consequent reduction in emergency shelter and re-housing costs.
- Change from culture (behaviour) based on quantity to quality.
- Reduction of tensions in relationships.
- Reduction of aggression and threat, and ability to maintain relationships in a normal way.
- Higher participation in society, reduction of shame-factor induced by the lack of self-confidence.
- Reduction of social confrontation. Bailiffs and debt collection companies are seen as a menace, generating aggression.
- Ecological benefits, since people moved out of consumerism are more conscious about value and more conscious about sustainability, living with less energy. Socially challenged people who embrace the debt relief program have a more sustainable lifestyle. Debt is often a wake-up call.

Description of the building blocks of the actual solution(s)

Debt Aid Companion contains a number of building blocks that lead to the final solution.

1. Talks with the client (debtor) and the institutions.
2. Accompany the client at meetings with institutions.
3. Together with the client create order in the administration.
4. Define a budget.
5. Ask for income support.
6. Fill in forms together with the client.
7. Motivate the client to persevere.
8. Create awareness on the client's behaviour toward money and together work toward changing habits.
9. Formulate assignments for the client and monitor them.
10. Be present in the lives of the client as a fellow human and companion and give attention.

The results (Key Result Indicators) for the society

The following Key Result Indicators derive from Debt Aid Companion in the city of Delft, The Netherlands. The results have been calculated on governmental level, but also on level of reduction of costs in case of house eviction and energy and water cut-off. Costs are in euros.



The project: Debt Aid Companion

Table 7: Key Result Indicators from Debt Aid Companion⁶⁵

Number of prevented evictions	6
Number of prevented cut-offs of energy supply (gas, elec., water)	7
Average cost per eviction	5.850
Average costs per cut-off of energy and water supply	790
Benefit for House Companies	35.100
Benefit for energy and water supplying companies	5.530
Costs crisis management	14.190
Benefits crisis management	15.325
Costs on care and security level because of homelessness	43.140
Benefits on care and security level	46.591

The person needing help

Rita, 40, is in shock after her husband left her suddenly. Her income is insufficient to look after her four teenagers and her exhusband cannot pay any alimony. Rita, normally full of life, cannot cope with all the stress and grief and becomes ill. Her income decreases further. She hides the incoming bills away, unopened, in a drawer – what you don't see you don't have to worry about. A friend starts to worry about her, sensing something is really wrong although Rita is ashamed to talk about her problems. This friend calls a DebtAidBuddy, and asks her to pop in to see Rita. Just in time. Rita is relieved to have someone to talk to. The DebtAidBuddy helps her to bring her financial administration into some order and to start paying off some of her debts. During a period of two years, Rita's debts are completely paid off, she learns to work through her traumatic divorce and get her life back on track. She finds a job in which she is happy and able to take care of her family. Hope and transformation! Rita's story is just one of thousands which have been happening in The Netherlands over the past two years, through the very successful DebtAidBuddy (SchuldHulpMaatje) programme. Started in 2010, this programme is aimed at training volunteers from churches who will reach out and help people having serious problems with debt. It has been reported that one out of every six households in the Netherlands struggles with serious debt problems!

The DNA of Debt Aid Companion

In this chapter we will present the DNA of the Debt Aid Companion project. The DNA of this project consists of its vocations, visions and values.

⁶⁵ Regioplan rapport 2011 Maatschappelijk rendement van vrijwilligersprojecten in de schuldhulpverlening

The vocation of Debt Aid Companion

Stimulate the decrease of indebted households by helping people with debts to free themselves from resource and energy draining debts by offering the intellectual, emotional and spiritual support they need. Helping local governments to increase the number of social participative citizens, by offering them alleviating assistance that helps them to achieve their goals faster and better.

Aspirations for 5 to 10 years

Debt Aid Buddy has become a unique, easy access programme for people in debt who are helped by well-trained volunteers.

The programme offers hope and perspective to people who need help, not only in a financial sense but also socially.

Debt Aid Companion has substantially contributed to a positive historical turning point in private household debt, thanks to its holistic approach, the implementation of new instruments and the support of more stakeholders.

Debt Aid Companion has contributed to a positive debt free culture where debt is preventively dealt with, thanks to the creation of awareness about the enslaving effects of debts.

