



Good Shepherd
Microfinance

Good Shepherd Microfinance submission

**Department of Social Services Financial Wellbeing and
Capability Activity Discussion Paper**

About us

Good Shepherd Microfinance is Australia's largest microfinance organisation, successfully delivering a suite of people-centred, affordable financial products and services for people on low incomes, for over 35 years. Our aim is to enable clients to realise their own economic wellbeing, so that they can move away from financial stress and crisis, towards stability, resilience and self-reliance.

Good Shepherd Microfinance believes that individuals and families living on low incomes can and do make sustainable and responsible financial decisions, if they have access to the right resources and are protected from exploitative lending arrangements. To achieve this, we work with 202 accredited community organisations in 659 locations across Australia, and a number of key partners across government and business.

Our award-winning programs which have been designed to fill gaps in the market and serve the needs of those who are financially excluded, include:

- **No Interest Loan Scheme (NILS):** a community-based program providing access to fair and safe credit (up to \$1,200)
- **StepUP:** low interest loans for personal or household purposes, offered to people on low incomes in partnership with NAB (from \$800 to \$3,000)
- **AddsUP:** a matched savings incentive (\$500) delivered in partnership with NAB, to help people on low incomes develop financial independence;
- **Debt Deduct:** a pilot program in South Australia designed to work as a circuit breaker addressing the immediate need for debt relief through no-interest consolidation loans of up to \$2,000, and the support of a financial counsellor.
- **Good Insurance:** innovative affordable, simple and effective insurance policies for people on low incomes, delivered through Australia's biggest insurance companies
- **Good Money:** community finance stores delivering financial services in Victoria, South Australia and Queensland (opening soon) in partnership with NAB and State Governments
- **Microenterprise:** a pilot program in South Australia to support people on low incomes to start a small business and earn an income

Good Shepherd Microfinance is also leading the development of the Financial Inclusion Action Plan (FIAP) program, in partnership with the Department of Social Services (DSS), Centre for Social Impact (CSI) and Ernst & Young (EY).

Through the FIAP program 24 FIAP Trailblazers have identified coordinated and measurable actions to improve financial resilience for large numbers of people experiencing financial exclusion and hardship.

Introduction

Good Shepherd Microfinance welcomes the opportunity to contribute to the development of the Financial Wellbeing and Capability (FWC) activities, as set out in the discussion paper.

The activities undertaken within the FWC are core to the work of Good Shepherd Microfinance, including the provision of microfinance services and the Financial Inclusion Action Plan (FIAP) program. There are also important services delivered alongside our microfinance programs by partners in our national NILS network of community organisations. Our response incorporates feedback from a number of community organisations who deliver NILS together with other FWC services.

We support the objective of increasing the capacity and capability of the FWC sector, and to improve outcomes for vulnerable people in Australia. This includes many of the areas identified within the discussion paper – targeting those most in need, collaborating more effectively, enhancing impact, increasing professional development opportunities, and working from a solid evidence-base. These are sensible and worthy objectives.

Yet, we are concerned that the proposed approach is inflexible and will exclude people who need help and are proactively seeking it, particularly people who are in low-paid and insecure work, often referred to as the ‘working poor’. The policies set out in the discussion paper suggest that the services will be accessible in a way that means clients must reach a crisis point to unlock more intensive services. The policies separate the roles of crisis assistance and early intervention, effectively reducing the ability of practitioners to provide holistic services. While this approach may appeal in theory, in practice it will diminish the opportunity for early intervention and prevention. Our community network is concerned that they will be obliged to turn away people that seek help, and missed opportunities to provide early intervention and prevention support will likely lead to higher levels of crisis in the future, which will place increased stress on social services.

Good Shepherd Microfinance would also like the Australian Government to review the financial wellbeing continuum that is depicted within the discussion paper, specifically the importance that is attributed to employment as a primary indicator of financial wellbeing. Our experience, and that of our community network, suggests that while there are an important section of clients that can be employed, the reality is that many people seeking FWC assistance are unable to work due to chronic illness, disability, lack of employment opportunities and ageing. Therefore, while improving the support for people who are on the pathway to employment is vital, focusing resources on employment for those who cannot work is not productive.

We would also like to mention that there have been many changes to the FWC and social services sector in recent years, including substantial cuts in funding. This means that many people working in community organisations within our network are working harder and longer, often for less or no money. Meanwhile, frontline workers are working with clients with more complex circumstances and the level of need for financial assistance continues to increase in Australia – 14,000 calls to the National Debt Helpline were unable to be answered in January 2017.

