

# An Evaluation of the initial phase of the Community Development Finance Institution (CDFI) provided by Conduit Scotland through a Consortium involving Falkirk, Fife and West Lothian Councils

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Improvement Service

iHub

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Funded by



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# 1. Executive Summary

## a. contextual summary

What Works funding was provided to co-ordinate and evaluate the pilot phase of an innovative approach taken by three Scottish councils to establish and support a Community Development Finance Institution (CDFI). The aims of the CDFI are to offer those living in the lowest income households in Falkirk, Fife and West Lothian access to affordable credit, and to promote take up of wider advice and support services by those in need. The Consortium model for developing a CDFI is the first initiative of its kind in Scotland and covers three local authority areas with more than 700,000 residents. The CDFI will offer a more affordable alternative to higher cost short-term lenders and is targeted at individuals who are unlikely to be able to access mainstream credit options and who may be experiencing financial exclusion. As well as providing telephone and online services, Conduit Scotland (CS), the social lender appointed after a competitive tendering exercise, has established four shops offering face to face lending services. From each shop base, 'pop ups', are provided in local communities, in which staff engage with individuals through community based services and events which are targeted at areas of multiple deprivation. A critical element of the role of the CDFI, which is at an early stage of development, is to refer customers onto 'wrap around' advice and support services provided by existing locally based providers. In the period June 2017 to February 2018, the time period the evaluation covered, 765 loans with a total value of around £ £354,587.08 have been made

## b. Evaluation

The research questions the project sought to address were:

- 1.How does the provision of affordable credit influence access to products for consumers who would otherwise be unable to access lending or influence their credit choices more broadly?
- 2.How do face-to-face, online and telephone channels compare as effective forms of delivery? Are customers more likely to take up support services if referred face-to-face? Are face-to-face service points (shops) in the most accessible locations?
- 3.How important is the partnership model involving local authorities? What added value does this bring?

To evaluate the success of the project a process and outcomes based approach to evaluation was chosen.

Stakeholder engagement, at all levels, underpinned the evaluation process and was achieved through a combination of structured surveys<sup>1</sup>, workshops<sup>2</sup>, focus groups (3) and one to one interviews<sup>3</sup>.

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<sup>1</sup> 65 Conduit Scotland customers responded and formed the baseline with 37 follow up responses

<sup>2</sup> Three workshops were held in which 15 council staff members participated

<sup>3</sup> One to one interviews were conducted with: 25 Conduit Scotland customers; 40 users of council advice funded advice services; 10 council staff members and 10 Conduit Scotland staff members.

### **c. Key findings**

Initial findings suggest that the CDFI has contributed towards delivery of the following intended outcomes:

- c50%<sup>4</sup> of CDFI customers, by securing affordable loans have improved access to financial services and increased awareness and understanding of affordable credit options.
- c60%<sup>5</sup> of CDFI customers, when referred onto other advice and support services, have increased confidence and ability to manage money on a day to day basis.
- Falkirk, Fife and West Lothian councils have improved relationships and increased opportunities for partnership working.
- Falkirk, Fife and West Lothian councils have jointly established a cost-effective approach to promoting financial inclusion and reducing poverty in their constituent areas. CDFI Customers are less likely to apply to higher cost 'for profit' credit providers after getting a loan from Conduit Scotland.
- The method by which individuals choose to apply for loans is complex, but most CDFI customers indicated a preference for online services as they are convenient and confidential.

### **d. Methodological limitations**

- Whilst requests to complete the survey and to take part in the interviews were made to their customers by Conduit Scotland on behalf of the Improvement Service, the take up rate was relatively low (c5%), despite modest financial incentives being offered.
- It is acknowledged that the sample sizes were significantly lower than hoped for, and as a result the level of confidence in the results was adversely affected.
- Selection bias is likely to have been a factor as all customers were contacted and invited to participate and random sampling was not possible.
- The evidence produced is at level 2 on the Nesta Standards of Evidence scale.

### **e. Learning and sharing activity**

- Responsible finance providers operate in a variety of ways and the approach taken by the CDFI of integrating a loan provider with wraparound services is a new model that has not previously been tested.
- The findings from this evaluation of the pilot phase will add to the existing evidence base about the approaches that are most effective and will help inform future discussion and decision making.
- Both the Scottish Government and local authorities in Scotland recognise the contribution that the community lending sector can make to tackling poverty and supporting financial inclusion. The approach taken by Falkirk, Fife and West Lothian Councils offers a cost-effective way and innovative way of addressing local needs.

