

NCOSS

No Interest Loans

Development Project

by Robert Drake



NCOSS Council of Social Service of New South Wales

NCOSS Project Report



NCOSS

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Summary

NCOSS has completed the major part of its No Interest Loan Scheme (NILS) Development Project. The aims of the NCOSS project were to:

- Publicise the NILS idea to NSW community groups;
- Find sources of funding for NILS;
- Provide information for groups wanting to set up NILS.

This paper reports on the project's progress from April to October 2001. It details the work undertaken, notes the achievements and makes some general observations.

The report is organised under the broad aims of the project:

1. Identifying funding;
2. Providing information;
3. Publicising the concept.

Overall, the project has been a great success. It has promoted the NILS idea, provided resource information and identified funding sources.

Some aspects of the project have delivered results already. Six new NILS are in the process of being established. The project has raised \$184,000 in funding for NILS already.

This report also shows the processes that have been put in place that will bear fruit in a year or two.

The NILS web site now lists a dozen different places where community groups can apply for NILS funding with a reasonable chance of success. There have been over 200 visits to the web site already.

Funding proposals totalling about \$750,000 are already in the pipeline.

A broad range of community groups is now aware of the NILS concept. Further regional seminars are planned.

Overall, the project has given NILS development a major boost. It has developed resources and processes which will assist further development over the coming years.

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- NSW Department of Fair Trading
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NCOSS thanks the people who formed a Steering Committee for this project:

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Introduction

Project Aims

NCOSS has completed the major part of its No Interest Loan Scheme (NILS) Development Project. This paper reports on the project's progress to October 2001.

The project was funded by the NSW Department of Urban Affairs and Planning - Area Assistance Scheme (\$60,000) and the NSW Department of Fair Trading (\$20,000). Robert Drake was co-ordinator of this phase of the project, on secondment from the Department of Fair Trading.

The impetus for the project was earlier research which recognised NILS as a valuable program which was unfortunately only available in limited areas. The two major barriers to NILS' expansion were identified as funding and the lack of awareness about the concept.

Therefore, the aims of the NCOSS project were to:

1. Find sources of funding and in-kind support;
2. Provide information for groups wanting to set up NILS.
3. Publicise the NILS idea to NSW community groups;

The report is organised under each of these broad aims.

The report:

- details the work undertaken in the project;
- notes the achievements and disappointments; and
- makes some general observations and recommendations on issues relevant to the future of NILS.

What are NILS?

No Interest Loan Schemes (NILS) are loans by community organisations to low income people who can't get affordable commercial credit. The loans allow people to buy essential household items, such as a washing machine, fridge or medical appliance. A typical NILS loan is for around \$600 – \$1,000 and repaid over a year. NILS don't suit everyone, but for eligible people they help maintain a basic standard of living, maintain dignity and avoid a cycle of poverty.

A more detailed description of NILS is in Appendix 1.

Goal 1: Identifying potential funding sources

In the past, funding has been a major obstacle to the expansion of NIL schemes. The process of researching and fostering myriad funding sources is very time-consuming for small local organisations. Therefore, the NCOSS project devoted a lot of time to identifying and nurturing potential funding sources.

The outcome of the project is that the NILS website now lists a dozen different places where community groups can apply for NILS funding with a reasonable chance of success.

Potential funding sources fell into four broad categories:

- Philanthropic trusts
- Other corporate sources
- Banks
- Government sources

Philanthropic trusts

For philanthropic trusts, the first stage involved researching the hundreds of different trusts in Australia. The list was winnowed down to those where NSW NILS might be a potential beneficiary under the trust's rules and priorities. This excluded many trusts which either had a different geographic focus (e.g. many only gave grants in Victoria) or a different subject focus (e.g. only medical research). Victoria has a much stronger tradition of public philanthropy, whereas most Sydney philanthropy takes the form of private donations to favoured charities.

All the likely trusts were contacted to explain the NILS concept and explore the likelihood of funding NILS. Some trusts were extremely professional. They could tell you their priorities, explore how NILS might fit in and discuss alternative proposals. For a philanthropic trust, the attractive aspects of NILS are that money is recycled to maximise benefits, and that an initial capital grant has "leverage" as schemes can then attract further funding from other sources.

