ATTACHMENT AM-3

This is the attachment marked "**AM-3**" referred to in the witness statement of Adam William Mooney dated 9 July 2015.

Life Changing Loans at No Interest

March 2014

NILS
No Interest Loan Scheme
Good Shepherd Microfinance

An Outcomes Evaluation of Good Shepherd Microfinance's No Interest Loan Scheme (NILS)

Good Shepherd
Microfinance

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March 2014

Report prepared by the Centre for Social Impact for Good Shepherd Microfinance.

Foreword

All of us want to live full lives with positive relationships, a sense of purpose and emotional and economic resilience. To do this we need to define our own economic wellbeing, rather than being told by others what it should be.

Achieving wellbeing over time, using one's own capabilities and applying existing personal and community strengths, progressively builds a sense of hope, control, and confidence in participating in society. All Australians are better off when this happens, as is evident in this report about the impact of Good Shepherd Microfinance's No Interest Loan Scheme (NILS).

Good Shepherd Microfinance aims to reach and enable economic mobility for the large numbers of people who are deemed financially excluded in Australia – supporting them to move away from crisis and hardship towards stability and economic participation and ultimately resilience.

Drawing on knowledge gained over 33 years, and on our commitment to these aims, we have already reached over 125,000 people, and every day, across all state and territories, NILS reaches more financially excluded people. Our collective strength is best illustrated in the community-led principle of NILS. It is delivered locally by 257 accredited community providers in 609 locations by community development workers, including a large, vibrant, connected and highly capable volunteer base.

This report tells us that people on low incomes who are unable to access mainstream financial services are now achieving economic mobility through NILS. Receiving a NILS loan can boost a person's confidence, create feelings of inclusion and a sense of direction and hope. It is particularly pleasing to see broad recognition that the social and moral case for financial inclusion sits alongside a compelling and clear economic case. Economic mobility, through access to financial services and increased financial capability, directly drives economic growth. NILS plays a vital enabling role in this - the case for continued and extended investment is clear.

We are fortunate to work alongside wonderful volunteers and leading and diverse community organisations that deliver NILS, as well as all state governments and many investors of time and other resources. I acknowledge in particular, the leadership and commitment of NAB in investing in NILS for over ten years. NAB truly is a recognised global leader in microfinance through its $130 million commitment and shared goal, with Good Shepherd Microfinance, of reaching 1 million people on low incomes with innovative new programs over the next five years.

Finally, the Federal Government, under various governments over the past ten years has also actively supported the development, growth and impact of NILS. Thank you for this essential investment to enable all Australians to participate in the fullness of life with confidence, control and dignity.

Adam Mooney

Chief Executive Officer
Good Shepherd Microfinance

Good Shepherd Microfinance

Foreword

Behind the facts and figures in this report are the stories of Australians seeking a healthier relationship with money.

Many financially excluded Australians come to No Interest Loan Scheme (NILS) providers purely seeking a loan but, on top of that, they also receive advice that allows them to take control of their finances, providing them with confidence, relieving their stress and giving them a sense of feeling 'normal' again.

I commend the efforts of the 257 NILS providers across Australia who work tirelessly to provide the financial assistance and advice that help lift people out of difficult situations.

This report is full of stories that reveal the true impact of financial exclusion. We know that more than 17 per cent of the adult population, 3 million Australians, are financially excluded. Addressing this issue provides an enormous opportunity for the Australian economy.

This report shows that microfinance products such as NILS benefit more than only the client, helping to build prosperous communities. We all benefit from assisting more people to become economically active.

NAB is committed to helping all Australians have a healthy relationship with money, through delivering fairer banking products, but also through growing our microfinance program. We are proud to have partnered with Good Shepherd Microfinance since 2003 to deliver effective microfinance programs including NILS. We look forward to taking the findings in this report and continuing to work with Good Shepherd Microfinance to further improve and enhance the impact of NILS.

Michaela Healey

Group Executive
People, Communications and Governance
National Australia Bank

nab

Acknowledgements

National Australia Bank

National Australia Bank (NAB) is a financial services organisation with over 12.4 million customers and 42,000 people, operating more than 1,800 stores and service centres globally.

Our major financial services franchises in Australia are complemented by businesses in New Zealand, Asia, the United Kingdom and the United States. Each of our brands is uniquely positioned, but built on a common commitment to provide our customers with quality products and services, fair fees and charges, and relationships built on the principles of help, guidance and advice.

At NAB, Corporate Responsibility is about how what we do in our everyday jobs impacts the lives of Australians, their communities and the environment. It's about understanding the role our business plays in society - and using our unique position to address the issue of financial exclusion and help all Australians to have a healthy relationship with money.

Supported by the Australian Government Department of Social Services.

Contribution

The Centre for Social Impact research team would like to acknowledge the support and assistance from:

- Good Shepherd Microfinance who commissioned the research
- The staff from the NILS Provider network across Australia
- Mike Quarg, Community Banker, National Australia Bank
- Paul Handley, Data Manager, Good Shepherd Microfinance
- The NILS state coordinators:
    - Karen Denham, NILS State Coordinator, Queensland, Good Shepherd Microfinance
    - Share Dirou, Executive Officer, Western Australia NILS
    - Kathleen Hosie, NILS State Coordinator, Victoria, Good Shepherd Microfinance
    - Julie McMahon, NILS State Coordinator, Uniting Communities, South Australia
    - Samantha Simmons, NILS State Coordinator, Lismore Neighbourhood Centre, NSW
    - Rick Tipping, NILS State Coordinator, The NILS Network of Tasmania Inc.
    - Allison O'Connor, Manager Financial Services & Special Projects, Somerville, Northern Territory
- Chris Connolly, Research Associate, the Centre for Social Impact

Good Shepherd Microfinance would like to acknowledge the contribution of the Centre for Social Impact, the guidance and direction offered by Les Hems and Stephen Bennett, and the input of research team members. Particular thanks go to the diligence and statistical modelling by Meiko Georgouras.

The Research

The Centre for Social Impact, University of New South Wales

The Centre for Social Impact (CSI) creates beneficial social impact in Australia through teaching, research, measurement and the promotion of public debate. CSI is a partnership of the University of New South Wales, the University of Western Australia, Swinburne University of Technology and The University of Melbourne.

CENTRE for SOCIAL IMPACT

CSI Research Team[1]

• Les Hems:	Project Owner, CSI/Net Balance*
• Stephen Bennett:	Project Manager, CSI
• Jade Wong:	Researcher, CSI
• Meiko Georgouras:	Researcher, CSI
• Axelle Marjolin:	Researcher, CSI

*Les Hems departed CSI in January 2013 to commence a position as the Director of Research and Development for Tomorrow's Agenda Research Institute.

Research Reference Committee

• Randall Pieterse:	FMP Policy Section, Money Management Branch, Department of Social Services (formerly the Department of Families, Housing, Community Services and Indigenous Affairs)
• Dr Anton Mischewski:	General Manager, Public Affairs, Good Shepherd Microfinance
• Dr Gillian McILwain:	Manager, Research and Policy, Good Shepherd Microfinance
• Corinne Proske:	Head of Community Finance & Development, NAB
• Kate Stevens:	Senior Consultant, Community Finance & Development, NAB

1 Note: Authors made equal contributions and are listed in alphabetical order.

Executive Summary

Introduction

Good Shepherd Microfinance's No Interest Loan Scheme (NILS) offers no interest loans (up to $1,200) to people on low incomes for the purchase of essential household goods and services. Started in 1981 in Australia by the Good Shepherd Sisters, the NILS network now spans 609 locations through 257 community-based organisations across Australia.

In its 33 years of operation, NILS has reached over 125,000 people. Good Shepherd Microfinance (GSM) operates NILS through a highly valued partnership with the National Australia Bank (NAB) and the Australian Government Department of Social Services (DSS - formerly the Department of Families, Housing, Community Services and Indigenous Affairs), and is part of a broader range of microfinance products offered to support low-income individuals.

In 2012 the Centre for Social Impact (CSI) at the University of New South Wales was commissioned by Good Shepherd Microfinance to conduct the first national quantitative outcome evaluation of the NILS in Australia.

The evaluation aimed to identify changes in recipients' financial capabilities, economic, and social and health outcomes; and to assemble evidence to facilitate continuous improvement and stimulate innovation in the microfinance sector. The research involved a mixed methodology including qualitative stakeholder engagement with the NILS providers, a quantitative national survey of selected NILS recipients, and social and economic modelling.

Key Findings

The NILS Client

A NILS loan creates positive changes in clients' financial capabilities, and in their economic and social outcomes. As a result of a NILS loan:

- 82% of the 710 surveyed NILS clients experienced a net improvement in social and economic outcomes, with only 2% experiencing a net worsening of outcomes.
- The economic outcomes of more than a third of the surveyed clients improved due to increases in cost savings (33%) and financial independence (46%).
- 74% experienced an improvement in their social and health outcomes due to positive changes in their standard of living, stress and anxiety levels, confidence in achievements, general confidence and self-esteem, physical health, personal relationships and participation in society.
- The financial capabilities of 47% of surveyed clients improved: they followed a budget, paid bills on time, saved money, maintained emergency savings funds and comparison shopped more often.

NILS reaches vulnerable Australians and directly improves their lives.

The NILS clients surveyed were characteristic of vulnerable Australians, in that they were:

- three times more likely to be severely financially excluded (55%) than the average Australian (17%)
- predominantly (94%) living below the poverty line, were reliant on government allowance as their main source of income (92%), were unemployed or out of the labour force (85%) and had an average fortnightly income of $856.80
- more likely to be female (74%), live in a single parent family with dependents (43%) and rent either privately (38%) or through public housing (47%) and
- 6.5 times more likely to identify themselves as Aboriginal or Torres Strait Islander (17%) than the Australian average (2.5%).

NILS diverts clients away from predatory lenders such as fringe credit providers and goods rental services:

- 42% of surveyed clients who had used fringe credit providers in the past either stopped or decreased their use of them as a result of receiving a NILS loan.

Social and Economic Impact of a NILS Loan

For every dollar of value invested in a NILS loan, $1.59 worth of social and economic value is created.

- For the 710 NILS clients surveyed, a total value of $1,063,010 of economic and social benefit was generated over a three-year period at a cost of $668,000 – an average benefit of $1,497 per client.
- **$2.54** of social and economic value is achieved if only the value of actual financial costs (federal, state and other funding - $418,000) is considered.
- **$3.02** of social and economic value is generated for every dollar invested in NILS which relates to Government funding (actual costs of $352,000 – almost 2/3 of the value of investments).

The social and economic impact differs according to loan purpose and loan delivery structure.

- The rate of economic and social return varies for each NILS loan purpose type.
- The purchase of a fridge through NILS generated the greatest return ($2.45 per dollar invested).

The NILS Network and the Loan Process[2]

Although the NILS loan delivery process varies across states and providers, there are elements of best practice that could be utilised across the NILS network. There are also elements where there is potential for improvement.

The NILS loan delivery process contributed to some positive changes in respondents' outcomes:

- Respondents who received support services (such as financial counselling) together with their NILS loan, were more likely to experience positive financial capabilities, economic, and social and health outcomes than respondents who did not.
- Flexibility of the residential loan criteria appears to have no distinct impact on clients' improvement in outcomes.

NILS client outcomes appear to be impacted by the variations in how providers deliver the NILS loans.

- Surveyed clients who received a NILS loan from a centralised (state wide) organisation were less likely to receive positive outcomes than clients who received a NILS loan from a centralised (organisation wide), franchise or independent organisation.

Recommendations

The recommendations were formulated with a focus on improving and increasing four main elements: the number of NILS loans, the impact of the NILS loans, the governance structures & organisational capacity and performance and the administration of the NILS network.

The Expansion of NILS

The evaluation provides strong evidence for program expansion as most respondents (82%) experienced improvements in outcomes due to NILS. Despite the significant outcomes generated by a NILS loan, only 6% of eligible Australians access NILS. Strategies to access the remainder of financially excluded Australians need to be explored, trialled and implemented.

Recommendation 1: Explore and implement strategies to expand NILS and to increase the number of loans to meet unmet demand.

Recommendation 2: Refine the design of NILS to meet the needs of clients who may otherwise choose alternatives that lead to negative outcomes.

2 Please note that the process and network analysis were exploratory. The findings provide useful insights which require further research.

The Impact of NILS

In addition to increasing the reach of NILS, increasing the value created per loan is an essential part of expanding the impact of the NILS. Currently, NILS generates a positive rate of return of $1.59 for every dollar invested in the program.

To ensure that the rate of return increases, further exploration is needed to understand which NILS client is less likely to receive positive outcomes from NILS and to identify ways to improve their outcomes.

Recommendation 3: Investigate the client groups who are more likely to experience a worsening in outcomes.

Recommendation 4: Investigate methods to improve the financial capability of the NILS loan recipients.

Recommendation 5: Further research the premise that the use of goods rental services is as prevalent and predatory as fringe credit.

Recommendation 6: Explore the role of accessing credit in defining financial exclusion and the role of the NILS in providing a pathway to financial inclusion.

Recommendation 7: Increase awareness among the NILS clients of the risk of non-insurance and under-insurance.

Governance Structures, Organisational Capacity and Performance of NILS

The study revealed a variety of governance structures related to both state level NILS operations and to individual NILS providers. The variation in governance structures are tentatively linked to differential performance in terms of costs and outcomes achieved, but equally, the process evaluation and network analysis revealed numerous elements of best practice that could be shared across the NILS network.

The study also revealed the importance of support services in achieving positive outcomes for the NILS clients.

Recommendation 8: Identify and further explore the diversity of governance structures and links to positive outcomes, especially:

> **Recommendation 9: The role of centralised services and case management systems.**
>
> **Recommendation 10: The contribution of support services to delivering better outcomes.**
>
> **Recommendation 11: Invest in and conduct measurement of NILS quality standards and performance.**

Administration of the NILS Network

Data and information management is important to the functioning and performance monitoring of the NILS network. Ongoing high-quality monitoring and measurement across the NILS network is needed to identify where approaches are more or less successful.

Recommendation 12: Invest in and support the data collection process across the NILS network.

Summary outline of the report

- Chapters 1 and 2 provide the history and context of microfinance in Australia, the project scope and an overview of NILS and how it is delivered.
- The evaluation methodology is introduced in Chapter 3.
- The literature on financial exclusion is reviewed in Chapter 4, which focuses on the Australian context, the consequences of financial and credit exclusion and pathways to financial inclusion.
- An evaluation framework and theory of change, which links social, health and financial outcomes from NILS to the NILS product and delivery mechanism is presented in Chapter 5.
- A market and SWOT analysis are used in Chapter 6 to assess the market and competitive landscape for NILS in Australia.
- The quantitative (national NILS client survey) and qualitative (interviews with the NILS providers) data is analysed in Chapter 7. This includes key survey findings and the exploratory process and network analysis.
- The social and economic impact model is presented in Chapter 8.
- The conclusion and recommendations are discussed in Chapter 9.

Contents

TABLES

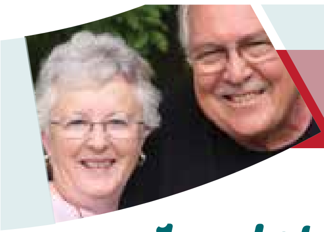
FIGURES

Abbreviations

ACOSS	Australian Council of Social Service
ABS	Australian Bureau of Statistics
CSI	Centre for Social Impact
DSS	Department of Social Services (formerly the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA).
GSM	Good Shepherd Microfinance
HYSR	Half Yearly Statistical Report
HCC	Healthcare card
HESS	Home Energy Saving Scheme
HUGS	Hardship Utility Grant Scheme (WA)
IDA	Individual Development Asset Program (US)
LAC	Loan Assessment Committee
NAB	National Australia Bank
NILS	No Interest Loan Scheme
PCC	Pensioner concession card
SROI	Social return on investment
UNSW	University of New South Wales
HREC	Human Research Ethics Committee (UNSW)

Glossary of terms

Microfinance	Microfinance is a tool used in the field of economic and social development in both developing and developed countries, which helps alleviate the consequences of poverty and enables economic mobility for low-income individuals. In the Australian context, microfinance is advocated as a means to allay the negative consequences of financial exclusion.
Specialist NILS Program	A NILS program that caters for loan applicants from specific target groups such as individuals who have experienced domestic violence.
Generalist NILS Program	A NILS program that caters for the broader Australian population.
NILS Governance structure	How a NILS provider structures and organises their operations and processes
NILS Delivery system	Refers to the level of support the NILS providers receive from a single, statewide organisation, including the support provided by the NILS state coordinator. Each state adopts a different delivery system.
Financial exclusion	In the Australian context, financial exclusion applies to individuals, groups or organisations and is broadly defined as the lack of access to "appropriate and affordable" financial products and services. The most widely used definition of financial exclusion in Australia is provided by Connolly et al (2011), which defines it as a *"Lack [of] access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit".*
Financial capability	An individual's ability to keep track of finances, plan ahead, choose financial products, stay informed and their perceived level of financial control (ANZ, 2011).
Financial capacity	The stock of funds that allows the individual to fully engage in the financial market.
Risky NILS applicants	Are those NILS loan applicants who are more likely to incur financial hardship from taking out a NILS loan due to its repayments and who are subsequently more likely to default on the loan.
Payday lending/ fringe lending	Refers to loan practices of credit providers, which include the provision of loans for a short period with a high interest rate and high fees (Banks, Marston, Karger, & Russell, 2012)
Rent-to-own providers	Credit providers that offer credit products in the form of rental contracts for goods (often white goods) for a specific period of time.
Economic mobility	Movement along stages of a financial inclusion continuum.



1. Introduction

This study was undertaken by the Centre for Social Impact (CSI) on behalf of Good Shepherd Microfinance (GSM) to evaluate the No Interest Loan Scheme (NILS) and is the first comprehensive nationwide study on this scheme in the 32-year history of its delivery in Australia.

1.1 Context

Australia is called the “lucky country”, offering wealth and opportunities to the majority of its people. In spite of this, a sizeable portion of Australians do not share in this wealth – 2,265,000 individuals or 12.8 per cent of all Australians lived under the poverty line in 2010 and 3,123,519 individuals or 17.7 per cent of all Australians were either fully excluded or severely excluded from financial services in 2012 (ACOSS, 2012; Connolly, 2013). Australians who face financial hardship and financial exclusion are more likely to seek emergency relief, go without meals or basic necessities, or sell or pawn their possessions (ABS, 2011; Australia, 2012). As the level of poverty has remained the same over recent years, the potential for economic mobility is most likely limited for many Australians. Section 4.1 provides further insights into the scale and nature of these problems in Australia.

Financial inclusion is advocated as a means to allay the consequences of financial hardship in Australia (Australian Government Treasury, 2012). The financial inclusion agenda was borne out of the increasing use of short-term, small-amount loans provided by fringe providers as they often adopt predatory lending practices and provide loans that carry high interest rates and hidden charges (Banks, Marston, Karger, & Russell, 2012; Marston & Shevellar, 2010; Rivlin, 2011). Though fringe loans are considered the least affordable and inappropriate for low-income, financially excluded individuals, they are more likely to use them to buffer against financial shocks or unexpected expenses (Burkett & Sheehan, 2009; Connolly, Georgouras, Hems, & Wolfson, 2011). Sections 4.2 and 4.3 contain a discussion of the role of financial inclusion in addressing the consequences of poverty and providing a passage to economic mobility.

Microfinance is a tool that is used in the field of economic and social development in both developing and developed countries, which helps alleviate the consequences of poverty and enables economic mobility for individuals living on low incomes. In the Australian context, microfinance is advocated as a means to allay the negative consequences of financial exclusion and is defined as:

> *“A set of tools, approaches and strategies addressing the needs of people who are financially excluded... Microfinance seeks to provide fair, safe and ethical financial services for people who, because of their circumstances, are not able to access mainstream financial services. Its purpose is to alleviate and eliminate poverty” (Burkett & Sheehan, 2009, p. 2).*

Section 4.4 contains further insight into the role of microfinance in Australia.

1.2 The No Interest Loan Scheme (NILS)

NILS is the largest microfinance program in Australia. NILS offers small loans, typically worth up to $1,200 (but can be up to $1,800), to low-income individuals to purchase essential household goods or services. The loan carries no interest or fees.

The loans are currently delivered through 609 locations throughout Australia and have reached more than 125,000 individuals who are typically excluded from accessing credit from mainstream financial institutions.

Based on Good Shepherd Microfinance’s 2012-2013 annual report:

- NILS loans were delivered by 257 accredited programs (providers)
- 22,349 NILS loans were approved with a cumulative value of $20.8 million
- 92% of NILS borrowers live below the poverty line
- 22% of borrowers were of Aboriginal or Torres Strait Islander people
- Loan volume increased by 473.8% between 2006 and 2013
- NILS loan recipients can hold only one loan at any one time, but are able to obtain additional loans when they complete their NILS repayments[3].

NILS has been operating since 1981 and is currently supported by a valued, trusted partnership between Good Shepherd Microfinance, National Australia Bank (NAB) and the Department of Social Services (formerly FaHCSIA). NILS is also supported by a range of other government and non-government agencies such as the New South Wales Office of Fair Trading, the Queensland Department of Communities, the Department for Child Protection Western Australia, the Department of Human Services Victoria, and in Tasmania, state government, Aurora Energy and Federal Group, Tasmania.

3 The proportion of NILS recipients who have received more than one NILS loan is unknown.

1.3 Project scope

In November 2012, the Centre for Social Impact (CSI) at the University of New South Wales (UNSW) was commissioned by GSM to conduct the first comprehensive, nationwide study of the NILS that evaluated and quantified the effects of a NILS loan on the lives of its recipients.

Through the outcome evaluation, CSI sought to identify changes in recipients' financial capabilities, economic, and social and health outcomes as a result of receiving a NILS loan. CSI also assembled evidence to generate debate, facilitate continuous improvement and stimulate innovation in the microfinance sector.

Since it was the first time that such a large-scale study and outcome evaluation was conducted, the project adopted different methodologies, some of which were exploratory. These are explained in detail in Chapter 3.

2. The No Interest Loan Scheme (NILS)

This chapter contains a description of the NILS (Section 2.1), how the loans are delivered (Section 2.2), how the NILS providers are organised (Section 2.3) and general statistics (Section 2.4). Since the NILS is a community-based scheme, providers are able to tailor the design and implementation and can therefore operate differently. These differences are acknowledged throughout.

2.1 What is NILS?

The basic components of NILS including what it is, who it is for, how it works and what it can be used for, are presented in Table 2-1.

TABLE 2-1 EXPLANATION OF THE NILS

What is a NILS loan?

- A loan that is typically worth up to $1,200.
- The loan carries no interest or additional fees.
- Repayments are typically made every fortnight over a 12 to 18 month period.
- The maximum loan amount can differ across providers. Smaller community organisations typically offer smaller loans, but there is flexibility to offer loans up to $1,800.
- The maximum loan amount can also differ across client types. For instance, some NILS organisations place a lower cap on the loan amount that individuals on NewStart Allowance can borrow.

Who is a NILS loan for?

To obtain a NILS loan, applicants must fulfil an eligibility criteria. The NILS loan applicants must generally fulfil the following criteria:

- Income: Applicants must hold a concession card (Health Care Card or Pension Card) or live on a low income.
- Residential: Applicants must live in the same residence for at least 3-6 months.
- Willingness to repay the loan: Applicants must show that they are managing existing debt.
- Capacity to repay the loan: Applicants must show that they will have a fortnightly budget surplus once fortnightly expenses, including NILS repayments, have been accounted for.

How does the NILS loan work?

- NILS is considered “circular community credit” where the repayment of one NILS loan provides funds for another NILS loan to be financed in the community.
- The loan can be a pathway to the StepUP loan and AddsUP saving programs, which are other microfinance programs delivered by GSM, NAB, and DSS.
- The loan is typically provided to recipients as an EFT or in the form of a bank cheque, which is made out to the supplier of the good and/or service.

What can a NILS loan be used for?

- The loan is typically used to purchase essential household goods or services or items that improve recipients’ quality of life.
- In practice, what is considered “essential” is assessed on a case-by-case basis.

2.2 How are the NILS loans delivered?

NILS is delivered through two types of programs: the generalist program and specific purpose NILS. The latter caters for applicants from specific target groups such as individuals who have experienced domestic violence. The generalist program caters for the broader population. NAB and DSS contribute funding to microfinance programs. The typical NILS delivery process, from initial enquiry to loan repayments, is presented diagrammatically in Figure 2 1. Table 2-2 contains a description of what typically occurs at each stage of the loan delivery process.

It also contains examples from the study's exploratory process evaluation and network analysis of how providers can tailor the loan delivery process to suit their organisation's and the NILS recipients' needs. Table 2 1 supplements Figure 2 1.

Additionally, as the NILS loan is a non-interest bearing loan it does not fall within the same regulatory framework as other mainstream credit products. This increased flexibility helps to explain some of the variance in delivery and eligibility process across provider organisations.

