A little help goes a long way:

Measuring the impact of the StepUP Loan program

The Centre for Social Impact, April 2013

the Centre for Social Impact

Good Shepherd Microfinance

nab

FOREWORD

At NAB we believe that a society is wealthy when opportunities are shared by all. We don't simply focus on finances – we look at the big picture, helping open doors for people with the future in mind.

We're also in a unique position to help all Australians have access to the skills, knowledge and services they need to have a healthy relationship with money. For some people this is about boosting their financial confidence, or helping out in times of hardship. For others it's about addressing the underlying causes of financial exclusion.

The StepUP Loan program was NAB's first commitment to improving financial inclusion in Australia. Since its launch in 2004, the program has delivered almost $20 million of capital to low income Australians who are excluded from accessing mainstream credit.

We are proud of this contribution, and we have also learnt a great deal about the market and the consequences that mainstream finance risk settings can have by 'locking out' many low-income Australians.

The issue of financial exclusion is substantial. Despite our country having low unemployment, a strong economy and financial system, around three million Australians are financially excluded. This is simply unacceptable.

Improving financial inclusion will not only result in improved financial, social and health outcomes for individuals, but also deliver economic benefits such as a reduced reliance on welfare.

Working in partnership with Good Shepherd Microfinance and the Federal Government, StepUP Loans is the only product of its kind in Australia. It is a fair alternative to fringe or 'pay day' lenders that many Australians turn to, who charge exorbitant interest rates and often perpetuate a vicious cycle of debt.

Through the voice of consumers, this report asks loan recipients how the StepUP Loan program has impacted their lives, and evaluates the flow on social and economic benefits.

While we can see the loans are effective at improving financial inclusion, there is clearly scope to scale-up the program and investigate other ways to help more Australians have a healthy relationship with money.

I am confident that together with our community and government partners, we will help more Australians to find a pathway to financial inclusion.

We believe that, in a country with a strong financial system, everyone should have access to it.

Paula Benson
General Manager Corporate Responsibility
National Australia Bank

Good Shepherd Microfinance has a suite of people-centred, affordable financial programs for people on low incomes at different financial stages of their lives. Our aim, together with those of our community partners, is to enable clients to realise their own economic wellbeing, as they define it themselves, through appropriate financial services, in the process feeling valued, accepted and included and in control of their own finances and lives.

This report shows that our key StepUP Loan program is realising this vision and creating pathways to financial inclusion for people in Australia.

This evaluation report also shows encouraging progress against our five long term strategic aims of: being community-led; reaching large numbers of people; measuring the impact of our programs; understanding financial inclusion ourselves and then educating others, and; strengthening our capacity and partner relationships.

While reporting on financial products usually documents economic processes and statistics, this report focuses on the StepUP clients, assessing the social and economic impact of the StepUP Loan program on their lives.

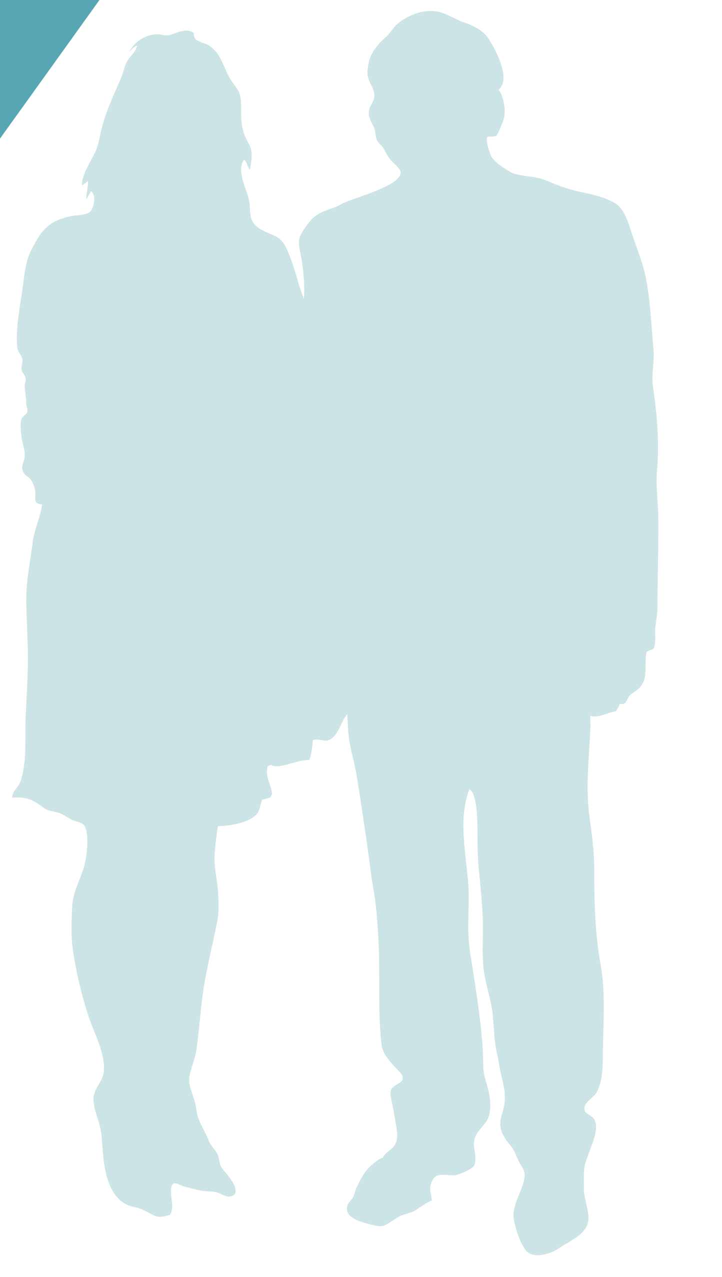
We are pleased that the Centre for Social Impact (CSI) has confirmed our anecdotal and on-the-ground evidence that the StepUP Loan program generates significant social and economic benefits to borrowers and communities.

Today in Australia one in eight people are officially classed as poor. The need for microfinance is therefore as great today as it was over 30 years ago when the Sisters of the Good Shepherd had the foresight to establish our first microfinance program.

We are thankful for our 10 year partnership and wonderful relationship with NAB and more recently the Federal Government. We stand committed to developing and building the StepUP Loan program to continue to achieve our shared purpose of enabling economic wellbeing and resilience for Australians living on low incomes.

Adam Mooney
Chief Executive Officer
Good Shepherd Microfinance

EXECUTIVE SUMMARY



For some people the purchase of a fridge, washing machine or other essential item the majority of us take for granted is simply out of reach. Thousands of Australians are either going without or turning in desperation to fringe lenders for the cash, and being slugged with interest rates as high as 1000%.

Recognising the need for small, low-interest loans for low-income earners unable to access affordable credit, NAB and Good Shepherd Microfinance launched StepUP Loans at five locations in Victoria and New South Wales in 2004.

The StepUP Loan program is a not-for-profit, microfinance program which delivers loans worth up to $3000, repayable over a three year period at an interest rate of 3.99%. The loan is part of a wider suite of microfinance initiatives implemented by NAB and Good Shepherd Microfinance that seek to alleviate the effects of poverty and provide their clients with a pathway to financial inclusion.

The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) joined the partnership in 2010 to support the program's growth and address financial exclusion in Australia. Today StepUP Loans are available at 35 sites across all states. Over 6800 loans have been approved with a cumulative value of approximately $19.5 million.

OBJECTIVES

The objectives of this study, conducted by the Centre for Social Impact (CSI), are to:

- assess the social and economic impact of the StepUP Loan program on the lives of people who use it;
- broadly understand whether the StepUP Loan program provides a pathway to financial inclusion; and
- determine the value of the program to both NAB and Good Shepherd Microfinance.

The research is based on responses to a phone survey of 500 StepUP clients.

