MEASURING THE IMPACT OF MICROFINANCE ‘MONEY CONVERSATIONS’ ON FINANCIAL CAPABILITY: A TRIAL STUDY

METHODOLOGICAL REPORT AND PILOT FINDINGS
This report was commissioned by the Australian Government’s Department of Families, Housing, Community Services and Indigenous Affairs.

The paper is authored by Tanya Corrie, Good Shepherd Youth & Family Service on behalf of Good Shepherd Microfinance.
The ‘financial conversation’ is the first important step people take when they apply for a no-or-low interest loan through a Good Shepherd Microfinance accredited community agency. Over the past year, there have been over 50,000 conversations had between a potential No Interest Loan Scheme (NILS) or StepUP borrower and a loans worker.

Good Shepherd Microfinance does not know as much as it could about the immediate and long term impacts of this conversation on people’s money management skills, financial knowledge and behaviours. This report, Measuring the Impact of Microfinance ‘Money Conversations’ on Financial Capability: A Trial Study, is a big step in addressing this gap, especially what to measure and how to measure it.

Previous research done by Tanya Corrie in Microfinance and the Household Economy (2010) has shown that NILS or StepUP borrowers who have been unable to access mainstream credit or who have been previously declined loans from mainstream banking report a tremendously positive impact on being approved for a NIL or StepUp loan. For some, this is often the first time they have felt valued and trusted as a person in the mainstream financial system. In terms of increased financial capability, less is known.

Given the number of ‘money conversations’ had each year connected to a NILS or StepUP loan application, Good Shepherd Microfinance needs to find out more about how this conversation makes a difference. This includes knowing more about what is learnt by a person in terms of budgeting, designing a savings plan, managing bill payments, bill smoothing and knowing entitlements to hardship programs.

Preliminary results from this pilot study are very encouraging. Compared to before the ‘money conversation’, people say that they are much less likely to use payday lenders. Other changes are that they feel better prepared and have more confidence to deal with the banking system, are more likely to save money, and know more about how to access hardship entitlements in relation to power and phone bills.

The next step with this report is to take its questionnaire and method and apply it to a statistically significant group of people who have a ‘money conversation’. As part of Good Shepherd Microfinance’s Research Strategy, we will be scaling up this pilot study to roll out to our network of NILS and StepUP providers during 2013.

The ‘money conversation’ is a crucial area in the suite of services provided to low income people that we can learn more about. At Good Shepherd Microfinance, we are constantly refining how to better support people on low incomes with microfinance. This report helps us take further steps towards realising Good Shepherd Microfinance’s vision of a more financially inclusive Australia where there is fullness of life for all people to live in connected, resilient communities.

Dr Anton Mischewski
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EXECUTIVE SUMMARY

The aim of this project was to develop and trial which indicators and data collection methods best measured the impact of a ‘money conversation’ (which takes place during a microfinance application) on the financial capabilities (money management skills, knowledge and behaviours) of microfinance loan applicants.

Research to date into the outcomes and impacts of microfinance programs in Australia has been largely qualitative, exploring the complexities of people’s experiences of money and financial exclusion through their life courses and what this means beyond just material constructs. Although this research has identified a linkage between access to microfinance and improved individual financial capabilities, there has been relatively little work on the identification and quantification of the components in the relationship. There is certainly qualitative evidence that improvements in financial capability (defined by personal money management skills, knowledge and behavioural indicators) occur when there is a social and economic context that enables people to exercise their agency. However what is relatively unknown, and which formed the key questions of the research reported here, is:

1. How best to quantify and measure the three indicators of financial capability?
2. What impact does access to microfinance have on financial capability?

Historically, the primary aim of microfinance has been to alleviate poverty in developing countries (the most well-known example being the Grameen Bank in Bangladesh). However, within the Australian context, the concept of microfinance is quite different. Although many programs exist for the purpose of supporting income generation – particularly for small business (microenterprise), to alleviate poverty and improve quality of life, the Australian focus is also on the reduction of financial exclusion. People who are on low incomes can therefore access a range of financial services that they would not necessarily access in the mainstream financial market. These include small loans (microcredit), savings accounts (microsavings), general insurance (microinsurance) and other essential financial services.

As one of the first in the field, Good Shepherd has been providing microfinance to disadvantaged communities in Australia since the early 1980s. A particular focus of Good Shepherd Microfinance has been the development of new and innovative ways of responding to financial exclusion. Initiatives such as the ‘Good Money’ hubs, Home Energy Savings Efficiency schemes, and an online buying service are some of the recent developments designed to address the alleviation of financial exclusion, in addition to the upskilling and sustainability of clients’ financial capabilities.

As Good Shepherd Microfinance scales up, and demand for services increases, it is now relevant to examine the factors that contribute to financial capability and how access to microfinance may impact on those factors. The research reported here, therefore aimed to contribute to a greater understanding of the impact of microfinance on the financial capabilities of applicants. More importantly, it sets a methodological benchmark in the field of evaluation and measurement of the impact of microfinance. Specifically, in this trial study, we focus on developing a survey instrument to measure the impact of the interactive “money conversation” that ensures between a microfinance loan applicant and the microfinance provider.

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1 Financial exclusion’ refers to an inability to access mainstream banking services for a variety of reasons, with low income a primary factor.
2 To date, there are three programs in operation - No Interest Loan Scheme (NILS); StepUP, a low interest loan scheme run in partnership with the National Australia Bank (NAB); and AddUp, a matched savings program also run in conjunction with the NAB.
The research was conducted over three phases:

**Phase 1:** Construction of a survey instrument to adequately and rigorously measure indicators of financial capability

**Phase 2:** Trialling and refinement of the survey instrument and the best way to administer it; as well as the most appropriate way to develop a baseline measure with which to compare

**Phase 3:** Conducting a pilot study of the survey instrument to gather initial results of the financial capability of those who had accessed microfinance

The five components of financial capability that were used in the survey were based on those identified in research work (UK): Money Management, Planning Ahead, Making Choices, Getting Help and Strategies

The key component of the context of access to microfinance was the "conversation" conducted between the applicant for microfinance and the provider of the microfinance service. It was posited that the 'money conversation' would positively impact on financial capabilities because people would be able to talk about, and access, information about their own money situation, thereby improving their confidence and their money management skills, knowledge and behaviours (i.e. financial capability). Similarly, access to appropriate financial services in and of itself has been show to positively improve this confidence.
SURVEY INSTRUMENT DEVELOPMENT:

The most appropriate and rigorous way of surveying participants was to conduct a pre and post test questionnaire, rather than asking people to retrospectively rank their financial capability six months prior against their current capability. Although the Phase 2 questionnaire allowed for a measure of individual improvements – or how many people experienced a shift – it relied on people’s memory and could not be necessarily internally validated.

Therefore the final instrument that was trialled in Phase 3 did not include six month retrospective questions. The final survey was designed so the same instrument could be used with individuals both before and after applying for microfinance to test whether there was any improvements post application.

RESULTS OF SURVEYS

The result of the trialling of the survey instrument in Phase 2 and 3 indicated that there was an improvement in financial capabilities as a result of the financial conversation. Most reported an improvement immediately after the application process.

There was a positive shift in all of the knowledge indicators, particularly when it came to dealing with banks and where to go to ask questions pertaining to money. This change was experienced across all of the measures. From knowing where to go if there were questions about money, 40 per cent felt they had a high level of knowledge prior to the application, and 58 per cent afterward.

The challenges experienced by respondents in financial knowledge were the rising cost of living and an insufficient income to meet those costs. Another barrier identified was too much fine print. When respondents had money left over, they tended to leave it in a savings account or save it in cash at home in almost equal proportions (25% and 26% respectively).

There was a noticeable increase in the number of respondents who put leftover money aside in a savings account in the Phase 3 responses. This could be attributed to there being a sample of respondents who had taken part in the AddsUP program in the post-test, where there were not any AddsUP respondents in the pre-test.

Only a small portion of respondents would borrow from a payday lender or sell or pawn goods if they were short of money. This indicates that the money conversation could help respondents to better understand their financial options. It also indicates the benefits of microfinance in providing safe options such as purchasing or fixing cars or other irregular expenses that many seek payday loans for. The main barrier to adopting financial skills was identified as the increase in cost of living, making budgeting and putting money aside more difficult as their earnings were no longer adequate.

Overall, the research showed that there is a link between the microfinance money conversation and improved financial capability, and that the extent of this improvement can be quantified. It also demonstrated that loan workers are having important ‘money conversations’ with borrowers, and that these increased many participants’ financial capability. However, there needs to be further scoping as to what is actually covered during the financial conversation in order to develop a more comprehensive picture. The diversity in the network means that further studies are needed to describe the different types of money conversations. This will ensure that each conversation type is represented in future research samples and to perhaps check which conversation ‘types’ are most effective and for whom.

It is important that both the individual and structural aspects of financial capability are taken into account when developing responses to address its causes and impacts. Empowering consumers with the right financial skills and knowledge is only one part of the puzzle. It is also imperative to understand and develop strategies to address the factors that cause financial exclusion in the first place. Challenges such as low income relative to cost of living, too much fine print in financial services disclosure statements and the structure and availability of financial information also need to be addressed. Microfinance programs need to retain their flexibility while responding to emerging needs in their communities. Attention needs to remain on addressing the structural causes of inequality and not just dealing with its consequences.
RECOMMENDATIONS

METHODOLOGY RECOMMENDATIONS

Recommendation One:
Good Shepherd Microfinance conducts a scoping exercise to map and develop a typology of approaches to microfinance programs nationally.

Recommendation Two:
Future surveys should conduct a pre-test with respondents who have not yet participated in the microfinance application process, in order to develop an appropriate baseline against which to measure change.

Recommendation Three:
In future surveys, post-application questionnaires should be conducted, ideally with the same group as interviewed in the pre-test, to quantify any change in financial capability.

Recommendation Four:
In future surveys, post-application questionnaires should be conducted with all applicants, irrespective of whether or not they are approved for microfinance, in order to measure both the impact of the conversation as a stand-alone intervention, as well as the combination of the conversation and the loan.

Recommendation Five:
Good Shepherd Microfinance should collect and report on borrower data in order to develop an appropriate sampling frame which takes into account variations in program type, geography and participant demographics.

Recommendation Six:
Changes should be made to agreements for Good Shepherd Microfinance providers to allow for external research organisations contracted by Good Shepherd Microfinance to conduct population-based surveys, in order to overcome potential barriers of multiple ethics approval applications.

Recommendation Seven:
Future surveys should retain subjective evaluations of participants’ perceived financial capabilities.

PRACTICE RECOMMENDATIONS

Recommendation Eight:
Models of microfinance service delivery should work from a client’s strengths base and recognise existing capabilities when engaging in financial conversations.

Recommendation Nine:
The diversity and flexibility of microfinance programs should be retained and better understood in order to respond to individual and local needs.

POLICY RECOMMENDATIONS

Recommendation Ten:
Government supports community-based financial education for vulnerable groups at different points in time, to both support people in financial hardship, as well as in its prevention.

Recommendation Eleven:
Financial exclusion and financial capability should be seen in the broader context of the need for income adequacy to meet cost of living pressures, and adequate financial services regulation.

Recommendation Twelve:
The government and/or the community sector should conduct research into what participants are ‘going without’ in order to make ends meet to validate whether this is in fact a ‘positive’ behaviour.
1. INTRODUCTION

Research has shown that access to microfinance can improve participants’ self-esteem, their capacity to forward plan, and can afford them the opportunities to participate socially and economically.

Research to date into the outcomes and impacts of microfinance programs in Australia has been largely qualitative, allowing for the exploration of the complexities of people’s experiences of money and financial exclusion through their life courses and what this means beyond just material constructs. This includes analysis of felt benefits that are more difficult to quantify. Qualitative analysis has enabled a deeper understanding of the supports and systems that enable people to make positive changes in their lives and how these interact with one another. It has also allowed for there to be a linkage made between access to microfinance and improved individual financial capabilities – the combination of personal money management skills, knowledge and behaviours people have at their disposal and a social and economic context that enables people to exercise their agency. What is relatively unknown, however, is the extent of this impact and for how many people this impact is experienced.

The research outlined in this report seeks to fill this gap in knowledge, and explore the most appropriate and methodologically sound ways to measure the impact of microfinance on financial capability. The iterative process that was undertaken seeks to develop indicators and methods for collecting information on participants’ financial capabilities, and to measure whether there was any improvement in these as a consequence of participating in microfinance programs. More specifically, it is explored whether the ‘money conversation’ that is posited to occur during the application process supports people in developing their skills, knowledge and behaviours; what barriers people experienced in improving their capability; and what supports are used in the event of a shortfall in funds or when there is money left over.

1.1. Research aims and objectives

The aim of this project was to test which indicators and data collection methods best measured the impacts the microfinance ‘money conversation’ had on the financial skills, behaviours and strategies of participants in relation to money management. Specifically, the objectives were:

The development of indicators

- To develop quantitative indicators by which to measure impacts of microfinance on participants’ skills, knowledge and behaviours
- To ensure these indicators were tested, valid and based on evidence
- To ensure these indicators were easily understood by participants, and were applicable to their life context
- To ensure that the indicators were robust enough to allow data collection on a large scale.

The development of appropriate data collection instruments

- To develop data collection instruments that would allow for any changes in the skills, knowledge and behaviours to be measured
- To develop a framework of data collection to measure impacts over a longer term
- To develop data collection instruments that were valid and methodologically robust
- To develop data collection instruments that allowed for a variety of completion methods.

The development of an understanding of challenges faced in applying skills, knowledge and behaviours

- To ensure that indicators did not assume a low base of participants’ skills, knowledge and behaviours that needed to be improved
- To better understand the challenges faced in applying different financial skills, knowledge and behaviours for further development of the microfinance ‘money conversation.’
1.2. Assumptions

The research is based on the assumptions that:

- Microfinance workers engage in a money conversation as a part of a microfinance application
- This conversation allows people to further develop their financial capabilities
- There is a large variation amongst microfinance participants’ financial capabilities
- Participants need to have a basic level of financial capability to begin with in order to be approved for microfinance.

1.3. Microfinance

Microfinance is a “set of tools, approaches and strategies addressing the needs of people who are financially excluded” (Burkett & Sheehan, 2009, p v). It offers people who are on low incomes access to a range of financial services that they would not necessarily be able to access via the mainstream financial services market. This includes access to small loans (microcredit), savings accounts (microsavings), general insurance (microinsurance) and other essential financial services.

The purpose of microfinance is to alleviate poverty, not to further entrench it (Burkett & Sheehan, 2009, p 7). To this end, microfinance needs to be appropriate, safe and affordable. In the absence of these caveats, products and services that further marginalise and disadvantage people might erroneously be considered microfinance. Payday loans, for example, are not microfinance. Although they provide access to credit to people on limited incomes, their higher costs can lead to hardship and further entrench a negative cycle of debt.

Microfinance is perhaps best known in the context of developing countries. There are microfinance organisations such as Grameen Bank in Bangladesh, as well as many other microfinance programs internationally, in countries such as India, the Philippines and Cambodia. The focus of these programs is generally income generation. They provide the very poor with small loans for the purpose of improving their capacity to earn extra income in order to repay the loan. They also tend to run on an economically ‘break-even’ model. This means interest and fees are applied to the loan and are often at a higher rate than would be charged by mainstream banks. This model of sustainability is necessary in the developing world to keep the programs operating.

In the Australian context, the concept of microfinance is quite different. Although there are many programs that exist for the purpose of supporting income generation – particularly for small business (microenterprise) – there are fundamental differences in the way programs are designed. While in both the international and Australian contexts microfinance is designed to alleviate poverty and improve quality of life, in Australia the focus is placed on its role in reducing financial exclusion, as opposed to directly allowing a greater earning capacity, although in fact the latter is also one of the impacts often experienced.

Burkett and Sheehan identify links between sustainability, impact and scale and state that “a sustainable program is likely to be one that can also demonstrate clear impacts over time, and that has sufficient scale and depth of reach so that these impacts can be achieved sustainably over time” (Burkett & Sheehan, 2009). In the case of Good Shepherd Microfinance, it has scaled up to a point that it is now timely to create a quantitative measure of its impacts.

