From the margins to the mainstream

The challenges for microfinance in Australia

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Contents

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Summary

This report seeks to open up debate and discussion around the issues and challenges facing the microfinance sector in Australia. It is based on literature reviews and one-on-one consultations with key stakeholders to seek input on the core challenges and opportunities for microfinance in Australia, and also includes a directory of microfinance programs in Australia.

Definitions

The report proposes the following definitions for 'microfinance', 'financial exclusion', and 'sustainability':

Microfinance is a set of tools, approaches and strategies addressing the needs of people who are financially excluded. Microfinance offers low-income people access to basic financial services such as small loans, savings, insurance, bill-payment and money-transfer facilities, superannuation and financial advice. 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. Therefore exploitative, predatory or unfair lenders are not included in the definition.

Financial exclusion is a process whereby a person, group or organisation lacks or is denied access to affordable, appropriate and fair financial products and services, with the result that their 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. Addressing financial exclusion is not merely about service provision; it also includes capacity building and structural change.

Sustainability is about ensuring the continuity of services and programs that make a positive and ongoing contribution to addressing financial exclusion. It considers both financial and social objectives.

Challenges and opportunities

Three challenges for the next period of microfinance development in Australia have been continuously raised in research, practice forums and policy debates. The first of these challenges is the sustainability of the programs developed to date, the second is how programs can move beyond pilot phases and be scaled up, and the third is how we can continue to adequately measure whether programs are actually having an impact on addressing financial exclusion.

Sustainability

The debates surrounding the definition of sustainability in relation to microfinance have some deeply ingrained ideological roots. The extreme points of view in this debate could be seen as taking place between the 'hard-nosed' financial sustainability proponents and the 'soft-hearted' proponents. Hard-nosed financial sustainability is based on commercial mindsets. Soft-hearted financial sustainability, on the other hand, is based on charity or welfare mindsets. In the Australian context, neither of these extremes is helpful in terms of developing the microfinance sector.

No discussion of sustainability can be divorced from discussions of impact. In this report, we start to make assessments of microfinance programs not simply on the basis of their financial performance, but also by investigating the programs' impacts on addressing financial exclusion. Such an analysis will reveal the need for a diversity of microfinance responses— ranging from non-market responses that will never be economically independent in their own right, but which have high social value by virtue of their impact, through to social market responses and, ultimately, to market responses. The challenge to the sector is to ensure that a diversity of responses is maintained in order that the opportunity to effectively address financial exclusion is maximised.

Scale and reach

Taking some of the more documented programs that are currently operating in Australia, we can see that the scale of these programs is still relatively limited, although access to certain products and services is starting to grow. Scale and reach are defined below:

- the ***scale*** of an initiative is how many people access the services
- the ***reach*** is how excluded or poor are the people whom the initiative targets.

Australia, like many other developed economies, has predominantly relied on self-regulation and market-based responses to financial exclusion. While in many ways Australia is still in an experimental and innovations phase of microfinance programs, there is a need to examine whether the future of the sector is best served by continuing and fostering further voluntary initiatives or whether the long-term viability of microfinance in Australia requires some legislative mandate.

Impact

Impact is defined as the difference that the intervention makes in relation to its intended target compared to what would have happened without any intervention. However, one of the difficulties of researching impact in microfinance in Australia relates to the relative lack of empirical data about the purpose of microfinance initiatives and the nature of financial exclusion. The narrow definitions of financial exclusion that have dominated discussions to date have resulted in a gap between the program's intentions (to reduce financial exclusion) and the actual results.

Conclusion and recommendations

The authors have developed some broad recommendations across the three areas of sustainability, scale and impact. We invite our colleagues to consider them to progress the aim of addressing financial exclusion in Australia.

1. Broaden the definition of financial exclusion in Australia and undertake more empirical work to examine both the extent of such exclusion and the potential demand for microfinance.

2. Give greater focus to the range of products and services that people are excluded from, examining in particular those programs that support the insurance, remittance, bill-payment and superannuation needs of people living in poverty.

3. Adopt a broad definition of sustainability in the microfinance sector that includes the financial impact, and social and institutional elements of sustainability.

4. Encourage a more complex engagement with financial sustainability in the microfinance sector, away from prevailing simple ideological poles of charity and commercial mindsets.

5. Publish data on the true costs of microfinance program service provision to contribute to a debate on financial sustainability relevant to the Australian context.

6. Move programs beyond pilot phases to building scale, although pilots have played and will continue to play an important role in demonstration, experimentation and innovation.

7. Support programs that examine how microfinance could extend its reach to include the most vulnerable people in our society, and encourage action research around specific target populations.

8. Ensure that government, community and financial institutions use a variety of approaches to trial and document microfinance initiatives.

9. Channel greater investment into independent reporting on the impact of microfinance initiatives —reporting that is both quantitative and qualitative, and which involves clients.

1 Introduction

The field of microfinance in Australia has developed significantly since 2003 when the first overview was published (Burkett, 2003). In 2003, many microfinance pilots had just commenced and now a range of models have been trialed and evaluated. There have been several conferences focused on microfinance and an industry network has been created. Both financial institutions and government departments have invested in microfinance and, as a consequence, the diversity and scope of models and responses has gradually increased.

While there is now a solid foundation to build on, a new range of challenges have emerged in the field of microfinance in Australia, particularly focused on issues of sustainability, scale and impact. These challenges require discussion and debate as each one invites various methodological, organisational and ideological responses.

As there are no simple or definitive ways forward in addressing these challenges, this report seeks to open up debate and discussion around the issues and challenges facing the microfinance sector in Australia. This is not an easy task—there are many rigorous discussions and debates needed to proceed. Consequently, the broad recommendations made in this report about how the sector could continue to build impact, scale and sustainability are not meant to represent definitive road maps for the future. Rather, they are more tentative and meant as an invitation to our colleagues to continue to discuss, debate and share practices and learnings in order to develop a vibrant and diverse microfinance sector in Australia.

This report is based on literature reviews and one-on-one consultations with key stakeholders to seek input on the core challenges and opportunities for microfinance in Australia (see Appendix 1 for list of people consulted). The report also includes a directory of microfinance programs in Australia.

2 The Australian context

Defining microfinance in Australia

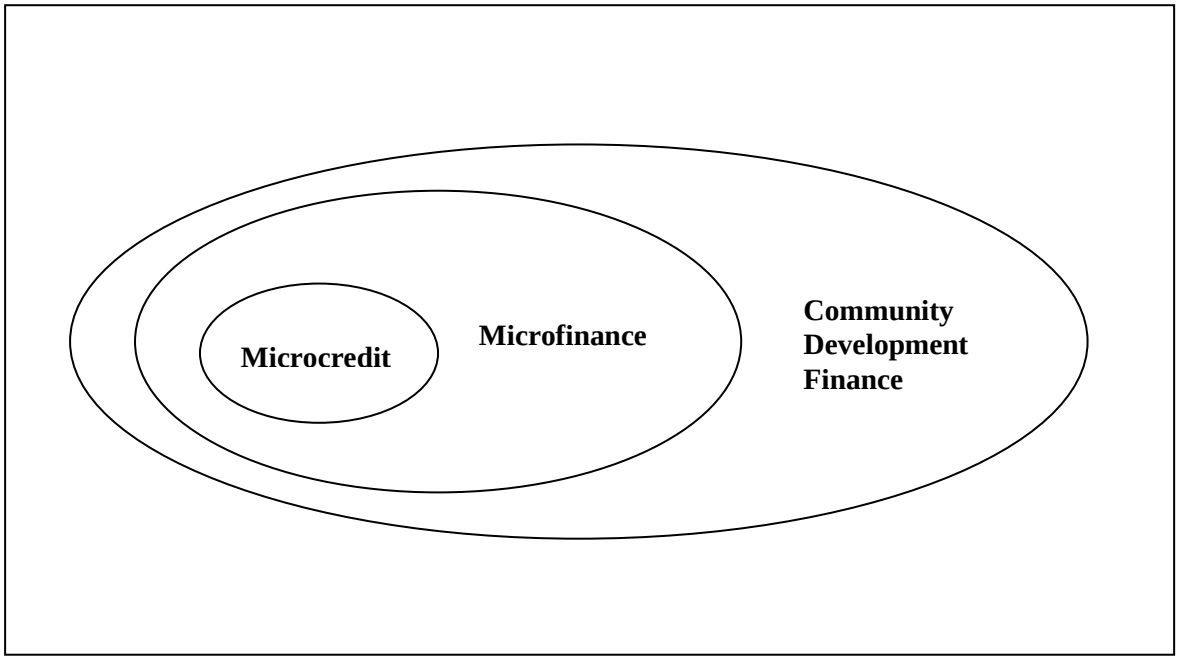
This report proposes a definition of microfinance tailored to the Australian context.

Microfinance is a set of tools, approaches and strategies addressing the needs of people who are financially excluded. Microfinance offers low-income people access to basic financial services such as small loans, savings, insurance, bill-payment and money-transfer facilities, superannuation and financial advice. 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. Therefore exploitative, predatory or unfair lenders are not included in the definition.

Microfinance is one of many terms used to define services addressing the financial needs of people, groups and organisations who are financially excluded. Other terms include 'community development finance' and 'microcredit'. This report refers to microfinance because the range of products extends beyond credit and includes savings, insurance and other financial services. The term 'community development finance' refers to a broader range of approaches that include loans for social enterprises, social housing and community organisations and does not fit into the scope of this report. Figure 2.1 below represents the overlap in terms.

In Australia, microfinance has emerged as a key means to address financial exclusion, that is, the exclusion of people from mainstream financial services. The next section of this chapter examines more closely what financial exclusion means in the Australian context.

Figure 2.1 A hierarchy of terms used in the microfinance arena



Defining financial exclusion in Australia

The definition of financial exclusion in Australia differs from other contexts (Howell & Wilson, 2005; Chant Link, 2004, Burkett & Drew, 2008). Overall, current definitions in Australia do not adequately reflect the complexity of financial exclusion, as many of them have been adapted from the United States and the United Kingdom and not tailored to the Australian context.

In countries such as the United States and the United Kingdom, many people do not have a bank account and are therefore referred to as 'unbanked'. As a result, many definitions of financial exclusion in these countries focus on ownership of financial products, particularly bank accounts. However, in Australia less than 1 per cent of people have no basic financial products (Chant Link, 2004; p.120), primarily because the government only pays Centrelink and other benefits through bank accounts. The most frequently cited definition of financial exclusion in Australia was developed by Connelly & Hajaj who stated that it is:

> a lack of access to financial services by individuals or communities due to their geographic location, economic situation or any other 'anomalous' social conditions which prevents people from fully participating in the economic and social structures of mainstream communities (Connelly and Hajaj, 2001; p.4).

In the Chant Link report (2004), commissioned by ANZ, a new definition of financial exclusion was developed that considered access, as well as an assessment of whether products were appropriate or affordable, and also making a connection between financial exclusion, income and hardship.

> Financial exclusion is a lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes of more concern in the community when it applies to lower income customers and/or those in financial hardship. Financial exclusion is observable at individual, family, or household level, but can also be heavily concentrated in suburbs or regions, and sometimes among ethnic minorities in a suburb or region. Financial exclusion can also apply to individual small businesses, NFPs [not for profits] and other community enterprise organisations (Chant Link, 2004, p.144).

This definition represented a significant shift in understanding financial exclusion in Australia, suggesting that it is broader than ownership of products. In particular, the definition makes a connection between the lack of access to appropriate products and a negative impact for people on low incomes or in financial hardship. It is also significant that the definition implies that mainstream providers should make appropriate products available to address financial exclusion.

Chant Link conducted research on financial exclusion and found that 6 per cent of adults in Australia could be said to be excluded. Despite the complexity of their definition, the Chant Link report still quantified the problem of financial exclusion on the basis of product holdings only, which meant, for instance, that people struggling with high cost credit or having inappropriate levels of insurance cover were assessed as financially included on the basis that they identified as using the products. As a result, it is likely that the Chant Link study underestimated the extent of financial exclusion in Australia.

In this report, an alternative definition of financial exclusion is proposed, which draws on the European Commission's definition (2008, p.2) and applies elements of this to the Australian context.

Financial exclusion is a process whereby a person, group or organisation lacks or is denied access to affordable, appropriate and fair financial products and services, with the result that their 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. Addressing financial exclusion is not merely about service provision; it also includes capacity building and structural change.

Financial exclusion in Australia can be further understood by looking at its five key dimensions which together could be termed the five A's of financial exclusion (see Table 2.1).

Table 2.1 Five A's of financial exclusion

Dimensions of exclusion	Explanation
Availability	The kind of service needed does not exist at all or does not exist in an individual's locality.
Access	A *lack* of access to particular kinds of financial services because of structural factors or issues that an individual faces (such as credit record, language or physical disabilities).
Awareness	A lack of awareness of fair products or a lack of capacity to engage with services. This could be as a result of inadequate promotion of basic, fair products by financial service providers.
Appropriateness	Products are not appropriate to an individual's needs (such as small, regular repayments on loans for someone on a limited budget) or their cultural backgrounds (for example, there is a lack of systems in Australia to meet the needs of the Islamic community who have particular beliefs about the charging of interest).
Affordability	An inability to afford existing products (for instance, few insurance products exist for people living on low incomes) or the cost structures means that people with few financial resources are charged more.

Although there remains a lack of comprehensive research into financial exclusion in Australia, it is generally agreed that the people and groups who are most excluded from mainstream financial services include: Indigenous Australians; people who are long-term unemployed; sole parents with young children; people with disabilities; and refugees (see, for example, Chant Link, 2004; Wilson, 2002; Howell & Wilson, 2005; Connelly & Hajaj, 2001). Unfortunately, these groups of people also experience high levels of both income and asset poverty, that is, they have both low incomes and low net wealth. This means that there are clear links between poverty, indebtedness and financial exclusion, as indicated in a number of Australian studies (see, for example, Chant Link 2004, Connelly & Hajaj 2001). Further empirical work is needed to fully understand and appreciate the complexity of these links.

In addition, more work is needed to understand financial exclusion in particular demographic groups so that responses can be specifically targeted. In particular, more detailed work is needed to uncover the nature of financial exclusion, and the potential mechanisms for response in relation to Indigenous people, recently arrived refugees and Culturally and Linguistically Diverse (CALD) communities, young people, people with learning and intellectual disabilities, and people living with mental illness, to name a few groups. Without this information, it will be increasingly difficult to link demand and supply of microfinance products in the Australian context.

The nature of financial exclusion in Australia

The 'Five A's' examined above focus on the ways in which people can be excluded from mainstream financial services and products. The particular products and services from which people are excluded, in addition to the needs that exist for such products, are outlined in Table 2.2.

Table 2.2 Financial products and services to promote financial inclusion

Products	Needs
Personal credit	Access to small amounts of credit (under $5,000) at fair and affordable rates, and with non-exploitative conditions.
Micro-business credit	Small amounts of start-up and growth capital with minimal or no security requirements.
Saving	Incentives for starting and maintaining small savings plans.
Insurance	Affordable small insurance policies to cover essentials (such as home contents), with payment arrangements that suit people living on low incomes.
Remittances	Affordable, safe and reliable options for remitting funds and depositing these funds in poorer overseas countries.
Superannuation	Mechanisms for ensuring opportunities for contributions (particularly employer contributions) for people living on low incomes who are employed casually.
Financial advice	Financial counselling for crisis management, but also advice regarding financial management on low incomes.
Bill payment	Mechanisms whereby people living on low incomes can break down bill payment into instalments and access options such as direct deductions from Centrelink or split accounts at banks.

