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Retail Investor Division
The Treasury
Langton Crescent
PARKES ACT 2600

RE: Strategies for reducing reliance on high-cost, short-term, small amount lending

Anglicare Australia commends Ministers Shorten and Collins along with both Treasury and FaHCSIA for the diligence they have shown in pursuing the consumer credit protection reforms. Financial exclusion, in all its forms, is a major barrier to meaningful participation and this suite of reforms assists people living on low incomes participate in society as other more financially secure individuals have the opportunity to do.

In overcoming financial exclusion for those forced to live on the edges of society there are several measures that might be adopted to ameliorate the core problem of inadequate income. In the first instance, Anglicare Australia would like to see real progress on workforce participation whereby opportunities exist for people living on low incomes to obtain work that is sustainable into the future rather than perpetuate or further exacerbate the cycle of disadvantage. As a bridge to that goal, Anglicare Australia would like to see the basic income increased to a level which would allow families and individuals balance the competing priorities – which are common to us all – but which are made that much more difficult because the level of income support is inadequate for today's standard of living. However, as these issues are not the focus of this discussion paper Anglicare Australia would like to note its firm support of the notion of one-stop-shop hubs.

The Anglicare network is a considerable provider of financial support services operating in every state and territory. The full range of financial support programs are offered within these services – emergency relief, financial counselling, financial literacy, microfinance etc – and the funding arrangements supporting them are just as broad.

Anglicare Australia is of the opinion that streamlining these programs and funding would ensure the range of supports for individuals experiencing financial difficulty can be made available to them without the added inefficiencies of duplication or overly burdensome administration. To this end, Anglicare Australia proposes the adoption of a *Communities For Children* (CfC) model of service delivery, which has been used to such great effect in building community capacity around child development, for the organisation and delivery of financial support services.

Attached to this note is a copy of a proposal developed by Anglicare Australia for a service delivery model that would alleviate the stresses of poverty and improve financial inclusion for those on the edges of the mainstream financial sector. Though some restructuring of current systems would be required and state and territory cooperation in terms of funding redirection, the potential benefits of this model far outweigh those initial costs.

In brief, this model utilises economies of scale generated by co-locating and sharing processes as a means of creating efficiencies in service delivery, presumably as do the one-stop-shop hubs of the Good Shepherd. Through the benefits that come from engaging in an advocacy network, as the CfC model could be described, participating organisations will contribute to and benefit from the general raising of operational standards, thereby increasing capacity for service delivery and subsequently improving the programs' scale and reach and ultimately ameliorating the effects of financial exclusion.

The model is predicated on reconfiguring service delivery; making gains in administrative support to organisations, cohesion of service delivery and increasing client access to services. At the core of this model, however, is the principle of client-centred service delivery where wrap-around services support the individual through times of financial difficulty, help them to develop a plan for the future and for them to feel supported and empowered to see their plans through. It is a model that is responsive to the collective needs of its clients and as such is a model that can work in a community.

Part of the success of the CfC model is its ability to respond to local conditions. The same must be said of this proposal for it to be properly effective as it is important for the hubs to be nimble enough to direct the effort of response to where it is needed most. In the proposal the example is given of natural disaster, where families and individuals often require support to recover from the fall-out. Another example relates to a report released earlier this year by the Department of Agriculture, Fisheries and Forestry[1] which told of the potential for food shortages in Australia given the increasing distance between food source and consumption site. These are events that if they strike in a given community will disproportionately impact on the financial security of people living on fixed and low incomes, subsequently driving demand for financial support.

Initiatives from the federal government seem to be moving toward locally responsive solutions with examples being Department of Human Services Community Engagement Officers and amalgamation of services; Medicare Locals; Regional Development Councils; and The Remote Jobs and Communities Program which all operate to ensure that duplication is minimised, program diversity and access is maximised and local needs are responded to. It is imperative that any strategies that are taken up by Government in responding to financial exclusion take this into consideration.

Building this type of program may not operate as an alternative as such to high-cost small-amount loans when the need for funds is acute. It will, however, reduce the reliance on these options by enhancing the skills and awareness of consumers so that they need to call on such options less frequently. Until basic incomes are such that they are able to support an adequate standard of living which also allows for unforseen expenses, and until microfinance is at a sustainable level and more readily accessed, there will be room for ‘entrepreneurs’ to take advantage of people who need funds quickly.