It was disappointing that some philanthropic trusts still waste community resources by not articulating priorities and not discussing how proposals could be shaped. This forces community groups to write a detailed submission (without the guidance of any selection criteria) and wait to see if it has been accepted or rejected by the trustees.

The list of the 10 philanthropic trusts most likely to fund NILS is on the NILS website. This gives links to the website of each philanthropic trust, ensuring information is up to date.

The Ian Potter Foundation, the Mercy Foundation and the Perpetual Trustee Company have already funded NILS and are happy to receive further applications. The Potter Foundation has agreed to fund at least another four NIL schemes in NSW. Over the years the Potter Foundation has funded about 27 NIL schemes, mostly in Victoria. They are keen to play a strategic role in fostering NILS in NSW.

The staff at the Myer Foundation and the Colonial Foundation could see the benefit in NILS, but applicants would need to show the trustees that NILS *prevented* poverty and was not just a band-aid measure.

Some grant bodies have a dispersed decision-making process with changing membership. These include the Casino Community Benefit Fund and registered clubs. For these bodies I could not directly inform the decision-makers about NILS or discuss the likelihood of a successful funding application. However, NILS have been funded by at least one registered club (Penrith Panthers) and the Casino Community Benefit Fund. Registered clubs should be a strong supporter of local initiatives like NILS. However, this depends on the Community Development Support Expenditure (CDSE) Scheme responding to local need rather than following past patterns of patronage (such as life saving clubs).

All information about philanthropic trusts is now on the NILS website. It is now up to community groups to make funding applications to relevant trusts.

Corporate sector

The second possible source of NILS funding is the corporate sector.

The project took a different approach in exploring the possibility of funding from the corporate sector, compared to philanthropic trusts. Very few companies articulate a set of guidelines about what community partnerships they will support.

Therefore corporations were identified whose businesses had a logical “fit” with NILS. The highest priority companies were whitegoods suppliers, electricity companies and banks.

For each potential sponsor, the company’s structure, business priorities and existing approach to community partnerships was researched and the most appropriate person to approach within the organisation was identified. This was rarely easy. The marketing section often handles sponsorships, but these generally relate to activities which will give a promotional benefit to the company. Executive in corporate strategy, public affairs or government relations often had a stronger affinity with corporate social responsibility activities, and could see the strategic business case more clearly.

An initial proposal for discussion purposes was developed with each company on how they might be involved in NILS.

Discussions were held with the major whitegoods manufacturers and whitegoods retail chains. All were sympathetic to the aims of NILS and tried to identify whether they could assist.

One whitegoods manufacturer offered to supply at wholesale prices. This would have provided NILS clients with large savings on the normal retail prices. However, this arrangement would only be possible if a single national NILS was operating, with central ordering in large volumes. This would be similar to the arrangements for bulk orders to home building companies and other corporate customers. Until a national NILS is operating we are not able to take advantage of this generous offer.

Retail whitegoods chains such as Retravisio, Bing Lee and Harvey Norman are actually chains of independent franchise businesses. Local NILS already receive strong support from local whitegoods retailers in the form of discounts and free delivery. We were not able to identify any way to improve on the current arrangements.

The four main energy companies in NSW were approached.

Energy Australia made a prompt commitment to support NILS. The motivation was corporate social responsibility rather than a marketing advantage. Energy Australia has agreed to support three NIL schemes in its regulated service area (Eastern Sydney and the Hunter Valley) - the two NILS currently operating in its area in Sydney and a future NILS in the Hunter. For each NILS it agreed to provide \$10,000 in loan capital and \$5,000 per year (for five years) for administrative costs and loan defaults.

Country Energy was recently formed from a merger of the three non-metropolitan electricity companies in NSW – Northpower, Advance Energy and Great Southern Energy. As a result of the merger its sponsorship budget is currently fully committed. However, senior management has expressed interest in NILS and has asked for proposals to be forwarded in May 2002 when it is framing next year’s sponsorship budget.