What Debt Aid Companion's will never compromise on

Subsidiarity

Debt Aid Companion will never take away the responsibility and liability from the debtor in order to induce proprietary behavioural change and full participation.

Holism

Debt Aid Companion always looks at all the physical, emotional and spiritual causes that led to debt in order to eradicate debt in a durable way.

Value

Debt Aid Companion always looks at indebted people as valuable persons who still have a lot to contribute to society, in order to kindle hope and to stimulate a vision for the future.

Open-mindedness

Debt Aid Companion never convicts the person who appeals for help in order to keep an open mind on all the options that can contribute to the solution.

Volunteerism

Debt Aid Companion never has a personal financial gain in helping people to get out of debt, in order to generate trust from those needing help.

Why Debt Aid Companion is a strong partner for institutions



Introduction

In this chapter we will elaborate on a number of aspects that make Debt Aid Companion the strong project it is. First we are going to look why institutions should consider Debt Aid Companion in their fight against the increase of indebted households. Secondly we are going to look why institutions should have a preference of Debt Aid Companion. Thirdly we will present a number of aspects that reassures institutions to work with Debt Aid Companion.

Why institutions should consider Debt Aid Companion as a partner in their fight against indebted households

The reason why institutions should consider Debt Aid Companion as a partner, is because of the answer to the rational social needs. Debt Aid Companion answers these needs by converting them into benefits for the institutions. Besides being cost effective and generating a higher return on investment, there are a number of supplementary benefits that Debt Aid Companion brings. Let's look first at the rational needs that local governments and institutions may have.

Social equity

Decreasing the social polarisation between those who can pay their debts and those who can't. The persistence of social polarisation will lead to conflict and aggression.

Social growth

People who are not able to pay their debts become passive. Their

income is absorbed to fix the past, so there is no investment in the future. Additionally the active society is required to compensate for the lack of social participation.

Attenuation of debt costs

Dealing with debtors cost time and money. Companies and institutions are confronted with costs even in the case when they detach themselves from the debtor. The less costly solution for institutions and companies is the capacity of the debtors to pay their debts. All other options increase costs for all parties.

Tangible benefits that Debt Aid Companion is offering

Reduction of social financial pressure Debt Aid Companion has a spending reducing impact on the public spending.

Time saving from the local government

Because of the involvement of volunteers and their efficiency, time is freed for civil servants.

Increased effectiveness of professional debt coaches

The partnership with Debt Aid Companions works as a catalyst leveraging the efforts of professional debt coaches who are focusing more on the technical side of the issue.

Sustainable - low recidivism

The low recidivism rate of people helped by Debt Aid Companion, makes this approach a socially sustainable project. The direct return on investment (1:1.29) should be viewed also in the light of its lasting effect.

Time reduction of professional (because of the companion)

Thanks to the catalysing role of the Debt Aid Companion, the time allocation per debtor is reduced without cutting short on the results. This means a lower time spending and a lower financial investment per case. Consequently, more debtors can be helped.

Environmentally friendly

Debtors shift from a spending and wasting mode to a saving mode, demanding less energy.

Cultural change

In terms of behaviour the new culture of debtors is one of quality instead of quantity. Debtors start appreciating value more and are open to a value culture instead of consumer culture.

Radical (tackling the problem from the roots)

The causes of debts are eradicated, stimulating a new kind of behaviour.

Participative

The project brings the public and private society together in the common project stimulating civil subsidiarity and a more civil society.

Social peace

Reduction of social threat and polarisation, instead an increase of social cohesion.

Quicker response

Debtors will be quicker in asking for help and taking action. This reduces the gravity of the problem and reduces the social burden, since the issue can be solved more easily compared to a chronic case.

Saves the social costs

The effective and quick eradication of debt prevents the rise of health problems, psychological problem and the break down of marriages. The prevention of the rise of these issues reduces social costs that are supported by the contribution model based on solidarity.

Continuity

Debtors who have been helped by Debt Aid Companions are helping in turn others (experience experts), generating a new group of experts and supporters.

Cost saving

It is proven that Debt Aid Companion reduces the costs for institutions by preventing the worst case scenario. Thanks to a proactive approach and the durable assistance, goals can be met and the escalation of a case avoided.

