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

The following submission is being made on behalf of FamilyCare in response to the "Strategies for reducing reliance on high-cost, short-term, small amount lending" Discussion Paper released April 2012.

We have circulated these comments to a number of our regional service delivery colleagues who have an interest in financial management services for low income households. The following agencies are happy to endorse FamilyCare's observations:

- Berry Street Victoria (via its Shepparton regional office) and
- The Salvation Army Pathways (Shepparton office).

**About FamilyCare:**

FamilyCare is a community-based not-for-profit organisation and has been providing services to families and individuals in the Goulburn Valley, Lower Hume and surrounding districts since 1984. FamilyCare's range of activities includes:

- Child and family services;
- A day-stay mother-baby support unit;
- A support program for refugee minors;
- Aged and disability care;
- Support and respite for carers;
- A no-interest loan scheme (NILS);
- Men's counselling; and
- Community development and outreach programs.

As well as ongoing programs, FamilyCare has had experience in providing localised responses to major disasters, including operating a Bushfire Case Management service after the February 2009 fires. With its main office in Shepparton, FamilyCare has offices and staff in Cobram, Seymour, Wallan, Alexandra, Yea and Kinglake, in Victoria.

In relation to the NILS noted above, FamilyCare has offered no interest loans since 2005. Lending capital for the NILS was sourced from the NAB, however FamilyCare 'self-funded' administrative support for the program prior to securing resources through the Good Shepherd distribution of FaHCSIA funding in late 2010.

The dedicated administrative resourcing has had a dramatic impact on the efficiency and reach of our NILS lending. For example 65 loans were written in 2010, compared to 130 in 2011. The 2011 result represented a remarkable turnaround, especially when the FaHCSIA resources fund a 3-day per week position only. These observations will be pursued further in repose to questions 8, 9 and 10.

Attached are our responses to the Questions listed in the Discussion Paper. We have responded to the questions in groups rather than individually. Should further information, or clarification of our comments be required, please do not hesitate to contact me on 03 5831 7000 or via email dtennant@familycare.net.au .

Yours sincerely

**David Tennant**
Chief Executive Officer

Annexure:
Conflict or Opportunity
Community Service Provision and Corporate Social Responsibility
Mr. David Tennant

# Submission to *"Strategies for reducing reliance on high-cost, short-term, small amount lending"*

**Discussion Questions:**

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| Q1 | Currently the Government offers Centrepay, advance payments and weekly payments as mechanisms for customers to manage their money. Are there any other mechanisms that could be used for this purpose? |
| Q2 | Should referrals be made to FMP services at a certain stage as a matter of course? |

**RESPONSE:**

FamilyCare would distinguish between Centrepay and the weekly payments facility, and advances against benefit incomes. The first two (Centrepay and weekly payments) are very practical ways to assist people on benefit incomes to manage their financial commitments, when their budgets provide little flexibility.

The advance payment facility raises more difficult questions. Growth in the use of this option and routine re-use, as Centrepay customers pass eligibility dates, suggests it is time to rethink the broader policy approach. If the increasing reliance on advance payments is indicative of benefit incomes being too low to support a reasonable, safe and dignified standard of living, then that is the issue that should be addressed. Although beyond the scope of the Discussion Paper, FamilyCare notes the consistent messages from a variety of commentators that Newstart allowance has fallen behind other payment rates, potentially and perversely trapping people in poverty, rather than facilitating a transition to work.

A much broader question is whether the repayment of Centrelink advances creates undue hardship, as repayments are deducted via the Centrepay system. In other words, are customers who are frequent and repeat applicants for advances simply lurching from one advance to the date at which they become eligible for the next? We would urge further investigation of this question.

Our understanding is that there is no formal assessment process addressing capacity to repay Centrelink advances, other than perhaps evidence of the repayment of previous advances. That is in contrast with assessments that are required to occur to ensure compliance with responsible lending legislation. Similarly, full assessment of an applicant's financial situation and capacity to repay are undertaken before NILS loans and other not-for-profit credit alternatives are approved.

Centrelink advances are not 'credit' in the normal sense. There may however be advantages in applying a similar set of application criteria before advances are approved to ensure applicants are not exposed to additional financial stress.

FamilyCare strongly supports appropriate referrals to community-based financial management services, particularly financial counselors.

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| Q3 | Should providers of high-cost small amount loans be required to advise individuals about the existence of hardship programs where the individual is seeking loans to pay a utilities bill? |
| Q4 | How can individuals be encouraged to use these alternatives for paying utility bills rather than using high-cost small amount loans? |
| Q5 | What are the advantages and disadvantages of requiring energy providers to provide information on their payment plans and hardship programs initially when contracts are entered into or renewed, and on each bill? |
| Q6 | Are there other support services that would help reduce energy hardship and the demand for small amount, short-term loans to pay energy bills? |
| Q7 | Should energy hardship programs be promoted more widely? If so, what mechanisms could be used? |

**RESPONSE**

The recent release of the second Financial Exclusion Indicator Report[1] provides yet more confirmation that ordinary consumers are struggling to meet the increasing cost of utility bills[2]. Obtaining timely access to services intended to assist with bill problems, particularly independent financial counselling services, is critical.

The Discussion Paper, in FamilyCare's view, focuses too heavily on the existence of utility hardship programs, without recognising the failure of the broader utility sector to deal effectively with issues of vulnerability and disadvantage. Unlike other more mature markets, like the Banking sector's provision of low-cost savings accounts, there is no evidence that the energy industry has tackled the challenge of providing an effective, affordable safety-net for low income consumers.

