Supporting Social Enterprises to Support Vulnerable Consumers: The Example of Community Development Finance Institutions and Financial Exclusion

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Abstract

This article examines the role of social enterprises in providing fair services to vulnerable consumers, focusing on the vulnerability of low-income consumers to high-cost exploitative credit as a result of a lack of access to mainstream financial services. It will be argued that both the state and the corporate sector have a role to play in providing the means with which vulnerable consumers can overcome financial exclusion, through access to fair services. However, this cannot and should not be achieved through increased welfare provision or through reliance on corporate social responsibility initiatives alone. In rejecting solutions focused on increased welfare or voluntary corporate social responsibility initiatives, this

article suggests that regulatory support for the development and growth of social enterprises, such as community development finance institutions, will most effectively give rise to a social framework in which vulnerability and unequal opportunity with respect to financial services is addressed.

Notes

1. Interest rates of between 114% and 3,380% per annum have been found to apply to fringe credit products in an Australian study. See Howell et al. (2008), p. 39.

2. Anecdotal evidence arising out of low interest and no interest loans programs in Australia supports the view that low income consumers can indeed repay loans and are not inherently “risky” by virtue only of their income levels. See Scutella and Sheehan (2006) and Ayres-Wearne and Palafox (2005). Note also that the average loan default rate in the ANZ’s and Brotherhood of St Laurence’s Progress Loan was 1.2%, far lower than the average “mainstream” personal loan default rate of approximately 5% (Vawser and Associates 2009).

3. As Ramsay (2000, p. 5) has noted: “Banks, notwithstanding their public relations efforts, are not strongly committed to cultivating lower income clients or branches which serve lower income areas which do not generate sufficient profits in this age of shareholder-driven capitalism.”

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