A detailed proposal to Integral Energy was not successful. Despite several attempts, contact could not be made with the appropriate person at AGL (which now supplies both electricity and gas).

Utility companies in other states have also supported NILS:

- Yarra Valley Water Company, Melbourne
- Aurora Energy, Tasmania
- ACT Electricity and Water, Canberra

The Tasmanian situation is particularly interesting. Aurora Energy has agreed to provide \$250,000 loan capital for a State-wide NILS in Tasmania.

A National NIL scheme and bank funding

Banks were thought to be a logical corporate partner for NILS. NILS provide credit to low income people where commercial credit is not available. It is hard for commercial lenders to make a profit lending to low income people, as the loan assessment process is time-consuming. Therefore, assisting community groups to meet this need seemed an appropriate activity in corporate social responsibility. Banks can afford it, as their annual profits are around \$10 billion per year.

Both sides of politics have encouraged banks to ensure low income people do not miss out on banking services. The ALP Banking Policy is more specific with an extensive section on No Interest Loan Schemes. Labor wants to negotiate a Social Charter of Community Obligations for banks which would be legally binding. If an acceptable Social Charter could not be agreed, a Labor Government would impose a Social Charter through legislation. Labor wants the Social Charter to include measures to address social exclusion from credit, in particular, expanding No Interest Loan Schemes.

To match the type of arrangements which would suit national corporations, NCOSS developed a proposal for a National No Interest Loan Scheme. This was similar to the WA scheme, but proportionately larger. NCOSS did not want to make a proposal which would leave banks open to criticism that their support was “just a drop in the ocean”.

The proposal was for banks to donate a one-off amount of \$15 million for loan capital and a contribution of \$2 - 3 million per year towards running costs. The proposal was that each retail bank would contribute according to its size. Other partners in a national NIL scheme would include the Federal Government (via Centrelink), product suppliers (via product discounts), a major credit union (advice on back-office operations) and hundreds of community groups (contributing staff and volunteer time).

A National NILS would be a very significant community welfare initiative. It is estimated that the proposed scheme would have made up to 29,000 loans per year. The model would combine the accessibility and sensitivity of diverse grass-roots community organisations across Australia with the efficiency of centralised back-office operations.

In conjunction with ACOSS, the proposal was discussed with senior representatives of all the major banks and the Australian Bankers Association. Despite initial interest from some of the major banks, the proposal was not supported. The banks' decisions may have been affected by political positioning over bank social obligations and the declining fortunes of the ALP in opinion polls at the time.

The letter from David Bell, CEO of the Australian Bankers Association stated:

I am writing regarding the No-interest Loan Scheme proposal you presented to the ABA the other week. As promised, I am responding to your request that the ABA supports the scheme.

At this stage, the ABA cannot support your proposal. As outlined to you in our meeting, we believe there are significant risks for our members in taking ownership of this scheme by providing all the funding for it. In our view, the primary responsibility for such a scheme should sit with government who have the necessary expertise in targeting welfare assistance to make the scheme effective and accountable.

I would like to wish you well with the project. It is an appealing concept and potentially of benefit to many low-income Australians.

Apart from the rejection of the specific proposal, a disappointing aspect of the process was that the banks did not engage in a dialogue on NILS. The National Australia Bank is one exception, where there may be ongoing dialogue through its Community Consultation Forum.

This is in contrast to innovative steps in the United Kingdom. Barclays Bank is committed to spending 1% of profits on community partnerships, including supporting a number of micro-credit pilot projects. The Cooperative Bank also supports micro-credit pilot projects.

A National NILS would be a very significant community welfare initiative. It is estimated that the proposed scheme would have made up to 29,000 loans per year.

Future options

If the ALP wins the Federal Election, a proposal for a National NILS should be revived as part of negotiations about a Social Charter. The success of future community bank partnerships may depend on engendering a greater understanding of how the community welfare sector operates, and how business can (and does) support community initiatives without "owning" them.