The array of retail offers would challenge the most informed of consumers, with even basic information like 'peak' and 'off peak' tariffs differing between companies, making meaningful comparison almost impossible. The main organisation offering consumers a chance to weigh retail choices is itself a 'for-profit' entity, recently attracting the attention of the ACCC for engaging in false, misleading and deceptive conduct.

FamilyCare does not believe access to more credit is the solution to dysfunction in utility markets, for low income people. There is however an urgent need to require energy providers deal better with low income consumers. That is not a request to return to tariff setting, but providing a low-cost offer and informing benefit recipients of its existence should be mandatory. Nothing in the behavior of Australia's so-called 'competitive' energy sector suggests industry will pursue this course unless it is forced to.

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1 Connolly C, Georgouras M, Hems L, (*Measuring Financial Exclusion in Australia)*, Centre for Social Impact – University of New South Wales, May 2012.
2 Connolly et al, *Measuring Financial Exclusion in Australia* (ibid), pages 7 & 24.

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| Q8 | Is building upon existing programs and extending the criteria for assessing these programs, such as NILS and StepUP, an appropriate alternative to small amount, short-term loans? |
| Q9 | If yes, should the eligibility and purpose criteria for not interest and low interest loans be expanded and what should these criteria be expanded to include? |
| Q10 | How more partnerships could be developed between community service organisations and financial institutions to increase the number of these products and their coverage? |

**RESPONSE**

FamilyCare believes that programs like NILS and Step-up provide safe and appropriate alternatives to the high-cost fringe credit market. It is however clear that the scale of current community based, not-for-profit options is too limited to deliver sufficient access to consumers who might need and benefit from those options[3].

The Discussion Paper briefly mentions some of the mechanisms that might be used to grow this emerging market. Those options include possible regulatory interventions, such as US style reinvestment legislation, or a market-based levy that could be applied to the growth of affordable credit alternatives for low income people. FamilyCare supports the exploration of these options – but urges Government to take action that will at least sustain the current level of availability, until long-term solutions are found.

The Commonwealth Government has been a relatively recent supporter of no interest lending in Australia. The first tangible investment in NILS by the Commonwealth came in approximately 2006 when then Human Services Minister Joe Hockey agreed to provide NILS with access to repayments via the Centrepay system without being required to pay transaction fees. Prior to that agreement NILS providers often saw their capital eroded, albeit slowly, by the $1.00 per transaction fee that applied at the time. Although modest, the fee was often a significant proportion of the regular repayments made by benefit recipients.

Access to the Centrepay system dramatically increased the reliability of NILS repayments for providers and the ease of repayment for borrowers. The fee waiver made sure money was not lost to the NILS system through transaction fees. In short, the decision was a very welcome one and of significant benefit to the entire system.

Although NILS had grown dramatically from modest beginnings, particularly with the large investment of capital from the NAB, it was a very thinly stretched network. As a result of the recommendations of former NAB CEO Ahmed Fahour at the 2008 2020 summit, the Commonwealth became interested in more direct assistance to growing the alternative finance market. The evolution resulted in FaHCSIA's first round of grants supporting the administrative costs of running a NILS, distributed by Good Shepherd from mid-2010. The Commonwealth's contribution directly addressed the single biggest hurdle to the continued growth of NILS – the ability for providers to fund NILS lending as a service priority.

FamilyCare was and remains a beneficiary of the FaHCSIA funding for administration costs. The effect of the additional resource was rapid and dramatic. By employing a part time worker with skill, expertise and an ability to focus on the lending role from promotion to collection, FamilyCare more than doubled its lending activity in the first year of securing the additional funds.[4]

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3 Connolly et al, *Measuring Financial Exclusion in Australia* (ibid) p. 24 confirms the take-up of Centrelink advances amongst financially excluded people is relatively high at 28.8%. By way of contrast NILS access is quite low (1.2%). Results are comparable for Indigenous people (page 28)

4 We refer to the increase in loans advanced from 65 in the 2010 calendar year, compared to 130 in 2011, noted in our cover letter.

We are aware of two other community providers that have benefitted from the additional resources in our service area, significantly increasing the availability of NILS loans to consumers in the Goulburn Valley. There is ample room for much more growth.

FamilyCare has greatly appreciated the FaHCSIA resources. The funding improved our NILS and offered the potential for a sustainable future. Unfortunately the recent announcement of a continuation of the funding has seen the proportion of FamilyCare's resource roll-out almost halved. We expect smaller or start-up schemes would have fared much worse on the sliding funding scale applied. We have no difficulty with funding being linked to performance – but if the base for the funding formula is too low, NILS providers will again be faced with the choice of running programs at a loss, or closing them down.

In FamilyCare's submission, having successfully encouraged growth in the NILS sector, the Commonwealth should not diminish or withdraw its resourcing until a viable alternative is found. Doing so not only risks the continued growth of the alternative finance sector, it threatens to throw it into reverse.

Q11 What mechanisms would be most successful in encouraging mainstream lenders to improve access for low-income individuals to small amount loans?

Q12 Would reporting be an effective mechanism for encouraging mainstream lenders to increase their small amount, short-term loan activity and, if so, what type of reporting would be most effective? Is it reasonable to expect financial institutions to support the CDFI sector through their corporate social responsibility activities?

Q13 Should the growth of a CDFI sector in Australia be supported? If yes, what are the base requirements for growth of the sector? Would a UK style financial inclusion growth fund be appropriate mechanism for developing a pool of capital funds that CDFIs could access?

**RESPONSE**

FamilyCare will defer to others better placed to comment on industry design and engagement issues. We would however note the following:

- The breadth, depth and reliability of corporate social responsibility activities was tested in the lead-up to and in the aftermath of the Global Financial Crisis. A mandatory reporting system may encourage additional activity and reduce the potential for non-income-generating initiatives to be cut in times of economic difficulty.[5]
- As well as a diminution in corporate social responsibility activities, the Global Financial Crisis had an adverse impact on the availability of philanthropic funding in Australia, a situation that is yet to fully recover.