KEY FINDINGS

- The StepUP Loan program reaches financially excluded individuals. The StepUP Loan is offered only to people who cannot access appropriate or affordable credit products. Almost half of the survey respondents (49.8%) were either severely or fully excluded before they received the StepUP Loan - typically having only a transaction account and lacking access to credit and insurance. This is nearly three times greater than the overall number of financially excluded Australians (17.7%) according to 2012 data in the CSI's Measuring Financial Exclusion in Australia report (release date May 2013).
- Though the StepUP Loan program provides a pathway to financial inclusion for some clients, the overall level of financial exclusion is still high. 22.2% of the respondents became more financially included after receiving the StepUP Loan. In spite of this, the proportion of severely and fully excluded respondents (42%) is still 2.5 times greater than the proportion of Australians who are severely or fully financially excluded (Measuring Financial Exclusion in Australia report, May 2013).
- The StepUP Loan program has wider social and financial benefits for clients. 73.6% of survey respondents experienced a net positive change in economic and social outcomes after they received the StepUP Loan. This relates to changes in financial exclusion, financial literacy, financial confidence, financial management and social and health outcomes.
  - The financial capabilities of respondents improved after receiving the StepUP Loan. Respondents felt more financially literate, confident, and better able to manage their finances after receiving the loan.
  - The program generated positive social and health outcomes for 373 of the 500 survey respondents. This includes improvements in living conditions (56%), stress and anxiety levels (46.6%), physical health (28%), contact with family and friends (24.8%), and general confidence and self-esteem (60.8%).
- Respondents' use of fringe lenders decreased after receiving the StepUP Loan. Since receiving the StepUP Loan, 64.6% of respondents who used fringe lenders in the past stopped borrowing from them, and the number of times respondents borrowed from a fringe lender over a typical three month period decreased.
- The StepUP Loan generates social and economic benefit valued at more than twice the total cost of the program. CSI's impact model (figure 17 page 31) demonstrates the ratio of social and economic return is $2.68 for every dollar invested in the program.

RECOMMENDATIONS

To facilitate the growth of, and to amplify the positive outcomes the StepUP Loan program currently generates, CSI makes seven recommendations summarised below, and in more detail on page 32.

- Offer small, short term loans with no specific purpose to existing StepUP clients (who are not in arrears).
- Provide basic, affordable insurance for products that are acquired through the StepUP program.
- Further investigate the working poor population group.
- Connect StepUP clients to additional support services.
- Mitigate geographical exclusion by increasing the number of StepUP sites.
- Continue to promote the StepUP Loan program.
- Implement rigorous data and case management systems to better track the progress of clients.

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FINANCIAL EXCLUSION IN AUSTRALIA

As part of its commitment to financial inclusion, NAB has partnered with Good Shepherd Microfinance and the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) to deliver low interest loans through the StepUP Loan program. The StepUP Loan caters to individuals and families on low incomes, who lack access to affordable credit.

The StepUP Loan program was launched in 2004. The program provides a low-interest microcredit product on a not-for-profit basis to people who are excluded from appropriate and affordable mainstream credit. The program's primary objective is to provide a pathway to financial inclusion and a financially stable future for its clients. Its secondary objective is to enhance clients' tangible and intangible social outcomes.

WHAT IS FINANCIAL EXCLUSION?

A substantial proportion of the Australian population is financially excluded, making financial exclusion a key policy issue in Australia.[1]

The Centre for Social Impact (2011)[2] defines financial exclusion as a "lack [of] access to appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit". Based on this definition, 17.7% of the Australian adult population was considered fully or severely excluded in 2012[3] – this was an increase from 15.6% in 2010.

WHY IS FINANCIAL INCLUSION IMPORTANT FOR INDIVIDUALS?

Financial exclusion decreases individuals' ability to participate in social and economic activities, and exacerbates financial hardship and poverty.[4] Financially excluded individuals are more likely to encounter difficulties in accessing funds in emergencies and often struggle to maintain a basic standard of living. In the face of these financial stressors, many forgo meals and basic necessities and/or delay paying their utility bills.

Financially excluded individuals are also more likely to pawn their possessions or seek short-term credit from fringe lenders – a trend the Australian government is committed to reverse.[5] Fringe lenders are often associated with predatory lending practices, and so are considered the least affordable and appropriate means of obtaining credit for low income individuals.[6] In spite of this, there is a strong demand for loans from fringe lenders among low income, financially excluded individuals, as they often need short-term and easily accessible credit to help with cash flow problems, such as meeting their regular needs and expenses, like food, utility bills and rent.[7]

Owning a transaction account, a moderate amount of credit and general insurance can alleviate these financial stressors. A transaction account allows individuals to manage their day-to-day transactions and payments. General insurance protects individuals against the consequences of bad events, such as theft or damage of assets. Credit from a mainstream financial institution is a safer and less costly alternative to fringe lenders, and provides a reliable safety net when individuals face small, unexpected expenses. Loans can be used to purchase or maintain capital items, such as motor vehicles, which can help improve individuals' quality of life and access to opportunities.

[1]The Treasury (2012). *Strategies for reducing reliance on high-cost, short-term, small amount lending.* Discussion Paper.

[2]Connolly C., Georgouras M., Hems L. &Wolfson L. (2011). *Measuring Financial Exclusion in Australia.* Centre for Social Impact (CSI) University of New South Wales, for National Australia Bank.

[3]CSI measures the level of financial exclusion in Australia each year. The 2012 data used in this report will be formally released in May 2013.

[4]Burkett I. and Sheehan G. (2009). *From the margins to the mainstream.* Brotherhood of St. Laurence.

[5]The Treasury (2012). *Strategies for reducing reliance on high-cost, short-term, small amount lending.* Discussion Paper.

[6]Burkett I. and Drew B. (2008). *Financial inclusion, market failures and new markets: possibilities for community development finance institutions in Australia.* Brisbane. Foresters Community Finance.

[7]Banks M., Marston G., Karger H. & Russell R. (2012). *Caught Short. Exploring the role of small, short-term loans in the lives of Australians.* Final Report. Social Policy Unit. The University of Queensland, Brisbane.

MICROFINANCE AND FINANCIAL EXCLUSION

Obtaining credit is difficult for low-income individuals. Due in part to the responsible lending obligations of banks[8], these individuals might be denied access to credit from mainstream financial institutions because of their inability to repay, or may voluntarily choose to go without mainstream credit due to its cost. As such, there is a demand for appropriate and affordable credit from these individuals – a demand that is addressed through microfinance.

Table 1 contains the interest rates of various credit products, which are ordered, left to right, from the least to most mainstream credit. Centrelink advance payments are designed to help low income individuals overcome cash flow issues, by providing them with their future Centrelink payment as a lump sum. The lump sum is repaid through fortnightly reductions in their Centrelink allowance. The No Interest Loan Scheme (NILS) and StepUP Loans are examples of microfinance products. Unlike Centrelink advance payments, StepUP Loans use is restricted to the purchase of essential goods and services. These products can provide long-term solutions thereby reducing some of the everyday pressures and stresses, leading to an improvement in the recipients' quality of life. In the absence of Centrelink advance payments and microfinance products, low-income individuals who do not qualify for mainstream credit must turn to fringe providers, whose interest rates can be as high as 1000%[9], or they may voluntarily exclude themselves from all credit products.

Table 1: Interest rate of selected credit products

Product	Centrelink advance payments	NILS	StepUP	Typical credit card	Typical unsecured personal loan	Fringe credit
Rate p.a.	0%	0%	3.99%	15-20%	15-20%	1000%

Burkett and Sheehan (2009) argue that microfinance "seeks to provide fair, safe and ethical financial services to people who, because of their circumstances, are not able to access mainstream financial services."[10] The Australian government, in particular, views microfinance as a component of the suite of strategies that can provide a safe and affordable alternative to fringe lenders. As such, in addition to addressing the demand for appropriate and affordable credit in Australia, microfinance is considered to play a crucial role in alleviating the long-term stresses associated with financial exclusion.

[8] *National Consumer Credit Protection Act 2009*

[9] Banks M., Marston G., Karger H. & Russell R. (2012). Caught Short. *Exploring the role of small, short-term loans in the lives of Australians.* Final Report. Social Policy Unit. The University of Queensland, Brisbane.

[10] Burkett I. and Sheehan G. (2009). *From the margins to the mainstream.* Brotherhood of St. Laurence.

STEPUP LOAN PROGRAM

The StepUP Loan program is a collaboration between the private (NAB), public (FaHCSIA) and not-for-profit (Good Shepherd Microfinance) sectors. NAB provides the loan capital, manages the loans, and covers half the cost of full-time employees and loan defaults. FaHCSIA provides support for the operational costs. Good Shepherd Microfinance and other not-for-profits train microfinance workers to deliver StepUP Loans.

