



Small is the new big: **Measuring the impact** **of NAB's Microenterprise** **Loan program**

The Centre for Social Impact for NAB
March 2012



more give, less take



Oskar Franks – Ricky James, NAB Microenterprise Loan Recipient

Working in fashion and retail had always been Ricky James' forte and sustainability was a growing area of interest. "I had always returned to the retail world because that is where my true passion lies." It only made sense he combined his interests together and created Oskar Franks, an organic underwear and sleepwear line for men.

There was just one problem: his enterprise was going to need at least \$15,000 to get it off the ground. "I knew I had no chance of obtaining a mainstream loan. To be honest I didn't even think I was eligible for a Microenterprise Loan."

Luckily a friend introduced him to the New Enterprise Incentive Scheme (NEIS) and Ricky began his journey, completing a business training course to develop a business plan and then applying for the loan from NAB. Ricky couldn't believe how simple the loan process was. "I was purchasing material within two weeks."

Ricky James is ecstatic about the success so far and the future life of Oskar Franks. "We have nearly sold all stock from the first collection and the second collection is in production as we speak." Ricky James hopes to expand the Oskar Franks line into women's wear by the end of the year.

**To find out more about Oscar Franks
visit www.oskarfranks.com**

Foreword from NAB

NAB remains committed to the long-term success of the Microenterprise Loans program and to continuing to find innovative ways to provide access to mainstream business finance in Australia.

For over 150 years, NAB has supported Australia's entrepreneurial spirit. We are proud of the role we have played in assisting individuals to evolve ideas and thoughts to successful enterprises – or in other words, helping small acorns grow into big oak trees.

As Australia's leading business bank, everyday we are given the opportunity to meet extraordinary people who come to us with an amazing idea, looking for someone to believe in them. Generally their idea has come from an observation, something that others might have missed but which they themselves believe in and know will be a success.

At NAB, we pride ourselves on recognising and encouraging this spirit as we seek to address financial exclusion in Australia. We know that a healthy small business sector is critical to the success of Australia's economy, and we are absolutely focused on doing what we can to support the sector to flourish – because we all benefit when it does.

However we also know that having a great idea and a heap of passion alone will not guarantee success, and that the ability of small businesses to access finance is vital to encouraging growth and creating employment opportunities.

It was with this in mind NAB established the Microenterprise Loans program in 2007. Since then we have been providing unsecured loans of up to \$20,000 at an affordable interest rate to those who could otherwise not access finance for their business.

Now into its sixth year the program has grown significantly and will reach a milestone in 2012 as we exceed 1,000 loans. Having provided over \$13 million in funding, the program has helped establish cafes, clothing designers, carpenters and gardeners - to name only a few.

The economic benefits of the program are also impressive, with approximately 282 full time positions created, in addition to the loan recipients' employment, and the enterprises we have supported having an estimated total turnover of \$44 million.

With evidence showing that 50% of start ups fail in the first year, it is clear that a productive small business sector requires support in all areas, not just that of finance. This is why we partnered with a range of organisations including the National NEIS Association, Business Enterprise Centres Australia, and Indigenous Business Australia, who each provide guidance to get businesses up and running, and also ongoing support when times get tough.

While we're proud of the impact NAB's Microenterprise Loan program is having on the lives of the recipients and on the Australian economy, we also know that it's still early days with only a small proportion of loans having come to term. The following report acknowledges the success of the program, but it also identifies improvements that can build on these foundations.

NAB remains committed to the long-term success of the Microenterprise Loan program and to continuing to find innovative ways to provide access to mainstream business finance in Australia.

Above all, we feel privileged to have supported the dreams of almost 1,000 individuals, and to have played our part in keeping Australia's entrepreneurial spirit alive.

Joseph Healy

Group Executive, Business Banking,
National Australia Bank

Executive Summary

NAB's Microenterprise Loan program is part of a commitment by NAB to address financial exclusion in Australia.

These unsecured business loans are for small enterprises that do not have access to mainstream business finance. The loans are not provided as a band-aid or short-term solution: they are part of a wider program and are offered in partnership with established training, mentoring and support initiatives tailored to the specific needs of emerging small businesses.

This report summarises the results of a research evaluation of NAB's Microenterprise Loan program. These findings reveal a variety of positive social and economic outcomes for the program, including:

NAB's Microenterprise Loan program targets a lack of access to mainstream business finance and meets the needs of a wide variety of individuals. The loan recipients have had different challenges in accessing mainstream finance but 59% of survey respondents agree that they found mainstream business finance 'difficult to access'.

The role of the partner organisations is pivotal in NAB's Microenterprise Loan program. The partner organisations identify eligible individuals and connect them with appropriate business literacy training, business mentoring and support.

While many enterprises supported by the program are in their early stages they tend to be stable and have stimulated economic activity. 90% of respondents were still operating their enterprise, and 88% of survey respondents are confident that their enterprise will still be operating in 12 months time. The enterprises have a total turnover of \$44 million and the program is associated with total direct economic benefit to the community and government of at least \$2.5 million.

The program provides a pathway to employment and nurtures job creation. A common pathway through the program was moving from unemployment to operating an enterprise. At least 282 full-time equivalent jobs have been created by the enterprises so far; the creation of the successful enterprises is linked to saving approximately \$7.3 million in Centrelink benefits.

The program has a positive social impact. The research demonstrated that loan recipients reported an increase in self-esteem, skills, financial stability, level of community participation and in their capacity to provide opportunities to their family. There is likely to be further social impact at the household and community level.

These successes have been achieved with relatively low rates of default and costs to date.

The report findings show that NAB's Microenterprise Loan program has strong foundations but it is still early days with only a small proportion of loans having come to term. The report therefore makes recommendations on product and criteria as well as partner programs and market to build on these foundations. Future impact measurement is also recommended to ensure that the program is continuing to achieve high social and economic impact.

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Contents

1. Access to mainstream business finance in Australia	06
2. NAB's Microenterprise Loan program	07
3. The research	11
4. Key findings	12
5. Detailed findings	13
6. Building on strong foundations	25
Appendices: Partner profiles and details on the research approach	27

1. Access to mainstream business finance in Australia

NAB is committed to addressing financial exclusion in Australia. NAB's Microenterprise Loan program is an initiative that provides small enterprises with business finance.

Since the program was launched in 2007, NAB has focused on how the program can create positive social and economic impact and provide finance to those who would not normally meet mainstream criteria. This focus led to a partnership with the Centre for Social Impact (CSI).

Through this research study, CSI has provided independent evaluation and insight into understanding and measuring the impact of NAB's Microenterprise Loans program. This report includes an introduction to the program and research, followed by key findings and detailed results.

Scale and scope

In CSI's 2011 report for NAB, *Measuring Financial Exclusion in Australia*¹, financial exclusion was defined as a "lack [of] access to appropriate and affordable financial services and products". The report referred specifically to the financial exclusion of individuals, however businesses can also be excluded from financial products and services, including affordable business credit².

Microenterprises are one type of business at particular risk of financial exclusion from a lack of access to mainstream business finance³. Many individuals looking to start or grow a microenterprise who may have no employment or credit history, have little in terms of savings to invest in an enterprise, or lack assets such as a home or car to use as security would not generally be eligible for business finance.³ The cost of mainstream credit products, in terms of interest and repayments, may also be prohibitive for many people starting or growing a microenterprise.

The market failure resulting from a lack of appropriate business credit products in mainstream finance for people in socioeconomic disadvantage means that alternative solutions must be found.

Microenterprise finance in Australia

In their 2006 report for NAB, BCG⁴ identified a number of microenterprise loan programs in Australia. Many of these had specific focuses (for example community finance, women in business, Indigenous Australians or young people) and were provided by specialist or community organisations, or credit unions.

Some of these programs offered low-interest or no-interest loans. However, demand for microenterprise loans was not being met. The cost of delivering these loans at a small scale was also relatively high.

¹ Connolly C, Georgouras M, Hems L & Wolfson L 2011, *Measuring Financial Exclusion in Australia*, Centre for Social Impact (CSI) University of New South Wales, for National Australia Bank.

² Burkett I & Drew B 2008, *Financial Inclusion, market failures and new markets: Possibilities for Community Development Finance Institutions in Australia*, Foresters Community Finance.

³ *ibid.*

⁴ Boston Consulting Group 2006, *Establishing a microenterprise development and loans program in Australia*, Boston Consulting Group, for National Australia Bank.