Why should institution should have a preference for Debt Aid Companion

In order to prefer one project over another, it is fundamental to look at the Critical Success Factors adopted by every project. Debt Aid Companion has identified a number of Critical Success Factors inscribed in its approach.

- The debtor is approached *holistically* since debt is caused and solved by a number of correlated factors and human choices or behaviour. The debtor should be looked at as a person in its entire wholeness.

- The debtor should not delegate his/her responsibilities to the assistants, because it will not lead to participation and the adoption of the required behaviour.
- The Debt Aid Companion should not give financial advice since that is not his/her expertise. The assistant should always point to a financial expert for financial advice. This enables the Debt Aid Companion to remain in its role of a supporter.
- The Debt Aid Companion should not manage the resources of the debtor in order to preserve the debtor's ownership of resources and obtain his/her active participation.
- The Debt Aid Companion should not be allowed to have a preference for a particular social group, in order to guarantee that his/her commitment to the client is intact.
- People should never be forced into a collaboration since the strength of the collaboration is in the quality of the relationship. In order for a relationship to bear fruit it cannot be imposed.
- People should be lead to their 'destination' in order for them to accept a roadmap to get out of debt. This destination can be their aspirations, visions, achievement, et cetera. The destination will focus people on their future and add relevance to their actions. This will generate hope.
- It is imperative for the success of any debt relief program that the causes are being tackled instead of just focusing on the symptoms.
- It is crucial that all parties involved in a debt relief program express their commitment to each other. On the basis of this commitment the process can be initiated.

- A debt relief program should be monitored on level of consistency and coherence. Without them the best intentions can end up in recidivism.
- The success of a debt relief program should be linked to conditions or prerequisites. Looking at success as something linked to chance is counterproductive. Success is the culmination of a series of gainful phases. Debtors should understand that these phases are sequential and the success will only be harvested once the last phase has been attained successfully.
- Debtors should have an exhaustive and clear view about their situation. As long as the scale of their debts is a big 'unknown', this unknown will engender fear and turn them away from reality. This will lead to debtors not opening their emails for fear of what may come.
- Debtors should be instructed to adopt a proactive type of communication with creditors. The absence of information leaves the creditors clueless about what to expect. This also creates stress for the creditor and the relationship with the debtor deteriorates.
- Debtors should be assisted in creating a social map and identify who can help them in providing in the basic needs. Thanks to a social map the debtor can compensate for the drainage of resources and still live a descent life.
- When the need is great, creativity plays a stimulating role. Debtors should be encouraged to think creatively and to consider other skills they have. Thinking out of the box is a powerful catalyst of the debt program.

Reassurance

Any debt relief program can only be successful if enough endorsement and security is build in. The endorsement of external partners (stakeholders) is essential for the sustainability and fruitfulness of any debt relief program. The integration of quality controls another aspect that is crucial for the sustainability of a debt relief program.

Here is a list of external stakeholders who endorse Debt Aid Companion in the Netherlands:

- Local governments (cities) – department of welfare
- Rabobank (local offices)

Debt Aid Companion has been managed by an executive organisational platform represented by an alliance comprising delegates from the following church-based organizations:

- Kerk in Actie (Church in Action)
- Landelijk Katholieke Diaconaal Beraad (National Catholic Council of Deacons)
- Evangelische Alliantie (Evangelical Alliance)
- PERKI
- De Protestantse Christelijke Ouderen Bond (PCOB) (Protestant Christian Senior Federation)
- Vincentius Vereniging (Vincentius Association)
- GKV Gereformeerde Kerk Vrijgemaakt (Reformed Liberated Church)
- NGK Nederlands Gereformeerde Kerk (Dutch Reformed Church)
- CGK Christelijk Gereformeerde Kerk (Christian Reformed Church)

The operational responsibilities have been organised by Stichting Encour (Encour Foundation) from it's offices in Leiden, The Netherlands.

From January 1, 2015, the Debt Aid Companion movement is independently incorporated as an association, Vereniging SchuldHulpMaatje (Association Debt Aid Companion).

As a foundation working with public institutions Debt Aid Companion cannot afford to compromise on quality. Thanks to the level of control trust, continuity and results can be generated.

Debt Aid Companion adopts the following procedures to safeguard the quality of its services.