HOW DOES THE STEPUP LOAN PROGRAM WORK?

The StepUP Loan program provides a small, low-interest loan worth up to $3000 to low-income earners who cannot access affordable credit.

What is a StepUP Loan?

- A loan worth between $800 and $3000.
- The interest rate is fixed at 3.99%, with no additional fees.
- The loan term is between six months and three years.
- Loans sit on NAB's balance sheet as a variation of a mainstream personal loan.

How does it work?

- The StepUP Loan is part of a wider suite of microfinance programs and initiatives that seek to alleviate the effects of poverty and provide a pathway to financial inclusion.
- It is an intermediate loan scheme that sits between the No Interest Loan Scheme (NILS) and mainstream credit.
- The loan is provided to clients in the form of a bank cheque, which is made out to the recipient of the funds (e.g. the supplier of the white goods).

What can the StepUP Loan be used for?

- The loan can only be used to purchase essential household goods and services, such as motor vehicle purchases and repairs, white goods, medical and health expenses, computers, and education.
- The loan cannot be used to fund debt repayments, fines, bills, or non-essential items such as holidays.

Who is it for?

- To be eligible to receive a StepUP Loan, clients must hold a current Centrelink Healthcare Card or Pension Card, or be eligible to receive Family Tax Benefit Part A. They must also have resided at their current address for more than three months.
- Clients are still entitled to the loan if they have a poor credit history, hold an existing loan or mortgage but are unable to access normal bank loans because of a change in circumstances, or are over 70 years of age.
- In practice, the requirements for loan eligibility are only guidelines. Clients' fit with the loan is evaluated on a case-by-case basis.
- The loans are not intended for clients who are financially over-committed, have difficulty repaying the loan, or who already hold more than one bank loan.

STEPUP LOAN FACTS

- Over 6800 loans approved (since 2004) with a cumulative value of approximately $19.5 million.
- Available at 35 sites across all states.
- 161% increase in volume of loans issued since 2008.
- Proportion of loans in arrears is 16%, with 6% of all arrears over 60 days behind (based on the most recent NAB data available, covering the 2011/12 Financial Year between July 2011 and June 2012).
- 1% of the total volume of current loans written off.
- Average StepUP Loan size - $2700 (the majority of recipients opt to take the maximum loan amount of $3000 (75%), and use the maximum loan repayment term of three years).
- Only 1.4% of all fully and severely excluded Australians who meet the eligibility criteria and require credit for StepUP purposes currently access the loans (some individuals are unable to access StepUP Loans because they cannot repay them, and others may be redirected to programs such as NILS, still the proportion of unmet demand for StepUP Loans remains high).

STEPUP LOAN APPLICATION PROCESS

The pathway to a StepUP Loan is a multi-step process. Once clients learn about the loan, they contact a microfinance worker across one of the 35 StepUP sites.

Working from community centres, microfinance workers determine the clients' fit with the StepUP Loan. If a client is likely to be eligible for a StepUP Loan, the loan worker coaches the client through the loan application process. This includes collating the required documentation, helping the client prepare a budget, and explaining the responsibilities of taking out a StepUP Loan.

Once all documents are collected, the microfinance worker submits the completed loan application and supporting documents to the NAB Personal Loans department. Once NAB receives the application, NAB Personal Loans department make the loan decision. Upon successful application, loan recipients receive a call from their microfinance worker and a letter from NAB, and are able to withdraw the loan from their local NAB branch.

Clients can make repayments identical to a mainstream loan through, for example, a cash deposit, direct debit, internet or telephone banking.

Every week, the microfinance worker receives an arrears report from Good Shepherd Microfinance and NAB, and contacts clients who are one to 21 days in arrears. For arrears extending over 21 days, the management of the account is handed over to a dedicated StepUP person within the NAB collections team. The collections process is shared between both program partners to ensure maximum community sector support.

Figure 1: StepUP Loan application process

Step 1: The client visits a StepUP Loan location to have a face-to-face interview with a microfinance worker.

Step 2: If the client is likely to be eligible for a StepUP Loan, the microfinance worker coaches the client through the loan application process, which includes explaining the loan terms and repayment options.

Step 3: The microfinance worker submits the completed loan application and supporting documents to the NAB Personal Loans department.

Step 4: The NAB Personal Loans department make a loan decision.

Step 5: Upon successful application, the client receives a bank cheque which is made out to the recipient of the funds.

STRENGTHS AND WEAKNESSES

Figure 2: Strengths and weaknesses of the StepUP Loan

STRENGTHS

- Low interest rate and absence of other fees and charges makes the StepUP Loan affordable to its target group.
- Size of the loan is appropriate to allow for basic asset building at a relatively low cost.
- Caters for individuals who are excluded from other mainstream credit products.
- Loan application process is relational and educational.
- Interaction with microfinance worker allows clients to demonstrate their willingness and ability to make repayments.
- Interaction with microfinance worker allows clients to learn more about the responsibilities associated with loan ownership and to clarify their financial state.

WEAKNESSES

- Lengthy process requiring client to attend a face-to-face interview.
- Clients might find it difficult to travel to a StepUP Loan site.
- Does not cater for individuals who need credit immediately.
- The conditions placed on the purpose of the StepUP Loan are restrictive. Other credit products can be used for a greater variety of goods and services.
- The eligibility criteria imposed on StepUP Loans restricts individuals who are financially excluded but do not receive income from the government from accessing the loan, such as the working poor.
- A sizeable segment of the population cannot obtain the benefits of the StepUP Loan program.

THE RESEARCH

The CSI has undertaken an outcome evaluation of the StepUP Loan program to assess the economic and social value created.

The objectives of this study were to:

1. Assess the social and economic impact of the StepUP Loan program on the lives of people who use it.
2. Broadly understand whether the StepUP Loan program provides a pathway to financial inclusion.
3. Determine the value of the program to both NAB and Good Shepherd Microfinance.

RESEARCH METHODOLOGY

The research program had five stages, shown in Figure 3. Throughout the research process, the CSI emphasized a collaborative approach, engaging with partners and stakeholders to understand and refine the evaluation process.

The Centre for Social Impact received ethics approval for this project from the Human Research Ethics Committee (HREC) at the University of New South Wales on the 23rd of October 2012. HREC Ref: #HC12512.

Figure 3: Research process

1. Literature review

- Reviewed the academic literature on financial exclusion and microfinance.

2. Stakeholder engagement

- Conducted a workshop to understand the logic from activities (providing the StepUP Loan), outcomes (financial capabilities and capacity; economic; social and health), to impacts (e.g. financial sustainability).
- Conducted a focus group with Anglicare StepUP clients to test the survey recruitment method and survey questions.

3. Collation and analysis of secondary data

- Conducted a data audit of the data sources housed by NAB and Good Shepherd Microfinance. Merged the data to create a sample frame that stratified loan recipients by state, arrears risk and position within the loan lifecycle.
- This ensured sufficient representation across the StepUP recipients in the survey.

4. Collation and analysis of primary data

- Designed a 15 minute telephone survey that was administered by a specialist market research agency.
- Loan recipients were invited to participate in a telephone survey through an SMS invitation.
- The participation rate from sent SMS's was 12.3%.
- 80% of those who agreed to participate in the telephone survey completed the survey.
- 500 StepUP Loan recipients participated in the survey.
- Survey respondents were given a $20 gift voucher upon completion of the survey.

5. Economic and Social Impact Model

- Use a hybrid approach, which incorporates social return on investment and cost benefit methodologies, to calculate the economic and social benefit created by the program.

CONCEPTUAL OUTCOMES FRAMEWORK

An outcomes framework was developed to inform the later stages of the research, including the survey design and the social and economic model. Outcomes were grouped into three categories: financial capabilities, economic, and social and health outcomes. This framework is contained in Figure 4, below.