2. NAB's Microenterprise Loan program

NAB's Microenterprise Loan is a unique program that aims to target those having difficulty accessing mainstream business finance. Since 2003, NAB has been developing microfinance solutions to help address financial exclusion, as a core component of their corporate responsibility strategy. They have built these solutions in partnership with state and federal governments and a range of other community organisations. These solutions are part of a wider program that aims to assist financially disadvantaged Australians to move out of poverty by providing safe and affordable financial products, services and advice; and helping them develop financial capability.

As a part of NAB's commitment to promoting financial inclusion, NAB's Microenterprise Loan program was developed. The aim was to help address market failure by growing microenterprise finance in Australia, through the provision of small, low-cost, unsecured business loans to microentrepreneurs without access to capital or mainstream business credit.

NAB's Microenterprise Loan program is unique as it is provided by a major financial institution, therefore can leverage the scale of its operations and network of bankers to keep costs relatively low.

How does NAB's Microenterprise Loan program work?

NAB launched the Microenterprise Loan program in March 2007. The aim of the program is to provide people who have few or no avenues to affordable business credit with unsecured business loans of up to \$20,000.

Who is it for?

- Recipients who are willing to undertake an accredited business training and mentoring program through a partner organisation;
- To help start-up enterprises or to support existing enterprises of five or fewer employees; and
- Recipients must be unable to access mainstream finance.

How does it work?

- An unsecured business loan, offered in the form of a Visa credit card, with a low, subsidised fixed interest rate (currently 5.99%⁵);

- The loan is provided with an interest and repayment-free access period of 90 days to access the funds, the recipient then has 3 years to complete loan repayments; and
- The loan amount can be for up to \$20,000; with an average loan amount of \$15,000.

What is it used for?

- The loan is predominantly used for capital expenses including: purchasing of plant and equipment, stock, leases, IT, or marketing. It cannot be used for cashflow purposes or to refinance existing debt.

Why is it done this way?

- The loan criteria, low maximum limit and shorter term are designed for people struggling to access mainstream business finance and to allow them to transition to a mainstream business loan;
- The credit-card format, focus on capital expenses, and partnership training support are designed to meet the particular needs of small businesses; and
- It is designed to be flexible. The interest and repayment reprieve period allows small businesses to begin to generate cash flow before the first repayments are due, without extending time frame and cost.

⁵ The current rate of 5.99% is lower than the March 2009 rate of 9.95% and remains significantly lower than a comparable unsecured business loan rate with a similar risk profile.

2. NAB's Microenterprise Loan program (cont)

Partnership model

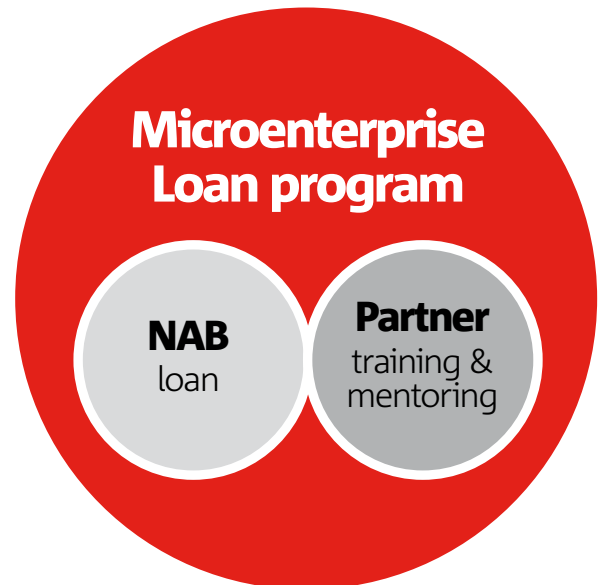
NAB's Microenterprise Loan program is founded on a network of key partnerships with a range of organisations across Australia.

A study for NAB by the Boston Consulting Group (BCG) identified that financial literacy and training programs played a key part in the success of microenterprise finance programs. The role of the partners is critical as they provide a variety of training, mentoring programs and small business advice that complement the provision of the loan. They also play a key role in the loan program by identifying, supporting and encouraging suitable applicants.

Often, lack of access to mainstream finance can be due to self-exclusion, as many eligible applicants avoid applying for finance with a major financial institution due to a lack of experience, knowledge or fear. Program partners provide a range of

entry points and tailored support for a diverse array of entrepreneurs – for example, someone unemployed and seeking financial independence; a younger person with a great idea who does not have asset backing; or an existing business owner with a viable enterprise seeking capital to expand.

This partnership approach is a model that considers support and business literacy as an integral part of running a successful business. The model builds from the experiences of other microfinance programs overseas, where business literacy and mentoring significantly impact the life and success of an enterprise.



NAB's Microenterprise Loan partners include:

- **New Enterprise Incentive Scheme (NEIS)**, with a focus on unemployed people and those on income support.
- **Enterprise Network of Young Australians (ENYA)**, which targets young entrepreneurs aged 18-34.
- **Business Enterprise Centres (BEC) Australia**, supports Business Enterprise Centres around Australia.
- **Indigenous Business Australia (IBA)**, aimed at Indigenous Australians.
- **Others**, including Murdi Paaki, Kinaway Victorian Indigenous Chamber of Commerce, South East Queensland Indigenous Chamber of Commerce (SEQICC), NSW Trade & Investment's Business Advisory Services (BAS) and Business Innovation and Incubation Australia (BIIA).

The process

While each partner organisation may have slightly different eligibility requirements and delivery models, the end-to-end process remains the same for each applicant. The following diagram summarises the process:



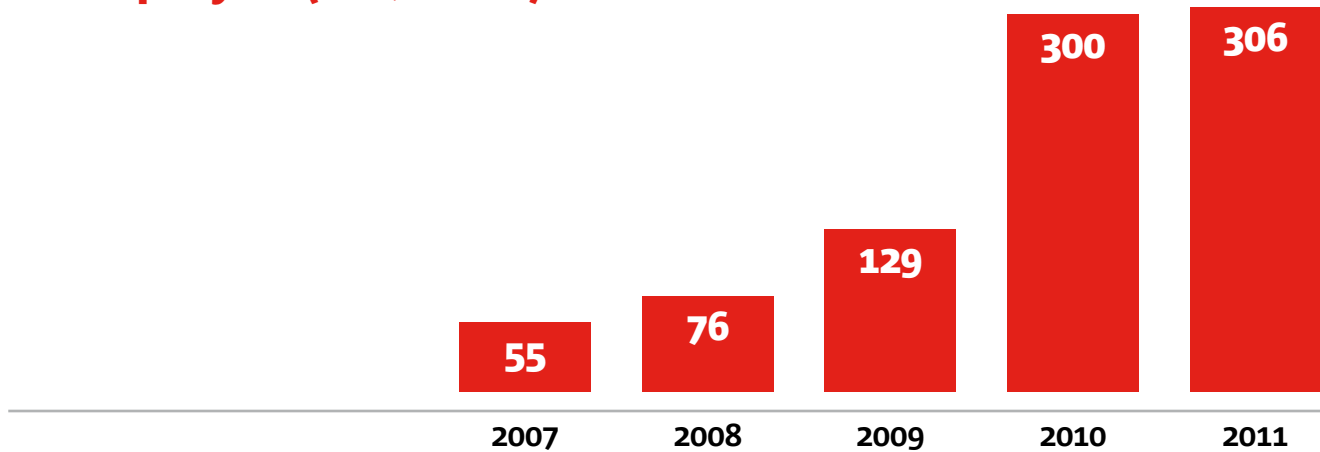
⁶ Note, this is an estimation based on surveying a sample of loan recipients.

Facts

- 866 successful loan applications from April 2007 to January 2012.
- \$13.2 million in capital accessed.
- Loan recipients typically used⁶ 94% of the total amount approved.
- An average of 27 successful loan applications per month.

2. NAB's Microenterprise Loan program (cont)

Number of NAB Microenterprise Loans issued per year (2007 - 2011)



Just over half the loan recipients came through the New Enterprise Incentive Scheme (NEIS), with the remaining coming from a mix of Business Enterprise Centres (BEC), the Enterprise Network for Young Australians, Indigenous Business Australia and other partners.

