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ABSTRACT

# "The forgotten half": Exploring Personal Microcredit in the UK

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In the UK, as well as in other countries, individuals on low incomes struggle to access mainstream lenders, such as banks, to borrow small amounts of money for personal purposes. This happens for a variety of reasons, and these financially excluded individuals have traditionally been served by subprime lenders, who charge usurious interest rates and use exploitative lending practices. In this context, personal microcredit represents a promising alternative. Personal microcredit lenders in the UK have traditionally included not-for-profit organisations, such as Community Development Finance Institutions (CDFIs), that offer small (<£1,000), short term (<52 weeks) loans to individuals on low incomes to meet consumption needs and pay-off debts.

Nevertheless, personal microcredit is currently at the centre of much public debate. The sector is facing several challenges in terms of financial sustainability and lending operations. CDFIs are moving to online lending, but it is not clear how this affects their financial sustainability and social mission. New profit-for-purpose lenders are emerging in this space that are not fully not-for-profit like the traditional lenders. Furthermore, the external context profoundly shapes the features and the potential of these lenders, and it is argued that people are increasingly borrowing money to meet essential needs. Therefore, questions arise about the overall aim of this type of lending in the UK. The aim of this study is to identify and describe the shared perspectives that exist on what personal microcredit should ideally be like in the UK.

Q methodology was employed to address the research aim. Q is an innovative methodology which combines qualitative and quantitative techniques to study participants' subjectivity on the topic under investigation, in this case what personal microcredit should ideally be like. Participants were purposively selected among microcredit lenders, stakeholders and other experts in the field. Respondents were presented with a set of cards printed with statements and were asked to rank order them onto a grid according to their point of view (from 'most unlike my point of view' to 'most like my point of view'). Statements were selected from a variety of sources, including interviews, academic and policy literature and webinars. Factor analysis was then employed to identify patterns of similarity between the configurations of statements produced by the respondents, meaning that participants who have sorted the cards in a similar way end in the same factor. The analysis is ongoing, the resulting factors will consist of distinctive rankings of the original set of statements that represent idealised viewpoints on the subject that are shared by different groups of participants.

Personal loans have been defined as "the forgotten half of microcredit" (Corbucci, 2016), as microfinance in Europe tends to focus on loans for entrepreneurial purposes. Yet financial exclusion concerns also the consumer credit market and the field of personal finance requires critical attention. This study aims to contribute to this topic by focusing on the UK and adopting an innovative methodology.

**Keywords:** Personal microcredit, CDFIs, UK, Q methodology.



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