Some of the banks (Westpac, National Australia Bank and ANZ) have a strong preference for supporting community projects that their staff are involved in. It may be possible to get bank sponsorship for a local or regional NILS if local bank staff are involved. The banks have specific operations for this, such as the ANZ Staff Foundation and NAB Community Partnerships.

Government sources

Federal Government

One of the key factors in the success of the WA NIL scheme had been offering clients the option of making loan repayments via direct debit from Centrelink. Direct debit repayments are more convenient for clients and improve the scheme's loan repayment rates. The WA NILS has a loan default rate of less than 5%. However, the direct debit costs \$1.01 per transaction. This is a cost which most small NIL schemes cannot afford.

NCOSS approached Senator Vanstone, Federal Minister for Family and Community Services for assistance. NILS addresses many of the desired outcomes of the Federal Government's Stronger Families and Communities Strategy.

It was proposed that the Federal Government undertake a pilot arrangement to meet the cost of Centrelink fees for direct debit loan repayments. A pilot was suggested for two reasons. Firstly, the take-up rate was unknown and therefore the cost could not be accurately estimated. Secondly, getting Cabinet approval for a permanent funding measure would have been very slow.

The Minister approved the arrangement, which will run from November 2001 to October 2002 at a maximum cost of \$60,000. All 50 NIL schemes in Australia can take advantage of the fee waiver arrangement.

As part of the arrangement we have suggested Family and Community Services (FACS), in conjunction with Centrelink, conduct a brief review of the pilot arrangement by August 2002. This would summarise the costs and benefits of the program, and assist a decision about whether the Government should support NILS on a long-term basis.

The pilot program would reveal information about the cost of fee re-imburement. Factors would include:

- the take-up rate by NIL schemes;
- the take up rate by clients;
- the volume of transactions involved; and
- the ability of community organisations to use lower cost transaction options to be offered by Centrelink.

The review could also look at whether the expected benefits had been achieved, such as:

- reducing loan default rates;
- reducing transaction costs for clients and NIL schemes;
- encouraging the establishment of new NILS; and
- attracting corporate sponsorship.

NCOSS is extremely grateful to Senator Vanstone, Minister for Family and Community Services for her support on this project. It is hoped that the fee waiver arrangement is made permanent after the review in 2002.

Area Assistance Scheme

Micro-credit projects like No Interest Loan Schemes have been identified as one of the priorities for the Area Assistance Scheme, administered by the NSW Dept of Urban Affairs and Planning.

NILS falls under the objective of “Connecting Communities through Partnerships”, especially the sub-headings:

- Facilitating mutual support and community self-help initiatives; and
- Increasing corporate social commitment.

AAS currently funds:

- This NCOSS NILS Development Project
- A four year NILS development Project in the Blue Mountains
- A worker at the Nagle Centre NILS at Campbelltown.

As part of the NCOSS project, a presentation on NILS as a demonstration project at the AAS Annual Conference was made.

Following the growing interest in NILS, several applications have been lodged with AAS for the 2001 – 2002 funding round (see Table 1, below). The successful applications will be announced in about May 2002.

A major part of the first three projects is the fostering of corporate sponsorship. The NCOSS project has shown that corporate sponsorship is possible, but the process takes considerable time.

Summary of funding outcomes

During the six months of the NCOSS Project, NILS funding totaling \$184,000 has been achieved with commitments of up to five years. Funding proposals in the pipeline total another \$750,000.

The NILS website now lists a dozen different places where community groups can apply for NILS funding with a reasonable chance of success.

Observations on fund-raising

This project has been successful in identifying a number of potential corporate partnership opportunities, and bringing several of those to fruition. This has necessitated:

- Being able to see the strategic potential of a partnership from the corporation’s viewpoint;
- Understanding the corporate decision making process, and at what level to make contact within the organisation;
- Experience in communication at management level;
- Being able to advise the corporation on how to handle issues related to community/ business partnerships, due to the corporation’s limited experience; and
- Being able to devote considerable time to the process.

Several lessons have emerged.