Partner	Year					Total	%
	2007	2008	2009	2010	2011		
New Enterprise Incentive Scheme	17	15	68	174	200	474	55%
Business Enterprise Centres Australia	-	4	13	41	35	93	11%
Enterprise Network for Young Australians	18	11	22	13	19	83	10%
Indigenous Business Australia	-	4	6	0	4	14	2%
Other	20	42	20	72	48	202	23%
Total	55	76	129	300	306	866	

Arrears and defaults

Microcredit programs in the developed world usually consider 10% to be a reasonable rate of default. The value of loans considered a default in NAB's Microenterprise Loan program (that is those whose payments are more than 120 days overdue) is currently 8.76% of the total loan amount approved, which remains reasonable.

The percentage of the loan book that is in arrears – those that are past due – tends to fluctuate between 12.5% and 20%.

3. The Research

The research undertaken by CSI focused on the process, outcomes and impact of the Microenterprise Loan program. The aims of this research include:

- To collect information and feedback on key inputs of NAB's Microenterprise Loan program, including loan recipients, partner organisations, and program managers;
- To develop a better understanding of the range of social outcomes and impacts of the program using both qualitative and quantitative data collection and analysis; and
- To undertake data modelling at a program-wide level, to explore the broader economic impacts.

Methodology

By using mixed research methods, the research explored how NAB's Microenterprise Loan program impacted upon:

- the loan recipients;
- their enterprises;
- their families and community; and
- the broader economy.

The box to the right summarises the phases of this research:

Phase One

- Perspective: program managers and partners
- 11 semi-structured interviews
- Focus on inputs and aims (processes, resources, recipients)

Phase Two

- Perspective: Microentrepreneurs
- 1 focus group (n=5) and 10 structured interviews
- Qualitative focus on outputs and outcomes

Phase Three

- Perspective: Microentrepreneurs
- Survey (telephone and online formats)
- Quantitative focus on outcomes and impact
- Sample of 41% of all recipients (n=313)

Quantitative results in this report come from a number of sources. The main phase of the research was undertaken from October to December 2011, obtaining a sample of 313 loan recipients. These results were combined with a variety of other independent data sources to

develop a hybrid social-economic model (see Appendix 1), which was used to estimate outcomes and impact for all of 746 enterprises (as of October 2011). More recently, data from January 2012 was used to update figures on total loans issued, defaults and total amount loaned. This is shown below:



There are some limitations with the chosen methodology that should be noted. Statistical bias can occur when sampling from a limited population and may not fully reflect results from the entire cohort. The research also used statistical tests and comparative data to minimise the limitations of survey-based data collection.

4. Key findings

NAB's Microenterprise Loan program targets a lack of access to mainstream business finance. The loan recipients have had different challenges in accessing mainstream finance but 59% of survey respondents agree that they found mainstream business finance 'difficult to access', and 24% had applied for a type of business finance that was not approved.

The loan recipients are a diverse group of individuals. Loan recipients are from a wide variety of backgrounds and previous employment experience. The flexibility of the loan has allowed it to support many different types of enterprises, and to meet a number of needs.

The role of the partner organisations is pivotal in NAB's Microenterprise Loan program. The partner organisations identify eligible individuals and connect them with appropriate business literacy training, business mentoring and support.

While many of the enterprises supported by the program are in their early stages they tend to be stable. 90% of respondents were still operating their enterprise, and only 33 of 313 are no longer operating their enterprise – the reasons for this were mixed (with some positive). 88% of survey respondents are confident that their enterprise will still be operating in 12 months time.

The program provides a pathway to employment and supports job creation. A common pathway through the program was moving from unemployment to operating an enterprise. At least 282 full-time equivalent jobs have been created by the enterprises so far; the creation of the successful enterprises is linked to saving approximately \$7.3 million in Centrelink benefits.

The enterprises have stimulated economic activity, with total turnover of \$44 million and the program is associated with total direct economic benefit to the community and government of at least \$2.5 million.

The program has a positive social impact. The research demonstrated that loan recipients reported an increase in self-esteem, skills, financial stability, level of community participation and in their capacity to provide opportunities to their family. There is likely to be further social impact at the household and community level.

5. Detailed findings

Through data and interview analysis and the development of the economic model, a number of detailed findings were made. Further examination highlighted, among other things, the value of collaboration with the program partners, the difference between the loan's effect for

start-ups and existing enterprises, and the distinctive qualities of the microentrepreneurs. This section also explores the detailed results from the economic model, and an estimation of the economic value created by NAB's Microenterprise Loan.

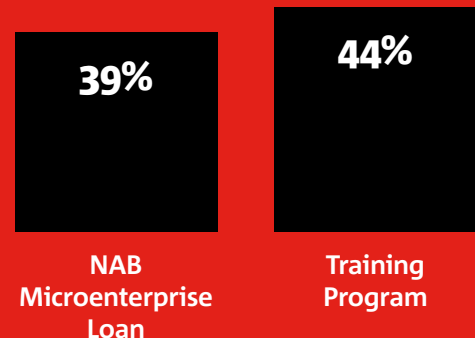
The importance of working together - program partners and the Microenterprise Loan

Finding 1: The role of the partnership approach

One area of focus for the research study was understanding the relationship between partner organisations and NAB, and how this best meets the needs of loan recipients.

Respondents to the research survey clearly indicated how important the training and support provided by partners were to the start-up of their enterprise: 44% of all entrepreneurs with start-ups were not confident they would have started their enterprise without it. It is estimated that 39% of all start-up enterprises would not have started without NAB's Microenterprise Loan.

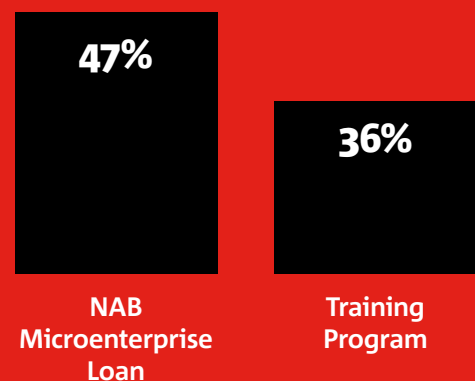
Enterprise would not have started without... (n=196 start-up enterprises)



Furthermore, of those enterprises still operating, many indicated that NAB's Microenterprise Loan played a key role in their survival – 47% of all loan recipients do not think their enterprise would have survived without it, while 36% would not have survived without the training program.

These figures point out the benefits to the loan recipients of the combination of the loan and training structure of the program.

Enterprise would not have survived without... (n=280 surviving enterprises)



5. Detailed findings (cont)

Finding 2: Perspectives on the partnership

The role of the partner organisations is pivotal in NAB's Microenterprise Loan program by identifying and connecting with eligible loan recipients and providing them with appropriate business literacy training, financial support and mentoring.

Some of the key benefits of the relationship with NAB suggested by partner organisations include:

- The loan criteria suits loan recipients and marginalised communities;
- Providing a marketable product to partner organisations, specifically focused on the needs of small businesses;
- Combining the loan and training offers a good combination of financial aid and ongoing support;
- Networks and social capital are created through the relationship with NAB; and
- The ability to offer a subsidised rate microfinance product that is issued by a major financial institution.

The research has also noted some areas of learning for NAB and the partner organisations (included in the discussion and recommendations).

The NEIS program

The NEIS program is one of the Federal Government's longest running and most successful employment initiatives. The program is offered to job seekers receiving unemployment benefits who are interested in starting and running a small business. It incorporates the provision of accredited small business training, advice and mentoring as well as up to 52 weeks of income support.

Participants in the NEIS program are the largest single group in NAB's Microenterprise Loan program, representing 55% of all NAB Microenterprise Loans to date. NEIS is a program with unique benefits and opportunities, including very high rates of positive outcomes and job creation, access to peer and support networks and up to 52 weeks of income support. This group in the survey sample place a high value on the business training they received through NEIS,

with 47% believing they would not have started their enterprise without the training support provided by the NEIS program (compared with 39% for other start-up enterprises). NAB's Microenterprise Loan, however, seemed to play a key role in business survival for NEIS enterprises, with 46% believing their enterprise would not have survived without receiving the loan.

The NEIS program recipients broadly agree that the combination of the program and loan have had positive impacts on their lives – across each of the areas of business skills, financial resilience, family and community. NEIS recipients indicated that the loan and training program played a particularly important role in terms of building their business skills, with 90% agreeing with this statement.

The loan recipients: who are they?

To understand the impact created by NAB's Microenterprise Loan program, it is first necessary to understand who the loan recipients are, what their experiences were, and how the loan impacted upon their enterprise. This section presents some of the key findings and results associated with the experiences and opinions of survey respondents only. They aim to answer the following research questions:

What is the profile of the loan recipients?