Figure 4: Outcomes Framework

Financial Capabilities	Economic	Social & Health
Financial inclusion	Reduced use of fringe lenders	Improved living conditions
Improved financial literacy	Reduction in cost of credit	Improved stress & anxiety levels
Improved financial confidence	Employment	Improved physical health
Improved financial management	Increase in income	Increased contact with family & friends
		Improved confidence & self-esteem

RESEARCH LIMITATIONS

The research methodology contains the following limitations:

Self-reported data bias:	Studies have found that there is a difference between self-reported behaviour and actual behaviour.
Sample representativeness:	The use of the SMS invitation and incentive payments could lead to self-selection and thus the problem of representativeness. To mitigate this, the sample of StepUP respondents who answered the survey was stratified based on demographic information. Their responses were then weighted to be representative of the entire StepUP client population.
Absence of a counterfactual:	A counterfactual would allow for comparisons between people receiving the StepUP Loan to those who did not. Due to time and budget constraints, CSI was unable to generate a traditional counterfactual. However, CSI worked around this limitation by asking clients about their situation at two defined points in time before and after they received the loan, and by asking the client to determine the extent to which their change in situation could be attributed to the StepUP Loan program.

DETAILED FINDINGS

This chapter presents the findings from the phone survey responses of 500 StepUP Loan clients and the results from the social and economic impact model.

The survey was designed to identify the immediate outcomes that correspond to receiving the StepUP Loan, but was not designed to identify the long-term outcomes.

WHO ARE THE SURVEY RESPONDENTS?

The survey responses were analysed to identify the type of individuals who obtained the StepUP Loan, and to assess the extent to which they exhibit characteristics that correspond with individuals who are financially excluded.

Age and Gender

- Survey respondents were more likely to be female (67.4%) than male (32.8%).
- Their age ranged from 18 to 76 years, and more than half were 30 to 49 years of age (51%).

Place of birth

- 10.8% were born in an overseas non-English speaking country, and a further 10.4% were born in an overseas English speaking country.
- 7.8% identified as Aboriginal or Torres Strait Islander, which is more than three times higher than the Australian average (2.5%).

Household type

- The dominant household type was single parent family with dependents (33.4%), followed by lone person household (29.8%) and with dependents (12%).
- This indicates that a substantial portion of loan respondents live in single income households (63.2%) and/or have dependents (45.4%).

Education

- Over half of the respondents' highest education level was year 12 or below (51.2%), followed by TAFE (33.8%).
- Only 15% held a bachelor's degree or higher.

Government support

- 97% of respondents received some form of government income.
- The most common form of government support was disability support payments (35.4%), followed by parenting payments (31%).

Employment

- Nearly half of the respondents were out of the workforce (47.8%), which was mainly due to disabilities or full-time parent/carer duties.
- A third of the respondents were employed (34%), and almost a fifth of the respondents were not employed but seeking work (18.2%).

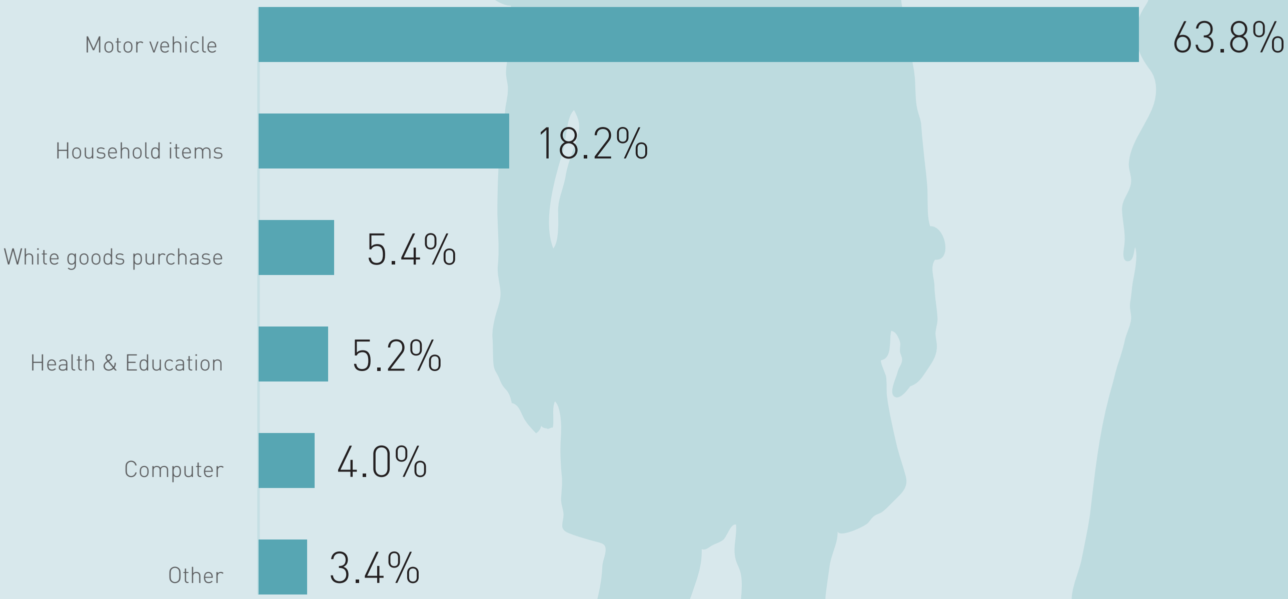
Income

- Average fortnightly income, including government payments, was $948.38.
- Fortnightly income was between $500 and $999 for more than half of the respondents (53.6%).

Purpose of the loan

- More than half of the respondents (63.8%) used the loan for motor vehicle related expenses.
- Household items made up the second largest category, with 18.2% using the StepUP Loan to fund house repairs, electrical goods and furniture.

Figure 5: Primary purpose of the loan (n=500)



FINANCIAL CAPABILITIES AND CAPACITY OUTCOMES

Finding 1: The StepUP Loan program provides a pathway to financial inclusion for some clients, as measured by financial product ownership.

For the purposes of this study, an individual who is fully financially included owns a transaction account, general insurance (i.e. home insurance; home contents insurance; vehicle insurance, excluding third party insurance), and a credit card. Using this definition, the classifications of the extent of financial exclusion is shown in Table 2.

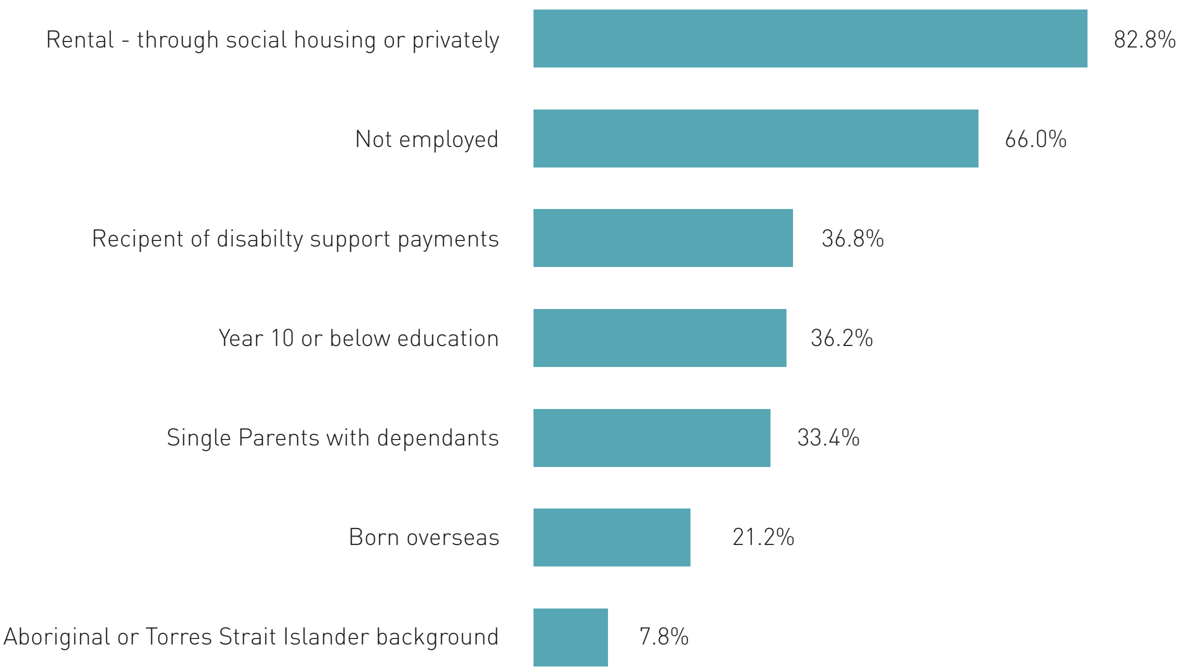
Table 2: Classification of financial exclusion

Extent of exclusion	Transaction	General insurance	Credit card
Fully excluded	NO	NO	NO
Severely excluded	NO	NO	YES
	YES	NO	NO
	NO	YES	NO
Marginally excluded	NO	YES	YES
	YES	NO	YES
	YES	YES	NO
Fully included	YES	YES	YES

Finding 2: A large proportion of survey respondents possess characteristics that correspond to individuals who are financially excluded.