This model certainly lends itself to incorporating other services. The balance lies in responsivity to local conditions, so in one community it may be a law service that is incorporated and in another it may be a gambling or mental health support service. The danger is in incorporating too many unrelated services which dilute the benefits of operating as a network of sorts with the primary objective of alleviating the stresses of poverty and improving financial inclusion for those on the edges of the mainstream financial sector.

Should you require any further information in regard to this proposal or any other issue that Anglicare Australia might be of assistance with, please do not hesitate to contact us.

Yours sincerely

Kasy Chambers
Executive Director

1 Department of Agriculture, Fisheries and Forestry, 2012, Resilience in the Australian food supply chain, accessed 4 June 2012, http://www.daff.gov.au/__data/assets/pdf_file/0009/1915290/resilience-food-supply.pdf

Policy Proposal: Microfinance

Outline

Area of Intent

This policy proposal relates to the delivery of microfinance and financial support services in Australia and those who access them such as individuals excluded from the mainstream financial sector or who are experiencing financial hardship.

Proposal Summary

Anglicare Australia proposes a *Communities for Children* model be applied to the delivery of financial support services, including microfinance products, to encourage collaboration, efficiency and comprehensive service delivery.

Policy Goals

Aim

To increase the scale and reach, as well as the efficiency, of financial services provided to people traditionally excluded from accessing mainstream financial products and to alleviate poverty for low income households through a suite of complementary financial support services.

Objectives

- To increase access to complementary financial support services, including microfinance products, to those on fixed and low incomes who have experienced difficulty in the mainstream financial sector.
- To improve efficiency and effectiveness of financial support service delivery through systems and relationships promoting cooperation and partnership between agencies.
- To enhance the financial support sector so that is sustainable and effective.

Background

This proposal scope has been developed to provide the Minister for Financial Services and Superannuation information on options to increase the prominence of microfinance in the existing suite of financial support services, in the view of Anglicare Australia.

Anglicare Australia members agree that the way forward for microfinance in Australia is to take a holistic approach to service delivery. In terms of alleviating poverty and promoting financial inclusion, complimentary co-located services are seen to be more effective than standalone one-off supports.

To be effective however, the administrative response of microfinance needs to be more robust. Programs require adequate resourcing and attention on how they are delivered. Much of the current delivery is provided by volunteers and the balance needs to be found between the real costs of delivery; the necessary professionalisation of delivery; and the great value of the contribution made by volunteers. In other words, a balance between market rigour and social compassion.

Microfinance in Australia is growing; attributed to the increase in demand which is partly due to heightened awareness among target groups and service providers of the programs which are available and the elimination, by state governments, of other initiatives with similar methods and goals.

Given the current context of microfinance in Australia and its rapid growth, a tension has arisen between further regulation and the autonomy of providers. Though providers seek support in the provision of services, both financial and administrative, there is a reluctance to pursue mandated regulation as this may limit or inhibit locally responsive approaches and undermine the distinction between metropolitan, regional and remote settings.

It has been suggested that microfinance in Australia needs streamlining, with a focus given to measuring the relative impact of the various programs. Members have observed that faster access to products and the co-location of services – a one-stop-shop – could have a great impact on the efficacy and efficiency of services provided.

Concerns exist in scaling up microfinance in Australia however. There are challenges in managing stakeholder claims within states and across borders, with many providers having a vested interest in the growth of microfinance. Further, as partnerships with these stakeholders develop, steps should be taken to assure quality, transparency, accountability and a fusion of values.

Policy Proposal

Phase One: Lead Agency Model

It is widely accepted that microfinance, especially the provision of microcredit, is an effective tool to alleviate the stressors of poverty and to promote the inclusion of low-income households within the financial sector. It is as widely accepted that alone, microfinance cannot affect the level of impact that combined, complementary, wrap-around services can achieve.

Currently, agencies are allocated funding individually to provide various financial products and support services to households experiencing financial hardship. At present there is seemingly little guidance from the top level for the connection between services and the adequate/appropriate distribution of service types. Through adopting a *Communities for Children* (CfC) model of service organisation and delivery it is envisioned that a lead/central

Communities For Children Model

A key local non-government organisation (Facilitating Partner) in each site acts as broker in engaging smaller local organisations to deliver a range of activities in their communities.

In implementing their local initiative, Facilitating Partners establish a Communities for Children Committee with broad representation from stakeholders in their community. The Facilitating Partner oversees the development and implementation of strategies and activities and manages the funding allocation for the site. Much of the funding is allocated to other local service providers to deliver the activities.

