

# research snapshot

summarize | mobilize



## Community Based Finance Assists Community Capacity Building

### What is this research about?

An increasing number of Canadians are not able to borrow money from banks or even manage their money well. The financial services offered by mainstream financial institutions have become more and more difficult to access for low income Canadians, in particular. As a result, there is an increase of “fringe” financial services which are offered by non-financial organizations. These fringe financial services include microcredit and payday loans.

### What did the researcher do?

The researcher set out to answer the question: are microcredit programs and payday loans efficient and equitable financial alternatives for low income groups? The researcher also asked: Are there changes in educational and financial policies that may expand financial inclusion?

### What did the researcher find?

The researcher had a number of findings. Some of them were:

- Microcredit programs are growing in number and popularity in Canada
- Microcredit programs need more business skills and mentoring supports for borrowers

### What you need to know:

Low-income Canadians need access to better financial education and small loans for business incubation, skills training, and income smoothing.

than similar programs done in developing countries

- Microcredit programs are grass roots opportunities to build capacity within a local community
- So far, there is no systematic analysis of the performance of microcredit programs, making it hard to look at how efficient and accessible they are to their users
- Microcredit programs are not self-financing, moreover, self-financing may not be a desirable goal if issues of access and equity are important considerations
- Changes in the laws regulating payday loans are incomplete. The laws need to define enforcement issues more precisely and be paired with effective consumer education to minimize the risk that a consumer falls into a

debt trap

- Laws promoting access to banking services are inadequate
- There are not enough financial literacy assessment and education opportunities, especially for members of at-risk communities
- Policies to promote affordable small dollar loans to low income Canadians, and especially the working poor, are needed

### How can you use this research?

Policymakers, community groups, and educators can use this research to develop better financial services for low income Canadians and better financial education and enforcement around payday loans. This research may also be used to develop programs around financial literacy.

### About the Researcher

Brenda Spotton Visano is a Professor with the Department of Economics and the School of Public Policy and Administration at York University.

This Research Snapshot is from her study, "York University Community Finance Project". The project may be accessed at <http://bit.ly/OCdLU2>

[spotton@yorku.ca](mailto:spotton@yorku.ca)

### Keywords

Microcredit, Low income groups, Community based finance, Financial literacy, Payday loans

### Knowledge Mobilization at York

York's Knowledge Mobilization Unit provides services for faculty, graduate students, community and government seeking to maximize the impact of academic research and expertise on public policy, social programming, and professional practice. This summary has been supported by the Office of the Vice-President Research and Innovation at York and project funding from SSHRC and CIHR.

[kmbunit@yorku.ca](mailto:kmbunit@yorku.ca)

[www.researchimpact.ca](http://www.researchimpact.ca)