The major responses to financial exclusion in Australia have been developed around these products and services. Most responses, however, focus on personal credit and savings, with a handful also addressing micro-business credit. Further work is needed, particularly around insurance and remittances. The last three product areas have been highlighted in various forums as constituting areas of exclusion, though few responses have so far emerged that focus on addressing these.

Framing responses to financial exclusion in Australia

Responding to financial exclusion in Australia requires an analysis of *why* financial exclusion occurs, and *what* could be done to ameliorate its impacts. There are, of course, different analyses of the causes of financial exclusion, and this in turn leads to differing frameworks of responses. Three key response frameworks to financial exclusion are identifiable in the Australian context. These are explored in Table 2.3.

These frameworks are informed by different theoretical, ideological and practice assumptions, and while they clearly underlie many of the responses to financial exclusion that are currently evident in Australia, they have not previously been named or grouped in this way. In other words, as frameworks, they are often embedded in responses, but not named or referenced. The purpose of naming them in this report is to stimulate debate and discussion about how the responses to financial exclusion in Australia have been or could be framed. Further, identifying these frameworks can assist in examining whether:

- the understanding of financial exclusion in the Australian context has been adequately developed;
- the current responses have adequately addressed the root causes of financial exclusion; and
- there are dimensions of the analysis of financial exclusion in this context that are missing.

Table 2.3: Framing responses to financial exclusion

Response Frameworks	Capacity and capability frameworks	Market deficiency frameworks	Rights-based frameworks
Root causes of financial exclusion	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.	Financial exclusion occurs because financial institutions cannot bear the costs, risks or brand issues associated with providing services to people living in poverty.	Financial exclusion occurs because of a lack of appropriate legal, moral and policy instruments which could ensure that people's rights in relation to financial services are upheld.
Focus of responses to financial exclusion	In order to address financial exclusion, it is necessary to understand and build the capacities and capabilities of people and institutions such that people can actively and equitably participate in the mainstream financial system.	If mainstream financial institutions such as banks will not engage with providing services to certain populations, then alternative ways need to be found to develop appropriate financial services for groups and people who have been excluded from these mainstream services.	Addressing financial exclusion will require legislative and policy responses that ensure that access to fair, appropriate and readily available financial services and products is a right that is realised across the economic and social spectrum as this is the key to people's full participation in society.
Examples of responses to addressing financial exclusion	Responses such as financial literacy, financial capability and financial education are not necessarily focused on the people experiencing exclusion (though this is the dominant form), but may actually focus on building the capacity of those stakeholders who constitute the mainstream financial system.	Alternative financial services delivery either through corporate-community partnerships and/or through specific services such as those offered by Community Development Finance Institutions (CDFIs).	Lobbying and systemic advocacy: for example, advocating for regulation to ensure that mainstream financial services offer basic and fair financial services to the poorest members of society, and to ensure that poorer communities are adequately served. Regulation limiting the practice of exploitative financial services such as fringe lending.
Related Australian literature[1]	Landvogt (2006)	Burkett and Drew (2008)	Wilson (2008)

No one framework could adequately capture the complexity of responses needed to address financial exclusion in Australia. Given the structural nature of such exclusion, a rigorous debate and discussion is needed at all levels (from service delivery to policy) about how different understandings of the root causes of exclusion shape responses and then, in turn, whether the responses actually have an impact on these causes. This is further discussed in the following sections.

[1] These literature sources are not necessarily aligned with the approaches, but they do examine parts of these response frameworks in ways that are helpful for understanding their theoretical, ideological and practical roots.

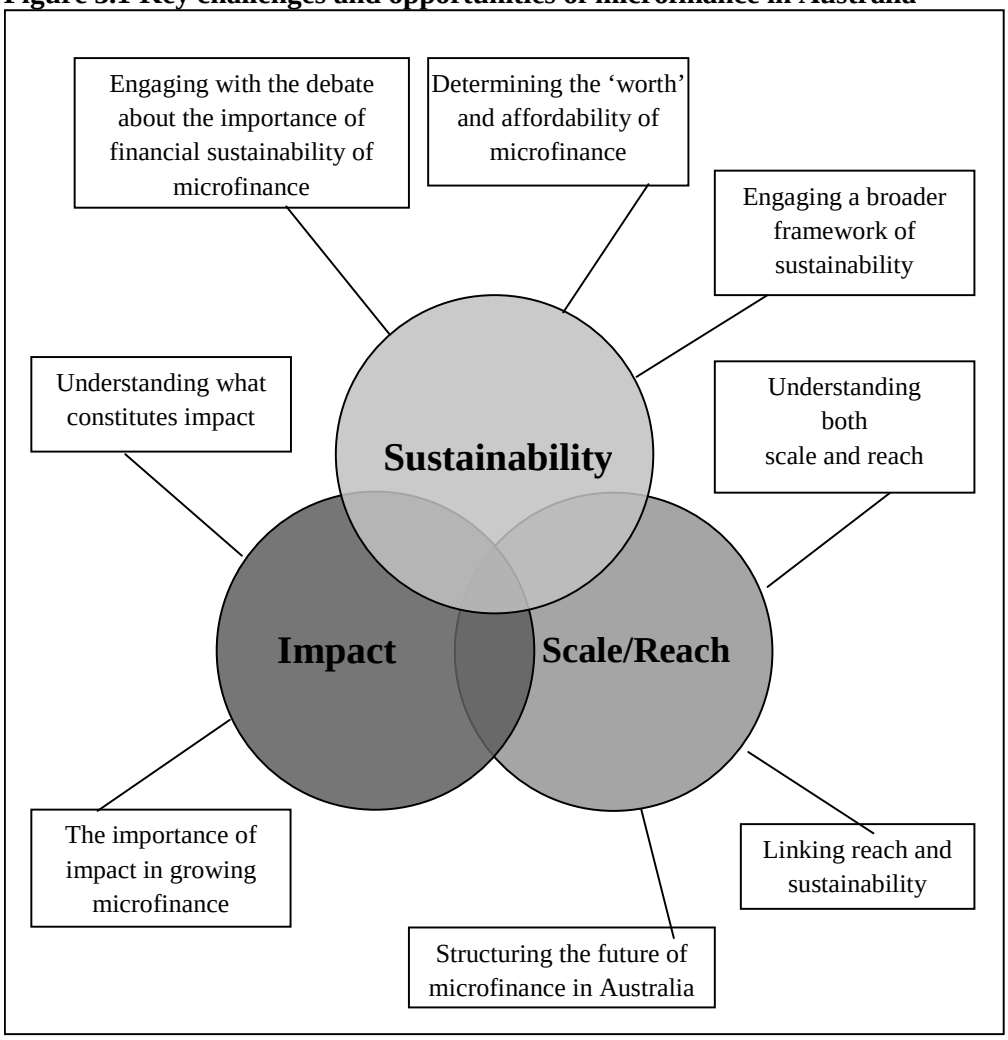
3 Challenges and opportunities

Over the past six years, since the first report on microfinance in Australia was written, much has happened that has changed the way that financial exclusion is addressed. In this period, three challenges for the future of microfinance development in Australia have been continuously raised in research, practice forums and policy debates. These are: the sustainability of the programs developed to date; how programs can move beyond pilot phases and be scaled up; and how we can continue to adequately measure whether programs are actually having an impact on financial exclusion.

These challenges also represent some real opportunities for shaping microfinance over coming years to ensure that it remains relevant and focused on creating financial inclusion in Australia. Interestingly, these three areas are also of interest to microfinance development internationally—so much so that Zeller and Meyer (2002) see them as the points in what they refer to as 'the triangle of microfinance', in which each point represents a key policy and practice objective for microfinance programs.

As depicted in the following Figure 3.1, there are clear links and overlaps between sustainability, impact and scale. So, for example, a sustainable program is likely to be one that can also demonstrate clear impacts over time, and one that has sufficient scale and depth of reach so that these impacts can be achieved sustainably over time. Each of these areas is examined in relation to how it represents both challenges and opportunities for microfinance in Australia.

Figure 3.1 Key challenges and opportunities of microfinance in Australia



Sustainability

Sustainability is a hotly debated concept in microfinance around the world, and these debates are increasingly being referenced in relation to Australian programs. Generally, in international microfinance circles, sustainability refers to whether or not an initiative is able to cover all its costs (that is, it is not subsidised) and whether it is able to generate a surplus from its activities. In other words, the concept of sustainability is almost exclusively defined according to financial indicators.

Unfortunately, this represents a rather limited understanding of sustainability for two reasons. First, it assumes that breaking-even or generating a surplus provides an adequate indicator of viability and success. Second, there are assumptions built into this narrow view of sustainability that privilege certain kinds of products (with a focus on potentially income generating products, such as credit); particular levels of scale (that is, large scale delivery of product); and particular organisational structures (that can legally manage surplus generating financial products). These assumptions need to be challenged because they may not necessarily serve the goals of addressing financial exclusion in the Australian context.

The understanding of sustainability adopted in this report is as follows.

Sustainability is about ensuring the continuity of services and programs that make a positive and ongoing contribution to addressing financial exclusion. It considers both financial and social objectives.

The financial implication of ensuring the continuity of services and programs is certainly an important dimension of sustainability. However, it is also important to recognise and understand that continuity and impact (making a positive contribution) is more complex than financial viability alone. Therefore, a broader understanding of sustainability than is currently offered in much of the literature of microfinance is needed. This report suggests that there are at least four elements of sustainability that need to be considered in making assessments of microfinance programs in Australia, as set out in Table 3.1.

Table 3.1 Elements of sustainability

Element of sustainability	Definition
Financial sustainability	The ***financial viability*** of the service is sustainable over the long term, that is, there is a consideration of whether the service or institution can cover its costs and generate a surplus from its activities.
Impact sustainability	The continuation of ***positive impacts*** for clients of the microfinance services and therefore for addressing financial exclusion.
Social sustainability	The determination of an ***ongoing need*** for the particular type of service and its delivery process/mechanism, and therefore whether services remain relevant to and respected by their stakeholders and client groups.
Institutional sustainability	The continuity of the programs, organisations and/or institutions who are delivering microfinance. This includes sustainability of their: • social objectives or missions; • human resources—whether they are able to recruit, retain, train and maintain an appropriate staff pool; • structures—whether they have the appropriate legal and governance structures for their services, good processes, policies and procedures, and can adequately comply with regulation; • infrastructure—whether they have sufficient accommodation for services, with accessible localities and adequate technology.

This section following begins by focusing on why financial interpretations have been privileged in understanding the sustainability of microfinance initiatives. It then unpacks some of the assumptions and challenges underlying the debate around sustainability, and makes connections between these and the Australian situation.

Understanding the ideology of financial sustainability in microfinance

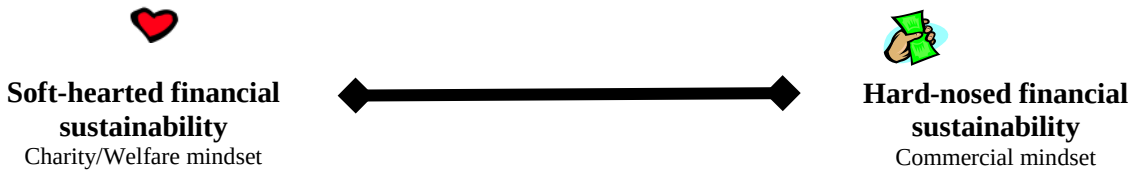
The debates surrounding the definition of sustainability in relation to microfinance have some deeply ingrained ideological roots. In some ways, these roots relate to the fact that microfinance effectively sits at the intersection of two world views—one that looks towards poverty alleviation; and one that has focused on commerce, financial markets and financial product design. The space that brings these world views together, in a focus around how financial tools can be used to address poverty and exclusion, will necessarily involve a degree of tension. Discussions of sustainability will inevitably stir up these tensions as it involves the articulation of how we ensure continuity over time—requiring an assessment of both impact and cost. In effect, sustainability brings together four questions:

- Is this program making a difference?
- If so, how much of a difference?
- At what cost? and
- Who pays?

The tension involved in answering these questions is particularly heightened when it comes to the question of who pays. This issue is central to many of the arguments raised in literature and policy discussions that privilege financial interpretations of sustainability. Should the costs of delivering the impact of microfinance be borne by the market, by civil society, by the state, or by all of these sectors? Delving into these questions provides an insight into why financial considerations have become crucial in the debate about sustainability.

The extreme points of view in this debate could be seen as taking place between the 'hard-nosed' financial sustainability proponents and the 'soft-hearted' sustainability proponents.[2] These alternate positions are illustrated in Figure 3.2.

Figure 3.2 Defining financial sustainability: a continuum



Hard-nosed financial sustainability is based on commercial mindsets. Such mindsets suggest that the best (and in some cases, the only) goal for microfinance initiatives is that they should be sustainable in commercial terms, that is, making a financial return, profit or surplus in addition to covering all costs. Financial sustainability from this perspective means that the full costs must be built into the business model of any microfinance initiative and that customers of these services can and should bear these costs, even if they are higher than the costs associated with mainstream financial services.

Soft-hearted financial sustainability, on the other hand, is based on charity or welfare mindsets. Such mindsets argue that people experiencing poverty or who are excluded from the mainstream should be approached charitably and should not be expected to pay much, if anything at all, for the

[2] Of course, it is acknowledged that very few people occupy these extreme positions exclusively—they are merely indicative of the extremes of the debate that is yet to occur publicly in Australia.

financial services provided to them. Financial sustainability from this perspective focuses on achieving the goal of recurrent government or philanthropic funding that covers all costs so that the end users of services do not have to contribute to the cost of service provision.

In the Australian context, neither of these extremes is helpful in developing the microfinance sector. While they both have kernels of truth, they also have 'blind spots' that limit their ability to appropriately address financial exclusion.

The *kernel of truth* in the 'hard-nosed' argument is that there are very likely to be products and services in this sector that could be fully or partly commercial in nature, but they have not been developed yet because financial institutions have not considered this segment of the market. It is possible that, if fringe lenders can make a profit from this area, then other financial institutions could design products to serve this segment of the market without engaging in exploitative practices. There could, for example, be a vibrant social market developed to address financial exclusion—with non-profit specialist financial institutions (such as Community Development Financial Institutions (CDFIs)) delivering financially viable but non-exploitative products (see Burkett & Drew, 2008).

The *blind spot* for the 'hard-nosed' camp is that if financial exclusion is framed as a market deficiency (see Table 2.3) it is hard to find convincing arguments that support the idea that more of the same (that is, pure market solutions) will make a real difference.

The *kernel of truth* in the 'soft-hearted' argument is that people in poverty often unfairly bear the burden of cost in the financial services industry. People living on low incomes often have small amounts of savings, make regular small withdrawals, and sometimes overdraw their acounts by small amounts, thereby facing hefty fees unless they have access to basic bank accounts. Further, people in poverty are often more highly exposed to exploitative financial products and services. This potentially exacerbates both poverty and financial exclusion.

From a 'soft-hearted' perspective, such inequities can be addressed by developing specific products and services that are costed appropriately for this part of the market. The argument is that the development of these programs may create stepping stones to help people develop the confidence and capacities to then move into the mainstream market. This has led to programs that focus on providing financial services at no or low interest, no or reduced fees, and often very flexible conditions. We are not suggesting that charging no fees or reducing fees is an inappropriate response, but we must recognise that just as the 'hard-nosed' perspectives have their blind spots, so do 'soft-hearted' responses.