- Each candidate to volunteer as a Debt Aid Companion has to present an impeccable certificate of good conduct.
- No volunteer can become a Debt Aid Companion without the required 3 days training.
- Each year a Debt Aid Companion must follow an e-learning program. This program adapts according to the years of service.
- Each year a Debt Aid Companion has to pass the exams in order to renew his/her certificate as a Debt Aid Companion. Without a certificate a volunteer cannot function as a Debt Aid Companion
- Each year the volunteers of Debt Aid Companion are invited for an evaluation interview.
- When Debt Aid Companion organisation receives grants, the claimed benefits and return on social investment are audited by the institution providing the grants.



Prerequisites for desired behavioural change of the debtor

Introduction

The desired change and the behaviour fuelling that change are directly related to a number of prerequisites. The desired change, in this case the complete debt relief, is the consequence of meeting these prerequisites. This implies that the desired change is not merely a matter of chance, but it is a process that can be repeated. The capacity to repeat success is fundamental to motivate the investment of public funds into a program. Understanding why something works and why it can be repeated is essential to get the best return on public funds.

In this chapter we have used the MCO model of Prof. Lilian Ripple (1911 – 1993) and Theo Poiesz Triade model to assess to which extent Debt Aid Companion meets the prerequisites of desired change and behaviour.

Prof Lilian Ripple MCO model (Motivation, Capacity, and Opportunity. School of Social Service Administration, University of Chicago, 1964). Prof. Theo Poiesz (Professor of Economic Psychology and Professor in Health Care Management at TIAS, the business school of Tilburg University and Eindhoven University of Technology. Theo Poiesz' model 'Triade Model' is basically the same model of Prof. Lilian Ripple.

According to Prof. Poiesz all prerequisites are correlated with each other and affect each other.

Prof. Poiesz Triade Model formula

$$M \times C \times O = T$$

$$1(M) \times 1(C) \times 1(O) = 1(T)$$

$$1(M) \times 1(C) \times 0(O) = 0(T)$$

In the following we will assess each prerequisite by elaborating on the factors affecting the prerequisites. Each prerequisite has a sequential influence. Motivation is the first step, capacity the second and opportunity the third.

Motivation

Benefit

The debtors see in the closer and more intense assistance by a Debt Aid Companion a quicker and sustainable way out of debt. The debtor does not have to pay for the assistance of a Debt Aid Companion, which would be the case when the legal procedures were enacted. Debt Aid Companion also prevents debtors from having to enter into a legal procedure and prevents from bankruptcy.

Preference

There are a number of reasons why debtors have a preference for working with Debt Aid Companion. The fact that the support is entirely based on volunteers avoids additional costs for debt mediation. This allows the debtor to keep things private and not to disrupt the relationship with friends, family or employer. There is a basis of trust since the Debt Aid Companion has no financial motives for helping debtors and is entirely altruistic. There is no suspicion possible for the motives behind the help. This leads to a more intense support, which of course will lead to a higher participation of the debtor.

Another reason why debtors have a preference for the Debt Aid Companion approach is that the debtor is facilitated to become more self-sufficient. This includes facilitating debtors to find work.

Urgency

No action is to be expected by the debtor if there is no sense of urgency. This sense of urgency is often generated from outside the household. Often debtors are optimistic about their odds to get out of debts. In some cases it's the debtor himself who asks for help, though most of the time it's someone else. The more debtors will know about Debt Aid Companion and the benefits of early actions, the more the urgency rate will increase and debtors will start sooner to call upon Debt Aid Companion.

Another aspect that induces urgency is the risk of entering into a permanent state of decline. The more one stays in a status of inability to socially participate, the more probable it is that this will become part of a lifestyle. People will then adapt the new situation and lack the stimulation to get out of the over-indebted status.