Good Shepherd Microfinance calls on the Australian Government to urgently enact the changes to the Small Amount Credit Contract laws as proposed in the recent independent review. This will have an immediate and large impact on the financial wellbeing of the most vulnerable people in Australia.

Finally, we are pleased that the Department of Social Services remains committed to an ongoing investment of \$100m in FWC services, including the ongoing investment to deliver microfinance services across Australia.

I would be more than happy to discuss our submission with you further.

Yours sincerely,



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Responses to discussion topics

1. Strategies to improve the targeting of services

Good Shepherd Microfinance supports the principle of targeting services to better meet client needs, however we are concerned that restricting eligibility may have unintended consequences. By reducing the opportunity for prevention and early intervention, there is increased likelihood of adverse impacts for the most vulnerable people in Australia.

Good Shepherd Microfinance believes that there should be no change to the eligibility requirements for microfinance programs. This is fundamental, given the increase in queries from people who do not receive government income support, but are on a low income and experiencing financial stress. NILS statistics show an increase in NILS loans being provided to people receiving wages – in between the first and second half of 2016, 25% of NILS programs reported an increase in NILS loans to this group.

Potential impact for the sector

The national microfinance network, particularly community organisations that deliver other services within the FWC, is concerned about the adverse consequences of restricting eligibility.

Across Australia, microfinance programs are delivered within community organisations alongside other financial support services, particularly emergency relief and financial counselling. Further, two Good Money stores will soon employ financial counsellors (supported by state government funding). These networks mean that the proposed changes will impact microfinance clients as well as the community organisations who deliver microfinance programs.

Research demonstrates that the sooner people make contact with a financial counsellor the better the outcome is in terms of debt resolution and personal wellbeing¹. Anecdotal evidence also suggests that a change to one of these services has a ripple effect on demand for other services. Financial Counselling Australia reports that reducing access to financial counselling results in increased demand for emergency assistance, in addition to flow-on effects in some families of increased family violence, traumatised children and health issues. It is also likely that these changes will mean microfinance programs have a reduced impact on financial capability, particularly for clients who may have received more holistic support in the past.

For financial counselling, community organisations within the NILS network report that restricting eligibility will mean financial counsellors will not be able to provide early intervention services, and will be required to refuse help to people who are proactively seeking it. If this change is made, it must be countered with an increase in the accessibility of one-on-one assistance from financial capability workers who can provide early intervention services. In the absence of a financial capability worker to provide one-on-one assistance as an alternative, there is likely to be a substantial negative impact for that individual and their family, leading to increase in their level of need in the future.

For financial capability workers, community organisations within the NILS network report that restricting eligibility would affect a number of vulnerable groups: people who are working, those who are recently unemployed and waiting for payments and homeless people. This would be particularly detrimental for those people who are under-employed or in insecure employment, and are more vulnerable to financial shock. Lack of access to services may increase the risk of these people losing assets, becoming bankrupt and sliding into financial crisis or hardship. These changes can also be viewed as a disincentive to work, when people on low incomes are refused help when they seek assistance, due to their employment status.

¹ Brackertz, N., 2012, "The Impact of Financial Counselling on Debt Resolution and Personal Wellbeing", The Salvation Army

Good Shepherd Microfinance considers that a better alternative for targeting those most in need is to use a data driven approach, while at the same time to increase the efficiency of services. As an example, we have worked with Experian to use a range of data sources to understand demand across Australia and target service delivery more strategically. The same project also leverages technology to reduce the administrative burden for client support providers, enabling workers to focus on financial conversations.

Recommendations

- Instead of restricting eligibility, services prioritise based on the level of need to reach those most in need. This means that all those who seek assistance can continue to be served, but those who need assistance the most are prioritised.
- The Australian Government should take a strategic approach to targeting services using data to identify likely users of services (including DEX data).

Good Shepherd Microfinance does not support changing eligibility for FWC services, however if eligibility restrictions are introduced:

- Changes to eligibility for financial counselling should be met with additional financial capability services to meet the increased demand.
- Changes to eligibility for financial capability assistance should not exclude people in vulnerable groups who are proactively seeking assistance to manage their household finances, including people on low incomes, homeless and those waiting for Centrelink payments.
- At a minimum, the Australian Government should only restrict eligibility for financial capability services to those who hold a Health Care Card (including a low income from wages). This will allow people who have a low income, but do not receive a Centrelink payment, to continue to be eligible.

2. Strategies to increase service integration

Good Shepherd Microfinance supports strengthening integration between social and financial support programs, with the aim to provide more holistic services to clients and ultimately improve client outcomes.