The *blind spot* for the 'soft-hearted' responses centres on the fact that charging no or reduced fees and interest will not necessarily result in people building the capacity to engage with mainstream financial services. Certainly, for some, this will provide a stepping stone into mainstream services, but for many, the barriers to their use will remain.

In order to stimulate debate in Australia about the nature of sustainability, and thereby examine the positive and negative aspects of both ideologies outlined above, there are two issues that require deeper exploration. First, a more sophisticated engagement with the nature of fairness and affordability is needed. Second, there is a need to develop a more complete picture of what it is that constitutes value in relation to microfinance—both in market terms (that is, costs of microfinance) and in impact terms. These two issues are briefly discussed below.

Unpacking the nature of fairness and affordability in microfinance

In 2008, NAB launched the 'Small Loans Pilot' project which aims to establish an evidence base about the actual commercial costs of small loans ($5,000 and under) over a twelve-month term.[3] This initiative will provide much needed data about real costs in one segment of the fringe credit market. It could also provide a base for more data that could expose the cost realities of the fringe market as well as open discussion about what represents fair costs in the provision of small loans over particular terms. One of the key reasons why there has been a dearth of public and academic debate about the costs of microfinance in Australia stems from a lack of data about actual costs. This is true, both in relation to the fringe market and in relation to the actual costs of delivering non-profit microfinance services.

There has been much argument in Australia about the subject of what constitutes a fair annualised percentage rate for small loans. This debate has been particularly active in the lead up to the interest rate cap of 48 per cent introduced in NSW, ACT, Victoria, and Queensland, and will likely be discussed more widely as credit regulation is federalised over the next years. The debate has been characterised by the revelation of high rates and fees charged by fringe lenders—which, when annualised, can be as high as many hundred per cent. The Annualised Percentage Rate (APR) *can* be a gross indicator of exploitative practice, but it is limited as an indicator of affordability because it does not take into account the term of the loan. Many consumers of fringe lending products borrow small amounts (under $1,000) for short terms (from two weeks to a few months).[4] Certainly, if one annualises rates for loans of very short terms they will nearly always seem excessive. Even non-profit, cost recovery rates for these loans may exceed the rates offered by mainstream lenders for larger amounts over longer terms.

The debate in Australia needs to become more sophisticated than just calculating APRs if we are to properly explore affordability and fairness and work out the cost/benefits of different models of microfinance. A deeper analysis that includes information about loan terms, size of loan, interest, fees and conditions, will yield more sensible information than the use of APRs alone, and will assist us to move the debate beyond ideology. Some of the questions that underpin such an analysis are outlined in Figure 3.3 which explores the space between charity and profiteering in the microfinance arena.

Figure 3.3 The space between: from charity to profiteering

Charity	What is fair in terms of pricing a microfinance product? What are fair conditions and terms? What are the true costs of providing the microfinance product and who should/could pay these costs? What is a fair profit or surplus? Where should this surplus go? What will make this product sustainable in the long term? How is fairness in pricing linked to impact and reach?	**Profiteering**

Towards an understanding of the 'blended value' of microfinance in Australia

As explored earlier, from a 'market deficiency' perspective, financial exclusion occurs because there are greater transaction costs involved in the provision of financial services to people in poverty. The economic challenge for microfinance programs in providing a continuity of services to address this market deficiency is to find ways through which these transaction costs can be

[3] As at June 2009, NAB was predicting a break even interest rate of 21.53 per cent (NAB, 2009) which, although higher than mainstream averages, is significantly lower than many rates charged in the fringe sector.
[4] This picture has shifted since the introduction of interest rate caps, though it should be noted that innovation in the fringe lending industry has meant that exploitation levels may not have decreased, and may just have changed shape.

covered or at least minimised. This means that it is necessary to know *what* the costs are, and to determine *how* they should be paid for. The difficulty is that financial exclusion covers an enormous territory, includes a diversity of people and groups, and does not involve singular or even simple responses. For some programs, it may be easy to cover these costs internally by charging fees or cross-subsidising programs. For others, the transaction costs are exacerbated by complex needs and particularly difficult circumstances of clients who could not afford to pay even basic costs of providing these levels of support. For this reason, the determination of what constitutes sustainability in microfinance must consider not just the economic value of services, but also the social value.

The financial sustainability of microfinance programs needs to be seen as a continuum from total dependence to total independence.

Figure 3.4 Financially sustainable microfinance: from dependence to independence

Total dependence On continued funding from government or philanthropic source	**Hybrid funding** Diversity of funding sources, including some earned income from microfinance activities	**Interdependence** Cross-subsidisation of costs means that there is close to full cost recovery	**Total independence** Full cost recovery and potential for surplus generation

If we take into consideration the full costs of microfinance service provision[5], then no Australian initiatives (to our knowledge) would currently sit at the independent end of this continuum, and there probably would be only one or two that could be included in the interdependent arena. However, it makes little sense in reality to consider the financial viability or sustainability of current programs in isolation from their actual or potential impact on addressing financial exclusion in Australia.

If we examine the full range of microfinance responses that could exist in Australia then it should be recognised that there will be differences in the degree to which these responses *can* be financially sustainable. For example, some initiatives are, by their very nature or because of the demographic they target, never going to be financially sustainable (if this means they must break-even or generate a surplus). Generally, the more disadvantaged the target group, the more support is needed to ensure financial inclusion of individuals, and therefore the more difficult it will be to cover costs or generate a surplus. Further, the less capacity there is built into a program to charge for the service (either through fees, interest or other charges), the lower the capacity of the program to generate income and cover its costs. The following programs listed in Figure 3.5 could readily be identified as having lower or higher capacities for financial sustainability.

[5] In addition to including the banking costs associated with microfinance initiatives, full costings of such programs would need to include:

- total number of costed staff hours taken to conclude the transaction (including volunteer hours that are costed and including support hours needed) as born by the community organisation;
- total overheads and infrastructure costs of providing the service as born by the community organisation.

Figure 3.5 Financial sustainability of selected microfinance programs

Lower capacity for financial sustainability	**Higher capacity for financial sustainability**
No Interest Lending programs (NILS, No Interest contributory models) Matched savings programs Savings programs linked with financial literacy/capacity building	Small loans with appropriate rates and conditions Savings and loans circles Microenterprise lending with external business support

In examining Figure 3.5, however, it is important to remember that little can be said about the effectiveness or otherwise of any program based on an assessment of financial sustainability alone. A program can have very low levels of financial sustainability but have a very high impact for consumers or clients of a service. No discussion of sustainability can be divorced from discussions of impact. The effectiveness or otherwise of a program could be mapped on a matrix linking sustainability and impact as shown in Figure 3.6 below. The top two squares represent a better overall effectiveness than the bottom two squares, with square 4 being one to avoid.

Figure 3.6 Linking financial sustainability and impact: a matrix

1. **High sustainability** **High impact**	**2.** **Low sustainability** **High impact**
3. **High sustainability** **Low impact**	**4.** **Low sustainability** **Low impact**

Adopting a complex analysis of the links between financial sustainability and impact will ultimately enable us to make informed decisions about the elements that together constitute an effective microfinance service. What is needed to stimulate the debate around sustainability in Australia is a clearer understanding of the 'blended value' (Emerson & Bonini, 2003) of microfinance programs. This means that we start to make assessments of microfinance programs not only on the basis of their financial performance or needs, but in combination with what impact investing in these programs actually has on addressing financial exclusion. Such an analysis will reveal the need for a diversity of microfinance responses—ranging from non-market responses that will never be economically independent in their own right, but which have high social value by virtue of their impact, through to social market responses and, ultimately, to market responses. The challenge to the sector is to ensure that a diversity of responses is maintained in order that the

opportunity to effectively address financial exclusion is maximised. This diversity of responses is outlined in Table 3.2 below.

Table 3.2 A diversity of microfinance responses in Australia

Non-market responses		Social market responses		Market responses
Mutual aid responses	**Justice responses**	**CDFI and fourth sector responses**	**Semi-commercial responses by commercial entities**	**Fully commercial responses**
Built on informal systems—social networks, families, and neighbourhoods, clan groups—to develop small scale, self reliant and mutual responses to financial exclusion.	Social service organisations (sometimes with support from external funders) that address the wellbeing of people unable to access mainstream financial services.	Social business with a specific focus on addressing financial exclusion. Any profits made are invested in addressing the social objectives of the organisation.	Developed by commercial entities but are subsidised.	Fully commercial, but introduce elements of flexibility to ensure that people who are traditionally excluded can access the services.
Savings and Loans Circles, ROSCAs, Informal Credit Co-operatives.	Usually basic services with no interest and no fees. NILS, Distress funds, Revolving funds, Centrelink loans, saving programs.	Financial institutions with specific social objectives. Interest and fees are usually charged.	StepUp Loans Progress Loans	Banks, Credit Unions.

Reach and scale

The reach and scale of microfinance refers to two key dimensions—in short, the number of people and the extent of exclusion they experience:

- the scale of an initiative (that is, how many people access the services)
- the reach of an initiative (that is, how excluded or poor are the people whom the initiative targets see, for example, Zeller & Meyer, 2002). Reach therefore also relates to the location of microfinance initiatives and the characteristics or demographics of the people who form the consumers, clients or constituents of that initiative.

In Australia, many individual evaluations of microfinance programs have made attempts to analyse their scale and reach, but little research has been conducted to build an analysis of the field as a whole. A comparison of data is needed that could offer a picture of the current demand versus supply of microfinance. However, it should be noted that it is difficult to accurately determine the demand for microfinance services in Australia, as the empirical data and the links between financial exclusion and the demand for microfinance products remains sketchy at best.

The study by Chant Link (2004) estimated that 6 per cent of adult Australians (about 900,000) are financially excluded based on holdings of products. In addition, over 3 million people (those people in the bottom quintile of income) have an annual income less than $12,000 which, experience[6] suggests, is the level at which people are automatically declined for a loan from mainstream lenders. Other research details the size of the fringe lending sector (for example, Wilson (2002)

[6] Based on an analysis of criteria detailed on the websites of the major banks.

suggested that this sector processed around $10 million per annum in Victoria alone). The difficulty remains in keeping abreast of the changing data, and making the necessary empirical and conceptual links between income, debt and financial exclusion, which are both needed to accurately map demand for microfinance in Australia.

Below we examine the aspects of reach and scale more closely and unpack how they may help to shape an understanding of the future demand for microfinance in Australia.

The scale and reach of microfinance in Australia

The scale of microfinance refers to the number of people across a particular area (in this case, Australia), who can access services. In order for large numbers of people to access microfinance services, a number of preconditions exist, including:

- sufficient points or mechanisms for access across a wide area;
- adequate infrastructure (including staff, systems and procedures);
- sufficient funds to invest in loan capital and infrastructure;
- efficient systems and procedures to create decreased transaction costs;
- appropriate marketing, products and service delivery processes that meet the needs of clients and attract new clients over time.

This means that building scale requires a certain amount of time in order to develop the systems, processes, and structures needed to enable hundreds or even thousands of people to access the products and services. This is the reason why pilot programs are so valuable, as they help organisations to develop the learnings and systems that are needed to eventually grow a service to any kind of scale. Taking some of the more documented programs that are currently operating in Australia, we can see that scale is still relatively limited, although access to certain products and services is starting to grow (see Table 3.3 below). This is because many of these programs (excluding NILS and Fitzroy Carlton Credit Cooperative) are either still in a pilot phase of development or in an early stage of scaling up.

Table 3.3 Mapping the scale across select Australian microfinance programs

Program	Information about scale (how many people across Australia can access the products?)
NILS	Around 4,000 loans per year through 280 community organisations in every state and territory; people need to live in certain postcodes within these regions.
Progress Loans	Around 300 loans per year provided in Frankston, Craigieburn, Fitzroy in Victoria.
Saver Plus	Around 1,500 participants per year in 20 locations across Victoria, NSW, Queensland, Tasmania and the ACT.
Fitzroy and Carlton Community Credit Cooperative	5,000 members and around 1,000 loans per year provided to people working and living in the Fitzroy and Carlton areas of Melbourne.

Currently in Australia, access to most programs is tied to a consumer living in a particular locality and, generally speaking, the localities in which access is available are fairly limited (with NILS being the most widely available microfinance product in Australia). The areas where programs are available are often based on the physical presence of the community organisations involved. However, there are a growing number of programs that are offering outreach services beyond defined localities (these are detailed in the directory). For example:

- First Nations Credit Union works with Bank@Post to reach remote Aboriginal communities.

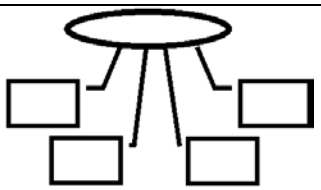
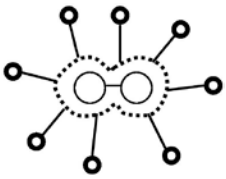
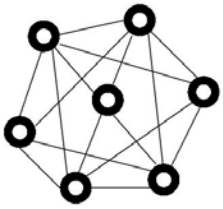
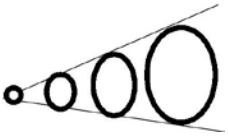
- Progress Loans accepts postal applications to reach rural communities or people who are unable to travel due to a disability.
- For NILS in Western Australia, clients can apply through a range of member organisations with the loan being funded and administered centrally.

One of the challenges of building the scale of microfinance in Australia is the question of who will continue to deliver microfinance products and services. Currently, many of the larger programs are offered through partnerships between banks and community sector organisations, with the latter providing most of the support to customers and administering the front office of the programs. In these cases, the banks provide the necessary legal, back office, and capital infrastructure. The community sector organisations are usually locality focused, whereas banks have a national branch structure.

In the pilot phase of developing a new microfinance product or service, a locality focus is helpful as it can ensure that adequate support is available to consumers and it can build on the community sector organisation's knowledge and connection with particular localities and consumer groups. In the early stages, the costs are high and the success of the pilot is very dependent on a strong relationship between the organisations involved. A partnership model between two or three organisations (preferably from different sectors) is appropriate, and probably even necessary in piloting programs. However, a partnership model is resource intensive (not just in capital terms, but also in time, energy and commitment of staff) and this may not therefore be the best or only approach as the product develops and scale becomes an important focus.

The range of possible models or approaches to building scale identified over the course of this research are shown in Table 3.4.

Table 3.4 Possible approaches for building scale

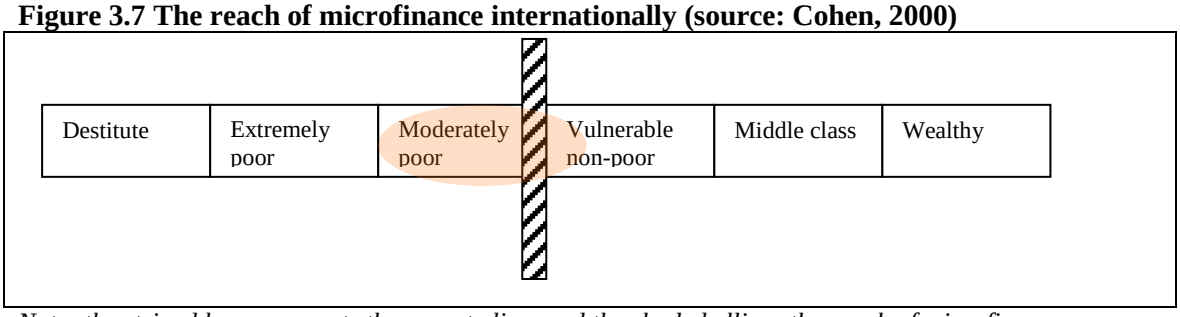
Model	Illustration	Explanation
Corporate or branch model		This could involve the development of specific microfinance institutions either linked directly to the banks or developed as independent community development finance institutions. They could, over time, replicate a corporate branch structure to reach scale.
Franchise model		This would involve the building of a particular model organisation that could then be replicated in various localities in a franchise-like model.
License model		This could evolve from a pilot model where the initial key partners then 'license' others to offer a similar service using the learnings and infrastructure developed through the initial model. Some kind of quality control over the products/processes could be maintained by making the license renewable or on the condition that certain standards are maintained. The NILS model could be seen as an example of this type, though it has used 'trademarking' as a form of licensing.
Network model		In this model, scale is reached through the fostering of a wide diversity of models and pilot schemes, not all of which will necessarily reach scale on an individual level, but which collectively start to represent a critical mass of microfinance choices for consumers. The challenge of this model is ensuring that consumers are aware of the different models and have access to them. This may require some centralised networking processes.
Organic model		Scale in this model is very much linked to the financial sustainability of individual programs. As they become financially viable then individual programs can grow to a scale that enables them to serve a large number of clients or consumers.