Were they at risk of financial exclusion, and how hard was it for them to access mainstream business finance?

What paths did the loan recipients take?

What were their backgrounds and where are they now?

How did the loans impact on individual enterprises?

What was it used for, and how did it help?

Finding 3: Who are the loan recipients?

NAB's Microenterprise Loan attracts a group of individuals with distinctive qualities from a wide variety of backgrounds and levels of training and experience.

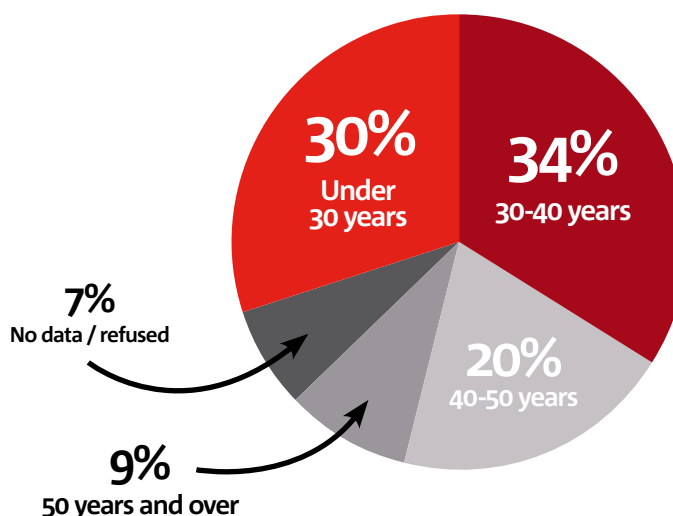
Some key facts about the loan recipients include:

Demographics

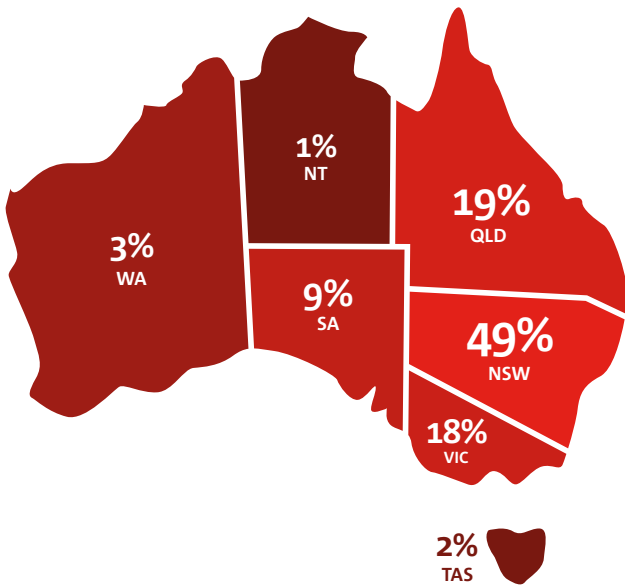
The loan recipients are equally likely to be male (52%) as female (48%). There is some diversity in their backgrounds: 13% were born in a non-English speaking country, with a further 8.7% born in an overseas English-speaking country. 3% of all loan recipients identify as Aboriginal or Torres Strait Islander.

Age

The majority of the loan recipients were in younger age groups; most were aged 30-40 years (34%), 29 years and under (30%) or aged 40-50 (20%). Smaller numbers were aged 50-60 years (7%) or 61 years or above (2%).



5. Detailed findings (cont)

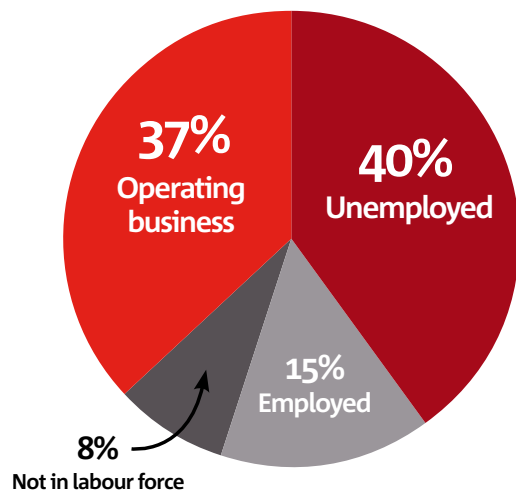


Location

Currently, a high proportion of the loan recipients are in New South Wales or ACT (49%); Queensland (19%); Victoria (18%). There are smaller numbers in South Australia (9%), Western Australia (3%), Tasmania (2%) and the Northern Territory (1%). This geographical spread is influenced by the location of NAB's partner organisations and the scope and scale of their operations rather than the actual location of the loan recipients themselves.

Starting employment status

The loan recipients come from a variety of employment backgrounds. Some received the loan when already operating their own enterprise (37%), or when they were employed elsewhere (15%). Nearly half of the loan recipients were either unemployed when they applied for the loan (40%) or were not in the labour force⁷ (8%).



A distinctive group of entrepreneurs

The research identified some areas where the loan recipients were slightly different to participants of other government-supported job seeker programs. These traits include the demographic characteristics of having **higher levels of education**, with the majority having attained some form of tertiary education (university or vocational);

a higher representation of **single parents**; and also people coming from **unemployment** (as opposed to from outside the labour force). It is possible that these characteristics could create a profile of individuals with higher chances of success and positive outcomes.

⁷ Not in the labour force refers to individuals not actively looking for work, such as stay-at-home parents, or people with illness or disability making them unable to work or look for work.

Access and use of capital for microentrepreneurs

Finding 4: Financial exclusion risk factors among the loan recipients

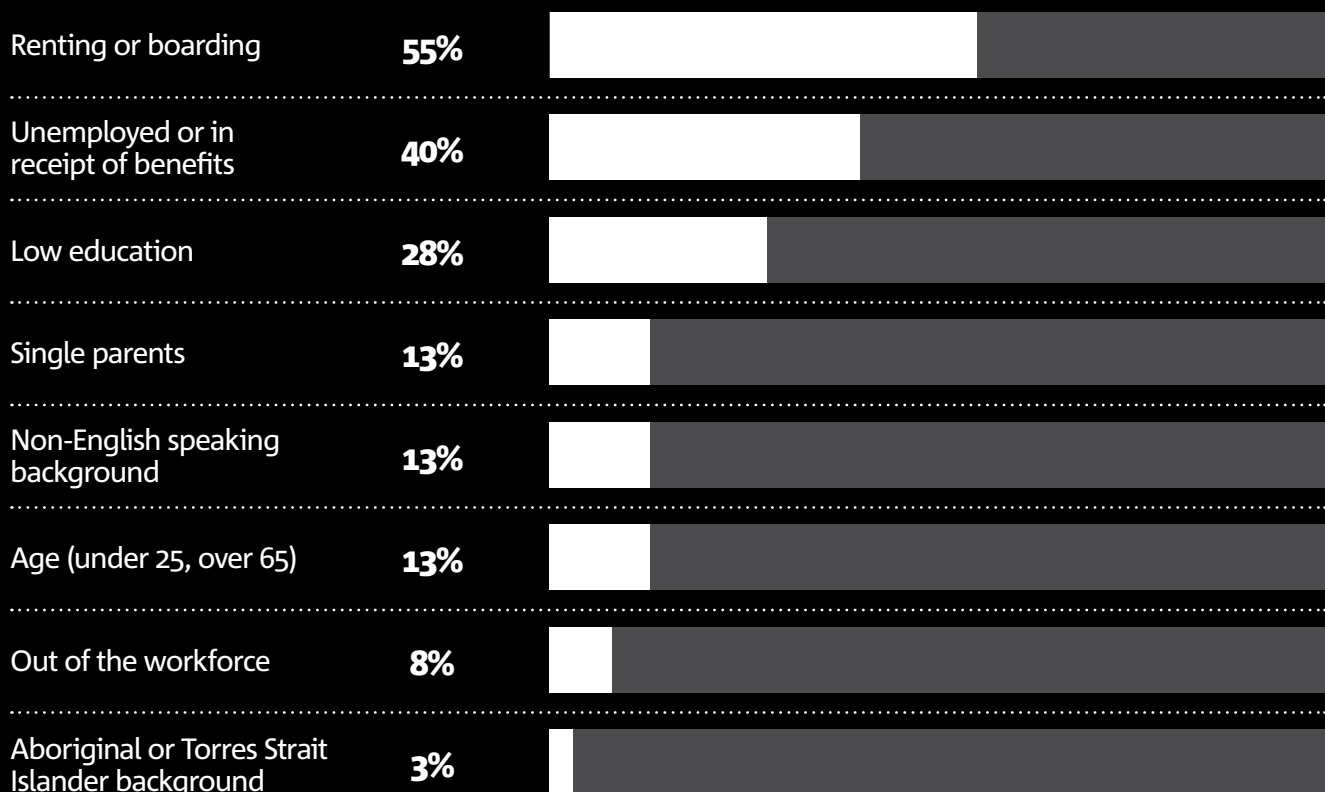
Most of NAB's Microenterprise Loan recipients present some of the individual risk factors of someone who is financially excluded.