FIGURE 2-1: THE NILS LOAN DELIVERY PROCESS

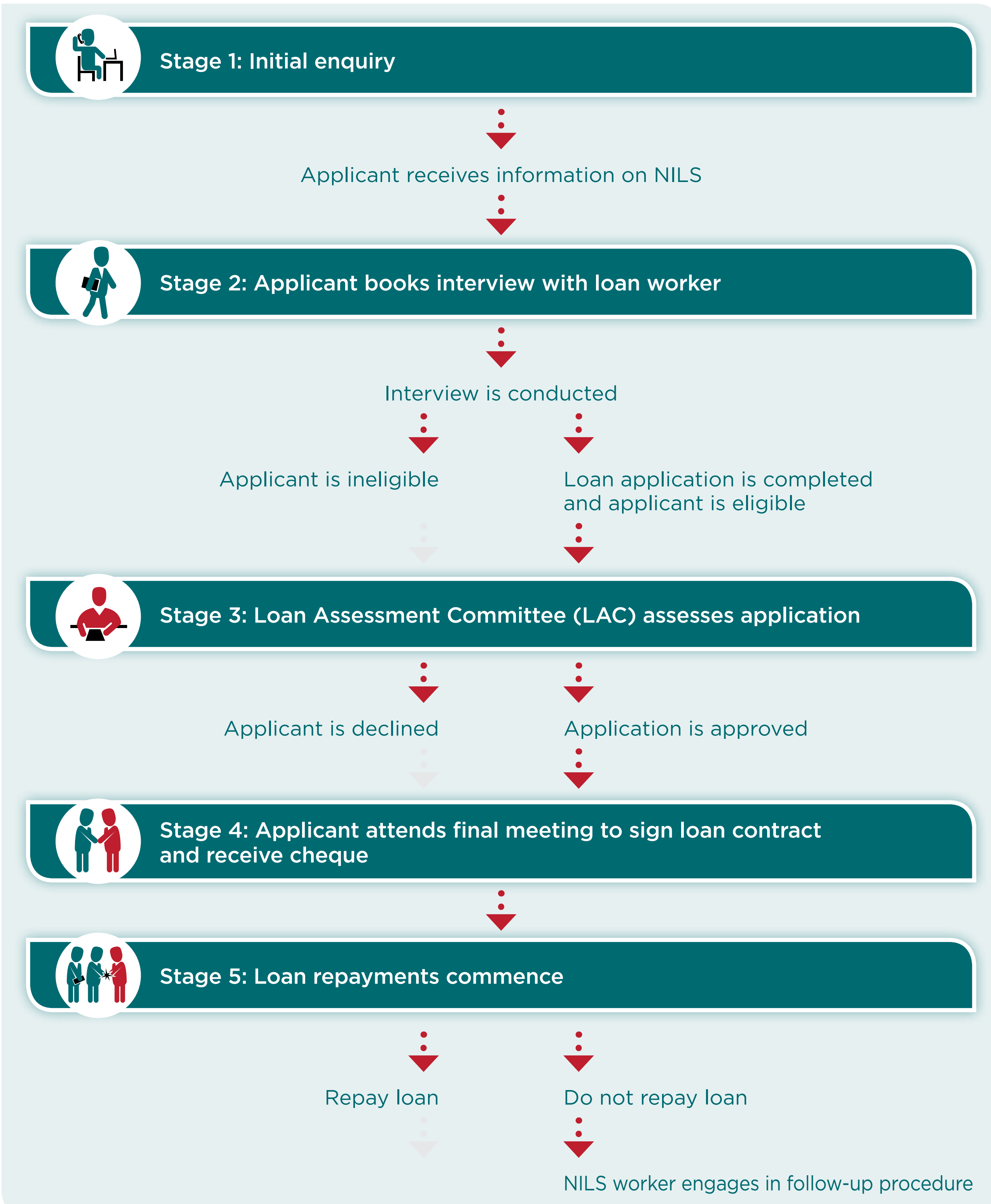


TABLE 2-2: DESCRIPTION OF THE NILS LOAN DELIVERY PROCESS

Stage	Typical loan delivery process	E.g. of differences across providers
STAGE 1 **Initial NILS loan enquiry**	The applicant contacts a NILS provider to enquire about the loan. A NILS worker sends the applicant information on the NILS loan, such as: • What NILS is, including the items the NILS loan can and cannot be used for; • Who is eligible for the NILS loan; and • What the NILS application process entails, including a description of the documents that must be brought to the loan interview.	On initial contact, some NILS providers screen potential applicants for eligibility. The NILS loan applicant typically will not be sent information on NILS if ineligible based on the initial screening. Some providers refer applicants to other relevant internal or external services, such as emergency relief or second-hand stores.
STAGE 2 **Book and conduct interview with the NILS loan worker**	Once an applicant feels ready to apply for a NILS loan, they book an interview with a NILS worker. The face-to-face interview is conducted to ensure the loan application form is complete. The interview includes a “financial conversation” and a household budget task where the applicant documents their fortnightly income and expenses with bank and Centrelink statements to demonstrate their willingness and capacity to repay the loan. The NILS applicant usually must obtain quotes for the item or service that they intend on purchasing with the NILS loan.	Some providers: • Offer a telephone interview if the applicant cannot attend a face-to-face interview. • Deliver NILS concurrently with other services such as financial counselling. • Identify applicants who would benefit from additional assistance such as the Home Energy Saving Scheme (HESS) or the Hardship Utility Grant Scheme (HUGS) in Western Australia. • Identify discrepancies in Centrelink payments.
STAGE 3 **Loan Assessment Committee assesses application**	The Loan Assessment Committee (LAC) meets to approve or decline the loan application based on the eligibility criteria. The applicant is informed of the loan outcome. For declined applications, the applicant is informed why the loan was not approved and is referred to supporting services.	In Western Australia, the NILS Regional Coordinator can approve or reject loan applications that comply with set criteria. The Loan Assessment Committee assesses loan applications that fall outside the set criteria.
STAGE 4 **Final meeting**	The approved applicant revisits the NILS worker to sign a loan contract. They receive a cheque, which is written out to the retailer of the good or service. The goods are purchased. In some cases the money can be made available through EFT.	• The cheque (or EFT payment) can be sent directly to the retailer of the good or service. • Some recipients are sent the cheque via mail and so do not have a final meeting.
STAGE 5 **Loan repayments**	The NILS recipient makes fortnightly repayments. When a fortnightly repayment is missed, the NILS worker engages in a follow-up procedure. This usually entails contacting the recipient when: • The first payment is missed, • After two months of no contact, and • After four months of no contact. If payments cease for more than 12 months, the NILS loan is written-off. Unlike mainstream credit products, the recipient’s credit record is not impacted when a loan is written-off.	The arrears procedure varies across provider organisations and can even vary within provider organisations. Some providers use SMS text to keep in touch with recipients, e.g., they might use SMS text reminders to notify recipients of a missed payment.

The NILS loan is not a form of emergency relief and cannot be used to fund debt repayments[4], fines, bills or non-essential items or services.

Section 7.4 presents further insights gained from an exploratory process evaluation and network analysis.

4 A loan program relating to existing debt – Debt Deduct – is currently being piloted in Victoria.

2.3 How are the NILS providers organised?

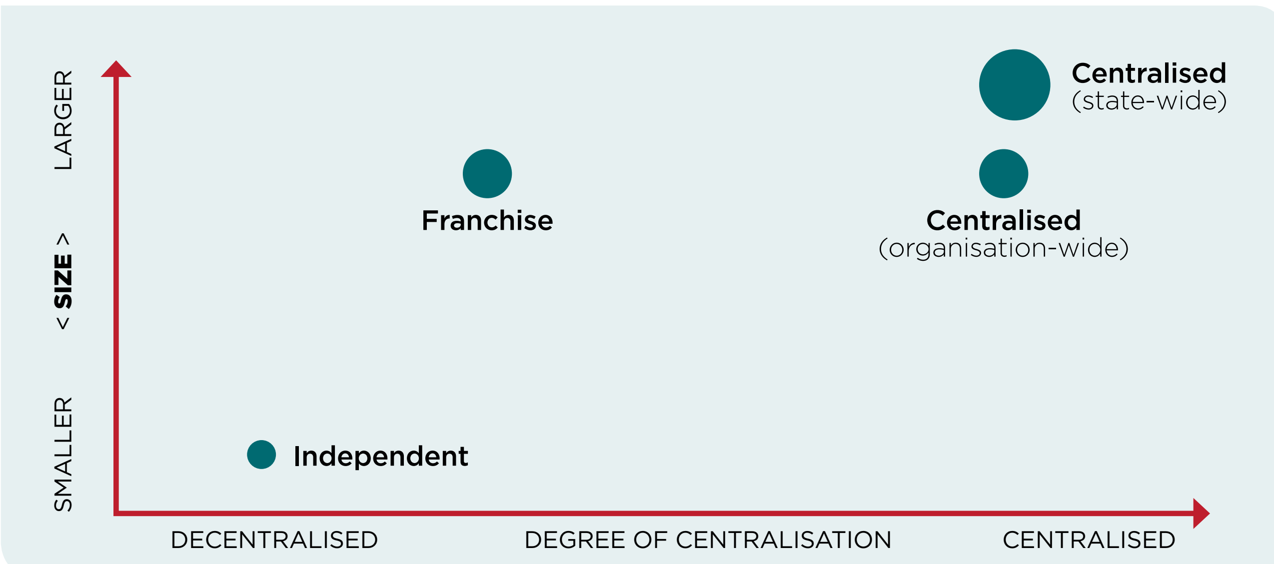
This section provides a summary of the distinct governance structures and delivery systems across the NILS network. The NILS providers are organised in different ways - they adopt a variety of governance structures and delivery systems and operate within stylised network structures. Section 7.4 and Chapter 8 further examine these differences through the exploratory process evaluation and network analysis and the social and economic impact model respectively.

2.3.1 Governance structures

A governance structure describes how a NILS provider can organise their operations and processes. Three features that distinguish the types of governance structure are: whether the provider is part of a larger organisation; the location of the Loan Assessment Committee; and the geographical scope of the provider's organisation. The governance structure classifications are based on the insights gained from the exploratory process evaluation and network analysis.

Figure 2-2 diagrammatically shows the four types of the NILS governance structures: independent, franchise, centralised (organisation-wide) and centralised (state-wide).

FIGURE 2-2: THE NILS GOVERNANCE STRUCTURES BY CENTRALISATION AND SIZE



Most NILS providers are small, independent, community-based not-for-profits. A small number of the NILS providers are large, statewide or organisation-wide not-for-profits that deliver NILS loans across many geographical locations (refer to the y-axis).

The degree of centralisation varies among the larger NILS providers (refer to the x-axis). Providers that adopt a more centralised model operate some processes such as loan approvals, in a head office and devolve other processes such as conducting loan interviews, to the NILS branches based in the community. Other large NILS providers operate a franchise model with little or no centralised processes.

The different governance structures are further explained in Figure 2-3[5]. The nodes (black circles) represent different NILS providers. The larger node within the centralised (organisation-wide; state-wide) structures represents a central organisation or state office from which community-based NILS providers are connected.

5 Please note that the governance structures presented are not exhaustive. There are many structures within the NILS network – the diagrams only represent the classifications identified through the exploratory process and network analyses.

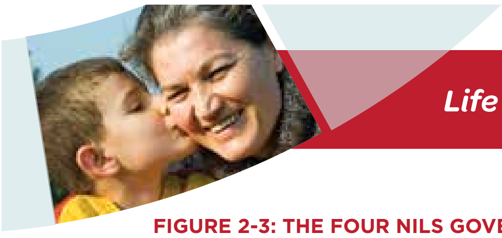
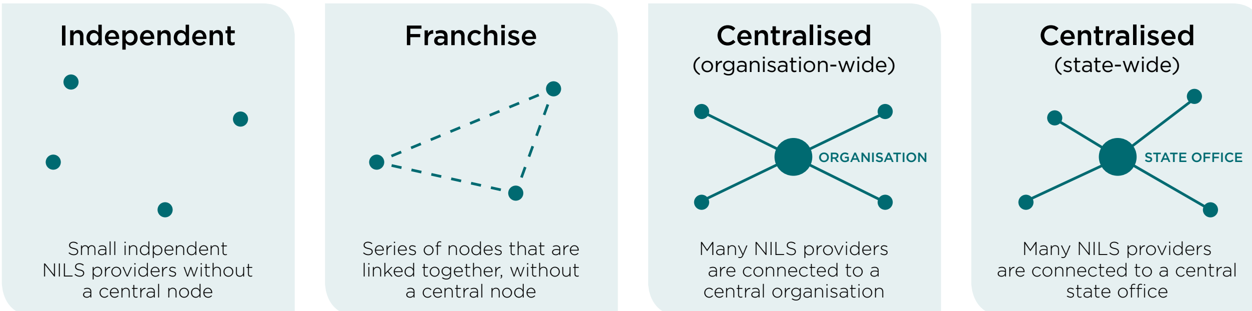


FIGURE 2-3: THE FOUR NILS GOVERNANCE STRUCTURES



An **Independent** NILS provider is generally a small community based organisation, which manages its own LAC process, administrative and support functions.

A **Franchise** NILS provider may have tenuous ties with a centralised node or other affiliated NILS providers, maintaining over key activities such as LAC processes and data management, but would still operate within loose guidelines that are provided by a centralised node.

A **Centralised (organisation-wide)** structure is often found within a large community organisation with a large geographic scope (potentially interstate or national coverage) with several NILS delivery nodes. There is typically a central management office that is responsible for the LAC process, administrative support and the NILS reporting functions.

A **centralised (state-wide)** structure is a coordinating governance structure which provides support for all the NILS providers within a state and undertakes key functions such as approving loans, marketing and training of microfinance workers and provision of advice and compliance reporting.

2.3.2 The Delivery Systems of the NILS

A delivery system refers to the level of support the NILS providers receive from a single, state-wide organisation, including the support provided by the NILS state coordinator (refer to Figure 2-4). Each state adopts a different delivery system.

TABLE 2-3: THE NILS DELIVERY SYSTEMS

	Does a single, state-wide organisation...			
	Manage the loan book?	Promote NILS in the state?	Channel state government and some private funding?	Support frontline providers?
Centralised	YES	YES	YES	YES
Partially centralised	NO	YES	YES	YES
Decentralised	NO	NO	To an extent	NO

A Centralised delivery system is where a central office manages the loan book, promotes the NILS in the state, channels state government and private funding and provides direct support to frontline NILS providers. Tasmania and Western Australia are examples of a centralised system with a state based governance structure.

A Partially Centralised delivery system is where individual providers receive less support from the single, statewide organisation because the providers within the state manage their own loan book. New South Wales has adopted this system.

In a Decentralised system (Victoria, Queensland, South Australia), the NILS providers may receive little to no support from a single, state-wide organisation[6].

6 ACT and NT were not considered.

2.3.3 Supporting networks within NILS

The NILS providers can offer additional, supporting services to the NILS recipients (i.e. "supporting network"). These "networks" are shown in Figure 2-4. The diagrams represent the two extremes in network structures.

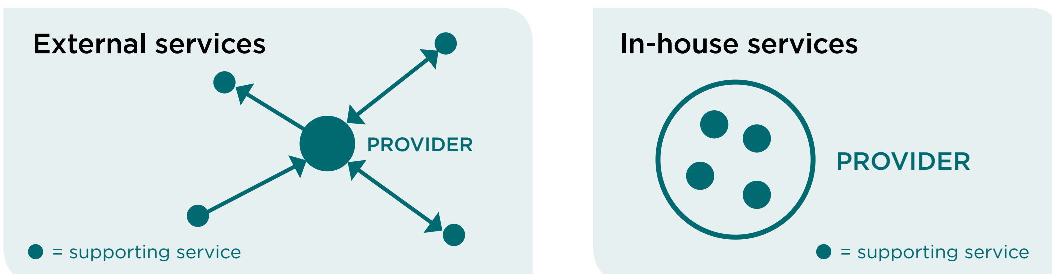
In the "External services" model, the NILS provider is represented by the large, closed circle and receives referrals from and sends referrals to supporting organisations, such as financial counselling, housing assistance or food vouchers. The NILS Providers that fall under the "external services" model often offer a limited range of services and so will build relationships with other organisations to signpost and facilitate access to services that their own organisation does not offer.

The large, open circle represents the NILS providers from the "In-house services" model. Often they offer a wider range of supporting services in-house and so can provide holistic or wrap-around services for the NILS recipients.

Examples of the additional services and formal and informal links include:

- Independent organisations that deliver the NILS loans alongside other community services.
- Larger devolved and centralised (organisation-wide) NILS providers may offer in-house services to the NILS recipients.

FIGURE 2-4: SUPPORTING NETWORKS



2.4 General NILS statistics

Analysis of the GSM Half Yearly Statistical Report (HYSR) revealed there were 22,703 active loans with a cumulative value of $13.2 million in the July to December 2012 period. Table 2-4 contains the number of active loans, loans given, written-off, currently not paying and completed loans. These data are separated into the general and specialist programs during the July to December 2012 period. Approximately 10% of all the NILS loans were from specialist programs.

TABLE 2-4: LOAN DETAILS: GENERALIST AND SPECIALIST NILS PROGRAMS

	Active loans	No loans given	Written-off	Currently not paying	Completed loans
General	20492	9897	515	1973	7488
Specialist	2093	1009	53	255	603
Total	**22585**	**10906**	**568**	**2228**	**8091**

Table 2-5 contains basic demographic characteristics of recipients who obtained a NILS loan during the July to December 2012 period separated into the general and specialist programs. Most NILS loan recipients were female between the ages of 25 and 54, received some form of government allowance and were either renting privately or publicly.

TABLE 2-5: NILS LOAN RECIPIENT CHARACTERISTICS: GENERALIST AND SPECIALIST NILS PROGRAMS

		Active loans	No loans given	Written-off
Gender	Male	32	28	
	Female	68	72	
Age	18-24	11	12	
	25-54	83	73	
	55+	6	15	
Income	Disability	34	23	
	NewStart	16	19	
	Age Pension	6	5	
	Single parent	25	27	
	Other	18	25	
	None	1	1	
Tenancy type	Private renting	37	44	
	Public renting	46	40	
	Own home	6	6	
	Other	11	10	
Background	Australian - non-ATSI	66	48	
	Australian - ATSI	21	28	
	Other	13	24	

3. Research Methodology

The CSI developed a mixed-methodology to conduct an outcome evaluation on the NILS. The outcome evaluation sought to determine whether, and to what extent, the NILS affected the lives of its recipients by identifying and quantifying changes in their financial capabilities, economic, and social and health outcomes, as a result of receiving a NILS loan.

To conduct the outcome evaluation, CSI analysed different data sources and used qualitative stakeholder engagement, a quantitative client survey and social and economic modelling. As this was the first national quantitative evaluation of the NILS, the methodology was largely exploratory.

Table 3-1 outlines the five-stage research process.

TABLE 3-1: THE RESEARCH METHODOLOGY

Stage 1:	**Develop the theory of change and outcome framework**
	• Review the literature and case studies • Conduct workshop with stakeholders (including Good Shepherd Microfinance and NILS State Coordinators)
Stage 2:	**Conduct a market analysis**
	• Calculate the demand for a NILS loan • Compare the NILS to alternative credit products
Stage 3:	**Collect primary data**
	• Analyse the NILS Half Yearly Statistical Report (HYSR) • Deliver a quantitative survey to 710 NILS clients • Engage with NILS providers and sites
Stage 4:	**Create the process and network analysis**
	• Engage with frontline NILS workers • Analyse providers' "Policies and Procedures" manuals
Stage 5:	**Create the process and network analysis**
	• Develop model blending cost-benefit analysis, program evaluation and social return on investment • Measure the economic and social impact created by a NILS loan

3.1 Stage 1: Develop the theory of change and outcome framework

To develop a theory of change and outcome framework:

- The literature and the NILS case studies (collected as part of the NILS HYS) were reviewed to understand the nature and consequences of financial exclusion in Australia and the role of microfinance in addressing financial exclusion.
- CSI conducted a workshop with stakeholders, (including representatives from GSM and the NILS State Coordinators) to gain their perspective on the effect of the NILS loans on recipients' lives. The workshop helped clarify the progression from activities (providing the NILS loan) to outcomes (financial capabilities economic and social and health outcomes).

This process helped identify common outcomes that were experienced by the NILS recipients and to clarify the relationship between recipient outcomes, loan purpose and the loan delivery process. This informed the development of the theory of change and outcome framework (Chapter 5).

3.2 Stage 2: Conduct Market Analysis

A market analysis was conducted to quantify the demand for NILS loans in Australia in 2013 and the extent to which the demand was being met. The market size was determined in three stages; 1) Eligibility, 2) Affordability and 3) Demand for an item that can be purchased with a NILS loan. These stages are outlined in Table 3-2 below.

TABLE 3-2: MARKET ANALYSIS METHODOLOGY

Stage	Description
1. Eligibility	Identified the proportion of the Australian population eligible for a NILS loan, namely, those who hold a healthcare card (HCC) or pensioner concession card (PCC). The 2009-10 Australian Bureau of Statistics (ABS) figures on the number of pension or allowance recipients, by household type, was extrapolated to 2013, to determine the number of eligible Australians for a NILS loan (ABS, 2011).
2. Affordability	Households who were identified as eligible in stage 1 were separated into those who could afford and those who could not afford to make fortnightly repayments on a NILS loan. Households with a fortnightly surplus (income minus expenditure) greater than or equal to the average NILS repayment amount of $11.92 per fortnight were able to afford the loan.* *Refer to Appendix A for calculations.
3. Demand for essential household item that can be purchased with a NILS loan	Connolly et al. (2011) found that approximately 27% of financially excluded respondents were unable to replace faulty whitegoods, purchase a car or car registration, or pay for car servicing or repairs during the 12 months prior to the survey. This figure was used as a proxy for the demand for an essential household item that can be purchased with a NILS loan within a single year.

3.3 Stage 3: Collect primary data

CSI conducted a telephone survey of the NILS loan recipients across Australia[7]. The survey was designed to capture the demographics of the recipients and to understand and measure changes in outcomes that occurred due to the receipt of the NILS loan. Only active loan recipients were invited to participate in the survey.

The survey sample frame for the telephone survey was developed using the July to December 2012 NILS Half Yearly Statistical Report (HYSR), a report collected biannually by GSM. The 2012 HYSR collected information on the 294[8] NILS accredited programs across Australia, including their loan summary statistics and aggregated recipient characteristics. The sample frame was designed to achieve representation across the NILS network, including both generalist and specific purpose NILS programs and the different recipient groups.

Thirty NILS providers were identified and invited to participate in the survey. Table 3–3 indicates that the 13 providers who agreed to participate spanned 34 NILS sites, providing considerable coverage of the NILS network. Participating NILS providers were responsible for recruiting survey participants from their client population through either an SMS text or letter. Over 3610 invitation messages were distributed, of which 982 (27%) replied positively. From this pool, 710 NILS loan recipients were contacted by an external market research organisation to complete the survey. Survey respondents were given a $20 grocery voucher for their time.

TABLE 3-3 NILS SURVEY RECRUITMENT

HYSR Providers	**243**
Invited Providers	**30**
Participated Providers	**13**
Sent SMS	**3610**
Positive reply	**982**
Completed surveys	**710**

7 Appendix B contains the survey instrument.
8 This information was obtained from data provided to GSM by the NILS providers. Generalist and specialist programs run by the same organisation were counted as separate providers.

3.4 Stage 4: Create and conduct a process and network analysis

An exploratory process evaluation and network analysis was conducted to understand how the loan delivery process (i.e. "organisation" level) and network of services recipients received (i.e. "network" level) influenced outcomes. To achieve this:

- Four NILS governance structures (centralised, partially centralised, franchise and independent) were selected to reflect some of the diversity within the NILS.
- Policies and procedures manuals were obtained and analysed to understand how the NILS loans are delivered through the four governance structures.
- Exploratory interviews were conducted with nine NILS worker's from the four government structures, to gain a high level understanding of the NILS process from their perspectives.

3.5 Stage 5: Create the social and economic impact model

A social and economic impact model was developed to quantify the social and economic value created by a NILS loan for the 710 survey respondents. The model blended the approaches of cost-benefit analysis, program evaluation and social return on investment (SROI). The outcomes were projected over three years[9] to create the social return on investment ratio.[10] The model was developed in three steps.

Step 1: Identification and quantification of outcomes and inputs

The outcomes framework identified and valued the **inputs** (costs) associated with delivering a NILS loan and the **outcomes** experienced by the NILS respondents.

In particular:

- Key stakeholders supporting the delivery of NILS (e.g. NILS providers, DSS, NAB, state governments and volunteers) were identified. Each stakeholder's cost of delivering the NILS was measured and valued.
- Based on the survey responses, material outcomes were identified and assigned a monetary value. The materiality of outcomes was assessed on a case-by-case basis and considered factors such as the total value of the outcome experienced by the NILS respondents and the number of respondents who experienced the outcome.

Outcomes within the model were valued in two ways:

- Tangible economic benefits for each stakeholder group were valued according to the costs avoided and/or increases in income or revenue.
- Proxy values were assigned to social and health outcomes to determine their monetary value.

Step 2: Refinement of the model

As part of refining the model, survey respondents were segmented by:

1. The item purchased - to reflect variations in outcomes associated with different loan purposes. Recipients who purchased a fridge, for instance, typically only experience cost savings on food bills.
2. The NILS delivery structure (centralised, partially centralised and distributed) - to capture the different types of stakeholders who support the delivery of a NILS loan and their associated inputs.

Once the model was segmented, "deadweight" (what would have happened without a NILS loan) and "drop-off" (reduction in the value of an outcome or attribution of that outcome to a NILS loan over the timeframe of the model) were applied.

Step 3: Sensitivity testing:

Sensitivity testing was conducted to test the robustness of the model. Each figure (cell) within the model was evaluated to test whether changes in parameters, from best-to-worst case scenarios, made a significant impact on the final results. Any figure that generated a shift in the rate of return above 9.9%, when changed, was adjusted to be more conservative. Figures that had an impact of 4.9% to 9.9% on the final results were reassessed.

9 The maximum length of time needed to be confident in the value of the outcome attributed to the NILS loan. Further information on the outcome timeframes can be found in the model's supporting documentation.

10 The model captured changes in regulations over the project period (for example, changes in the responsible lending regulations) to provide more accurate results.

3.6 Research Ethics

Ethical approval to undertake this study was granted from the University of New South Wales' Human Research Ethics Committee (HREC) (Approval HC13042). The Good Shepherd Youth and Family Service ethics panel ratified this approval.

3.7 Research Limitations

The limitations with the approach and data were:

1. The quality of the data captured in the NILS HYSR, covering the July-December 2012 period, whilst providing useful administrative and descriptive data, was not robust enough to stratify the sample by the key characteristics identified in the literature and evidence review. This presented a challenge when developing the sample frame for the survey. CSI have provided GSM with a series of recommendations to improve the data quality within the system.
2. Due to the complexity of the NILS network and lack of a central database of the NILS recipients, the NILS providers were required to recruit their own recipients to the study. We were therefore unable to include providers from the Northern Territory and the ACT and smaller providers.
3. Self-reported behaviour captured in the survey might be different from actual behaviour. This is a limitation of all survey methodology.
4. CSI was unable to obtain a traditional counterfactual to compare individuals who received a NILS loan to individuals who did not. To mitigate this, respondents were asked to what extent the NILS loan contributed to changes in outcomes and to what extent other factors contributed to the changes.
5. The aim of the process evaluation and network analysis was to identify factors within the loan delivery process that corresponded to improvements in outcomes. Since other variables that could contribute to improvements in outcomes could not be controlled for, only correlations were analysed and reported, not causality.

4. Literature Review

This section describes the review of the literature on financial exclusion (Section 4.1) with a particular focus on why financial inclusion, specifically access to credit, is important to the wellbeing of individuals (Section 4.2). The theoretical pathways to financial inclusion are also considered (Section 4.3), including whether NILS can provide a pathway for the broader outcomes financial inclusion helps to achieve (Section 4.4).

4.1 Financial exclusion in Australia

The term "financial exclusion" was first developed in 1993 by geographers who identified that bank branch closures geographically excluded individuals from accessing financial services (Leyshon & Thrift, 1995). Kempson and Whyley (1999) built upon this definition to include individuals who cannot access mainstream financial products – namely a transaction account, savings, credit and insurance – due to reasons including, but not limited to, geographical exclusion. One cause of financial exclusion, for example, is cost exclusion, which occurs when the individual does not have the sufficient funds to purchase financial products. The definition of financial exclusion has since evolved to denote exclusion from *fair* and *affordable* financial products (Burkett & Sheehan, 2009), and whether the individual was *involuntarily* excluded from mainstream financial products (as opposed to *voluntarily*) (Affairs & Fund, 2006).

In the Australian context, financial exclusion applies to individuals, groups or organisations (Associates, 2004; Burkett & Drew, 2008), and is broadly defined as the lack of access to "appropriate and affordable" financial products and services (Burkett & Sheehan, 2009; Connolly et al., 2011). The most widely used definition of financial exclusion in Australia is provided by Connolly et al. (2011: p.6):

> *"A lack [of] access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit".*

Using this product-based definition, 17.7% of the adult Australian population or 3,123, 519 Australians in 2012 were either fully or severely excluded, as they did not own, or only owned, one of the three key financial products specified in the definition, namely a transaction account, general insurance and a credit card[11].

4.2 Consequences of financial exclusion, and particularly credit exclusion

Poverty in Australia is often described in terms of relative income. Specifically, an individual lives under the poverty line if s/he earns an income that is lower than a given proportion of the Australian median income (ACOSS, 2012; Research, 2013). Poverty, however, is multidimensional - it goes beyond income to encompass the inability of individuals to engage in activities and experiences considered standard by society:

> *"Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain types of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the society to which they belong" (Townsend, 1979, p.31).*

On this basis, individuals who are financially excluded experience the consequences of multidimensional poverty (Barnes et al., 2012). Burkett & Sheehan (2009:3) articulate that exclusion from affordable and appropriate financial products in Australia means that the *"...ability to participate fully in social and economic activities is reduced, financial hardship is increased, and poverty (measured by income, debt and assets) is exacerbated".*

In addition to these consequences, financial exclusion can reduce the individual's ability to asset-build, worsen mental and physical health (Dobbie & Gillespie, 2010) and impede the capacity to lead a fuller life which includes attaining financial stability and sustainability (Sen, 1999).

Credit exclusion is particularly prevalent in Australia. In 2012, 56.6% of adult Australians lacked access to a mainstream credit card (Connolly, 2013). Credit exclusion can exacerbate financial hardship, decrease social and economic participation and adversely affect health and mental wellbeing because it makes asset building, cash flow management and buffering against financial shocks or unexpected expenses more difficult. This might drive individuals to use fringe credit providers.