Demographic factors that correlate to financial exclusion in Australia include a low level of education, being born overseas and being unemployed[11]. Other studies have also found that individuals with disabilities, who are single parents, and/or live in social housing or private rental accommodation, are most vulnerable to financial exclusion[12]. The percentage of survey respondents who possess these financial exclusion risk factors is shown in the figure below.

Figure 6: Financial exclusion risk factors (n=500)



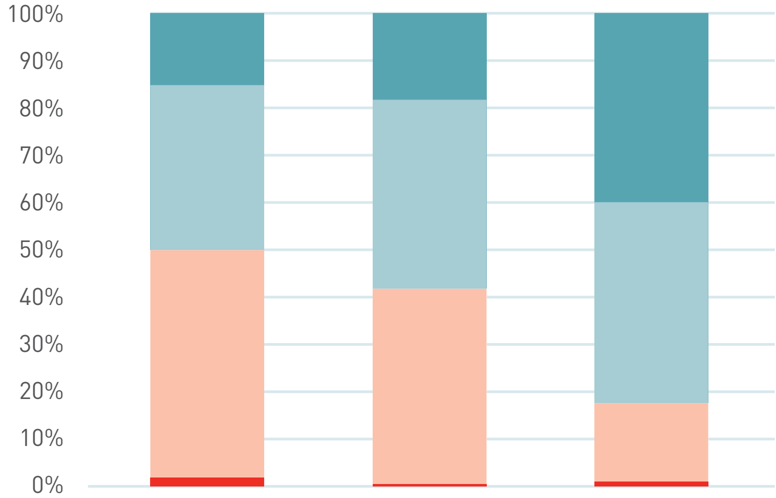
In comparison to the Australian population, financial exclusion is significantly higher among survey respondents. Before receiving the loan, almost half the respondents were either fully or severely excluded (49.8%), which is nearly three times greater than the Australian comparative in 2012 (17.7%).

Based on the survey results, there was a slight shift away from full and severe exclusion (42%) after receiving the loan. Many of these respondents moved up the financial inclusion ladder to marginal exclusion (39.8%) and full inclusion (18.2%). While the extent of exclusion is still 2.5 times higher than the Australian population, this is a shift in the right direction (Figure 7).

[11] Connolly C., Georgouras M., Hems L. &Wolfson L. (2011). *Measuring Financial Exclusion in Australia.* Centre for Social Impact (CSI) University of New South Wales, for National Australia Bank.

[12] Corr C. (2006) *Financial Exclusion in Ireland: An Exploratory Study & Policy Review.* Dublin: Combat Poverty Agency, Research Series 39.
Howell N. and Wilson T. (2005). *Access to Consumer Credit: the problem of financial exclusion in Australia and the current regulatory framework*, Macquarie Law Journal Vol. 5.

Figure 7: Financial Exclusion



	Pre StepUP	Post SetpUP	General Population
Fully Included	15.0%	18.2%	39.7%
Marginally Included	35.2%	39.8%	42.6%
Severely Included	48.2%	41.4%	16.6%
Fully Excluded	1.6%	0.6%	1.1%

Finding 3: Of the 500 respondents 111 experienced a positive change in their financial inclusion status after receiving the loan.

Figure 8 shows the number of respondents who experienced a positive, neutral and negative change in their financial inclusion status after receiving the loan. The majority experienced no change or an improvement in their financial inclusion status, with only 10.6% reporting a negative change. The demographic factors that correspond to a positive and negative change are stated in Table 3[13]. Table 3 shows, for example, that respondents who are from a non-English speaking background or who earn more than $2000 a fortnight are more likely to experience a positive change in their financial inclusion status after receiving the StepUP Loan.

[13] Demographic characteristics that correspond to a change in financial exclusion status occurs when the change in financial exclusion status differed by more than 10% from the average level, that is, when approximately 32% of respondents experienced a positive change in financial inclusion status, and when approximately 11% of respondents experienced a negative change in their financial inclusion status.

Figure 8: Change in financial inclusion status (n=500)

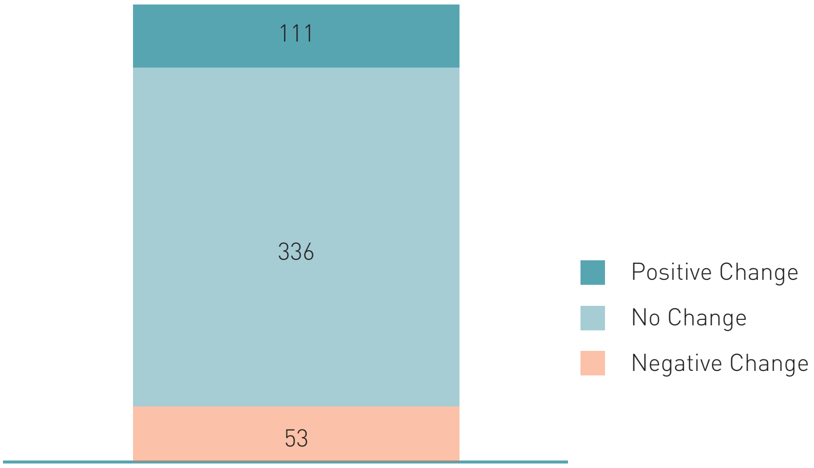


Table 3: Characteristics and change in financial inclusion status

Change in financial inclusion position	% of respondents (n=500)	Factors that correspond to changes in financial inclusion status
Positive change	22.2%	• Currently employed • A fortnightly income of $2000 or above • Born in a non-English speaking country • Currently receive Austudy or ABSTUDY
Negative Change	10.6%	• Borrowed from a fringe lender more than twice in the past three months prior to the survey

Finding 4: The financial capabilities of respondents improved after receiving the StepUP Loan.

Financial capabilities include respondents' levels of:

- financial literacy;
- financial confidence; and
- financial management.

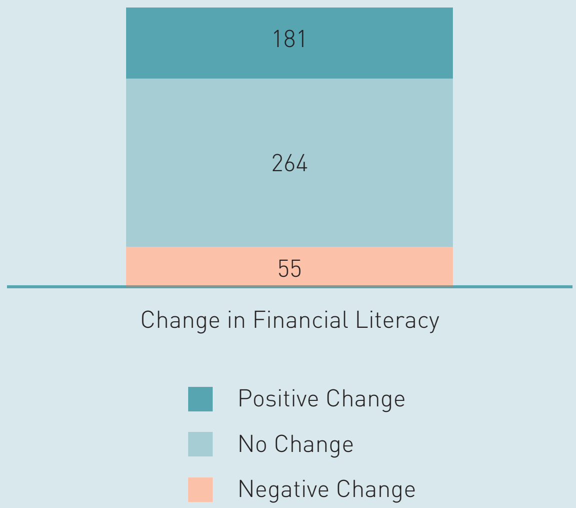
Figures 9, 10 and 11 on the following pages illustrate respondents' change in financial capabilities, after receiving a StepUP Loan.

Financial literacy was measured by respondents' self-reported understanding of:

- the process of taking out a loan; and
- the fees, charges, and interest rates associated with different credit products.

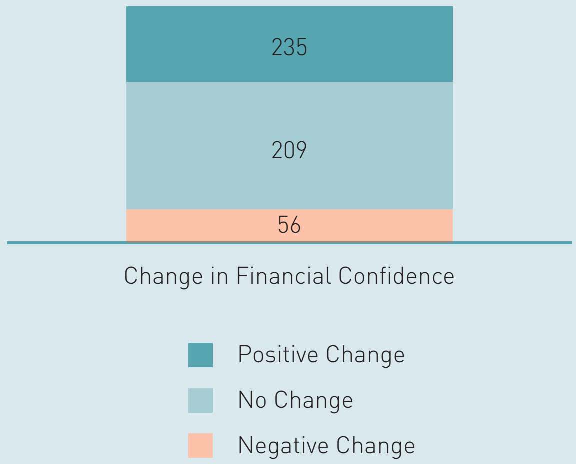
Respondents' self-reported financial literacy was high before they received the loan. Most believed they had an adequate understanding of the process of taking out a loan (75.6%), the fees and charges of different credit products (62.8%), and the interest rates of different credit products (64.2%). Nonetheless, 181 of the 500 respondents experienced a positive change in financial literacy after receiving the loan.