Most small to medium community groups do not have the time, experience or resources to successfully establish long-term corporate partnerships. It would be extremely

Table 1: Applications lodged with AAS for the 2001 – 2002 funding round

Hunter region NILS	\$69,000 – \$87,000 p.a. over 4 years
Mid North Coast region NILS	\$40,000 p.a. over 4 years
NSW NILS Network	\$17,000 p.a. over 2 years
Extend Blue Mountains NILS Development Project to Western Sydney	\$72,000 – \$85,000 over 4 years

useful if small to medium community groups had access to expert advice and assistance.

The Prime Minister's Community Business Partnerships initiative provides some useful resources at a national level, and a complementary process at a State level could be very useful. For example, it would be useful to have a list of consultants with experience in Community Business Partnerships. The alumni of the Sydney Leadership Program (run by The Benevolent Society) could provide useful assistance in opening doors. Such assistance could be part of a NSW community sector "industry development" program.

Many corporations have limited experience with community/business partnerships (as distinct from simple marketing-related sponsorships). In such cases, success relies on finding an individual "in tune" with the community sector, or having the time and experience

During the six months of the NCOSS Project, NILS funding totaling \$184,000 has been achieved with commitments of up to five years.

to guide the organisation through the process. Central resources to assist them are extremely useful.

Finally, corporations have their own reasons why they would consider a community/business partnership. NILS is one area that is potentially appealing to a range of businesses, clubs, etc. as it has tangible benefits.

Goal 2: Promotion

While there are about 50 NILS operating in Australia and 15 in NSW, they all have a low profile. One of the objectives of the NCOSS Project was to “spread the word” about the NILS concept.

Community Groups

Several articles were printed in NCOSS News, which is circulated to 750 NCOSS members.

Workshops were held in the Illawarra, Western Sydney and Hunter Regions, and at the Neighbourhood Centres Annual Conference. Presentations were made at the Forum of Non-Government Agencies (FONGA) and the NCOSS Regional Forum. This information has been preserved as a series of PowerPoint presentations:

- What are NILS and how do they operate?;
- Setting up a NILS;
- Issues about a regional NILS.

These can be used for any future events.

The Hunter Valley workshop was the biggest event, due to the substantial promotional work in advance. Fifty people attended from 31 organisations. Another 10 organisations had expressed interest but could not attend on the day. The workshop was opened by the Lord Mayor of Newcastle, and was followed with media interviews in the Newcastle Herald and on ABC radio.

Information has also been spread by email and fax to members of the Local Community Services Association, Aboriginal Land Councils and women’s refuges.

As a result of the various promotions, about 100 community organisations contacted NCOSS to get more information about NILS. The common response is “*We have lots of people who could benefit from a program like this! How can we set one up?*”

One of the most pleasing outcomes of the project is the surge in enthusiasm as more community groups hear about NILS.

NILS expansion

Several organisations are in the process of setting up new NILS:

- Blackheath Neighbourhood Centre
- NSW Cancer Council
- St Vincent de Paul - Wollongong
- Samaritans – Cessnock
- Mid North Coast Neighbourhood Centres
- Hunter region community groups

The NCOSS NILS Development Project assisted most of these groups. Many other groups are absorbing information provided by the NCOSS NILS Development Project and are yet to decide whether to be involved in NILS.

Politicians

To lay the ground for developments in NILS, contact was made with a range of politicians:

- Joe Hockey, Minister for Financial Services and Regulation
- Senator Amanda Vanstone, Minister for Family and Community Services
- Senator Aden Ridgeway, Deputy Leader of the Democrats
- Wayne Swan, Shadow Minister for Family and Community Services
- Senator Conroy, Shadow Minister for Financial Services and Regulation
- Kim Yeadon, NSW Minister for Energy

Mass media

The project had planned to use mass media to increase awareness of NILS. However, the confidential negotiations with banks made this strategy inappropriate at the time.

Goal 3: Resource information

The final objective of the Project was to make information available to people who might be interested in setting up a NILS.

