



Nacionalinis skurdo mažinimo organizacijų tinklas

A STUDY OF

**THE PROBLEM OF INDEBTEDNESS AMONG PEOPLE
EXPERIENCING POVERTY IN LITHUANIA**

SUMMARY

Vilnius, 2017

Alerted by its members, the National Anti-Poverty Network in Lithuania (hereinafter - Network) became concerned about the current practice of enforced debt recoveries and its effect on the poor, since the arrears are being deducted from minimum wages, pensions and other regular income. **The current system in certain cases allows deducting up to 50 percent of a person's minimum wage, which is a strong disincentive for indebted people experiencing poverty to seek legal employment. Furthermore, it precludes a real possibility of repayment.**

One social worker in the study described the forcible collection of debts thus: "It's a noose around the neck, which can only be tightened". Members of the Network and other NGOs described the self-defeating inefficiency of debt collection practices that deepen the "poverty trap", because indebted persons are discouraged from working when they are unable to retain a sufficient amount of income to live on. It is also obvious that the number of indebted persons among NGO clients is increasing, but there is insufficient discussion about this problem in Lithuania. There is a lack of evaluation of the effectiveness of the current system of debt recovery and the absence of suggestions on how can it be improved.

This study investigates the problem of the forcible collection of debts by bailiffs from the perspective of indebted people and the specialists who work with them. The study consists of research and some proposals to change the current situation. The aim of this research is to determine what specific barriers people experiencing poverty face in returning debts; whether the current system creates the conditions that would make it possible for low-income persons to do so; and to establish possible solutions to make the system workable.

The study comprises three parts: qualitative interviews with social workers, qualitative interviews with their clients who encounter difficulties repaying their debts, and a questionnaire filled out by social workers and other NGO representatives.

The study was conducted in cooperation with researchers from Vilnius University.

FINDINGS

- 1) **The arrears problem is very acute amongst NGO clients.** Only 5 % of 53 surveyed NGOs stated that none of their clients have any debts. Most respondents (26.4 %) asserted that 10 % of their clients have debts; 22 % of respondents stated that 80 – 100 % of their clients have debts. The number of cases per debtor referred to separate bailiffs varies from 1 to 15. According to social workers, the most common total amount of personal debt varies from 1500 euros to 3000 euros. NGO workers claimed that it is extremely hard to get out of debt. When people encounter bailiffs and pay significant amounts of their income to them, they lose hope of living in dignity.
- 2) **The most common causes of getting in debt:** penalties for riding public transport without a ticket; utility bill arrears; debts to quick-credit companies; overdue loans. Less common causes: damage compensation; child support costs.
- 3) **The most common consequences of debt:** homelessness, life on benefits, the lack of opportunities to live in dignity. The main sources of income of indebted persons are social benefits (88.5 %), illegal work (50 %), legal work (48.1 %), help from close relatives (36.5 %).
- 4) **According to the specialists, the biggest disincentive to pay up is extremely heavy wage withholding.** It is more profitable to live on benefits or illegal income than salary. Furthermore, the inability to pay one's debts may undermine self-esteem. The negative attitude of employers toward indebted persons may also contribute to lowering one's confidence. Indebted people affirmed that so little remains after deductions from wages that it is not worth working legally under the present circumstances.
- 5) **The existing alternatives to tackle the indebtedness of people experiencing poverty problem are very limited.** Indebted people try to solve their debt issue in different ways: they get new loans to cover their debts, try to pay up without any help, work illegally or attempt to negotiate with bailiffs. The most common help from NGOs is mediation and accompaniment; social counselling; assistance with

documentation; development of skills and so on. Organizations have insufficient resources for legal and psychological consultations. Though these would seem to be essential services, they are provided by only about one-fifth of organizations.

- 6) **In order to tackle the problem, there is a strong need to change the legal framework, and strengthen social services and prevention.** In terms of legislative measures, reducing bailiff's fees and other enforcement costs as well as requiring that all a single individual's cases be referred to a single bailiff would effectively reduce an individual's total debt burden and simplify administration. Debtors should also be allowed to perform community work in lieu of payment when they are indigent. Preventive measures include education (strengthening financial literacy), changing the attitudes of employers, and providing more social services.

PROPOSALS

Proposals for improving the legal framework:

- 1) **Reduce deductions from wages and other income necessary for survival, if it is the only personal income.** Deductions from wages and other equivalent payments that are a person's only income should not be made if the income is less than the minimum wage set by the government. These limits would not apply in the case of child support obligations, which should be paid regardless of income level.
- 2) **Reduce bailiffs' fees charged to debtors.** Once a debtor's case is filed with a bailiff, all subsequent cases should automatically be directed to the same bailiff.
- 3) **Balance the responsibilities of the creditor and the debtor.** Continue efforts to tighten control of lending conditions; impose a limitation period for collecting debts related to minor administrative violations of law; arrange meetings with the biggest creditors to restructure or write off debts.
- 4) **Provide an opportunity to get support as a social loan.** We suggest creating a credit system that would help a person who is unable to otherwise deal with his financial difficulties. A person who is in a difficult financial situation (e.g., seriously ill,

threatened with eviction, after a disaster, victimized by theft, etc.) could borrow from the municipality on preferential terms, which might include an interest-free loan, a longer repayment term, or adjustable repayment plan.

Proposals for preventive measures:

- 1) **Strengthen financial literacy.** Organize financial literacy trainings and public advertising, providing more information about the consequences of having debts and information about interest rates and their effects on total debt.
- 2) **Increase accessibility of public transport.** Municipalities could follow the example of Vilnius and provide more free public transport tickets to NGO clients and people from homeless shelters who demonstrate the motivation to repay their debts, find a job, etc.

Proposals for strengthening social services for indebted persons:

- 1) **Provide social workers more know-how on issues relating to clients' debts.** Trainings and workshops for social workers to raise awareness of debt repayment conditions and procedures would help them represent their clients more effectively.
- 2) **Increase awareness of legal aid opportunities.** The debtor must be informed of the opportunity to get legal aid for free.
- 3) **Provide long-term structured support.** Depending on a person's needs, such support could include financial counselling, job search assistance, child care, etc. Especial attention should be paid to the provision of multiple coordinated services within a single organization.