(FaHCSIA, 2011)

agency be established and tasked with a similar role as that of the Facilitating Partner in the CfC model.

In the microfinance model the lead agency will have the role of:

- Providing administrative support to services with a view to increasing individual agency efficiency.
- Enhancing cohesion between service types, demand and the capacity of organisations.
- Enabling greater access to services and products by households that may benefit from them.

Administrative Support

The literature is clear in its description of the cost/benefit analysis of microfinance. Similarly it is clear regarding the mainstream financial sectors hesitation to provide financial services to those on fixed and low incomes. The cost of providing the loan is high and due to the low amounts being borrowed, the margin for profit is significantly reduced. Though the cost of administering a loan is a commercial incentive not to lend; in the social sector where financial inclusion is a priority objective, the cost of lending needs to be cast in a new light.

Transaction costs associated with the delivery of microfinance products are high with limited scope for a similarly high return (excepting fringe-lenders who gain high returns by charging excessive interest over a short loan period). Economies of scale, though, established through streamlined and in-common processes have the ability, to some extent, to minimise the costs of delivering microfinance products and other financial support services to clients experiencing disadvantage. The Brotherhood of St Laurence (Burkett & Sheehan, 2009) posits that to increase sustainability of programs fundamental prerequisites that tend toward administrative support include: adequate infrastructure; efficient systems and procedures; and sufficient accessibility and delivery mechanisms that meet the needs of clients (this last point will be discussed in a later section). The CfC or Lead Agency Model as it will be referred to throughout this proposal demonstrates that proper administrative support can facilitate improved service delivery to those who are in need of it.

Many of the costs associated with microfinance products are in the assessment and processing of credit applications. In this model the lead agency would facilitate the lending process by taking on the responsibility of assessing and approving applications. An example of this is in operation in Western Australia where a separate body, WA NILS, was established to oversee the administration of no interest loans which includes a centralised application processing centre. This aspect of the model allows individual agencies, especially small agencies to focus on the interactions with the client, supporting them through the application process but which reduces the administrative burden in the assessment process by moving it off site. Registered members of WA NILS can lodge an application from anywhere within the state and have it processed at one central location. In this instance, the lead agency model departs from the CfC model in that the lead agency itself will have a role to play in direct service delivery. It will be tasked with the delivery of streamlined application assessment and processing operations, though in undertaking this role, improvements will be made in consistency and quality of experience for the client and in efficiency of delivery for the agencies, thereby reducing operational overheads.

In addition to providing vital infrastructure support and in coordinating a network of partnering organisations, a lead agency can offer support and guidance for introducing and maintaining efficient operational systems and procedures. Systems are an integral part of service delivery and organisational management. Some organisational systems perform more effectively than others though the time and resources required to effectively test and implement them is often beyond the capacity of some providers. Larger organisations, those more likely to be a lead agency in this model, are more likely to have efficient operational procedures in place and if not, are better placed to transition to more effective systems. Through the partnership basis of this model, agencies will benefit from the shared experience – systems which have proven to be effective in isolation can be tested across a wider platform and adopted selectively or as a wave of delivery reforms. The lead agency could facilitate this process by coordinating the experiences of individual agencies and through a clearinghouse offer guidance and support to partners adopting new or updating existing systems to improve efficiency thereby reducing costs and more importantly increasing the scale and reach of their programs.

In providing administrative support, applied through a lead agency model, individual agencies would have increased capacity to maximise client interaction and support throughout the application process without devoting limited resources to the assessment and processing of individual applications. They would benefit from the shared learned experience and have increased capacity to identify and adopt efficient processes that will streamline the delivery of services to individuals seeking support. Through an interactive relationship not only with the lead agency but other organisations within their network – rather than through the often lonely relationship with funding providers – agencies benefit from collegiality and economies of scale.

Cohesion

Many of the current financial support services provided are funded through separate bodies, for instance emergency relief is funded federally, some no interest loan schemes are funded through the State and Territory governments, for instance the New South Wales Department of Fair Trade whilst others are funded through institutions such as the National Australia Bank. In a given community it cannot be guaranteed that any or all of the available services might be provided through a single or multiple providers, resulting in either duplication or service gaps. The ideal for the lead agency model is the co-location of strategic services for the comprehensive support for people on low and fixed incomes. Entailing that microfinance services are coupled with financial counselling, financial literacy and emergency relief supports; thereby becoming less a reactive response to adverse circumstances and more a methodical approach to building financial inclusion.