A number of the current programs will be moving out of a pilot phase and exploring ways in which to achieve scale in coming years. It is likely that many will build on models of growth that have already been trialed in the Australian context—such as versions of the license model, which has been successfully used for example by NILS, which is a trademarked program requiring participating organisations to maintain particular qualities and systems and to link to the national network of NILS programs, administered by the Good Shepherd Youth and Family Services in Victoria. The documentation and evaluation of various attempts at building scale of microfinance services will represent an important contribution to this developing field.

The reach of microfinance in Australia

The reach refers to the consumers' levels of disadvantage: the poorer the consumers of a program, the deeper the reach of that program. On an international basis, research suggests that the reach of microfinance differs according to the purpose and deliverers of programs. Non-government organisations (NGOs) tend to have a deeper reach, or at least aim to deepen their reach. Private sector organisations and microfinance institutions aligned with mainstream finance providers tend to have a shallower reach, but a greater breadth of reach. However, internationally, microfinance programs have tended to focus on those people who are considered to be moderately poor or those people living just above the poverty line but vulnerable to slipping back below the line. Figure 3.7 illustrates the reach of these programs.

Figure 3.7 The reach of microfinance internationally (source: Cohen, 2000)



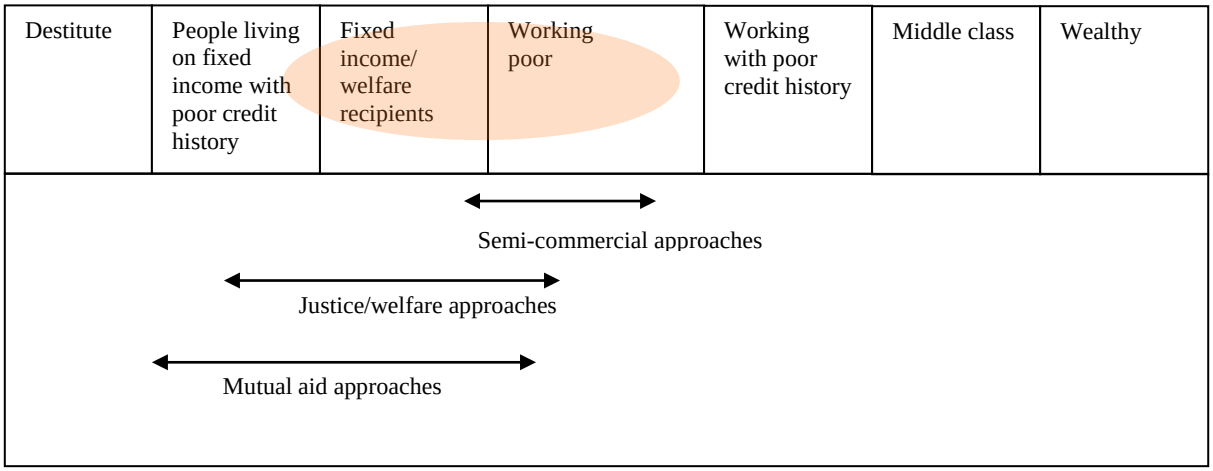
Note: the striped bar represents the poverty line, and the shaded ellipse the reach of microfinance.

There are many debates in the international microfinance sector as to whether this is an appropriate target market, and whether the reach of microfinance is becoming more shallow as organisations and institutions strive towards greater financial sustainability (see, for example, Morduch, 2000). Further, there have been ongoing calls over the past decade for programs (particularly those run by NGOs) to be careful of 'the 'creaming' phenomenon, … in which people with the least difficult problems are served while the harder cases are abandoned' (Rhyne, 1998; p.8). Underlying these debates are two very important issues that require greater debate and discussion, both internationally and within Australia.

The first of these relates to whether microfinance is a tool that is useful across the whole spectrum of poverty. So, for example: Is deepening the reach of microfinance a laudable goal or is it either unrealistic or misguided, as some have suggested? Second, the link between the depth of reach and the pressures for driving financial sustainability has sparked much debate internationally. In the Australian context, the nature of the debate centres on the means for funding a depth of reach over time. Both of these issues will be further explored after examining the depth of reach of microfinance in Australia.

As is the case on an international basis, the reach of microfinance in Australia differs across programs. In Australia, the reach is dependent on the focus of the programs. For example, mutual aid and justice/welfare programs generally have a deeper reach than semi-commercial programs (see Figure 3.8 below). Overall, in Australia, programs have been predominantly focused on people living on fixed incomes and the working poor. Increasingly, however, there are moves to explore financial exclusion and test microfinance responses with groups who have specific needs in addition to living on low incomes.

Figure 3.8 Australian context: Reach of microfinance



Should the reach of microfinance in Australia be deepened?

The debate around whether the reach of microfinance programs should be deepened centres on the strength of the link that can be made between engaging microfinance and actual poverty alleviation. Currently, in Australia, while there are some programs that reach towards the poorest members of our society, there are some questions as to how appropriate it is to strive for a deeper reach, particularly with products such as credit which could potentially risk further impoverishing people. Certainly it is the case that:

> financial services in the modern era have become a central component of economic citizenship (Mayo, 2001, p.278).

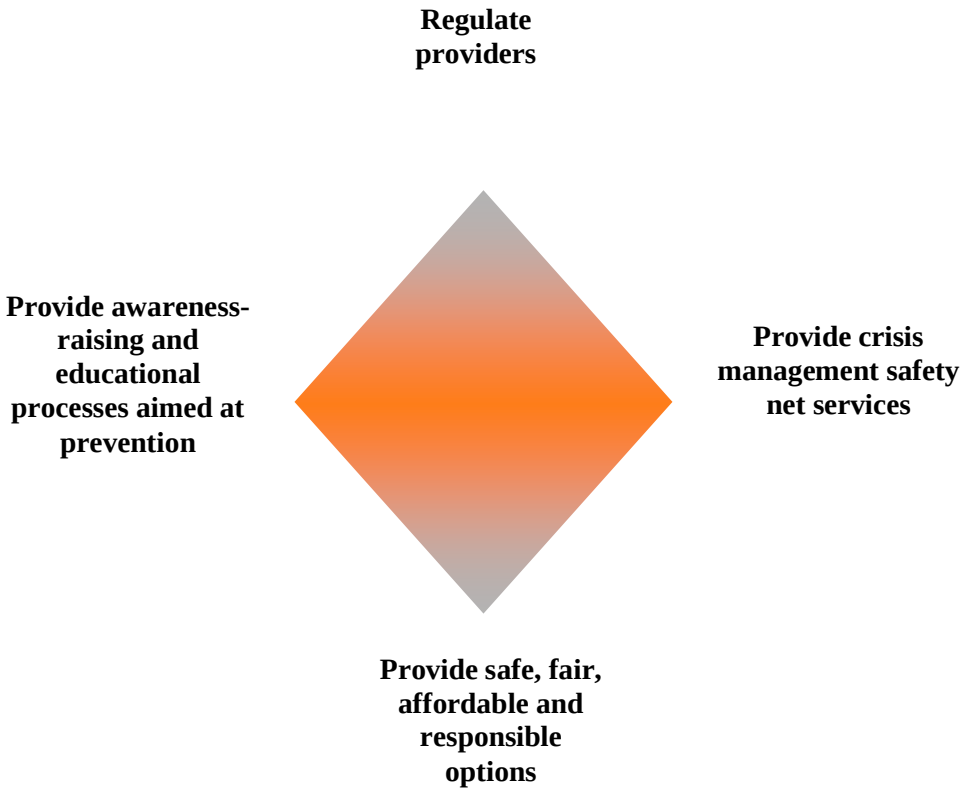
Therefore, if the poorest members of our society are to participate in the economic life of this country, perhaps it is appropriate to explore how microfinance programs could achieve a deeper reach. However, in the case of products such as credit, care needs to be taken as reach deepens. Questions start to arise (particularly from consumer advocates who are dealing on a day-to-day basis with the effects of overindebtedness), about whether people have a 'right to credit' or whether society has a responsibility to protect certain groups from further indebtedness. The reality, however, is that people (no matter what their circumstances and needs) *do* find ways to access the financial products and services they feel they need, even if they are expensive or exploitative. Credit has become an integral part of our economic system, not just through direct means, but also indirect means through contracts for services (such as mobile phones), which can easily become debt traps.

If we are to build a truly inclusive financial system, then we need to develop a multi-faceted approach to:

- regulate the most exploitative providers out of existence;
- provide a safety net for people who are experiencing financial crisis;
- develop an effective and universal financial literacy and education system;
- provide fair, affordable and accessible alternatives for people who cannot access mainstream services or whose only current options are fringe providers.

It certainly may be helpful to differentiate microfinance services or products that are best suited to different groups of people with particular needs, but the reality is that people themselves will ultimately determine what services they need. If there are no fair and affordable services available to them then they will access those services that are available. Elements of an inclusive financial system are shown below in Figure 3.9.

Figure 3.9 Elements of an inclusive financial system



The development of a more complex understanding of the demand for microfinance in Australia could help to delineate further the diversity of services that are needed or that could be developed. Clearly, no one type of microfinance service suits everyone's needs. Nor will everyone living on a low income or experiencing financial exclusion benefit from access to microfinance services. For some people, only access to programs focused on savings will assist. For others, the only appropriate service may be a No Interest Loan, or others may find that a low interest, or even an above mainstream interest rate, may be appropriate. People's particular financial circumstances or needs may have a profound impact on what kinds of microfinance services are most appropriate to them and which ones will be most effective.

Consequently, a more sophisticated understanding is needed about the range of demand for these services, and what kinds of market segmentation is involved. From this base, particular services can be developed to cater for a variety of needs and situations.

Linking reach and sustainability

As explored in the previous section, when the complexities of need go up, so do the levels of support needed, so that people can 'hold on to' financial services such as savings schemes or loan products. In other words, the poorer a person is and/or the more complex their needs, the higher the levels of support needed to ensure that they can safely and responsibly hold on to even fair and affordable financial services. Internationally, it is now recognised that the deeper the reach of microfinance services (particularly microcredit), the higher the costs are, and the more likely it is that some form of subsidy will be needed to sustain programs—as Zeller and Meyer (2002, p.5) suggest:

> Most, if not all, microfinance institutions that reach large numbers of female and male clients below the poverty line require state or donor transfers to subsidise their costs.

In Australia, most of the current programs are not independently financially viable (the exceptions probably being Progress Loans, a program that is working towards financial sustainability; those

products offered by various credit unions; and the mutual aid models such as savings and loans circles which, once established, are self-funding). Certainly, the largest program with the deepest reach (that is, NILS) is not, and cannot be, financially independent—it is a non-market microfinance response. This program is capitalised by NAB (one of Australia's largest banks) and is operationalised predominantly by using volunteers. It is estimated that the capital pool will last between 10 and 15 years (Sainsbery, 2009) and, over this time, it will continue to be supported by volunteer labour. If these programs are to continue in the long term (beyond the next 15 years), then questions will need to be asked about who will pay for its sustainability—in other words:

- Who will subsidise the depth of reach?
- Is it the responsibility of the bank to continue this in the long term as part of their corporate social responsibility?
- What role should governments at various levels play in ensuring that the most financially excluded members of our society are able to engage with financial services?
- Is it sustainable in the long term for breadth and depth of reach to be built on voluntary structures?

These are the questions that surround the link between depth and sustainability. Ultimately, they will determine not just the depth of microfinance in Australia, but also the length of reach (that is, how long into the future will it be possible to maintain the breadth and depth of reach of programs such as NILS, and other programs as they begin to scale up).

Structuring the future of microfinance in Australia: Will scale and reach happen organically?

Australia, like many other developed economies, has predominantly relied on self-regulation and market-based responses to financial exclusion. Within this framework, Australia is in a rather unique position in terms of the level of corporate support for the development of microfinance programs, as was indicated above. The field has been developed with the stand-out support of a few key corporate players who have led innovation and capital provision. Many of these corporate responses have come under the umbrella of Corporate Social Responsibility (CSR) and have developed from voluntary agreements in response to both the 1996 Banking Inquiry and the public backlash following bank closures in the late 1990s. A few Australian banks have led research, practice and industry development over the past five years in conjunction with community and social service organisations. While financial exclusion is a current issue, and while conditions are favourable to high levels of CSR, these voluntary initiatives and the focus on addressing financial exclusion through CSR are likely to continue to benefit the development of microfinance in Australia.

A number of issues in the current environment could, however, raise concerns about the sustainability and longevity of a sector whose future rests only on voluntary initiatives and CSR.

- Many of the programs developed through corporate-community partnerships over the past decade remain relatively small-scale, peripheral to the core business of either banks or the community organisations involved, and many are still called pilot projects despite having been under development for over five years.
- The impacts of the current global financial crisis are only just beginning to be felt in the microfinance sector. It remains unclear at this point what the effects, particularly on philanthropic and corporate funding, may be on sector development, but there are some concerns already being expressed in the field.
- Voluntary agreements and CSR require commitment across organisations and must be not only endorsed by leadership, but also modelled by the leaders of organisations. Recent changes in corporate landscapes in the banking sector have raised some questions, both within the corporations and from community sector organisations, about the structural sustainability of their commitment to financial exclusion when leaders, particularly CEOs, change.

While in many ways Australia is still in an experimental and innovations phase as far as microfinance programs are concerned, there is a need to begin to examine if and how the field will develop into the future. There is no doubt that pilot programs are a crucial part of innovation and development. They provide a supported forum of experimentation and learning and enable programs to develop a degree of sophistication because there is often a greater level of investment in evaluation and evidence building during pilot phases.

However, there is also a need for the development of some forward projections that include continuity and consolidation plans so that programs could potentially be scaled up and continued for the long term. Such an analysis necessitates an examination of whether the future of the sector is best served with a continuation and fostering of further voluntary initiatives, or whether the long-term viability of scaled up microfinance in Australia requires some form of legislative mandate or regulation. There are increasing calls for a more robust debate about this critical question for the future of microfinance in Australia. One author suggests that:

> The … motivations for the voluntary initiatives undertaken by banks in providing credit to low income earners to some extent provide an illustration of 'values-driven innovation' and a 'permeability' of the corporation to external values … However … these initiatives do not go far enough in addressing the problem, and … regulatory intervention is required (Wilson, 2008, p.7).

Others argue that it is not so much a question of whether regulation would stimulate the sector, but rather, what type of regulation would be most likely to enhance the scale and reach of microfinance programs (see, for example, Conaty, 2001).