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11 There are two main drawbacks associated with the definition adopted in Australia. First, the definition does not consider why individuals are financially excluded, including those that voluntarily or for cultural reasons do not own a financial product such as a credit card. Involuntary financial exclusion can occur, for example, due to geographical, technological and cost barriers. A products-based definition does not therefore account for these nuances. Second, there is no standard definition of financial exclusion and is therefore inconsistent across and even within some countries. The United Kingdom, for instance, measures financial inclusion as access to banking, affordable credit, and free face-to-face money advice. The NAB/CSI financial exclusion indicator utilises a methodology that is national and therefore standard across states.

4.2.1 Decreased ability to asset build

The capacity to asset build is often linked to the ability to access credit, as most individuals are unable to save enough money to pay for big-ticket items fully and upfront, such as large household appliances or motor vehicles. Asset ownership contributes to individuals' economic, social and psychological wellbeing (Barnes et al., 2012). For example, Mills, Patterson, Orr, and DeMarco (2004) evaluated the United States' "Individual Development Asset Program" (IDA), a matched savings account for low-income individuals for the purpose of purchasing a first house, education, small business or motor vehicle. They concluded that asset building helped enhance economic and social participation.

Asset ownership can also change the way an individual views the world as it encourages them to consider the future and pursue long-term goals (Sherraden, 1991). It might likewise have inter-generational benefits – studies suggest that children who are brought up in households with assets are more likely to have lower rates of teen pregnancy, fewer behavioural problems, better self-esteem and a greater sense of future orientation than children who are brought up in households without assets (Adams, Nam, Williams-Shanks, Hicks, & Robinson, 2010; Williams-Shanks, Kim, Loke, & Destin, 2010).

4.2.2 Decreased ability to buffer against financial shocks or unexpected expenses

Individuals who cannot access affordable and appropriate credit and do not have sufficient savings to draw upon are less able to manage cash flow and buffer against financial shocks or unexpected expenses (ABS, 2011). For these individuals, an unexpected expense such as a car repair or a sudden spike in utility bills can result in going without basic necessities, such as food or essential household goods. This is reflected in the findings from a survey delivered to Salvation Army clients who sought emergency relief in 2012. When faced with financial difficulties, 52% of respondents went without meals and 59% reduced their consumption of essential products like clothing, petrol, or milk and bread (The Salvation Army Australia, 2012).

4.2.3 Increased use of, and reliance on, fringe credit

Individuals who are financially included can use credit cards, savings or secure a bank overdraft for short-term credit needs to buffer against financial shocks. The inability to buffer against financial shocks, however, can push individuals to inappropriate sources of credit such as fringe credit from payday lenders and rent-to-own providers. This is reflected in Banks et al. (2012), who found that 16% of their survey respondents acquired their first loan from a fringe lender to "make ends meet".

Fringe credit providers are often associated with predatory lending practices such as high interest rates and hidden charges and penalties (Banks et al., 2012; Marston & Shevellar, 2010; Rivlin, 2011). Though fringe loans are considered the least affordable, appropriate or fair for low-income individuals, these individuals are more likely to be excluded from mainstream credit and therefore less able to cope with financial shocks or unexpected expenses. As such, they often need small, short-term loans the most.

TABLE 4-1: SUMMARY OF FINANCIAL EXCLUSION – DEFINITIONS AND CONSEQUENCES

Component	Description
Financial exclusion is:	*Lack [of] access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit*
The consequences of financial exclusion are:	↑ likelihood of financial hardship and poverty ↓ poor economic, social and health outcomes
The consequences of credit exclusion are:	↓ ability to asset build ↓ ability to buffer against financial shocks or unexpected expenses ↑ use, and reliance on, fringe credit

4.3 Pathways to financial inclusion

To understand the pathways to financial inclusion, two frameworks need to be considered.

- Capacity and capability framework and a market deficiency framework.

4.3.1 Capacity and capability framework

Financial capability is defined as an individual's ability to keep track of finances, plan ahead, choose financial products, stay informed and their perceived level of financial control (ANZ, 2011). *Financial capacity* refers to the stock of funds that allows the individual to fully engage in the financial market. An individual who does not know how to use financial products or services, has had negative past experiences with financial products resulting from not understanding their associated costs and risks, or does not have the means to pay for the financial products or services, might voluntarily exit the market (Corrie, 2011). Burkett and Sheehan (2009, p. 6) suggest that:

> *"Financial exclusion occurs because people do not have access to the diversity of abilities, information, knowledge and skills necessary to engage effectively with or participate in financial systems"*

4.3.2 Market deficiency framework

The market deficiency framework explains why financial institutions exclude some individuals from accessing their products and services. This type of exclusion typically stems from "information asymmetry", where lenders do not know the creditworthiness of borrowers, and borrowers cannot reveal their credit-worthiness to lenders (Aghion & Morduch, 2005; H. Treasury, 2004). Proxies such as income level and credit history are thus used to assess an individual's ability to cope with credit. As a consequence, banks are often unable to offer credit to low-income individuals as they have a higher likelihood of defaulting on repayments based on income (Howell & Wilson, 2005)

In addition, accessing credit is even harder for low-income individuals since the Global Financial Crisis, as lending regulations have tightened in order to protect bank deposits (Davis, 2011).

> *"Financial exclusion occurs because financial institutions cannot bear the costs, risks or brand issues associated with providing services to people living in poverty" (Burkett & Sheehan, 2009, p.6)*

Understanding the causes of financial exclusion allows us to identify the ways to address financial exclusion. Improving the individual's financial position and literacy reduces, the financial capacity and capability failures. Rectifying the market deficiency failure reduces information asymmetry. These pathways are identified in Table 4-2.

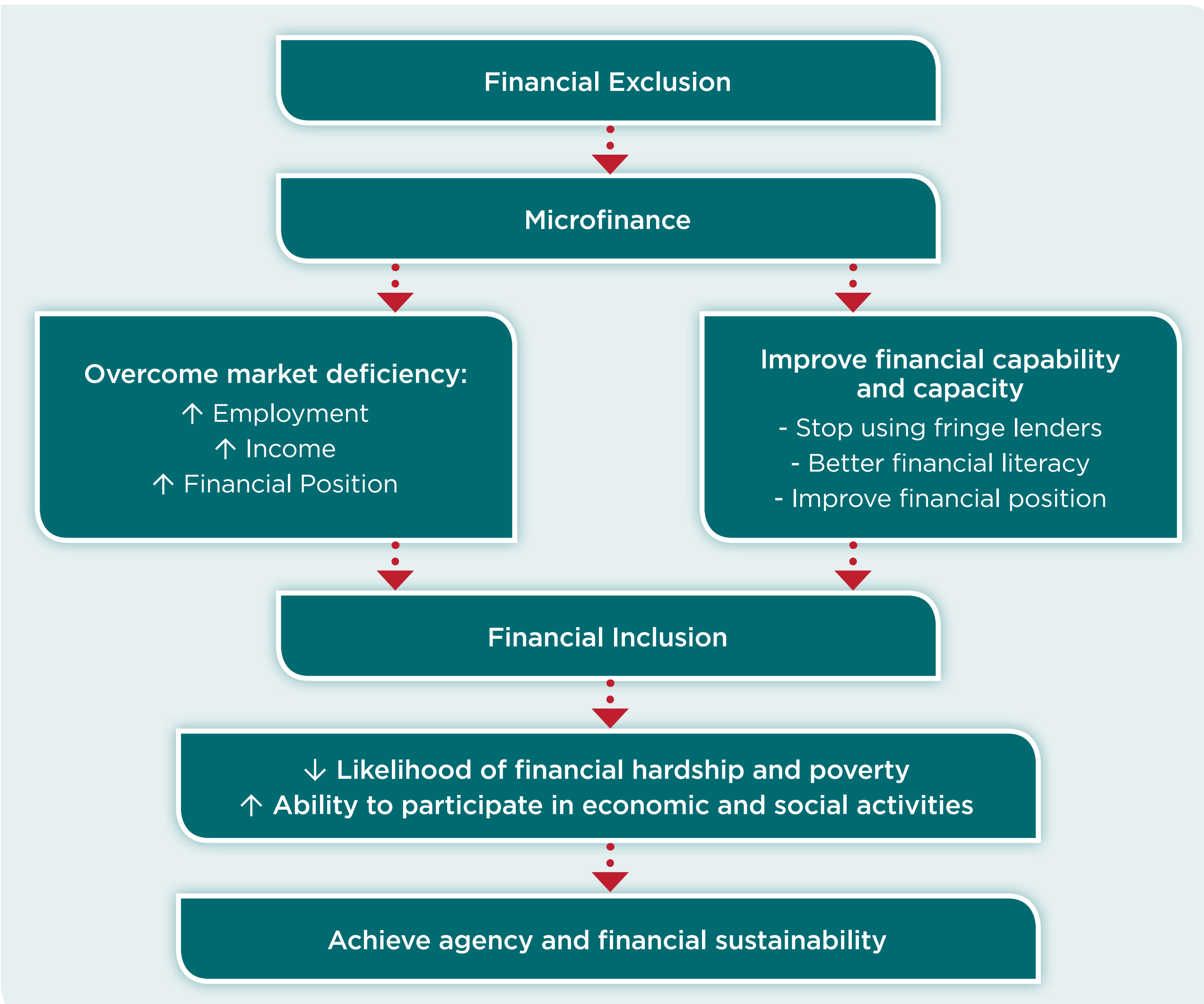
TABLE 4-2: PATHWAYS TO FINANCIAL INCLUSION

	Barriers	Pathways
Capacity and capability	***Financial capability and capacity framework:*** • Financial capability: Individuals do not know how to use financial products. • Financial capacity: Individuals cannot afford financial products.	• Financial capability: Teach individuals how to use financial products. • Financial capacity: Improve the financial position of individuals.
Market Deficiency Framework	***Market deficiency framework:*** • Access: Individuals cannot access banks due to bad credit record or low income. • Affordability: Individuals cannot pay for financial products due to cost.	• Access: Improve the credit-worthiness and financial position of individuals. • Affordability: Provide low cost and appropriate financial products

4.4 The No Interest Loan Scheme – a proposed solution?

Microfinance is advocated as part of the solution to the problem of financial exclusion. Being financially included matters because it enhances individuals' economic, social and health outcomes (Section 4.1) The GSM NILS (refer to www.goodshepherdmicrofinance.org.au) can provide a pathway to financial inclusion if it can overcome the market deficiency and financial capability and capacity barriers. This is shown in Figure 4-1.

FIGURE 4-1: MICROFINANCE CONDUITS TO FINANCIAL INCLUSION



Other studies which evaluated no interest loans, were reviewed, specifically to verify whether they do provide a conduit to financial inclusion and whether it can help achieve the outcomes financial inclusion delivers. Table 4-3 contains a summary of the results. The table considers whether a NILS loan provided a means to overcome the market deficiency, financial capacity and financial capabilities barriers, and whether it provided a conduit to financial inclusion and improved economic, social and health outcomes. The table is interpreted as follows: "x" indicates that, for the respondents in the evaluation study, the NILS loan did not help them overcome the barriers to financial inclusion and/or help them experience improvements in outcomes. "√" indicates that it did. "0" indicates that the results were mixed, and "N/A" indicates that the barriers and/or outcome were not considered in the study.

Based on the findings from the evaluation studies:

- Many recipients felt excluded from the mainstream financial market (market deficiency framework).
- A NILS loan generally helped recipients improve their financial capabilities but did not help improve their financial capacities (financial capabilities and capacities framework).
- For the most part, most recipients were still financially excluded from the mainstream financial market.
- Most recipients experienced positive economic and social and health outcomes as a result of receiving a NILS loan.

The literature to date shows that a NILS loan did not provide a direct pathway to financial inclusion, (as measured by access to a transaction account, a small amount of credit i.e. a credit card and general insurance). Financial exclusion using the product based definition was predominantly driven by self-exclusion – the NILS recipients either felt that they would be denied access to mainstream products and services due to their low income status and reliance on government benefits (market deficiency and financial capacity barrier), or chose to go without due to the high cost of financial products or services (financial capacity barrier).

As noted earlier, however, financial inclusion is important because it decreases the likelihood of financial hardship and poverty, increases the ability to participate in economic and social activities and improves health and mental wellbeing. From the review of the literature, receiving a NILS loan can result in greater social participation, reduced financial hardship and improved health and mental wellbeing. Mouy (2010, p. 21), for instance, found that "the most prevalent theme for seeking a loan... was to improve daily living experiences or to enhance an applicant's quality of life". NILS also gave recipients a greater sense of financial security and made them feel "like everyone else" (Cabraal, 2010). Through the loan interview, the NILS recipients also felt that their financial capabilities improved. NILS thus provided a direct conduit to the suite of outcomes financial inclusion seeks to achieve (Figure 4-1).

TABLE 4-3: SUMMARY OF THE NILS EVALUATION STUDIES

Study	Sample Size	Research Method	Market Deficiency*	Financial Capacity	Financial Capabilities	Financial Inclusion	Economic Outcomes	Social and Health Outcomes
Cabraal (2010)	5 NILS clients	Semi-structured interviews	×	×	o	×	o	✓
Mouy (2010)	39 NILS and StepUP clients	Case studies	N/A	×	✓	N/A	✓	o
Ayres-Wearne and Palafox (2005)	40 NILS clients	Quantitative and qualitative data gathering methods	o	✓	✓	•	✓	✓
Corrie (2011)	30 NILS/ StepUP/ AddsUP clients	Case studies	×	✓ **	✓	×	✓	o
Baur (2010) The NILS Network of Tasmania	N/A	Quantitative and qualitative evaluation of data from various sources	✓	×	✓	✓	✓	✓
Impact (2013)	500 StepUP clients	Quantitative and qualitative data gathering methods	N/A	×	✓	✓	✓	✓

KEY: x Did not result in an improvement ✓ Did result in an improvement o Mixed results

** Reflects the respondents' perceptions of their ability to access funds through mainstream credit institutions*

*** It is unclear whether the respondents who experienced a change in their financial capacity, due to employment, were the NILS, StepUP or AddsUP recipients.*

5. Theory of Change

From the review of the literature, improvements in financial capabilities, economic, and social and health outcomes were hypothesised to result from receiving a NILS loan. Improvements in recipients' financial inclusion status, as defined by ownership of a transaction account, credit product and general insurance, was not identified as an outcome of receiving a NILS loan. Through creating the outcome framework, CSI identified three ways in which NILS can generate these positive outcomes for its recipients:

1. The loan as a credit product;
2. The item that was purchased using the loan; and
3. The process in which the loan was delivered.

These findings informed the theory of change, where each outcome can be logically expressed as a result of receiving a NILS loan.

5.1 The loan as a credit product

The *loan* as a credit product was theorised to improve the economic, social and health outcomes of a NILS recipient, regardless of the item purchased using the NILS loan or the process in which it was delivered. Table 5-1 contains examples of how the loan as a credit product can improve recipients' outcomes.

TABLE 5-1 : CREDIT PRODUCT OUTCOMES

Outcome		Description
Economic	Cost savings	The NILS loan is more affordable than goods rental, fringe credit and some public amenities.
	Financial independence	Greater financial independence through reduced reliance on fringe credit, Centrelink Advances, Emergency Relief and financial support from family and friends might be experienced through the provision of NILS.
Social and health	Reduction in stress and anxiety	The NILS loan recipient does not have to seek an alternative method to purchase the NILS item or live without the item.
	Improved relationships with family and friends	Reliance upon family and friends to provide the needed item might strain relationships.

5.2 The item purchased using a NILS loan

The type of item(s) purchased using a NILS loan could also create positive social, health and economic outcomes. Examples of positive outcomes, categorised by item type, are presented in Table 5-2.

TABLE 5-2: EXAMPLES OF POSITIVE ECONOMIC AND SOCIAL OUTCOMES BY THE NILS ITEMS PURCHASED

NILS item	Outcome		Description
Basic household items	Economic	Asset building	Purchasing a new item such as a fridge or washing machine or paying for essential repairs on the car or house, allows the recipient to *build or maintain assets*.
		Cost savings on utility bills	Replacing an old or faulty item with a more energy efficient one could result in a reduction in electricity bills.
	Social and health	Quality of life	Basic household items such as a bed, sofa, washing machine, fridge or television can improve the *quality of life* of the recipient.
		Self-esteem and confidence	Owning a new household item can make the recipient feel that their home is more similar to the average Australian home, leading to an *increase in self-esteem and confidence*.

Fridge	Economic	Cost savings on groceries	Owning a fridge can lead to less food spoilage and allows the recipient to bulk buy perishable items.
	Social and health	Physical health	Purchasing a fridge allows the recipient to buy more fresh food, which can result in improved *physical health*.
Medical expenses	Social and health	Health; self-esteem and quality of life	Spending on medical expenses such as therapy, home fit-outs or dental work may improve the recipient's health, *self-esteem and quality of life*.
Motor vehicle	Economic	Increase employment prospects Savings on fines	Having a reliable roadworthy motor vehicle allows the recipient to travel further to access employment or apply for positions that require the employee to own a motor vehicle. The NILS loan may result in *savings on fines* for driving offences, if the alternative the recipient faced was to drive an unregistered motor vehicle.
Computer and education	Economic	Increase employment prospects	Using a NILS loan to buy a computer or pay for education may increase the recipient's *employment prospects* and earning potential.

5.3 The NILS loan delivery process

The NILS loan application and repayment process can also result in improvements in financial capabilities, economic and social and health outcomes (Table 5-3).

TABLE 5-3: OUTCOMES FROM THE NILS LOAN PROCESS

Outcome		Description
Financial capabilities	Financial management	Completing the household budget task during the loan interview may result in positive behavioural change, such as increasing the number of bills paid on time or comparison-shopping more often.
	Financial confidence	*Confidence* in finances might improve for the recipient who successfully completes the loan application and (for most) recipients the repayment process.
Economic	Cost savings	Identifying avoidable costs during the budgeting exercise or explaining the consequences of using fringe credit during the loan interview, can result in behavioural changes that lead to cost savings.
Social and health	Feel more supported	Receiving guidance and assistance from the NILS worker might make the recipient feel more supported by their community.
	Confidence in achievements	Successfully negotiating the loan process and receiving the loan might increase the recipient's confidence in their achievements.

5.4 Summary

The NILS loan, as a credit product, is a means to purchase an essential household good or service, and as a process, can generate positive financial capabilities, economic and social and health outcomes. This is summarised in Figure 5-1.

FIGURE 5-1: OVERALL OUTCOME EVALUATION

Outcome generated by process | Outcome generated by loan as financial product | Outcome generated by item | (Higher level outcomes)

FINANCIAL	Financial inclusion	• access to mainstream credit • access to general insurance • access to transaction account
	Financial capabilities	**Financial confidence** • confidence to apply for a credit card • confidence applying for a mainstream loan **Financial management** • comparison shopping • understands loan process • budgeting • pays bills on time • savings
HEALTH	Physical well-being	• able to access healthcare services • improved fitness and general health • reduction in discomfort and pain • improved diet and nutrition • increased physical function • reduction in other symptoms
	Mental well-being	• able to access mental health services • general confidence and self-esteem • increased ability to function • reduction in symptoms • confidence in achievements • reduction in stress and anxiety
SOCIAL	education	• child education • basic social skills • adult education
	quality of life	• stability • living standards • independence • increased time at home with family
	social contribution	
	social inclusion	• personal relationships • feeling part of the community • feeling supported
SOCIAL	income	• increased earning potential • increased income
	training	
	asset-building	
	employment	• increased employability • gained employment • continued employment
	fringe finance	• reduction in fringe credit use overall • avoided fringe credit for item • avoided renting item
	cost savings	• avoidance of fines • energy bills • fuel costs • groceries • public amenities

6. Market Analysis

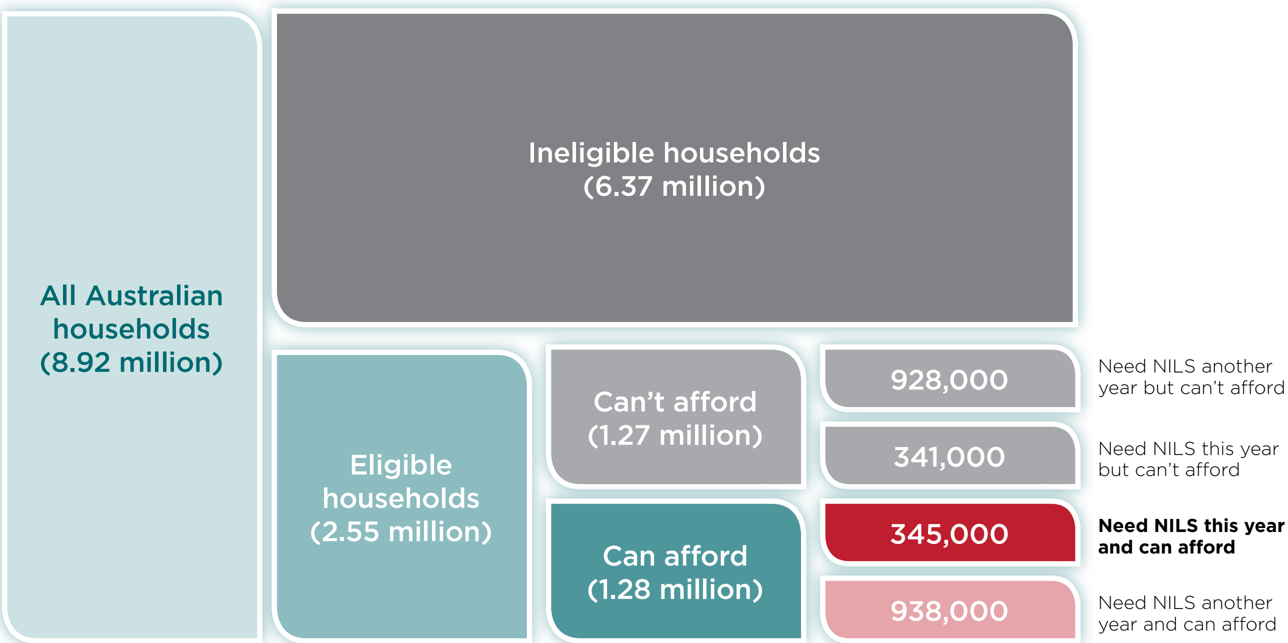
Key finding

Based on the market analysis, in 2013, it is estimated that the overall demand for a NILS loan is 345,000 households. However only 21,114 NILS loans were delivered in the 2012 financial year. On this basis, only 6% of the demand was met in 2012.

6.1 Demand for the NILS

Though the literature and available evidence suggests that a NILS loan creates positive outcomes for its recipients, many stakeholders believe that there is considerable unmet demand for the NILS in Australia. This proposition was tested this by means of a market analysis using data published by the Australian Bureau of Statistics and other agencies. The results are shown in Figure 6-1.

FIGURE 6-1: MARKET ANALYSIS, SIZE OF THE MARKET FOR THE NILS



A total of 2.55 million Australian households were eligible for a NILS loan in 2009, because they held a Healthcare Concession Card (HCC) or Pensioner Concession Card (PCC) (PHIDU, 2011). However, only 1.28 million of these individuals had sufficient weekly surplus to repay the NILS loan, which is on average $11.92 per week. Of the 1.28 million households who were eligible and able to afford the NILS loan, 345,000 were estimated to be in need of an essential household item that could be purchased with a NILS loan (Australian Bureau of Statistics (ABS) 2011). As 21,114 loans were delivered in the 2012 financial year (Microfinance, 2012), only 6.1 per cent of the estimated demand is being met. This suggests that there is considerable room for program expansion.

In addition, 341,000 households were eligible and had a need for an item that could be purchased through NILS but were unable to afford the NILS weekly repayments. Based on our analysis, single person households who received the NewStart allowance and coupled households where one or both individuals received similar allowances were identified as more likely to be unable to afford the repayments on the NILS loan. Couples with four children receiving benefits were most likely to be able to afford repayments. This highlights the very narrow margins on which these households operate their budgets and the value of providing financial counselling and other forms of support to low-income households.

Recommendation: Explore strategies to increase the number of NILS loans delivered to meet unmet demand.

Conduct further market analysis and other research on barriers and incentives to understand why NILS only meets a small percentage of the market. Develop strategies and projections based on these strategies to expand NILS.

6.2 Alternatives to NILS

Key finding

Due to the design features of NILS, in terms of both product and delivery service, a NILS loan may not meet the demand for credit from some eligible individuals. These individuals may choose alternative options, including going without or accessing credit through other providers such as fringe lenders.

When individuals lack access to credit, they are often also unable to save enough money to purchase upfront essential household items. They might consequently go without the essential item, continue using a faulty item, or turn to fringe credit providers for the cash, or goods rental outlets for the product.

The NILS loan was compared to other credit products to assess its strengths and weaknesses and to understand the barriers and incentives for it and its competitors. The other credit products were chosen to reflect the formal alternatives that the NILS recipients can select when seeking credit. The credit products were assessed on the following characteristics:

- Cost: the total repayment cost of the credit product[12]
- Speed: how long it takes to access the funds
- Amount: the maximum amount of the credit product
- Purpose: what the credit product can or cannot be used for
- Accessibility: the different ways of applying for the credit product
- Eligibility: the eligibility criteria to obtain the credit product
- Repeatability: how often the credit product can be accessed
- Capacity-building: additional capabilities developed through the receipt of the credit product

Table 6-1 presents the characteristics of different credit products in Australia, as of 30 August 2013[13], while Table 6-2 summarises strengths and weaknesses of the NILS loan as a credit product.

12 Assuming the amount is $930 (average NILS loan amount), and the loan term is 12 months (average NILS loan term).
13 Refer to Appendix C for a comprehensive breakdown of the fees and terms of each credit product considered.

TABLE 6-1: CHARACTERISTICS OF DIFFERENT CREDIT PRODUCTS IN AUSTRALIA

	Centrelink Advance	NILS^	StepUP	Credit Card	Goods rental	Small amount loan from fringe credit provider	Personal finance from fringe credit provider
Cost (% of principal) 1-year horizon	100%	100%	104%	120-130%	N/A	140-170%	178%
Cost (% of principal) Average term length	100%	100%	112%	120-130%	209-359%	124%[1]	148-178%[2]
Term	Must be able to afford to repay over a 6 month period, repayments are deducted from fortnightly income	Up to 18 months	Up to 3 years	Open ended	36-48 months, weekly or fortnightly	15-30 days (unless extended), 2-4 repayments depending on applicant's pay schedule	6-12 months, 13 fort-nightly or 26 weekly repayments.
Speed	3 days to 7 days	4 days – several weeks[3]	5 days	1-3 days	24 hours	1 hour – 3 days	1 to 2 days
Amount	Max $500[4] - $1110.15[5]	Max $1200[6]	Max $1200			Max $2000[7]	Max $2000 - $5000 depending on provider
Purpose	Anything	Essential items	Essential items	Anything	Furniture, vehicles, appliances, mobility aids and electronic equipment	Anything	Anything
Accessibility	Anything	In-person[8]	In-person	In-person online	Online Phone	In-person online	In-person online
Eligibility	In receipt of a government benefit[9]	Concession card OR low income; Residence > 3 or 6 months	Concession card Residence > 3 months	Over 18 Good credit rating Income require-ment		Australian resident Over 18 Employed[10]	Australian resident Over 18
Repeatability	Max 2x pa[11]	As soon as loan is repaid	As soon as loan is repaid	Ongoing/ Monthly	Ongoing	As soon as loan is repaid	As soon as loan is repaid
Capacity-building	None	Build financial capabilities including financial literacy and management skills*	Build financial capabilities including financial literacy and management skills. Also build financial confidence (Impact, 2013).	None	None	None	None

1. Payday loans operate on a 4-6 week basis depending on the provider. "Personal finance" loans operate over a longer period (6-12 months) and at the same interest rate – that is 4% per month or 48% per annum – with the same establishment fee rate (plus additional fixed admin fees that are charged per repayment).
2. For a $1000 unsecured loan over 6 months. Includes a 20% establishment fee, 4% interest or account-keeping fee per month (48% per annum).
3. Average time; actual time varies across providers.
4. ABSTUDY, Austudy Payment, Newstart Allowance, Parenting Payment (Partnered), Parenting Payment (Single), Widow Allowance, Youth Allowance.
5. Single pension customer; applies to recipients of age pensions, disability support pension, carer payment, widow b pension, wife pension.
6. Varies across providers.
7. Depending on provider and income of applicant.
8. Exceptions.
9. ABSTUDY, Age Pension, Austudy, Carer Payment, Disability Support Pension, Family Tax Benefit Part A, Newstart Allowance, Parenting Payment (partnered), Parenting Payment (single), Widow Allowance, Widow B Pension, Wife Pension, Youth Allowance
10. This is now a criterion for most fringe credit providers on their short-term small-amount loans.
11. Depending on support payment received.