Web-site

The project has compiled extensive information on NILS and made it widely available via a dedicated web-site: www.ncoss.org.au/nils/

Originally this information was going to be published in a paper manual, but it was soon discovered that a Web-site was more suitable. It could be updated weekly, expanded over time and published at no cost. Almost everybody has reported that they either have access to the Internet, or can get it at a local library.

The information covers:

- What No Interest Loans are, and how they operate
- What is needed to set up a NILS
- Where to get funding
- Where to get further advice

By the end of September 2001, over 200 people had viewed the website. To help people find the site, it has been registered with various Internet search engines and linked to other web sites.

Regional NILS

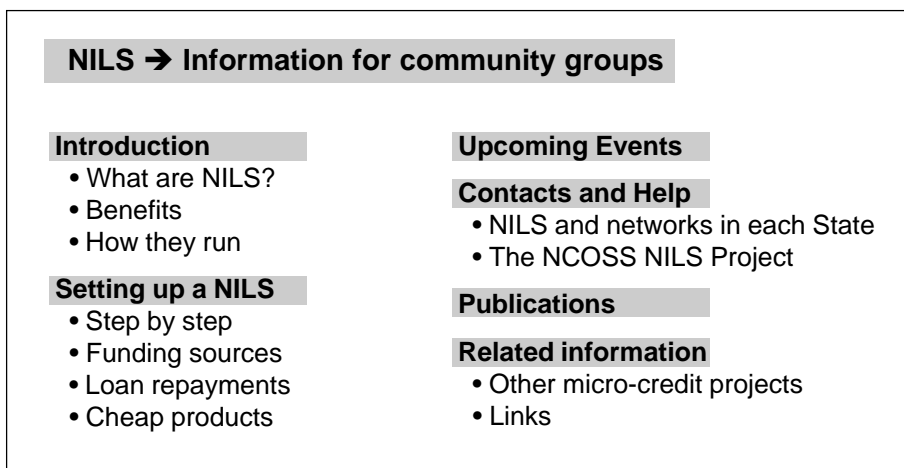
The idea of regional NILS is a particularly exciting development. Of the 50 NILS running in Australia, all but one are run by a single agency. One scheme in WA covers the whole State.

The NSW NILS workshops have been exploring the possibility of setting up region-wide NILS. One agency would auspice the administration of the scheme, but a range of community organisations would have the client contact and pass on loan applications. All member organisations would have a say in running the scheme.

This model, proposed for the Hunter and mid-North Coast, has several advantages:

- Small organisations can participate in NILS where they would not have the time or resources to organise a NILS on their own;
- It avoids duplication of administrative effort in setting up a scheme;
- It can build partnerships between a wide range of community organisations such as neighbourhood centres, major charities, Aboriginal groups and disability groups. This will increase communication and co-operation across the community sector; and
- A regional scheme may be more attractive to some corporate sponsors than a small local scheme.

Diagram 1: The NILS home page



Ongoing work

The development work on NILS will not stop with Robert Drake's departure from NCOSS. Some development activity will continue through other organisations. Arrangements have been made for any on-going matters to be passed to other organisations working on NILS.

Regional workshops

Chris Brown from Winmalee Neighbourhood Centre will continue the series of regional NILS workshops, in conjunction with NCOSS. These are likely to be in March – April next year. Winmalee has received \$10,500 funding from the Macquarie Bank Foundation for this joint project with NCOSS. This support from the Macquarie Bank Foundation is gratefully acknowledged.

The tentative location of workshops (in order of current interest) is:

1. Riverina (Griffith or Wagga Wagga)
2. Far North Coast
3. Deniliquin
4. Albury
5. Northern Tablelands
6. Northern Slopes

We may be able to cover other regions if there are enough interested groups in each area.

Reaching Aboriginal communities

The NCOSS NILS project drew strong interest from Aboriginal communities. From Toomelah to Deniliquin, Aboriginal people could see a clear need for NILS. NCOSS heard a range of anecdotes about individual needs:

A person on a disability pension who had been renting a washing machine for 5 years because he did not have the savings to buy one. The rent payments over that time could have bought four washing machines.

A mature student at a regional university who needed a laptop computer to complete assignments.