1.4. Good Shepherd Microfinance

Good Shepherd has been providing microfinance to disadvantaged communities since the early 1980s. To date, there are three programs in operation - No Interest Loan Scheme (NILS); StepUP, a low interest loan scheme run in partnership with the National Australia Bank (NAB); and AddsUP, a matched savings program also run in conjunction with the NAB.

Initially embedded within the Good Shepherd Youth & Family Service organisation, a new Good Shepherd entity, Good Shepherd Microfinance has been established on the back of the increasing recognition of microfinance and its increasing scale. The organisation oversees the management of Good Shepherd microfinance programs nationally, and works on developing new and innovative ways of responding to financial exclusion. Initiatives such as the ‘Good Money’ hubs, Home Energy Saver Scheme (HESS), and an online buying service are some of the recent developments in addressing financial exclusion.
No Interest Loan Scheme (NILS)
In 1981 Good Shepherd Youth & Family Service started its first microfinance program in Collingwood, Victoria. In seeking to assist young women establish independent living, Good Shepherd offered the women no interest loans to purchase essential household items. This fair and equitable model of credit was based on a commitment to upholding individual dignity and respect, with the loan payment arrangements made in consult with recipients, and based on a person’s capacity to repay. The No Interest Loan Scheme (NILS) offers people on low incomes the opportunity to access credit that is safe and affordable. People in receipt of a health care card or a pension card are eligible to access the loans. There are no interest, fees, or charges applied to the loan.

The focus of NILS is asset building, allowing people on limited incomes to purchase essential household items. There is a great deal of flexibility in terms of what is considered essential, and purposes can range from whitegoods through to lawnmowers. The program operates on the idea of ‘circular credit.’ As loans are repaid, the money is lent out to other members of the community. Loans are usually $800 to $1200 and the repayment period is usually around 12 to 18 months. Generally, the maximum loan amount is $2,000 depending on the purpose and the circumstances of the borrower. Repayments are normally made through Centrepay - a system by which deductions are made directly from Centrelink entitlements to meet essential expenses prior to their being deposited into participants’ bank accounts. This is a large part of the reason there is a low rate of defaults for the program, and supports its sustainability.

In July 2011-June 2012, there were 19,925 loans given out, totalling $17,969,015.

StepUP
StepUP is a low interest loan operated in partnership with NAB and can be used for many purposes, including cars, car repairs, whitegoods and other necessities.

StepUP was purposefully designed to fill the gap that exists between NILS and mainstream credit. The loan is delivered using a community corporate partnership model with community workers assisting clients through the application and budget process. It is different from NILS in that the application is assessed by the bank, the client enters into a credit contract and the loan is regulated under the Consumer Credit Code. Regular statements are received, and the client undergoes a credit reference check (NAB, 2008).

StepUP offers unsecured loans from $800-$3000 at 3.99 per cent fixed interest for the term of the loan, which is up to three years. It is currently offered at 38 locations nationally.

Sixty two per cent of borrowers are women, and ten per cent of borrowers identify as Indigenous. On average, ninety-five per cent of loans are paid back in full. Last year (2011-2012) there were approximately 1,700 loans given out, valued at $5,173,200.

AddsUP
AddsUP is a matched savings program also run in conjunction with NAB. Clients are eligible for an AddsUP account if they have successfully paid off, or are paying off, a NILS or StepUP loan and hold a health care card or are on a low income. Money paid to service the NILS or StepUP loan can be paid into a separate savings account, where the NAB will match savings up to $500, one time only, for people who have been able to save more than $300. There are no restrictions as to when clients access their savings, nor for what purpose (National Australia Bank, 2012).

In the last financial year (2011-2012), there were 695 referrals for AddsUP, with 591 account opened. Of these, 272 were matched, with a total matched value of $134,865.

1.5. Policy context
The concept of microfinance has existed as early as the 16th century however the term itself originated in the 1970s with the establishment of the Grameen Bank in Bangladesh (Cabraal & Russell, 2006). The movement gained momentum throughout the 1980s and early 1990s as a consequence of the economic conditions experienced at the time, which saw “the retreat of the financial services industry from poorer and more disadvantaged communities” (Leyshon & Thrift, 1994, p. 268). In Australia, the process of deregulation of the banking industry in the 1980s left many disadvantaged consumers with little or no access to appropriate financial products. Paradoxically, although credit became cheaper with increased competition (Singh, 1992, p. 52), and access to credit or being in debt became increasingly normal and almost a necessity to participate in economic life (Burkett & Sheehan, 2009.), those most vulnerable were either excluded altogether, or indebted with inappropriate and higher interest rate products (Leyshon & Thrift, 1994; Singh, 1992). Difficulties in paying back debt lead to defaults, punitive interest margins, and further financial vulnerability (Ryan, 1992).

Given this, options such as microfinance were seen as a way of addressing this financial exclusion, and as a means to enable people on low incomes to access credit that was appropriate for their needs. An array of microfinance programs offered primarily through community organisations and other not-for-profits emerged in Australia. These ranged from small loans for enterprise development or essential household goods, through to community savings programs.²

³ See Burkett, I and Sheehan, G, 2009: 34-55 for more information.
The corporate landscape has also changed in this time. Since the 1980s, there has been a greater acceptance of ‘Corporate Social Responsibility’ as part of good business practice. The recent Global Financial Crisis has placed an even greater emphasis on corporate governance and responsibility, particularly in the banking sector. While there are still gaps in service and product delivery by mainstream financial service providers for financially vulnerable consumers, there has been a significant investment by banks to assist in building microfinance initiatives to remedy this. To this end, the major banks have injected a significant amount of funding and capital to microfinance. National Australia Bank (NAB) has supported many microfinance initiatives nationally, and provided $22 million in NILS capital funding, alongside funding for forums and training and the provision of other microfinance programs. NAB also fully fund the StepUP program.

Australian Governments have also shown their support for microfinance programs. The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) provided funding for a number of microfinance initiatives to build financial capability and inclusion through the federal government’s stimulus package in 2009 including:

- $80.4 million for emergency relief and financial counselling
- $50 million for money management initiatives

Of this funding, Good Shepherd was given $18.5 million for grants to accredited providers of NILS, an increase in StepUP service locations and the expansion of AddsUP. The 2011 announcement of an $18 million commitment over three years from the Federal Government to Good Shepherd Microfinance programs across Australia ensures them continuing sustainable microfinance programs across Australia.

1.6. Financial exclusion

Financial exclusion is a combination of “insufficient income to participate successfully in a market based economy” (Landvogt, 2006, p. 3) and processes that prevent poor and disadvantaged social groups from gaining access to the financial system. Safe and appropriate financial services for people on low-incomes are essential components of addressing financial exclusion.

Financial exclusion is a multi-faceted condition. It is about more than just access to financial services. In Australia, few people are ‘unbanked,’ meaning they do not have access to any financial services at all. This is primarily because it is necessary for people to have a transaction account at the very least in order to receive Income Support Payments. This is all the more reason why other elements of financial exclusion need to be understood.

A description of financial exclusion that incorporates the ‘Five As’ of financial exclusion (Burkett & Sheehan, 2009, p. 4) and that of the Financial Services Authority (FSA, 2000) is outlined in Table 1 (from Corrie, 2012, p.14). These two perspectives are similar in many ways and provide a much more comprehensive view of financial exclusion. In Australia, there is the added dimension of geographical isolation, especially as it relates to remote, predominately Indigenous, communities.
Table 1: Elements of financial exclusion

<table>
<thead>
<tr>
<th>Burkett and Sheehan-The Five A’s</th>
<th>FSA-In or Out</th>
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<tbody>
<tr>
<td><strong>Availability:</strong> The service needed does not exist at all or does not exist in the individual’s locality.</td>
<td>Geographical Exclusion: such as:</td>
</tr>
<tr>
<td></td>
<td>1. The reduction in retail outlets in poorer communities</td>
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<td></td>
<td>2. The closure of bank branches in poorer communities,</td>
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<td></td>
<td>3. Low levels of car ownership in poorer communities, further exacerbating lack of access, and;</td>
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<tr>
<td></td>
<td>4. In Australia, remoteness of communities who may have never had access to retail banking services, and who are further hindered by poor technological availability</td>
</tr>
<tr>
<td><strong>Access:</strong> A lack of access to financial services because of structural barriers (e.g. credit record, language, physical disability).</td>
<td>Access Exclusion: The restriction of access through risk assessment.</td>
</tr>
<tr>
<td><strong>Awareness:</strong> Lack of awareness of fair products or a lack of capacity to engage with services.</td>
<td>Marketing Exclusion: Where targeted marketing and sales effectively exclude people.</td>
</tr>
<tr>
<td></td>
<td>Self-exclusion: Where people decide that there is little point in applying for financial product because they believe they will be refused.</td>
</tr>
<tr>
<td>** Appropriateness:** Products are not appropriate for people’s needs.</td>
<td>Condition Exclusion: The condition attached to financial products make them inappropriate.</td>
</tr>
<tr>
<td><strong>Affordability:</strong> An inability to afford existing products or cost structures mean that people on lower incomes are charged more for products.</td>
<td>Price exclusion: The price attached to financial products makes them unaffordable and inappropriate.</td>
</tr>
</tbody>
</table>

Financial exclusion in Australia

The Centre for Social Impact (NSW) has developed a way of measuring financial exclusion in Australia. The factors considered when defining and measuring financial exclusion include:

- **Product Inclusion** - access to essential financial services including:
  - the ability to manage day to day transactions and payments (a transaction account)
  - access to a moderate amount of credit
  - The ability to protect key assets (insurance).
- **Cost exclusion:**
  - Percentage of income spent on accessing these essential financial services.

The research found that in 2011, 40.8 per cent of consumers were included (used all three essential financial services); 42 per cent were marginally excluded (used two of the three essential financial services); and 16.1 per cent were severely excluded (only used one of the three essential financial services). 1.1 per cent of the Australian adult population were fully excluded – they had none of the three services. This is an increase on previous year’s findings as illustrated in Figure 1.

These findings illustrate that the ownership of at least one financial service, or being ‘unbanked,’ is less of a problem in Australia. Other research supports this. However, as can be seen, there is an issue with people being ‘under-banked.’

There are also many consumers who pay, or would need to pay, a significant portion of their incomes in order to be fully included. In short, the reason many people are financially excluded is due to the costs associated with financial services. It costs $1794 per annum to access all three essential financial services based on their most basic costs. In 2011, 12.7 per cent of the Australia population were excluded based on these costs - needing to spend more than 15 per cent of their income. These figures are outlined in Table 2.

4 This is not included in the original documentation but is relevant in the Australian context and has been added.
Figure 1: Extent of financial exclusion in Australia

Table 2: Extent of price exclusion in Australia

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Income</th>
<th>% of population 2010</th>
<th>% of population 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Included</td>
<td>&lt;5</td>
<td>46.2</td>
<td>42.3</td>
</tr>
<tr>
<td>Marginally excluded</td>
<td>5-10</td>
<td>22.7</td>
<td>24.2</td>
</tr>
<tr>
<td>Severely excluded</td>
<td>10-15</td>
<td>8.5</td>
<td>10.2</td>
</tr>
<tr>
<td>Fully excluded</td>
<td>&gt;15</td>
<td>10.7</td>
<td>12.7</td>
</tr>
</tbody>
</table>

Source: Connolly, Georgouras, Hems & Wolfson, 2011.

1.7. Previous research

Recent research into microfinance supports that it has the capacity to improve financial capability. The three reports below are more recent examples of research drawing a direct connection between microfinance and financial capability.

Microfinance and the Household Economy, Good Shepherd Youth & Family Service, October 2011

Microfinance and the Household Economy was completed in October 2011 and related specifically to Good Shepherd’s suite of microfinance programs including NILS, StepUP and AddsUP. The aim of the research was to explore the links between microfinance and social indicators that are widely regarded as signposts for broader wellbeing. These indicators include financial inclusion, social and economic participation and material wellbeing.

The research used a case study methodology to explore the lived experiences of 30 financially excluded individuals and families. The areas selected were Collingwood and surrounds in inner Melbourne to represent an inner-urban area; outer western Sydney around Blacktown as an outer urban interface; Northern Queensland (Cairns) to ensure regional representation; and lastly the Torres Strait Islands to better understand the impact of remoteness. There was also focus placed on understanding the impacts of microfinance on sole parent families, Indigenous Australians and newly arrived communities.
The research found that microfinance directly and positively impacts on financial inclusion, social and economic participation and material wellbeing, and builds important foundations to assist the household to function. The study also found that, through accumulation of assets, access to transport, linking people with their communities and improving financial confidence, microfinance has an important role to play in reducing financial hardship and increasing financial capability.

Specifically the findings were:

- Previous experiences of debt and the value placed on austerity meant many participants were debt averse; and the design of certain financial services made them unaffordable to participants
- Access to microfinance allowed them to take out loans they could afford to meet their material needs, supporting them in managing debt more easily.
- Participants felt they needed to build up a good credit rating, which microfinance allowed, in order for them to participate in the mainstream market in the future.
- Access to microfinance allowed people to exercise their agency in making safe choices – which is an essential component of building financial capability.
- Participants were already good budgeters; however microfinance did improve their budgets by giving them the material goods to do so (for example, the purchase of an efficient fridge meant less food spoilage and cheaper utility bills)
- The conversation that took place and the interview process gave people the opportunity to look at the financial services they were using and review their fees and charges.

(Corrie, 2012)

Just Credit, Good Practice, Good Shepherd Youth & Family Service, November 2010

Just Credit, Good Practice documents the experience of the NILS and StepUP borrowers and observations made by the workers and volunteers who deliver microfinance. The case studies in the report are collected by Good Shepherd Microfinance as part of their annual data collection.

The case studies analysed found that:

- There were benefits to borrowers across three mains domains including:
  - learning about financial matters
  - developing new skills and changing behaviours
  - intangible / felt benefits such as enhanced quality of life.
- There were material benefits such as the acquisition of assets, and that these assets made budgeting on a lower income easier
- The microfinance process (whether that was the application process or the process of paying off the loan) gave people greater financial skills and knowledge
- There were an opportunity to learn from these case studies to inform future practice
- There needed to be greater standardisation of the data collection process.

(Mouy, 2011)

Saver Plus – Summary Report 2011, Australia and New Zealand Banking Group

The Saver Plus Summary Report summarises the findings from two evaluations of Saver Plus, a matched savings program for low-income earners developed by the Brotherhood of St Laurence and ANZ Bank. The report follows savers throughout an extended period, to see whether they continue to save after the initial matching period as well as measuring other outcomes such as increased self-esteem, reduction in stress and increase in social networks.

The evaluation found that the majority of participants continued to save once their savings have been matched, with many at a higher rate than they had before. Participants also felt that they had an increased ability to cope with unexpected expenses. The majority also felt more aware of where to get help with financial decision making because of the saver plus program (83 per cent) and were more aware of their rights as a consequence of the program (76 per cent).

(The Brotherhood of St Laurence and ANZ, 2011)
1.8. Outline of this report

Section 2 outlines the conceptual framework and design elements that informed the indicators themselves. Section 3 outlines the methodology used and the consideration given to the various types of data collection, the means by which the data was collected, and what was learned throughout the various phases of the project.

Section 4 reports on the demographic information of the survey’s participants, including information on their age, gender, family types and their payment types. These numbers are compared with the data at a national level to ensure the adequate representation of different groups.

Section 5 outlines the findings from the Phase 1, with Section 6 outlining the preliminary findings from the last two of the three surveys.

Finally, in Section 7, the main findings and recommendations are discussed.
2. CONCEPTUAL FRAMEWORK AND DESIGN

When developing indicators to measure changes in skills, knowledge and behaviours, each needs to be defined within the context of existing research that has developed similar types of measures. These also need to be conceptualised in the context of this particular research question.