This integrated approach is already a feature of the national microfinance networks, with many community organisations offering NILS and StepUP alongside financial counselling, emergency relief and other relevant services. A recent survey of microfinance workers in NILS community providers across Victoria found that NILS is delivered alongside emergency relief (48% of respondents) and financial counselling (46% of respondents), as well as a range of other social services.

There are many examples of successful integration within the NILS network, including arrangements that essentially operate as hubs:

- **NILS Tasmania** – The NILS Network in Tasmania is a collaborative network using formal Memorandum's of Understanding with over 80 support services. Successful collaboration within this network relies on the goodwill that exists within the relationships.
- **Ipswich Housing & Support Services** – NILS is offered alongside a range of services including housing and homelessness, legal advice and employment services for people with disabilities.
- **Bendigo Family & Financial Services** – A community finance hub that offers NILS, StepUP, AddsUP, Insurance, debt consolidation, financial case management, emergency relief and financial counselling.
- **Good Money retail stores** – Good Money stores offer a range of microfinance programs, with a number of stores employing financial counsellors and operating as community finance hubs, as well as linking clients to other community and social services within the local area.

Through our experience with hub models for financial wellbeing services, common elements include:

- Place-based – local services that understand the unique context of the community. Some NILS providers report that clients say they prefer small community organisations to large national organisations, as service is more personalised and reliable.
- Continuity of staff – to develop skills and build ongoing relationships with communities.
- Multi-skilled staff and blended roles – to enable continuous and reliable services, and a holistic approach to client assistance.
- Indigenous staff - if the service is aimed at specifically for Indigenous people.

Good Shepherd Microfinance is currently taking steps to enhance collaboration within and beyond the national NILS network through a new collaborative operating model. This model will allow organisations to connect informally with each other and work together in a flexible and scalable manner. The model will also make NILS referrals or client support more available to FC and ER workers.

Further, the Financial Inclusion Action Plan (FIAP) program is enabling participating organisations (FIAP Trailblazers) to understand the complex needs of vulnerable clients at a holistic level, and to design ways to offer a range of comprehensive and integrated actions to increase financial inclusion and resilience in Australia. FIAP Trailblazers have come together to connect and identify new partnerships, strengthening linkages and pathways between different services, both within and outside the FWC.

Finally, the increased focus on employment should require the relevant government departments to implement a more integrated approach to achieving shared outcomes.

Recommendations

- Department of Social Services and the Department of Employment should collaborate more effectively to achieve the shared outcomes.
- Allow the option to collaborate informally, without the need for formalised arrangements. This will reduce the administrative burden, and enable community organisations to collaborate in an affordable, flexible and scalable manner.
- Long-term funding contracts that allow for certainty and sustainability such as the five year commitment to microfinance². This improves staff continuity, supporting strong relationships within the community sector.
- Better training and information for workers and volunteers in the sector would support more integration of services. Good Shepherd Microfinance has an online learning platform to deliver information, training and professional development and enable workers in the sector to connect with each other around common issues. This platform could easily be applied to other services within the sector, such as Financial Counselling.

3. Strategies to support client outcomes

Good Shepherd Microfinance is committed to enabling economic wellbeing for people on low incomes, including financial resilience for the future. We are focused on long-term client outcomes, including supporting clients to be more financially capable and to achieve financial stability. For a section of FWC clients, this includes stable employment to increase income levels, in addition to financial management skills and access to microfinance.

Good Shepherd Microfinance believes that the propensity for work improves as people move along a Financial

² The Hon Scott Morrison MP, 11 June 2015, “Microfinance investment to help transition Australians from welfare to work”, Department of Social Services.

Inclusion Continuum³, with specialised financial support programs and services available at each stage. For example, microenterprise programs made available to people ready for employment can empower individuals to create self-employment opportunities and build skills.

However, to achieve economically mobility through a continuum of financial inclusion requires a whole-of-system approach with a shared commitment to provide services that meet the needs of people at that point in time, and are priced appropriately to increase access and reach more people. Good Shepherd Microfinance intends to elaborate on the concept of social pricing for greater impact in a discussion paper to be released soon.

In terms of the changes proposed in the discussion paper, we are concerned that a focus on employment outcomes disregards the reality that most people seeking this assistance are at the point of crisis and have serious and complex underlying issues that must first be addressed. Furthermore, the inclusion of employment as a primary indicator of financial wellbeing does not recognise that employment is not an option for many; due to mental health issues, age, and chronic illness or disability. Statistics from our national NILS program demonstrate this; only 27% of NILS clients receive Newstart payments, with 44% receiving the Disability Support Pension or the Age Pension. In addition, the availability of jobs in some regions is limited, for example a recent newspaper article in the Bendigo Advertiser reported that 420 people had applied for a casual cleaning position in Bendigo⁴.