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5 A paper presented by FamilyCare's CEO some years ago, which deals with similar issues is annexed.
Tennant D, *Conflict or Opportunity? Community Service Provision and Corporate Social Responsibility*, Hartnell Colloquium (Unpublished paper), Australian National University, Canberra, July 2007

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| Q14 | Can a financial services hub provide a viable alternative to high cost small amount lenders? |
| Q15 | Would a hub approach make services more accessible for individuals who may be reluctant to visit major church providers for assistance? |
| Q16 | Are there other services that could be included in the hub model? |

**RESPONSE**

FamilyCare is aware that a trial community financial services hub recently opened in Geelong, Victoria. We are supportive of the concept and look forward to information about the progress of that pilot and others we understand are still in the planning and development stage.

There are however significant capital development costs in the establishment of hub options – certainly where a physical presence is a central part of the approach. Given that resources are an issue across the not-for-profit alternative finance sector, FamilyCare believes a variety of models and options should be considered and tailored to meet the needs of any given community. For example, we are confident that a community finance hub or hubs could be successfully developed in Shepparton and other places in our service region collocated with and using the infrastructure of an existing community service agency, without significant risk of exclusion because people would feel inhibited in attending an agency of that type. In our submission it is the quality and professionalism of the service being offered that is most likely to be determinative in attracting and ultimately meeting the needs of potential customers.

In relation to the types of services that could be usefully included in, or collocated with a hub model, we believe a proper assessment of local needs and existing infrastructure is a vital preliminary step. To that end and with the needs and recent experience of regional service providers in mind, FamilyCare does not support the concept that all services ending up in the same place, or being delivered by the same provider is necessarily a good outcome. There are specific regional challenges and needs that are not only better catered for by sometimes smaller and specialised regional service providers, it is usually the case that those providers carry valuable history and experience of the communities in which they work. They are also more likely to work openly and cooperatively with colleague agencies, than may be the case in more 'competitive' environments.

FamilyCare submits that there will be occasions where the 'hub' model can be seen as interchangeable with an effective community of practice, particularly in locations where scale will limit the new resources that can be attracted for additional service offerings.

Q17 What are the advantages and disadvantages of debt consolidation loans in relation to the objective of decreasing the cycle of debt for vulnerable individuals?

Q18 Is a not-for-profit debt advice service which includes capacity to implement and administer debt management plans, similar to the one implemented in the United Kingdom, desirable in the Australian context?

Q19 Is a national debt reduction project another potential mechanism for reducing demand for small amount loans? If yes, what type of debts should be covered and what other eligibility criteria for client participation should be applied? Should this be restricted to long term Centrelink customers?

**RESPONSE**

FamilyCare will defer to financial counsellors and credit advocates to provide a detailed response to these questions. An integral part of an effective response to the needs of low income people who are experiencing problems with credit and debt will however always be the availability of counsellors and advocates who have no relationship to or responsibility for the collection of debts.

# Conflict or Opportunity? Community Service Provision and Corporate Social Responsibility

### A paper presented at the Hartnell Colloquium
### Australian National University
### Canberra – 6 July 2007

**David Tennant***

When I was a boy – aged about 6 or 7 I think, I really wanted a bike for Christmas. Santa came through and I got a Repco Safety Bicycle. It was a serious and sensible bike, but not quite the dragster I had in mind. I tried putting racing handlebars on it, adding some cool stickers, put the seat up a little higher than necessary (and frankly than was comfortably usable) but it still was not a dragster – a fact that was repeatedly pointed out by a number of my helpful riding buddies.

What do you do in such a situation? The intended outcome was the provision of a bike and that was what was delivered. Whilst not quite the fashion statement desired, in many ways the Safety Bicycle without pointless additional material like gears, might have been a more appropriate outcome.

Why introduce a presentation considering the interaction between Corporate Social Responsibility (CSR) and community service provision with a long repressed childhood recollection? The fact is that the giving of 'gifts' can sometimes create unintended consequences. The recipient may not want or need the gift but may have no practical way of saying so. Similarly, the giver may be rather more interested in the anticipated kudos from the act of giving than is useful or appropriate. Add extra complications, like for example the gifted article being considered a necessity, even a right and the discussion becomes more complicated.

CSR is more than organised giving. If it were not, the response to the title question might be 'who cares?' There is no way, in my personal view, that effective, respectful engagements between corporations and not for profit community groups can be founded on giving alone. In any event giving is an act, rather than an engagement. Both may be important for a variety of reasons, but they are different.

CSR activities undertaken by industry groups individually or collectively are generally accepted as a social good. Asking whether that acceptance is universally accurate or stands up to more detailed objective analysis can be uncomfortable and challenging. Community groups generally and consumer advocates specifically have

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long called for industry groups to think harder and deeper about their social responsibilities. Many corporate entities have taken up that challenge with some impressive results, some of which will be referred to later.

My intention today is to explore some of the issues community and industry partners might consider in ensuring the ventures they undertake together continue adding value and improving communities in ways that are safe and sustainable. It may seem some distance from a discussion of the legal frameworks surrounding conflicts of interest in commercial settings, but commercial decisions can and do deliver conflicts to others. Community providers seeking to engage with emerging CSR activities should have considered the potential for those activities to conflict with their primary roles.

With evidence mounting that the problems associated with disadvantage and exclusion are increasing in complexity, it is imperative that our understanding of the range of options for response becomes more sophisticated. As one who has worked in a form crisis service provision for over a decade, that has included a requirement to make more informed judgements about the benefits and risks of CSR programs.