There is not necessarily a strict delineation made between financial capability and financial literacy. Both concepts can comfortably be described as a person’s financial skills, knowledge and behaviour. However there are some differences. There have been previous studies to measure financial literacy in Australia, however, none of these have been focussed on measuring the difference particular interventions make in improving it. Similarly the surveys that have been conducted have been via personal interviews conducted nationally on a large scale, allowing for in-depth understanding and probing by researchers.

The indicators developed in this research, however, needed to be:

• applicable to the lives of the people that microfinance programs work with,
• simplified to allow for a wide range of data collection by people who are not necessarily trained to conduct research,
• constructed in a way that changes could be measured, and,
• respectful of the structural factors that impact upon it.

These requirements are discussed in this section.

2.1. Financial literacy

‘Financial literacy is the ability to make informed judgements and to make effective decisions regarding the use and management of money. Financial literacy is therefore a combination of a person’s skills, knowledge, attitudes and ultimately their behaviours in relation to money.’ (Australia and New Zealand Banking Group, 2011, p. 1)

The ANZ financial literacy survey, which has been conducted four times since 2003, is the largest national Australian survey that measures financial literacy. Their conceptualisation of financial literacy is derived from the work of the Personal Finance Resource Centre at the University of Bristol, and their work on financial capability in the United Kingdom. The survey investigates five components of financial literacy as listed below.

1. Keeping track of finances: for example, monitoring account statements and household expenses.
2. Planning ahead: which includes behaviours such as checking and using insurance, keeping track of retirement income and getting financial advice.
3. Choosing financial products: the extent to which people shopped around for their banking services to ensure they were getting the best deal they could.
5. Financial control: including general control of financial situation, debt and the ability to save money (Australia and New Zealand Banking Group, 2011, p. 7).

The research found that “those whose main source of income is a Government benefit or allowance have below average scores on all financial literacy components except financial control” (Australia and New Zealand Banking Group, 2011, p. 16) and that many on low incomes did not actively seek financial information. What this tells us is that low-income consumers are capable of saving and keeping track of their debt levels, however struggle to manage their expenses. As previous research indicates, this is often more indicative of a lack of money than a lack of skills, and that there is a lack of access to mainstream information.

While financial literacy indicators measure financial skills, knowledge and behaviours, in recognising the complexities as to why low-income consumers are less likely to seek financial advice, we must also seek to understand the context that may or may not make it challenging to apply these skills, knowledge and behaviours. For microfinance programs, which are specifically targeted toward people receiving government payments and allowances, these factors need to be considered. Hence, the concept of capability was adopted for this research.

2.2. Financial capability

‘Capability’ is an economic concept developed by economist Amartya Sen. It ‘encompasses both the individual’s ability to do something and the larger social context that enables or inhibits individual action’ (Landvogt, 2006, p. 5). It is a more comprehensive framework to measure financial knowledge and skills than financial literacy, as it looks beyond the individual and their attributes and seeks to also understand the structural factors that influence these.

Financial capability is therefore the individual’s financial skills and knowledge, in the context of having appropriate financial information and supports, a non-exploitative market, an emergency buffer and an adequate income. This concept of financial capability is diagrammed in Figure 2.
So, while the notion of personal agency is important to consider, building capability involves removing “unfreedoms that leave people with little choice and little opportunity of exercising their reasoned agency” (Cabraal & Russell, 2006, p.3). Therefore, capability measures skills, knowledge and behaviours, but also identifies the structural barriers and enablers which inhibit or support people in exercising this agency.

When providing financial information to vulnerable groups, it is important to appreciate at what point on the financial continuum people are positioned when the financial information is being provided. For example, in times of crisis, new information is more difficult to process as the immediate concern is working through the crisis. However, when people are financially stable, they are more able to absorb and apply new knowledge. It is also imperative that the financial information is contextualised and able to be applied practically to people’s day-to-day lives (Landvogt, 2008). This informed the indicators that were used.

Well-known and widely tested financial capability indicators are contained in the work of the Financial Services Authority (FSA, 2000) in the United Kingdom.

The five elements of financial capability identified by the FSA survey are broadly:

- Money Management
  a. Managing Budgets
  b. Keeping track of expenses
  c. Planning for ‘lumpy’ expenditure
  d. Resisting pressure to spend or borrow
- Planning Ahead
  a. Saving money for an emergency
  b. Saving money for future goals
- Making Choices
  a. Choosing financial services
- Getting help
  a. Knowing who to ask if there are questions about money
  b. Knowing where to go if there are questions about money
- Strategies
  a. Strategies when money is short
  b. Strategies when money is left over

Figure 3 depicts the amalgamation of both the FSA and the ANZ concepts, and how they are framed for the purposes of this research.
2.3. The link between microfinance and improved capabilities

Microfinance programs aim to promote financial inclusion by providing safe and affordable financial services for people who are disadvantaged. By providing people with safe and affordable credit, microfinance enables direct access to money for people to manage and to apply their financial capability. Matched savings programs provide an incentive to put money aside, as amounts available for savings are generally very small. There is evidence to support that ownership of financial products is one of the best ways to improve a person’s financial capability (Kempson, Whyley, Caskey, & Collard, 2000). Research from Good Shepherd Youth & Family Service also supports that improved capabilities are contingent on the right information being available, and the appropriate financial services being available (Landvogt, 2006). However, the benefits to borrowers are more than just financial - there are felt benefits such as improved self-esteem, better quality of life and a sense of being trusted (Ayres-Warne & Palafox, 2005).

One of the objectives of the FaHCSIA Money Management Programs is to improve financial capabilities, particularly for people on low income. This is not to assume that there is not already a level of financial capability of microfinance participants. Indeed, research supports that people on low income are often exceptional money managers, as evidenced in Microfinance and the Household Economy:

“While low income earners are more likely to suffer from financial stress, the idea that people on low incomes are less able to manage money is challenged by the findings of this research. This research indicates that it is a lack of appropriate financial and social resources that often leads to financial stress. Therefore, in order to appropriately support people on low incomes, it is important to be holistic and focus on building financial capability through a number of different strategies, with microfinance among them” (Corrie, 2012, p. x).

Hence, it was also important to have a scale, to measure existing financial capability levels.

Figure 3: Financial capability – skills, knowledge and behaviours
2.4. The microfinance network

There are approximately 258 microfinance providers nationally in Australia at over 579 locations. These organisations vary dramatically in size and scope of program delivery. There is enormous diversity in staffing levels. Many programs are run entirely by volunteers while others employ paid staff. Many have microfinance as one of several means to support their clients, while other organisations have specialised microfinance workers. There is also diversity in the demographics of the people the organisations assist. Some provide targeted programs, such as for women leaving violence, for Indigenous consumers, or for newly arrived communities. There is much more diversity within the network than can necessarily be understood to overlay too many assumptions about how the data is best collected. This creates significant challenges when trying to determine what constitutes a representative sample. While these challenges are discussed in greater detail in Section 3, it is important here to understand how this was considered when developing the indicators.

2.5. Previous research

Previous research which supports the link between financial capability and microfinance is outlined in Section 1.

2.6. Contextualising indicators

Given what is known about microfinance participants and the organisations that provide programs, it was important that the indicators used in the questionnaire were general enough to be applied to a broad section of the population, and the questions relevant to anyone completing the survey. For example, if a participant had experienced long-term health issues and had not worked for a prolonged period, it would be inappropriate to question them on their retirement planning.

Similarly, the role of microfinance workers can also vary. They may not see themselves as providing financial information, but rather view the microfinance application process as more transactional. Hence, the questions used and the types of indicators discussed needed to account for these differences in a disparate population.

The indicators also needed to allow for a measure of change. Previous research has shown that people on low income are often very good money managers; there needed to be room for the indicators to measure and acknowledge that. This is why a scale was chosen, as opposed to questions regarding attitudes.

The questionnaire also needed to be respectful, by asking people what was important for them to know, and what things were actually covered in the microfinance interview process. Again, this meant that certain questions around retirement planning, calculating compound interest and the like were not appropriate.

Finally, the interviews were not being conducted by trained social researchers (please refer Section 3), and therefore needed to be worded in a way to avoid any ambiguity.

2.7. Developing questionnaires

This section outlines the particular indicators that were selected to be piloted at three difference phases in the data collection process. Section 3 outlines the piloting of the administration of the instrument itself.

Phase 1

The first phase of the pilot was to test the indicators that had been selected to measure financial capability and to check the ease with which the instrument could be administered. The questions for phase one were framed as below. A frequency rating was used to see how often participants felt able to do certain things in relation to money, and asked for barriers experienced if they were not able to.

The indicators selected for testing were based on what was known (or indeed unknown) about both borrowers and the types of programs that were participating. The questions and indicators needed to account for variances in the money conversations that took place during the loan application across different programs. The indicators chosen were most likely to be covered at the minimum.
Question 1 asked the type of loan, and who was completing the survey (whether it was a loans worker, or completed by participants).

Questions 2 and 3 were designed to capture ‘Skills: Money management’ both pre- and post-intervention. Question 4 was designed to understand what, if there was not a change in ability, this might be attributable to.

They link in with FSA questions regarding:

- Checking statements
- Keeping track of expenses

As well as more generic questions around keeping budgets and plan for large expenses.

---

### 1. What loan or savings program did you use?

<table>
<thead>
<tr>
<th>Program</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Interest Loan (NILS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Interest Loan (StepUP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matched Savings Program (AddUp)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2. 6 months before taking out your loan or savings program, were you able to:

<table>
<thead>
<tr>
<th>Ability</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a weekly budget for household expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keep track of the amount spent on living expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check bank statements for income and expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan for large expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resist pressure to spend or borrow</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 3. At the moment, are you able to:

<table>
<thead>
<tr>
<th>Ability</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a weekly budget for household expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keep track of the amount spent on living expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check bank statements for income and expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan for large expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resist pressure to spend or borrow</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 4. If you answered “never” to anything above, why is that? (You can tick more than one reason)

- Not enough income
- Lack of advice or help
- Lack of practice or experience
- Lack of time
- Increased expenses
- Other (Please specify):

### 5. 6 months before taking out your loan or savings program, were you able to:

<table>
<thead>
<tr>
<th>Ability</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Put aside enough money for an emergency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put aside enough money for future goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 6. At the moment, are you able to:

<table>
<thead>
<tr>
<th>Ability</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Put aside enough money for an emergency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put aside enough money for future goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 7. If you answered “never” to any of the above, why is that? (You can tick more than one reason)

- Not enough income
- Lack of advice or help
- Lack of practice or experience
- Lack of time
- Increased expenses
- Other (Please specify):

Questions 5 to 7 were designed to capture changes in capabilities of ‘Skills: Planning Ahead’. The key indicators for planning ahead were:

a. Money for an emergency
b. Money for future goals
Questions 8 to 10 were designed to understand what choices people make when it comes to banking products. The most appropriate was a broad question around the choice of banking options.

<table>
<thead>
<tr>
<th>8. 6 months before taking out your loan or savings program, were you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choose banking options that were right for you</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>9. At the moment, are you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choose banking options that are right for you</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>10. If you answered “never,” why is that? (You can tick more than one reason)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too complex/too much fine print</td>
</tr>
<tr>
<td>Costs of accounts/loans too high</td>
</tr>
<tr>
<td>Other (please specify)</td>
</tr>
</tbody>
</table>

Often, issues arise concerning lack of access to assistance, as well as being unaware of rights. Questions 11 to 13 were designed to check the level of confidence in participants’ rights when it came to getting help and where to go if there were questions to do with money.

<table>
<thead>
<tr>
<th>11. 6 months before taking out your loan or savings program, were you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get information about money questions</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Check Centrelink entitlements</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Make a complaint about a bill</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>12. At the moment, are you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get information about money questions</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Check Centrelink entitlements</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>Make a complaint about a bill</td>
<td>□</td>
<td>□</td>
<td>□</td>
<td>□</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>13. If you answered “never” to any of the above, why is that? (You can tick more than one reason)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t know who to ask</td>
</tr>
<tr>
<td>Lack of time</td>
</tr>
<tr>
<td>Other (please specify)</td>
</tr>
<tr>
<td>Bad experience with organisations</td>
</tr>
</tbody>
</table>

Based on FSA questions, questions 14-15 were designed to understand what participants do if they run out of money or when they have money left over. This was to assist in gaining an understanding of the options available, and also any strategies clients adhere to in order to manage their money.

The entire Phase 1 survey is at Appendix 1 and the full explanation and results at Section 5.

<table>
<thead>
<tr>
<th>14. If there is money left over, what do you usually do with it? (You can tick more than one reason)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leave it in a savings account</td>
</tr>
<tr>
<td>Give it to someone else to save for me</td>
</tr>
<tr>
<td>Lend it to family or friends</td>
</tr>
<tr>
<td>Never money left over</td>
</tr>
<tr>
<td>Spend it</td>
</tr>
<tr>
<td>Save it in cash at home</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>15. What would you usually do if you ran out of money? (You can tick more than one reason)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell goods to cash converters or pawn brokers</td>
</tr>
<tr>
<td>Cut back on spending or do without</td>
</tr>
<tr>
<td>Get a loan from a payday or main street lender</td>
</tr>
<tr>
<td>Other (please specify)</td>
</tr>
<tr>
<td>Don’t know what I’d do</td>
</tr>
<tr>
<td>Access vouchers/emergency relief</td>
</tr>
<tr>
<td>Borrow money from family or friends</td>
</tr>
<tr>
<td>Not pay bills</td>
</tr>
<tr>
<td>Contact Centrelink for a loan</td>
</tr>
</tbody>
</table>
Phase 2
The second phase questionnaires were designed around the same indicators as those in the first iteration. However, instead of asking participants to rate their previous skills retrospectively and their current skills on the same instrument, the second pilot only asked that they rank their previous skills and whether they had experienced any changes in these. This questionnaire was an attempt to both develop a baseline by gaining information on participants’ previous financial capability as well as some indication of any improvements. That way, any future surveys could theoretically be compared to the results from this type of baseline survey, to check whether the capabilities were higher among those who had just taken part in the application as opposed to those who had not. There was also an evaluative component, asking participants to rate whether they had experienced any improvement.

The questionnaire differed to the first round also as similar questions were grouped, and the scale was changed from frequency to a ranking system, to capture smaller changes. Feedback from the first page suggested a frequency rating was more difficult to understand. The questionnaire for phase 2 is at Appendix 2.

Phase 3
The third round of questionnaires asked the same questions as those in the second iteration, however the part asking for a ranking on any changes experienced was removed. This was largely as participants felt they were answering essentially the same question twice on the same instrument as the differences between the two questions were too subtle. The third iteration was also to pilot an alternative way for gathering data on capabilities. It asked participants to rate their current skills. These were then compared to the data collected for the second questionnaires, to see whether there was any difference between the two. The third iteration was also to pilot an alternative way for gathering data on capabilities. It asked participants to rate their current skills. These were then compared to the data collected for the second questionnaires, to see whether there was any difference between the two. The findings are contained in Section 6, with the phase 3 questionnaire at Appendix 3. While the results from phase 2 and 3 are not directly comparable, as they were conducted with different groups, at a high level it can be seen that ‘current’ ranking post application were higher than the pre-application rankings that were captured in phase 2. This is discussed in Section 3.

2.8. Conclusion: Design of capability indicators
The pilot questionnaires established that it is possible to conduct research measuring the impact that the money conversation has on individual financial capability through the existing microfinance network. The indicators were successfully tested and understood. There was also instructive feedback about how best to communicate the research request, which proved a bigger challenge than understanding the indicators themselves.

The pilot also underscored the importance that questions are contextualised and appropriate for the audience. Asking about an area of capability which a participant may not have exercised before (such as making a complaint about a bill) made the concept too abstract for many to answer. Asking a hypothetical question (i.e. a question about something they had not needed to do) tended not to work. It is essential that the indicators used are real to participants’ experiences and apply to an area of capability that is relevant to the participant.