Part of understanding the impact of the program is assessing if loan recipients are financially excluded. This was first assessed by determining if loan recipients possess, certain characteristics that have been linked with the risk of financial exclusion at an individual level⁸.

Several of the exclusion risk factors at an individual level, have also been identified as characterising those who

are less likely to achieve a positive outcome through government-supported job seeker programs. Nearly all of the respondents had one or several of these risk factors, indicating that nearly all of the loan recipients were at some risk of individual financial exclusion. The figures below show the incidence of some of these risk factors.

Financial Exclusion: Individual Risk Factors (n=313)



⁸ Centre for Social Impact (2011) Financial Exclusion in Australia, National Australia Bank: Melbourne.

5. Detailed findings (cont)

Finding 5: The challenge of funding a microenterprise

A lack of access to mainstream business finance can take a number of forms. 59% of respondents agree that they found mainstream business finance ‘difficult to access’, and 24% had applied for a type of business finance that was not approved.

Respondents experienced a lack of access to mainstream business finance in a number of different ways and to different extents.

Without access to mainstream business finance, respondents used a variety of atypical methods to fund their enterprise, including:

- Asking family and friends (24%)
- Using a personal credit card (14%)
- Getting a personal loan (7%)
- Accessing community finance (2%)
- Using fringe lenders (1%)

Of all respondents, 59% agree that they found mainstream business finance difficult to access, and 24% had applied for a type of business finance that was not approved.

When considering these figures it is important to note that not all respondents actually sought access to mainstream business finance prior to applying for the NAB Microenterprise Loan.

Finding 6: How was the loan used?

The flexibility of the loan allows loan recipients to use it to meet a number of needs for their enterprise.

The loan terms and conditions ensure the funds themselves are primarily used for capital purchases such as purchasing shop fit-out materials, stock, marketing and website development just to name some of possible purchases. Even with this restriction, respondents used the loan finance to meet a variety of needs for their enterprise.

The main uses for the loan include:

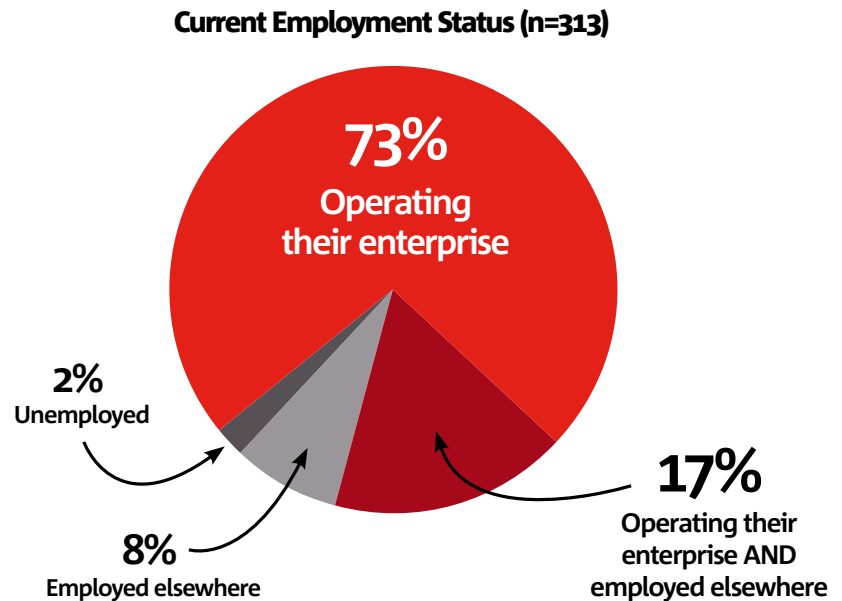
- Expansion of the enterprise;
- Investment in business sustainability or process improvement.;
- Resources for non-operational purposes, such as marketing and promotion;
- Smoothing the impacts of unexpected economic events; and
- Relieving pressure in the enterprise when cash flow is tight and available resources are limited.

The loan recipients and their enterprises

Finding 7: Where are they now?

91% of respondents are still operating their enterprise.

Since receiving the loan, a significant majority of the sample were still operating their enterprise (91%), with their enterprise being the sole occupation for most (73%). The remaining 17% were employed while also operating their enterprise. A further 8% were employed elsewhere and only 3% reported being unemployed.



Hemp Hemp Hooray – Teresa McDowell NAB Microenterprise Loan Recipient

With no assets to offer as security, a business that had been running for just four months and limited savings meant that Teresa's home based business in organic hempseed oil skin and body care products did not meet mainstream bank lending criteria.

The mother of three wanted to increase stock levels to cater for growing demand, develop a website and point-of-sale advertising for new retail customers.

In 2006, Teresa was approved for a NAB Microenterprise Loan of \$6,000. "As a new business, inevitably there were cash flow problems as I'd started with limited capital and it needed to grow," says Teresa.

"The loan delivered a real boost. It's been pivotal for marketing, providing new opportunities to reach customers."

Teresa's entrepreneurial skills were recognised in 2011 when she was nominated as a finalist for the South Australia Telstra Business Woman of the Year Award.

Today, Teresa's Australian made organic products are stocked in retail stores across the country and she is exporting to France, Ireland and the United States.

To find out more about Hemp Hemp Hooray visit www.hemphemphooray.com.au



Teresa McDowell
NAB Microenterprise Loan Recipient

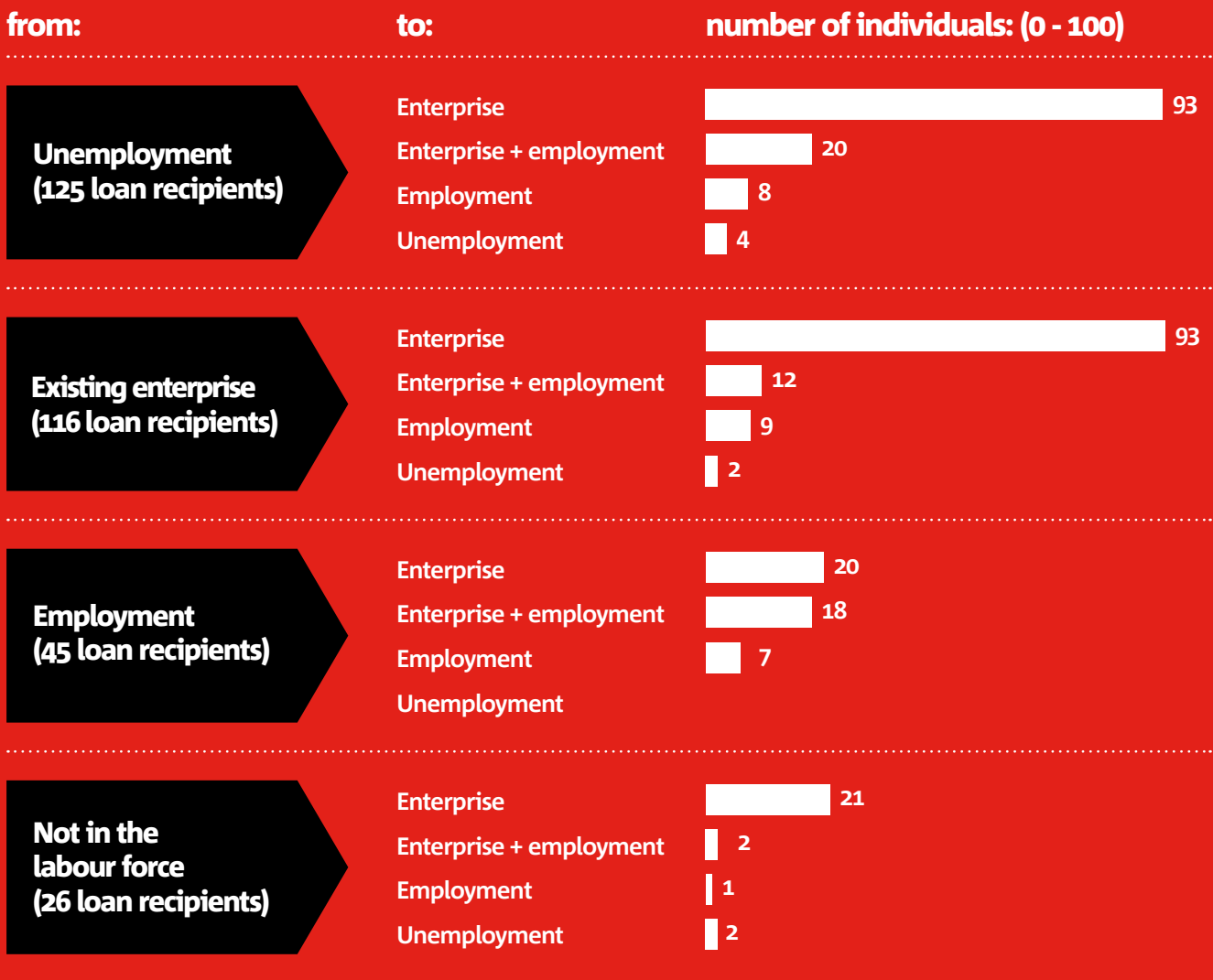
5. Detailed findings (cont)