Through the development of microenterprise programs, it is our experience that the people who have the capacity of work want to work, and that transitioning to employment is an incremental process that is supported by the right help at the right time. For example, microenterprise is a real opportunity to empower these individuals to create self-employment opportunities and build job skills.

It is also the view of the national microfinance network that requiring financial support workers to support pathways to employment would duplicate the role of job agencies, and that strengthening referral pathways and improving the quality of employment assistance would be more efficient and effective.

In addition, community organisations consulted for this submission have emphasised that the work they currently do provides important skills that prepare people for employment, for example understanding budgets, improving self-esteem and teaching basic computer skills.

Repeat clients

Good Shepherd Microfinance welcomes repeat borrowers and for many consumers living on a low income, NILS is the only safe and affordable credit option they can access. This is the reality for many elderly, ill and disabled NILS clients from Collingwood to Bamaga.

However, microfinance workers within the NILS network report learning and improvements over time from repeated budget conversations, and Good Shepherd Microfinance considers the assets accumulated through consecutive NILS loans to enhance financial wellbeing and security.

To encourage financial resilience and behaviour change, some NILS providers have developed innovative strategies such as discouraging use of NILS for recurrent spending such as car registration by preparing borrowers to save for the next bill.

Early intervention and prevention

Good Shepherd Microfinance agrees that intervening early minimises the long term impact of a financial crisis, and considers that the microfinance loans in combination with personalised financial conversations and referrals, are an important form of early intervention and prevention. Community organisations value NILS as a way of linking clients to other services they may not have otherwise used, and providing other social support

³ Good Shepherd Microfinance, 2016, "Pathways to Resilience: The Financial Inclusion Continuum and Economic Mobility"

⁴ 22nd February 2017, "Casual part time job applications create backlog", Bendigo Advertiser <http://www.bendigoadvertiser.com.au/story/4478591/casual-part-time-job-applications-create-backlog/>

services to reduce the likelihood of future crisis.

In addition, the Foundation FIAP each FIAP Trailblazer develops, includes a focus on improving economic participation and status for vulnerable groups including consumers, employees, suppliers and the wider community. Participating in the FIAP program can therefore provide new and innovative strategies to better support vulnerable people in Australia to improve their financial and/or employment outcomes.

Finally, in the past Good Shepherd Microfinance has been able to effectively increase awareness of early intervention for financial stress and promote microfinance through targeted mainstream media campaigns. DSS could achieve the same objectives for FCW services by using 'community service announcement' style, as has been adopted for other health and wellbeing promotion campaigns.

Recommendations

- Allow financial counsellors and capability workers to focus on supporting people to improve their financial capability and situation, while encouraging more holistic client outcomes through strong referral processes.
- Support self-employment opportunities for people on low incomes through investment in targeted microenterprise programs.
- Support long-term resilience by investment in the development of savings programs to help low income people in Australia to develop savings buffers.
- Promote early intervention for financial wellbeing through targeted community service announcements.

Support early intervention and prevention in the following ways:

- Reconsider the proposed eligibility criteria for financial counselling and emergency relief. These criteria are counter-productive to early intervention and prevention and will likely result in higher crisis levels within the community.
- Provide better financial literacy education in both primary and secondary schools, as well as programs that support parents to be good financial role models for their children.
- The Australian Government should enact the recommendations from the review of the Small Amount Credit Contract legislation, most urgently the introduction of the cost limit for goods rental contracts. This will immediately protect consumers by limiting the ability of credit providers and others to take advantage of people who are financially excluded.

Improve collaboration with Centrelink, given the majority of people seeking financial support receive some form of income support, in the following ways:

- Centrelink should refer people identified as under financial stress to FWC services. Centrelink and Centrepay data, could be used to identify at-risk clients.
- Co-location of FWC services within Centrelink offices could provide easy access to financial support services, particularly for the purpose of early intervention and prevention.
- Support early intervention and prevention across multiple sectors by providing longer-term investment in the FIAP program.

4. Strategies to build a strong workforce

Good Shepherd Microfinance supports strategies to build a strong workforce in the FWC sector through training and development. Investment in the capability of the sector will mean clients receive better support from more knowledgeable staff. This is important, given the complexity of client needs which include crisis support requiring skilful counselling techniques.

Feedback from the national microfinance network supports these plans, and they report finding value in staff

financial literacy training funded by DSS. In particular, some NILS providers are concerned that delivering their NILS program relies on minimally trained volunteers to assist clients experiencing financial crisis.