TABLE 6-2: STRENGTHS AND WEAKNESSES OF THE NILS LOAN AND PROCESS

	Strengths	Weaknesses
For Applicants		
Cost	NILS (on par with Centrelink Advance) is the cheapest credit product* available as only the principal needs to be repaid.	The loan amount restricts its use.
Speed	Recent innovations in the NILS delivery process have improved the accessibility of the NILS. For example, NILS is available online in Western Australia and through Good Money Hubs in Victoria.	The NILS approval process takes between four days and several weeks**. Other options may take hours before the applicant has cash in hand.
Accessibility		Most providers only deliver NILS in person and require the applicant to attend a face-to-face interview.
Eligibility	NILS is more accessible than mainstream credit for low-income earners. Credit history and income is not a barrier for these individuals. Rather, the willingness and some capacity to repay the loan are the criteria.	Applicants who do not receive income from the government (e.g. working poor) might be excluded by some NILS providers. Mainstream credit providers might also refuse these applicants due to their low incomes. NILS applicants are required to have lived in their current residence for at least three months (sometimes six months).
Purpose	Encourages use of the loan for purchasing essential assets that improve the standard of living for individuals.	NILS applicants are required to use their loan for essential household goods and services, whereas other products can be used at the applicant's discretion. Recipients can only hold one NILS loan at a time.
Capacity-building	The household budgeting task, which is the documentation of monthly income and expenses, during the interview helps develop financial capabilities, including financial literacy and management skills.	

*A NILS loan is still more expensive (repayment of capital) than Emergency Relief or other non-credit options.
**Average time; actual time varies across providers.

While the NILS loan generates considerable benefit for its recipients, as shown through the literature review, the limitations created by the lengthy and detailed process, eligibility criteria and limited purposes means that it is not a viable option for many low-income households.

Recommendation

Explore the potential to meet unmet demand by refining and enhancing the design of the NILS in terms of both the loan product and the delivery process. Two areas with potential are: streamlining the NILS process so that cash can be made available more quickly and expanding access to loans online to remove components of the competitive advantage of fringe lenders.

7. Outcome Evaluation Results

This chapter describes the outcome evaluation, its analysis and the results. To test whether, and to what extent, the NILS creates positive outcomes for its recipients, a telephone survey of 710 NILS recipients was designed and commissioned to capture changes in outcomes due to NILS.

The demographic characteristics of NILS respondents are outlined in Section 7.1. The changes in outcomes due to a NILS loan are reported in Sections 7.2 and 7.3.

The relationship between the loan delivery process and outcomes is explored in Section 7.4.

Key findings

Survey respondents displayed characteristics of vulnerable Australians. *They were:*

- More likely to be female (74%), live in a single parent family with dependents (43%) and rent either privately (38%) or through private housing (47%).
- 6.5 times more likely to identify themselves as Aboriginal or Torres Strait Islander (17%) than the Australian average (2.5%).
- Mostly living under the poverty line at the time of the survey (94%), reliant on government allowance as their main source of income (92%), unemployed or out of the labour force (85%) and had an average fortnightly income of $856.80.
- Three times more likely to be severely financially excluded (55%) than the average Australian (17%).

Receiving a NILS loan created positive changes in recipients' financial capabilities, economic, and social and health outcomes.

- Due to the vulnerable status of the NILS recipients, improvements or stability in recipients' outcomes were classified as positive changes.

The NILS as a credit product and as a means to obtain an essential household good or service created positive outcomes for the survey respondents. *Due to NILS:*

- Four out of five survey respondents experienced a net improvement in outcomes (82%), with only 2% experiencing a net worsening in outcomes.
- The financial capabilities of 47% of respondents improved, as they followed a budget, paid bills on time, saved money, maintained emergency savings funds and comparison shopped more often.
- The economic outcomes of more than a third of respondents improved due to increases in cost savings (33%) and financial independence (46%). 42% of respondents who had used fringe credit providers in the past either stopped or decreased their use of them.
- 74% experienced an improvement in their social and health outcomes due to positive changes in their standard of living, stress and anxiety levels, confidence in achievements, general confidence and self-esteem, physical health, personal relationships and participation in society.

The loan delivery process contributed to some positive changes in respondents' outcomes:

- Respondents who received supporting services (such as financial counselling) concurrently with the NILS loan, were more likely to experience positive financial capabilities, economic, and social and health outcomes than respondents who did not.
- The governance structures of NILS providers might affect respondents' outcomes. Respondents who received a NILS loan from a centralised (state-wide) organisation were less likely to receive positive outcomes than respondents who received a NILS loan from a centralised (organisation-wide), franchise or independent organisation.

7.1 The Survey Respondents

Most respondents displayed characteristics of a vulnerable Australian in that they were reliant on government allowance as their main source of income, lived under the poverty line (based on income) and were severely financially excluded at the time of the survey (based on a product-ownership approach). Table 7-1 contains the key demographic characteristics of the NILS respondents[14].

TABLE 7-1: RESPONDENT DEMOGRAPHIC CHARACTERISTICS

Gender and Age

- Survey respondents were more likely to be female (74%) than male (26%).
- Age ranged from 18 to 79 years. More than three quarters (75.5%) were 25 to 54 years of age. Only 5.8% were 18 to 24 years of age and 18.7% were 55 to 64 years of age.

Place of birth

- Most were born in Australia (87%). Only 9% were born in an English speaking country that is not Australia. 4% were born in an overseas non-English speaking country.
- 17% of respondents identified as Aboriginal or Torres Strait Islander, which is 6.5 times higher than the Australian average (2.5%).

Household Type

- The dominant household type was single parent family with dependents (43%), followed by lone person household (29%).
- Respondents had up to eight dependents.

Housing Type

- Most respondents were renting either privately (38%) or through public housing (47%). A small number owned their dwelling outright (4%) or were paying a mortgage (5%).

Education

- More than half of respondents' highest level of education was year 10 (52%).
- 8% had a bachelor's or postgraduate degree.

Employment

- 85% of respondents were unemployed or out of the labour force at the time of the survey. 21% of all respondents were not in the labour force work and 64% were unemployed but seeking work.
- 41% of respondents who were "not employed" were prevented from finding work due to a disability or their age.*
- 15% of respondents were employed at the time of the survey. However only 13% of those employed were in full-time work. Most were employed on a contractual basis (46%).

*This includes respondents who were 65 years of age or older, on an age pension and respondents who reported not being able to find employment due to a disability.

Income

- Fortnightly income was between $500 and $999 for more than half of the 676 respondents who disclosed their income (59%).
- Average fortnightly income was $856.80.
- The most common form of government support received was Family Tax Benefit A (46%), followed by disability support pension (38%) and parenting payment (30%).

14 A more comprehensive set of demographic characteristics is contained in Appendix D, which includes a comparison to the StepUP population (refer to the report).

7.1.1 NILS Clients and Poverty Line

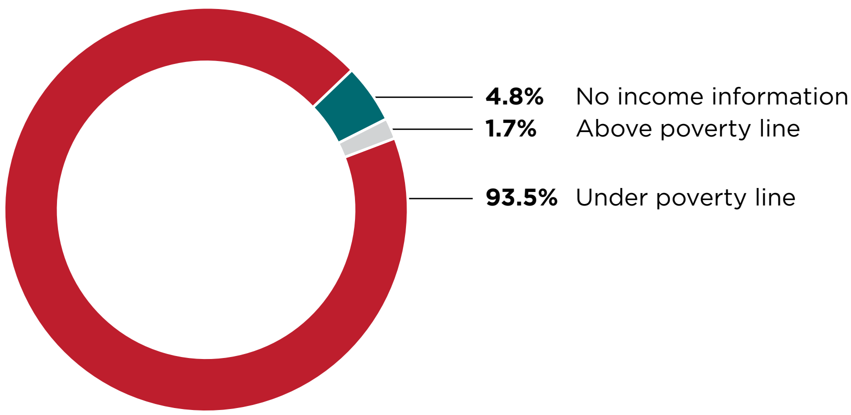
Based on the Melbourne Institute's (2013) poverty line, which measures the minimum disposable income required to meet the basic needs of a family, and as shown in Figure 7-1 at the time of the survey:

- 1.7% of NILS respondents were living above the poverty line.
- 93.5% were living below the poverty line, and
- 4.8% did not report their income.

As a consequence, the majority of the NILS clients surveyed would have found it difficult to acquire the basic financial products (a transaction account, general insurance and a moderate amount of credit) due to their low-income status and the cost of financial product ownership.

The average, annual cost of owning these financial products is approximately $1739 (Connolly, 2013).

FIGURE 7-1: RESPONDENT POVERTY LINE STATUS

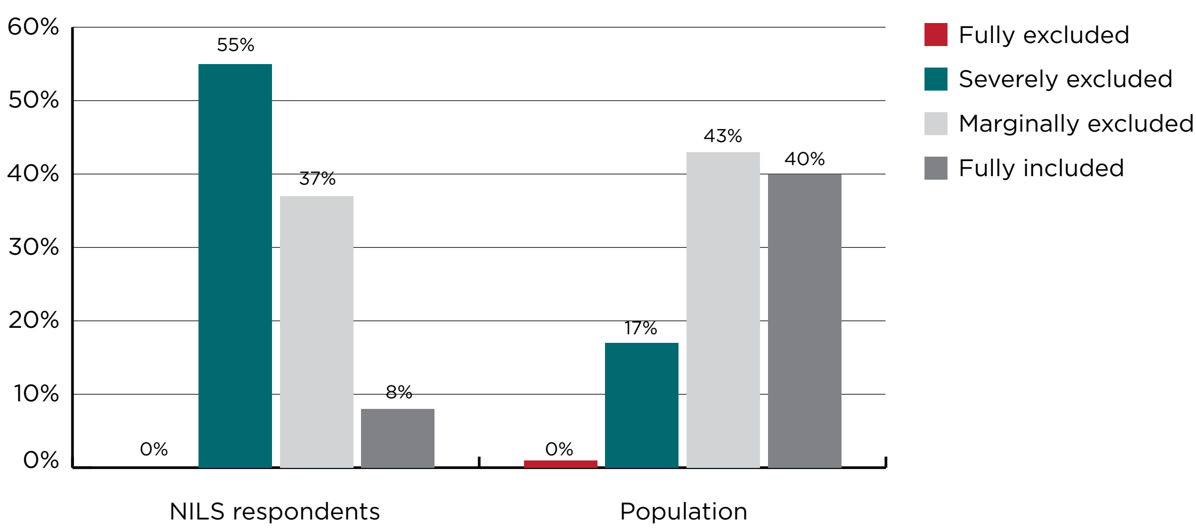


7.1.2 NILS Clients and Financial Exclusion

The extent of financial exclusion among the surveyed NILS clients is presented in Figure 7-2, and is contrasted to the national average. 55% of the NILS clients were severely financially excluded at the time of the survey. This is more than three times higher than the national average. A fully financially included individual owns a transaction account, general insurance and a moderate amount of credit. A "marginally excluded" individual owns two of these products; a "severely excluded" individual owns one of these products and a "fully excluded" individual owns none of these products.

These findings suggest that most NILS clients live in a precarious financial condition. Due to their low-income status, they are denied the benefits of owning financial products often due to costs. However, also due to their low-income status, owning them would most likely cause financial stress.

FIGURE 7-2: RESPONDENT FINANCIAL EXCLUSION STATUS



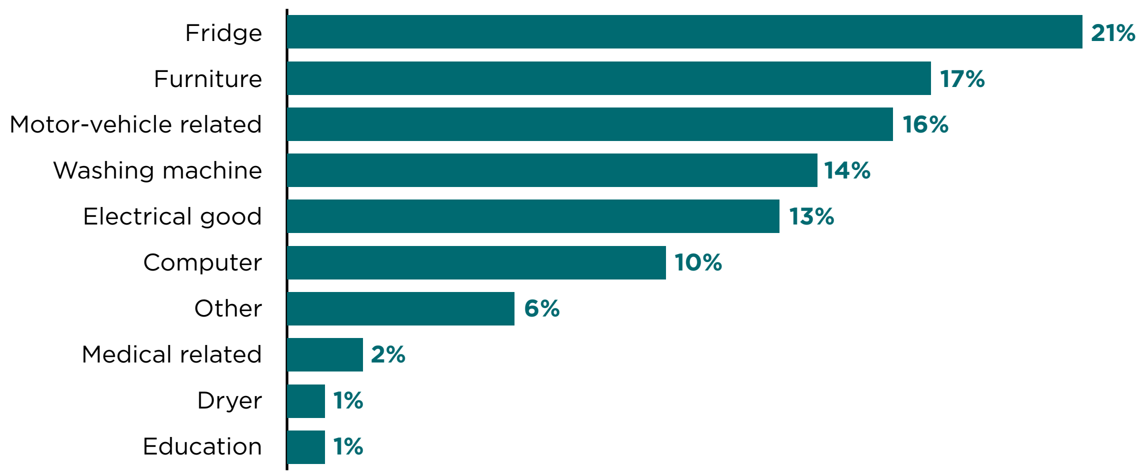
7.2 NILS Loan Purpose, Loan Numbers, Payment Methods and Other Supporting Services

Survey respondents used the NILS loan for different purposes, had varying levels of experience with NILS and engaged in the NILS loan process differently.

7.2.1 NILS Loan Purpose

The most common use of a NILS loan was for the purchase of a fridge (21%), followed by furniture (17%). Figure 7-3 displays the other items most commonly purchased with a NILS loan.

FIGURE 7-3: ITEMS COMMONLY PURCHASED WITH A NILS LOAN



7.2.2 NILS Loan Numbers, Payment Methods and Support Services

There were variations amongst the surveyed NILS clients in relation to loan numbers, payment methods and the availability of support services, as indicated in Table 7-2.

TABLE 7-2: NILS LOAN PURPOSE, NUMBERS AND PAYMENT METHODS

Number of loans	• Most respondents were first time NILS recipients (66%). • 21% had received two NILS loans in total and a further 13% had received three or more NILS loans.
Loan payment method	• Almost all respondents used Centrepay to repay a NILS loan (93%).
External supporting services received* *Only external additional services obtained as a result of contact with the NILS worker were captured. Additional services provided by the NILS worker themselves were not captured.	• In addition to a NILS loan, 103 respondents stated that they received additional services through their contact with their NILS worker.

Additional services received	No.	%
None	607	82%
Financial management	53	7%
Food/food vouchers	22	3%
Other	24	3%
Counselling (general)	11	2%
Rental and housing support	17	2%
Health services	4	1%
Employment and training	3	0%

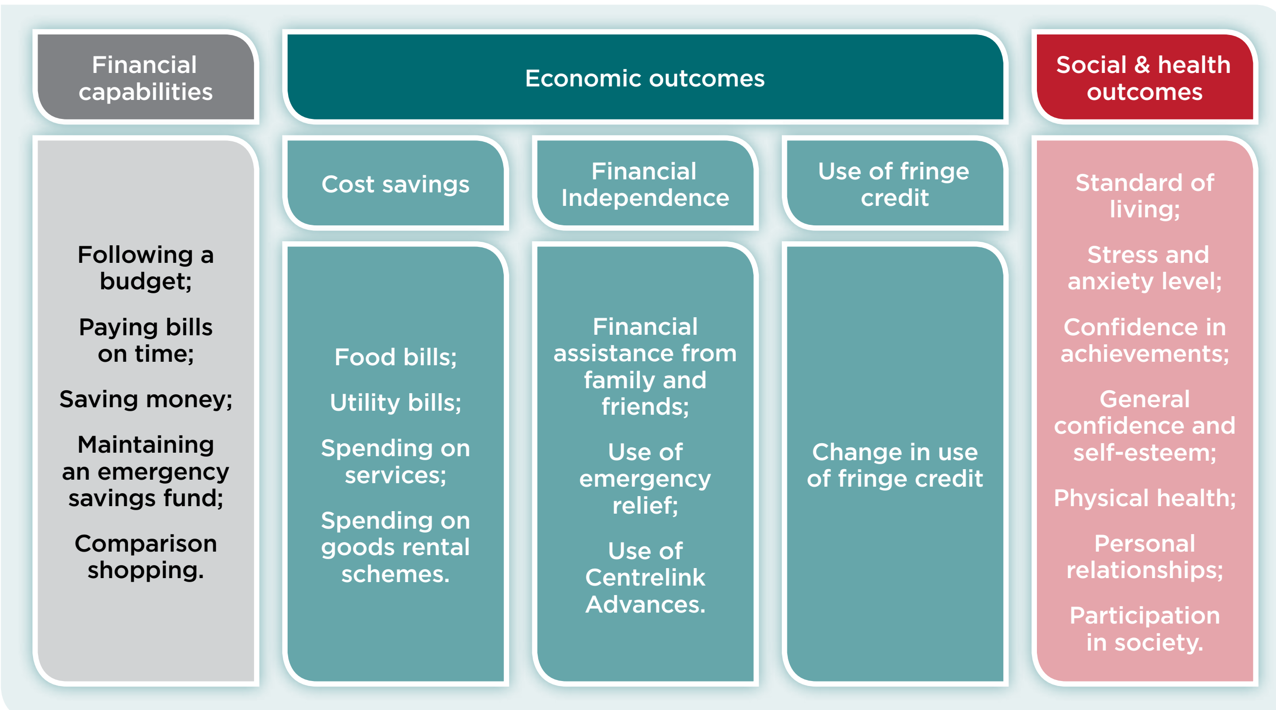
7.3 Outcome Evaluation

Three *outcomes* were hypothesised as possibly resulting from receiving a NILS loan were:

- Financial capabilities
- Economic outcomes
- Social and health outcomes.

Figure 7-4 contains the dimensions that were considered within each outcome construct.

FIGURE 7-4: OUTCOME CONSTRUCTS



Three *ways* in which a NILS loan could generate these positive outcomes for its recipients were also identified:

- The loan as a credit product;
- the item purchased through the loan; and
- the process in which the loan was delivered.

The characteristics of the NILS respondents suggest that some will be highly unlikely to attain financial sustainability, particularly those who live under the poverty line, are severely financially excluded and face fundamental barriers, such as disabilities or full-time carer duties that prevent them from gaining employment. For these individuals, not falling into greater financial hardship or stress is a positive outcome.

To take this into account, positive changes in outcomes for the NILS respondents were thus classified as when they experienced, due to a NILS loan:

- Improvements in outcomes; or
- Stability in outcomes: achieving stability in outcomes refers to an individual who, in the absence of a NILS loan, would have experienced a worsening in outcomes. (Appendices E, F and G contain descriptions of the method used to calculate changes in outcomes).

Stories that are reflective of a typical NILS loan experience are used throughout the chapter. These stories were identified through the analysis of case studies that providers submitted as part of the Half Yearly Statistical Report (July to December 2012). The stories are fictional.

7.3.1 Changes in outcomes due to the NILS loan

Key finding

- 82% of the NILS respondents (584 of the 710) experienced a *net improvement* in outcomes due to the NILS loan.
- 2% (16 of the 710) respondents experienced a *net worsening* in outcomes due to a NILS loan.

Changes in the (1) financial capabilities, (2) economic – cost savings, (3) economic – financial independence, and (4) social and health outcome constructs were used to determine the number of respondents who experienced an overall improvement, stabilisation or worsening in outcomes[15]. Respondents who:

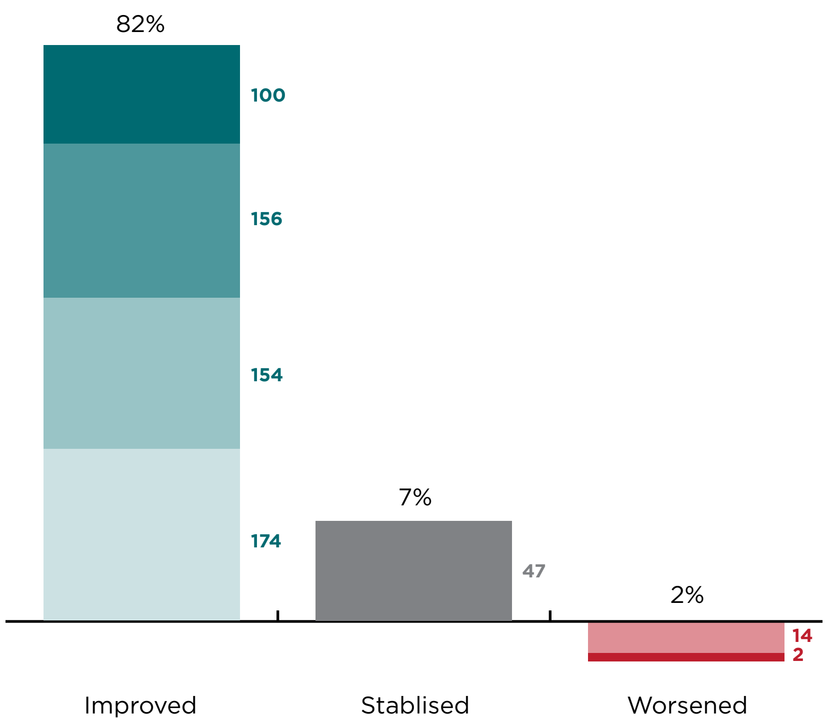
- experienced an overall improvement across the four outcome constructs experienced a net improvement in total outcomes.
- experienced an overall worsening across the four outcome constructs experienced a net worsening in total outcomes.
- would have experienced an overall worsening across the four outcome constructs in the absence of NILS but due to NILS experienced no change across the four outcome constructs, were classified as "stabilised".

Due to a NILS loan:

- 82 % (510) of the 710 NILS respondents experienced a net improvement in outcomes.
- 7% (47) of the respondents experienced a stabilisation in outcomes.
- Only 2% (6) of the respondents experienced a net worsening in outcomes.

The different shades of colour in Figure 7-5 represent the varying degrees to which respondents experienced an improvement or a worsening in net outcomes. Darker shades represent a more significant change in outcome.

FIGURE 7-5: TOTAL CHANGE IN OUTCOMES DUE TO A NILS LOAN



Recommendation

Undertake further exploration to understand why some types of recipient are more likely to experience an improvement, stabilisation, or worsening in outcomes due to a NILS loan.

15 Fringe credit use was excluded from the net outcome construct, as the fringe lender outcome only applied to 250 respondents, namely, those who used fringe lenders in the past.

Leanne's Success Story

Leanne* is a single female in her fifties. Her adult daughter, a single mother with drug and alcohol issues, recently had her three children removed from her for child protection purposes. Leanne is now the sole carer of the children. Her rather small house is not set up for the additional household members and Leanne needs a double bunk and a single bed to accommodate them. She had a low-income job at the local supermarket before taking on the children but had to quit because she needed to be at home during the day to look after the youngest child who is not yet in school. She has limited savings and is worried about using them to buy the beds in case she needs the money for an emergency. She is also unused to having a larger household to manage on a Centrelink income and this has made budgeting difficult.

Leanne approaches the local community organisation and is referred to Emergency Relief to help with some of the unexpected increases in her living costs. She enquires about beds and is referred to the NILS program run by a larger organisation in the town. Leanne is well-organised and has all her paperwork for the application as well as multiple quotes for the beds. She finds the budget conversation very helpful as she was struggling to manage. While they cannot see any room in the budget for her NILS loan repayments, the worker notices that Leanne is not claiming all the benefits she is entitled to. She is referred on to Centrelink and, once this is in process, her increased income allows her loan to be approved.

Leanne is relieved to have the beds and be able to provide a place to sleep for her grandchildren while still retaining the savings she has for an emergency. The budgeting process has helped her feel more in control of the situation and she feels confident that the family will be able to manage.

* Fictitious client, but based on the review of the case studies and developed to represent a typical NILS success story.

7.3.2 Financial Capabilities Outcome

Leanne's story presents an insight into how the NILS loan plays a role in improving the financial capabilities of people through the financial conversation. By requiring applicants to think about their household expenditure, they can better understand how money is being spent in their home and where savings can be made. For some NILS loan applicants, this may be the first time they have considered their household expenditure in any detail. They may also better understand the drawbacks of other less appropriate financial products that they may have used.

Key finding

- 47% (336) of the 710 respondents experienced a *net improvement* in financial capabilities due to the NILS
- 4% (28) of the NILS respondents experienced a *net worsening*.

Financial capability refers to an individual's ability to keep track of finances, plan ahead, choose financial products and stay informed, and their perceived level of financial control (ANZ, 2011)

The financial capabilities outcome incorporated five dimensions:

- Following a budget
- Paying bills on time
- Saving money from pay or government income
- Maintaining an emergency savings fund and
- Comparison shopping or looking for bargains.

The NILS loan was hypothesised to improve the financial capabilities of its recipients as they are required to complete a household budget task during the loan interview and are encouraged to comparison shop to obtain the best quote for their NILS item. However, their ability to engage in some financial management practices such as saving money might also decrease due to their NILS loan repayments. Changes in the five dimensions were used to determine respondents' net change in financial capabilities.

Due to a NILS loan:

- 47% (336) of the 710 NILS respondents experienced a net *improvement* in financial capabilities.
- 25% (18) of the respondents were prevented from experiencing a worsening in their financial capabilities.
- 4% (28) of the respondents experienced a *net worsening* in financial capabilities.

In Figure 7-6, darker shades represent a more significant improvement or worsening in the financial capabilities outcome construct.