## **A whirlwind summary of Corporate Social Responsibility in an Australian context:**

There are many different perceptions about what CSR is. For example, a more expansive view might include informal, often unplanned activities where local businesses or workers engage with their communities in a variety of ways. Those activities can be critically important and long may they continue – but they are more readily characterised as personal undertakings rather than evidence of businesses valuing interactions with the communities in which they operate. Before looking at how corporate Australia recognises and measures its community responsibilities, it is worth briefly considering how those responsibilities come about.

In its submission to a Joint Parliamentary Committee Inquiry into CSR in September 2005, the Consumers' Federation of Australia made reference to the emergence of incorporated business enterprises in Elizabethan England. That reference sought to contrast the priority afforded to profit motives with the historical foundation of corporate entities:

> *The modern corporate era needs to be seen within this evolving context. The concepts of 'limited liability' and the separate personality of the corporation developed in order to further the needs of the state and broader community. We seem to have forgotten this history, so that organisations are now seen as only having obligations to their shareholders. This view shows a fundamental misunderstanding of why organisations exist.*[1]

Whatever the historical foundation, the rise of the corporation encapsulates some of the best and the worst of the development of human civilisation. On the plus side we

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[1] Consumers' Federation of Australia, Submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Corporate Responsibility, Melbourne, September 2005, page 5.

have seen extraordinary and rapid leaps forward in the development and delivery of products and services – from technology, through healthcare, education, what we eat, where we live and so on. The development of those progressions may not have occurred at all or as quickly without the impetus of organised capital. Less positive are glaring disparities in how the benefits of these developments are distributed; those disparities are at their most confronting in comparisons between developed and undeveloped countries.

Even within first world economies however, Australia being no exception, an increase in the quality and range of consumer choices available, is diminished by the reality that the ability to exercise choice is limited across the consuming public. In general, poor and disadvantaged consumers pay more for what they can access[2]. Sometimes they are effectively denied access to basic consumer items the majority of the community take for granted.

Whether it has always been so, or is a more recent phenomenon community attitudes seem very clear that businesses are expected to do more than just make money. In a summary of its Millennium Poll on Corporate Social Responsibility, Globescan Incorporated noted that 49% of those polled considered *social responsibilities* as the factors most influencing public impressions of individual companies[3]. Of greater local interest, respondents from 23 countries voted on the importance they would attribute to the following three choices of priority roles for large companies in society:

- make profits, pay taxes, create jobs and obey all laws,
- operate somewhere between the two positions and
- set higher ethical standards and help to build a better society.

The Australians polled rated making profit the lowest at 8 per cent and setting higher ethical standards the highest at 45 per cent[4].

Regardless of the apparent clarity of public opinion, a formal framework to measure and report on the extra responsibilities corporations are expected to meet is very much a recent arrival. The accounting and audit processes that have evolved around business activities over several centuries have produced ever more detailed requirements for what is reported, how and when. Many of those requirements are formalised in detailed regulatory and reporting structures, in Australia principally through the Corporations and Taxation laws. Some of the most dramatic evolutions in the reporting processes have followed spectacular business failures…and as we have seen in recent years in Australia and on the global stage, the bigger companies have become, the more devastating the potential fallout from such failures.

Measuring and reporting on non-monetary focused activities is a mere pup in comparison to the more traditional corporate reporting processes. *Sustainability Reporting*, the best known and internationally recognised approach, is just over ten years old. It contemplates the social and environmental impacts of doing business, alongside economic indicators producing the now well known concept of *triple*

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[2] A collection of essays investigating the experiences of low income and disadvantaged consumers across a variety of markets can be found in Anna Stewart (Ed), *Do The Poor Pay More?,* Consumer Law Centre of Victoria, Melbourne, March 2005.

[3] Environics International (et al) (now Globescan Incorporated), *The Millennium Poll on Corporate Social Responsibility- Executive Briefing,* New York, September 1999.

[4] *The Millennium Poll,* ibid.

*bottom line reporting*. Even more recent is the *Global Reporting Initiative (GRI)* established in 2002 to develop and promulgate a reporting framework[5]. GRI's latest offering to assist companies that wish to embrace sustainability reporting is *G3*, a guideline consisting of reporting principles, reporting guidance and standard disclosures (including performance indicators).[6] The reporting framework is voluntary, although take up is gathering momentum in what has been a very short period of time.

So how has all of this recent activity in understanding, measurement and reporting on non-economic business activity been embraced in Australia? The current Commonwealth Government likes the idea but clearly and publicly supports the organic and non-prescriptive nature of the developments. In an address to the New South Wales Supreme Court and Law Society Conference in August 2006, the Parliamentary Secretary to the Treasurer noted:

> *Flexibility is one of the strengths of Australia's regulatory framework. Based on a mixture of regulation, co-regulation and encouragement of industry best practice; these flexible arrangements can be tailored to the circumstances of different companies.*
>
> *Australia's regulatory framework generally allows for the officers of a corporation to exercise their powers and discharge their duties in the interests of community stakeholders – provided that this is also in the best interests of the corporation.*[7]

Whether cause or effect, voluntary programs can take a while to catch on. Slow progress has certainly been the experience in Australia. Government's own investigations into sustainability reporting by Australian companies show that we lag behind other developed nations:

> *Reporting rates in Australia are lower than overseas, based on a comparison of reporting by the top 100 publicly listed companies in 16 countries.*
>
> *The average rate of reporting across the 16 countries is 41 per cent, compared with 23 per cent in Australia for the S&P/ASX 100.*[8]

The low rate of reporting is balanced by observations such as those made by Dr Judy Henderson, Chair of the Global Reporting Initiative Board of Directors:

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[5] The Global Reporting Initiative web-site contains a wealth of information: www.globalreporting.org

[6] See www.globalreporting.org/ReportingFramework/AboutG3/. Note also Ernst Ligteringen, *Will the real experts please stand up! The adaptive nature of Sustainability Reporting*, Sustainability Development International, Special GRI-G3 Launch conference edition, Global Reporting Initiative, Amsterdam, October 2006. (Particularly entertaining is Mr Ligteringen's similie to frogs slowly warming in a pot!)