In raising the question of regulation in the Australian context, many arguments have been made both for and against regulation—some of which are summarised in Table 3.5 below.

Table 3.5 Arguments made for and against regulation

For regulation	Against regulation
Broadens participation of financial institutions in the microfinance arena.	Stifles innovation if it is too prescriptive.
Increases public awareness and commitment to microfinance.	Puts a layer of compliance in place that will divert attention away from impact.
Assists in building permanence into microfinance initiatives.	Puts a focus on comparing what financial institutions spend on addressing financial exclusion rather than their impact.
Creates a stimulus for financial institutions to be involved in addressing financial exclusion.	
Makes financial exclusion more central to the core business of financial institutions rather than peripheral or CSR focused.	

These arguments warrant some brief reflections on overseas experiences of regulatory responses. The most often quoted experience is that of the *Community Reinvestment Act* (CRA) in the United States. The CRA was passed in 1977 (and has been revised numbers of times since then) to address underinvestment in poorer communities and to ensure that banks continued to appropriately address the credit and service needs of their customers, no matter where they lived (which was a response to an industry-wide closure of branches in poorer communities). The CRA requires that banks disclose their community lending practices and performance. Amendments to the CRA have meant that their performance in community lending becomes particularly important and is taken into account when considering mergers, acquisitions and branch relocation proposals. The CRA is generally considered to represent the 'high-water mark of anti-financial exclusion legislation' (Leyshon et al., 2008). It is a 'performance-based' regulatory system, which relies on 'standards

rather than rules' (Wilson, 2008). The CRA has been critiqued in some quarters (most recently and speciously in relation to the collapse of subprime loans in the United States), while it is also credited with a major contribution to addressing locality and systemic financial exclusion in the United States. It does not, however, represent a panacea as, according to Leyshon et al. (2008), the CRA has prevented neither the advance of overall levels of financial exclusion nor the spread of predatory financial systems not covered under the legislation.

Other countries and regions (notably the UK and the European Union), have looked to the CRA as providing at least a framework of regulation to address financial exclusion. Although having also relied to date on voluntary and market-based solutions, there seems to be a renewed interest in regulatory and legislative responses across Europe. While it should be recognised that the context of financial exclusion in Australia is different to Europe and the United States, there are similar doubts being expressed across developed economies about the continued viability of purely market-based solutions in an environment where financial inclusion is becoming a more critical issue in addressing both poverty and broader social exclusion. The Australian Government could also consider tools to adapt from overseas experience to take a leadership role in promoting financial inclusion, as detailed in Box 3.1 below (based on Wilson, forthcoming).

Box 3.1: Tools for a government to promote financial inclusion

Monitoring and accountability: Performance monitoring by governments in the United Kingdom and United States has created accountability among financial institutions to develop affordable, appropriate products to address financial exclusion. For instance, the United Kingdom Treasury Department has objectives that are measurable over a five-year period, including a goal that affordable credit, saving accounts and simple insurance products should be available to all who need them. As part of the CRA, financial institutions in the United States are rated on their performance, and these ratings can affect applications for mergers, and engagement in extended financial activities, such as insurance, or opening and closing branches.

Reputation: The government's expectation that financial institutions will service all citizens affects companies' reputations and impacts on their brands. In the United States, ratings are an important part of a bank's public image and many banks issue media releases if they receive a favourable *Community Reinvestment Act* rating. The Australian Government also went some way towards creating reputational benefits for companies such as financial institutions with the former Community Business Partnership awards.

Tax incentives can be used to reward organisations that contribute to building financial inclusion. For instance, in the United Kingdom, the Community Investment Tax Relief scheme offers tax relief to organisations that invest in Community Development Finance Institutions (CDFIs). The tax relief is 5 per cent of the amount invested every year for five years, so that the total tax relief amounts to 25 per cent of the amount invested.

Community service obligation: There are many examples in Australia where policy makers see a contradiction between a profit motive and social policy goals and develop legislation to ensure that companies service all consumers. For instance, privatised telecommunications, water, gas and electricity companies are not able to deny access to unprofitable rural or low-income consumers. There may be a case for regulation for financial institutions to provide basic services to all Australians as participation in society requires access to financial services. For instance, the premise of the United States' *Community Reinvestment Act* is an obligation to provide financial services without economic discrimination so that people do not suffer financial and social exclusion.

Funding: Governments can provide funding for the development of affordable, appropriate products. In Australia, NILS and matched savings have been the primary vehicles for governments to address financial exclusion. The Victorian Government has invested $4.7 million over four years in NILS, and the Western Australian and Queensland governments have provided start up funding for state wide schemes (Victorian Government Budget, 2006 & WA NILS 2009). The Australian

Government has also announced funding of $33 million in NILS, Saver Plus, Progress Loans and Step Up programs (Macklin, 2009). The United Kingdom Department for Work and Pensions is administering a £74 million Growth Fund for the creation of Community Development Finance Institutions (Department for Work and Pensions, 2008). Governments in the United States and United Kingdom have also provided significant funding for matched savings programs.

There has been little substantial public debate about the relative merits of continued voluntary self-regulation and the use of regulatory measures to progress the microfinance sector in Australia, though there is a growing sense within community organisations and in some emerging research (see for example Wilson, 2008) that this is a crucial question to address in coming years. However, without some analysis of the nature of any proposed regulatory frameworks, proponents of arguments for or against can too easily slip into ideological bunkers, making any rigorous constructive debate difficult.

Regulatory options to support and enable scale

Examining the CRA provides some important insights into how the nature of regulation can influence the shape of practice. Any adoption or adaptation of such legislation in the Australian context should carefully consider the learnings gleaned from this framework over the past thirty years (see Wilson, 2008). Some of these include:

- Heavy administrative and compliance burdens should be avoided as they stifle innovation and focus attention on compliance rather than performance. Performance-based systems are generally considered to be more effective in generating pro-active and innovative responses than are rule-based systems.
- That said, it is important that there is some kind of monitoring system in place as legislation on its own does not necessarily result in significant change (see, for example, Kempson, 2006).
- A key part of the CRA that encourages innovation and maximises self-regulation is the disclosure and reporting dimension that creates performance incentives, and so it is the case that regulation can enhance innovation rather than stifle it.
- It is important that any reporting and disclosure obligations result in transparency and the ability to compare across reports, therefore it is important to build the framework around the types of impacts being sought.
- The focus of regulation needs to be on creating impact and outcomes in relation to addressing financial exclusion, rather than on merely measuring how much money is spent on addressing exclusion.

It may also be important in the Australian context to consider whether there is any role for a mezzanine finance sector. This could include Community Development Finance Institutions and potentially Credit Unions, which could have a legislative mandate to focus their attention on addressing financial exclusion (see, for example, Burkett & Drew, 2008; Wilson, 2006).

If regulation is to be an option for the Australian context, then a number of preconditions need to be addressed. First, there is a need for more rigorous debate and discussion about the future of voluntary initiatives, the effectiveness of self-regulation, and the possible nature of any regulatory response. Second, financial institutions are never likely to lobby for regulatory responses, so the onus for lobbying will be on the emerging sector and on community sector organisations who currently see the worst effects of financial exclusion. The development of an advocacy response to encourage regulatory changes will be challenging for some organisations, particularly when so many of the current programs are funded by financial institutions. Finally, some level of strategy is needed to coordinate both the campaign and research dimensions that are needed for successful regulatory lobbying. The federalisation of consumer credit laws could be an opportune time for some of these issues to be raised as there will already be a degree of focus on consumer use of financial services.

Impact

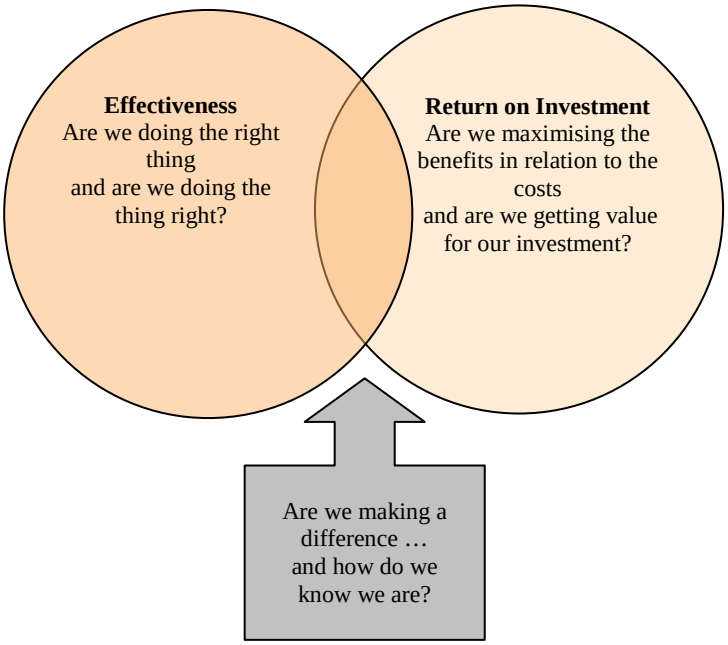
The impact of microfinance initiatives has been increasingly on the agenda internationally, with many major programs advocating for the need to measure and report on impact. In Australia, impact measurement and analysis is beginning to enter the debate in the microfinance field as more programs are initiated and evaluated. Unfortunately, there is little agreement internationally about how to measure the impact of microfinance, or what actually constitutes 'impact'. This is partly because indicators of impact need to be contextually based, but also because the underlying purposes for undertaking impact assessments are often not adequately acknowledged.

Though the purposes for undertaking impact assessments can vary across programs, it should be acknowledged that there are two core perspectives that underpin many of the debates about impact, and which are sometimes seen as two sides of an ideological coin.

- On one side of the coin are those who equate impact with effectiveness. From this perspective, the purpose of evaluating a program's impact is centred on understanding its *effectiveness*. The question at the core of this approach is: What long-term and sustainable changes have occurred at individual, household, community and social levels that can be attributed to this intervention? This approach often informs microfinance programs or initiatives themselves as they are developing an understanding of, and learning about, their impact. They are seeking answers to the dual questions of: 'Are we doing the right thing and are we doing the thing right?'
- On the other side of the coin are those who see impact in light of value creation. From this perspective, the purpose of evaluating a program's impact is centred on understanding its *return on investment*, or its *efficiency* in delivering results. The question at the core of this approach is: What are the costs of the benefits that have been derived from this program, and are these costs the most efficient means of creating these benefits? This approach is increasingly used by funders, donors and governments to understand and compare the impacts within and across the programs they support. They are asking: 'Are we maximising our benefits in relation to the costs and are we getting value for our investment?'

While it is helpful to understand the differences between these two approaches, as illustrated in Figure 3.10 below, they should not be seen as mutually exclusive as they both fundamentally ask questions about whether a program or an initiative is making a difference and, if so, how we know this.

Figure 3.10 Core perspectives of impact



Given the relatively short period of time that microfinance programs have operated in Australia, and the large investments made to date, it may be prudent to examine both the long-term effectiveness of these programs in addition to the cost/benefit of investing in them. Further, given the number of pilot projects, impact assessments may assist in determining if and how such initiatives could be scaled up and consolidated for the long-term.

What constitutes impact?

In both the 'effectiveness' and 'efficiency' perspectives, definitions of impact tend to emphasise effects, long-term differences, and sustainable changes that result from an intervention or initiative. Some of the recent definitions of impact used in and around microfinance initiatives include the following:

> Impact = Outcomes less an estimate of what would have happened anyway (New Economics Foundation, 2004).
>
> Measuring impact is akin to asking: We served these people, we made these loans, but so what? What change occurred as a result of our work? (Levy and Brennan 2005).
>
> Impacts: The long-term sustainable and sometimes attributable change due to a specific intervention or set of interventions (Tuan 2008, p.30).

Impact, then, is about what real difference an intervention makes in relation to its intentions—in this case, how the intervention has contributed to addressing financial exclusion. In order to understand what constitutes impact, it is important both to link it to and differentiate it from two other result-oriented terms: 'outputs' and 'outcomes'. This distinction is the key to understanding how we assess the way microfinance initiatives actually address financial exclusion in Australia.

Outputs
The key products or deliverables of an intervention—for example, number of loans, number of declines, average loan size, amount of loans written, main loan purpose, default rates.

Outcomes
The direct results or consequences of the intervention
Outcomes are linked to changes in:

- learning and knowledge creation—for example, participant reports of learning to distinguish differences between terms and conditions of products;
- behaviour and skill development—for example, participants stopped using fringe credit providers; participants opened a basic bank account;
- intangible, felt and other changes—for example, participants felt more confident in engaging with finances; participants reported changes in self-esteem.

Impacts
The difference the intervention makes in relation to its intended target with consideration to what would have happened without any intervention In other words, impact is about understanding:

- What difference have we made through the intervention (to reducing financial exclusion)?;
- What parts of this difference we can attribute to the intervention and what would have happened anyway?

So, for example, an impact of an intervention may be long-term changes in savings behaviour or credit use; achievements of long-term goals, such as large asset purchase; or maintenance of insurance products and purchase of further insurance products over a period of time following an intervention, that are directly attributable to that intervention.

Impact measurement then is the meta concept that incorporates, but also goes further than, the other two concepts. Impact analysis is more extensive, time-consuming and resource-intensive because it attempts to name and measure the differences the intervention actually made in reducing or ameliorating financial exclusion.

Impact has been somewhat peripheral in the exploration of microfinance in Australia to date, both in terms of public debate and in terms of measurement or research into the sector. This is possibly because the nature of most microfinance initiatives is still modest and, with the exception of a few (particularly NILS and Saving and Loans Circles), they are not particularly long-lived. Most research into microfinance in Australia has focused on measurement of outputs and outcomes (with the notable exception of the Saver Plus program, which has been the subject of extensive post-savings behaviour and impact research since its inception (see Russell et al. 2008a, 2008b; Russell, Fredline & Nair 2005). Table 3.6 on the following page outlines some of the key outputs and outcomes cited in the evaluation of some of the microfinance initiatives in Australia that have been evaluated.

Table 3.6 Outputs, outcomes and impacts of selected microfinance programs

Program	Outputs	Outcomes	Impact
NILS	For June 2007–08, $3.95 million was lent to just over 4,000 borrowers through 280 community organisations with a default rate of 5%.	Applying for a loan strengthens financial knowledge and budgeting skills. Obtaining a NILS also helps borrowers to feel respected, valued and trusted, which restores a sense of hope that someone cared. Feedback showed that 37% experienced improved self confidence; 6% reported benefits of owning a new item; 19% commented on improved power as a financial consumer.	
StepUP	Up to 31 December 2007, $1.46 million was lent to 599 people with an average loan size of $3,000, the main loan purpose being cars and car repairs, and the default rate was 4%	Having the loan and obtaining basic necessities helped promote self-esteem for borrowers.	
Progress Loans	From May 2006 to May 2009, 598 loans were drawn down by 531 individuals and the default rate was 1%.	Feedback showed that 32% believed they had better budgeting and money management skills, 42% a better understanding of loan contracts, and 38% a better understanding of interest rates. Many research participants commented that the Progress Loan led to an improved quality of life (95%), reduced stress in the household (85%), greater independence (85%), improved self-confidence and self-esteem (83%) and a better ability to deal with an unexpected expense (31%).	
Saver Plus	From 2003 to 2009, more than 4,600 people have participated in the program.	An increase in knowledge of fees and charges relating to financial products. Participants reported increased confidence, reduced stress and sharing financial management skills with their children.	Improved savings habits for 37% of participants[7]
Advance Personal Loans	From May 2006 to December 2005, 170 loans were drawn down by and the default rate was 2%.	An evaluation showed that for many participants, obtaining a loan was about more than just money, but also dignity, inclusion, trust and respect. Participants felt a sense of pride at dealing with a bank.	