FIGURE 7-6: NET CHANGES IN THE FINANCIAL CAPABILITIES OUTCOME CONSTRUCT DUE TO A NILS LOAN

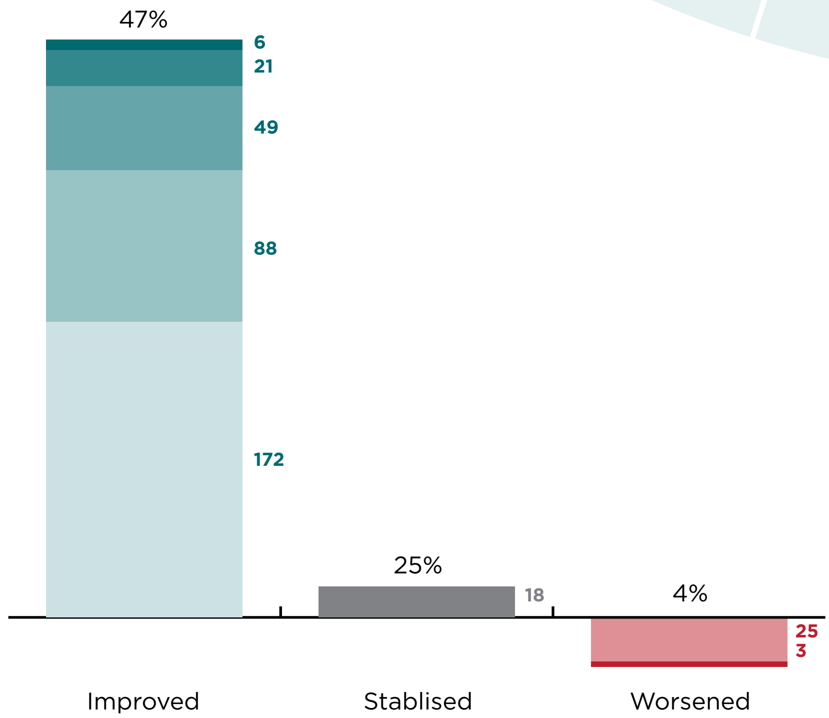
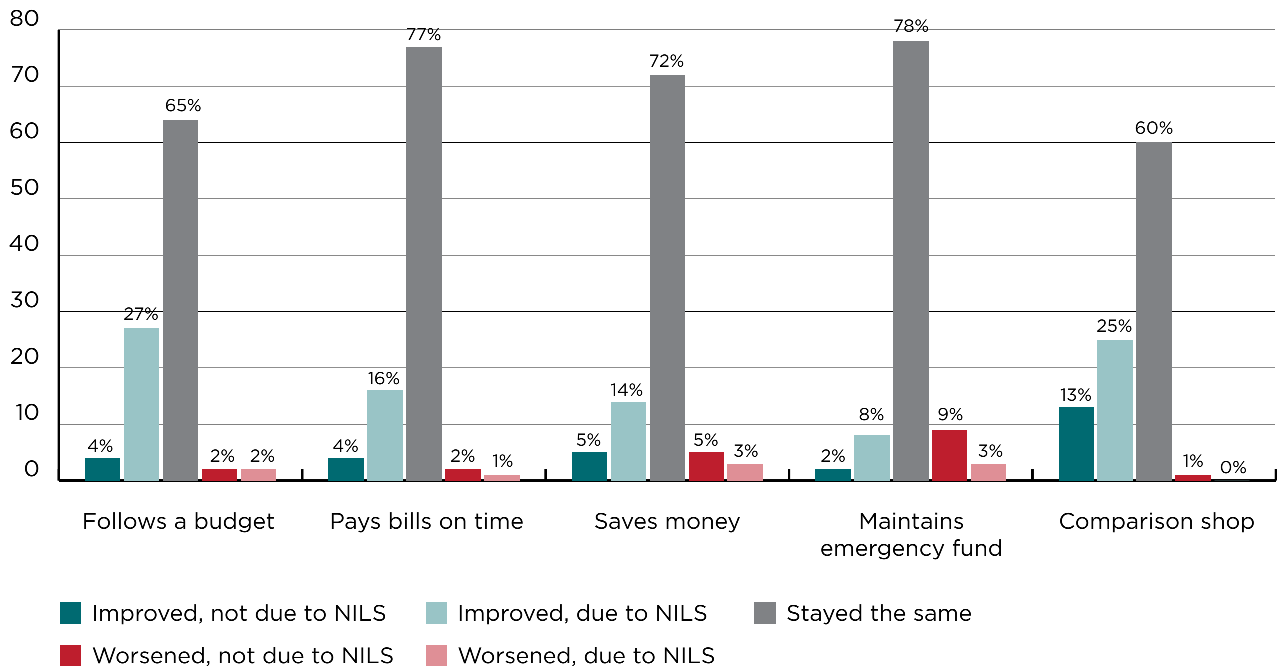


Figure 7-7 contains the NILS respondents' changes in the financial capabilities dimensions.

- More than a quarter of respondents followed a budget (27%) and comparison-shopped (25%) more often due to receiving a NILS loan.
- Fewer respondents experienced positive changes in the other dimensions, namely, paying bills on time (16%), saving money (14%) and maintaining an emergency savings fund (8%).

FIGURE 7-7: CHANGES IN FINANCIAL CAPABILITIES DIMENSIONS DUE TO A NILS LOAN (%)



Recommendation

Undertake further exploration into why some NILS clients experience a worsening in financial capabilities – regardless of whether attributed to a NILS loan or not – to improve this outcome. The emergence of personal financial management tools for the financially included and innovations through MoneySmart[16] could be replicated to help those on low incomes to manage their finances.

7.3.3 Economic outcome – Cost savings

Kathy's story provides insights into how obtaining a NILS item and referrals resulting from the financial conversation, can result in a realisable cost saving, in this case the household food bill.

Key findings

- 33% (234 of the 710) of the NILS respondents experienced a *net increase* in cost savings due to NILS, while 5% (39) of the respondents reported a *net decrease* in cost savings due to NILS.
- The use of goods rental services is as prevalent and predatory as fringe credit.

The purchase of an essential item through a NILS loan can generate cost savings. For example, a fridge allows perishable food to be purchased in bulk and stored longer, which decreases food bills; replacing an energy inefficient appliance with an efficient one decreases utility bills; and purchasing a washing machine can divert recipients from laundromat or goods rental services (Ayres-Wearne & Palafox, 2005). However the acquisition of a fridge when the NILS recipient had none prior will increase utility bills.

The cost savings construct considered four dimensions:

1. Food bill
2. Utility bills (e.g. power and water)
3. Spending on services, such as laundromats and internet services and
4. Spending on goods rental schemes.

16 Examples of methods and innovations in managing finances can be found at the MoneySmart website https://www.moneysmart.gov.au/

Kathy's Success Story

Kathy* is an Indigenous woman with six children, four of whom are under ten. Kathy's partner struggled with alcohol abuse and Kathy left with her children after an incident of domestic violence. After living in emergency housing provided by the local women's service provider, the family has now been found public rental place. Kathy has managed to save money to pay rent in advance and the service provider has offered some basic second-hand furniture such as beds, but the family still needs a fridge. She considers getting a 'payday' loan to buy one second-hand.

Kathy's younger sister has taken out a NILS loan before and lets her know about the local NILS program. Kathy contacts the NILS worker and her application is organised. Kathy's sister also attends the interview to support her and it is shown that Kathy has been managing well on a tight budget. However, household food costs are an issue. Kathy is therefore referred on to the local food program which provides groceries at below supermarket prices. The NILS worker also knows that Kathy will be able to purchase perishable food in bulk once she has a fridge. Another barrier is that Kathy has only just moved into her current address.

Kathy's loan is approved by the Loan Assessment Committee who take into account the special circumstances surrounding Kathy's length of time at her address. The worker helps Kathy select a fridge that is energy efficient and it is delivered to the family's new home.

Due to the NILS loan and the process, the family are now able to eat more fresh food, improving their health. They are also saving money as they are able to buy and store larger quantities of food. Kathy feels a greater level of self-confidence, having managed to get everything together for the application. She also has an improved sense of self-esteem because she feels that she can properly provide for her family.

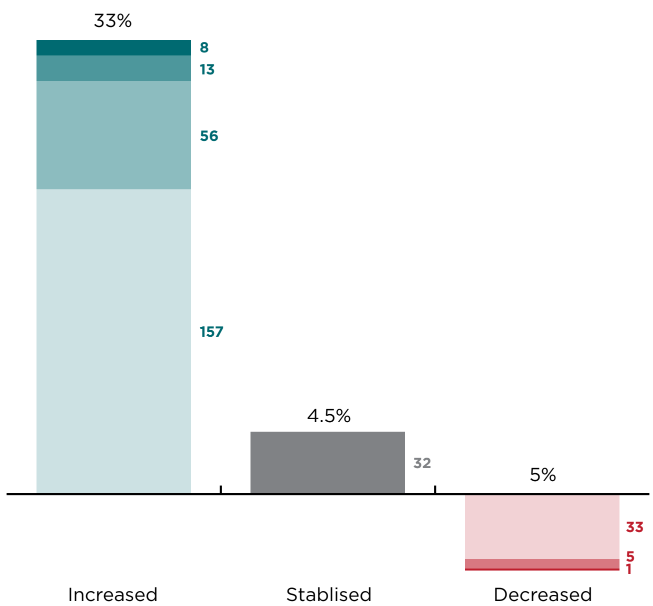
* Fictitious client, but based on the review of the case studies and developed to represent a typical NILS success story.

Changes in the four dimensions were used to determine respondents' net change in cost savings due to a NILS loan:

- 33% (234) of the 710 NILS respondents experienced a net *increase* in cost savings.
- An additional 4.5% (32) of the respondents achieved stability in their cost savings.
- Only 5% (39) of the respondents reported a *net decrease* in cost savings.

In Figure 7-8, darker shades represent a more significant increase or decrease in the cost savings outcome construct.

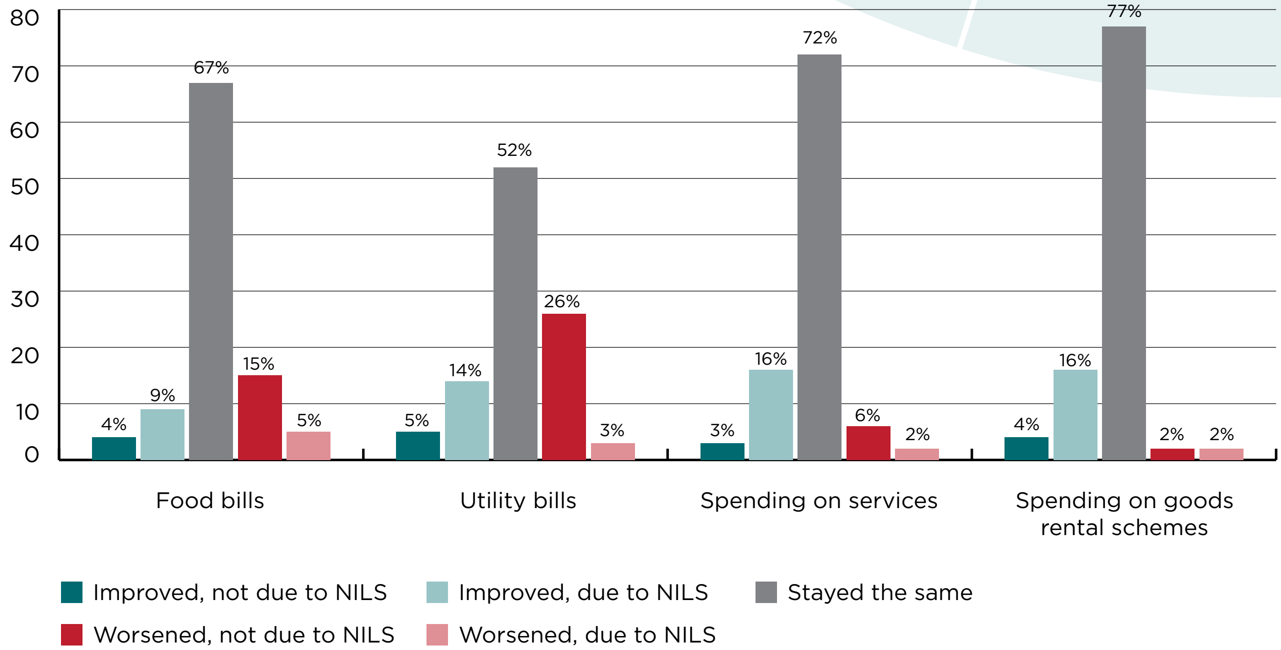
FIGURE 7-8: NET CHANGES IN THE COST SAVINGS CONSTRUCT DUE TO A NILS LOAN



Additional analysis identified that older respondents (50 and above) experienced significantly lower cost savings compared to the 25-to-34 year old group because they were more likely to purchase essential white goods when they had none prior to their NILS loan. Respondents with a lower fortnightly income (between the $500 and $999) also experienced lower cost savings than those earning over $1500 per fortnight.

Figure 7-9 contains changes in respondents' cost savings dimensions. Due to the NILS loan, 16% (111) of the NILS respondents experienced cost savings through reducing their spending on services such as laundromats and reducing their use of goods rental schemes. These results suggest that the use of goods rentals services is an issue among the NILS respondents and that the NILS might provide an affordable alternative. Also utility and food bills decreased for 14% (99) and 9% (62) of the NILS respondents respectively.

FIGURE 7-9: CHANGES IN COST SAVINGS DIMENSION DUE TO A NILS LOAN (%)



Survey respondents described how the NILS helped to achieve cost savings, for example:

> *"Since I fixed [the] windows, don't need as much heating."* – (Single mother living in Tasmania).
>
> *"Good to have a fridge that just doesn't chew up power because the other one did and the last quarter was 60 dollars cheaper all because of the fridge."* –(Older male living alone on a disability support pension).

A small proportion of respondents experienced higher utility costs (3%) and food bills (6%), and increased their spending on services (2%) and goods rental schemes 2%) due to receipt of a NILS loan.

Recommendation

Explore whether the use of goods rental services is as prevalent and predatory as fringe credit and deepen understanding of the types of NILS clients and situations where a goods rental is a preferred alternative.

7.3.4 Economic outcome – Financial Independence

Key finding

- 327 of the 710 respondents (46%) experienced a *net improvement* in financial independence due to a NILS loan.
- 15 respondents (2%) reported a *net worsening* in financial independence

The NILS loan recipients who find it difficult to cope with financial stress might rely on family and friends or Centrelink Advances for cash or use Emergency Relief for vouchers. Obtaining a NILS loan can lead to greater financial independence for NILS recipients by providing them with an alternative source of credit.

The financial independence construct considered respondents' reliance on three dimensions:

- Family and friends
- Emergency Relief and
- Centrelink Advances.

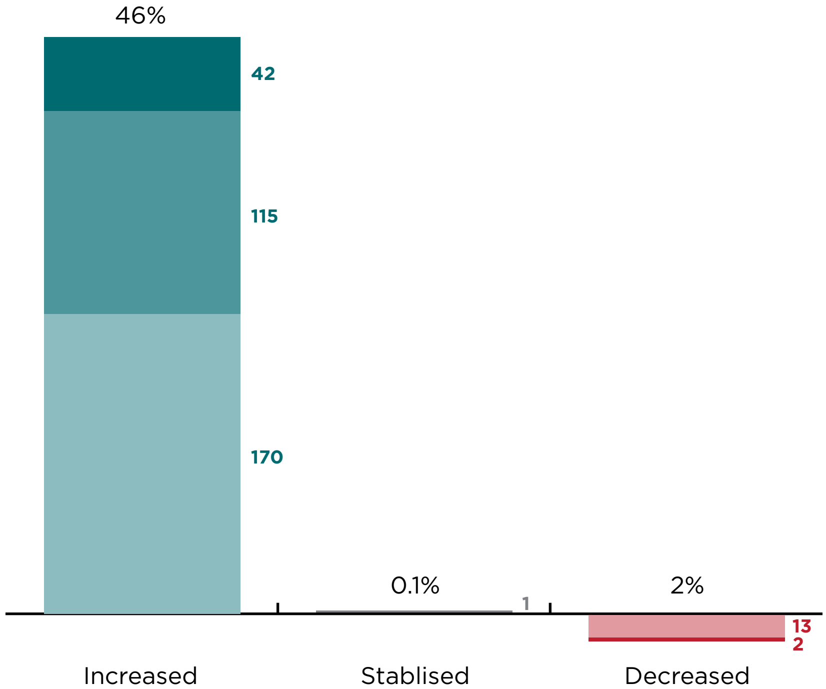
Changes in the three dimensions were used to determine the net change in respondents' financial independence, due to the NILS loan.

Due to a NILS loan:

- 46% (327) of the 710 NILS respondents experienced a net improvement in financial independence.
- .01% (1) respondent achieved stability in financial independence.
- 2% (15) of the respondents reported a net worsening in their financial independence.

Darker shades in Figure 7-10 represent a more significant improvement or worsening in the financial independence outcome construct.

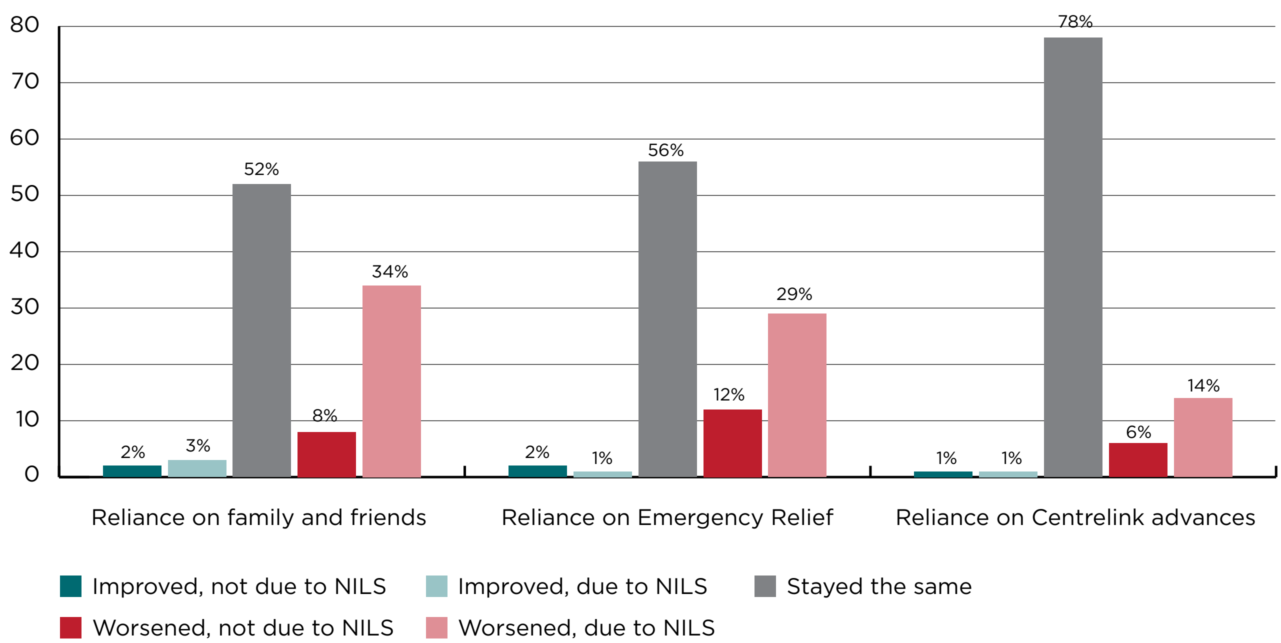
FIGURE 7-10: NET CHANGE IN THE FINANCIAL INDEPENDENCE CONSTRUCT DUE TO A NILS LOAN



Respondents who held a mortgage were significantly less likely than respondents who rented privately or through public housing to experience an improvement in financial independence.

Figure 7-11 contains changes in respondents' financial independence dimensions. Of the 710 respondents, 244 (34%) reduced their reliance on family and friends due to their NILS loan. Respondents also reduced their reliance on Emergency Relief (29%) and to a lesser extent, Centrelink Advances (14%).

FIGURE 7-11: CHANGES IN FINANCIAL INDEPENDENCE – INDIVIDUAL DIMENSIONS DUE TO A NILS LOAN (%)



Survey respondents described the positive impact of financial independence of accessing a NILS loan to participate in society:

> *"I now know there is another option out there."* – (Single mother who used a NILS loan to purchase furniture).
>
> *"NILS gave me the ability to go to university."* – (Older female living alone, who used a NILS loan to purchase a computer).
>
> *"I was able to not have to sell off everything I had to pay off the [vehicle] rego."* (Unemployed male living in a share house).

7.3.5 Economic outcome – Use of fringe credit

Fringe credit is often associated with predatory lending practices such as high interest rates and hidden charges. Since the NILS loan is not a direct substitute for fringe loans, there is uncertainty about the viability of the NILS loan as an alternative to fringe credit (The Australian Government, Treasury, 2012)

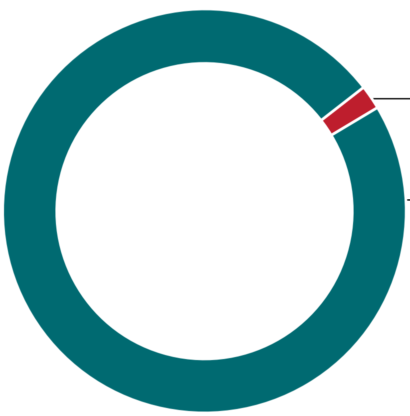
Key Finding

- 42% (105) of the 250 respondents who had obtained fringe credit in the past either stopped or reduced their use of fringe credit due to the NILS loan.
- However 2 respondents (1%) increased their use of fringe credit due to their NILS loan.

The survey results suggest that the NILS loan can be an alternative to fringe credit. Namely, due to a NILS loan:

- 42% (105) of the 250 NILS respondents who used fringe credit in the past either stopped or reduced their use of fringe credit.
- 3% (2) of the respondents increased their use of fringe credit[17].
- The net savings from not accessing fringe loans due to the NILS loan was $69,408[18].

FIGURE 7-12: CHANGE IN FRINGE CREDIT USE DUE TO A NILS LOAN



Survey respondents illustrated the different ways in which the NILS loan provided an alternative to fringe credit:

> *"[NILS] took [payday loans] out of the equation so I didn't have to consider them."* – (Single mother living in WA, used her NILS loan to pay for a motor-vehicle related expense).

> *"Way less money going out in payments back to the loans."* – (Indigenous single mother living in QLD, used her NILS loan to purchase furniture).

Figure 7-13 further shows respondents' change in use of fringe credit after receiving a NILS loan. 42% (105) stopped or reduced their use due to receiving the NILS loan. 36% (20) of the 55 respondents who continued to borrow from fringe lenders increased their reliance on fringe credit; however 90% (18) of the 20 NILS respondents did not attribute it to the NILS loan.

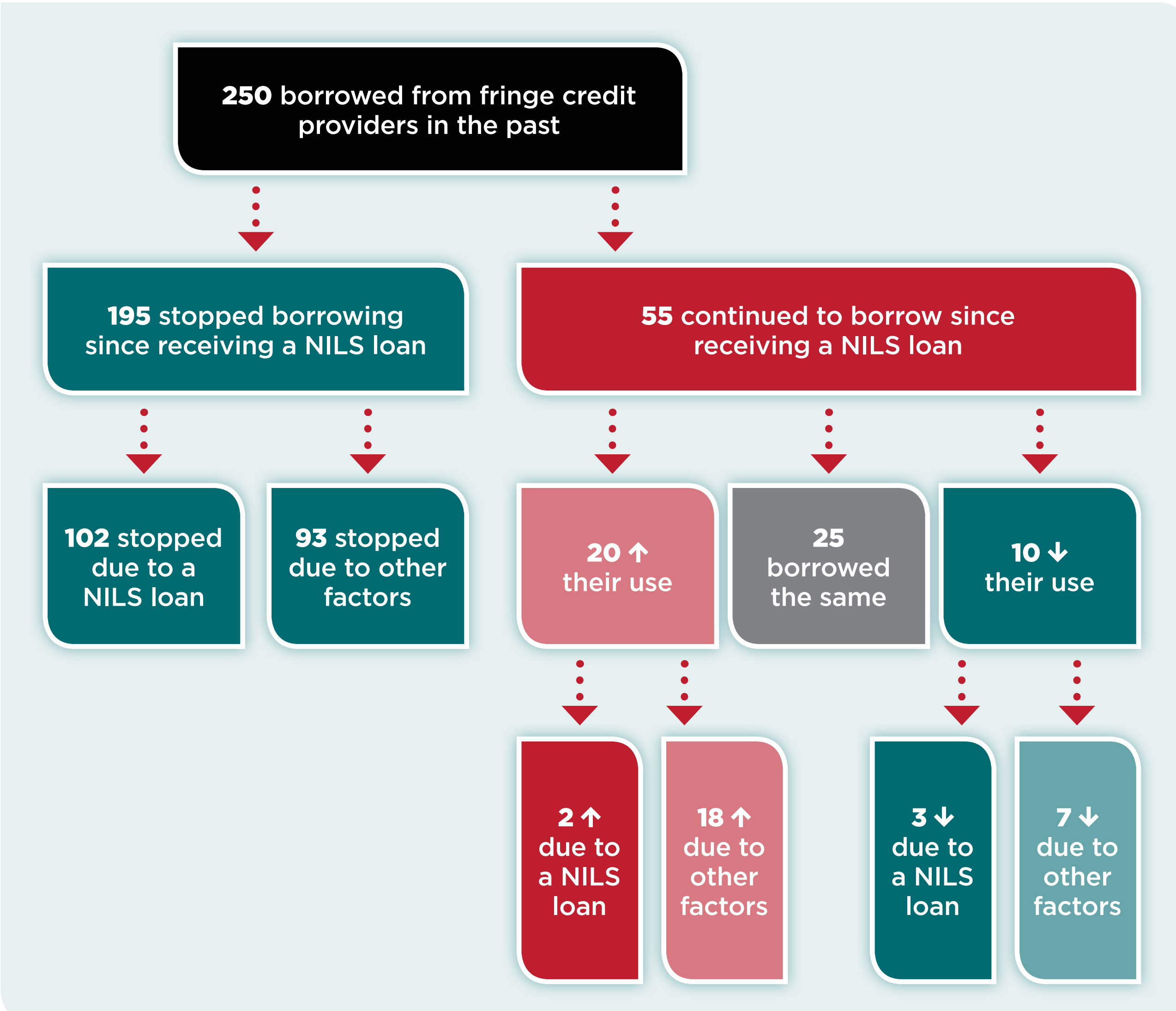
Recommendation

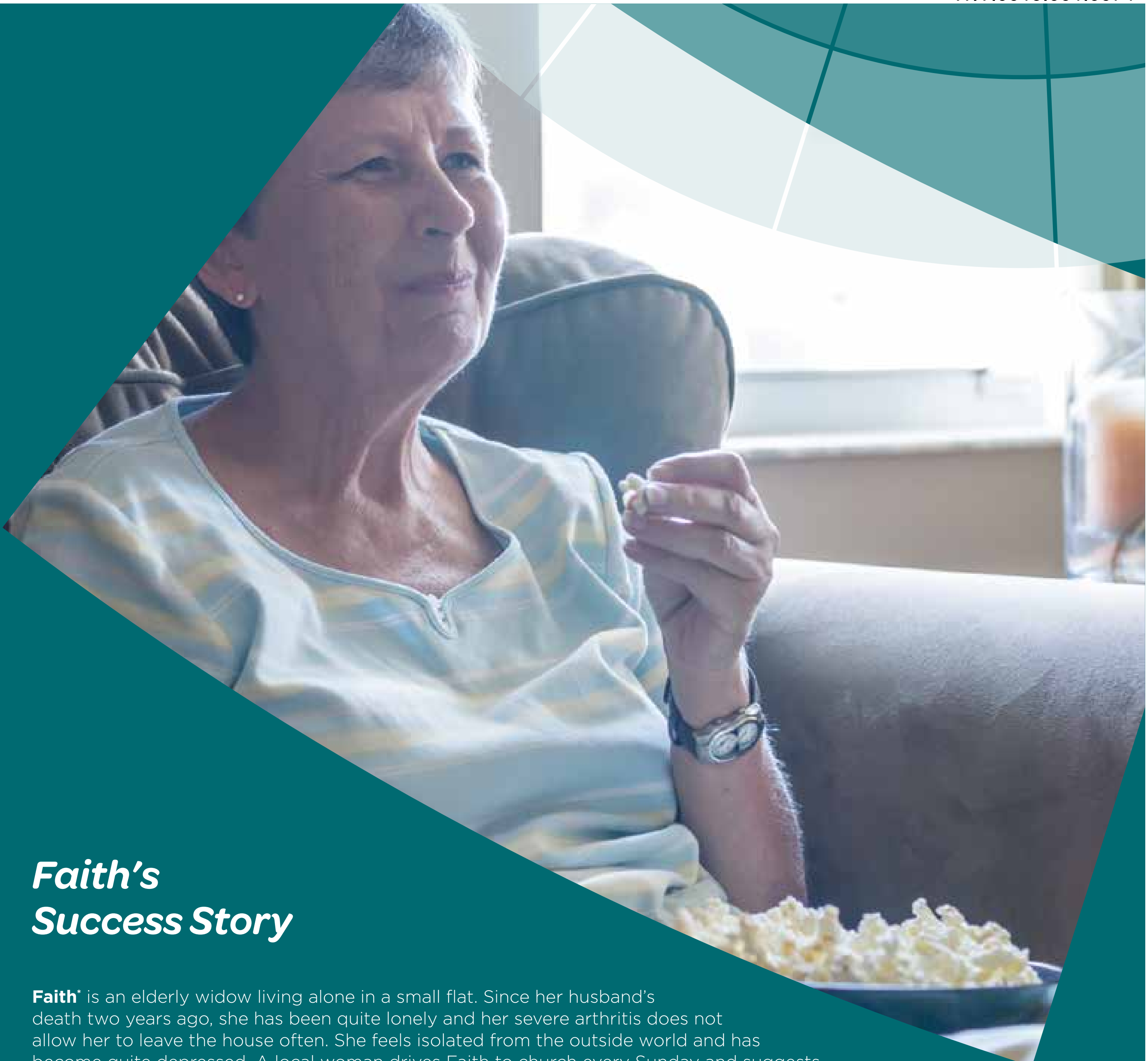
Further investigate the role of the NILS loan in deterring individuals from using fringe credit and goods rental schemes. Investigate whether there is a causal relationship between the NILS loan and a reduction in the need for fringe credit and goods rental schemes.