[7] The Hon Chris Pearce MP, Parliamentary Secretary to the Treasurer, *Directors' Duties in Australian Law: The Government's Response to the CSR Debate*, Address to the New South Wales Supreme Court and Law Society Conference, 21 August 2006, page 5.

[8] Australian Government Department of Environment and Heritage, *The State of Sustainability Reporting in Australia 2005*, Canberra 2005, page 2.

*...some of the best examples of sustainability reporting by corporations have emerged from Australian companies.*[9]

There is also plenty of development activity in the Australian CSR space that is yet to find its way into GRI compliant public reporting. That is certainly the case in relation to financial services activities, although currently three of the four major banks are producing and publishing reports on the GRI global database.[10]

## What are the 'risks' in embracing Corporate Social Responsibility?

If CSR were to be a here today, gone tomorrow proposition, it would be hard to pay it too much attention. That does not appear to be the case. In a broader context, especially with growing international recognition of issues like global poverty and climate change, sustainability reporting is likely to develop further and be taken up more broadly.

It is conceivable that current voluntary reporting across environmental and social indicators, in addition to financial issues, could be woven into regulatory systems. Even with CSR activities voluntary and patchy, community groups, including consumer advocates who work with low income and disadvantaged people, are recognising the need to think more deeply about whether and how they will engage with industry groups. Some have actively been doing so for many years. Amongst the most active in CSR activities within consumer networks have been Melbourne-based Good Shepherd Youth and Family Services and the Brotherhood of Saint Laurence. For others the interactions are yet to begin, or in their infancy. What then are some of the risks associated with becoming a CSR partner? To follow are some suggestions from the perspective of an employee in a community agency providing services to low income and disadvantaged consumers.

### a) The business and community sectors are different for a reason:

Partnerships in the provision of community services have built up a head of steam over the last decade, particularly cross-sectoral partnerships with businesses or in undertaking business like activities. Not all of the developments have been welcome within the community sector. Whether as a cause or effect, one of the most positive aspects has however been a growing willingness on the part of community providers to reconnect with the underlying principles of the existence of their services and the strength in staying true to those principles.

Taegen Edwards captured some of the challenges for church agencies in an occasional paper written early in 2006 for Good Shepherd Youth and Family Services. Whilst the comments focus on the relationships between government funders and church-backed community service providers, they have a broader application to any partnership activities, including CSR:

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[9] Dr Judy Henderson, *Perfect Timing – Australia and the G3,* Australian Law Reform Issue 87, January 2006, page 40.

[10] The ANZ, NAB and Westpac all produce GRI reports. The Global Reporting Initiative hosts a global reporting database, accessible at www.globalreporting.org/ReportsDatabase.

*There exists a fundamental clash between church or Christian values – expressed here by church 'mission' – and values associated with the Free Market. Because of the increasing influence of market values on church agencies – especially those under contract with government – the agencies are presented with challenges and choices. There is a challenge to recognise and maintain unique organisational culture, that which distinguishes church agencies from others. There is a challenge to maintain independence or the ability to be clear-minded, autonomous and critical of government where necessary, without concern that this might be in breach of contract or affect future contracts. There is a challenge to operate more like a business in order to compete, to become more professional, efficient, strategic, and accountable, yet to do this in a way that expands the capacity to fulfil the original mission rather than threatens it.*[11]

The Australian financial counselling community is well aware of the dangers in not keeping the compass firmly set on the needs of its low income and disadvantaged client base. There is no shortage of information about the extraordinary credit and debt binge Australian households have embarked upon over the last decade. Personal debt commitments now amount to over 150 per cent of GDP. Not only is the rate of growth unsustainable, some respected economic commentators believe the current level of personal debt represents the hair trigger for a recession[12]. The financial counselling community has struggled to maintain service delivery effectiveness in the wake of the extra demand pressures and complexity that have accompanied the growth in levels of personal debt. Public funding levels have reduced markedly in real terms. Conversely, organised financial counselling in Australia has never to my knowledge attracted as many approaches from potential corporate sponsors and partners than has been the case in recent years. Some of those approaches quite properly acknowledge the risks that personal debt levels may represent for the financial services industry. People who can no longer pay are bad for business.

The leadership shown by other community providers has encouraged financial counsellors to embark on a detailed, robust and transparent national discussion of conflicts of interest and corporate partnerships. A discussion paper has been circulated through financial counselling networks nationally and a significant proportion of a forthcoming national financial counselling conference in Sydney on 25 July 2007 will be devoted to considering the issues[13].

Understanding the risk of conflict fully is not an exercise in navel gazing for community providers. For example, if financial counsellors are to ensure the integrity

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[11] Taegen Edwards, *A Balancing Act or Mission Impossible – Challenges for Church Agencies in the Business of Welfare,* Occasional Paper 1/2006, Good Shepherd Youth and Family Services, Melbourne Victoria, page 18.