Asking for the pre and post-test rankings on the same instrument also proved confusing for participants and loan workers in the phase 1 survey. Ideally, a pre-test questionnaire would be asked of participants prior to the application, similar to that used in phase 3, and a post-test questionnaire would be conducted with that same group after the application to measure change, irrespective of whether the applicant is approved or not for the loan. Asking only those applicants who were approved for microfinance limited the understanding of its impacts as those applicants who were not approved were excluded. Given access to microfinance is largely contingent on a certain level of existing capability, it is safe to infer that these conversations would have a greater impact on those applicants who are not approved for a loan. This is an important element to measure moving forward.

Also, developing a baseline with a different group with which to measure any change means that the results are not necessarily comparable, as they do not take account variations in demographics and programs types. These challenges are outlined in section three.
3. METHODOLOGY

3.1. Introduction

Once the indicators to be examined were decided, consideration was given to the practicalities of different data collection methods such as when to collect the data, how this should be done, who would be asked to complete the survey and how this could be managed. The specifics of how the particular methodologies were determined at each stage of the collection process are outlined in this section.

Questions for consideration in selecting a methodology are:

1. Who to interview:
   - Individuals or households
   - Age limits

2. Survey method:
   - Personal interview – over the phone or face-to-face
   - Self-completion surveys – web or paper-based
   - Using an existing survey with additional questions

3. Sampling:
   - Sampling size and sampling design
   - Sampling method
     - Random sampling
     - Quota samples

4. Survey design: this is covered in Section 2: Conceptual Framework

The decision making framework used is illustrated in the tables below, and is based on work completed for the Organisation of Economic Cooperation and Development (OECD, 2009).

3.2. Who should be surveyed

When considering who should be interviewed and asked to complete the questionnaire, it was decided to survey individuals, with no age limit imposed on who was included. The questions are more relevant to individuals over households. This choice also reflects best practice. It was also determined that imposing an upper or lower age limit was inappropriate given the microfinance client demographics. Although best practice sets a lower age limit of 18 years (OECD, 2009), this was not appropriate in this context considering some young people do access microfinance. While these numbers are quite low, it was considered important to capture how their experience may be unique. These decisions and their reasoning are outlined in Table 3.

Table 3: Who to survey

<table>
<thead>
<tr>
<th>Who</th>
<th>Summary of research OECD</th>
<th>Considerations for this research</th>
<th>Best Practice OECD</th>
<th>Outcome for this research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals or households</td>
<td>Households are not necessarily stable over time; however an individual’s decision making is influenced by others and impacted by their relationships.</td>
<td>The nature of the interview process and the application looks at both individual income and expenses as well as that of the households, however the loan is generally made to the individual.</td>
<td>Surveying the individual is considered best practice, as it can measure personal financial capability, as well as questions about their decision-making role in the household.</td>
<td>Individual surveys</td>
</tr>
<tr>
<td>Age limits</td>
<td>Eighteen years of age is the age when most individuals begin to adopt some autonomy in money management.</td>
<td>Many microfinance borrowers do not fit the standard criteria and there are many young people (over sixteen) who take out microfinance loans.</td>
<td>Adults over the age of eighteen, with no upper age limit.</td>
<td>No age limit</td>
</tr>
</tbody>
</table>

These principles were applied in all three phases of the questionnaire.
3.3. Survey method

Similar studies have employed a variety of ways to collect similar information. A range of tested methods was used for this study. This was necessary due to the diversity of the network and each organisation’s capacity to conduct the surveys. The majority chose to survey clients by personal interview, as this had the highest response rate. This is also best practice and the most ideal way to conduct these types of questionnaires. While best practice may also prescribe that the interviews be conducted by trained social researchers to provide an element of expertise and objectivity, having the loans workers conduct the surveys with their clients was a reasonable compromise for this project. It was more cost effective, and overcame many of the ethical and logistical issues of having an external research organisation involved.

Table 4: Survey method

<table>
<thead>
<tr>
<th>Method</th>
<th>Summary of research OECD</th>
<th>Considerations for this research</th>
<th>Best Practice OECD</th>
<th>Outcome for this research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal interviews (over the phone or face-to-face)</td>
<td>Personal interviews are preferred, particularly when the survey questions are complex, as there is less room for interpretation errors. Face-to-face is a preference when the survey is longer. Both data collection methods are the most expensive to run. Face-to-face interviews can sometimes mean less of a representative sample. Telephone requires the participants to have access to the technology.</td>
<td>Funding constraints, breadth of participating organisations and their structures and the extent to which it could be expected that workers and volunteers give up their time. Similarly, given the breadth of organisations and the differences in their size, research ethics approval is more of a challenge. The varying level of skills among microfinance workers and volunteers also need consideration.</td>
<td>Personal interview, either over the phone or face-to-face depending on local context. However, the results from over the phone and face-to-face surveys are not necessarily comparable given the different limitations.</td>
<td>A variety of different methods, with an emphasis on face-to-face personal interviews, but with the option for a mail-out. Then a measure indicating which way the data was collected, in order to gauge which method was the most effective and which had the better response rate.</td>
</tr>
<tr>
<td>Self-completion surveys (web or paper based)</td>
<td>Generally cheaper to run and arguably more honest given anonymity. However, it is not possible to probe replies and skews sample as it relies on a certain level of literacy and numeracy. Also tends to have lower response rates.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Using an existing survey</td>
<td>Cheaper as long as the existing survey is by a reputable organisation. However, can limit how many questions can be asked and can influence responses depending on what other questions form part of existing survey.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These principles were applied in all three iterations of the pilot.
3.4. Sampling

A census of all applicants approved was taken within the periods identified. This approach was decided because:

- the inability to establish a sampling frame for a representative sample given limited data on program types and client demographics necessitates an entire census
- capturing only those loans that are approved meant applicants had gone through the application process and the ‘money conversation’, enabling the impact of this to be measured; further, the client would still be in contact with the agency and therefore more able to participate.

In terms of best practice and considerations (OECD, 2009), these are outlined in Table 5.

Three different groups of microfinance participants were surveyed in all three census periods. This was due to ethical and logistical constraints. This was another reason why a census was required.

3.5. Survey design

The design of the survey and the questions asked are covered in Section 2.

3.6. Collection periods

Phase 1

A census of borrowers was conducted in July 2010 for all programs that were approved for FaHCSIA funding. The results were analysed for the efficacy of the indicators and the design of the survey itself, as well providing an indication of what the data may reveal.

The pilot asked people to retrospectively rank how often they felt able to adopt certain skills and behaviour in relation to money management before the microfinance application. Respondents were then asked to rank their abilities at the current time, after they had been approved. The rankings were framed around the frequency of using these abilities (Never, Usually, Sometimes and Always). That way, any differences in individual financial capability could be measured.

The questionnaire was altered as a response to the findings of the pilot study. A more robust rankings scale was developed, using a range from one to ten as the smaller scale could not allow for smaller changes to be captured. Questions were re-worded to be clearer and more representative of respondents’ circumstances.

The first round also revealed the difficulty of asking respondents to rank their skills before and after on the same instrument. In order to conduct a proper pre-test and post-test, two separate instruments needed to be used at two different periods.

In terms of preliminary findings, the results indicated that many people identified a positive shift in their skills and knowledge in money matters as a result of the money conversation. These are covered in Section Five.

The phase 1 survey is at Appendix 1.
<table>
<thead>
<tr>
<th>Sampling Method</th>
<th>Summary of research OECD</th>
<th>Considerations for this research</th>
<th>Best Practice OECD</th>
<th>Outcome for this research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sampling size and design</td>
<td>The on the way the data is analysed and the number of responses expected will determine how big a sample needs to be collected, and what level of precision is needed. Whether certain groups are of particular interest also needs consideration.</td>
<td>It was unlikely there would be a sufficient scale to be completely representative. There are also fewer variables being explored in this context as microfinance borrowers have similar socio-economic experiences in terms of income, but markedly different personal experience - which is not possible to collect in a quantitative survey.</td>
<td></td>
<td>A census of all applicants who were approved within a two-week period to overcome barriers of developing a sampling frame, and because these participants would still be engaged with the organisation that they made the application through.</td>
</tr>
<tr>
<td>Sampling method - random sampling</td>
<td>Generally produces the most representative sample, however requires an accurate and comprehensive sampling frame.</td>
<td>Limited data on the demographics and typology of microfinance programs does not allow for this method. There was not enough information to develop a sampling frame to ensure it would be representative.</td>
<td></td>
<td>Random sampling or quota sampling. In each instance, detailed quotas are required to ensure the sample is representative.</td>
</tr>
<tr>
<td>Sampling method - quota samples</td>
<td>Instructions of types of people to be interviewed. Can be done through random dialling or choosing specific locations. The latter means less bias in sample, however, is possibly less representative.</td>
<td>Would require a centralised data collection method, which was not given participants are clients of individual organisations and not Good Shepherd Microfinance. Record-keeping for microfinance programs are decentralised and variable by organisation.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Phases 2 and 3

The phase 2 questionnaire asked respondents who had recently been approved for microfinance to retrospectively rank their capabilities prior to the microfinance application. It also asked participants to rank any changes they may have experienced in these since having applied for microfinance.

This survey attempted to fulfil several purposes. One was to investigate the best way to develop pre-application ‘baseline’ capabilities as a benchmark with which to measure post application capabilities, to test whether there were any differences between the two. Secondly, it was an attempt to have an evaluative component, asking participants to simply answer whether their capabilities had improved. Thirdly, this iteration of the questionnaire was to check whether the ranking system that had been developed was wide enough to capture more subtle changes.

Phase 3 was conducted two months later, asking a different group of applicants who had been recently approved for microfinance to rank their capabilities as they saw them now. A different group was surveyed as the breadth of agencies and questions of privacy made it impractical to ask the same group of borrowers. These two sets of results (the results from phase 2 pertaining to previous capabilities, and the results from phase 3 relating to participants’ current capabilities) were compared to check whether there were any differences.

Although the same indicators and ranking scales were used, the results were difficult to compare because:

- Phase 2 was not an actual ‘pre-test’ as participants had already participated in the microfinance application
- Different groups of participants were surveyed
- Although the two population groups shared similar broad characteristics (outlined in section 4), there was no way of making an allowance for variations to geography, program type and demographics.

Taking into account these difficulties, there still appears anecdotally to be a correlation between participants applying for microfinance, and an increase in financial capability.

Phase 2 of data collection occurred over a two-week period in February 2011. Phase 3 was distributed in June 2011.

3.7. Research ethics

The survey questions and design went through Good Shepherd Youth & Family Service’s ethics committee for review and approval.

3.8. Strengths

The strengths of the ways the data was collected were:

- Retrospective rankings allow for reflection from participants on what gaps they made have had in their skills, knowledge or behaviours that they were not aware of prior to the application process. Upon reflection, participants could recognise and celebrate their increased financial capabilities, with the possible outcome that these increases are further consolidated in their day-to-day life.
- Having the questionnaires conducted by loans workers is low cost, and had quite a high response rate.
- Asking for a complete census of all borrowers approved during a two-week period negated issues relating to sampling challenges.
- Sending the questionnaires out to all FaHCSIA funded agencies removed issues to do with differences in program types.
- The ways the data was collected allowed for existing financial capabilities to be captured, as it assumes prior financial skills, knowledge and behaviours.
- Conducting the questionnaires with participants who had just been approved for loans meant that it was easier for loans workers to complete the questionnaires as the applicants were still engaged with the organisation.
- The subjective nature of the indicators allow for participants’ self-reflection on what they may not have known prior to the application.
3.9. Limitations

The limitations of the approach were:

- The need to collect data while the client is engaged with the organisation meant that it was not possible to capture the effectiveness that paying off the loan had on financial capability. Hence, the focus was on the impact of the money conversation that takes place during the loan application.

- The range of agencies involved coupled with ethical concerns meant it was not feasible to do a time series. Engaging with the same participants before and after the application process would have been ideal. This approach would have required respondents to be identifiable to the research team, and give their consent to participate in phase 3. Given the breadth of agencies involved with microfinance, this was not logistically feasible. However, this would be possible in future with changes to funding agreements and consent and is recommended.

- The questionnaire requires self-reflection, and is very much the applicant’s view of any changes they may have experienced.

- The dual purposes of phase 2 of the questionnaires as both a baseline measure and an evaluation means there are some issues in comparing these results with those in phase 3. However, this should not affect the validity of its use as a pre-test, albeit a retrospective one. This was corrected by the subsequent follow-up questionnaire in phase 3, which did not contain a self-rating of changes. Ideally, a pre-test would be conducted with a group of clients who had not yet taken part in the application process, and a post-test with the same group after the application (regardless of the approval outcome), using the instrument as designed for phase 3 of the pilot. This proved to be the most accurate way to measure changes. Given the breadth of agencies, the ethics considerations, and the resources required, this was not feasible for the pilot, a retrospective rating was the best alternative. This again is a recommendation for future surveys.

- Not capturing those applicants who are not approved for microfinance limits the findings, and potentially underplays its impacts of financial capability.

3.10. Conclusion: Data collection methods

Ideally, the survey should be conducted by trained social researchers, tracking the same respondents throughout the microfinance process. A questionnaire is conducted prior to the loan interview, irrespective of whether the loan is approved or not and using the indicators as developed through the three iterations of the pilot, with a data collection instrument similar to that developed for phase 3. The same participants should then be asked the same questions after the loan process, to see whether they have experienced any improvement in their capabilities. Ideally, this could then be followed up in six months’ time, to see whether these changes were sustained.

To make these improvements the research organisation would need to have consent to keep personal information about participants. Given the breadth of agencies, changes in accreditation requirements could allow for this. It would also be necessary to better understand the types of programs that exist to allow for difference in processes. A mapping exercise would allow for this. If this were overlayed with what is actually known about the client group, it would be possible to have a true representative sample and would allow for certain organisations to be targeted to conduct research, as opposed to requesting data from the entire network and the methodological limitations that result.
4. DEMOGRAPHICS

The demographics were similar across all three collection periods and are broadly representative of the wider borrower/participant population. This makes comparisons across the three periods less of an issue. While allowances cannot be made for location, program type and other important variables as these are largely unknown, the client groups in all three surveys shared similar characteristics.

4.1. Program participation

By far the largest number of responses were from NILS recipients, reflecting the scale of NILS. There were few responses to AddsUP, primarily as the program was starting and the logistics of establishing the savings accounts were still in process; hence the numbers are quite small.

Table 6: Program participation

<table>
<thead>
<tr>
<th>Phase</th>
<th>#</th>
<th>%</th>
<th>#</th>
<th>%</th>
<th>#</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>NILS</td>
<td>129</td>
<td>92</td>
<td>105</td>
<td>89</td>
<td>142</td>
<td>87</td>
</tr>
<tr>
<td>StepUP</td>
<td>5</td>
<td>4</td>
<td>11</td>
<td>9</td>
<td>18</td>
<td>11</td>
</tr>
<tr>
<td>AddsUP</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>No Response</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100</td>
<td>118</td>
<td>100</td>
<td>163</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2. Number of responses

The number of responses as a representation of the total loans given during the census period is not known, as we do not know how many loans were given during those periods specifically. However, based on 2011-2012 figures, there was an average of 766 loans given out per fortnight. This would represent 18 per cent of total loans for the pilot, and 15 and 21 per cent for phases 1 and 2 respectively. It is therefore not a true census; however the demographics broadly mean the sample is representative of the total microfinance borrower/saver population.

4.3. Participant gender

In phase 1 of the pilot survey, of the 140 participants, 67 per cent were female, 28 per cent male and 5 per cent did not reply. In phase 2, 71 per cent were female, 25 per cent were male and 4 per cent did not answer. In the final round, 63 per cent were female, 28 per cent male, with the remainder not responding. On average across all three surveys, 67 per cent were female, 27 male with an average of 6 per cent not providing a response. These results compare with 26 per cent female and 62 per cent male applicants for all applications in 2010-2011 and are broadly representative of the total population, as shown in Figure 4.
4.4. Household type

The largest group of respondents in all three surveys were single with dependent children, representing 38 per cent of respondents on average. The next largest group of respondents were single with no children, followed by couples with children. When compared with the macro figures, this is comparable to the total population, where 36 per cent are single with children and 30 per cent are single with no children.