17 CSI further analysed the two respondents who increased their use of fringe lenders due to the NILS. There were no characteristics that differentiated them from the rest of the sample population.

18 Refer to Appendix H for a working of net savings from not accessing fringe loans due to NILS.

FIGURE 7-13: CHANGE IN FRINGE CREDIT BREAKDOWN DUE TO A NILS LOAN





Faith's Success Story

Faith* is an elderly widow living alone in a small flat. Since her husband's death two years ago, she has been quite lonely and her severe arthritis does not allow her to leave the house often. She feels isolated from the outside world and has become quite depressed. A local woman drives Faith to church every Sunday and suggests that Faith could consider getting a television to provide entertainment and keep her connected with the outside world. However, Faith does not have any savings and feels she can't afford a television.

Faith finds information on the NILS loan in a community newsletter mailed by the local faith-based organisation connected to her church. She likes the idea that it is a loan rather than a hand-out and contacts the NILS worker to apply. The woman who provides Faith with transport drives her to the interview, although it proves difficult at first to agree a time suitable for everyone. Once at the interview it becomes clear that Faith struggles with managing her money and that she has a direct debit to a charity that she had been unaware was not a one-off payment. The NILS worker helps her contact the charity and cancels the regular donation and Faith can now afford the repayments on the loan.

Faith receives her TV and is delighted with it. Not only does it keep her entertained but she is now up-to-date with current affairs and feels part of the community. Furthermore, she is given a topic to talk about when ringing her younger sister and she feels that their relationship has improved because of this. The lady who drives her to church also comes in and watches part of a show with her. Faith's sense of isolation is reduced and she feels much less depressed.

Five months after receiving the NILS loan, Faith passes away with part of the loan still to be repaid. However, her quality of life in her last few months was dramatically improved by the NILS loan.

* Fictitious client, but based on the review of the case studies.

7.3.6 Social and health outcomes

As illustrated in Faith's story, the NILS loan generates significant social and health outcomes for recipients. In this example, Faith experiences an improvement in her quality of life in the last few months of her life. Her feelings of isolation and depression are reduced and she increases her social contact. The survey results supported the theory that the NILS loan has significant social and health benefits in a number of areas.

Key finding

- 74% (522) of the respondents experienced a *net improvement* in their social and health outcomes, and attributed this change to the NILS loan.
- 1% (7) of the respondents reported a *net worsening* in social and health outcomes due to the NILS loan.

Previous evaluation studies of the NILS loan showed that the purchase of an item through the NILS corresponds to positive health and social outcomes, particularly on quality of life and self-esteem (Mouy, 2010). Studies also suggest that having a financial conversation during the loan application process and even completing the NILS loan process, has positive effects on recipients' mental and emotional wellbeing (Brackertz, 2012).

The social and health outcome construct contained seven dimensions:

- Standard of living
- Stress and anxiety level
- Confidence in achievements in life
- General confidence and self-esteem
- Physical health, such as tiredness, backache or other physical pain
- Personal relationships and
- Participation in social activities, such as organisations, volunteer activities, sporting clubs.

The findings from the seven dimensions were used to determine the net change in social and health outcomes of respondents, due to the NILS loan.

Due to a NILS loan:

- 73% (522) of the NILS respondents experienced net improvement in social and health outcomes.
- 3% (22) of the respondents were prevented from experiencing a net worsening in social and health outcomes.
- 1% (7) of the respondents experienced a net worsening in social and health outcomes.

In Figure 7-14, darker shades represent a more significant improvement or worsening in the social and health outcome construct.

FIGURE 7-14: CHANGE IN SOCIAL AND HEALTH OUTCOME CONSTRUCT DUE TO A NILS LOAN

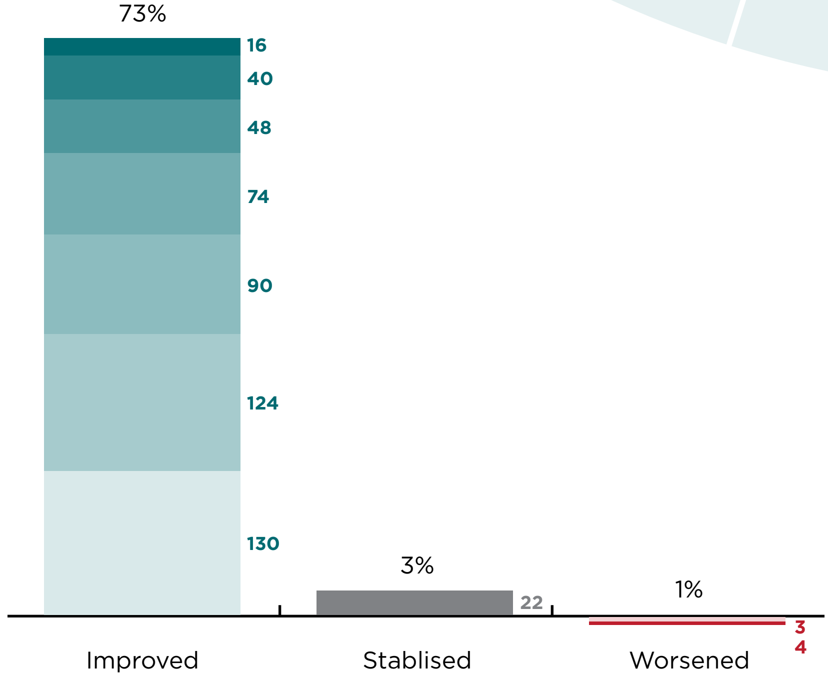
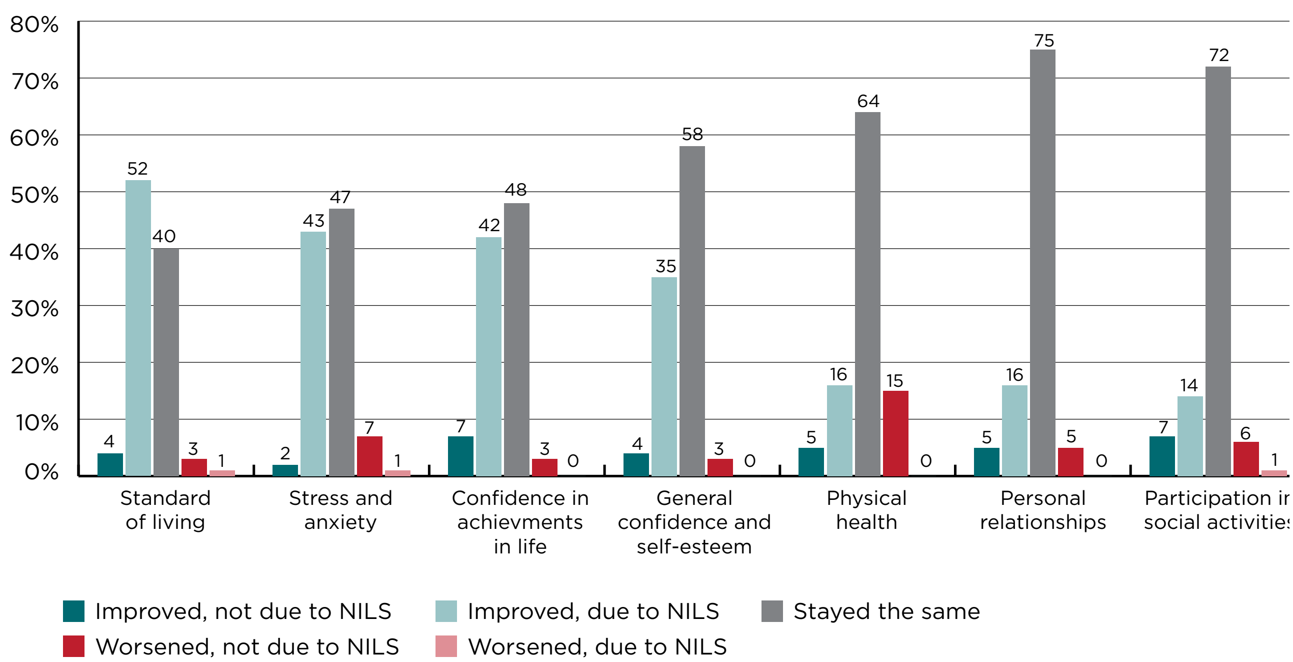


Figure 7-15 contains changes in respondents' social and health dimensions due to a NILS loan. A large proportion of respondents reported a positive change in their standard of living (52%), stress and anxiety level (43%) and confidence in their achievements in life (42%). A further 247 respondents (35%) experienced an increase in general confidence and self-esteem. To a lesser extent, respondents reported an improvement in physical health (16%), personal relationships (16%) and participation in community (14%).

FIGURE 7-15: CHANGE IN SOCIAL AND HEALTH OUTCOMES DUE TO A NILS LOAN (%)



A number of survey respondents explained the positive social outcomes as a result of receiving a NILS loan:

> *"I've received a happy family and I don't have to use Eskies as a result of getting the fridge. It was a life saver."* – (Woman on disability support, living with her partner and children, used her NILS loan to purchase a fridge for the family).

"Greater communication through use of the computer as a result of the NILS loan and my family are overseas and I wouldn't have been able to keep in touch with them." – (Older female born overseas and on disability support, used her NILS loan to purchase a computer).

"The actual freedom I was given in having a vehicle. Mobility able to get to doctors' appointments and not relying on other people. I suppose independence would cover it all." - (Victorian woman living on disability support, used her NILS loan for a motor vehicle-related expense).

Very few NILS respondents reported a negative change in any of the dimensions due to the NILS loan (1% for standard of living, stress and anxiety, and participation in social activities, and 0% in all other dimensions).

7.4 Financial exclusion - impact of the NILS loan

Key findings

For most respondents the NILS loan did not provide a conduit to financial inclusion based on the product definition:

- 76% of NILS respondents' financial inclusion status stayed the same since receiving a NILS loan.
- More than half of all respondents reported that due to costs they did not own financial products.

Connolly et al, (2011) defines financial exclusion as a "lack [of] access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit" where ownership of a credit card is a proxy for the latter. The definition suggests that there are two components to the financial exclusion definition; a products-based definition (ownership of the three products) and a characteristics-based definition (affordable and appropriate). In Australia, the provision of microfinance is often seen as a means of helping individuals become more financially included.

7.4.1 The NILS respondents and financial inclusion

The NILS survey captured the financial inclusion status of the respondents before and after the receipt of a NILS loan. The findings presented in Figure 10-16 shows that most respondents' financial inclusion status did not change after the receipt of a NILS loan (76%). Since receiving a NILS loan:

- 7% of respondents' financial inclusion status improved;
- 17% of respondents' financial inclusion status worsened.[19]

FIGURE 7-16: CHANGE IN FINANCIAL INCLUSION STATUS DUE TO RECEIPT OF A NILS LOAN

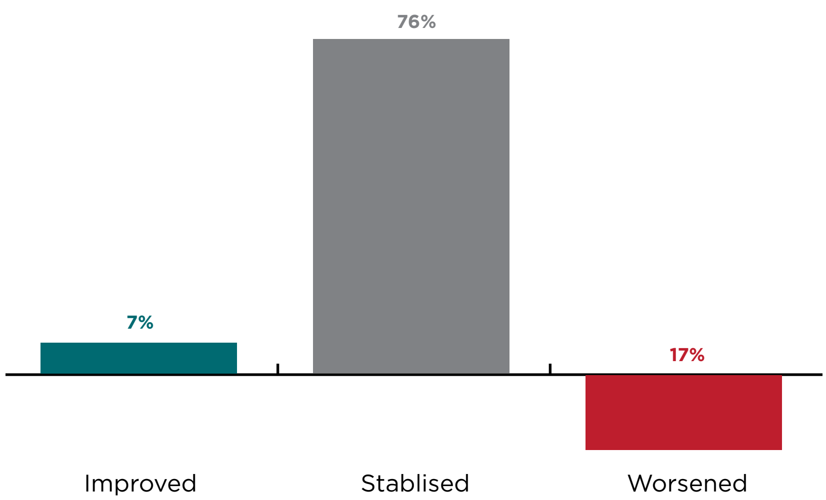
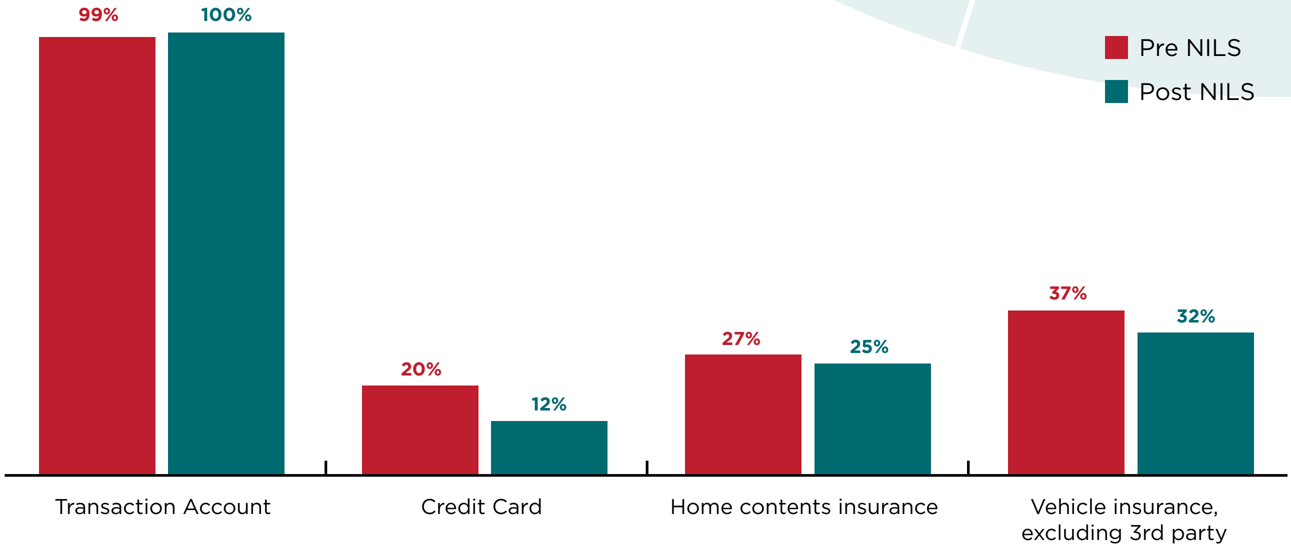


Figure 7-17 shows that after the receipt of a NILS loan, fewer respondents owned a credit card, vehicle insurance and home contents insurance. The possession of a transaction account, which is a requirement to obtain government allowance, slightly increased after the receipt of NILS.

19 Note that it is unclear whether the changes in respondents' financial inclusion status were linked to the receipt of a NILS loan.

FIGURE 7-17: FINANCIAL PRODUCT OWNERSHIP OF THE NILS CLIENTS



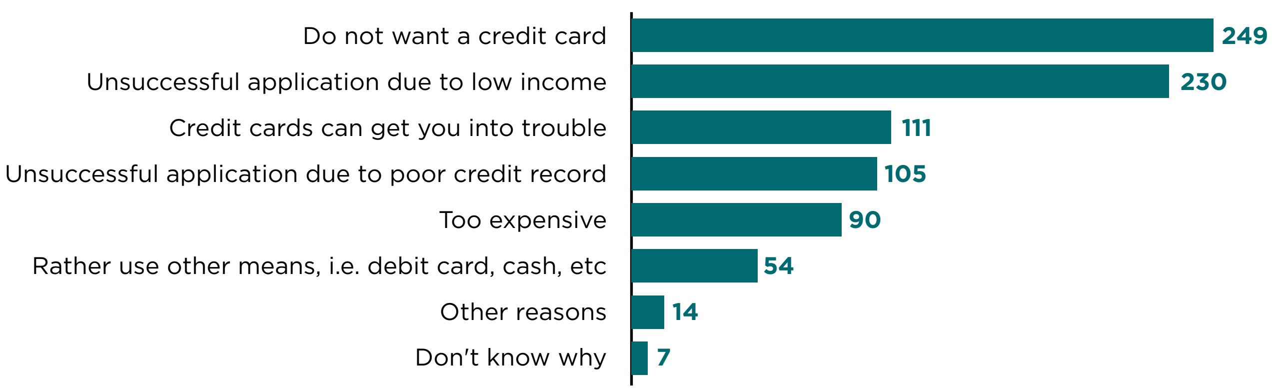
As part of the survey, respondents who did not own the key financial products were asked why they did not own them[20]. More than half reported that it was too expensive to do so (Table 7-3)[21].

TABLE 7-3: LACK OF OWNERSHIP OF FINANCIAL PRODUCT DUE TO COST

	Do not own the product	Do not own the product due to cost
Credit Card	624	302
Home content insurance	530	277
Vehicle insurance* *Only include respondents who currently own a working vehicle.	185	160

In addition to not owning a credit card due to cost exclusion, some respondents did not want a credit card or believed that it would not be appropriate (e.g. credit cards can get you into trouble; unsuccessful application due to poor credit record). Figure 7-18 contains the reasons for not owning a credit card.

FIGURE 7-18: NILS LOAN RECIPIENTS' REASONS FOR NOT OWNING A CREDIT CARD



Overall, the results reported here suggest that the NILS loan is not a direct conduit to financial inclusion and that a product-ownership approach to defining financial exclusion might not be appropriate for low-income individuals using non-mainstream financial products.

However, the findings from Section 7.2 shows that the NILS loan can still provide a pathway to the outcomes financial inclusion seeks to achieve, and so in this sense, is a successful program.

20 General insurance was separated into home contents insurance and vehicle insurance to take into account the fact that not all respondents owned a car. Respondents only had to hold one type of insurance for the purposes of measuring their level of financial inclusion.
21 Note that more than one reason for not owning the financial product or service could be nominated.

Recommendations

That the level of credit card ownership by those on low incomes is further explored in the next formulation of the NAB/ CSI Financial Exclusion indicator to deepen understanding of the nature of financial exclusion and pathways to financial inclusion.

The reduction in ownership of home contents and vehicle insurance may be putting assets at risk. It is therefore recommended that the risks associated with non-insurance and under insurance are raised in financial conversations with the NILS clients and consideration is given to the development of affordable insurance products for the NILS clients to minimise these risks.

7.5 Process Evaluation and Network Analysis[22]

Key findings

The loan delivery process varies across states and providers. However elements of best practice worthy of replication were identified where the loan delivery process contributed to some positive changes in respondents' outcomes.

In particular:

- There were some more positive outcomes where the NILS providers were more flexible with the loan selection criteria (although there was no distinct relationship between the lower risk NILS respondents and improvements in outcomes).
- Respondents who received supporting services in addition to a NILS loan were more likely to experience improvements in outcomes than recipients who did not.

The NILS loan is rarely viewed as a stand-alone product; rather, it is viewed as a "program" comprising a number of key elements or as one of many "tools" in the toolbox providers use to address the needs of their clients. Therefore, as part of the outcome evaluation, an exploratory process and network analysis was undertaken through which correlations between the loan delivery process and respondents' outcomes were identified.

This section explores the relationship between two aspects of the loan delivery process and the NILS respondent's outcomes. To better understand the way in which the NILS provider can influence the benefits that a NILS loan provides, CSI consulted nine NILS representatives from four governance structures (see section 2.3.1). The opinions of the representatives, in addition to the results from the telephone survey of the 710 NILS recipients, were drawn upon to inform the processes we considered. The NILS loan processes that were considered are:

1. *Eligibility of the NILS applicants*: How does the eligibility criteria differ across providers and do these differences affect recipient outcomes?
2. *Supporting services:* Are recipients who receive supporting services, in addition to a NILS loan, more likely to experience improvements in outcomes than recipients who only receive a NILS loan?

It is important to reiterate that the process and network analysis was exploratory and the findings provide useful insights but are suggestive at best. Namely, CSI only analysed four governance structures in two states and interviewed a small selection of provider organisations, and so their opinions cannot be generalised to the entire NILS network. Causal links between the loan delivery process and improvements in outcomes could not be established because other variables that might have influenced outcomes, could not be controlled.

7.5.1 Eligibility of the NILS applicants

Key findings

- There is variability in the eligibility process with the NILS providers using subtle differences in terms of criteria.
- The NILS network "self-organises" to refer NILS loan applicants to providers who can meet their needs.

The process and network analysis revealed insights into the assessment of the eligibility of the NILS loan applicants, including a range of different practices. Some NILS providers have guidelines relating to specific client types such as those on New Start or those experiencing domestic violence. This variability means that the NILS applicants are referred to another NILS provider on the basis of either client eligibility or specific purpose of the program.

22 Please note that the process evaluation and network analysis was exploratory and the findings provide useful insights but are suggestive at best. Due to limitations in the scope of analysis, causal links between the loan delivery process and improvements in outcomes could not be established

Providers sometimes consider the "eligibility criteria" a device to screen out "risky" applicants. Risky applicants are those who are more likely to incur financial hardship from taking out a NILS loan due to its repayments and who are subsequently more likely to default on the loan. Depending on the level of risk the provider is willing to incur, the eligibility criteria can be tighter or looser.

To illustrate, a provider might believe an applicant who has lived at the same residence for more than six months is less likely to experience financial hardship from making loan repayments than an applicant in transient housing. The provider might thus stipulate that applicants must live at the same residence for at least six months to qualify for the NILS loan. However, another provider might counter that riskier applicants are more likely to experience positive outcomes than less risky applicants. For example, the NILS loan applicants who live in transient housing are more likely to be refused access to mainstream services, including credit, than applicants who have lived at the same address for six months or more. They will thus appreciate and benefit more from the NILS loan than others applicants. Indeed, this might explain why some providers embed exceptions to the six month residential requirement (for example, victims of domestic violence); use a three month residential requirement; or waive the residential requirement entirely.

The relationship between the rigidity of the eligibility criteria and respondents' outcomes is presented in Table 7-4. Less rigid eligibility criteria imply that the provider is more likely to approve riskier applicants. The residential requirement was used to determine the rigidity of the eligibility criteria as follows.

Respondents who received their NILS loan from providers with[23]:

- no residential requirement were grouped in Category 1
- a three month residential requirement were grouped in Category 2
- a six month residential requirement but allowing for exceptions, were grouped in Category 3
- a six month residential requirement with no exceptions, were grouped in Category 4.

For each category, the percentages that are reported in Table 7-4 were calculated by determining the difference between the proportion of those surveyed NILS clients who experienced a net improvement in each outcome construct (categorised by the rigidity of the eligibility criteria), and the corresponding proportion of the entire sample population from the telephone survey. Positive and higher scores indicate that respondents from the relevant category were more likely to experience improvements in outcomes than the general population, while negative and lower scores indicate that respondents from the relevant category were less likely to experience improvements in outcomes than the general population[24].

TABLE 7-4: RELATIONSHIP BETWEEN RESPONDENTS' OUTCOMES AND RIGIDITY OF ORGANISATIONS' ELIGIBILITY CRITERIA

Category	Financial Capabilities	Cost Savings	Financial Independence	Social and health
1 (Least rigid)	2.4%	-0.4%	12.0%	14.8%
2	-3.7%	22.0%	6.4%	3.3%
3	-1.4%	-17.4%	-9.5%	-4.8%
4 (Most rigid)	4.4%	-0.9%	1.0%	-1.2%

The findings suggest that there is no correlation between riskiness and improvements in outcomes for the NILS respondents from the survey. In other words, risky respondents were just as likely to experience improvements in outcomes as less risky respondents.

Recommendations

The different loan eligibility criteria should be formally recognised so that potential NILS loan applicants can be directed to those NILS providers best able to meet their needs.

Although these findings have been generated from exploratory analysis, the learning in relation to eligibility and risk should be included in the training of the NILS staff.

23 CSI was unable to include all provider organisations that participated in the survey in this analysis, as not all policies and procedures manuals were available.

24 For working out, refer to Appendices E, F and G.

7.5.2 Supporting services

Key finding

Respondents who received supporting services in addition to the NILS loan were more likely to experience improvements in outcomes than the NILS loan recipients who did not.

It is routinely claimed that an organisation that provides a greater breadth of services is better able to meet a client's complex needs than an organisation that provides only one service (Provan & Milward, 1995). This was reflected in the opinions of the NILS providers CSI engaged with – they explained that the NILS loan is only one component in a toolkit of many. As such, the NILS loan is sometimes delivered concurrently with other services such as financial counselling, Home Energy Saving Scheme (HESS), Emergency Relief, Foodbanks and food vouchers. This is because the NILS loan recipients often have underlying issues of which not being able to access credit is a manifestation, and so require a suite of services and programs to help solve their underlying issues.

Though the NILS providers are only required to have a "financial conversation" with the NILS loan recipients during the loan process, 15% of the NILS respondents reported they received complementary services such as financial management and counselling, in addition to their NILS loan as illustrated in Table 7-5.

TABLE 7-5: OTHER SERVICES RECEIVED THROUGH CONTACT WITH A NILS WORKER

Additional services received	No.	%
Financial management	53	7%
Counselling (general)	11	2%
Employment and training	3	0%
Rental and housing support	17	2%
Health services	4	1%
Food/food vouchers	22	3%
Other	24	3%
None	607	85%

The hypothesis that the NILS loan respondents who also received supporting services were more likely to experience improvement in outcomes than respondents who only received a NILS loan was tested. Specifically, the proportion of respondents who did or did not receive additional services and experienced an improvement along the four outcome constructs (Table 7-6) was compared to the proportion of the entire sample that experienced an improvement along the four outcome constructs from the telephone survey[25].

TABLE 7-6: RELATIONSHIP BETWEEN RESPONDENTS' OUTCOMES AND THE RECEIPT OF SUPPORTING SERVICES

	Financial Capabilities	Cost Savings	Financial Independence	Social and health
Did not receive supporting services	-5.7%	-6.5%	-3.8%	-1.4%
Received supporting services	33.4%	38.5%	22.3%	8.3%

For all outcomes, respondents who received a NILS loan and supporting services were more likely to experience improvements in outcomes than the overall sample population, particularly for the financial capabilities and cost savings outcomes. Respondents who only received a NILS loan were less likely to experience improvements in outcomes than the overall population, though this effect was not large. One survey respondent explained the benefits and value of receiving additional assistance through the loan process:

> *"They helped me with a Mastercard debt and almost reduced it to nothing."* –(Indigenous single mother, used her NILS loan to purchase furniture).

Recommendation

Further investigate the types of additional services provided in-house or through partners and as part of the loan delivery process, and their specific impact on recipients' outcomes. Good practice should be emulated and where possible standardised across the NILS network.