[12] Associate Professor Steve Keen of the University of Western Sydney notes in his monthly on-line publication, Debt Watch (July 2007):

> *...there has been an unsustainable blowout in debt relative to income...correcting this imbalance must trigger a recession.*

The July edition of Debt Watch can be found at http://www.debtdeflation.com/blogs/wp-content/uploads/2007/07/KeenDebtWatch200707.pdf

[13] A copy of the discussion paper, *Partnerships with industry and conflicts of interest – March 2007,* can be obtained via AFCCRA's web-site, www.afccra.org.

of the services they provide, most importantly in the eyes of the people to whom those services are provided, developing and implementing appropriate policies on how services are funded is not optional. The current view that the peak body, the Australian Financial Counselling and Credit Reform Association has taken, is that direct industry funding of client services is inappropriate. Models like the development of a suitably independent trust or foundation may provide mechanisms sufficient to maintain the integrity and independence of service delivery.

CSR proposed or delivered without respect and sensitivity for the principles community providers seek to protect endangers those principles. Community providers must recognise the priority of their connections with community and that priority must be respected by those who seek to engage with them. If community providers lose the trust and respect of the people that rely on them for service and support, they not only fail in their mission, but can cause or exacerbate considerable hardship for the vulnerable and disadvantaged.

As much as community bodies need to remember how and why they exist, it is also important to recognise business has other priority obligations. CSR is inevitably ancillary to the normal trading activities of the corporations involved. There can be synergies and overlap, even occasions where CSR activities actually return a profit. But the single, indisputable and central tenet of CSR sustainability in a business model is that the CSR program requires the success of the business to continue, rather than the reverse being true.

With such clear and vocal public expectations about how we want our corporations to behave, public recognition by industry of the limits of CSR can be hard to find. Understandably perhaps, even corporate leaders less comfortable with the forward thinking that sustainability reporting necessarily encourages, would not want to be seen to be swimming against the tide.

A series of articles in a supplement to the Economist magazine in January 2005 did however tackle the hard issues head on. One article in that publication, entitled '*The ethics of Business*' suggested CSR enthusiasts would achieve better outcomes by developing and promoting ethical business conduct. The article concluded:

> *The business of business is business. No apology required.*[14]

A separate article in the same supplement to the January 2005 edition of the Economist suggested the trend toward triple bottom line reporting was actually diluting the value and reliability of reporting mechanisms:

> *The great virtue of the single bottom line is that it holds managers to account for something. The triple bottom line does not. It is not so much a licence to operate as a licence to obfuscate.*[15]

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[14] The Economist, *The ethics of Business,* London, January 2005
[15] The Economist, *The World according to CSR,* London, January 2005

### b) It is the responsibility of governments to govern:

At least as significant as the risks to community and corporate partners in ill-considered CSR initiatives, are the risks that governments no longer feel obliged to meet their responsibilities. In 2006, the Australian Council of Social Services (ACOSS) conducted a series of consultations and produced a report on what Australians consider to be the essential ingredients in making our country a fair place to live[16]. The consultation was split into two parts. The first set of results from around 1600 participants reflected the views of those sufficiently motivated to attend community meetings or to voluntarily complete and return a questionnaire. The vast majority (86 per cent) picked equal rights and responsibilities as the top requirements to make Australia a fair place. The remaining items in the top 10 were, in descending order:

- fair welfare: 84%
- fair education: 80%
- fair environment: 80%
- fair work: 78%
- fair community: 77%
- fair health: 76%
- fair reconciliation: 56%
- fair housing: 52%
- fair services: 50%[17].

The second limb of the ACOSS investigation involved general telephone polling conducted by Roy Morgan Research, asking respondents in an open and unprompted way to list what they consider to be the 10 essentials in making Australia a fair place. From the telephone polling 8 of the 10 essentials reported in the ACOSS consultation reappeared. Perhaps more interesting and as reported by Roy Morgan Research:

- *Almost everyone agrees that all Australians have the right to an acceptable standard of living (94%);*
- *The majority agree that the Government has a responsibility to make sure everyone has a fair go (82%).*[18]

From the ACOSS research we can conclude with some certainty that there is a high degree of consistency across the Australian population on what we think is fair. We can also safely assume that as a nation Australians think government plays a significant role in establishing and maintaining fairness. Although I am not aware of any specific polling comparing public expectations of business responsibilities to government responsibilities, I suspect there are key differences. We might want and expect both businesses and governments to behave fairly, but in a broader societal sense we are more likely to hold governments responsible for delivering and maintaining acceptable levels of fairness across the community.

*'The ethics of Business'* article referred to earlier also makes some interesting observations contrasting the roles and responsibilities of governments and businesses:

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[16] Australian Council of Social Services (ACOSS), *10 Essentials to make Australia Fair Report*, Redfern, 12 November 2006.
[17] ACOSS, ibid, pages 2-4.
[18] ACOSS, ibid, pages 5&6.

> *...businesses should not try to do the work of governments, just as governments should not try to do the work of businesses. The goals of businesses and the goals of government are different – or should be. That, by the way, is why 'partnerships' between the two should always arouse suspicion. Managers, acting in their professional capacity, ought not to concern themselves with the public good: they are not competent to do it, they lack the democratic credentials for it, and their day jobs should leave them no time to think about it. If they merely concentrate on discharging their responsibilities to the owners of their firms, acting ethically as they do so, they will usually serve the public good in any case.*
>
> *The proper guardians of the public interest are governments, which are accountable to all citizens.*[19]

The preceding views might be considered as representing a hard-nosed and largely outdated economic rationalist view. If we look however at what we expect our governments to deliver in ensuring the society in which we live is safe and fair, particularly for the vulnerable and disadvantaged, we can reasonably ask whether those elected officials are letting us down in substantial ways.