Finding 8: How did they get there?

93 respondents (30% of the sample) had moved from unemployment to operating an enterprise.

The loan recipients are a heterogeneous group, coming to NAB's Microenterprise Loan program from a variety of employment backgrounds. The previous section looked at the current employment status of the loan recipients, this section outlines where these individuals started from.

This diagram shows that those respondents still operating their enterprise come from a number of backgrounds. Most were either unemployed or already operating their enterprise, but there were some that moved from employment or from outside the labour force into running their own enterprise.



These findings point to the diversity of individuals that have come through NAB's Microenterprise Loan program and shows that the program offers pathways to employment for many.

Finding 9: Enterprise closures

33 of 313 respondents (10%) are no longer operating their enterprise, but the reasons for this were mixed.

Thirty-three of the respondents surveyed were no longer operating their enterprise. These enterprises were more often start-ups (12% of all start-ups) than existing (8% of all existing enterprises). The most common reasons for business closures were:

- The market was smaller than estimated;
- Running costs were too high;
- Insufficient cash flow;
- Sale of enterprise; and
- Pursuing a new business idea.

Underestimating a market, high running costs and poor cash flow are indicators of a lack of business success and can be associated with negative social and economic outcomes for the respondents. However, selling the enterprise or coming up with a new business idea can represent positive outcomes for loan recipients.

Of these individuals that were no longer operating their enterprise, the majority (76%) had moved into employment: 44% were working full time, 24% part-time and 32% were employed on a casual basis. Three of the respondents closed their enterprise because of an employment offer.

Finding 10: Business confidence

88% of respondents are confident that their enterprise will still be operating in 12 months time.

A positive indicator of future success (for both recipients and the program) is for loan recipients to not only maintain an operational enterprise, but also have a positive outlook for the future. Of those respondents still operating their enterprise 88% reported very high levels of confidence that their enterprise will

still be operating in 12 months time. Confidence for a three year period was slightly lower at 82%. Only 4% of all operating enterprises were not confident that they would be operating in 12 months time. While no guarantee of success, this is a positive indication for the future of these enterprises.

5. Detailed findings (cont)

Perspectives from the loan recipients

Finding 11: Impacts on the individual level

On the whole, loan recipients indicate that the program had a positive impact on a personal level. Some of the key areas identified include:

- Personal empowerment: a feeling of self-worth, purpose and of increased self-esteem;
- A sense of ownership and independence, of “owning my own future”;

- Improved eligibility for personal, mainstream banking and other financial products; and
- Allowing a positive lifestyle choice: enabling individuals to pursue their passions in new areas, and to create a flexible working place that is suitable for their own needs.

There were some areas that the loan recipients flagged for improvement. These are covered in the discussion and recommendations.

Finding 12: Assessing the impact on the recipient’s family

Creation of the microenterprise has a range of positive social impacts on a loan recipient’s family and community.

Nearly one-third (32%) of all loan recipients have dependents, creating the opportunity for positive intergenerational outcomes because of the program.

Some of the areas interviewees indicated were significant include:

- Allowing flexible working environments to suit families;
- Seeking to be involved and contribute to the community;
- Creating pathways to employment for employees of the enterprise and their families; and
- Offering more opportunities to their families, and improving financial resilience.

“I have a different mentality now. I feel I can take on responsibility, I am not relying on a government handout, I want to learn more, I want to get involved and not just give up.”

NAB Microenterprise Loan Recipient

“The loan has helped me tremendously in starting my business. I used it for the purchase of office equipment and stationary. Though it was small amount, it helped me to plan my budget properly and boosted my confidence in running my own business.”

NAB Microenterprise Loan Recipient

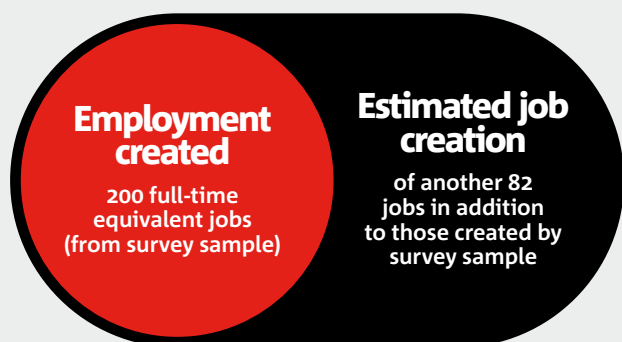
Measuring the program impact

Another important part of assessing impact is the overall, or cumulative, impact of the entire NAB Microenterprise Loan program. By identifying and measuring a range of benefits and costs associated with the program to date, this section provides insight into the total economic impact of the program.

The results in the previous section included only those loan recipients that completed the survey. This section presents the results of data modelling to estimate the total direct impact of the program (loan and training/mentoring combined). Further details on the model used to generate these results are in Appendix 1.

Finding 13: Employment creation

The program has supported job creation, with at least 282 full-time equivalent jobs created so far.



The survey respondents indicate that their enterprises have created 304 jobs, with 105 of these employed on a full-time basis and 199 of these on a part time or casual basis (in addition to the loan recipients). This employment was concentrated in a minority of the enterprises, with 60% of loan recipients not employing any staff.

Our economic model conservatively estimates that, in addition to the loan recipients, a total of 282 other FTE jobs have been created by the full cohort of 746 microenterprises.

Finding 14: Economic activity

The enterprises in the program generated an estimated \$44 million in turnover.

The creation of a successful enterprise has a direct positive impact on the economy. Our economic modelling suggests that these enterprises have contributed to over \$44 million in total turnover.

It is estimated that this increase in activity generates an estimated \$5.2 million in additional GST revenue and

\$2.3 million in other tax revenue for the federal and state governments. These are the direct economic impacts of the program. However, the total economic impact may be much larger once indirect and induced economic impacts are estimated and included.

5. Detailed findings (cont)

Finding 15: Government savings

The successful creation of enterprises saved approximately \$7.3 million in Centrelink benefits.

There is a very significant economic impact associated with creating pathways to employment. Nearly half of the loan recipients enter the program from unemployment, from outside the workforce, or from receiving some other form of income support. The model estimates that around 349 individuals in total have moved from unemployment into employment, or running their own enterprise. From April 2007 to December 2011, this saved around \$7.3 million in Centrelink benefits.

Finding 16: Total benefit to community and government

The loan recipients generate significant economic impact, with total direct economic benefit to the community and government of at least \$2.5 million.

The economic benefit or value created includes increased economic activity because of the enterprises, as well as the benefits of avoiding the cost of income support and other benefits. Once the costs of delivering the program are deducted, net benefit is approximately \$2.5 million⁹. This is an average positive return to the community and government of \$3,356 per loan recipient. For every dollar invested in the training and the loan, \$1.22 of economic benefit is created.



**For every
dollar spent
on the
program**

**\$1.22 of
economic
benefit is
created**

It must be noted that there are a number of positive and negative impacts that have not been possible to quantify and include in this model. In addition, increased economic activity can have a variety of indirect and induced effects that can amplify or temper the total impact of the program.