Figure 9: Change in financial literacy (n=500)



Financial confidence was measured by respondents' confidence in applying for a credit card or a loan from a mainstream financial institution. Though nearly half of the respondents (235 out of 500) experienced a positive change in financial confidence, a fair portion still did not feel confident in applying for a credit card (49.4%) or a loan (58.6%).

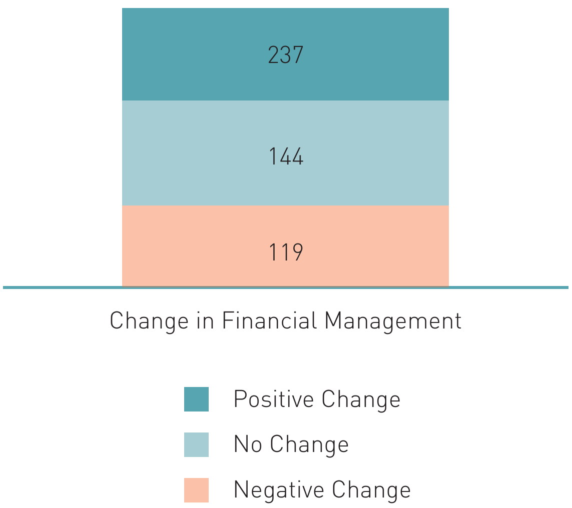
Figure 10: Change in financial confidence (n=500)



Financial management was measured by the extent to which respondents:

- saved for a long term goal such as a car, education, home, holiday, etc.;
- maintained an emergency savings fund;
- saved money from their pay;
- paid their bills on time;
- made repayments greater than the minimum required by a credit card or loan provider; and
- followed a budget.

Figure 11: Change in financial management (n=500)



Of the 500 respondents 237 experienced a positive change in financial management since receiving the loan. In particular, approximately a quarter of respondents saved money from their pay (25.2%), paid their bills on time (24.4%), paid more than the minimum required by a credit card or loan provider (27.6%), and followed a budget (36.6%) more often since receiving the StepUP Loan.

ECONOMIC OUTCOMES

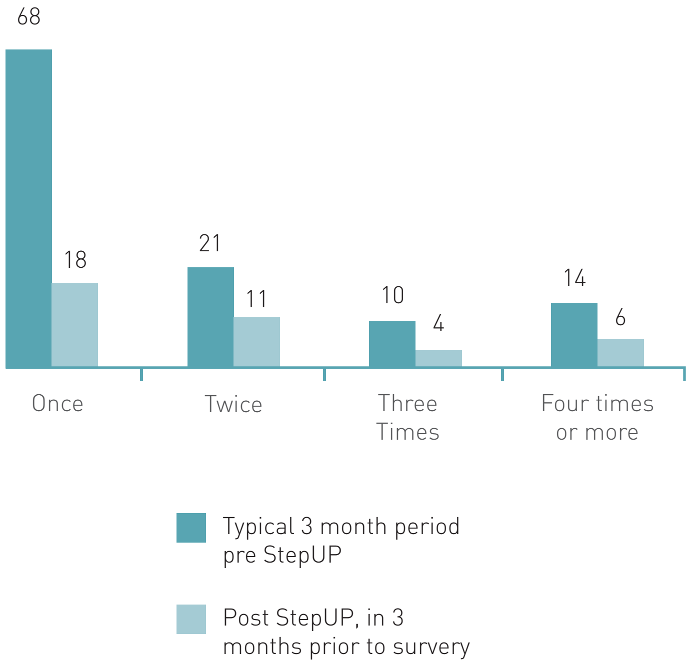
REDUCED USE OF FRINGE LENDERS

Finding 5: Respondents' reliance on fringe lenders decreased after receiving the StepUP Loan.

Fringe lenders typically offer short-term, small amount credit at high cost. As such, they are often associated with predatory lending practices, and are considered the least affordable and appropriate means of obtaining credit for low income, financially excluded individuals. In spite of this, financially excluded individuals are more likely to use fringe lenders than those who are not[14]. This trend is reflected in the survey results, as 113 of the 500 respondents had borrowed from a fringe lender in the past.

Fringe lenders typically offer fast, immediate loans that can be used for any purpose, whereas StepUP Loans are generally used for asset building purposes and have a lengthy application process. As such, the StepUP Loan is not a direct substitute to fringe loans. In spite of this, 73 respondents stopped using fringe lenders after receiving the StepUP Loan, and the number of times respondents borrowed from a fringe lender over a typical three month period after receiving the StepUP Loan decreased (Figure 12). This implies that these respondents' financial management skills have improved.

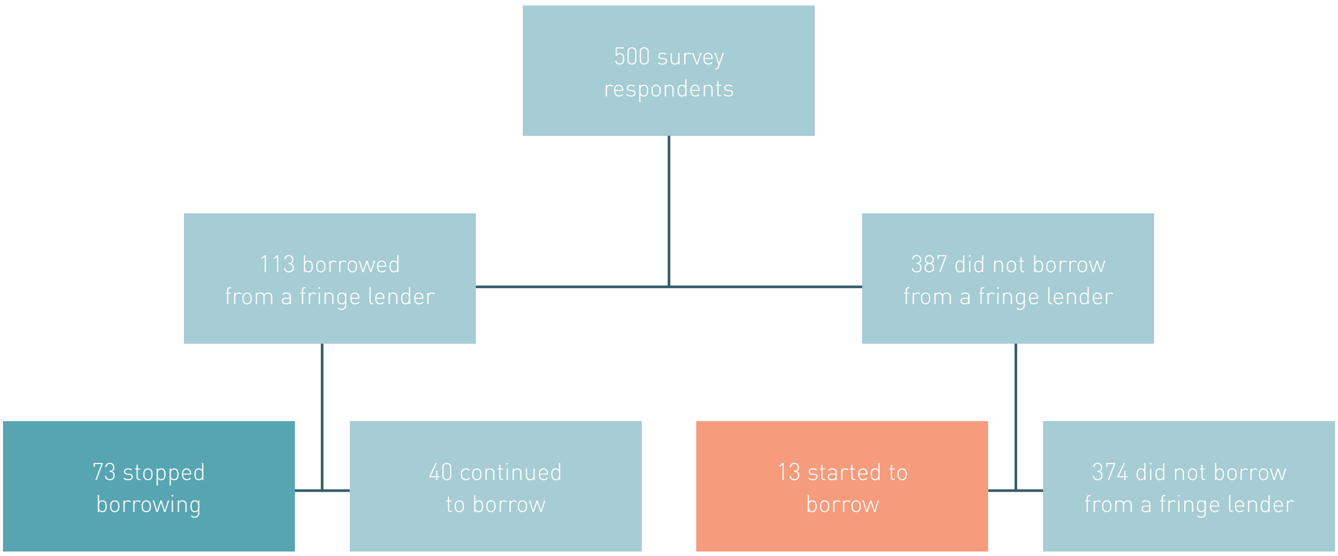
Figure 12: Number of times respondents borrowed from fringe lender (n=500)



[14]Connolly C., Georgouras M., Hems L. &Wolfson L. (2011). *Measuring Financial Exclusion in Australia*. Centre for Social Impact (CSI) University of New South Wales, for National Australia Bank.

However, since receiving the loan, 40 respondents continued borrowing money from fringe lenders and 13 respondents began borrowing from fringe lenders. This is shown in Figure 13.

Figure 13: Respondents and use of fringe lenders (n=500)



Though the StepUP Loan does not provide a direct substitute to fringe credit, the findings suggest that it might assist in decreasing clients' reliance on fringe lenders. It could be conjectured that using the loan to replace an inefficient white good with an efficient one, for instance, may generate enough cost savings to prevent clients from using fringe lenders.[15]

[15] Banerjee, A., & Duflo, E. (2012). *Poor economics: A radical rethinking of the way to fight global poverty.* Public Affairs.