Capacity

Skills

There are a number of abilities and skills required from the debtor to fight indebtedness. These are:

- Ability to plan income and expenses
- Be creative with purchasing
- Develop patience
- Being content with less
- Ability to delay gratification
- Efficiency by working with basic products
- Getting the administration in order

- Negotiating skills
- Adopting an anticipative kind of communication
- Anticipate on changes
- Communication skills to explain clearly one's condition
- Keeping promises
- Diligence
- Self-discipline

Instruments

Debt Aid Companion adopts a number of instruments required for fighting indebtedness:

- A workbook with a step by step guided plan to help people to get out of debt. The workbook is practical and process driven. This means that each step is the preparation for the following step to occur.
- The website [Eerste hulp bij schulden.nl](http://Eerste_hulp_bij_schulden.nl)
- The website [Zelf je schulden regelen.nl](http://Zelf_je_schulden_regelen.nl)
- The website [Uit de schulden.nu](http://Uit_de_schulden.nu)
- A budgetting course
- A social Map — how can people close to the debtors help

A number of auxiliary tools can be developed in the near future:

- LifeDNA - Get people in their vision mode and let them work toward a goal beyond getting rid of their debts.
- Budget app – a simple way to plan budget and have instant overview of the daily financial status. This can be developed together with banks.
- LiveSmart app – an app or website that helps people to pay less and get more out of life.

- LifePlan – an app helping people to convert their aspirations into a strategy. LifePlan helps to define the intermediate steps between the current status and the aspirations. They will be put in chronological order so that people have a clear understanding of the priorities and how to deal with what needs to be tackled first.

Finances

Since Debt Aid Companion is based on voluntary work and has a high return on investment, the debtor is not required to financially contribute. The local government financially contributes for the instalment of a coordinator. This investment has proven to get a higher return on investment compared to an approach without Debt Aid Companion.

Opportunity

Time

An important aspect of successful change is the available time to invest in the change process. Time is something that most overindebted people have plenty of. The debtor is required to invest 2 to 4 hours a week to manage the change process. In most cases the challenge is not the availability of time, but the discipline to set apart the required time. The Debt Aid Companion is a help to get the debtor in a discipline mode. Making appointments with the Debt Aid Companion helps to set milestones and to set apart time to manage one's debts. It can be compared to people who want to lose weight by going to the gym. If they go with a friend they will find more motivation to discipline themselves to go to the gym. At the appointed time the friend will show up. A refusal to go with the friend to the gym is confrontational. Even when people don't feel like it, after they have

been pulled over the threshold they will be happy to have invested their time in getting in shape. This is the same approach with Debt Aid Companion. Debtors are helped over the threshold of an imaginative comfort-zone that in reality is keeping people in a detrimental status quo.

A Debt Aid Companion helps debtors to allocate time to clean up their lives.

Stimulation

In most cases the stimulant to get out of debt is a negative stimulant. As explained in other chapters, the debtor is not investing directly in the future, but repairing the past. Of course the future cannot be built on ruins. However, it is a challenge to focus on the future while most of the time one is dealing with the mending the past.

It is more prolific to work from out the aspirations (vision) of the debtor and put the debt relief process in the context of future aspiration. A clear vision and aspirations will stimulate the creativity of a Debt Aid Companion in finding direction in how to help a debtor to build his or her future. This would shift the stimulation from a negative past oriented toward a positive future oriented focus.

A future oriented focus based on the aspirations of the debtor, adjusted to reality and achievable has the power to involve others in helping the debtor. People are more prone to help someone realizing a vision than helping someone cope with his or her problems. People are psychologically more wired to contribute to the positive because they like to see a return for their investment. This return is not always expressed in a financial dividend, but always expressed in success. The gratification of seeing someone reaching its aspiration is a return on investment.

Endorsement

Without the proper endorsement of stakeholders around the debtor change will be almost impossible. Debt Aid Companion has a positive impact on the level of endorsement by stakeholders around the debtor. Family, friends, colleagues and local government are more confident because they see that the debtor is intensively coached. Compared to the Debt Aid Companion a professional helper is just a technical consultant. A Debt Aid Companion has a more holistic approach and deals with all aspect that led to debts and works also on psychological level. The latter has the greatest impact on the required attitude for a debtor to go through the whole debt relief process.

The collaboration of cities and churches are fundamental for Debt Aid Companion. The churches give their members the mandate to participate in the Debt Aid Companion program since it resonates with their spiritual DNA. The cities give their mandate since it relieves their burden with a better return on investment. The endorsement of the cities is in their own interest and that of the debtor. This results in more people being helped. As a result they see Debt Aid Companion as a partner.

Another stakeholder group that endorses the work of Debt Aid Companions are banks. In the Netherlands Rabobank has endorsed a number of bankers to volunteer as a Debt Aid Companion.