Table 7: Household Type

<table>
<thead>
<tr>
<th></th>
<th>Phase 1</th>
<th></th>
<th>Phase 2</th>
<th></th>
<th>Phase 3</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>%</td>
<td>#</td>
<td>%</td>
<td>#</td>
<td>%</td>
</tr>
<tr>
<td>Single no children</td>
<td>44</td>
<td>31</td>
<td>27</td>
<td>23</td>
<td>42</td>
<td>26</td>
</tr>
<tr>
<td>Single with children/dependants</td>
<td>49</td>
<td>35</td>
<td>43</td>
<td>36</td>
<td>57</td>
<td>36</td>
</tr>
<tr>
<td>Couple no children</td>
<td>9</td>
<td>6</td>
<td>11</td>
<td>9</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Couple with children/dependants</td>
<td>15</td>
<td>11</td>
<td>19</td>
<td>16</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Group household</td>
<td>7</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Extended family</td>
<td>13</td>
<td>9</td>
<td>6</td>
<td>5</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>N/A*</td>
<td>N/A*</td>
<td>4</td>
<td>3</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Blank</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100</td>
<td>118</td>
<td>100</td>
<td>160</td>
<td>100</td>
</tr>
</tbody>
</table>

* This was not asked in the pilot
4.5. Income source

The largest group of respondents were receiving either a Parenting Payment Single (23% average) or a Disability Support Pension (26% on average). There were changes in the way the data was collected from the pilot, hence in the second and third surveys, participants selected more than one option as the Family Tax Benefit Payment was included, which is often a supplement for other types of payments. Therefore, the total responses to these questions from phases 2 and 3 will be more than the total number of actual responses received. This is again consistent with the trends for microfinance generally, with 30 per cent of applicants receiving Disability Support Pensions, and 25 per cent receiving Parenting Payment Single allowance.

Table 8: Income source

<table>
<thead>
<tr>
<th></th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>%</td>
<td>#</td>
</tr>
<tr>
<td>Age Pension-Centrelink</td>
<td>9</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Age Pension-Veteran Affairs</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Salaried employees</td>
<td>6</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Carers payment</td>
<td>11</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Parenting Payment-Single</td>
<td>37</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>Parenting Payment-Couple</td>
<td>N/A</td>
<td>N/A</td>
<td>6</td>
</tr>
<tr>
<td>Newstart</td>
<td>22</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>Self Employed</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Disability Support Pension</td>
<td>47</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Family Tax Benefit</td>
<td>N/A*</td>
<td>N/A*</td>
<td>24</td>
</tr>
<tr>
<td>Youth Allowance</td>
<td>N/A*</td>
<td>N/A*</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>140</td>
<td>100</td>
<td>144</td>
</tr>
</tbody>
</table>

*this was not a category in the pilot

4.6. Income amount

The pilot outcomes indicated that fortnightly income should be asked and not weekly, as this was how people were most often paid - hence, fortnightly income was the easiest and more appropriate way for them to respond. Because this change was made to the questionnaire after the first round, it was not possible to compare across all three collection periods. Included here are the results from phases 2 and 3, as they are directly comparable.

Income amount is not collected through the national data collection, so it is unknown how this compares to national averages.

Table 9: Fortnightly income amount

<table>
<thead>
<tr>
<th>Income amount ($)</th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-399</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>400-799</td>
<td>66</td>
<td>56</td>
<td>61</td>
</tr>
<tr>
<td>800-1199</td>
<td>33</td>
<td>28</td>
<td>61</td>
</tr>
<tr>
<td>1200-1599</td>
<td>12</td>
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<td>12</td>
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<tr>
<td>1600-1999</td>
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<td>2</td>
<td>5</td>
</tr>
<tr>
<td>2000-2999</td>
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<td>0</td>
<td>1</td>
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<tr>
<td>3000+</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Not sure</td>
<td>4</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>118</td>
<td>100</td>
<td>160</td>
</tr>
</tbody>
</table>
5. PHASE 1

- Phase 1 of the pilot was conducted in June 2010 to test the indicators and one of several different data collection methods. The questionnaire for phase 1 is Appendix 1. Overall, the results indicated that there had been an increase in peoples’ perception of their financial capabilities after the ‘money conversation.’ Of those people who did not indicate an improvement, most self-rated as having high levels prior to their engagement with microfinance.

- The results from phase 1 should be treated with caution, as it was primarily designed to test the use of the indicators and the format of the questionnaire. There were substantial changes made as a consequence of the pilot, primarily the ranking system that was used and the ways in which change in these perceptions could be measured.

- A frequency scale was used in phase 1, and asked how often people felt able to apply certain skills and knowledge both six months earlier (retrospectively) and how often they felt able to apply those skills now (immediately after taking part in the loan conversation). Participants were also asked to identify what might get in the way of applying these skills and knowledge. Finally, participants were asked to select any strategies they may use in the event of a money shortfall or a money surplus.

- The pilot verified that the indicators as outlined were broadly able to be conceptualised by both the participants in the survey as well as those who were conducting the survey (mainly the programs). What was made clear though was the need for a greater understanding of the purpose of the survey and that answering the same question twice was confusing. These elements are all explored in this section, as well as some of the results that were noted.

5.1. Skills

Money management ‘skills’ questions used in the survey related to the FSA survey ‘Money Management’ and ‘Planning Ahead’ concepts:

1. Money Management
   a. Managing Budgets
   b. Keeping track of expenses
   c. Planning for ‘lumpy’ expenditure
   d. Resisting pressure to spend or borrow

2. Planning Ahead
   a. Saving money for an emergency
   b. Saving money for future goals

In the pilot, ‘Money Management’ and ‘Planning Ahead’ were asked as separate questions. In the next iterations, they were combined to make the survey easier to understand and administer.

5.1.1 Skills: Money Management

There are four indicators to measure ‘Money Management’ capability in the FSA survey that forms the basis of the questionnaire. These are:

- Managing budgets
- Keeping track of expenses
- Planning for ‘lumpy’ expenditures
- Pressure to spend or borrow

The questions were designed to capture whether or not access to microfinance had a positive impact on these indicators, in terms of increased abilities and confidence.
Changes in ‘Skills: Money Management’

The preliminary results indicated that people felt a positive shift in their abilities. For Money Management, these were:

- Thirty three per cent felt more able to keep a weekly budget
- Thirty two per cent felt more able to keep track of expenses
- Nineteen per cent were more able to check bank statements for income and expenses
- Thirty two per cent felt more able to plan for large expenditure, and
- Twenty five per cent were more able to resist pressure to spend or borrow (n=122).

The total percentage of people who reported themselves as ‘usually’ or ‘always able’ to apply the ‘Money Management’ capabilities grew after the money conversation. Prior to applying for the loan, 61 per cent of respondents felt that they were ‘usually’ or ‘always’ able to have a weekly budget (n=137). After the loan process, this figure grew to 85 per cent (n=137). Similarly:

- Eighty one per cent felt usually or always able to keep track of expenses after applying for the loan (n=134) compared to 66 per cent prior to the loan process (n=139)
- Eighty per cent reported that they were usually or always able to check statements for income and expenses after applying for the loan (n=132), compared to 66 per cent prior to the loan process (n=136)
- Fifty five per cent reported that they were usually or always able to plan for large expenses after the application (n=132), compared to 34 per cent prior to the loan process (n=125)
- Seventy seven per cent were usually or always able to resist the pressure to spend or borrow after applying for the loan (n=132), an increase from 63 per cent prior to the loan process (n=137).

Figure 5: Change in ‘Skills: Money Management’ respondents ranked ‘usually’ or ‘always’ (%)

Most of those respondents who did not feel they gained greater abilities in relation to money management already felt ‘usually’ or ‘always able’ to manage their money.

5 In order to capture the percentage of respondents who reported an increase in their skills, it was necessary to capture their reported abilities before and after the loan process. In instances where both the before and after question were not answered for the individual record, the change could not be captured.

6 This data is based on the total of responses received without any deletions.
Barriers to ‘Skills: Money Management’

There are many reasons why people may not feel able to exercise some of the abilities associated with the indicators for ‘Money Management’. When asked what the main barriers were in applying money management skills, or why respondents do not feel able, 37 per cent of respondents identified not having enough income and 20 per cent an increase in expenses.

Planning for large expenses is understandably difficult when on a limited budget. It makes sense that this would be an area where microfinance clients do not feel confident.

So while many people appreciate the need to plan, executing that plan is increasingly difficult with cost-of-living pressures (such as utilities) steadily increasing, coupled with a lack of subsequent increase in Income Support Payments.

Other barriers faced by respondents were a ‘lack of advice and help,’ with 17 per cent of respondents reporting this as a barrier and 16 per cent naming ‘lack of experience’ as a barrier.

Figure 7: Barriers to ‘Skills: Money Management’ (%)
5.1.2 Skills: Planning Ahead

The next element of financial capability is about ‘Planning Ahead.’ This includes being able to:

- Set aside enough money for an emergency
- Set aside enough money for future goals.

Again, the questions were designed to gather respondents’ reports on their abilities both before and after the loan application, and what barriers were experienced to exercising these abilities.

The ways these were measured is the same as in the previous section.

Change in ‘Skills: Planning Ahead’

Of those who responded (n=122), individually:

- Thirty four per cent felt more able to save for an emergency after the loan application process
- Thirty one per cent felt more able to save for future goals.

There was a positive shift in individuals feeling more able to plan ahead after the application process. However this is an area in which borrowers reported the most difficulty, and even post the loan application process they did not rank themselves as ‘usually’ or ‘always able’ to plan ahead. Of those who responded to the questions:

- Forty two per cent felt ‘usually’ or ‘always able’ to save for an emergency after the loan application process compared to 31 per cent of respondents who reported this prior to applying
- Thirty two per cent felt ‘usually’ or ‘always able’ to put aside enough money for future goals after the loan application process, compared to 26 per cent prior to applying.

Figure 8: Change in ‘Skills: Planning Ahead’ respondents ranked ‘usually’ and ‘always’ (%)

While many microfinance recipients did report an increase in their abilities, they still did not feel that they were able to plan ahead most of the time. This is not dissimilar to the score for the indicator ‘Money Management – Plan for large expenses’ response that was asked in the first question.
Barriers to ‘Skills: Planning ahead’

The ability to plan ahead is an important part of financial capability. It means that people are able to create a buffer to better withstand financial shocks, and ensures that the severity of financial shock is greatly diminished if and when they do occur. The breakdown of a washing machine or fridge can cause a significant stress if people do not have any provision to have it replaced or fixed.

However, people on a fixed limited income are often not able to do that. Microfinance programs such as NILS and StepUP are designed to assist people on limited incomes to purchase essential household items. It is difficult for people on a low income to meet these large expenses. They are vulnerable to store credit or payday lenders. The same can be true for people who are not on a low income, who would often still use credit, but from mainstream financial institutions to make such purchases.

Forty six per cent of respondents identified their main barriers to planning ahead by putting money aside as ‘having insufficient income’ and ‘increased expenses’ (22%).

Figure 9: Barriers to ‘Skills: Planning Ahead’

5.2. Knowledge

The knowledge indicators used were:

1. Making Choices
   a. Choosing banking products
2. Getting Help
   a. Knowing who to ask if there are questions about money
   b. Knowing where to go if you have questions about money

5.2.1 Knowledge: Making Choices

For measuring choice, it was decided that the most appropriate indicator to measure was making choices in relation to banking services. As mentioned in the conceptual framework section, it was important to include the many microfinance participants who had not had past opportunities or the need to engage in more complex financial capability decisions beyond necessary financial services.
Changes in ‘Knowledge: Making Choices’

‘Making Choices’ is the ability for people to feel they know the options available to them and can exercise agency when making financial decisions. Respondents were asked about their ability to choose banking options both before and after the loan application process.

Seventeen per cent of respondents reported that they were more able to choose banking options that were right for them after the microfinance process. Seventy three per cent of all respondents reported that they were ‘usually’ or ‘always able’ to choose banking options that were right for them after the loan process compared to 63 per cent who reported that prior to applying for the loan.

Of those respondents who did not feel an improvement in their abilities, 70 per cent felt usually or always able to choose banking options.

Figure 10: ‘Changes in ‘Knowledge: Making Choices’ respondents ranked ‘usually’ and ‘always’ (%)
Barriers to ‘Knowledge: Making Choices’

The main barrier experienced by respondents was the fact that there was too much complexity and fine print with banking services. Twenty eight per cent of respondents reported this and 23 per cent of respondents reported that their limited incomes inhibited their ability to make choices.

However, many respondents reported that they had never felt a need to change their banking arrangements and that this was not something that they thought a great deal about. There appeared to be a perceived lack of difference between the banks which may mean that people stayed with their existing bank. However, the fact that the complexities of banking and a lack of income were raised, indicates that some people do not feel that they have any real choice. Nevertheless, a large portion of respondents expressed a good level of confidence in making banking choices.

![Figure 11: Barriers to ‘Knowledge: Making Choices’ (%)](image)

5.2.2 Knowledge: Getting Help

The fifth element of financial capability is ‘getting help’ to do with money questions, and being aware of financial rights. It is not expected that someone would know all there is to know about money questions – just that they know enough about who to ask or where to go when they do have money questions.

For microfinance clients, the focus of the questionnaire was on being aware of their rights about Centrelink entitlements and other subsidies; how to question and make a complaint about a bill, and knowing where to go or who to speak to when there were questions concerning money.

Changes in ‘Knowledge: Getting Help’

The results of the pilot were, that after the application process:

- Thirty five per cent of respondents reported that they were more able to get information about money questions if they needed to.
- Twenty one per cent reported that they were more able to check their Centrelink entitlements.
- Twenty two per cent reported that they were more able to make a complaint about a bill.

The change in rankings:

- Seventy two per cent of respondents felt usually or always able to get information about money questions after the loan compared to 48 per cent prior to the application process.
- Eighty five per cent of respondents felt usually or always able to check Centrelink entitlements after the application process compared to 76 per cent prior to application.
- Sixty three per cent of respondents felt usually or always able to make a complaint about a bill compared to 51 per cent prior to the application process.
Of respondents who did not feel any shift in these Getting Help abilities:

- Sixty nine per cent felt ‘usually’ or ‘always able’ to get information about money questions
- Eighty three per cent felt ‘usually’ or ‘always able’ to check Centrelink entitlement
- Sixty per cent felt ‘usually’ or ‘always able’ to make a complaint.

Respondents appeared comfortable that they were receiving their correct entitlements, however were unsure about how to make a complaint about a bill.
Barriers to ‘Knowledge: Getting Help’

The main barriers for people getting help were that they felt they lacked experience, with 40 per cent of respondents indicating so. This can be both because they have never needed to get help but also because they lack the skills or confidence to do so.

Twenty eight per cent reported ‘not knowing’ who to ask, making this the next biggest barrier. There was a large portion of people who selected ‘other’, with the majority saying that they had never had the need to get help, so therefore could not appropriately answer the question.

Figure 13: Barriers to ‘Knowledge: Getting Help’ (%)

5.3. Behaviours

The final element of financial capability is ‘adopting positive money management strategies’, primarily in the case of either having ‘money left over’, or ‘having a money shortfall’. These questions were designed to check the sorts of strategies people adopt in either of these scenarios and whether or not they were positive and safe.

5.3.1 Strategies for money left over

Thirty three per cent of respondents, the largest group of respondents, said that if there was ever money left over at the end of the fortnight, they would save it in a savings account for future expenses. Nineteen per cent said that they would save it in cash at home, and 19 per cent said they would spend it.

Most participants reported positive intentions when it comes to saving. This indicates the extent to which people make a series of compromises, and when there is an opportunity to ‘treat’ themselves, they will do so, but only with ‘money left over’ as opposed to money from their budget. Of those that reported that they would spend ‘money left over’, it appeared to be on ‘treats’ such as craft activities, to build assets and travel to see their families.