Note: Figures included in this table are based on published research reports listed in the directory in Appendix 2.

[7] A survey of 1,439 participants involved in Saver Plus from 2006–2008 showed that, prior to commencing the program, 33% saved a set amount on a regular basis. Based on research of 199 participants from 2003–2005, which analysed behaviour two to three years after completing the program, 70% of past participants reported that over the last 12 months their savings deposit levels had either increased or stayed the same, suggesting improved savings habits for 37% of participants.

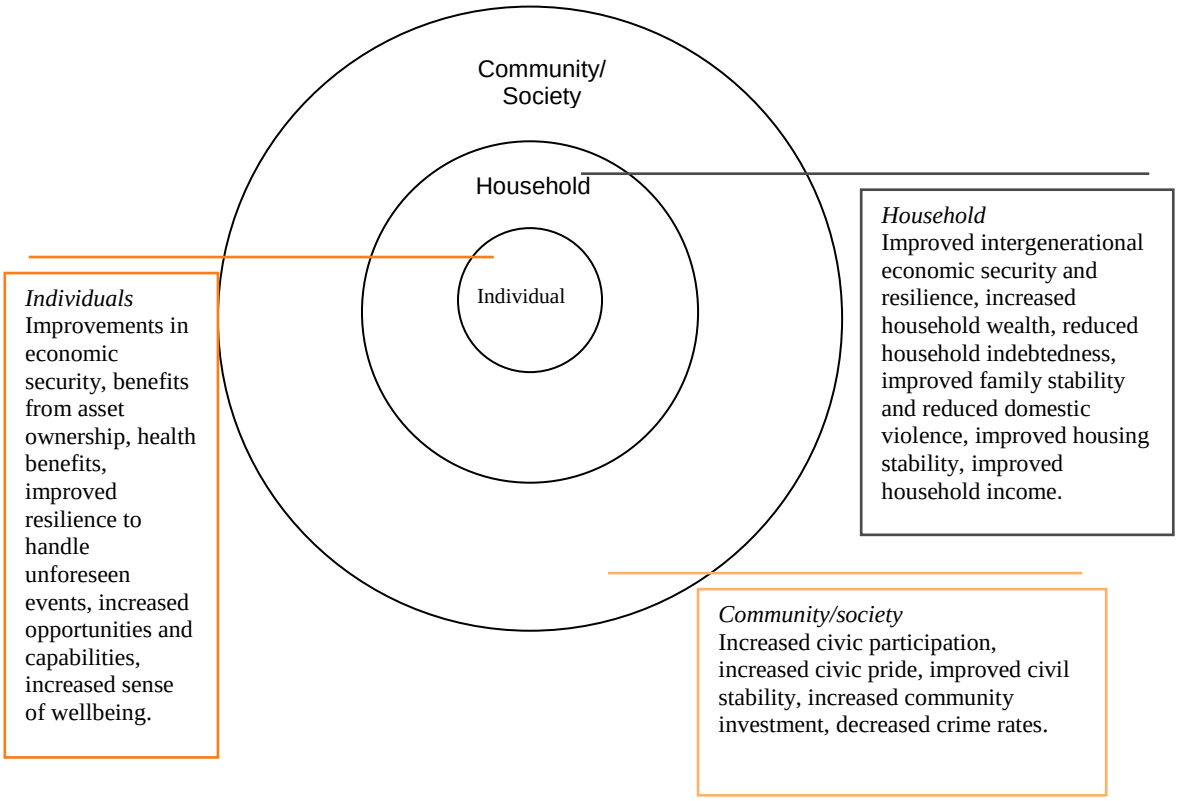
One of the difficulties of researching impact in microfinance in the Australian context relates to the relative lack of empirical research around the purpose of microfinance initiatives and the nature of financial exclusion. The narrow definitions of financial exclusion that have dominated discussions to date have meant that there is a gap between the program's intentions (to reduce financial exclusion) and the actual results. Examining the impact of an initiative requires clarity of what it is we are seeking to change. Impact research requires that we develop, both within programs and across programs, an understanding of the following:

- What are the changes that we are trying to make through this initiative?
- How will we know if what we are doing is actually creating these changes?
- What are the current realities for people experiencing financial exclusion?
- What are the longer term consequences (intended and unintended) of our microfinance interventions?
- What are the most significant changes resulting from our microfinance initiatives, according to the consumers of these initiatives?

Determining the impact depends on the objectives of the initiative. For example, if the initiative is trying to address financial exclusion, then objectives may include increasing access; building alternatives to mainstream options that are appropriate for particular groups; reducing the use of fringe financial products; increasing awareness of fair financial products and services; or improving affordability of products and services.

Further, the program may have broader goals of promoting social inclusion and reducing hardship and poverty. As a result, objectives may be related to increasing asset ownership, reducing indebtedness, creating financial resilience and a safety-net, enhancing civic participation, and improving engagement with essential services. The objectives of microfinance initiatives may focus on the clients of a program (the individual or the household) or, more broadly, on the community or social impacts that can be linked back to an initiative. Some of the objectives of microfinance that are used overseas to engage in discussions of program impacts are listed below.

Figure 3.11 Objectives of microfinance: a multilayered analysis



These objectives assist in building indicators to show how and when an initiative can demonstrate it has achieved this objective. The measurement of impact relies on the collection of accurate baseline data (to enable 'before and after' comparisons). It also demands a commitment to engaging clients in tracking the long-term changes resulting from their involvement in the initiative (this can be qualitative but still be rigorous and comprehensive, using methodologies such as 'Most Significant Change' (see Davies & Dart, 2005). Studies examining the impact of microfinance programs in other developed country contexts (such as the United Kingdom and United States) have been done over a longer timeframe to develop an understanding of the intended and unintended consequences (see, for example, Sherraden, 1991, 2005; Midgeley, 2005).

A great deal more public debate and discussion has taken place in the United Kingdom and United States about the frameworks for measuring impacts and various government and philanthropic bodies have made significant investments in funding large scale and detailed impact studies. Impact studies are, by their very nature, resource intensive—both in terms of money and time. For many Australian microfinance initiatives, the resources have not been available to enable intensive impact assessments of their work. In Australia, as programs develop and the scale of programs begins to increase, there will be an increasing need for independent impact studies that are not internally administered and that provide some objective analyses about both the effectiveness and efficiency of particular models.

4 Conclusion

Over the past six years, the microfinance field in Australia has grown steadily stronger, with a number of programs starting to slowly build a degree of scale. The achievements to date should be recognised and celebrated. However, there has by no means been a prolific growth of the sector—there has not been a flourishing development of new programs, nor has the scaling up of existing programs accelerated to the extent predicted in the earlier report. Many of the programs surveyed in the original report are still operating and have certainly consolidated their learnings. However, quite a few of these are still considered to be at pilot stage.

In many ways, microfinance is a field that currently sits at the threshold of development and growth. Perhaps more than any other field in Australia, it has demonstrated the potential of corporate–community partnerships, with community organisations and banks leading the innovations over the past decade. If, however, the field is to realise its potential for addressing and ameliorating financial exclusion in Australia, there is now an urgent need for serious and rigorous debate and discussion among practitioners, policy makers and consumers. Central to these debates is a forthright exploration of the role of different sectors in growing microfinance as a response to financial exclusion. The issues underpinning this exploration are outlined in Box 4.1 below.

Box 4.1 Roles for each sector

Financial institutions have resources and infrastructure to service disadvantaged people. However, they lack expertise in dealing with people who are financially excluded, and many currently lack an incentive to address financial exclusion. While some banks have made significant practical investments in addressing financial exclusion, other responses have been symbolic. There is a need for broader involvement across the banking sector, with leadership from the industry to ensure that responses are not fractured. Credit unions also have a key role and there are opportunities for them to re-visit their roots around servicing more disadvantaged people and groups across the country.

Governments need to take a leadership role and set an expectation that financial institutions should provide fair, appropriate services to all citizens. They need to provide a motivation or incentive for financial institutions to provide an inclusive service and any policy response around financial exclusion needs to have firm social targets. Regulatory and policy responses need to be discussed and debated over coming years if microfinance initiatives in Australia are to grow and diversify.

Community organisations have a responsibility to represent the interests of financially excluded people. They need to show government the ramifications of not acting on financial exclusion and link arguments to social policy goals. Given bank involvement risks a shallow reach, they should take responsibility for holding banks to account. To achieve this, community organisations need to maintain an independent advocacy voice and provide government and banking sectors with a consistent argument. While there are conflicts in advocating when being funded by a financial institution, a sector-wide response would remove these conflicts and individual agendas. Community organisations should also continue to pilot innovative responses to financial exclusion and lead the debate on the measurement of the impact of microfinance initiatives.

Researchers play an important role in ensuring that successes and failures are shared to improve the sector's capacity. Further research in Australia is needed to match up demand and supply, compare impacts of different models, and understand impacts on inclusion and exclusion. Research is also needed around sustainability, in particular, the costs of providing services, and clients' attitudes towards and capacities around interest and fees. This type of research would enable strategic decisions around investment in microfinance.

Networks are important to bring all sectors together, to ensure new programs are not 'reinventing the wheel' and to assist community organisations in forming coalitions. They can also create forums for debate and discussion and thereby help to close the gaps between different groups' ideological positions.

This report has opened up some of the key challenges currently facing the field, which are focused on issues of sustainability, scale and impact. The authors have outlined some key issues that require discussion if we are to continue to build a vibrant and diverse microfinance sector in this country—one which is sustainable, reaches those who are most financially excluded, has sufficient scale to ensure access to all who need it, and one which has a clear impact on addressing financial exclusion as it is experienced in the Australian context. In doing so, some broad recommendations have been formulated that sit across the three areas of sustainability, scale and impact, and speak to some of the questions outlined above. They are offered here with an invitation to our colleagues in and around the field to engage with the debates that must inform any pathways forward.

Box 4.2 Recommendations

Recommendation 1
Broaden the definition of financial exclusion in Australia and undertake more empirical work to examine both the extent of such exclusion and the potential demand for microfinance.

Recommendation 2
Give greater focus to the range of products and services that people are excluded from, examining in particular those programs that support the insurance, remittance, bill-payment and superannuation needs of people living in poverty.

Recommendation 3
Adopt a broad definition of sustainability in the microfinance sector that includes the financial impact, and social and institutional elements of sustainability.

Recommendation 4
Encourage a more complex engagement with financial sustainability in the microfinance sector, away from prevailing simple ideological poles of charity and commercial mindsets.

Recommendation 5
Publish data on the true costs of microfinance program service provision to contribute to a debate on financial sustainability relevant to the Australian context.

Recommendation 6
Move programs beyond pilot phases to building scale, although pilots have played and will continue to play an important role in demonstration, experimentation and innovation.

Recommendation 7
Support programs that examine how microfinance could extend its reach to include the most vulnerable people in our society, and encourage action research around specific target populations.

Recommendation 8
Ensure that government, community and financial institutions use a variety of approaches to trial and document microfinance initiatives.

Recommendation 9
Channel greater investment into independent reporting on the impact of microfinance initiatives—reporting that is both quantitative and qualitative, and which involves clients.

Appendix 1: List of people consulted

Julius Alip, CARD Philippines

Gauke Andriesse, Cordaid, Holland

Loi Bakani, Bank of PNG

Leigh Coleman, Many Rivers Opportunities

Anuja Cabraal, RMIT University

Michelle Commandeur, ANZ

Anthony Della Cruz, National Development Bank, Papua New Guinea

Shane Dinnison, SACOSS

Greg Fisher, Fitzroy & Carlton Community Credit Cooperative

Saiful Islam, Women's World Banking

Fazlu Kader, PKSF, Bangladesh

Collette McInerney, First Nations Foundation

Adam Mooney, Reconciliation Australia

Graham Patterson, Westpac

Corinne Proske, NAB

Annie Rogers, Reserve Bank of Fiji

Bhola Sah, Amurt International

Michelle Sainsbury, Good Shepherd Youth and Family Service

Dano Santos, C.A.R.E. Incorporated, Philippines

Diane Tate, Australian Bankers' Association

Marilyn Webster, Good Shepherd Youth and Family Service

Therese Wilson, Griffith University

Guy Winship, World Education Australia

Appendix 2: Directory of microfinance programs

	Details
Program name	AddsUp
Organisations involved	NAB and Good Shepherd Youth & Family Service, and support also provided by the Commonwealth Government. www.nab.com.au or www.goodshepvic.org.au
Still active	Yes
Commenced	2009
Type	Savings
Target market	People who have repaid at least one No Interest (NILS®) or StepUP Loan and have saved a minimum of $300.
Published objectives	To help people on low incomes develop financial independence through savings.
Nature of the initiative	NAB will identify all AddsUP accounts that show a balance of $300 or more and match the savings in these accounts, dollar for dollar, to a maximum of $500.
Scale	The AddsUP Savings Plan was launched at the Echuca Indigenous Community No Interest Loans Scheme (NILS®) in May 2009 and will be introduced in 100 community groups in Victoria, Northern Territory, New South Wales, South Australia and Queensland. No data available on number of participants.
Financial sustainability	The service cannot cover its costs.
Impact	No data available
Selected further information	No data available

	Details
Program name	Advance Personal Loans
Organisations involved	Brotherhood of St Laurence and Community Sector Banking www.bsl.org.au or www.csbanking.com.au Later replicated by Shelter Housing Action Cairns (SHAC) www.shac.org.au
Commenced	2003–2006 (with Brotherhood of St Laurence; outcomes contributed to the development of Progress Loans) 2005–2009 (with SHAC)
Still active	No
Type	Personal credit
Target market	To be eligible for a loan, people needed to hold a healthcare or pension card, have been living at their current home for more than six months, and demonstrate that they could make regular repayments, as shown by household budget, credit record, and bill and rental histories.
Published objectives	The program was designed to provide self-sustaining affordable credit to enable low-income consumers to purchase household goods and services. A second objective was to develop links between low-income consumers and banks. This objective was to be achieved through practical demonstration (by demonstrating to the banks that many low-income consumers are creditworthy and can be served economically) and working with the banks to further their servicing of this section of the community, and advocacy (working with other community groups and consumer advocates to further the availability of affordable credit for low-income consumers).
Nature of the initiative	Personal loans of $500 to $2,000 for the purchase of basic necessities.
Scale	170 loans provided over 2003–2006 in metropolitan Melbourne 20 loans provided over 2006–2009 in Cairns
Financial sustainability	The service had the potential to cover its costs (it charged an interest rate of 13.95%, an application fee of $20 and, for a time, partnered with electrical goods suppliers to offer the option of 'store credit' and the margin on the sale of goods provided an additional source of income; default rate 2%.
Impact	An evaluation showed that for many participants, obtaining a loan was about more than just money, it was also about dignity, inclusion, trust and respect. It was an opportunity to not be just a passive recipient of welfare, but to gain some self-esteem by taking a positive, active role in the process. Participants felt a sense of pride at dealing with a bank.
Selected further information	Scutella, R & Sheehan, G 2006, *To their credit.*