The impact of a over-indebted persons goes beyond the private sphere. On the work floor, over-indebtedness has an impact on the debtor's capacity to work. A salary seizure is expensive for employers and creates issues for the HR managers. Debt Aid Companion is a better solution for companies. For this reason companies free time of some of their employees to volunteer as a Debt Aid Companion.

Housing companies also endorse Debt Aid Companion since evictions are a financial drain for them. So avoiding eviction is a money saver for the housing companies. This is why they as well endorse Debt Aid Companion.

We can state that the level of endorsement that Debt Aid Companion receives is not just based on altruism, but on the fact that it serves better the interests of the stakeholders around the debtor. Thanks to the cost and time saving attributes of Debt Aid Companion, all connected stakeholders are more than keen to endorse Debt Aid Companion and to give the debtor more space to move out of the debt zone.

This endorsement motivates debtors to embrace the Debt Aid Companion program.



The human factor

The human factor plays a key role in the success of helping people getting out of debt. Debt Aid Companion works on 3 human levels. These 3 levels are Body (cognition), Soul (emotion) and Spirit (transcendence). These 3 levels are correlated and influence each other on behavioural level and in choice making. It is by acknowledging the multidimensional properties of a person that Debt Aid Companion is able to generate its results. Only working on one of these human levels would not generate the desired results.

Cognition

Debt Aid Companion invests an important amount of time to help clients (debtors) understand the causes of their debt. Additionally the client is assisted and trained in keeping his/her administration in order. Having a better understanding of the scale of the matter is the basis for developing a budget plan. Without a clear understanding and creating order, the odds for being fully involved in the relief program are slim.

Emotions

A large number of over-indebted people are emotionally drained or have developed a numbness in regard to their status. Without the emotional drive to get out of debt it is impossible to hope for participation or success. People may understand the situation they are in, however this understanding needs to be supported by emotional energy. Debt Aid Companion goes beyond professional debt mediators. As the word companion implies, Debt Aid Companion takes on an auxiliary role which is more empathic and supportive. The fact that the Debt Aid Companion does not receive any fee for his/her assistance, generates an emotional safety net. The motives for helping a debtor are pure altruistic. This means that the Debt Aid Companion becomes a confidant who can share the emotional status

of the debtor. This information is very valuable for the Debt Aid Companion, since it reveals the hidden drivers behind behaviour and choices.

By sharing his/her feelings the debtors allows the Debt Aid Companion to them into account and to anticipate in what steps to advice. The creation of a safe emotional space allows to quickly identify blockages and to tackle them rapidly. The result is that the relief program can proceed with less obstructions of hidden restrainers.

Spirituality

The term spiritually can be confused with religiosity. Our definition of spirituality is the capacity to transcend ones ego. The selfcentredness caused by the ego is in many cases the cause of debt. In some cases the ego can obstruct the relief process. People who are proud can decline help since they don't want to be labeled as a person in serious difficulty.

The capacity to look at the world beyond one's self is a catalyst in making choices that contribute to the success of the relief program. Finding a motivation outside one self is often a powerful driver to hold on to the entire relief process. The capacity to transcend one's ego allows to take a sober look at life, become less possessive and to look at ones behaviour from a distance. It is this distance that gives debtors a more realistic view of who they are and what life is all about. It helps them to define a vision that does not only revolve around them, but allows them to value their social participative role. Only by valuing others one can be part of the life of others. This altruistic attitude neutralises the possible tendency to isolate oneself and to take on a victim's role.

A large group of Debt Aid Companions are deacons from churches. They



The UK volunteer project: Community Money Advice

are spiritually grounded and have a clear understanding of the power of a self-transcendent (altruistic) focus.

The fact that the motives of a Debt Aid Companion are purely altruistic, since there is no self-interest in helping debtors, contributes to the credibility of such a focus. The Debt Aid Companion is the example of a spiritual life. The debtors can tangibly experience the benefit of having people around who are spirit driven instead of selfish. This exemplary role model of the Debt Aid Companion enables debtors believe in an altruistic focus, allowing themselves to open to a world of potential opportunities.

In the United Kingdom, a volunteer-based programme has been active for many years, training Debt Aid companions to help others through a debt relief procedure.