The high portion of those that would opt to save it at home instead of the bank indicates that there are barriers to leaving money in the bank. This is perhaps a result of mistrust of banks, or that it is not practical for these small amounts to be saved as they might be needed for other expenses and therefore need to be readily available. This is an area which should be investigated further.
5.3.2 Strategies for money shortfall

When respondents were asked what they would do if or when they ran out of money 30 per cent, the largest group of respondents said they would cut back on spending or do without. Twenty one per cent, the next largest group, would borrow from friends or family.

Very few indicated that they would borrow money from a payday lender (4%) or sell or pawn goods (5%).

This again illustrates that microfinance clients adopt positive strategies in the event of a shortfall. It is difficult to know whether this is a consequence of their knowing about microfinance programs or whether they are unlikely to want to admit to using this type of credit. For those who go without, it is important to understand what they are going without in order to determine whether adopting these behaviours is in fact ‘positive,’ as they may be going without essential goods and services in order to make ends meet.
5.4. Conclusion: Learning from the pilot

Feedback from workers and the results of the surveys indicated that some respondents found it confusing to answer essentially the same questions twice in different places on the questionnaire. While this structure was an attempt to tap respondents’ rating of money management abilities before and after the application, many found it difficult to understand. The next version of questionnaires needed to address this problem and hence it was decided the way change was being measured needed to be altered to make it more robust and the questionnaire easier to administer. Two different types of data collection methods were tested in the follow up questionnaires.

There appeared to be some difficulty for respondents to understand the difference between saving for financial goals and saving to buffer an emergency. For many respondents, savings are savings. The indicators needed to be changed in the follow up surveys to reflect this learning.

The main learning from the first phase of the pilot was that unless someone had a need to make particular choices they had not thought about it, and found it difficult to conceptualise and hence answer some of the questions. Therefore, questions need to be broadened to cover the idea of reviewing banking arrangements or ensuring existing banking arrangements are suitable, as well as any new decisions that needed to be made. The same was true when it came to making complaints about bills.

Microfinance has an important role to play in addressing the root causes of poverty and financial exclusion at both a systemic and individual level. Good Shepherd Microfinance’s programs work on the basis of respect for human dignity and an ethos of developing individual capability while at the same time addressing injustice. The first phase of the pilot questionnaire was designed to capture the impact of the money conversation that takes place during a successful application for microfinance. While there is a required level of financial stability to qualify for microfinance in the first instance, the fact that there was still such a positive increase in people’s abilities speaks to the value of the money conversation in these programs.

The impact of the conversations in those applications which do not lead to an approval is not captured in the census; nor is the impact of the conversations that lead to people reapplying once they have addressed some of their financial issues. These conversations may be just as powerful and should be the subject of further research.

Seventy two per cent (72%) of respondents to the questionnaire felt their situation had improved as a result of the loan, ranging from a little better to a lot better. Clients of these programs not only walk away with something practical that will improve their quality of their life, they also walk away with an improved understanding of what they are able to do financially, whether that be through something they learned, or through just being able to talk about money and have their abilities reinforced.

The responses have implications for broader policy, most notably in the nature and provision of financial and consumer information and access to information about Centrelink entitlements and income maximisation. In terms of methodology, the pilot confirmed which indicators were best understood, and what changes needed to be made in subsequent questionnaires. Questions need to be grouped and simplified. It is also necessary to measure ‘pre-application’ and ‘post-application’ capabilities on separate questionnaires, both for greater validity and to gain a greater understanding of impact. The ratings scale developed also needs to accommodate more subtle changes in capabilities. These changes were made in the follow-up questionnaires.
6. PHASES 2 AND 3

This section outlines the results from the next two iterations of the questionnaire. In phase 2, respondents were asked to retrospectively rate their skills prior to the application process in relation to their financial capabilities. This was a pilot on how best to develop a financial capability baseline with which to compare post-application responses and test for changes. This way participants did not have to rate their before and after capabilities on the same instrument, a challenge which was identified in the first iteration of the questionnaires. There was also an evaluative component in phase 2, which simply asked whether participants felt their financial capability had improved since taking part in the microfinance application process.

The third iteration of the questionnaire asked participants to rate their current abilities. In effect, it was to test its use as a ‘post-test’ instrument to gather data to compare against the results from the phase 2 results. Based on insights from the pilot, a ranking system from one to ten was used, as opposed to frequency rankings. This way, small changes could be measured, particularly for people who already felt they had higher skill levels. The questions were also collapsed so that all of the skills questions were grouped together, as they were similar in intent, and the barriers faced in using these skills were the same. There were no changes to the behavioural questions as there was not an attempt to measure changes in these, only to better understand the types of strategies participants used.

Although the same indicators and ranking scales were used in phases 2 and 3 issues arise in making comparisons as:

- Phase 2 was not an actual ‘pre-test’ as participants had already participated in the microfinance application
- Different groups of participants were surveyed for both iterations
- Although the two population groups shared similar broad characteristics (outlined in section 4), there was no way of making an allowance for variations to geography, program type and demographics.

However, for the purposes of the pilot, the two sets of data were used for comparison, and demonstrate that anecdotally, there is a correlation between the microfinance application and financial capability.


For phases two and three, respondents were asked to rank their skills from one to ten – ‘one’ being never able to do the things listed and ‘ten’ meaning they were always able to – in relation to:

- Keep a weekly budget (Keep Budget)
- Keep track of living expenses (Keep Track)
- Check bank statements for fees and expenses (Check Statements)
- Plan for large expenses (for example, car registration) (Plan Large Expenses)
- Put money aside for an emergency (e.g. medical emergency) (Money Emergency)
- Put money aside to achieve goals (Money Goals).

This was in contrast to the phase 1 questionnaires, which asked this as two separate questions. A copy of the questionnaires is at Appendix two.

Changes in ‘Skills: Money Management and Planning Ahead’

The results from phase 1, where participants ranked their skills prior to applying for microfinance, indicated that, generally, respondents felt they were good money managers prior to applying for microfinance, particularly as it related to budgeting and keeping track. There were challenges, however, when it came to the question of planning ahead, which had the highest proportion of people who ranked themselves as having low skills before the application process – 50 per cent for putting money aside for an emergency and 61 per cent for putting money aside for future goals.

“\text{It would be really beneficial to be able to attend somewhere that teaches you about money...It’s hard when one makes a mess of financial life when younger, because you can’t ever seem to get anywhere financially. It’s a huge part of not being able to get on with a productive life...}”

- NILS borrower
Table 10: Phase 1 self-rated retrospective pre-application ‘Skills’ (%)

<table>
<thead>
<tr>
<th>Skills</th>
<th>Low (1-4)</th>
<th>Moderate (5-7)</th>
<th>High (8-10)</th>
<th>No Rating</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep Budget</td>
<td>19</td>
<td>31</td>
<td>50</td>
<td>0.00</td>
<td>100</td>
</tr>
<tr>
<td>Keep Track</td>
<td>16</td>
<td>22</td>
<td>61</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Check Statements</td>
<td>29</td>
<td>20</td>
<td>50</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Plan Large Expense</td>
<td>32</td>
<td>27</td>
<td>39</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Money Emergency</td>
<td>50</td>
<td>30</td>
<td>19</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Money Goals</td>
<td>61</td>
<td>23</td>
<td>16</td>
<td>0.00</td>
<td>100</td>
</tr>
</tbody>
</table>

There was a positive shift in capabilities in the in phase 3, where participants ranked their current skills. Only 24 per cent of respondents ranked themselves as having a low level of skills in phase 3, down from 50 per cent in phase 2. Similarly, while only 19 per cent of respondents in phase 2 felt they had a high level of skills in putting money aside for an emergency, this increased to 40 per cent in phase 3.

Table 11: Phase 2 self-rated ‘Skills’ (%)

<table>
<thead>
<tr>
<th>Skills</th>
<th>Low (1-4)</th>
<th>Moderate (5-7)</th>
<th>High (8-10)</th>
<th>No Rating</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep Budget</td>
<td>10</td>
<td>26</td>
<td>63</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Keep Track</td>
<td>6</td>
<td>19</td>
<td>74</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Check Statements</td>
<td>9</td>
<td>17</td>
<td>67</td>
<td>6</td>
<td>101</td>
</tr>
<tr>
<td>Plan Large Expense</td>
<td>15</td>
<td>28</td>
<td>48</td>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td>Money Emergency</td>
<td>24</td>
<td>32</td>
<td>40</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Money Goals</td>
<td>40</td>
<td>22</td>
<td>34</td>
<td>3</td>
<td>100</td>
</tr>
</tbody>
</table>

There was a decrease in the number of respondents who gave themselves a low ranking across all indicators of financial skills, and this was similar for those rating themselves as having a moderate level of skills. This was met with a corresponding increase in the number of people who ranked themselves as having high level of skills after the application, as illustrated in Figure 16.
Respondents feel they are good money managers, particularly as it relates to ‘budgeting’ and ‘keeping track’. After the money conversation, there were increases across all indicators, with the biggest increase being in relation to feeling able to put money aside for emergencies and future goals. This was on the back of lower baseline scores in these areas than in others, and demonstrates the impact of the money conversation on money management skills.

Figure 17 shows that there was a drop across all indicators in people who ranked themselves as having low skills with the biggest decrease in ‘putting money aside for an emergency’. On the other end, there was a proportionate increase in people who ranked themselves as having high skills. Across all skill indicators, there were positive changes (Figure 18).

The average scores also increased across all indicators after the application.
Barriers to ‘Skills: Money Management and Planning Ahead’
The most commonly cited barriers experienced by respondents in both questionnaires were that ‘things were getting more expensive’, at 43 per cent and 46 per cent respectively. ‘Not earning enough money’ was the next biggest response at 38 per cent each. This reflects that current income levels are not high enough to meet the increase in costs.

The results mirror those in the pilot and indicate that people on a fixed limited income are often not able to save as they simply do not have money left over. An increase in AddsUP could improve this.

Table 12: Barriers to ‘Skills’
There was nothing substantially different between either of the two rounds of questionnaires regarding barriers to applying skills or knowledge. A large proportion of respondents felt restrained primarily because of cost of living pressures.

### 6.2. Knowledge - Making Choices and Getting Help’

The next element of financial capability is about knowledge, particularly in relation to:

- Knowing and understanding the appropriate banking options (Deal Bank)
- Knowing where to go if there are questions about money (Money Q)
- Ensuring that people are receiving their correct entitlements (Centrelink)

#### Changes to ‘Knowledge: Making Choices and Getting Help’

There was a fairly even spread of responses in phase 2, with people indicating they generally did not feel able to deal with banks, nor knowing where to go if they had questions about money. However, there was a fairly large portion of people who felt confident dealing with Centrelink (66%).

#### Table 13: Phase 2 self-rated retrospective pre-application ‘Knowledge’ (%))

<table>
<thead>
<tr>
<th></th>
<th>Low (1-4)</th>
<th>Medium (5-7)</th>
<th>High (8-10)</th>
<th>Blank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal Bank</td>
<td>36</td>
<td>27</td>
<td>36</td>
<td>0.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Money Q</td>
<td>33</td>
<td>27</td>
<td>40</td>
<td>0.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Centrelink</td>
<td>10</td>
<td>24</td>
<td>66</td>
<td>0.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

*Results may not add to 100 due to rounding

Far fewer people gave themselves a lower ranking in phase 3 compared to phase 2, particularly in relation to dealing with the bank and where to go when there are questions to do with money.
Table 14: Phase 3 self-rated current ‘Knowledge’ (%)*

<table>
<thead>
<tr>
<th></th>
<th>Low (1-4)</th>
<th>Medium (5-7)</th>
<th>High (8-10)</th>
<th>Blank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal Bank</td>
<td>16</td>
<td>26</td>
<td>51</td>
<td>8</td>
<td>101.00</td>
</tr>
<tr>
<td>Money Q</td>
<td>12</td>
<td>23</td>
<td>58</td>
<td>7</td>
<td>100.00</td>
</tr>
<tr>
<td>Centrelink</td>
<td>5</td>
<td>13</td>
<td>77</td>
<td>5</td>
<td>100.00</td>
</tr>
</tbody>
</table>

*Results may not add to 100 due to rounding

There was an increase in those feeling they had a ‘high’ level of knowledge after the application. This is illustrated in Figure 20.

Figure 20: Change in respondents with high level of ‘Knowledge’ – (%)

There was a positive change in all of the indicators identified. In particular, there were far fewer people who gave themselves a low rating when it came to dealing with their bank after the application process. That is also true in knowing where to go when they have questions pertaining to money. The percentage of people who gave themselves a high ranking increased also, as reflected in the graph below.

Figure 21: Change in respondents ‘Knowledge’ all levels (%)

‘Knowledge’ indicators
The average scores for money management knowledge increased in the phase 3, ‘current’ money management survey responses. There was only a marginal difference in those who felt there knowledge of dealing with Centrelink had improved. However, this score was already quite high, as displayed in Figure 22.

**Figure 22: Mean ‘Knowledge’ ratings (#)**

![Bar chart showing mean 'Knowledge' ratings for Phase Two and Phase Three](chart)

**Barriers to ‘Knowledge: Making Choices and Getting Help’**

The main barriers identified were similar to the results for ‘Money Management’ and ‘Planning Ahead’ skills. Most respondents (28% and 31%) felt that things had become more expensive, or that they did not earn enough money. The next largest response (14% and 18%) was that there was too much fine print.

**Table 15: Barriers experienced - knowledge**

<table>
<thead>
<tr>
<th></th>
<th>Phase 2</th>
<th></th>
<th>Phase 3</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>%</td>
<td>#</td>
<td>%</td>
</tr>
<tr>
<td>There is no one I can ask</td>
<td>8</td>
<td>4</td>
<td>8</td>
<td>3</td>
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<tr>
<td>Other</td>
<td>3</td>
<td>1</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>I don’t have enough time</td>
<td>12</td>
<td>6</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>I haven’t had any practice</td>
<td>13</td>
<td>6</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>I have had a bad experiences in the past</td>
<td>26</td>
<td>13</td>
<td>16</td>
<td>7</td>
</tr>
<tr>
<td>There is too much fine print</td>
<td>28</td>
<td>14</td>
<td>43</td>
<td>18</td>
</tr>
<tr>
<td>Do not earn enough money</td>
<td>58</td>
<td>28</td>
<td>54</td>
<td>23</td>
</tr>
<tr>
<td>Things are getting more expensive</td>
<td>58</td>
<td>28</td>
<td>72</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>198</td>
<td>100</td>
<td>226</td>
<td>100</td>
</tr>
</tbody>
</table>
6.3. Money Management Strategies

6.3.1 Strategies for Money Left Over

For both sets of the questionnaires, the largest group of respondents - 25 and 26 per cent respectively - said if there was ever money left over at the end of the fortnight, they would spend it on something they needed. The next largest response in both, at 24 and 26 per cent respectively, was to leave it in their bank account. Many also save in cash at home. Only a small portion of people (11% and 13% respectively) stated they would spend it on something special. Thus, respondents clearly delineate between ‘needs’ and ‘wants’. This indicates that in most circumstances, respondents would adopt positive behaviours if they had money left over at the end of their pay period.

There was a higher than expected portion of respondents that would opt to save extra money at home instead of the bank. Of interest is that in the third phase, a lower portion of respondents, 13 per cent (compared to 17%) reported leaving leftover money at home. This might be attributed to there not being any AddsUP respondents in the phase 2 questionnaire, however there was in the second (albeit a small number). Similarly, in the third round, more respondents indicated they would save any extra cash in the bank.
6.3.2 Strategies for Money Shortfall

For both sets of questionnaires, the largest group of respondents (35% and 44% respectively), when asked what they would do if or when they ran out of money, said they would cut back on spending or do without. The next largest group in both would access emergency relief, followed by 17 per cent and 14 per cent respectively who would borrow money from family and friends.

Figure 25: Strategies for money shortfall

Very few indicated that they would borrow money from a payday lender or sell or pawn goods. This again illustrates that microfinance clients adopt positive strategies in the event of a money shortfall.