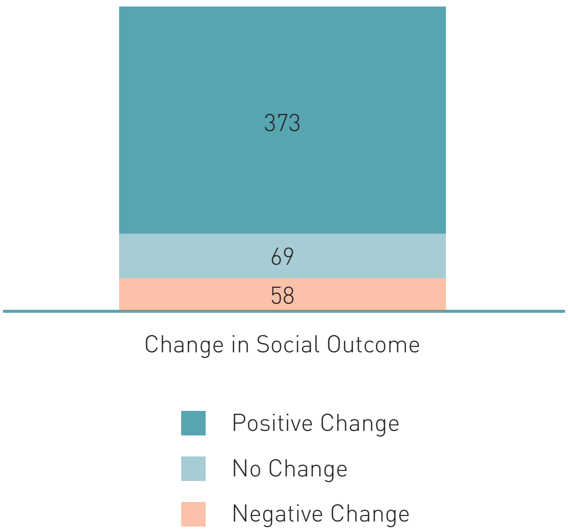
SOCIAL OUTCOMES

RESPONDENTS AND SOCIAL OUTCOMES

Finding 6: Of 500 respondents 373 experienced a positive change in social outcomes after receiving the StepUP Loan.

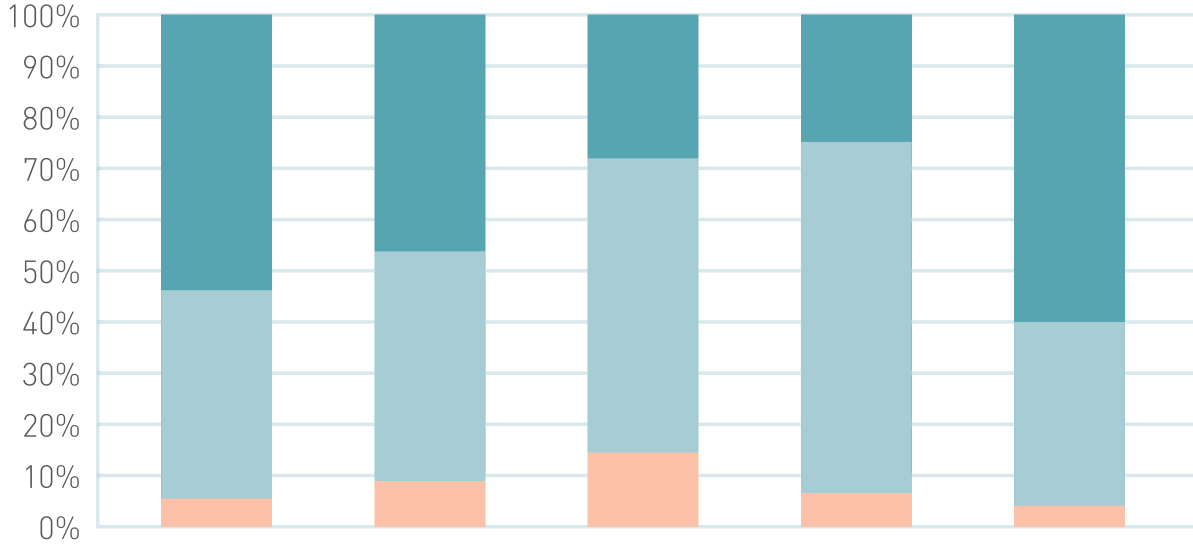
The survey responses show that after receiving the loan, almost 75% of the respondents (373 of 500) experienced a positive change in social outcomes (Figure 14).

Figure 14: Change in social outcomes (n=500)



Changes in social outcomes were measured along five dimensions: living conditions, stress and anxiety levels, physical health, contact with family and friends, and general confidence and self-esteem. Respondents indicated whether each social outcome had worsened, stayed the same, or improved, since receiving the StepUP Loan. Along most dimensions, the majority of respondents experienced an improvement in their social situation, as shown in Figure 15.

Figure 15: Change in social outcome dimensions (n=500)



	Living Conditions	Stress and Anxiety Levels	Physical Health	Contact with Family and Friends	General Confidence and Self-esteem
Positive Change	56.00%	46.60%	28.00%	24.80%	60.80%
No Change	38.00%	44.00%	58.40%	69.00%	36.20%
Negative Change	6.00%	9.40%	13.60%	6.20%	3.00%

Financial exclusion reduces the ability of individuals to fully participate in social activities[16]. As such, it is expected that as clients progress up the financial inclusion ladder, positive changes in social outcomes will be observed.

Over 80% of the respondents who experienced a positive change in their financial inclusion status after receiving the StepUP Loan also reported an improvement in their social outcomes. In spite of this, the results suggest that improved social outcomes may not solely correspond to improvements in financial inclusion status, as 66% of those who experienced a negative or no change in their financial inclusion status reported a positive change in social outcomes.

[16]Burkett I. and Sheehan G. (2009). *From the margins to the mainstream.* Brotherhood of St. Laurence.

SUMMARY OF OUTCOMES

Finding 7: Of the 500 respondents 368 experienced a net positive change in outcomes after receiving the loan.

The following outcome metrics were used to determine respondents' net change in outcomes after receiving the StepUP Loan.

- Financial exclusion metric.
- Financial literacy metric.
- Financial confidence metric.
- Financial management metric.
- Social impact outcome metric.

The net change in outcomes is shown in Figure 16, and the demographic factors that correspond to the change are shown in Table 4.

Figure 16: Net change across outcomes (n=500)

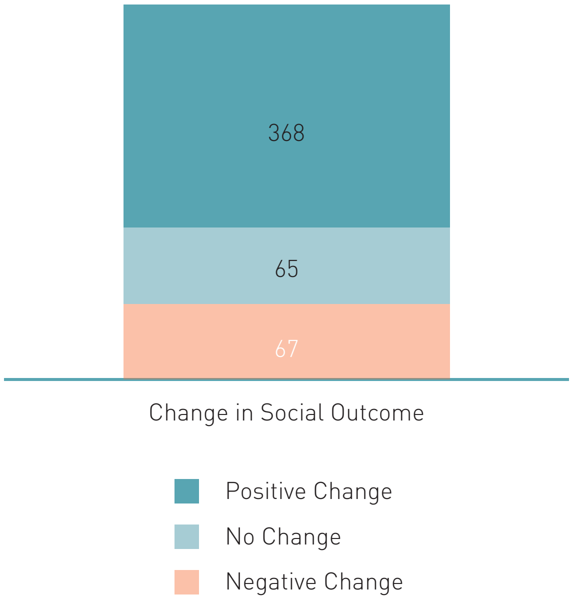


Table 4: Demographic factors and net change in outcomes

Change in net outcome[17]	% of respondents (n=500)	Demographic factors that correspond to the change
Positive Change	73.6%	• Have a fortnightly income of more than $1500 • Receive child support payments • Currently employed • Have not borrowed from a fringe lender in the three month period before the survey was distributed
Negative Change	15.8%	• Borrowed from a fringe lender in the three month period before the survey was distributed • Live in boarding or shared house • Have a fortnightly income of less than $500

The majority of respondents benefited from the StepUP Loan – 368 of the 500 respondents experienced a net positive change in outcomes after receiving the loan. However 65 of the 500 respondents experienced no change in outcomes and 67 out of the 500 respondents experienced a negative change in outcomes after receiving the loan. Further research is required to understand whether the StepUP Loan program, or other external factors, contributed to the negative change in outcomes.

[17]Demographic characteristics that correspond to a change in net outcomes occurs when the change in net outcomes differed by more than 10% from the average level, that is, when approximately 84% of respondents experience a positive change in net outcomes, and when approximately 25.8% of respondents experience no change or a negative change in net outcomes.

THE SOCIAL & ECONOMIC IMPACT OF STEPUP

The results from the survey were weighted to make them representative of the StepUP client population. The weighted results were entered in the social and economic impact model, along with costs data, to calculate the social and economic value created by the program (see Figure 17). Proxies were developed to value the outcomes attributable to the program over a three year period. For example, the cost of counselling was used as a proxy to quantify the change in mental wellbeing outcomes. Costs were subtracted from the value of outcomes to calculate the net benefit.

COSTS

Program costs are covered by NAB and FaHCSIA. Costs to NAB include defaulted loans, administration, and foregone interest and fees on the loaned capital. NAB also provides Good Shepherd Microfinance with half the funding for employing microfinance workers and managing the program, while FaHCSIA covers the other half.