⁹ Reasonable sensitivity and scenario testing suggest that the actual value for this figure lies in the range of \$1.27 million benefit and \$3.7 million benefit.

6. Building on **strong** foundations

It is still early days for NAB's Microenterprise Loan program, with the first cohort of loans only recently coming to term. Nonetheless, NAB's investment in this program already appears to have created a variety of positive impacts and outcomes.

The research has pointed to several themes that summarise these positive results.

The program targets a lack of access to mainstream business finance

The loan recipients were from a variety of backgrounds and experience, but most were at risk of personal financial exclusion. Most found mainstream business finance difficult to access and many had been declined for a mainstream business product.

The partnership model supports the creation of pathways to employment

The majority of loan recipients are currently self-employed or employed elsewhere, including a large proportion of individuals leaving unemployment or moving into the workforce.

The program supports sustainable enterprises

A large majority of loan recipients are still operating their enterprise, and most are confident that their enterprise will still be operating in 12 months time. The training and mentoring program and the loan complement each other, and support both the start-up and survival of businesses.

The enterprises have created significant, positive economic impact

The scheme was found to have generated \$2.5 million net economic value in the form of increased economic activity and reduced income support costs. The program is associated with the creation of at least 282 jobs (full time equivalent), \$7.5 million in increased tax benefits and \$7.3 million in Centrelink savings.

There is indication that the enterprises have created positive social impact

While at this nascent stage the social impact of the program was difficult to measure, statements in the interviews and survey suggest that the program is positively impacting on individual, household and community wellbeing.

While these findings show that the program can be considered a success to date, the research has identified some key learnings that may help to improve the impact of the program in the future. These are highlighted overleaf.

6. Building on strong foundations (cont)

Recommendations for the product and criteria

1. Ensure the criteria for the loan are clear and rigorous, ensuring only individuals that are unable to access mainstream finance are accepted.
2. Consider offering the loan through other mechanisms than solely a credit card, which can incur extra charges and is not suitable for all purchases.
3. Consider the merits of varying the three-month limit for spending, taking into account the individual needs of the loan recipients.

Recommendations on the partner programs and the market

1. Improve the flow of information and communication between partners and NAB, and the efficacy of the application process.
2. Ensure that the aims of the program are well understood by partner organisations, and that the partner organisations understand NAB's targeting of financial exclusion.
3. Continue to work with a broad range of interested stakeholders to explore new opportunities to expand NAB's Microenterprise Loan program.
4. Continue to explore new partners for NAB's Microenterprise Loan program, to ensure access to new markets.
5. Continue to pursue further promotion and awareness-raising of the program: within NAB, with key partners and to potential recipients.

Recommendations on future impact measurement

1. Continue to build a systematic and longitudinal data collection framework, including tracking loan recipients after the program and loan term. This will enable investigation of the sustainability of outcomes, indirect and induced economic benefits and record loan recipients' transition into mainstream financial products as the loan portfolio matures.
2. Drill further down into the scale of social impacts of the program, including negative social impacts that may be associated with some outcomes of the program such as business failure.
3. Consider further collection of comparative data, to allow measurement of the incremental impact of the loan over the training program alone.

These recommendations provide future direction that NAB and its partner organisations may consider as the Microenterprise Loan program matures and which may help to amplify the social and economic impacts discussed in this report.

Appendix 1:

Partner profiles

The partners are a variety of state, federal and independent organisations providing support to small businesses across Australia.

The organisations have expertise in supporting businesses with business literacy training and the development of business plans and financial projections. They also provide access to potential applicants that are beyond the reach of NAB's traditional branch network.

New Enterprise Incentive Scheme (NEIS)

The NEIS program is one of the Government's longest running and most successful employment activities. The program is offered to job seekers receiving unemployment benefits who are interested in starting and running a small business. It incorporates the provision of accredited small business training, advice and mentoring as well as up to 52 weeks of income support.

Business Enterprise Centres (BEC) Australia

BEC Australia is a network of Business Enterprise Centres (BECs) across Australia. It provides a range of training programs and mentoring support to existing businesses and individuals, who want to establish a new enterprise. The training courses and mentoring programs vary depending on the specific BEC, which are funded by different state and federal government programs.

The Enterprise Network for Young Australians (ENYA)

ENYA is an organisation that exists to support young Australians aged 18-30 to start a business and to access a range of business support services. The delivery of the business advice and mentoring is primarily provided online and over the telephone.

Indigenous Business Australia (IBA)

As part of its commitment to Indigenous Australia NAB has partnered with IBA to provide access to eligible Aboriginal and Torres Strait Islanders. IBA is an independent, federally funded body which offers a range of programs to address Indigenous financial exclusion. Through its Business Development programs, IBA provides its clients with business advice, support and mentoring through its national network of business consultants.

Other partners

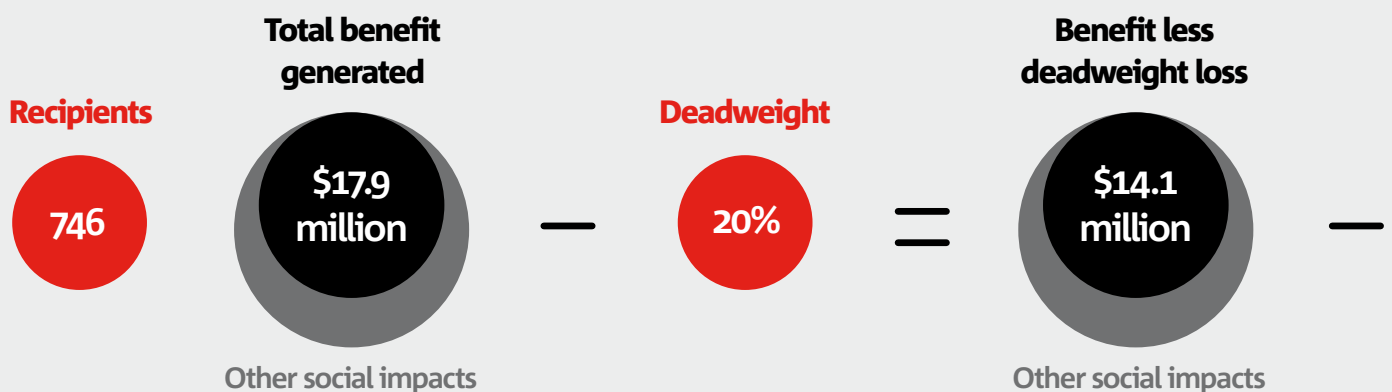
In addition to IBA, NAB has partnered with regional organisations that operate in areas with high Indigenous populations and that understand the unique challenges that can come from operating a small business in remote or rural areas. These organisations include; Murdi Paaki, Torres Strait Regional Authority (TSRA), Kinaway Victorian Indigenous Chamber of Commerce and the South East Queensland Indigenous Chamber of Commerce (SEQICC).

NAB has also partnered with the NSW Trade & Investment's Business Advisory Services (BAS) and Business Innovation and Incubation Australia (BIIA) to support the provision of mentoring and training to eligible individuals.

Appendix 2:

The Research Approach: Building a hybrid model

The Centre for Social Impact uses a hybrid model to measure and monetise a variety of social and economic outcomes associated with the delivery of a program or intervention. This model is based on the SROI¹⁰ methodology:



This model uses data collected in the survey, independent data sources and a variety of economic assumptions to estimate the impact across the whole program. This includes both the group that completed the survey and those that did not from April 2007 to December 2011.

Further detail on each of the main components and assumptions of the model are listed to the right:

Economic value/benefit

The most significant direct economic benefits identified in the research include the benefits of increased economic activity (including additional tax revenue gained from operational enterprises such as income tax, GST and job creation) and also avoided costs to government (such as saved income support, from individuals moving from unemployment).

Deadweight

This is an important part of the model, where a control group (or counterfactual) isn't available. This is because the calculation of impact should exclude those individuals that would have gone ahead and started their enterprise, even if they had not received the loan.

Costs and negative outcomes



Other negative impacts

=

Net benefit



Unquantified net benefit

Costs of program

The total cost of delivering NAB's Microenterprise Loan program (borne jointly by government, providers and NAB) was calculated at \$11.6 million. This includes the cost of delivering the training and mentoring program, the NEIS allowance, the cost of negative outcomes such as unemployment and the costs to NAB to deliver the loan.

