



ANIMATION VIDEO produced under the framework of the project “Tackling Indebtedness in Georgia through Czech Innovations” funded by the UNDP Challenge Fund and the Ministry of the Foreign Affairs of the Czech Republic. The aim of the video was to raise awareness about consumer protection rights in Georgia and provide recommendations on how to take a loan and manage debt in a safe and affordable way. The opening scene from the animation video starts by announcing the following “When borrowing money is important for us, we have to do it on a right way!”

# Addressing indebtedness: Inspired by a success story from the Czech Republic



**Eva Fernández**  
Program Quality Support  
Officer

During 2020, People in Need (PIN) Georgia embarked on a project to tackle indebtedness following in the footsteps of PIN’s success story in the Czech Republic. The idea behind the pilot project was to replicate the Czech methodology concerning debt advocacy and debt advisory support services, and to transfer the knowledge and know-how and adapt it to the local context in Georgia. While the project is now looking into opportunities for scaling-up, various important lessons have been learned that can be drawn on from its pilot phase to improve the future replication efforts in other contexts.

## The Czech success: from direct work to systemic impact

PIN’s debt advocacy journey started with a social integration programme with the Roma community in the Czech Republic. PIN had initially been focusing on providing legal assistance and job counselling as well as debt advisory services, but was unable to achieve enough tangible and impactful results. It was only after PIN decided to delve into the data gathered from the experiences of the beneficiaries that they identified the root causes of the debt trap. Entire families were being hamstrung by abusive loan shark contracts, a rigid debt collection process and a system that had excessively high-priced sanctions and penalties. In response, PIN developed

a public advocacy strategy and toolkit to combat public indebtedness in the Czech Republic. To date, the innovative debt support and advocacy programme has demonstrated that it is possible to engage with policymakers to reduce predatory lending practices, raise public awareness, help rebuild personal finances, and reduce the number of people becoming impoverished, homeless, or incarcerated. A successful example of PIN’s strategy is the so-called “Index of Predatory Lending,” a comprehensive comparative analysis among credit providers to expose predatory practices that includes a public ranking. This was an extremely effective method that pushed for the self-regulation of banking and non-banking entities as they eventually



THE SCENE PROVIDES specific key recommendations for borrowers: Communicate with your borrower through letters and record all your interactions with the borrower, as these documents can be used as a document during trial.

adopted the ranking as a marketing strategy to boost their reputation.

### Best practices

Earning the media's trust and nurturing the relationship with media actors by being consistent with sharing our findings and opting for a scandal-focused approach, all proved to be key for debt advocacy advances. At the same time, PIN's advocacy strategy is based on solid and expert-led research that can be used to mitigate risks of retaliation from concerned credit providers.

An International Comparative Analysis was also produced by PIN to reassure politicians and the public opinion that changes were possible and had been successful elsewhere as demonstrated from the examples in other countries. The Analysis was also a crucial tool for advocating against the high fees and expensive practices of the attorneys and debt collectors in the Czech Republic, as well as the harmful proceedings that were often responsible for increasing people's debt exponentially. According to the findings of the research, financial

literacy-focused interventions are not the most effective way to achieve long-term impacts. Rather, strategies revolving around instigating change within credit regulations and consumer protection rights are more likely to drive systemic change.

### Indebtedness in Georgia, a crippling issue threatening development gains

Even before the COVID-19 pandemic, indebtedness in Georgia was one of the drivers of poverty, homelessness, and inequality. Unfortunately, the economic



THE SCENE PROVIDES recommendations on negotiations with Lender/Bank, in regards to restructuring or deferment of a loan.



impacts of COVID-19 exacerbated these trends and highlighted the alarming vulnerability around debt that many were facing in the country. Similar to the early beginnings of the debt crisis in the Czech Republic, credit in Georgia is characterized by high-interest rates, low flexibility, and formal and unregulated sources. Debt is also encouraged by a highly permissive lending environment and a lack of consumer protections.

The project addressing indebtedness implemented by PIN was done in cooperation with an economic think-tank and lasted 9 months. The first component of the project was an evidence-based advocacy campaign that included a research report with policy recommendations and a public media campaign. The second component was dedicated to debt advisory support for which PIN developed a Debt Advisory Guide for CSOs and Local Action Groups (LAGs).

The most urgent findings and recommendations from the research report were in relation to the:

→ Need for drafting a personal bankruptcy law for individuals based on best practices from the EU to provide a path out of debt for those who face an unsalvageable situation.

### **i Lessons learned and suggestions for future programming**

- Always ensure debt advocacy claims have a solid research foundation based on evidence.
- Combine fieldwork with advocacy in order to stay in touch with the realities on the ground and strive for systemic change.
- Find creative ways of engaging credit providers in self-regulation.
- Nurture the relationship with the media as they will be key allies for disseminating your findings and bringing about behavioural change.
- Engage politicians across the political spectrum for a more effective advocacy approach.

→ Regulation of the use of arbitration and a ban on the arbitration law in debt litigation involving consumer loans.

→ Regulation and de-monopolization of pension loans.

In hindsight, the project allowed us to have a more comprehensive understanding of the debt environment in Georgia, while revealing a number of things specific to the Georgian context. While we managed to stimulate public debate among stakeholders, we didn't fully achieve tangible advocacy results concerning self-regulation among credit providers or legal regulation, as was in the case in the Czech Republic. A more ambitious follow-up project with a larger scope, timeframe, and funding could be in a better position

to affect real change in regard to credit regulation.

More in-house experience is needed to be more independent from external partners. This would entail taking a much more sustainable approach for PIN, for instance, when engaging in debt advisory support services as this component could be crucial for gaining access to practical information about the common issues that indebted people face. At the same time, the road to credit regulation can be a costly one reputation-wise, which is why it is important to find ways to take the lead on advocacy efforts from within PIN while consciously trying to avoid relying solely on external partners that might not be willing to lobby as "aggressively" with credit providers.



THIS SCENE URGES borrowers to contact a professional lawyer before signing a loan agreement.