The success of the CfC model is the spectrum of services that are available to those who need them. In much the same way, this model is reliant on the collegial relationships between partnering agencies to ensure that those who do need the use of services are captured and supported as they require and not lost in the gaps when services operate in isolation. Whether co-located virtually or physically a process of warm referral between partnering agencies can close those gaps and ensure that people who are excluded from mainstream services are given the opportunity to develop the skills and knowledge to support their move into the mainstream. The added advantage of having a support structure is the reduction of duplication, clarity in the pathways and links between services, quality assurance due to peer accountability of service providers and stronger engagement with the local community.

As with the CfC model it is envisaged that the lead agency will have a regional focus working in partnership with the networks to reach agreed outcomes (note: outcomes, <u>not</u> outputs or service level agreements). Individual partner agencies would maintain their own autonomy within this model and be a party to negotiations however a lead agency would have responsibility of identifying and directing funding to, agencies that have a presence in the communities in which they operate. This acknowledges the history and relationship that agencies have with their communities and, where possible, leverages the existing good standing. It is as important to the effective delivery of services to build partnerships between agencies as it is to ensure that wrap around supports are available to people who wish to alleviate the stressors of poverty within their lives.

Through conducting this type of model and building relationships between services, at times when it is required, the option of redirecting funding to counter events is greatly enhanced. Take for example disaster relief. In circumstances such as these, it is difficult for Departments to redirect funding tied to specific purposes. With the lead agency model funding agility will replace rigid management processes and allow the lead agency to channel funds to the areas where, due to circumstance, there has been an acute peak in demand and given that the relationships and processes are already in place, accountability will be at an optimum and support will be provided quickly to the effected areas.

Access to Services

Resulting from efficiency gains made from adequate infrastructure support and effective systems and processes will be an increased capacity of agencies to respond to greater numbers of clients. Though the number of clients walking through the door is not in itself an indicator of a successful or quality service, nor is a growth in client numbers the primary goal of this proposal, it is an indicator of the extent to which services have farther reaching impacts within a community. The ability of services to widen the catchment of clients will allow a greater number of people to benefit from the comprehensive wrap around supports that will be provided through this model. Further, through the collegial partnership with other agencies and a process of warm-referrals, whether co-located or not, there will be no 'wrong door' for clients and as such are supported via the pathways of the financial support sector toward financial inclusion. Again, through the network of support agencies, clients will have greater modalities of access, the overall aim of which is that clients are able to link in with agencies to be supported in not only achieving an immediate goal but to learn, develop, and plan for the future.

Phase Two: Strengthening IT Components

With the increase in the global phenomena and the development of the National Broadband Network it is envisioned that Australia will be a nation connected. This has great implications for the delivery of services to regional and remote areas but also for increasing the efficacy of a programs scale and reach. With a lead agency model with administrative processes centralised, access to application and approval mechanisms online would greatly increase the immediacy of access to products and thereby inhibit the allure of fringe-lenders etc as well as linking those households into a compendium of supports to minimise the ongoing effects of financial exclusion.

Implementation Considerations

Obviously, it would be remiss to only focus on the benefits of any model, even one as lauded as the CfC model. In this context there would be several implementation challenges requiring addressing for the model to be a success.

- *Competing interests*: Even in the niche field of microfinance there are several key players who have a vested interest in its continued growth. The key here will be in managing those competing interests and in doing so it is important to focus not on individual agency viability or monopoly – for services exist not for their own sake – but to focus on building financial inclusion in Australia and the mechanisms with which to achieve it.
- *Diaspora of current funding*: Funding arrangements are in perpetual discussion in the community sector as they probably are in other sectors. Challenges will arise in identifying funding sources and locating responsibility for programs. If current funding arrangements continue, the challenge will be in coordinating and streamlining processes to suit the model. Inherent in either of these is stakeholder management.
- *Stakeholder coordination*: With any shift in operation comes a shift in culture. This can often be a major stumbling block for well intentioned program modifications. It is important in undertaking a fundamental shift in operations to ensure that stakeholder expectations are satisfied and are meaningfully included in the transition and that comprehensive communication strategies are implemented.

Stakeholders

- Anglicare Australia network members
- Ministers Shorten and Collins and their respective departments
- State and territory funding bodies
- NfP administrators of microfinance initiatives

- NfP providers of financial support products and services
- Consumers of financial support products and services

Related Actions

Corporate responsibility tax concession: Funding provided for microfinance products by banks and other corporate institutions to a Deductible Gift Recipient provider may claim the contribution as a donation to charity.

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