	Details
Program name	Celebration Planner
Organisations involved	Barnardos/HSBC www.barnardos.org.au/barnardos or www.hsbc.com.au
Still active	Yes
Commenced	2007
Type	Savings
Target market	Low-income families with children, where abuse may be a concern (who are already receiving assistance from Barnados).
Published objectives	To assist low-income people to learn about financial literacy and how to save, so that they do not need to obtain debt.
Nature of the initiative	Celebration planner assists families to save for back-to-school expenses, Christmas, Ramadan, and any other religious or community festival. If a family saves at least $25 per fortnight during the year and reaches a target of $400, they receive a bonus of $200 in the first year. They can enrol for a second year, but the bonus reduces to $100.
Scale	158 families have participated from 2007 to 2009.
Financial sustainability	The service cannot cover its costs.
Impact	Anecdotal evidence shows that participants are developing savings habits and avoiding a debt spiral.
Selected further information	No data available

	Details
Program name	Enterprising Women Whittlesea
Organisations involved	2003–04: Women's Health in the North in partnership with Plenty Community Credit Union and Kildonan Child and Family Services; 2005–07: Women's Health in the North in partnership with Spectrum Migrant Resource Centre www.whin.org.au
Commenced	2003–2007
Still active	No
Type	Business credit and education
Target market	Women from culturally and linguistically diverse backgrounds in Melbourne's Northern metropolitan region
Published objectives	2003–04: To pilot a loan system to support the development of micro enterprises by a small group of women from culturally and linguistically diverse backgrounds, on the rationale that through the provision of skills training, support and access to finance, these women could be assisted to achieve both social and economic objectives. 2005–07: (1) To increase and strengthen women's social and community connectedness; (2) To increase women's confidence through skill development, education and training; (3) To increase women's financial literacy and access to competitive financial services; (4) To enhance the capacity of women on low incomes to start and/or further develop their own micro-enterprises; (5) To increase the opportunities for women to engage in participant-directed and sustainable support networks.
Nature of the initiative	Business education and support, no interest loans of up to $2,000 to establish micro-businesses, and from 2005 onwards, financial literacy education.
Scale	2003–04: Four enterprise group members were approved for loans, totalling $7,000. An additional three group members had started small businesses, but not obtained loans. 2005–07: Almost 100 women participated in business education, 11 women received no interest loans and more than 250 women accessed financial literacy education.
Financial sustainability	The service could not cover costs (no interest). Loan funds were recycled when repayments were made (no defaults).
Impact	Twenty-two participants were interviewed in 2007, and 80 per reported that the program had increased their confidence; 70% said that their financial situation had improved; just under half reported decreased stress levels; 80% said that their expectations were met in terms of business knowledge gained.
Selected further information	HDG Consulting Group 2004, *Enterprising Women Whittlesea Women's Micro Finance Pilot Project Final Evaluation Report*, Women's Health in the North & Kildonan Child & Family Services. Vettori, L 2008, *Enterprising Women: final evaluation report*, Women's Health in the North, Melbourne.

	Details
Program name	Fast track
Organisations involved	Barnardos/HSBC www.barnardos.org.au/barnardos or www.hsbc.com.au
Still active	Yes
Commenced	2007
Type	Savings and financial advice
Target market	Low-income families with children, where abuse may be a concern
Published objectives	To teach low-income and disadvantaged people about financial literacy while also helping them escape the debt trap and make a fresh start.
Nature of the initiative	Fast Track is a debt assistance program designed to help families repay their debts, reduce financial stress, and contribute to improving their children's welfare. Repayment schedules are tailored to satisfy creditors, reduce interest payments and get families out of debt as effectively as possible. Barnados can match repayments for approved clients (a limit applies).
Scale	From 2007 to 2009, 83 families approved, 11 still active, and 72 have completed the program.
Financial sustainability	The service cannot cover its costs.
Impact	Anecdotal evidence shows reduced financial stress for participants.
Selected further information	No data available

	Details
Program name	First Nations Australian Credit Union and First Nations Foundation (FNF)
Organisations involved	First Nations Australian Credit Union was established in 1999 with support from Australian National Credit Union (now Credit Union Australia) together with seed funding from ATSIC. First Nations Foundation (FNF) was established in 2006 to address the broader issue of financial inclusion for all Indigenous Australians www.fnf.org.au
Nature of the initiative	Until 2006, specific products included a Clan Account, Budget Account, as well as a unique loan assessment policy. Since 2006, Credit Union Australia offers standard products at a discounted rate to its First Nations membership base. First Nations Foundation delivers a money and life skills program called 'My Moola: opening financial pathways' that they developed in partnership with ANZ.
Commenced	1999
Still active	Yes
Type	Savings, personal credit, bill payment, insurance, financial advice
Target market	Aboriginal and Torres Strait Islanders
Published objectives	To provide Aboriginal and Torres Strait Islander people access to culturally appropriate financial products and services.
Scale	Rather than pursuing a typical branching structure, First Nations uses the Bank@Post network as well as ATMs, EFTPOS, B-Pay, cheques, telephone and Internet banking. First Nations also sends banking consultants into workplaces to broaden the reach. This was designed to provide services to a wide range of Indigenous communities. In 2009, the organisation has 3,000 members living under the First Nations branded financial products and services through the Licence Agreement between First Nations Foundation and Credit Union Australia.
Financial sustainability	The credit union covers its costs.
Impact	No data available
Selected further information	Reconciliation Australia 2002 *Banking and Financial Services for Indigenous Conference.* Brotherhood of St Laurence 2003 *Banking on the margins* Melbourne.

	Details
Program name	Fitzroy and Carlton Community Credit Cooperative
Organisations involved	Established to provide a savings and loan service to members of the Action Resource Centre (a self help organisation for low-income people, which had been formed in 1976 as an outcome of the Brotherhood of St Laurence Family Centre project.) www.fccc.com.au
Commenced	1977
Still active	Yes
Type	Savings, personal and business credit, insurance, bill payment
Target market	Workers and residents in the Fitzroy and Carlton area; 75% of members are on a Centrelink payment; to be eligible for a loan, need to be an active member for three months.
Published objectives	Fitzroy & Carlton Community Credit Cooperative provides a range of affordable and relevant financial services to members and people living in the membership area in a way that recognises FCCC's ongoing commitment to social justice. The cooperative provides members with the opportunity to better understand their financial circumstances through community education. It provides these services over the long term by ensuring the financial soundness of the cooperative.
Nature of the initiative	Savings, loans, budgeting services, credit advocacy, wage paying for community organisations.
Scale	5,000 members; loan portfolio of $3 million; around 2,300 loans outstanding at any one time.
Financial sustainability	The service covers costs from its activities (charges interest and fees and earns income from the operation of a book keeping service for local community organisations, and formerly were able to cross subsidise the portfolio with the interest income from larger home loans; default rate 2%).
Impact	A 1990 study revealed a range of perceived benefits among 20 successful loan applicants: 40% experienced improved self confidence; 15% reported benefits in owning a new item; 45% commented on improved power as a financial consumer; 30% felt the ability to borrow would help in emergencies.
Selected further information	Chalmers, J & Prosser, B 1990, *Credit to the community*, Brotherhood of St Laurence, Melbourne. Wilson, T 2006, 'Be careful what you ask for: What Role Now for Credit Unions in Addressing Financial Exclusion in Australia?' *Griffith Law Review*, vol 15, no 2. Brotherhood of St Laurence 2003, *Banking on the margins*, Melbourne.

	Details
Program name	Foresters Community Finance
Organisations involved	Foresters Community Finance Ltd was formed in 1999 as a result of the merging of the Ancient Order of Foresters in Queensland and the Australian Natives Association of Queensland Friendly Society Ltd. www.foresters.org.au
Commenced	1999 in its current form, however, the Ancient Order of Foresters in Queensland and the Australian Natives Association of Queensland Friendly Society Ltd were founded in 1855.
Still active	Yes
Type	Savings and Loans Circles, community development finance, third sector finance, social enterprise finance.
Target market	The current focus is on community organisations and social enterprises, however, Foresters has, over the past 15 years, supported the development of savings and loans circles, many of whose members are people living on low incomes.
Published objectives	Foresters is a Community Development Finance Institution seeking to develop products and services that address the financial exclusion of people, organisations and enterprises who are excluded from mainstream financial services. Foresters currently does this by assisting third and fourth sector organisations to build financial and social sustainability; seeking to build the skills and knowledge of the third and fourth sectors; investing in the asset base of the third and fourth sectors; accounting for both the financial and social returns on these investments.
Nature of the initiative	Foresters Community Finance focuses on channelling capital into underserved markets that would have difficulty securing finance from mainstream financial institutions. For instance, they assist in funding buildings that have been used to deliver community services, residential properties that have been used to deliver affordable housing, and equipment finance to support the growth of social enterprise and social businesses.
Scale	In relation to the third and fourth sector lending, Foresters currently has over $4 million invested in community organisations and will have $10 million under investment by the end of 2010. In terms of savings and loans circles, there are approximately 30 of these circles operating around South-East Queensland, and in combination they have saved and distributed around $600,000 worth of loans. The circles are self-managed by members and Foresters does not play a part in their ongoing development.
Financial sustainability	The service covers its costs by charging interest and fees, and operating fee based consultancy and training services.
Impact	Foresters is currently undertaking research to assess the impact of its lending in the third and fourth sectors. Small scale research about the impact of savings and loans circles indicates that the impact centres on capacity building, financial security, social capital and confidence.
Selected further information	Black, A, Ainsworth, F, Hughes, P & Wilson, L, 2002 *Report of the Evaluation of the Family and Community Services* Centre for Social Research, Edith Cowan University.

	Details
Program name	Macaulay Community Credit Cooperative
Organisations involved	Set up by community workers and low-income people and owned by members in Melbourne's inner North West (now part of MECU) www.mecu.com.au)
Commenced	Late 1970s–2008
Still active	No (now part of the credit union, MECU)
Type	Savings, personal credit, bill payment
Target market	Low-income people and community organisations in Flemington, Kensington, Ascot Vale, North and West Melbourne and Parkville. To be eligible for a loan, people needed to be an active member for three months.
Published objectives	Macaulay sought to facilitate the pooling and sharing of the community's economic and financial resources, for use according to the social and economic aims of the community. Emphasis was placed on helping to redress the unequal distribution of power and resources in society, especially as it affects local people on low incomes.
Nature of the initiative	Savings, loans, budgeting services, book keeping and payroll for community organisations
Scale	In 1990, Macaulay had $2.4 million in deposits, of which around 75% was from community groups.
Financial sustainability	The service covered costs (charged interest and fees and earned income from the operation of a book keeping and payroll service for local community organisations).
Impact	A 1990 study found the following perceived benefits among 15 successful loan applicants: 53% experienced improved self confidence; 33% reported benefits of owning a new item; 33% commented on improved power as a financial consumer; 27% felt the ability to borrow would help in emergencies.
Selected further information	Chalmers, J & Prosser, B 1990, *Credit to the community*, Brotherhood of St Laurence, Melbourne.

	Details
Program name	Maleny & District Community Credit Union Ltd
Organisations involved	Started by a group of local residents www.malenycu.com.au
Commenced	1984
Still active	Yes
Type	Savings, personal credit
Target market	Individuals and organisations within Australia
Published objectives	MCU aspires to lead by example to advance social change for community benefit. MCU creatively balances its business operations with the practices of ecological and economic sustainability. Its reason for being is to offer appropriate and ethical financial solutions to members in ways that are socially just, environmentally responsible, empowering to the local community and individuals, based on a belief in people, honesty and goodwill.
Nature of the initiative	MCU believes that it is important to keep money circulating within the Queensland Sunshine Coast region to build wealth in the local community.
Scale	Over 5,100 members Australia wide
Financial sustainability	The service covers costs.
Impact	Support national environmental initiatives and community initiatives in the Queensland Sunshine Coast region
Selected further information	No data available

	Details
Program name	Many Rivers Opportunities
Organisations involved	Opportunity International initiated the pilot which ran from 2002 to 2004 and has continued to provide guidance. From 2004 to 2006, Hillsong Emerge managed the program. From 2008 onwards, Many Rivers Opportunities has operated as an independent organisation auspiced by Mission Australia working in a strategic alliance with Westpac. www.manyriversopportunities.com
Commenced	2002
Still active	Yes
Type	Business credit and education
Target market	Indigenous and other people who have enterprise plans and activities but lack the support to develop their activities into a sustainable business. Many Rivers seeks clients who have already demonstrated entrepreneurial ability and the fact that a potential client had begun something, however modest, is seen as a demonstration of their seriousness.
Published objectives	Many Rivers' vision of Australia is a place where all people, including Indigenous men and women, have access to financial support for commercial activities. They use enterprise as a means for business minded people to move away from welfare towards financial freedom for themselves, their families and their communities.
Nature of the initiative	The program provides small business loans and ongoing individual business support.
Scale	Offered in Grafton NSW. 2002–04: worked with 100 clients and 39 took out loans (13 received a second loan) 2004–06: 110 loans provided
Financial sustainability	The service has the potential to cover its costs (charges interest; default rate 5%).
Impact	Based on an evaluation of 13 clients with repeat loans, clients reported significant increases in profitability (a 64% increase in income), a 180% increase in asset holdings and a 59% increase in the proportion of income derived from enterprise, therefore reducing welfare dependence. They also report increased opportunities to teach skills and over half had taken on wage labour, albeit intermittently. Financial modelling by Opportunity International and James Cook University suggests that the program can have substantial gains to the government in reduced welfare expenditure, increased taxation receipts, and its contribution to the regional economy.
Selected further information	Dennison, J & Bromley, M 2004 (unpublished), *Indigenous micro-enterprise development: Methodology and results of the Many Rivers Opportunities pilot project.* Stanley, O & Bromley, M 2004, *The long term benefits of micro-enterprise development in a developed country: Opportunity International's program with Indigenous Australians.*

	Details
Program name	Mercy Lending Services (formerly Leviticus loans)
Organisations involved	Founded by MercyCare in WA www.mercycare.com.au
Still active	Yes
Commenced	1998
Type	Personal credit
Target market	People on a healthcare card or low-income earners who are able to show that they can repay a loan. Many borrowers have been refugees.
Published objectives	To provide affordable and manageable interest free loans to help people build a better life.
Nature of the initiative	Loans are for $100–$1,000 and repaid over 12 or 18 months. Loans are used for a range of employment, training and education items, such as TAFE or school fees, driving lessons (to help gain employment) and school books.
Scale	250 loans per year
Financial sustainability	The service cannot cover costs (no interest). Loan funds are recycled when repayments are made.
Impact	No data available
Selected further information	No data available

	Details
Program name	NAB Microenterprise Loans
Organisations involved	NAB www.nab.com.au/microenterpriseloans
Commenced	March 2007
Still active	Yes
Type	Business credit
Target market	People on low incomes, with few or no avenues to access affordable business credit. Enterprises participating need to have completed approved training in small business management, business skills and business plan development. They also need to be willing to work with a business mentor for at least 12 months. Applicants must be rated ineligible for a mainstream NAB business loan before being considered for a Microenterprise Loan. Generally, ineligibility is due to a lack of assets, limited trading history, or high levels of existing debt.
Published objectives	To help start up or support existing businesses.
Nature of the initiative	The program provides unsecured business loans of between $500 and $20,000, with an average loan size of $14,900. The client undertakes a face-to-face interview with a NAB business banker to assess their eligibility, business plan, and financials.
Scale	183 loans issued and $2.6 million lent from March 2007 to July 2009. Available across Australia via referrals from Business Enterprise Centres, the New Enterprise Incentive Scheme, the Enterprise Network for Young Australians, small business incubators or Indigenous Business Australia.
Financial sustainability	The service does not have the potential to cover its costs (the interest rate is 5.99% per annum; default rate 7%).
Impact	No data available. Currently the Centre for Social Impact is undertaking a study to gauge the economic and social impact of the program (due out in early 2010).
Selected further information	NAB 2008, *One year down the track: NAB Microenterprise Loans.*