The mission of this programme, which is currently active in 138 locations in England & Wales and 2 in Scotland, is named Community Money Advice (CMA). The programme serves anyone in need with unconditional quality advice ranging from document administration through to personal insolvency, giving individuals the time and space they need to allow their problems to be completely resolved in a sustainable manner.

Each CMA centre is different, based on the scope and scale of what the Church, group of Churches or Community Group are able to offer. This depends on the number of volunteers/staff and opening times of the centre with advice ranging from generalist advice to more specialist support. CMA's role is to support, train, advise, mentor and develop any church, group of churches or community group that has decided to set up a centre. CMA provides all training, provision of policy and procedure templates, mentoring and support.

Each CMA centre is open to anyone who needs money/ debt advice in their community. This can lead to high demand, so centres have established triage systems that allow the most urgent cases to be dealt with immediately. Robust referral systems and developing relationships with other agencies that can help address client needs has also been useful allowing clients to be referred on if waiting times seem too long for them.

Across the CMA network over 5000 clients (approximately 12,500 people) are being helped each year to pay back over £ 70 million of debt.

On average there are 10 debt aid volunteer companions in each centre, which means there are around 1,400 volunteers currently involved across the network. Some centres additionally have full time or part time paid members of staff, but again it does vary from centre to centre.

CMA's role primarily is to help churches, groups of churches and community groups start up debt/money advice centres in their community. Through the provision of a wide range of resources, guides, training and support volunteers with little or no previous experience can be trained to help people with a wide range of debt/money related issues. Clients are helped in a way that is tailored to their individual need. They are given the time and space to work through their issues and helped to learn how to budget so that they have the tools to get out of debt and stay out of debt permanently.

Every centre has legal requirements to get a Consumer credit licence, full professional indemnity insurance and draw up particular policies and procedures. There are also several policies and procedures that CMA recommends centres to adopt.

Another large part of CMA's work is information.

Training is a key CMA service and all centre staff, both paid and volunteers, need to be committed to receiving ongoing training to ensure their knowledge is not only up to date but also growing so that the best possible advice is being given to the clients.

CMA takes volunteers with little or no experience and trains everyone to a minimum generalist debt adviser level prior to a centre opening. Bespoke training has been devised by CMA and is now becoming a nationally recognised qualification. This training covers a wide variety of areas including the basic debt advice, advanced debt advice, benefits, listening skills, role play and insolvency.

Each centre has its own management team who specify the way that centre is run. There is a list of specific requirements each centre must adhere to comply with CMA's affiliation requirements. These requirements ensure they meet all legal requirements as well as adhering to best practice.

The yields for society are immeasurable. Broken lives are put back together, relationships restored or kept from disintegrating, stress related sickness can be addressed and people got back into work and even some helped off anti depressants not to mention the £ 70 million of previously unpaid debt being repaid. People able to reintegrate back into society and able to use their money in a beneficial way to society rather than so often using or even borrowing money to pay off debt. It is impossible to put a numerical value on this, but in reality we are talking hundreds of millions of pounds being saved just through the time given by the volunteers and what they achieve every year sitting down spending time with people and finding sustainable solutions to often very complex debt situations.

This programme is very successful and the demand for debt advice in the UK is at an all time high. Yet the funded advice provision is decreasing so the general public has less access to free face to face debt advice. CMA therefore needs to setup more of these centres to enable people to receive free quality face to face debt advice in their community so they can access it easily.

With an annual expenditure of £ 160,000 over £ 70 million worth of debt is cleared.

See for more information:

<http://www.communitymoneyadvice.com>



Conclusion

The training and deployment of volunteers from churches has been shown to be a highly beneficial and cost-effective contribution towards solving the problem of overindebtedness.

The economic value of hours spent by volunteers from churches to help their neighbours is significant. It has also been shown that an investment made in the training and deployment of volunteers gives a significant socioeconomic return.

The mentoring and coaching provided by these trained volunteers help the debtor to overcome internal factors which can lead to incapability of solving their own problems, and reduces the problems associated with recidivism.

Two successful projects in the United Kingdom and the Netherlands have proven over a number of years that the approach of using volunteers from churches to accompany people in debt as Debt Aid Companions contributes meaningfully to the well being of those indebted, decreases social exclusion and shows a significant economic return.

We recommend that other nations adopt such an approach, with the necessary cultural adaptations.

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