6.4. Conclusion

It is clear that microfinance has a positive impact in building financial capability among participants. The results from this survey have demonstrated this. It is recommended that additional research be done to quantify and validate this link further. Based on personal feedback received from respondents on the questionnaires, they were grateful for the patience and kindness of their loan worker. The money conversation provides personal, face-to-face communication. It is indicative of the strength of the current, community-based model and is potentially one of the reasons the financial conversation can improve people’s financial capabilities.

The findings indicate that a higher proportion of those who have leftover money opt to save their money in the bank after the application as opposed to at home. This data includes AddsUP responses. It can be inferred that the money conversation alongside matching funds with the AddsUP program has the potential to support an increased savings habit. In order to maintain this, it is important to increase the reach of AddsUP.

There are systemic impediments that restrict the ability to make financial decisions, namely a limited income and the rising cost of living. To reduce the financial stress on the communities which are most vulnerable, income support needs to be commensurate with the rising cost of living.

In terms of administration of the instrument, the results of these surveys need to be treated with caution. What was established through this process is that it is best to ask for pre-application skills ranking of people prior to their applying to microfinance, and then asking those same people to rank their skills after the application. This way, any improvement can be attributed to the application process in a far more robust way. In the absence of this process, developing a baseline with which to measure changes in skills against still needs to be conducted with a group that has not gone through the application process. It is then possible to conduct questionnaires with a different group after the application to see whether this group has a higher level of skills. However, given what is not known about the microfinance network, this is not possible until there is more known about the different program types and conversation types. The group also needs to mirror a pre-test group in terms of demographics, location and program type.

There does appear to be a strong link between the microfinance money conversation and an improvement in financial capability and that this can be quantified. The structure of the instrument works, however to be methodologically robust, there needs to be changes in processes to ensure that other variables are taken into account.
7. DISCUSSION AND RECOMMENDATIONS

The results from the surveys indicate that there is a link between the ‘money conversation’ or ‘financial conversation’ that takes place during a microfinance application and improved financial capability. The data showed that this was particularly evident for questions pertaining to saving. Given that there was the need for the loan repayment to be added to existing budgets, this is a good result. It means that organisations and loan workers are actually having an effective financial conversation with their participants, and are working with people to ensure that they can meet this additional expense. It also provides evidence that microfinance programs are flexible enough to work within a person’s budget instead of imposing more financial pressures. It may also be that during the application process, workers are able to find more savings in participants’ budgets than the cost of the loan. Finally, the act of mapping out and talking through their budget gave people a greater sense of control.

More research needs to be conducted to investigate these possibilities. Further research also needs to be conducted to more definitively understand to what extent the financial conversation directly impacts on participants’ financial capabilities. While this study establishes there is indeed a link, and explores the appropriate ways this data can be collected, the pilot nature of the study means that further data collection is necessary, based on the recommendations of this report. To fully measure the extent of this link, a survey needs to be conducted within an established sampling frame, using trained social researchers and with a truly representative sample. It also requires a more robust baseline measure. Retrospective rankings and self-ratings both have many limitations. However, with the right resourcing it is possible to quantify the extent to which the microfinance financial conversation impacts on financial capabilities. Ideally, people who are not approved for microfinance loans would also be included in the study. It is possible that the financial conversation impacts more on people who are not approved, since approval requires a relatively stable financial position – which presumes a certain level of financial capability.

If the goal of microfinance programs is to improve people’s capabilities, then the financial conversation as part of the application and assessment process becomes central to achieving this outcome. This shifts the focus away from a simple output (i.e. a loan). Rating scales would need to be flexible enough to measure any variations in the existing financial capacity of microfinance participants.

It is also important to better understand which parts of the financial conversation are most effectively supporting people. Is it the drawing up of budgets? Is it the review of bank account statements? Does the trust conferred to repay the loan improve people’s confidence in their financial capability? Are differing aspects of more or less use to different borrowers? This section proposes various methods for answering these important questions, including using different ratings scales, collection instruments and processes to measure the impact of the financial conversation. Also outlined in this section are the implications of the findings on policy and practice.

7.1. The link between microfinance and financial capability

The questionnaire responses demonstrated that there is a strong link between the financial conversation and financial capability. Unsurprisingly, they also demonstrated that many participants self-identify that they already have a high level of financial skills and knowledge. More often, it is a lack of income coupled with an increase in cost pressures that hinder them from effectively exercising their agency – an essential component of financial capability. This is perhaps where microfinance most enables financial capability. It provides access to safe and affordable financial services, increasing financial inclusion and hence decreasing the barriers to engaging with the market. However, the process of itself is also demonstrated to improve money confidence.

7.2. Further scoping

There needs to be further scoping as to what is actually covered during the financial conversation and the difference in microfinance program delivery among the network. The research chose financial capability indicators which were quite broad, a necessity to capture the diversity in the network. Studies need to be conducted across the network as to the different types of financial conversations. Some programs see microfinance as purely transactional in nature without too much focus on budgeting and building capabilities, others look at it in the context of other supports (for example, as part of a suite of support for women leaving violence), while for others microfinance is their primary focus. Hence, these different models would possibly cover different areas and vary in size, scope and approach. This needs to be understood in order to develop the appropriate sampling frame for future surveys.

Recommendation One: Good Shepherd Microfinance conducts a scoping exercise to map and develop a typology of approaches to microfinance programs nationally.

7.3. Ideal data collection method and sampling

Best practice outlines that personal interviews, conducted by trained social researchers who are independent from the participants, are the best way to conduct this type of research.

This methodological study has demonstrated that the best option is to ask a group of participants questions prior to the loan interview, and then ask the same questions of the same group after the application process. In
this way, any changes can be directly attributed to the financial conversation - more so than when using a control group as the baseline measure. It is also possible to measure how many people experience an improvement, instead of just the broader population measure of whether there is an improvement. The same questions could then be asked of the same group in six to twelve months’ time to measure the impact of microfinance more broadly - beyond the application process itself. These pre-test and post-test questionnaires should be asked of participants irrespective of whether they are approved for the loan or not; this allows for measuring the impact of the conversation as a separate intervention, as well as the combination of the financial conversation and the loan.

Alternatively, a baseline measure could be established through a control group which mirrors the demographic profile of microfinance participants. This baseline would answer questions regarding financial capability prior to the microfinance financial conversation. A different group are then asked the same questions after the loan application in order to gain a true ‘pre-test’ and ‘post-test’ as a compromise.

**Recommendation Two:** Future surveys should conduct a pre-test with respondents who have not yet participated in the microfinance application process, in order to develop an appropriate baseline against which to measure change.

**Recommendation Three:** In future surveys, post-application questionnaires should be conducted, ideally with the same group as interviewed in the pre-test, to quantify any change in financial capability.

**Recommendation Four:** In future surveys, post-application questionnaires should be conducted with all applicants, irrespective of whether or not they are approved for microfinance, in order to measure both the impact of the conversation as a stand-alone intervention, as well as the combination of the conversation and the loan.

In order to develop the appropriate sampling frame, it is also necessary to understand the borrower demographics and overlay this with the typology of programs. Through this, a representative sample can be developed that can be generalisable to the broader population and reflects both the differences in participants as well as the differences in the organisations. This process would eliminate the need to conduct a census.

**Recommendation Five:** Good Shepherd Microfinance should collect and report on borrower data in order to develop an appropriate sampling frame which takes into account variations in program type, geography and participant demographics.

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### 7.4. Challenges

Challenges exist primarily in the sheer breadth and diversity of programs and how much can be expected of the programs themselves to conduct these types of questionnaires, as well as in the potential lack of objectivity in the results. It is also important to ensure that the person conducting the questionnaires is objective, and separate to the process. Hence, it is recommended that an external organisation with expertise in market and/or social research conduct the surveys. While utilising an external firm provides research skills and objectivity, it also presents different ethical considerations. Participants are clients of the individual organisations rather than of Good Shepherd Microfinance; therefore there are limitations on what information can be collected about these borrowers. Some personal details are required by researchers if there is to be a true impact study, and these records would be needed to be kept and accessed outside the client organisations. Consent would need to allow for that. Similarly, there are many organisations that have their own ethics approval processes. Again, given the scale and diversity in programs, this could prove to be a challenge if multiple ethics approval processes were required.

In order to overcome these challenges, it may be necessary to make changes to the microfinance agreements, to allow for clients to give their consent to participate in research, approve release of data, and agree to be contacted by another organisation. This is already in place in many programs and may be a realistic option.

**Recommendation Six:** Changes should be made to agreements for Good Shepherd Microfinance providers to allow for external research organisations contracted by Good Shepherd Microfinance to conduct population-based surveys, in order to overcome potential barriers of multiple ethics approval applications.

In the absence of this option, there are alternatives that - although not as robust - would still allow for there to be some evaluative measure of the impact of the microfinance financial conversation.

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### 7.5. Other potential data collection methods

One of the simplest ways to collect this information would be through a standard evaluation form completed at the end of an interview. Although not rigorous enough to be included in formal research, it is easy to implement and provides direct feedback to the program. Questions asked could be similar to the evaluative questions in the second iteration of the survey. It is suggested that an individual who was not involved in the conversation or loan process complete the questionnaire with each client. This provides a measure of objectivity while also allowing virtually all clients to participate.
7.6. Types of measures – objective versus subjective

This survey used subjective measures of financial capability and relied on self-rankings. This option was used for two primary reasons. First, it was considered a respectful way to engage with the clients. Second, from a practical standpoint it was not possible to use a trained researcher to conduct so many questionnaires across such a wide band of organisations. Subjective measures do face the challenge of participants ‘not knowing what they do not know’. This was overcome in the research by using retrospective questions, which gave clients an opportunity to reflect on what they did not know prior to the interview process. However, the retrospective nature of the study also weakened its robustness as a pre-test.

It is possible to use objective measures, such as some of those in the ANZ survey, by asking people to complete certain tasks both pre- and post-intervention (for example, calculating interest on savings), in order to see whether it is performed correctly or incorrectly, with the expectation that more tasks will be completed correctly post-intervention.

The issues with these types of indicators are that they assume a level of general literacy that may not be present. It is also difficult to ensure that the objective measures are relevant to participants. As outlined in the report, there are many elements of financial capability and there are many financial literacy questions that are not relevant to microfinance participants. For example, a person on a Disability Support Pension may not need to know too much about their retirement planning if they had been receiving a pension for some time. There are many things known about the population group that render many of these indicators somewhat redundant. It was also considered more respectful to allow participants to reflect because in this way, it is relative to their experience and not contingent on their ability to process and interpret information that can be quite abstract.

It is recommended that self-ratings be retained when attempting to measure the impact of the microfinance financial conversations and that this reflective process continues to be the focus of microfinance. It is important that both the individual and structural factors of financial capability are taken into account, as reflected in the measures outlined in this report.

Recommendation Seven: Future surveys should retain subjective evaluations of participants’ perceived financial capabilities.

7.7. Practice implications

Now that a link has been established between the microfinance financial conversation and financial capability, it is important to better understand the different types of financial conversations. However, it is also important to recognise the existing capabilities of participants. The current process should remain flexible enough to allow for these variations. It may be worth assessing existing levels of capability prior to a formal application to ascertain the extent to which a ‘financial conversation’ is necessary. This would allow for improved targeting of limited resources, while also displaying respect for clients.

Recommendation Eight: Models of microfinance service delivery should work from a client’s strengths base and recognise existing capabilities when engaging in financial conversations.

While the lack of process uniformity is identified as one of the challenges of conducting this type of research, the flexibility of programs also allows for a broad range of approaches used in order to achieve programs aims. Financial exclusion is multi-faceted and the individuals who experience it bring with them a wide range of experiences. A one-size-fits-all approach is unlikely to work. Flexibility needs to be retained; however it is important to understand the different program types if a population survey is to be undertaken in the future.

Recommendation Nine: The diversity and flexibility of microfinance programs should be retained and better understood in order to respond to individual and local needs.

7.8. Policy implications

When developing responses to financial exclusion and working with people to improve their financial capability, this research highlighted that structural barriers are just as important to address as the individual barriers. In terms of providing individuals from vulnerable groups with appropriate financial information to support developing their skills and knowledge, research indicates that this is best done in times of financial stability – for example when applying for microfinance. The results of this research also supports that the microfinance application improved participants’ capabilities. Microfinance addresses the immediate need for finance, and works in preventing financial hardship by providing financial information.

Recommendation Ten: Government supports community-based financial education for vulnerable groups at different points in time, to both support people in financial hardship, as well as in its prevention.

Participants often felt capable but nevertheless unable to exercise agency, as they did not earn enough to apply financial skills, knowledge and behaviours. An increase in the cost of living, verbose product disclosure statements and lack of appropriate financial services were all identified as significant barriers.
Recommendation Eleven: Financial exclusion and financial capability should be seen in the broader context of the need for income adequacy to meet cost of living pressures, and adequate financial services regulation.

When faced with a money shortfall, participants more often than not cut down on their spending or went without. Few accessed other supports such as emergency relief. This has implications for the way these services are delivered. It is important to understand why people did not access other support when they needed it. It is also important to understand what people are ‘doing without’ and what this means for their personal and material wellbeing. This would validate if it is indeed a ‘positive’ behaviour in the event of a money shortfall.

Recommendation Twelve: The government and/or the community sector should conduct research into what participants are ‘going without’ in order to make ends meet to validate whether this is in fact a ‘positive’ behaviour. Empowering the individual with the skills and knowledge to adopt positive behaviours is only part of the picture. The structure of mainstream financial services, the adequacy of the social security safety net, and the ability to absorb cost of living increases require equal attention in order to increase the financial capabilities of people on low income. A truly comprehensive approach addresses both the causes and consequences of financial exclusion and the structural inequities that can inhibit people on low income in exercising their agency. Focus on the behavioural aspects in the absence of analysis of the structural impediments is not sufficient. It has been shown that access to microfinance has the capacity to deliver both.
8. REFERENCES


# Appendix 1 – Phase 1 questionnaire

**Office Use Only - For interviews:** I have obtained the consent of the respondent to complete the questionnaire.

**Signature of loan worker:**

<table>
<thead>
<tr>
<th>1. What loan or savings program did you use?</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No Interest Loan (NILS)</td>
<td>☐</td>
<td>Low Interest Loan (StepUP)</td>
<td>☐</td>
</tr>
<tr>
<td>Matched Savings Program (AddsUP)</td>
<td>☐</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. 6 months before taking out your loan or savings program, were you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a weekly budget for household expenses</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Keep track of the amount spent on living expenses</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Check bank statements for income and expenses</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Plan for large expenses</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Resist pressure to spend or borrow</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. At the moment, are you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a weekly budget for household expenses</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Keep track of the amount spent on living expenses</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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</tr>
<tr>
<td>Check bank statements for income and expenses</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Plan for large expenses</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Resist pressure to spend or borrow</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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</tbody>
</table>

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<tr>
<th>4. If you answered “never” to anything above, why is that? (You can tick more than one reason)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Not enough income</td>
<td>☐</td>
<td>Lack of advice or help</td>
<td>☐</td>
</tr>
<tr>
<td>Lack of practice or experience</td>
<td>☐</td>
<td>Lack of time</td>
<td>☐</td>
</tr>
<tr>
<td>Increased expenses</td>
<td>☐</td>
<td>Other (Please specify):</td>
<td>☐</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. 6 months before taking out your loan or savings program, were you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Put aside enough money for an emergency</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Put aside enough money for future goals</td>
<td>☐</td>
<td>☐</td>
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<tr>
<th>6. At the moment, are you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
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</thead>
<tbody>
<tr>
<td>Put aside enough money for an emergency</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Put aside enough money for future goals</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<th>7. If you answered “never” to any of the above, why is that? (You can tick more than one reason)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Not enough income</td>
<td>☐</td>
<td>Lack of advice or help</td>
<td>☐</td>
</tr>
<tr>
<td>Lack of practice or experience</td>
<td>☐</td>
<td>Lack of time</td>
<td>☐</td>
</tr>
<tr>
<td>Increased expenses</td>
<td>☐</td>
<td>Other (Please specify):</td>
<td>☐</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>8. 6 months before taking out your loan or savings program, were you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choose banking options that were right for you</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