As part of the regional workshops project, it is proposed that contact be made with regional Aboriginal organisations to explore whether schemes could be set up to service these communities.

One possible model is for local community welfare organisations (e.g. Neighbourhood Centres) to team up

with Aboriginal groups (e.g. Local Aboriginal Land Councils) to set up NILS. Such a model may:

- broaden the range of skills and resources available to set up, fund and run a scheme;
- establish loan allocation and repayment processes which reduce "conflicts of interest" with personal relationships; and
- build bridges between Aboriginal and non-Aboriginal communities through a joint project.

The NSW NILS Network

With the growth in the number of NSW NIL schemes, the NILS Network needs co-ordination. Currently it is just a quarterly meeting of people from the various NILS.

The NILS Network has applied to the Area Assistance Scheme for funding to continue some of the development work next year. The Network intends becoming incorporated, with NCOSS as the interim auspice. Funding to employ a part-time worker would assist the Network to liaise with current and potential sponsors, organise assistance for new schemes, maintain the web-site and organise an annual conference.

The NILS Web-site

The usefulness of the web site depends on it being kept up-to-date. As an interim measure, Winmalee Neighbourhood Centre has agreed to maintain the web site for the time being. Winmalee staff have been trained in how to edit the web pages and upload them to the Internet.

At present, the NILS web site is a sub-site of the NCOSS web site and was all written by Robert Drake, with a NSW focus. In the medium term, the web site needs to become independent of the NCOSS site and develop a wider range of contributors across Australia.

It is proposed to:

- Register a domain name for NILS (e.g. www.nils.org.au)
- Have it hosted on an ISP separate from the NCOSS web-site.
- Allow NILS co-ordinators in the various States to add and amend material.

These steps would be taken by the coalition of NILS State contacts, co-ordinated by Good Shepherd Youth and Family Services.

Appendix 1

Background Information on No Interest Loan Schemes (NILS)

What are No Interest Loans Schemes (NILS)?

NILS provide loans to people on low incomes to buy essential household items, such as a washing machine, fridge or medical appliance.

A typical NILS loan is for around \$600 – \$1,000 and repaid over 8-15 months. As loans are repaid, the money is lent out again to other people.

In general, loans are only made to people whose primary income is Social Security (i.e. demonstrated by holding a Pensioner Concession Card or Health Care Card). However, No Interest Loans do not suit everyone in this group. If people can access commercial credit on reasonable terms, they do not need NILS. On the other hand, people in financial crisis cannot budget to make loan repayments and are therefore not suitable for NILS. Typical NILS borrowers are unemployed single mums, old age pensioners and people on disability pensions.

NILS are typically run by local community groups such as neighbourhood centres or welfare centres.

The loan arrangement is based on trust. If the loan is not repaid, attempts are made to contact the borrower and reschedule repayments, but no legal action is taken to recover the debt.

No Interest Loans should not be confused with “interest free terms” offered by some retailers. Interest free terms require passing a credit check. If repayments are missed, the contract involves high interest rates backdated to the time of sale.

The benefits of NILS

NILS are a great way to help disadvantaged people in a local area. The items purchased make a huge difference to people’s quality of life.

- NILS allow people to buy the appliance when they need it. Most people on low incomes find it hard to build up savings. Often the need for an appliance is urgent, such as when a fridge or washing machine breaks down, or when setting up a new household. “Doing without” involves

a nineteenth century standard of living – handwashing clothes every day or being unable to keep perishable food. Alternatives like commercial laundromats or rented appliances can be expensive.

- NILS loans are used to buy a new appliance. A new appliance avoids the trap of maintaining an unreliable old appliance that requires frequent repairs and is expensive to run.
- NILS are committed to respecting dignity of their borrowers and supporting them to keep control of their finances. The budget review process has a long-term educational benefit.
- NILS have a major spin-off benefit in building community co-operation. Most borrowers are very conscious that their repayments will allow other people to be helped in the future.
- NILS keep people away from loan sharks and other credit traps. Borrowers are people who either would not be granted commercial credit or only at unaffordable high interest rates or in an inappropriate format.
- NILS multiply the benefits by recycling money. Each \$10,000 in a loan fund can allow the purchase of about \$100,000 worth of appliances. A grant to a NIL scheme gives excellent value for money.