Evidence of fundamental failures to address problems confronting the most vulnerable members of our communities seems to be increasing. Those who have devoted their working lives to understanding and assisting people to overcome disadvantage often express intense frustration at not only a lack of progress but an apparent lack of commitment. An example of that frustration can be found in comments made by Professor Brian Burdekin at the launch of the National Youth Commission into Youth Homelessness in Sydney in March 2007. Professor Burdekin lamented the ongoing and increasing incidence of long term homelessness:

> *What is government doing about this? You can't just sit back and ask civil society, as it is loosely called – and I mean when I use that phrase, the church and philanthropic and non-government sector, as some of the key service providers to actually be responsible for the policy settings. We, as a country, go off and solidly ratify these international conventions which say everyone has the right to food, everybody has the right to shelter. These are fundamental human rights. I was saying an hour or so ago on the national media, if you haven't got safe, secure accommodation, the rest of human rights are pretty academic.* [20]

How governments deliver, or fail to deliver on social policy responsibilities can be directly relevant to the design of safe and sustainable CSR. Ironically, the safety and fairness of our communities might in the long term be diminished by replacing the role of government with the insertion of corporate resources.

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[19] The Economist, *The ethics of Business,* ibid.

[20] Professor Brian Burdekin, *Transcript of speech at the launch of the National Youth Commission into Youth Homelessness,* The Salvation Army Youth Support Network, Sydney 8 March 2007, page 4.

### c) The need to produce structural solutions to market dysfunction or unfairness:

Consumer advocates have been consistent in their observations that the benefits of growing and competitive markets are not shared evenly. As noted earlier, the poor and disadvantaged frequently pay more for what they can access. Sometimes no safe or fair options are accessible to them at all. These are structural problems that require structural solutions. With the right set of commitments and broader industry buy-in CSR might be part of a structural solution, but will rarely represent the complete answer. There are a variety of reasons why, for example:

- sometimes the problems represent failures or absences in social policy and, as suggested earlier, require leadership from governments, and
- companies interested in CSR generally come from more mature industry sectors and have a strong interest in protecting their public reputation (unlike many of the businesses that seek to exploit vulnerability and disadvantage).

It may also be the case that the structural problems are to be found within industry, making it less likely that industry groups alone can recognise those problems or deliver solutions in an appropriate or timely manner. Take for example the problems in the financial planning industry. Current ACCC Deputy Chair Louise Sylvan described that industry as *'structurally corrupt'* in 2003, while she was CEO of the Australian Consumers' Association.[21] The more recent problems with Westpoint and FinCorp suggest that not much has changed in the intervening years.

The global scandal created in the wake of revelations that the Australian wheat trading organisation AWB Limited took part in organised bribery and corruption in sales of wheat to Iraq is another high profile example of a structural deficiency. It might be tempting to conclude the conduct of AWB is limited to just that company in the particular set of circumstances prevailing at the time. An article by the Centre for Australian Ethical Research suggests otherwise:

> *Approximately half of the companies on the S&P/ASX 100 have policies prohibiting bribery and less than one quarter have policies on regulating facilitation payments. This does not compare favourably with the percentage of companies prohibiting bribery in comparable markets overseas. Of the top 100 companies by market capitalisation in the UK, 92% explicitly prohibited giving and receiving bribes. In Europe the figure is 91% and the US it is 80%.*[22]

So too are there types of market conduct that cannot and should not be rendered acceptable by the fact that the companies engaging in that conduct are active in CSR. British American Tobacco produces very impressive CSR reports. As a corporation it produces and disseminates a product that is responsible for preventable deaths.

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[21] These comments were made in 2003 to coincide with a joint ASIC/ACA shadow shopping report. An article by Louise Sylvan entitled *The financial planning industry, 2002-2003* can be accessed through the Choice web-site www.choice.com.au.

[22] Centre for Australian Ethical Research, *"Just how business is done" A review of Australian business' approach to Bribery and Corruption,* Report Number 1 2006, Canberra, 8 March 2006, page 3.

**CSR activities can and do produce some impressive results:**

There have been some fabulous results delivered through CSR partnerships in Australia. For example, in the financial services area with which I am most familiar, no and low interest lending as vehicles to provide safe, fair credit options for low income and disadvantaged consumers to purchase essential household goods have provided obvious high points. The range and accessibility of such programs have expanded markedly in recent years[23].

No interest loans are a more natural fit with the philosophy and design of not-for-profit community service provision. There is no fee levied for the provision of the credit that facilitates the purchase of essential items. Instances of default, which are very low anyway, do not result in formal collection activity and there is a genuine sense that the lending pool is a community asset, recycling capital to the benefit of all.

The community groups that pioneered no interest lending in Australia decades before the corporate dollars arrived did not need convincing of the benefits. Recent and substantial investment in NILS provided by the National Australia Bank has encouraged and facilitated growth of an ever more sophisticated national network of providers, ensuring the service benefits are spread much wider. It also appears that the leaders in the emerging national network are well aware that its strength lies in the central philosophy of NILS, rather than in its growing size.

Low interest lending, which often means providing access to credit at prices more commercially attractive consumers take for granted, has also been highly successful, but presents more challenges for the community and commercial partners involved. The results on rates of repayment can be just as impressive as those produced by NILS, but because there is a fee or charge made for the credit, there is an increased focus on making a business case to ensure continuity.[24] The community partners involved also need to be mindful of appropriately separating their fee free activities, from otherwise commercial products.[25]

In a 2005 article in the Macquarie Law Journal, Nicola Howell and Therese Wilson of the Centre for Credit and Commercial Law at Griffith University explored the connections between financial exclusion, access to consumer credit and Australia's

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[23] The National Australia Bank has played a significant leadership role in the development of No Interest Loans Schemes, resourcing national forums for providers for a number of years and committing $10 million toward lending capital over the 05-06 and 06-07 financial years.