	Details
Program name	Microbusiness loan scheme
Organisations involved	Brotherhood of St Laurence, Fitzroy and Carlton Community Credit Cooperative, Kangan Batman Tafe (a NEIS provider) www.fccc.com.au, www.bsl.org.au, www.kangan.edu.au
Still active	No
Commenced	2001–2006
Type	Business credit
Target market	Micro-entrepreneurs who were otherwise excluded from credit. Targets for the program included disadvantaged people seeking employment, including mature workers (who had been retrenched, but had sufficient skills and knowledge to start their own small business), and immigrants (who were able to work in their home country, but had difficulty obtaining employment in Australia). To be eligible, borrowers needed to show a capacity to repay, demonstrated by accounts showing that their current revenue covered rent, bills and other key expenses including loan repayments, and a track record—sold some products to prove demand for the business idea.
Published objectives	To assist low-income people who had a capacity and willingness to repay a loan, but were unable to access mainstream financial services for their micro-enterprises; to motivate people out of welfare who have the ability and interest in being economically independent.
Nature of the initiative	Business loans, with training provided by the NEIS provider.
Scale	Available in Melbourne, 20 loans totalling $60,700 were advanced. An additional five no-interest loans totalling $4,698 were advanced for business purposes.
Financial sustainability	The service has the potential to cover its costs (interest rate 12.9% and an application fee charged).
Impact	No data available
Selected further information	No data available

	Details
Program name	No Interest Loan Scheme (NILS ®)
Organisations involved	Set up by Good Shepherd Youth and Family Service in 1980, expanded with funding from NAB and the New South Wales, Victorian, Western Australian, South Australian, Tasmanian, and Queensland governments as well as the Commonwealth Government and a range of trusts and foundations. www.goodshepvic.org.au.
Commenced	1980
Still active	Yes
Type	Personal credit
Target market	To access a NILS, a person must live in a postcode where the program is offered; be in stable housing; have a health care or pension concession card and a capacity to repay.
Published objectives	To enable people to access fair, safe and equitable credit for the purchase of goods and services.
Nature of the initiative	Loans of $800 to $1,200 with a repayment period of 12 to 18 months, usually by direct deduction from Centrelink income (Centrepay). Loans are for the purchase of essential household items like a fridge, washing machine, TV, bed or clothes dryer. NILS is run by local community groups, accredited by Good Shepherd.
Scale	In 2007–08, $3.95 million was lent to just over 4,000 borrowers through 280 community organisations.
Financial sustainability	The service cannot cover costs (no interest; default rate 4%). Loan funds are recycled when repayments are made.
Impact	Based on a 2005 study, which interviewed 40 NILS recipients, applying for a loan strengthened financial knowledge and budgeting skills. Obtaining a NILS also helped borrowers to feel respected, valued and trusted which restored a sense of hope that someone cared. The research also found that there was less stress and tension in the home and parents were more able to spend time with children. Parents and children felt less embarrassed about the state of their house and happier about having visitors. Finally, NILS helped participants feel positive about the future, by encouraging a sense of achievement and pride. A 1990 study found the following perceived benefits among 14 successful loan applicants: 37% experienced improved self confidence; 6% reported benefits of owning a new item; 19% commented on improved power as a financial consumer; 13% felt that the ability to borrow would help in emergencies.
Selected further information	McInerney, C 2005, 'History and growth of NILS' in Landvogt, K (ed.) 2005, *Microcredit: More than just small change*, Good Shepherd Youth and Family Service. Ayres–Wearne, V & Palafox, J 2005, *NILS: Small loans—big changes*, Good Shepherd. Chalmers, J & Prosser, B 1990, *Credit to the community*, Brotherhood of St Laurence. Roberts, M 2000, *Interest-Free Loans: A review commissioned by the Ian Potter Foundation.* NAB 2009, *Growing the NILS footprint: A summary of NAB's commitment to the No Interest Loan Scheme.*

	Details
Program name	Progress Loans
Organisations involved	Brotherhood of St Laurence and ANZ www.bsl.org.au, www.anz.com
Nature of the initiative	Small personal loans of $500 to $3,000 to people on low incomes for the purchase of household goods and services.
Commenced	2006
Still active	Yes
Type	Personal credit
Target market	People who are managing their limited income well and can afford a loan, but are excluded from mainstream finance.
Published objectives	To enable low-income consumers to access affordable, fair and safe mainstream finance to obtain necessary items.
Scale	Currently available from three sites in metropolitan Melbourne. 724 loans drawn down. ANZ and the Brotherhood of St Laurence have commenced a pilot to explore different models for sustainable expansion, funded by FaHCSIA from 2009-2011
Financial sustainability	The service has the potential to cover its costs (the interest rate is 13.89% per annum, default rate 1%).
Impact	Based on 200 structured, 10-minute telephone interviews, between a quarter and half of research participants believed they experienced a positive change in behaviours and skills since taking out their loan. This included improvements in financial literacy, such as better budgeting and money management skills (32%), a better understanding of loan contracts (42%) and a better understanding of interest rates (38%). Three-quarters of the sample (75%) believed that their Progress Loan helped save money or was a cheaper way of doing things. Research participants placed high value on dealing with one of the big four banks. Many participants anticipated having pride in their achievement after paying off their loan (98%) and valued the opportunity to establish a good track record with a major bank (97%). Most of the participants (89%) found making Progress Loan repayments easy or very easy. Many research participants commented that the Progress Loan led to an improved quality of life (95%), reduced stress in the household (85%), led to greater independence (85%), improved self-confidence and self-esteem (83%) and enabled a better ability to deal with an unexpected expense (31%).
Selected further information	Vawser & Associates 2009, *Progress loans: Towards affordable credit for low income Australians.*

	Details
Program name	Saver Plus
Organisations involved	Developed by the Brotherhood of St Laurence and ANZ. The implementation of the program also involves partnerships with the Benevolent Society, the Smith Family and Berry St. www.bsl.org.au or www.anz.com
Nature of the initiative	Saver Plus is a financial literacy and matched savings program helping families save for their own or their children's education.
Commenced	2003
Still active	Yes
Type	Savings
Target market	People with a Health Care or Pension Card, earnings from paid employment and a proven capacity to save. They must also live in an area where Saver Plus is operating and have children enrolled in a school or be attending vocational education.
Published objectives	To help people on low incomes establish a savings habit, become long-term savers and build financial skills, knowledge and confidence.
Scale	Saver Plus is offered in 20 locations across Victoria, NSW, Queensland, Tasmania and the ACT. From 2003–2009, more than 4,600 people have participated in the program. The program will be expanded with the assistance of the Federal Government to 60 locations with a goal of reaching an additional 4,600 participants by mid-2011.
Financial sustainability	The program cannot cover its costs.
Impact	A survey of 1,439 participants involved in Saver Plus from 2006–2008, showed that prior to commencing the program, 33% saved a set amount on a regular basis. Based on research of 199 participants from 2003–2005, which analysed behaviour two to three years after completing the program, 70% of past participants reported that over the last 12 months their savings deposit levels had either increased or stayed the same, suggesting improved savings habits for 37% of participants. Participants reported an increase in knowledge of fees and charges relating to financial products as well as increased confidence, reduced stress and sharing financial management skills with their children.
Selected further information	Chant Link 2009 *Understanding the Success of Saver Plus.* Russell, R et al. 2008, *Saver Plus–2008 Interim Report.* Russell, R et al. 2008, *Saver Plus 2008 follow-up survey results.* Russell, R, *Saver Plus: More than Saving: A brief comparison with international programs.* Russell, R et al. 2005, *Saver Plus, improving financial literacy through improving saving.* Russell, R, Fredline, L & Nair, A 2005, *Saver Plus progress and perspectives.* ANZ & the Brotherhood of St Laurence, *A little idea … with big results.*

	Details
Program name	Savings and loans circles
Organisations involved	Managed by members of the group
Still active	Yes
Commenced	Have operated for centuries
Type	Savings
Target market	People excluded from the mainstream financial system.
Published objectives	To obtain lump sums of cash, and build a sense of community.
Nature of the initiative	The groups, usually of between five and ten participants, meet regularly and contribute small amounts of money. The people in the groups already know and trust each other. The group would nominate a chairperson, who receives the money from participants on a weekly or fortnightly basis. Each week, one participant is given the savings for the whole group, and this rotates until everyone has received a lump sum of money. At the outset, a timeframe is set for savings and an order for each group member to receive the entire groups' savings for the period. Other groups operate by depositing savings in a bank account and providing interest free loans to group members. The group members decide the rules and procedures of the group, and administer the funds. Since these savings and loans circles are interest free, they are popular among Islamic communities where paying interest is not consistent with religious beliefs.
Scale	Difficult to measure as these groups are informal and community owned, however anecdotal evidence suggests that at least 150 savings circles exist within Eritrean and Somali communities in Melbourne alone.
Financial sustainability	Self sustaining, no costs, given community operated.
Impact	Research into savings circles operated by Foresters suggested improved confidence, trust, expanded social groups, improved savings habits, and feelings of financial security.
Selected further information	Burkett, I 2006, *Mutual Aid and Microfinance*, presented at Australian Microfinance Network.

	Details
Program name	StepUP loans
Organisations involved	Developed by NAB and Good Shepherd Youth & Family Service, insurance offered in partnership with Allianz and support also provided by the Commonwealth Government. www.nab.com.au/microfinance or www.goodshepvic.org.au/microfinance
Nature of the initiative	The loans provide affordable credit for the purchase of personal, household and domestic goods and services. Recipients are mentored by a microcredit worker throughout the loan process and repayment period. Personal car and contents insurance is also offered as part of this program.
Commenced	2004
Still active	Yes
Type	Personal credit
Target market	People living on low incomes
Published objectives	To offer a fair and affordable personal loan in a safe and assisted service model. To establish entry into the mainstream credit system.
Scale	StepUP is offered in 23 locations operated by Good Shepherd Youth & Family Service, the Josephite Foundation, UnitingCare Wesley, Anglicare, West Australia NILS, UCare, Salvation Army, Tasmania NILS and Shelter Housing Action Cairns. As at October 2009, over $5 million in StepUP loans had been written. A total of 10,000 financial conversations and 2,000 loans have been written under this program.
Financial sustainability	The program will never fully cover its costs given the investment in microfinance workers and the importance of face-to-face financial capability development (interest rate is 3.99%; default rate 5%).
Impact	Based on an external consultants' engagement of stakeholders through semi-structured interviews and surveys, analysis of performance data, review of project documents, a review found that having the loan and obtaining basic necessities helped to promote self esteem for borrowers.
Selected further information	Good Shepherd Youth and Family Service & NAB 2008, *A step in the right direction?* Report into the StepUP Loan Program, 2004–2007, Melbourne.

	Details
Program name	Tangentyere Council
Organisations involved	Tangentyere Council, Westpac www.tangentyere.org.au
Still active	Yes
Commenced	1984
Type	Bill payment, transaction accounts
Target market	Residents of 'Town Camp' housing associations of Alice Springs.
Published objectives	To improve Indigenous access to banking and financial services
Nature of the initiative	Tangentyere operates a voluntary food voucher system, which is the Aboriginal community's response to the 'feast and famine' cycle experienced by welfare recipients who eat well for the first few days after receiving their payment, but go hungry for the rest of the fortnight. This system is also used for food boxes for pensioners or meals on wheels to eligible town camp residents. People nominate the amount of money deducted from their Centrelink payments every fortnight and the food vouchers are made out to the Aboriginal-owned supermarket in Alice Springs. As a pilot, in partnership with Westpac, the agency assisted in opening bank accounts for clients who receive Centrelink cheques and informing Centrelink of their bank account details. They explained the benefits of keycards to clients with a bank account and, if requested, provided them with a card and training in its use.
Scale	The agency serves the approximately 2,000 Indigenous people resident in town-camps around Alice Springs. Since 2001, 1,970 people have signed on to the food voucher system. At the time of writing, there were 840 food voucher clients. Over 800 people use the bank on a regular basis.
Financial sustainability	The program cannot cover its costs.
Impact	According to analysis in 2002, electronic banking has the potential to greatly benefit Aboriginal people in Central Australia who often travel long distances for medical, legal, cultural and social reasons and can become stranded without access to their Centrelink cheque which is sent to their home address. Such dislocation places considerable stress on the town camp communities in Alice Springs and often leads to social behaviour problems that impact upon the wider Alice Springs community.
Selected further information	Reconciliation Australia 2002, *Banking and Financial Services for Indigenous Conference.*

	Details
Program name	Tasmanian Small Business Micro-credit
Organisations involved	The Tasmanian Department of Economic Development (www.development.tas.gov.au), the Department of Premier and Cabinet's Women Tasmania (www.dpac.tas.gov.au), Mission Australia, and the No Interest Loan Scheme (NILS) Network of Tasmania.
Nature of the initiative	The program helps low-income Tasmanians to start or grow their small business. The program assists by providing business mentoring support and loans of up to $3,000.
Commenced	2005
Still active	Yes
Type	Business credit
Target market	Any Tasmanian who has a Health Care Card and has completed a business plan approved by an authorised Enterprise Centre.
Published objectives	To help people grow or start a business.
Scale	Available throughout Tasmania, 120 loans provided from 2005 to 2009.
Financial sustainability	The service cannot cover costs (no interest). Loan funds are recycled when repayments are made (two defaults).
Impact	Based on a survey of 30 participants, 93% of the respondents were still in business at the time of the survey; over 60% said that their business was going well and growing while 15% said that their businesses were slow. Most reported that being in business had improved their individual and family wellbeing. For most, the loan was instrumental in their ability to start their business sooner, rather than waiting while they saved up.
Selected further information	Department of Economic Development, Department of Premier and Cabinet, NILS Network of Tasmania 2007, *Women in Business Micro-credit Program.*

	Details
Program name	Traditional Credit Union
Organisations involved	The idea for the Traditional Credit Union was developed by a group of Aboriginal elders and was funded by ATSIC and Arnhem Land Progress Association, www.tcu.com.au
Nature of the initiative	Business and personal loans, as well as savings (including budget accounts, Christmas club, clan or family accounts), bill payment, financial literacy and financial counselling.
Commenced	1994
Still active	Yes
Type	Savings, personal credit
Target market	Indigenous Australians in remote communities within the Northern Territory who are disadvantaged by a lack of banking and other financial services.
Published objectives	To provide personalised quality financial services for the Indigenous people and organisations in remote communities while respecting and valuing the cultural heritage of Indigenous Australians.
Scale	It initially started in East Arnhem Land and grew to 12 branches in the Northern Territory. The current membership is 13,000.
Financial sustainability	The service covers its costs (monthly account fees of $10 or $20, ATM withdrawal fees of $3.00 (TCU does not own any ATMs or EFTPOS) and $2.00 for an EFTPOS withdrawal).
Impact	There was a lack of banking services in Arnhem Land in the Northern Territory and, as a result, Indigenous people had to cash cheques on a fortnightly basis, making budgeting difficult and resulting in a 'feast and famine' cycle, and the possibility of exploitation from information cheque cashing facilities, such as 'book-up' services. TCU provides fair banking services and assists with budgeting to alleviate these problems.
Selected further information	Reconciliation Australia 2002, *Banking and Financial Services for Indigenous Conference.*

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