¹⁰ Social Return on Investment (SROI) is a principles-based, quantitative method for measuring the value created by a program (economic, social and environmental) relative to the investment made in a program. For further details see www.thesroinetwork.org

¹¹ This figure was estimated in 2008, in National Australia Bank (2008) One Year Down the Track: Microenterprise Loans, National Australia Bank, Melbourne: Australia.

¹² Note: only a small number (12.6%) of the loans have come to term to date and this may increase as they fall due.

Is providing the loan cost effective?

At \$0.65 per dollar lent, the cost to NAB of providing the loan is relatively low.

The cost of providing microenterprise loans in developed countries can vary considerably, due to the variety of programs and different cost measurement approaches. Between 2007 and 2011, the cost to NAB per dollar lent was \$0.65, comprised of:

\$0.12 - \$0.17 per dollar	Administration costs ¹¹
\$0.45 per dollar	Opportunity cost of loaned capital
\$0.03 per dollar	Cost of default ¹²

This cost per dollar is very reasonable when compared with the spectrum of other microenterprise programs in the developed world, which tend to vary from \$0.40-\$2.33 per dollar lent¹³

Overall net benefit to the community and government

Combining these components suggests the overall net benefit is approximately \$2.5 million.¹⁴

It must be noted that there are a number of positive and negative impacts that have not been possible to quantify and include in this model. In addition, increased economic activity can have a variety of indirect and induced effects that can amplify the total impact of the program.

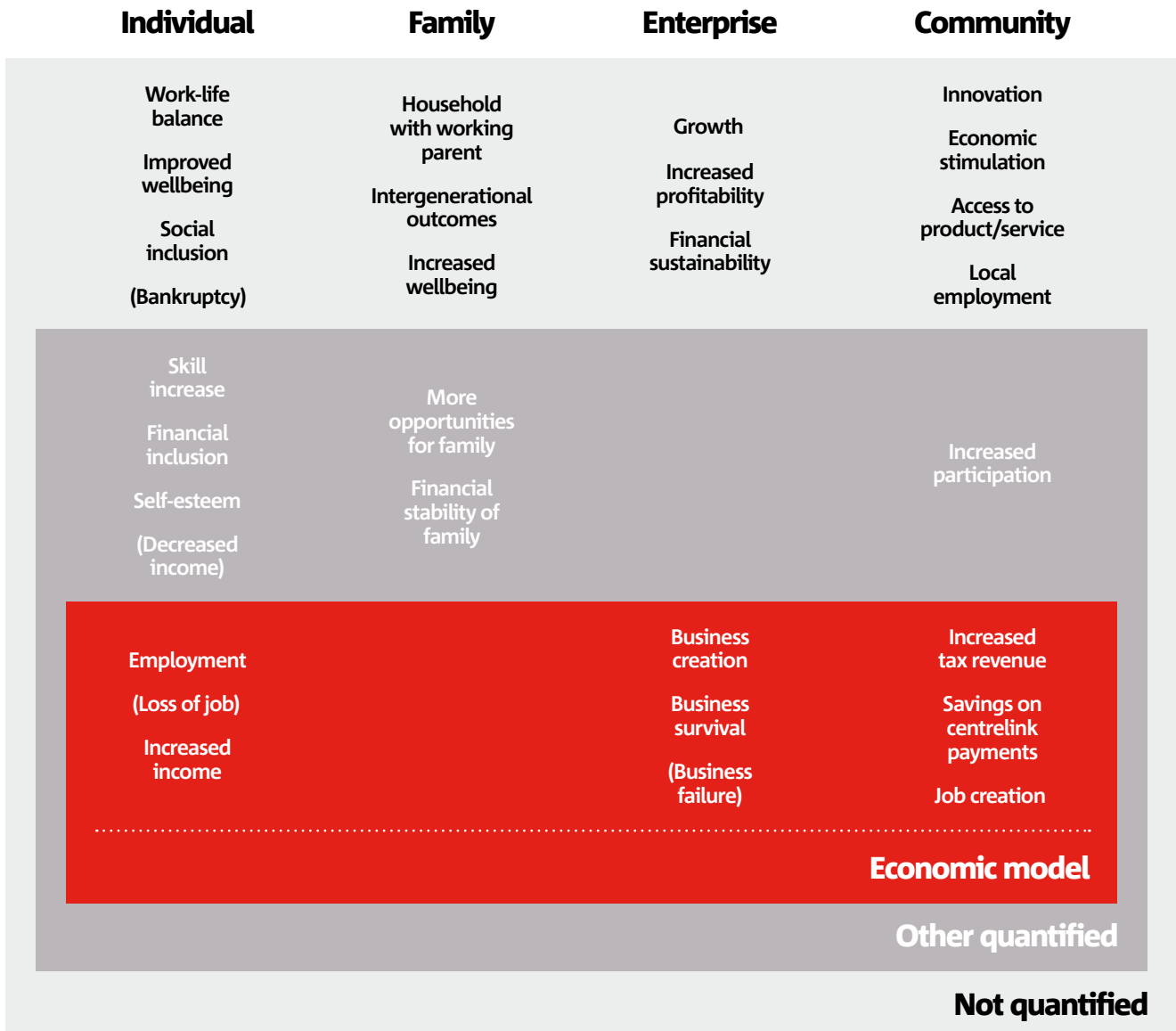
¹³ For example Burrus W (2006) Innovations In Microenterprise Development In The United States, Accion USA: USA . It is important to note the significant variation in calculations of cost per dollar lent across different programs, which may or may not include reliable estimates of opportunity cost, and default costs.

¹⁴ Reasonable sensitivity and scenario testing suggest that the actual value for this figure lies in the range of \$1.27 million and \$3.7 million.

Appendix 2: The Research Approach: Building a hybrid model (cont)

Mapping and measuring impact

The diagram below indicates the range of other outcomes and impacts associated with the program that have been identified in the research, and whether they have been included in the model.



Acknowledgements

The Centre for Social Impact

The Centre for Social Impact (CSI) is a partnership between the business schools of the University of New South Wales, the University of Melbourne, Swinburne University of Technology and The University of Western Australia.

CSI creates beneficial social impact in Australia through teaching, research, measurement and the promotion of public debate. Our common cause is to build a stronger civil society, and we achieve this by bringing together the business, government, philanthropic and social (not-for-profit) sectors, in a collaborative effort to build community capacity and facilitate social innovation.

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

- Les Hems: Director of Research
- Sarah Adams: Researcher
- Meiko Georgouras: Researcher
- Sue Keen: Researcher
- Debbie Haski-Leventhal: Researcher
- Saida Sultana: Research Assistant

www.csi.edu.au

National Australia Bank (NAB)

National Australia Bank is a financial services organisation with over 40,000 people, operating more than 1,800 branches and service centres and responsible to more than 460,000 shareholders.

We operate major financial services franchises in Australia, as well as businesses in New Zealand, Asia, the United Kingdom and the United States. Each of our brands is uniquely positioned but built on a common commitment to providing quality products and services, fair fees and charges and relationships built on the principles of help, guidance and advice.

NAB believes that what we do (and how we do it) is just as important as our financial results. Put simply, to us, Corporate Responsibility is doing the right thing for our customers, employees and communities. Core to NAB's corporate responsibility strategy and activities, is an agenda to promote financial inclusion and provide financial services for all Australians.

NAB's commitment to promoting financial inclusion

Financial exclusion is a somewhat invisible problem in Australia, with few people aware of that fact that some people, particularly those on low income and those that are financially disadvantaged, don't have access to mainstream financial products and services such as small amounts of affordable credit.

While, the great majority of Australians are well served by a strong financial services sector, there is a significant group of Australians who are excluded from, or have limited access to, mainstream financial products and services.

Core to NAB's corporate responsibility strategy and activities, is an agenda to address financial exclusion and promote financial inclusion in Australia - providing financial services for all Australians.

We have four key platforms to achieve this:

- world leading microfinance programs for low income earners;
- Indigenous programs, to provide better access to banking services to some of the most financially disadvantaged communities in Australia;
- making banking more accessible, by abolishing a range of fees, doubling our ATM network, providing essential credit for small businesses and ensuring all customers have support when in financial difficulty; and
- research and advocacy, to better understand the problem, provide a voice to those excluded and gain insights into what works to address it.

To find out more about NAB's financial inclusion agenda visit: www.nab.com.au/microfinance

www.nab.com.au

For more information visit:

www.nab.com.au/microenterpriseloans
or www.csi.edu.au

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