25 Refer to Appendix I for calculations and workings.

8. Social and Economic Impact Model

Key findings

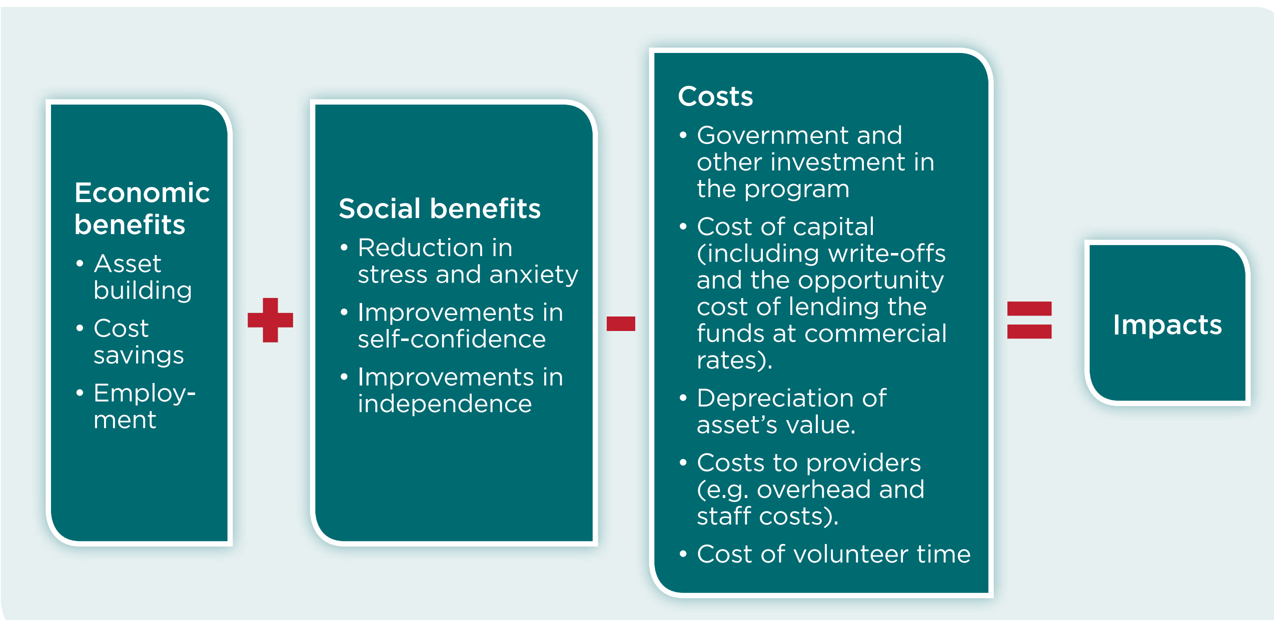
Changes in outcomes due to the NILS loans were quantified in a social and economic impact model. The findings from the model suggest that:

- For every dollar invested in a NILS loan, $1.59 worth of social and economic value was created.
- For the 710 respondents, over a three-year period a total of $1,063,010 of economic and social benefit was created at a cost of $668,000. A net benefit of $395,000.
- The rate of social return varies for each loan purpose type. The purchase of a fridge with a NILS loan generated the greatest return ($2.45 per dollar invested).

8.1 Summary of findings from the social and economic impact model

The social and economic impact model valued the material outcomes experienced by the 710 NILS survey respondents and the costs associated with the provision of the loans. The material benefits experienced by respondents were categorised as either economic or social. The costs of providing the loans included direct and indirect expenses to the respondents, the loan providers and the program sponsors. Figure 8-1 contains the material costs and benefits components considered in the model.

FIGURE 8-1: THE SOCIAL AND ECONOMIC IMPACT MODEL[26]



For the 710 NILS loan respondents[27]:

- $830,900 worth of economic benefit and $232,110 worth of social and health benefits were expected to be generated over a three-year period. This represents a total of $1,063,010 in value created for 710 loan recipients at an average of $1,497 per client.
- The cost of providing NILS to 710 recipients was valued at $668,000, averaging at $941 per recipient.
- This means that for the 710 recipients, a net benefit of $395,000 was created.

Therefore, for every dollar invested in a NILS loan, $1.59 worth of social and economic value was created.

However, almost 10% ($63,000) of the value of the inputs incurred no actual financial cost, specifically relating to the opportunity cost of the use of capital (5.9% - $39,600) and use of volunteer time (3.5% - $23,600). If the value of these input items are removed from the calculations, the social return on the real input costs would increase from $1.59 to $1.76.

26 A breakdown of the benefits experienced by item type and alternatives faced by recipients can be found in Appendix J
27 All figures were tested for sensitivity and the social and economic return ranged from $1.37 at worst to $1.84 at best.

Equally, almost two-thirds (63% - $352,000) of the value of the inputs related to government funding - $202,000 from Federal Government and $151,000 from State governments.

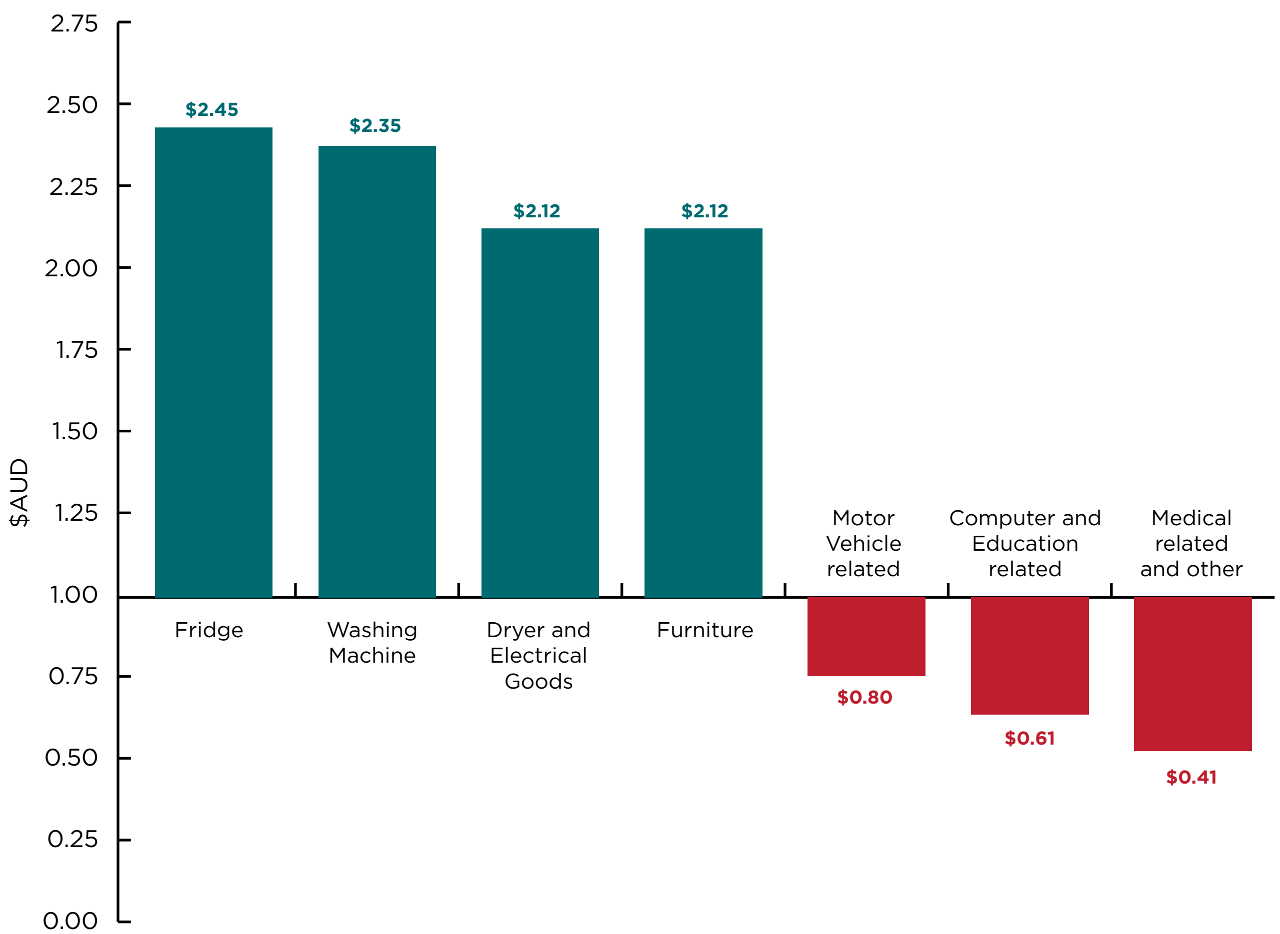
Overall Government therefore achieved a social return of $3.02 for each dollar of funding provided – the Federal Government achieveing a social return of $5.27 for each dollar of funding provided, and the state governments combined achieving a social return of $7.06 for each dollar of funding provided.

8.2 Social and Economic Return by Item Purchased

The rate of social and economic return differed according to the item purchased using the NILS loan, as shown in Figure 8-2. Based on the model:

- The purchase of a fridge generated the greatest return of $2.45 per dollar invested, closely followed by the washing machine.
- The dryer, electrical goods and furniture returned more than double the value of the investment.
- Motor vehicle-related purposes, computer and education, and medical-related and other purposes generated a negative return. We could not quantify the value generated by medical-related loans in preventing further deterioration in health. As such, not all the social and economic value created by medical-related items was captured.

FIGURE 8-2: SOCIAL AND ECONOMIC RETURN BY ITEM PURCHASED



The findings reflect the lifecycle of the benefits generated by the NILS products. Namely, the purchase of a fridge or electrical good generates immediate benefits, whereas computers and education most likely takes more than the three-year timeframe that was considered in the model to generate positive value.

9. Expanding Impact: Discussion and Recommendations

The findings from the outcomes evaluation demonstrate that the No Interest Loan Scheme (NILS) improved the lives of many of its recipients. In particular, the receipt of the essential good or service helped mitigate financial hardship through generating cost savings and improved the quality of life, health and mental wellbeing of the survey respondents. Three outcome constructs were considered in the outcomes evaluation – financial capabilities, economic and social and health outcomes. The key results from the outcome evaluation are:

1. **The NILS targets Australia's most vulnerable individuals.** At the time of the survey, 94% of survey respondents were living under the poverty line and 55% were severely financially excluded. In addition, 48% of all respondents were unable to improve their economic situation through finding employment due to physical disability and/or age.
2. **The NILS loan directly improves the lives of its clients.** 82% of survey respondents experienced a net improvement in outcomes. Most significantly, 74% of respondents experienced a net improvement in social and health outcomes.
3. **The NILS diverts clients from predatory lenders such as fringe credit providers and goods rental services.** Due to the NILS, 105 respondents stopped or reduced their use of fringe credit and 111 respondents reduced their use of rent-to-own services.
4. **The NILS creates positive economic and social impact.** The economic and social impact model showed that for every dollar invested in NILS, a social and economic return of $1.59 is created. The NILS item that generated the most impact is the fridge, which generates a social and economic return of $2.45 for every dollar invested.

If increasing social impact is a goal of the NILS, Good Shepherd Microfinance should design and implement strategies to increase the number of individuals who access the NILS and maximise the amount of impact generated per loan.

Increasing the number of loans provided

The evaluation provides strong evidence for program expansion as most respondents (82%) experienced improvements in outcomes due to NILS. Based on the market analysis, in 2013 it is estimated that overall 345,002 households have a demand for a NILS loan. However, only 21,114 NILS loans were delivered in the 2012 financial year. On this basis, only 6% of the demand was met in 2012.

Recommendation 1: Explore strategies to expand the NILS.

Conduct further market analysis and other research on barriers and incentives to understand why NILS only meets a small percentage of the market. Develop strategies and projections based on these strategies to expand the NILS.

Promote NILS and invest in research and innovation to ensure that NILS achieves its long-term goals.

This growth could include a combination of:

- A continuation of the organic growth through the expansion of activities of existing partners, including centralised, franchise and independent organisations that have the capacity and infrastructure.
- Investment in state centralised systems where it is possible to demonstrate an appropriate balance between efficiency and effectiveness.
- Place-based investment into locations where there is evidence of unmet need or targeting recipient segments where there is unmet need.

Recommendation 2: Refine the design of the NILS to meet the needs of NILS clients who may otherwise choose alternatives that lead to negative outcomes.

Due to the design features of the NILS, in terms of both product and delivery (time) service, it may not meet the demand for credit for some individuals that are eligible for the NILS loan. These individuals may choose alternative options including going without or accessing credit through other providers such as fringe lenders or rent-to-buy schemes.

- Explore the potential to meet unmet demand specifically in relation to refining and enhancing the design of the NILS in terms of both the loan product and the delivery process. Two areas with potential are: streamlining the NILS process so that cash can be made available quicker; expanding access to loans online to remove components of the competitive advantage of fringe lenders.

The NILS loan eligibility criteria, including the residential requirement, may prevent some potential recipients from receiving a NILS loan. However, the application of eligibility criteria varies.

- Assess the merits of refining the eligibility criteria to widen access without unduly increasing risk.
- The NILS loan amount restricts its use. Expenses such as housing repairs or motor vehicle repairs/rego may exceed the maximum NILS loan amount permitted for the NILS, which may cause individuals to turn to other forms of credit if they are eligible, or to fringe products to cover higher cost items.
- Assess the merits of increasing the maximum NILS loan amount for those who can afford their NILS repayments but may not be eligible or be able to afford a StepUP loan. This work should be conducted in collaboration with the NILS network of providers to ensure a consistent understanding of the client needs and to ensure a standardised policy.
- Recipients can only hold one NILS loan at a time. Households that face further cash flow problems or financial crises might need to source alternative forms of credit such as fringe products or financial assistance such as Emergency Relief to help meet their needs.
- Assess the merits of providing top-up loans for those NILS clients with a good track record in order to reduce the possibility of them using fringe products or Emergency Relief.

Increasing impact per loan

In addition to increasing the reach of the NILS, increasing the value created per loan is an essential part of expanding the impact of the NILS. Currently, the NILS loan generates a positive rate of return of $1.59 for every dollar invested in the program. Therefore, to ensure that the rate of return increases, further exploration is needed to understand who is less likely to receive positive outcomes from the NILS and to identify ways to improve their outcomes.

Recommendation 3: Investigate the recipient groups who are more likely to experience a worsening in outcomes.

- Conduct further research to understand why the NILS loan is less beneficial for some individuals and to devise ways to cater for them.
- In particular, further research into those who experience a worsening or no change in outcomes could lead to the development of some profiling criteria to identify those clients who are:
    - Likely to achieve positive outcomes
    - At risk of negative outcomes
    - On a pathway to financial inclusion through StepUP/AddsUP
    - Defined as in poverty where the NILS loan provides the basis for stability but not improvement.

Recommendation 4: Investigate methods to improve financial capability

Explore why some NILS clients experience a worsening in financial capabilities – regardless of whether attributed to the NILS loan or not – to improve this outcome. The emergence of personal financial management tools for the financially included and innovations through MoneySmart[28] could be replicated to help those on low incomes to manage their finances.

28 Examples of methods and innovations in managing finances can be found at the MoneySmart website https://www.moneysmart.gov.au/

Recommendation 5: Recognise that the use of goods rental services is as prevalent and predatory as fringe credit.

While low-income, financially excluded individuals concern the government with the increasing use of fringe credit, the results from this evaluation suggest that these individuals are also susceptible to using goods rental services. The survey results suggest that the NILS loan is an affordable alternative to both fringe credit and goods rental.

Assess whether the use of goods rental services is as prevalent and predatory as fringe credit and deepen understanding of the types of the NILS clients and situations where good rental is a preferred alternative.

Investigate the role of the NILS loan in deterring individuals from using fringe credit and goods rental schemes. This should include further work to assess whether there is a causal relationship between a NILS loan and a reduction in the need for fringe credit and goods rental schemes.

Recommendation 6: Investigate the role of accessing credit in defining financial exclusion and the role of the NILS loan in providing a pathway to financial inclusion using the product definition.

Further explore the level of credit card ownership by those on low incomes in the next formulation of the NAB/CSI Financial Exclusion indicator to deepen understanding of the nature of financial exclusion and pathways to financial inclusion for those on low incomes.

Recommendation 7: Increase awareness among the NILS clients of the risk of non-insurance and under-insurance.

The reduction in ownership of home contents and vehicle insurance may be putting assets at risk. It is therefore recommended that the risks associated with non-insurance and under-insurance are raised in financial conversations with NILS clients and that further research is also conducted to fully understand and assist the development of affordable insurance products for low income clients, as it is recognised that there are considerable economic challenges for insurers to develop suitable insurance products for low income clients.

Governance Structures, Organisational Capacity and Performance

The study has revealed a wide variety of governance structures relating to both the NILS operations at a state level and individual NILS providers. The process and network analysis revealed numerous elements of best practice that could be shared across the NILS network.

The research has also revealed the importance of support services in achieving positive outcomes for the NILS clients.

Recommendation 8: Identify and recognise the diversity of governance structures and links to positive outcomes.

Identify, define, and codify the different NILS governance structures. Further research can subsequently be conducted to understand whether they affect recipients' outcomes in order to identify and replicate best practice across the NILS network.

Recommendation 9: Investigate the role of centralised NILS services and the NILS case management systems.

The exploratory research has revealed both costs and benefits relating to centralised state and centralised organisation systems. Further investigate the merits of these systems. In particular, the merits of case management systems should be assessed.

Where identified, good practice should be standardised across the NILS network.

Recommendation 10: Investigate the contribution of support services to delivering better outcomes.

Investigate the types of additional services provided in-house and as part of the NILS loan delivery process and their specific impact on recipients' outcomes. Good practice should be standardised across the NILS network.

Recommendation 11: Invest in quality standards and performance measurement for the NILS network.

Establish a diagnostic tool for the NILS providers to provide an assessment of quality to support the ongoing impact and performance of the NILS network. This tool could include a full range of metrics and key performance indicators relating to inputs, processes, quality, outputs and outcome. The metrics could focus on key aspects such as recipient satisfaction measures, innovations and entrepreneurship within the NILS network. Examples of such metrics are contained in Table 9-1

A standardised diagnostic tool in addition to rigorous data insights could create a stronger picture of 'best practice' across the NILS network and help with decision making processes on a program and state level, such as disbursement of capital, training needs and innovation.

TABLE 9-1: EXAMPLE OF NILS PROVIDER SCORECARD METRICS

Stage	Indicator			
	Name	**Description**	**Rationale**	**Measures**
Initial Enquiry	Breadth of outreach	The breadth of outreach is concerned with the proportion of demand for a NILS loan that is currently met	Potentially provide grounds for scaling up the program	* Demand met = Active loans / Demand for a NILS loan * Demand met = Active loans / Demand for NILS
Interview	Depth of outreach	The depth of outreach investigates the demographics of the client group	Establish whether the people who potentially need it the most are being reached	* Eligibility requirements * Demographics
Loan Approval	Spillage	Spillage measures the number of people that drop out at the various stages of the loan process	Identify potential reasons why clients drop out - clients may choose to opt out because the process is too lengthy	* Show up ratio = Interviews conducted / Interviews booked * Cheques drawn / Loans approved * Interview waiting time (days) = Time between interview booking & interview * Notification waiting time (days) = Time between submitting loan documents & notification of loan outcome
	Efficiency	Evaluates how efficiently case workers allocate their time	Due to capacity constraints, areas of inefficiencies in the process which may lead to a wastage of resources (time, etc...) or duplication of effort, need to be identified and eliminated	* Loan approvals / Interviews conducted * Loan approval / Loans assessed by LAC
	Final Meeting			
Loan Repayment	Portfolio quality	Consider the rates of arrears and loans written-off during the period	Loan collection has proved to be a strong proxy for general competence Evaluate the riskiness of the program (at the site level)	* Currently not paying ratio = Loans currently not paying / Number of active loans * Write-off ratio = Loans written-off ($) during period / Average gross loan portfolio ($) during period

Administration of the NILS network

Data and information management is important to the functioning and performance monitoring of the NILS network. Ongoing high-quality monitoring and measurement across the NILS network is needed to identify where approaches are more or less successful. This is pertinent, as CSI's analysis of the July to December 2012 NILS Half Yearly Statistical Report (HYSR) raised some concerns regarding the quality of the data collected.

Recommendation 12: Invest in and support the data collection process across the NILS network.

Strengthening the data collection and reporting processes will ensure better quality data and analysis reliability. In addition, further specific training and support to the NILS providers will assist them in the data collection process and demonstrate the benefits of effective information management.

It is understood that many of these issues have been addressed in the latest round of the GSM data collection for the statistical report, however due to the large scale of the NILS operations and the prospects of expansion, NILS will require sustained efforts in data collection and training.

Conclusion

This report represents the first nation-wide quantitative outcome evaluation of the No Interest Loan Scheme (NILS) since its launch in 1981 by the Good Shepherd Sisters. Over the last 32 years, the Good Shepherd Microfinance NILS has experienced significant growth, providing over 125,000 individuals with access to fair and affordable credit through a network of 257 community-based providers across Australia.

The findings suggest that the effect of the NILS on the lives of Australia's most vulnerable and marginalised is significant. That is, a NILS loan does appear to significantly impact on financially excluded Australians, specifically improving their financial capabilities and economic, social and health outcomes.

NILS has already made a major contribution to the wellbeing of society. However for Good Shepherd Microfinance and its partners to expand their impact access, further research is required to consider who and where to target and what practices correspond to greater impacts.

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Appendices

Appendix A: Market Analysis – Determining affordability

Two data sources were used to determine the number of individuals able to afford a NILS loan: The Melbourne Institute's Henderson Poverty Line Report (June 2010, to make comparable with other 2009-10 data) and ABS Household Expenditure Survey (2011).

The Melbourne Institute's Henderson Poverty Line Report provided information on income by allowance or pension type and household composition. From the ABS Household Expenditure Survey (2009-10), we obtained the average household expenditure and used the equalising factor to determine the expenditure per individual. This expenditure level was then multiplied by the number of people in a household eligible for a NILS loan to determine the gross expenditure of that household. The gross expenditure was then compared to the income figures obtained from the Henderson Poverty Line Report.

For those households which were marginally unable to afford a NILS loan using the original expected household expenditure based on the survey, spending on three items was removed from their expenditure: overseas holidays (a luxury item), spending on credit card interest (for which they would not be eligible), and spending on whitegoods (which is obviously replaced by the NILS loan). This led to some households having an adjusted expenditure.

The percentage of households in each household composition category that could be expected to afford the repayments on a NILS loan was determined by examining the difference between income and expenditure factoring in NILS repayments. Those households with an income equal to, or almost equal to, their expenditure were determined as having around a 50 per cent chance of being able to afford a NILS loan. Household types with a gross income substantially higher than their expenditure, were determined as having a 90 per cent chance of being able to afford a NILS loan. Household types with a gross income substantially lower than their expenditure, were determined as having a 10 per cent chance of being able to afford a NILS loan. Table A-1 provides a breakdown of the household types, income, expenditure and proportions of eligible households in Australia.

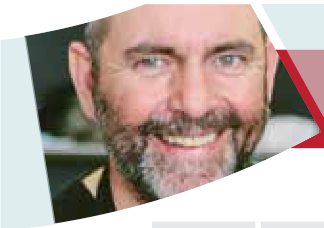
TABLE A-1 MARKET ANALYSIS – HOUSEHOLD INCOME AND EXPENDITURE BREAKDOWN

Household and payment type	Income ($/wk)	Expenditure ($/wk)	NILS loan ($/wk)	Remainder ($/wk)	No. of eligible households	% able to afford	No. eligible households able to afford	% needing a NILS loan in a single year	No. households needing a NILS loan in a single year
Single – allowee	288.10	306.96	11.92	-30.78	137,691	10%	13,769	27%	3,704
Single – pensioner	407.25	393.97	11.92	1.36	816,477	45%	364,316	27%	98,001
Single – 1 child	492.31	479.93	11.92	0.46	71,674	44%	31,283	27%	8,415
Single – 2 children	570.78	542.10	11.92	16.76	163,072	61%	99,822	27%	26,852
Single – 3 children	683.55	643.74	11.92	27.89	96,348	73%	70,526	27%	18,972
Single – 4 children or more	791.00	745.38	11.92	33.70	37,631	79%	29,899	27%	8,043
Couple – allowee	471.20	460.44	11.92	-1.16	54,224	42%	22,723	27%	6,113
Couple – pensioner	582.00	566.69	11.92	3.39	740,806	47%	346,791	27%	93,287
Couple – 1 child	585.51	552.53	11.92	21.06	65,207	66%	42,934	27%	11,549
Couple – 2 children	663.98	644.62	11.92	7.44	148,357	51%	75,921	27%	20,423
Couple – 3 children	776.75	736.70	11.92	28.13	87,654	73%	64,384	27%	17,319
Couple – 4 children or more	884.20	828.79	11.92	43.49	133,517	90%	120,166	27%	32,325
Total					2,552,658		1,282,534		345,003

Appendix B: The NILS Survey Questions

No.	Question	Responses
1. SECTION: NILS information		
1.1	How many NILS loans have you received in total?	
1.3	What is the primary use of your {current} NILS loan?	Fridge; Washing machine; Dryer; Electrical good; Furniture; Motor-vehicle repairs/rego; Computer; Education; Medical related; Other
1.4	How do you make repayments for your {current} NILS loan?	Centrepay; Direct debit from your bank account; Other
1.5	What other services have you received as a result of your contact with the NILS worker?	Financial management; Language support; Counselling (general, e.g. personal; family); Employment and training; Rental and housing support; Health services.
2. SECTION: Financial Inclusion		
2.1.1A	Do you currently own a transaction account?	Yes; No
2.1.1B	Why not?	It is too difficult to visit the bank branch; You are unable to provide identity documents; You already access an account through family member; It is too expensive; You do not want the product; You do not understand how a transaction account works; Other
2.1.1C	Prior to receiving your {current} NILS loan, did you own a transaction account?	Yes; No
2.1.2A	Do you currently own a credit card?	Yes; No
2.1.2B	Why not?	You have tried but have been unsuccessful due to poor credit record; You have tried but have been unsuccessful due to income; You have tried but have been unsuccessful due to inability to provide documents; It is too expensive; You do not want the product; You do not understand how a credit card works; Other
2.1.2C	Prior to receiving your {current} NILS loan, did you own a credit card?	Yes; No
2.1.3A	Do you currently own home contents insurance?	Yes; No
2.1.3B	Why not?	You don't see the value of insurance; You have tried but have been unsuccessful in applying; It is too expensive; You do not want the product; You do not trust insurance products; You do not understand how home contents insurance works; Other
2.1.3C	Prior to receiving your {current} NILS loan, did you own home contents insurance?	Yes; No
2.1.4A	Do you currently own vehicle insurance, excluding third party?	Yes; No
2.1.4B	Why not?	You do not own a vehicle; You don't see the value of insurance; You have tried but have been unsuccessful in applying; It is too expensive; You do not want the product; You do not trust insurance products; You do not understand how vehicle insurance works; Other

2.1.4C	Prior to receiving your {current} NILS loan, did you own vehicle insurance, excluding third party?	Yes; No
2.2.1A	Have you had, or do you currently have a StepUP loan?	Yes; No
2.2.1B	Are you aware of StepUP loans?	Yes; No
3 SECTION: Economic Outcomes		
Employment		
3.1	What is your current employment status?	Employed; Not employed and seeking work; Not employed and not seeking work.
3.2	On what basis are you currently employed?	Full-time; Part-time; Casual
3.3	What is preventing you from gaining employment?	A full-time parent; A full-time carer of an elderly person or person with a disability; A student; Retired; Unable to work due to a disability and/or health issue; Other.
3.4	Before receiving your {current} NILS loan, what was your employment status?	Employed; Not employed and seeking work; Not employed and not seeking work.
3.5	On what basis were you employed?	Full-time; Part-time; Casual
3.6	To what extent did NILS contribute to the change in your employment status?	To no extent; To some extent; To a great extent
3.7	Compared to before receiving your NILS loan, how satisfied are you with your employment and income?	Less satisfied; About the same; More satisfied.
3.8	To what extent did NILS contribute to your change in satisfaction with your employment and income?	To no extent; To some extent; To a great extent
Cost Savings		
3.9	Have you ever borrowed from a fringe lender or a pawn broker?	Yes; No
3.10	Since receiving your {current} NILS loan, have you borrowed from a fringe lender or a pawn broker?	Yes; No
3.11	How many times have you borrowed from a fringe lender or pawn broker in the past three months?	Once; Twice; Three times; Four times or more
3.12	Before receiving your {current} NILS loan, how many times do you think you borrowed from a fringe lender or pawn broker over a typical three month period?	Once; Twice; Three times; Four times or more; Did not borrow from a fringe lender before receiving NILS
3.13	To what extent did NILS contribute to your change in use of fringe lenders or pawn brokers?	To no extent; To some extent; To a great extent
3.14	How did NILS contribute to this change in use of fringe lenders or pawn brokers?	Reduced cost of living; Better able to plan and/or budget; Repayments increased cost of living; Other increased costs associated with NILS item/service (e.g. increased power use); Increased income; Other.