The views of NILS clients

I've got four kids. We'd been living out of an esky to keep our food. So much got wasted because it went off. I had to buy each day and often that would be at the milk bar. It was costing me a fortune and we were going backwards.

With kids you need to wash a lot. My hands were sore from hand washing for so long. If I went to the laundromat it would cost me \$12 to do it. I rang up [NILS] in tears.

My hot water system broke. There was hot water all over the floor. The gas company came but I didn't have the money for a new one. I had to boil kettles of water to have a bath or wash dishes.

I'm a single mum with five kids in a small country town. I've just been diagnosed with Hodgkinson's Disease. I need to replace the wood heater with a new system. I can't keep chopping wood and I need proper heating so I get fewer infections.

Do NILS really work?

No Interest Loan Schemes are a proven program. Good Shepherd Youth and Family Services in Victoria has been running a scheme for 20 years. Other community groups have picked up the idea. There are now about 50 autonomous local NIL schemes, most operating on the Good Shepherd model (30 in Victoria, 14 in NSW, about 6 in SA, 1 in ACT, 2 in Qld).

WA has established a state-wide NILS. This successful community based scheme replaced a government-run lending scheme which had a default rate of 97%.

NILS have been proven to work.

- On average, around 90% of loans are repaid, allowing money to be recycled to further borrowers. Where schemes have offered repayments by direct debit from Centrelink, the repayment rate is about 95%.
- Safeguards are in place to ensure NILS achieve their desired goals. Only low income households are eligible. NIL schemes write a cheque to the retailer, so loan funds cannot be diverted to other purposes.
- Good Shepherd Youth and Family Services distributes a set of policies, practices and accounting software, so new NILS can follow established best practice.

Two independent reviews have concluded that NILS are a valuable and viable program. The main problem identified is that current No Interest Loan Schemes are small scale and only operate in a minority of areas.

Literature summary

Two reviews have recently reviewed the experience with No Interest Loan Schemes.

“Interest Free Loans: A review commissioned by the Ian Potter Foundation”

by Roberts Consultants Pty Ltd, 2000 (53 pages).

Reviewed the experience of the NILS organisations that the Foundation had funded, and the broader context in Australia. Its conclusion was the NILS are a very valuable program, and deserve to be expanded dramatically.

“Review of No Interest Loan Schemes”

by Australia Street Company, 1999 (100 pages).

(commissioned by the NSW Department of Fair Trading).

Reviewed the experience of the NILS organisations that the Foundation had funded, and the broader context in Australia. Its conclusion was the NILS are a valuable and viable program. The major problem identified was that most areas do not have a NIL scheme, despite the obvious need.

Appendix 2: Existing NSW NILS Schemes

Organisation	Location
Jubilee Resources	Bondi Junction (East Sydney)
Sydney Credit Line	Haymarket (Central Sydney)
Nagle Centre	Campbelltown (S.W. Sydney)
Argyle Community Housing	Claymore (S.W. Sydney)
Penrith Community Cottage	Penrith (Western Sydney)
Women's Activities and Self Help (WASH) House	Mt Druitt (Western Sydney)
St Vincent de Paul, Parramatta Diocese	Wentworthville (Western Sydney)
Canterbury City Community Centre	Lakemba (Western Sydney)
Winmalee Neighbourhood Centre	Winmalee (Blue Mountains)
Lower Mountains Neighbourhood Centre	Blaxland (Blue Mountains)
Mid Mountains Neighbourhood Centre	Lawson (Blue Mountains)
Josephite Foundation, Lithgow	Lithgow (Central West)
Josephite Foundation, Blayney and Oberon	Blayney and Oberon (Central West)
Bathurst Information and Neighbourhood Centre	Bathurst (Central West)
Nambucca Valley Community Services	Macksville (Mid North Coast)
Josephite NILS- Adamstown	Adamstown (Newcastle)