



Confidential service offers practical advice for getting – and staying – out of debt



Estimates show that at least 20 million people are over-indebted in Europe. The battle against over-indebtedness is one of the key issues of the European policy against social exclusion. Some EU Member States have explicitly put this issue on their political agenda. Ireland's Money Advice and Budgeting Service (MABS) is an example of how a practical, hands-on service can help people avoid the myriad financial and social pitfalls of over-indebtedness.

Over-indebtedness is an issue in both affluent and less-affluent countries, but it is a special problem for people on low incomes or the socially excluded. Over-indebtedness can lead to exclusion from affordable financial services, withdrawal from social and economic life, and contribute to poor health, family problems, homelessness and unemployment.

In 1992, Ireland tackled the problem of over-indebtedness by launching the Money Advice and Budgeting Service (MABS). Today this community-based, non-profit debt counselling service has 65 offices across the country, with 228 money advisers and support staff to help people gain control over their finances and their lives. MABS is free, confidential, independent and open to anyone who seeks help. It does not pay clients' debts, but provides counselling.

■ Personalised service

"Clients receive one-to-one counselling from a trained money adviser," says Dieter Korczak, Doctor of Economics and Social Science at GP Forschungsgruppe, a social science and market research institute based in Munich, Germany. "The training is supported by the Money Advice Manual, which was written by practitioners. MABS also has a special relationship with Ireland's extensive credit union network, which help clients open savings accounts and obtain affordable credit."

The MABS started as a group of five pilot projects and now operates across the country through independent, locally based companies limited by guarantee. They are run by management boards made up of representatives from local bodies such as public authorities, police, local development projects, non-governmental organisations, health boards and credit unions. The service is financed by the Irish government through the Department of Social and Family Affairs. The service now has a caseload of 30,000 clients, with 16,000 new requests for assistance every year.



“Over-indebtedness has a clear female dimension,” adds Dr Korczak. “Often the women are the ones who first ask for help. They have to deal with the day-to-day impact of debts their husbands may have incurred. Divorced or separated women who are single parents are especially susceptible to over-indebtedness. Some 66% of MABS clients are female and 31% are single parents.”

■ Different definitions, varying approaches across Europe

Definitions and legal approaches vary from country to country. Currently there is no official or common scientific European definition of over-indebtedness. Even the European Union speaks of ‘indebtedness’ instead of ‘over-indebtedness.’

“But the terms should not be mixed up, says Dr. Korczak. “Indebtedness is any kind of credit or debt taken by a household. Without indebtedness and credit taking by private households, economic growth is hard to imagine. Over-indebtedness indicates the opposite, which is loss, problems and decline.”

However, different definitions result in divergent policies. Dr. Korczak says that a successful European policy to fight over-indebtedness needs to start with a common definition, followed by the compilation and use of statistical indicators for comparison across Europe.

The scope of legislation to combat over-indebtedness also varies in different member states, with nothing at all on the statute books in Ireland, Italy, Greece, Spain and Portugal. Mr Korczak suggests this may be because in southern countries debt is regarded as a family matter that incurs loss of face if made public, rendering organised debt counselling more difficult.

In addition, no systematic evaluation exists of the impact of bankruptcy laws. In countries such as France and Germany, people are able to make a

‘fresh start’ and the law prevents creditors from pursuing them.

■ Drawing lessons from Ireland’s success

Experts from various Member States agree that MABS would be most transferable to countries where systems of money advice and debt counselling are not already developed. Both Slovenia and Denmark were very interested in adopting similar models. Because it is essentially a centralised service, it would be harder to transfer MABS to countries with decentralised administrative structures or where such responsibilities are devolved to regional or municipal level.

In Germany, helping people to get back into work and stay there is seen as a priority, says Adelheid Braumann from the *Wirtschaftliche Lebensverhältnisse der Familien*. “It would not be easy to introduce the Irish system because of Germany’s federal structure. However, we hope to introduce a proposal for improved data collection in order to evaluate the impact of debt counselling better, in the way MABS does.”

Ms Braumann says she also wants to see better public relations to convince the public that debt counseling is useful and works well. “Germany could also benefit from copying MABS’ Money Advice Manual and adapting it to local circumstances.”





In Denmark, people on social welfare are not expected to repay debts, but become liable as soon as they get a job. "This is a serious disincentive," said Niels Rasmussen from the Ministry of Social Affairs. Mr Rasmussen was interested in several elements of MABS, including efforts to reach target groups, the partnership model, and funding methods. "The Danish government decided to invest in helping people out of debt and back into work," he says. "Debt counseling along MABS lines is a central aspect and is meant to accompany any scheme for debt relief."

Saso Stikovic of the Slovenian Ministry of Labour, Family and Social Affairs is even more convinced. "We are convinced that the MABS approach could be successful in Slovenia," he says. "Slovenia has no existing network of debt counselling agencies, but a similar system could be implemented through the network of Centres for Social Work (CSW), located near customers. However, it would require strong political will because of the cost involved."

Mr Stikovic says the first step would be to initiate a suggestion for establishing MABS. "After that we have to bring MABSs into legislation – some already adopted legislation could be changed and also probably some new regulations have to be adopted to establish the programme."

Ms Zsuzsanna Nemes from Hungary's Ministry of Social and Family Affairs said she found the Money Advice Manual particularly impressive. "It could be used in any country. This is one element of the Irish model that is very transferable. It means that money advisers should never feel lost or isolated. It's a very big achievement."

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Project information

Name of the initiative: Money advice and budgeting service

Website: www.mabs.ie

Activity: Peer Review

Country: Ireland

Scope: National

SPSI Priority theme: Over-indebtedness and financial exclusion

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Coordinator:

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