[24] See for example: Rosanna Scutella and Genevieve Sheehan, *To their credit – Evaluating an experiment with personal loans for people on low incomes,* Brotherhood of St Laurence, Melbourne, May 2006. 170 loans were provided to a value of almost $200,000 with a default rate of a mere 0.9 per cent. The program still required a subsidy from the commercial partner of over $100,000.

[25] This is an issue that has exercised the minds of agencies that provide fee generating loans and financial counselling in particular. It will no doubt arise in the follow up to the AFCCRA discussion paper *Partnerships with industry and conflicts of interest* (ibid). The discussion will benefit from policies such as those developed by Uniting Care Wesley Mission in Adelaide, a provider of Step Up loans and financial counselling, setting out ways to maintain the integrity and separation of the different service options and approaches.

current regulatory framework.[26]The authors suggested a mix of reform options would be needed to ensure any significant expansion of lower cost (in this instance meaning affordable, rather than exploitative) credit for low income consumers:

> *Reform to corporate, financial services and consumer credit regulation is needed to:*
>
> - *create space for the development of voluntary initiatives by both community and for-profit organisations without the fear of inappropriate regulation;*
> - *explore ways in which corporate social responsibility can be better accommodated within existing corporate structures;*
> - *impose obligations on mainstream providers to meet the finance needs of financially excluded consumers; and*
> - *ensure that exploitative products are simply not available in the marketplace.*[27]

Whether the list Howell and Wilson have suggested is correct or complete is a discussion for another day. Directly relevant to the question of whether CSR can be safe and sustainable is the cascading mix of those suggestions. If CSR adds to, further investigates or refines responses to problems that the market left alone has created or failed to fix – then the effort should produce something tangible and lasting. It is not necessarily the responsibility of CSR partners to take those next steps, or to design the responses, but it is of vital importance to share the experiences of the engagement, good and bad, to inform the ongoing development of safer, fairer markets.

Setting aside actual program design and delivery, the success of CSR interactions can be at its best, in my opinion, when the engagement goes beyond the boundaries of just the identified CSR activity. Community groups have an opportunity to communicate more direct messages to the designers and delivers of commercial products and services. The commercial partners get to hear that information in a less filtered and managed way than marketing departments would ever produce or allow. The results can be significant, shifting markets in ways that benefit consumers who have been left behind or ignored, in ways few consumer advocates would have thought possible.

There are some excellent recent examples of this value adding to CSR energy in the financial services world:

a) The ANZ's development of responsible lending guidelines has set a substantial challenge to the rest of the banking sector. By not making offers of new credit cards or increased limits to customers in receipt of benefit incomes only, the ANZ has raised the bar on appropriate industry conduct. Perhaps more importantly, the initiatives have confirmed what many consumer advocates have been suggesting for some time – that it is possible to cross match customer information from different classes of products with sufficient investment of time, resources and will.

[26] Nicola Howell and Therese Wilson, *Access to Consumer Credit: The Problem of Financial Exclusion in Australia and the Current Regulatory Framework,* Macquarie Law Journal (2005) Vol 5, page 127.
[27] Howell and Wilson, ibid, page 148.

b) The evolution in the design of low cost transaction products that has been undertaken by the NAB is not just significant for the Bank, but given its size and relative market share, significant for the entire country. Originally criticised for inserting unnecessary hurdles for low income consumers to access its basic accounts, the NAB has not only largely removed those hurdles, it has taken an important market leadership role in removing default fees on those accounts.

c) The CBA has undertaken useful research into young peoples' attitudes to money, mobile phone usage and so on. There is little point designing financial literacy programs without an informed view of needs and attitudes.

Each of the examples referred to have been informed by the efforts of the Banks mentioned to *engage* with the needs of low income and disadvantaged consumer groups. Giving money, resourcing new programs, producing CSR reports are all important. Above all of those, real engagement with the needs and experiences of communities is more likely to influence corporate culture into the future.

## <u>So how *safe and sustainable* is Corporate Social Responsibility?:</u>

The late economist Milton Friedman is credited with popularising the phrase *there is no such thing as a free lunch.* [28] Friedman was not exactly a CSR convert, suggesting that spending corporate money on social causes that did not return value to shareholders would represent a violation of management's responsibilities.[29] Those views are not just contained to the rationalist end of the economics community. The Australian Shareholders Association largely agreed in the following comments:

> *...firms should not generally give without expecting something in return...in most circumstances, donations should only be made in situations that are likely to benefit the company through greater market exposure.* [30]

The challenge for community providers considering whether and how to engage with CSR in an appropriate way can be met by a balanced approach:

- Not too dismissive, so as to refuse to recognise the important steps forward achieved through CSR activities and the communications that have evolved around those activities.
- At the same time not so enthusiastic as to fail to properly analyse the root causes of problems and to in turn insist on long term solutions.

The clients of community service providers should be able to benefit from the best that the CSR landscape has to offer. At the same time accessing those benefits should not diminish the importance of providing long term, structural solutions to structural problems or reduce the responsibilities that governments correctly bear to make

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[28] Robert Marks, *Milton Friedman,* AGMS Magazine (Article), Issue 2/2006, 13 December 2006.
[29] Howell and Wilson, ibid, page 144.
[30] Howell and Wilson, ibid, page 144. Quoting ABC news story, *Shareholder Group Opposes Tsunami Donations,* 18 January 2005 – available at http://www.abc.net.au/newsitems/200501/s1278005.htm

communities fair for everyone. Most importantly, the vulnerable and disadvantaged for whom community service provision offers a lifeline should be able to feel confidence that the providers hold their interests paramount and not the interests of any corporate donor, no matter how well intentioned.