Good Shepherd Microfinance considers that increasingly diminished job security as a result of short-term contracts and reduced funding have likely pushed excellent workers away from the sector. Therefore, it is vital to recognise the need for adequate and long-term funding stability to support a strong, professional and experienced workforce in this sector. Otherwise, programs will likely continue to be impacted by high staff-turnover. We support the development of new qualifications and training programs to recognise the specialised skills and knowledge required for these roles. The introduction of traineeships to attract people to the sector may also be a good way of developing a vibrant and experienced workforce.

The use of technology, for example, our online learning platform, can also contribute to building the capacity of the sector. The national NILS network uses the training programs available on this platform to develop skills relating to loan management, financial conversations and identifying and assisting people experiencing financial abuse. The platform also enables microfinance workers across Australia to connect, discuss and share information.

With The FIAP program includes participation in a Community of Practice, which allows participants to share learnings and best-practice, building their capacity and creating new, innovative tools to promote financial inclusion and resilience. These tools, if shared across the wider FWC community, can help in building the capability of the sector as a whole, as well as help in informing the further development of FWC services.

Recommendations

- Support a strong and experienced workforce in the FWC sector with job security through adequate and stable funding with a five year horizon.
- Provide an entry into the sector through the development of traineeships, where people can learn on-the-job with mentoring and support.
- Develop online learning platforms specifically designed for organisations delivering FWC services, such as the online learning platform used by Good Shepherd Microfinance.
- Invest in professional development opportunities for frontline workers to learn skills to work with specific groups of clients (e.g. Indigenous or CALD clients)
- Invest in opportunities for people working in the FWC sector to improve their own financial wellbeing and capability.
- Investment in simple referral tools that enable workers to know which services are available locally and nationally, and how referrals can be made.

5. Strategies to strengthen evidence, improve practice and measure outcomes

Good Shepherd Microfinance is supportive of efforts to better understand the short, medium and long term impacts of services delivering financial wellbeing and capability services. Collectively increasing the understanding within the FWC sector about what works, and why, is important to enhancing the impact of services and improving the lives of low income and vulnerable people.

It is important to recognise that not all services are intended to deliver long term change; some services are explicitly intended to be a short term intervention to assist with a financial shock or crisis situation. However, when combined the support services provided within the FWC can positively increase financial wellbeing and create change over time.

Conducting outcomes measurement is a specialised skill that is time-consuming and costly, especially when

the evaluation seeks to understand longitudinal change. This work should be founded on well-developed theories of change, which have identified the intended impact of interventions to know what should be measured over time.

Good Shepherd Microfinance has in the past years worked with the Centre for Social Impact and the National Australia Bank (NAB) to conduct Social Return on Investment evaluations of our NILS and StepUP programs. We have also receive support from Financial Literacy Australia (FLA) to undertake a two research activities to better understand the impact of our work. In addition, CSI is evaluating the process and impacts of the FIAP program over the short, medium and long term. The investment in these research projects have contributed to a growing body of publically available research that the sector can draw from to design and develop more effective programs and services. However, they have all required substantial amounts of time and expertise, which are costly and resource-intensive.

There are important opportunities for data to illuminate the client journey and experience, to inform the FWC sector and ultimately to improve client outcomes. For example, in conjunction with Experian, we have recently used the data we reported to DEX to map demand, developing a 'reach index' which enables us to compare regional access to microfinance. In the future, this will allow us to evaluate effectiveness in reaching target groups, as well as develop new strategies for reaching those most in need. The DSS Data Exchange is a real opportunity to gain insights into how clients access multiple services, and how they move between different services over time. This would inform our understanding of how people move along the financial inclusion continuum, and the services they access before and after they receive a microfinance loan.

It is important the reporting requirements do not contribute to an overwhelming administrative burden for frontline workers and organisations with scarce resources. It is not uncommon to hear that a microfinance worker or NILS provider is required to report their work to different governments, funding bodies and organisations, in different ways, over different time periods. From our perspective, Good Shepherd Microfinance is taking steps to reduce the reporting burden from the NILS network where possible. This should also be a consideration for the Australian Government in developing future reporting requirements for FWC services.

Recommendations

- Funding agreements to take into account the resources required to effectively measure and evaluate impact, by stipulating a percentage of contract value for this purpose (e.g. 5%)
- Use DEX data to map the journey of people as they access services over time, and make this information available to services in the FWC sector.
- Where possible, take steps to ease the administrative burden on organisations delivering FWC services, to enable them to better deliver frontline services.
- Focus on measurement that enables rapid learning, to optimise service delivery and the client experience.