3.15	Have you experienced any of the following as a result of receiving your {current} NILS loan?	Better able to save money through bulk buying food Experienced a decrease in electricity cost due to using a more efficient appliance. Stopped using Laundromats Reduced use of rent-to-own goods Saved money from reduced transportation costs None of the above Other
3.16	Compared to before you received your {current} NILS loan...	
3.16.1	Has your food bill...	Increased; Stayed the same; Decreased
3.16.2	Did NILS contribute to this change?	To no extent; To some extent; To a great extent
3.16.3	Have your utility bills (e.g. power and water)...	Increased; Stayed the same; Decreased
3.16.4	Did NILS contribute to this change?	To no extent; To some extent; To a great extent
3.16.5	Has your spending on services such as Laundromats, internet services or medical services...	Increased; Stayed the same; Decreased
3.16.6	Did NILS contribute to this change?	To no extent; To some extent; To a great extent
3.16.7	Has your spending on rent-to-own items...	Increased; Stayed the same; Decreased
3.16.8	Did NILS contribute to this change?	To no extent; To some extent; To a great extent
4 SECTION: Quality of life		
4.1	Had you not received the NILS loan to purchase your good or service, how would you have managed?	Rent the item; Use a faulty item; Use a family or friend's item; Use public amenities; Go without; Unsure; Other
	On a scale from 1 to 10, where 10 indicates that you are most satisfied, and 1 indicates that you are least satisfied, how satisfied are you with:	
4.2	Your standard of living	1; 2; 3; 4; 5; 6; 7; 8; 9; 10; Don't know; Don't understand
4.3	Your physical health	1; 2; 3; 4; 5; 6; 7; 8; 9; 10; Don't know; Don't understand
4.4	What you are currently achieving in life?	1; 2; 3; 4; 5; 6; 7; 8; 9; 10; Don't know; Don't understand
4.5	Your personal relationships?	1; 2; 3; 4; 5; 6; 7; 8; 9; 10; Don't know; Don't understand
4.6	Feeling part of your community?	1; 2; 3; 4; 5; 6; 7; 8; 9; 10; Don't know; Don't understand
Financial benefits from good		
4.7	Compared to before you received your {current} NILS loan...	
4.7.1A	Do you ask for financial assistance from family and friends	More often; about the same; less often
4.7.1B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent
4.7.2A	Do you use emergency relief	More often; about the same; less often
4.7.2B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent
4.7.3A	Do you apply for centre link advances	More often; about the same; less often
4.7.3B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent

Mental benefits from good		
4.8.1A	Has your standard of living:	Significantly worsened; Worsened; Stayed the same; Improved; Significantly improved
4.8.1B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
4.8.2A	Has your stress and anxiety levels:	Significantly worsened; Worsened; Stayed the same; Improved; Significantly improved
4.8.2B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
4.8.3A	Has your confidence in what you are achieving in life	Significantly worsened; Worsened; Stayed the same; Improved; Significantly improved
4.8.3B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
4.8.4A	Has your general confidence and self-esteem:	Significantly worsened; Worsened; Stayed the same; Improved; Significantly improved
4.8.4B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
Physical benefits from good		
4.9.1A	Has your physical health, such as tiredness, backache, or other physical pain:	Significantly worsened; Worsened; Stayed the same; Improved; Significantly improved
4.9.1B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
Social inclusion benefits from good		
4.10.1A	Has your personal relationships	Significantly worsened; Worsened; Stayed the same; Improved; Significantly improved
4.10.1B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
4.10.2A	Has your participation in social activities, such as community organisations, volunteer activities, sporting clubs	Significantly decreased; Decreased; Stayed the same; Increased; Significantly increased
4.10.2B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
5. SECTION: Financial capabilities outcomes		
Financial management		
5.1	Compared to before you received your {current} NILS loan, do you:	
5.1.1A	Follow a budget	Less often; About the same; More often.
5.1.1B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
5.1.2A	Pay more than the minimum payment required by a credit card or loan provider.	Less often; About the same; More often.
5.1.2B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
5.1.3A	Pay your bills on time.	Less often; About the same; More often.
5.1.3B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
5.1.4A	Save money from your pay or government income.	Less often; About the same; More often.
5.1.4B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
5.1.5A	Maintain an emergency savings fund.	Less often; About the same; More often.
5.1.5B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.
5.1.7A	Comparison shop or look for bargains	Less often; About the same; More often.
5.1.7B	Did NILS contribute to this change?	To no extent; To some extent; To a great extent.

Financial confidence		
5.2	Please indicate how much you agree with the following sentences	
5.2.1A	"I feel confident applying for a loan from a bank or credit union."	Strongly disagree; Disagree; Neither disagree nor agree; Agree; Strongly agree.
5.2.1B	"Before receiving my {current} NILS loan, I felt confident applying for a loan from a bank or credit union."	Strongly disagree; Disagree; Neither disagree nor agree; Agree; Strongly agree.
5.2.2A	"I feel confident applying for a credit card from a bank or credit union."	Strongly disagree; Disagree; Neither disagree nor agree; Agree; Strongly agree.
5.2.2B	"Before receiving my {current} NILS loan, I felt confident applying for a credit card from a bank or credit union."	Strongly disagree; Disagree; Neither disagree nor agree; Agree; Strongly agree.
Financial stability		
5.4.2	Do you feel that your current financial situation is	Very poor; Poor; Fair; Good; Very good
5.4.1	Compared to this time last year, do you feel that your financial situation is:	Significantly worse off; Worse off; No change; Better; Significantly better
5.4.3	How stable do you think your current financial position is?	Very unstable, Unstable; Stable; Very stable; Unsure.
5.4.4	How confident are you that your financial position will still be stable at this time next year?	Very unconfident; Unconfident; Confident; Very confident; Unsure.
6. SECTION: Background information		
6.1	Are you male or female?	Male; Female
6.2	What is your current age?	
6.3	Do you identify as an Aboriginal or Torres Strait Islander? You do not need to respond to this question.	Yes; No; Refused
6.4	Where were you born?	Australia; An English-speaking country not Australia; A non-English-speaking country.
6.5	What is the primary language spoken at home?	English; Other.
6.6	Which description best fits your household?	Lone person household; Couple family without dependents; Couple family with dependents; Single-parent family with dependents; Group (share) household; Other
6.7	How many dependents do you have?	
6.8	What is the tenancy type for your dwelling?	Own outright; Mortgage; Renting privately; Renting through public housing; Living with family; Boarding or share house; Temporary residence or hostel.
6.9	What is your highest level of education?	Year 9 or below; Year 10 or equivalent; Year 12 or equivalent; TAFE Certificate I, II or III; TAFE Certificate IV or Diploma; Bachelor's degree; Postgraduate degree.
6.10.	Which of these do you currently receive?	NewStart allowance; Age pension; Carer payment and/or allowance; Disability support payments; Youth allowance, Austudy or ABSTUDY; Child support payments; Parenting payment; Widow allowance; FTBA; Other; None
6.11.	What is your main source of income?	Self-employed; Waged; Government benefits

6.12.	What is your current personal income per fortnight? This includes income from government benefits.	
6.13.	Before receiving your {current} NILS loan, what was your personal income per fortnight? This includes income from government benefits	

Appendix C: NILS loan and other credit products comparison

Total repayment figures in Table C-1 are based on the assumption that the client takes out a $930 loan and repays it fortnightly over a 12-month period. The client never falls in arrears, fully repays the loan, and uses a credit card as if it was a term loan.

TABLE C-1: COST COMPARISON OF DIFFERENT CREDIT PRODUCTS

Segment	Segment	Additional Fee(s)*	Interest p.a.	Total Interest	Total Repayment	Late Payment Fee
Government Credit	Centrelink Advance payment	$0	0%	$0	$940	$0
Community Credit	NILS	$0	0%	$0	$930	$0
	StepUP	$0	3.99%	$37.1	$967.10	$0
	Fair Finance 1 year term**	-	35%	$325.50	$1,255.50	-
Fringe Credit	Cash Stop	20% of principal application fee	48%	$446.40	$1562.40	Not available
	Nimble payday loan^	20% of principal application fee	48%****	$446.40	$1562.40	$7/day
Mainstream Private Credit	St George Vertigo	$55/year	13.24%	$123.13	$1,108.13	$9
	ANZ low rate*****	$58/year	12.99%	$129.90	$1,187.90	$20
	NAB low rate credit card	$59/year	13.99%	$130.11	$1,119.11	$5

* Does not include fees that do not directly accrue to the credit provider, e.g., payment handling fees.

** Information on the additional and late payment fees not readily available

*** If the client notifies the institution about not being able to meet the repayment, the fees are $15

**** Maximum loan length is 50 days. Interest only applies to the principal

***** Minimum loan amount is $1,000

^Payday products arguably appeal to a different market. For example, Banks et al (2012:32) find that borrowers often use payday lenders and/or apply for short-term loans in Australia to “meet regular, weekly-type needs and expenses”. StepUP loan clients, in contrast, cannot use the funds on everyday household items, and bills.

Table C-2 provides a breakdown of rental costs for a selection of eligible items for a NILS loan. For the cost calculation a 36-month rental term was used, as this is the shortened period for the end of rental purchase, notwithstanding that the standard rental term is 18 months.

TABLE C-2: GOOD RENTAL COST COMPARISON

Item	Item value	Item rental	% of value	Details
Fridge	$999	$16.95/wk over 36 mths = $2644 $1 purchase of similar item* at end of 36 months.	264%	***Samsung 511L top mount white refrigerator*** Purchase: http://www.harveynorman.com.au/samsung-511l-white-fridge.html Rent-to-own: http://www.radio-rentals.com.au/rent-try-buy/Kitchen/Refrigerators/511L-Top-Mount-Fridge-White
Washing machine	$678	$10.95/wk over 36 mths = $1708	264%	***Fisher and Paykel 7kg top load washing machine*** Purchase: http://www.harveynorman.com.au/fisher-paykel-7kg-wash-smart-washing-machine.html Rent-to-own: http://www.radio-rentals.com.au/rent-try-buy/Laundry/Washers/Top-Load-Washing-Machine-7kg
Dryer	$389	$8.95/wk over 36 mths = $1396 $1 purchase of similar item at end of 36 months.	359%	***Simpson clothes dryer 5kg*** Purchase: http://www.harveynorman.com.au/simpson-kg-clothes-dryer-4465.html?CAWELAID=1527173783&gclid=CKHApsPH0bkCFYtgpQodpjAAnA Rent-to-own: http://www.radio-rentals.com.au/rent-try-buy/Laundry/Dryers/Clothes-Dryer-5Kg
TV	$699	$15.95/wk over 36 mths = $2488 $1 purchase of similar item at end of 36 months.	356%	***LG 42" Full HD LED TV*** Purchase: http://www.binglee.com.au/lg-42ln5400-42-106cm-full-hd-led-lcd-tv Rent-to-own: http://www.radio-rentals.com.au/rent-try-buy/Home-Entertainment/LCD-3D-Smart-TV/42---106cm--FULL-HD-LCD-TVp://www.radio-rentals.com.au/rent-try-buy/Laundry/Dryers/Clothes-Dryer-5Kg
Computer	$1299	$18.95/wk over 36 mths = $2956 $1 purchase of similar item at end of 36 months.	228%	***Aspire V5 Touch 15.6" Notebook*** Purchase: http://www.acerstore.com.au/acer/store/index.php/aspire-v5-571pg-73538g1tmass.html Rent-to-own: http://www.radio-rentals.com.au/rent-try-buy/Computer---Office/Notebooks/Aspire-Notebook---Mid
Car	$1750-$2990	$120/wk over 12 mths = $6240 May accept purchase offers as low as $1 at end of term.	209%-357% mini-mum	***Ford Fairmont 1997 sedan*** Purchase: http://www.carsguide.com.au/buy-a-car?makes=494&models=4294965350&yearFrom=1997&yearTo=1997 Rent-to-own: http://uownrentals1-px.rtrk.com.au/Our-Cars/Ford/Ford-344/

*Item is similar to the one rented in age, dimension and features (Radio Rentals website FAQs: http://www.radio-rentals.com.au/rental-information/faqs/#1). It is not clear if the item will be the same brand, quality and energy star rating.

Appendix D: Survey Respondent Demographics

Table D-1 contains a full breakdown of the demographic characteristics of the NILS survey respondents.

TABLE D-1: SURVEY RESPONDENT DEMOGRAPHIC CHARACTERISTICS

NILS survey (N = 710)	
Gender	
Female	74.1
Male	25.9
Age	
18-24	5.8
25-34	26.1
35-44	26.9
45-54	22.5
55-64	13.5
65+	5.2
Origin of borrower	
Non-Indigenous	82.7
Indigenous	16.8
Refused	0.6
Place of birth	
Australia	87.6
English speaking country, not Australia	8.7
Non-English speaking country	3.7
Primary language spoken at home	
English	98.6
Other	1.4
Housing Type	
Lone person household	28.6
Couple family without dependents	4.9
Couple family with dependents	10.6
Single parent family with dependents	42.8
Group/share household	9.0
Other	4.1

Number of dependents	
1	40.3
2	29.1
3	14.8
4	10.4
5	3.4
6	1.6
7	0.3
8	0.3
Tenancy type	
Own outright	4.4
Mortgage	4.9
Renting privately	38.2
Renting – public housing	46.8
Living with family	2.8
Boarding or share house	2.7
Temporary residence/hostel	0.3
Education: Highest Level reached	
Year 9	21.3
Year 10	30.4
Year 12	14.1
TAFE certificate I, II or III	15.1
TAFE certificate IV or diploma	11.5
Bachelor’s degree	5.8
Postgraduate degree	1.8
Government benefits	
Newstart allowance	17.3
Age pension	4.9
Carer payment and/or allowance	12.4
Disability support payments	38.0
Youth allowance	0.8
Austudy or ABStudy	2.5
Child support payments	13.9
Parenting payment	30.3
Widow allowance	0.7
Family Tax Benefit A	45.6
Other	3.9
None	0.7

Main source of income	
Self employed	0.4
Waged	8.0
Government benefits	91.5
Employment status	
Employed	15.4
Not employed and seeking work	20.7
Not employed and not seeking work	63.9
Income bracket	
$0-$499	7.4
$500-$999	59.3
$1000-$1499	24.9
$1500+	8.4

Appendix E: Calculating the net change in the dimensions for the financial capabilities, cost savings, financial independence, and social and health outcomes constructs

Step 1: For each of the dimensions making up the outcome constructs, survey respondents were asked if their situation improved, stayed the same or worsened. If they reported a positive or negative change, they were also asked to what extent the change was due to the receipt of a NILS loan.

For example, to calculate the net change in the financial capabilities outcome, respondents were asked whether they engaged in the following activities more often, about the same or less often:

- Follow a budget
- Pay bills on time
- Save money
- Maintain an emergency fund
- Comparison shop

For those who reported "more often" or "less often", we asked them whether the change was due to the NILS loan to "a great extent", to "some extent" or to "no extent".

Step 2: Respondents were allocated a score of -2, -1, 0, 1 or 2 on each dimension that makes up the outcome construct. If they reported an improvement in the dimension and attributed it to the NILS loan, they were allocated a score of 2. If they reported an improvement in the dimension and did not attribute it to the NILS loan, they were allocated a score of 1. If they reported a worsening in the dimension and attributed it to NILS, they were allocated a score of -1. If they reported a worsening in the dimension and did not attribute it to the NILS loan, they were allocated a score of -2. Respondents who reported experiencing no change in the dimensions were allocated a score of 0.

For example, consider the "follow a budget" dimension below. If the respondent followed a budget more often but did not attribute it to the NILS loan, they were assigned a value of 1. If they followed a budget more often and attributed it to some extent to the NILS, loan they were assigned a value of 2.[29]

Step 3: The number of respondents in each particular category was aggregated to calculate the total number of respondents who experienced an improvement or worsening due to the NILS loan, stayed the same, or experienced an improvement or worsening not due to the NILS loan.

29 Note that the reason for capturing whether the change in practice was due to the NILS to "some extent" and to a "great extent" was to make the social and economic impact model more nuanced. These nuances did not have to be captured when we reported on the survey results.

Appendix F: Calculating the net improvement or worsening due to NILS in financial capabilities, cost savings, financial independence, and social and health outcomes constructs

For the purpose of calculating net improvement or worsening due to a NILS loan, respondents were allocated a score of -1, 0, or 1 on each dimension that makes up the outcome construct. If they reported an improvement in the dimension and attributed it to the NILS loan, they were allocated a score of 1. If they reported a worsening in the dimension and attributed it to the NILS loan, they were allocated a score of -1. All other respondents were allocated a score of 0 (this includes respondents who experienced a change in the dimension, but did not attribute the change to the NILS loan). The scores from each dimension were aggregated to calculate the net change in the outcome construct. Table F-1 for example, illustrates how the net change in financial capabilities would be calculated for a respondent. The net score is the sum of the value assigned to each dimension. In our example, the net score equals 2 (1 + 0 – 1 + 1 + 1 = 2).

TABLE F-1: CALCULATING THE NET CHANGE IN FINANCIAL CAPABILITIES DUE TO THE NILS LOAN

	Follows a budget	Pays bills on time	Saves money	Maintains emergency fund	Comparison shops	Net Score
More often due to the NILS loan	X			X	X	
No change		X				
Less often due to the NILS loan			X			
Score	1	0	-1	1	1	2

Since there are five dimensions in the financial capabilities construct, the potential scores range between 5 and -5. Respondents with a score of 0 either experienced no change in the outcome due to the NILS loan or remained the same. These respondents were not reported on. A score greater than 0 indicates that the respondent experienced a *net improvement* in the outcome; a score less than 0 indicates that the respondent experienced a *net worsening* in the outcome. The closer the score is to 5, the greater the extent of improvement in financial capabilities. The closer the score is to -5, the greater the extent of worsening in financial capabilities. This variation in the extent of improvement or worsening is represented in Tables, 7.5, 7.9 and 7.11 by the different shades; the darker the shade, the greater the extent of improvement or worsening.

In the example above, the net score of 2 indicates that the respondent experienced a net improvement in the financial capabilities outcome.

Appendix G: Calculating the number of respondents who experienced stability in outcomes due to the NILS

The design of the survey instrument allowed us to disentangle changes in outcomes that were attributed to the NILS loan; changes in outcomes that were not attributed to NILS; and net changes in outcomes *after* the receipt of the NILS loan (net changes in outcomes considered changes that were due, and not due, to the NILS loan).

The following steps were adopted to determine the respondents who, in the absence of NILS, would have experienced a negative change in outcomes, but instead experienced no change in outcomes due to the NILS loan (i.e., financial capabilities, economic – cost savings, economic – financial independence, and social outcomes).

Step 1: Determine the respondents who experienced a worsening in outcomes due to factors other than the NILS loan.

Step 2: Determine the respondents who experienced no net change in outcomes (recall this metric aggregates the changes that occurred due to NILS, and the changes that occurred due to reasons other than the NILS loan).

Step 3: Use Steps 1 and 2 to determine the individuals who experienced a **worsening** in outcomes due to factors **other than the NILS loan** *and* experienced **no total change outcome** in NILS, after the receipt of NILS.

The individuals identified in Step 3 are those who would have experienced a worsening in outcomes, had not they received NILS.

Appendix H: Calculating expected savings from reductions in fringe lending

The phone survey captured the number of times the NILS respondents borrowed from fringe credit providers in a typical 3-month period prior to, and after the receipt of the NILS loan. Respondents were also asked to determine the extent to which this change was due to the NILS loan.

1. For respondents who stopped or decreased their use of fringe credit and attributed this change to the NILS loan, the difference between the number of times they accessed fringe credit before and after the NILS loan was calculated. Over a 3-month period, 244 fringe loans were not taken out due to the NILS loan. This equates to 976 loans per year.

The expected savings were calculated based on the following assumptions:

- Average amount of a payday loan of $300 (Banks,2012)
- Establishment fee of 20% of the principal (MoneySmart, 2013)
- Monthly interest of 4% (MoneySmart, 2013)
- Average term of 30 days

The total fees and interest per loan was calculated to be $72. Thus, the total expected savings generated by the 976 fringe loans not taken out was $70,272 (976 multiplied by $72).

However, 2 respondents increased their use of fringe lenders due to NILS and accessed an aggregated total of 3 additional loans over a 3-month period. This equates to 12 loans per year. The total expected cost of these loans, using the above assumptions, was estimated to be $864.

The net savings from not accessing fringe loans due to the receipt of NILS was consequently $69,408.

Appendix I: Calculating deviations

Step 1: The proportion of survey respondents who experienced an improvement in each outcome construct due to the NILS loan was calculated.

The **sample proportion** was calculated by dividing the number of respondents, who experienced an improvement in the outcome construct, by the total number of respondents:

$$\textit{Sample proportion} = \frac{\textit{\# of respondents experiencing a decrease in net outcomes due to NILS}}{\textit{total \# of respondents}}$$

Step2: The proportion of respondents from different recipient segments who experienced an improvement in each outcome due to NILS was calculated.

The **segment proportion** was calculated by dividing the number of respondents in the segment, who experienced an improvement in outcome, by the total number of respondents in the segment.

For example, the segment proportion of respondents who received supporting services, in addition to the NILS loan, and who experienced an improvement in an outcome was calculated as follows:

$$\textit{Segment proportion} = \frac{\begin{array}{c}\textit{\# of respondents who experienced an improvement in outcomes}\\ \textit{and received additional supporting services}\end{array}}{\textit{\# respondents who received additional supporting services}}$$

For the process evaluation and network analysis, the segments considered were: the eligibility criteria imposed by NILS providers; whether or not NILS recipients received additional supporting services; and the governance structure in which the NILS recipient received their loan.

Step 3: The difference between the proportion of the NILS recipients in different demographic segments who experienced an improvement in outcomes "segment proportion", and the proportion of the total sample that experienced an improvement in outcomes "sample proportion" was calculated. This was expressed as a percentage of the total sample proportion, to obtain the "deviation" figure.

$$\textit{Deviation} = \frac{\textit{Segment proportion-sample proportion}}{\textit{sample proportion}}$$

The deviation is the difference between the population and segment averages, expressed as a percentage of the population average. A deviation of 25, for example, indicates that the proportion of recipients who experienced an improvement in outcomes in the specified segment is 25% above the sample's average.

Appendix J: Social and Economic Outcomes

Table J-1 provides a breakdown of the benefits experienced by each item type and also the potential alternatives faced by the NILS loan recipients, had the NILS loan not been available. These outcomes and alternatives were developed through the literature review and stakeholder engagement process with Good Shepherd Microfinance.

TABLE J-1: BENEFITS BY ITEM TYPE AND POTENTIAL ALTERNATIVES FOR NILS RECIPIENTS

Purpose type	Potential outcomes experienced
Fridge	- Asset-building - Savings on grocery bill through bulk-buying perishable food and less waste - Savings or increased spending on utilities
Washing machine	Asset-building Savings on use of Laundromat services Savings or increased spending on utilities
Dryer or other electrical good	Savings or increased spending on utilities
Furniture	Asset-building
Motor-vehicle Repairs/rego	Employment Avoidance of fines/penalties from driving unregistered/un-roadworthy vehicle Savings on public transport Spending on fuel from driving rather than using public transport Savings on fuel through repairs improving efficiency of car Improvement in personal relationships
Computer and education-related	Employment (but none attributed to the NILS loan for this purpose) Increased self-esteem and confidence
Medical-related and other	Improved health (not included as no notable attributed change)
Outcomes not dependent on item type	*Reduction in stress and anxiety* *Savings on fringe credit for other purposes* *Savings on fringe credit for item* *Savings on rental of item* *Increased number of bills paid on time*
Alternative faced	**Potential outcomes experienced**
Renting the item	Savings on rental of item Reduction in stress and anxiety Savings on fringe credit for other purposes
Used faulty/inefficient item	Asset-building Savings on grocery bill (food doesn't spoil) Savings on utility bills Savings on fuel

Relying on friends/family	Asset-building Improvement in personal relationships (no burden of dependency) Increased spending on fuel Increased spending on utilities
Using public amenities	Reduced spending on public amenities Increased spending on fuel
Going without the item	Savings on grocery bill Increased spending on utilities Increased spending on fuel Employment Avoidance of fines/penalties Improved health (not included as no notable attributed change) Increased self-esteem and confidence
Taking out a fringe loan	Savings on interest and fees
Saving up for the item	Asset received sooner
Buying on layby	Asset received sooner
Using Centrelink Advance	-
Outcomes not dependent on alternative faced	*Reduction in stress and anxiety* *Savings on fringe credit for other purposes* *Increased number of bills paid on time*

Within the social and economic model, on an outcome-by-outcome basis, some outcomes generated considerably more value per loan than others. The asset-building and quality of life outcome generated the most value ($553), followed by the savings generated by avoiding renting the item ($401) and reduction in stress and anxiety ($313). While savings on public transport was valued at $136 per person, this was more than offset by an increased spending on fuel (-$163). Savings on fringe credit costs of $97 (over three years) per recipient could be attributed to the NILS loan, while the NILS loan also generated economic value through employment of an average of $65 per person.

TABLE J-2: AVERAGE VALUE GENERATED BY OUTCOME, PER LOAN

Outcome	Value per loan ($)
Savings – grocery bill	30
Savings – Laundromat services	51
Savings – public transport	136
Asset-building and quality of life	553
Asset received sooner	1
Savings - utility bills	4
Spending - utility bills	-0
Savings - fuel bill	7
Spending - fuel bill	-163
Savings - fines/penalties	11
Savings - late payment fees for bills	1
Savings - rental of item	401
Savings - fringe credit for item	5
Savings - other fringe credit use	97
Employment	65
Reduction in stress/anxiety	313
Improvement in personal relationships	13
Improvement in confidence	1
TOTAL	1,526

Report Availability

This report is available on the following websites:

www.goodshepherdmicrofinance.org.au

www.csi.edu.au

www.nab.com.au/microfinanceresearch

Contact

Stephen Bennett, the Centre for Social Impact,
Ph: (02) 8936 0901 or email s.bennett@unsw.edu.au

Dr Gillian McILwain, Manager Research and Policy,
Good Shepherd Microfinance, ph: (03) 9495 9644
or email gmcilwain@gsmicrofinance.org.au

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Good Shepherd
Microfinance

Ground Floor
192 – 198 High Street
Northcote
Victoria 3070

T +61 3 9495 9600
F +61 3 9495 9699
E info@gsmicrofinance.org.au

goodshepherdmicrofinance.org.au