The total cost of the program for a volume of 1000 loans is $1,059,343.

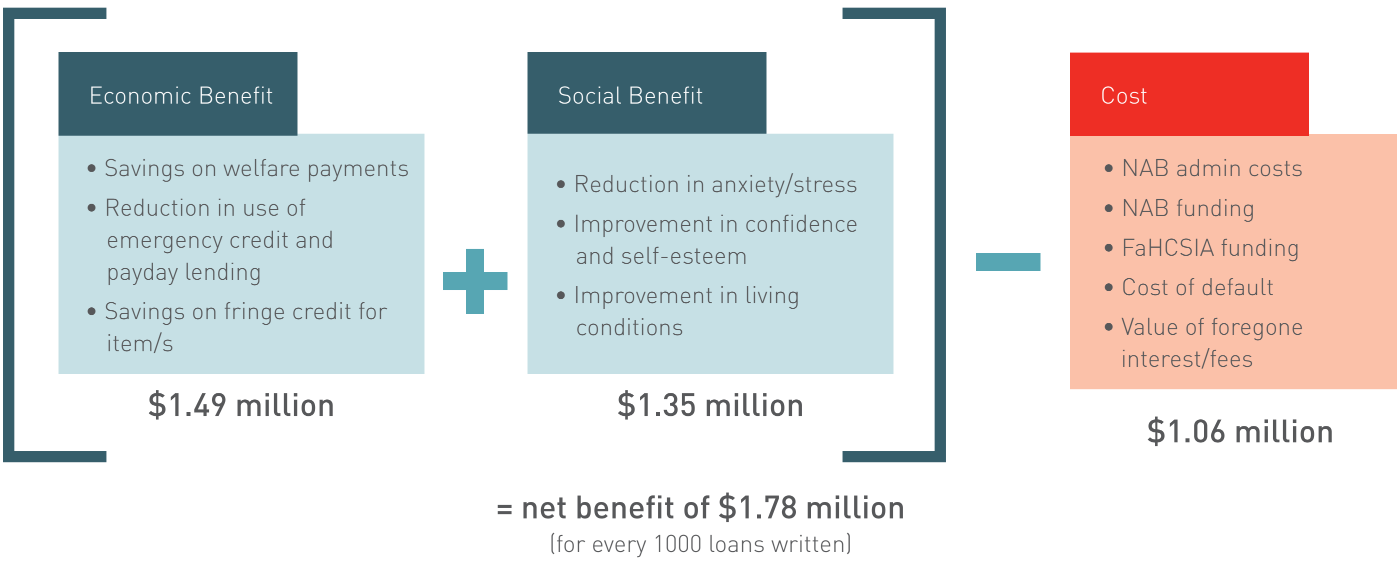
VALUE OF OUTCOMES AND NET BENEFIT

The economic and social outcomes measured in the survey were valued using proxies or determining what costs were avoided. These values were calculated over a three year period, factoring in an annual drop-off in value.

The total value of the economic outcomes for a volume of 1000 loans is $1,493,922. The value of the social outcomes for 1000 loans is $1,344,569. This adds up to a total benefit of $2,838,491.

By subtracting the costs from the total benefit, writing 1000 StepUP Loans creates $1,779,143 of net social and economic benefit. In other words, for every dollar invested in the program, $2.68 in social and economic value is created.

Figure 17: Social and economic impact calculation



BUILDING ON STRONG FOUNDATIONS

NAB's partnership in the StepUP Loan program has helped transform the lives of many of its clients.

The findings from the survey and economic and social impact model suggest that the StepUP Loan program can provide a pathway to financial inclusion, foster financial capabilities, improve social outcomes, and reduce reliance on fringe lenders for its clients.

The key positive results from the research are:

The program reaches clients who are financially excluded and who are at risk of financial exclusion. The StepUP Loan is only offered to individuals who cannot access appropriate or affordable credit products. Almost half of the survey respondents were either severely or fully excluded (49.8%) before they received the loan, which is nearly three times greater than the Australian comparative.

The StepUP Loan program fulfills its primary and secondary objectives. It provides a pathway to financial inclusion and improves the social outcomes of its clients. From the survey results, after receiving the loan, 22.2% of respondents moved up the financial inclusion ladder and 74.6% of respondents experienced improvements in social outcomes.

The program has created significant, positive economic and social impact. The impact model demonstrates that the ratio of social and economic return is $2.68 for every dollar invested in the program.

RECOMMENDATIONS

The StepUP Loan program has been operating successfully for nearly 10 years. To facilitate its growth and to amplify the positive outcomes it currently generates, CSI proposes the following recommendations.

1) **Offer small, short term loans with no specific purpose to existing StepUP clients (who are not in arrears).**

In spite of receiving the StepUP Loan and successfully making timely repayments, some clients still seek loans from fringe lenders to supplement their weekly income. Due to the specific purposes for which the StepUP Loan can be used, the program is not a direct substitute to fringe lending.

The StepUP program can help permanently divert individuals away from fringe lenders by offering small, short term loans with no specific purpose to existing StepUP clients (who are not in arrears) that directly competes against fringe credit.

2) **Provide basic, affordable insurance for products that are acquired through the StepUP program.**

By providing appropriate, low cost, low functionality insurance as part of the StepUP Loan package, clients will face less risk of experiencing unexpected financial shocks associated with their StepUP purchases.

3) **Further investigate the working poor population group.**

The eligibility criteria placed on the StepUP Loan program restricts clients who are financially excluded and vulnerable, but do not receive government income, from obtaining the StepUP Loan.

CSI recommends that further research is conducted to formulate the demographics and size of this group, and to identify measures that can help reach this client segment.

4) **Connect StepUP clients to additional support services.**

Further research is required to understand how the StepUP Loan program fits in with other microfinance, government, and not-for-profit initiatives, such as financial counselling services, to identify whether delivering the loan in combination with other programs can further improve the lives of its clients.

5) **Mitigate geographical exclusion by increasing the number of StepUP sites.**

Clients need to visit a StepUP site to obtain the loan, which geographically excludes some individuals from applying for the loan. NAB and its partners should consider expanding the number of StepUP sites and/or creating an online application form to mitigate geographical exclusion.

6) **Continue to promote the StepUP Loan program.**

Currently only 1.4% of all financially excluded individuals who meet the eligibility criteria use StepUP Loans. There is room for program growth through better promotion.

7) **Implement rigorous data and case management systems to better track the progress of clients.**

Sophisticated collection systems should be implemented to collect administrative data and data on client outcomes. By embedding this data in the case management system, stakeholders can measure the impact of the program consistently and on a longitudinal basis.

ACKNOWLEDGEMENTS

About the Centre for Social Impact
www.csi.edu.au

The Centre for Social Impact (CSI) is a partnership between the business schools of the University of New South Wales, the University of Melbourne, Swinburne University of Technology and The University of Western Australia. CSI creates beneficial social impact in Australia through teaching, research, measurement and the promotion of public debate. We bring together the business, government, philanthropic and social (not-for-profit) sectors, in a collaborative effort to build community capacity and facilitate social innovation.

The Centre for Social Impact research team for this project consisted of[18]:

- Stephen Bennett
- Chris Connolly
- Meiko Georgouras
- Les Hems
- Axelle Marjolin
- Jade Wong

About Good Shepherd Microfinance
www.goodshepherdmicrofinance.org.au

Good Shepherd Microfinance is a national community organisation working to help people on low and limited incomes overcome poverty and hardship through safe, fair and affordable microfinance programs.

We work with community organisations at 602 locations across Australia. These partnerships have over the past five years helped more than 60,000 people previously excluded from mainstream banking access to loans and savings.

Good Shepherd Microfinance programs are underpinned by the basic principles of trust, respect and non-judgement of people and their financial circumstances. Good Shepherd Microfinance represents Australia's safest and largest microfinance response.

About NAB
www.nab.com.au

National Australia Bank (NAB) is a financial services organisation with over 43,000 people, operating more than 1800 branches and service centres and responsible to more than 480,000 shareholders. While our core franchise is Australian-based, we also have interests in New Zealand, Asia, the United Kingdom and the United States of America. Each of our brands is built with a common aim: to have fair products and services, fair fees and charges and world-class relationships built on the principles of help, guidance and advice.

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

[18]Note: Authors made equal contributions, and are listed in alphabetical order.

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