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<tr>
<th>9. At the moment, are you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choose banking options that are right for you</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<thead>
<tr>
<th>10. If you answered “never,” why is that? (You can tick more than one reason)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Too complex/ too much fine print</td>
<td>☐</td>
<td>Not enough income</td>
<td>☐</td>
</tr>
<tr>
<td>Costs of accounts/loans too high</td>
<td>☐</td>
<td>Lack of time</td>
<td>☐</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>☐</td>
<td>Bad experience with banks or lenders</td>
<td>☐</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>11. 6 months before taking out your loan or savings program, were you able to:</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get information about money questions</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Check Centrelink entitlements</td>
<td>☐</td>
<td>☐</td>
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<td>☐</td>
</tr>
<tr>
<td>Make a complaint about a bill</td>
<td>☐</td>
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</table>

(Please turn over to complete reverse side)
12. At the moment, are you able to:

<table>
<thead>
<tr>
<th>Option</th>
<th>Never</th>
<th>Sometimes</th>
<th>Usually</th>
<th>Always</th>
</tr>
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<tbody>
<tr>
<td>Get information about money questions</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Check Centrelink entitlements</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Make a complaint about a bill</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

13. If you answered "never" to any of the above, why is that? (You can tick more than one reason)

Don't know who to ask ☐ Lack of time ☐ Bad experience with organisations ☐
Lack of practice or experience ☐ Other (please specify) ☐

14. If there is money left over, what do you usually do with it? (You can tick more than one reason)

Leave it in a savings account ☐ Lend it to family or friends ☐ Never money left over ☐
Give it to someone else to save for me ☐ Spend it ☐ Save it in cash at home ☐
Other (please specify) ☐

15. What would you usually do if you ran out of money? (You can tick more than one reason)

Sell goods to cash converters or pawn brokers ☐ Don’t know what I’d do ☐ Not pay bills ☐
Cut back on spending or do without ☐ Access vouchers/emergency relief ☐ Contact Centrelink for a loan ☐
Get a loan from a payday or main street lender ☐ Borrow money from family or friends ☐
Other (please specify) ☐

16. Overall, how has your situation changed since taking out the loan or savings plan?

<table>
<thead>
<tr>
<th>Option</th>
<th>Worse</th>
<th>No change</th>
<th>A little better</th>
<th>A lot better</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in situation</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

17. Sex:
Male ☐ Female ☐

18. Postcode: [__][__][__][__]

19. What is your age Group?

15-24 ☐ 25-34 ☐ 35-44 ☐ 45-54 ☐ 55-64 ☐ 65-74 ☐ 75-84 ☐ 85+ over ☐

20. What is your main source of income?

- Age Pension - Centrelink ☐ Age Pension-Veterans Affairs ☐ Salaried Employee ☐ Carer Payment ☐
- Newstart ☐ Parenting Payment-Single ☐ Self-Employed ☐ Disability Support Pension ☐

21. What is your average weekly household income including any Centrelink payments?

<table>
<thead>
<tr>
<th>Income Range</th>
<th>☐</th>
<th>☐</th>
<th>☐</th>
<th>☐</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1-$149</td>
<td>$150-$249</td>
<td>$250-$399</td>
<td>$400-$599</td>
<td>$600-$799</td>
</tr>
<tr>
<td>$800-$1000</td>
<td>$800-$1000</td>
<td>$2000 or more</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22. Who lives in your household?

- Single no children ☐ Single parent with children under 15 and/or dependant students ☐ Extended family/living with other family members ☐
- Couple no children ☐ Couple with children under 15 and/or dependant students ☐ Group household ☐

23. Are there any other comments you wish to make?

____________________________________________________
____________________________________________________
____________________________________________________
Appendix 2 – Phase 2 questionnaire

NILS® and StepUP Questionnaire

We are interested in your feedback to help us improve our programs. We would be grateful if you could take the time to fill out the following questionnaire and return it to your loan worker or to Good Shepherd Youth and Family Service in the envelope provided. Please answer the questions as best you can. All of the responses are confidential and it will not affect any future service you might use.

1. Completed by: Borrower/Saver: □
   Worker: □ (Please sign confirming consent received) Sign: __________________________

2. Which loan or savings program did you apply for?
   No Interest Loans Scheme (NILS®): □
   Low Interest Loan (StepUP): □

The loan application and money
The first part of the questionnaire is to get an understanding of how often you felt able to do certain things with money before you applied for your loan, and check to see what the application covered. The application process is different for everyone, so there are no right or wrong answers. It is just to get a better understanding of the application process.

3. Thinking back to before you applied for the loan program, can you give us an idea of how often felt able to do the following, on a scale of 1 to 10:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Never</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>n/a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep a weekly budget</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keep track of living expenses</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check bank statements for fees and expenses</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan for large expenses (for example, car registration)</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put money aside for an emergency (e.g. medical emergency)</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put money aside to achieve goals (e.g. a holiday)</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Now, after the application process, do you feel like there have been any changes in these things? Please rate on a scale from 1 to 10, one being things are a lot worse, to 10 meaning things are a lot better

<table>
<thead>
<tr>
<th>Activity</th>
<th>A lot worse</th>
<th>No change</th>
<th>A lot better</th>
<th>n/a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keeping a weekly budget</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keeping track of living expenses</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Checking bank statements for fees and expenses</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning for large expenses (for example, car registration)</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Putting money aside for an emergency (e.g. medical emergency)</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Putting money aside for goals (e.g. save for a holiday)</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Can you think of anything that might get in the way of doing any of the above (You can answer more than one if you like)

<table>
<thead>
<tr>
<th>obstacle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not earn enough money</td>
</tr>
<tr>
<td>I don’t have enough time</td>
</tr>
<tr>
<td>I haven’t had any practice</td>
</tr>
<tr>
<td>Things are getting more expensive</td>
</tr>
<tr>
<td>There is no-one I can ask</td>
</tr>
<tr>
<td>Other (please specify):</td>
</tr>
</tbody>
</table>

The application and money questions
The next part is about dealing with banks and other services. Please let us know what your experience was like before the application and rate any changes you may have experienced since you applied.

6. Thinking back to before you applied for the loan, can you give us an idea of how often felt able to do the following, on a scale of 1 to 10:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Never</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>n/a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal with banks and understand your options</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Get information or assistance with questions about money</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Make sure you were getting your correct payments (e.g. Centrelink)</td>
<td>□</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please turn over and complete the other side.
7. **Now, after the application process**, do you feel like there have been any changes in these things? Please rate on a scale from 1 to 10, one being things are a lot worse, to 10 meaning things are a lot better.

<table>
<thead>
<tr>
<th>A lot worse</th>
<th>No Change</th>
<th>A lot better</th>
<th>n/a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal with banks and understand your options</td>
<td>1 2 3 4 5 6 7 8 9 10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Get information or assistance with money questions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Make sure you’re are getting your correct payments (e.g. Centrelink)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. Can you think of anything that might get in the way of doing any of these things *(You can answer more than one if you like)*

- Do not earn enough money
- Things are getting more expensive
- There is too much fine print

9. If you have any money left over, what do you do with it?

- Leave it in a savings account
- Lend it to family or friends
- Give it to someone else to save for me

10. If you run out of money what do you do?

- Cut back on spending/do without
- Borrow money from family or friends
- Not pay bills
- Contact Centrelink for a loan
- Other (Please specify):  

11. What is your sex? Male [ ] Female [ ]

12. Please enter your postcode:  

13. What is your age?  

14. What is your source of income?

- Age Pension-Centrelink
- Carers Payment
- Newstart
- Family Tax Benefit
- Other (please specify):  

15. Who do you live with?

- Single no children
- Couple with no children
- Group household
- Other (please specify):  

16. What is your cultural background?  

17. Do you want to add any comments?  

Thank you for filling out the questionnaire. Please place it in the envelope provided and return to Good Shepherd Youth and Family Service or return to your loan worker.
NILS®, StepUP and AddsUP Questionnaire

We are interested in your feedback to help us improve our programs. We would be grateful if you could take the time to fill out the following questionnaire and return it to your loan worker or to Good Shepherd Youth & Family Service in the envelope provided.

The questions are designed to understand how often you feel able to do certain things with money. It is different for everybody and there are no right or wrong answers, please just answer as best you can. All of the responses are confidential and will not affect any future service you might use.

1. Completed by: Borrower/Saver: □ 
   Loan Worker Use Only 
   Worker: □ (Please sign confirming consent received) 
   Sign: ________________________

2. Which loan or savings program did you apply for?

   No Interest Loan Scheme (NILS®) □  
   Low Interest Loan (StepUP) □  
   AddsUP □

3. Since applying for the loan or savings program, how often would you say you feel able to do the following, on a scale of 1 to 10?

   |   | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | n/a |
---|---|---|---|---|---|---|---|---|---|---|----|----|

   Keep a weekly budget
   Keep track of living expenses
   Check bank statements for fees and expenses
   Plan for large expenses (e.g. car registration)
   Put money aside for an emergency (e.g. medical emergency)
   Put money aside to achieve goals (e.g. a holiday)

4. Can you think of things that might get in the way of doing any of the above? (You can answer more than one if you like)

   Do not earn enough money □  
   I don’t have enough time □  
   I haven’t had any practice □  
   Things are getting more expensive □  
   There is no-one I can ask □  
   Other (please specify): __________________________

5. Since applying for the loan or savings program, how often would you say you feel able to do the following, on a scale of 1 to 10?

   |   | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | n/a |
---|---|---|---|---|---|---|---|---|---|---|----|----|

   Deal with banks and understand your options
   Get information or assistance with questions about money
   Make sure your were getting your correct payments (e.g. Centrelink)

6. Can you think of anything that might get in the way of doing any of these things? (You can answer more than one if you like)

   Do not earn enough money □  
   I don’t have enough time □  
   I haven’t had any practice □  
   Things are getting more expensive □  
   There is no-one I can ask □  
   Other (please specify): __________________________

7. If you have any money left over, what do you do with it? (You can answer more than one if you like)

   Leave it in a savings account □  
   Never any left over □  
   Spend it on something needed □  
   Lend it to family or friends □  
   Save it in cash at home □  
   Spend it on something special □  
   Give it to someone else to save for me □  
   Other (please specify): __________________________

Please turn over and complete the other side
8. If you run out of money what do you do?

- Cut back on spending/do without
- Borrow money from family or friends
- Not pay bills
- Contact Centrelink for a loan
- Never run out
- Access vouchers/emergency relief
- Get a loan from a payday lender
- Sell goods to Cash Converters/Pawn Broker
- Don’t know what I would do
- Other (please specify): _______________________

9. What is your sex? Male ☐ Female ☐

10. Please enter your postcode: ______________________

11. What is your age? ______________________

12. What is your source of income?

- Age Pension-Centrelink ☐
- Age Pension-Veterans Affairs ☐
- Salaried Employee ☐
- Carers Payment ☐
- Parenting Payment-Single ☐
- Parenting Payment-Couple ☐
- Newstart ☐
- Self Employed ☐
- Disability Support Payment ☐
- Family Tax Benefit ☐
- Other (please specify): ______________________

13. Who do you live with?

- Single no children ☐
- Single with children under 15 and/or dependant students ☐
- Couple with no children ☐
- Couple with children under 15 and/or dependant student ☐
- Group household ☐
- Extended family/living with other family members ☐
- Other (please specify): ______________________

14. 15. What roughly is your fortnightly income?

- $0-$399 ☐
- $400-$799 ☐
- $800-$1199 ☐
- $1200-$1599 ☐
- $1600-$1999 ☐
- $2000-$2999 ☐
- $3000+ ☐
- Not Sure ☐

15. Would you like to add any comments?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Thank you for filling out the questionnaire. Please place it in the envelope provided and return to Good Shepherd Youth & Family Service or return to your loan worker.
## Appendix 4 – Best practice OECD Survey

<table>
<thead>
<tr>
<th>Questions to cover methodology</th>
<th>Summary of research OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Who to interview</strong></td>
<td>Individuals or households?</td>
</tr>
<tr>
<td></td>
<td>Households are not necessarily stable over time; however an individual's decision-making is influenced by others and impacted by their relationships.</td>
</tr>
<tr>
<td></td>
<td>Age limits</td>
</tr>
<tr>
<td></td>
<td>Eighteen years of age is the age when most individuals begin to adopt some autonomy in regards to money management</td>
</tr>
<tr>
<td><strong>Survey Method</strong></td>
<td>Personal interviews (over the phone or face-to-face)</td>
</tr>
<tr>
<td></td>
<td>Personal interviews are preferred, particularly when the survey questions are complex, as there is less room for interpretation errors. Face-to-face is a preference when the survey is longer. Both data collection methods are the most expensive to run. Face-to-face interviews can sometimes mean less of a representative sample. Telephone requires the participants to have access to that technology.</td>
</tr>
<tr>
<td></td>
<td>Self-completion surveys (web or paper based)</td>
</tr>
<tr>
<td></td>
<td>Generally cheaper to run and arguably more honest given anonymity. However, it is not possible to probe replies and skew sample as it relies on a certain level of literacy and numeracy. Also tends to have lower response rates.</td>
</tr>
<tr>
<td></td>
<td>Using an existing survey</td>
</tr>
<tr>
<td></td>
<td>Cheaper as long as the existing survey is by reputable organisation. However, can limit how many questions can be asked and can influence responses depending on what other questions form part of existing survey.</td>
</tr>
<tr>
<td><strong>Sampling</strong></td>
<td>Sampling size and design</td>
</tr>
<tr>
<td></td>
<td>Dependent on the way the data is analysed and the number of responses expected will determine how big a sample needs to be collected, and what level of precision is needed. Whether certain groups are of particular interest also needs consideration.</td>
</tr>
<tr>
<td></td>
<td>Sampling method – random sampling</td>
</tr>
<tr>
<td></td>
<td>Generally produces the most representative sample, however require an accurate and comprehensive sampling frame.</td>
</tr>
<tr>
<td></td>
<td>Sampling method – quota samples</td>
</tr>
<tr>
<td></td>
<td>Instructions of types of people to be interviewed. Can be done through random dialling or choosing specific locations. The latter means less bias in sample however is possibly less representative.</td>
</tr>
<tr>
<td><strong>Design</strong></td>
<td>Covered in conceptual framework</td>
</tr>
<tr>
<td>Considerations for this research</td>
<td>Best Practice OECD</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Surveying the individual is considered best practice, as it can measure personal financial capability, as well as questions about their decision making role in the household</td>
<td>Individual surveys</td>
</tr>
<tr>
<td>Many microfinance borrowers do not fit the standard criteria and there are many young people (over sixteen) who take out microfinance loans.</td>
<td>Adults over the age of eighteen, with no upper age limit</td>
</tr>
<tr>
<td>Funding constraints, breadth of participating organisations and their structures and the extent to which it could be expected that workers and volunteers give up their time. Similarly, given the breadth of organisations and the differences in their size, research ethics approval is more of a challenge. The varying level of skills among microfinance workers and volunteers also need consideration.</td>
<td>Personal interview, either over the phone or face to face depending on local context. However, the results from over the phone and face to face are not necessarily comparable given the different limitations.</td>
</tr>
<tr>
<td>It was unlikely there would be a sufficient scale to be completely representative. There are also less variables being explored in this context as microfinance borrowers have similar socio-economic experiences in terms of income however markedly different personal experience, which is not possible to collect in a quantitative survey.</td>
<td>Random sampling or quota sampling. In each instance, detailed quotas are required to ensure the sample is representative.</td>
</tr>
<tr>
<td>Too challenging as not sure of the demographics and not enough information to develop a sampling frame to ensure it would be representative.</td>
<td></td>
</tr>
<tr>
<td>Would require a centralised data collection method, which was not possible in this context. Records are kept by organisations providing microfinance and to varying degrees. It would not be possible to ensure that each person collected would be able to do so up to a certain quota.</td>
<td></td>
</tr>
</tbody>
</table>