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<sup>4</sup> Based on a sample size of 43 baseline and follow up interviews

<sup>5</sup> Ibid 4

## 2. Project overview

*Community Development Finance Institutions are social enterprises that support communities by providing affordable finance that would otherwise not be available. By making loans, they can recycle this finance again and again into neighbourhoods where it is most needed. These organisations lend money to those unable to get finance from high street banks. They fill the gaps mainstream lending, addressing market failures and offering an affordable alternative to high interest doorstep lenders.<sup>6</sup>*

### Introduction

Tackling poverty and improving outcomes for households on low incomes is a key priority for Falkirk, Fife and West Lothian councils, and establishing the Community Development Finance Institution (CDFI) provided a way of offering practical support to address this issue. The CDFI enables vulnerable borrowers across the three council areas to access loan finance at lower interest rates than those provided by high cost credit providers. This reduces debt levels for households and improves the economic position of local communities by increasing the resources that are available for individuals to spend. The three councils agreed to form a Consortium to plan and deliver the CDFI.

From the outset, the local authorities worked together and took responsibility for the different stages that they considered were required to establish an effective CDFI. Falkirk Council led the procurement and management of IS4 Consultants<sup>7</sup> in May 2015 to undertake an initial feasibility study. West Lothian Council took responsibility for continued engagement with the consultant in relation to the findings from the study, and Fife Council supported the development of a detailed business case and took charge of the procurement process needed to contract a loans provider.

Following a competitive tendering exercise, Five Lamps (trading in Scotland as Conduit Scotland)<sup>8</sup> was appointed as the social lender.

The Consortium model for developing a CDFI is the first initiative of its kind in Scotland and covers three local authority areas with more than 700,000 residents. In the period June 2017 to February 2018, 765 loans with a total value of around £ £354,587.08 have been made. This would suggest that the target of 1000 loans by June 2018 is likely to be met. The three local authorities have made a significant investment in the initiative.

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<sup>6</sup> <https://www.scotlandsfinancialhealthservice.gov.uk/community-development-finance-institutions>

<sup>7</sup> For further information, please Sam Pairman at Fife Council

<sup>8</sup> <https://www.conduitscotland.com/contact/>

Fig. 1 Investment by local authority.

Item description	One-off cost	Recurring cost <sup>9</sup>
<b>CDFI Loan Capital</b>	<b>£400,000</b>	N/A
<i>Fife share</i>	<i>£200,000</i>	
<i>Falkirk share</i>	<i>£100,000</i>	
<i>West Lothian share</i>	<i>£100,000</i>	
<b>CDFI Service Set-up/Provision</b>	<b>£200,000</b>	<b>£135,000</b>
<i>Fife share (2 physical sites)</i>	<i>£100,000</i>	<i>£55,000</i>
<i>Falkirk share (1 physical site)</i>	<i>£50,000</i>	<i>£40,000</i>
<i>West Lothian share (1 physical site)</i>	<i>£50,000</i>	<i>£40,000</i>
<b><u>Project Totals</u></b>	<b><u>£600,000</u></b>	<b><u>£135,000</u></b>
<i>Fife share</i>	<i>£300,000</i>	<i>£55,000</i>
<i>Falkirk share</i>	<i>£150,000</i>	<i>£40,000</i>
<i>West Lothian share</i>	<i>£150,000</i>	<i>£40,000</i>

## Aims

The aims of the CDFI are to offer those living in the lowest income households in Falkirk, Fife and West Lothian access to affordable credit and to promote take up of wider advice and support services by those in need. The CDFI will offer a more affordable alternative to higher cost short-term lenders (retail, online and door step operations) that operate to make a profit. What Works funding was provided to co-ordinate and evaluate the approach in its pilot phase.

## Target groups

The initiative is targeting individuals who are unlikely to be able to access mainstream credit options and are likely to be experiencing financial exclusion.

The individuals whom the service is aimed at are defined as ‘struggling<sup>10</sup>’ and are expected to display one or more characteristics from the following profile:

- benefit dependent
- in-work on low wage
- single parents
- living in social housing or the private rented sector

In addition, individuals are likely to

- have experience of recent use of high cost credit
- be living in the top 35% of disadvantaged communities as defined in SIMD data.<sup>11</sup>

<sup>9</sup> Recurring costs are on a per annum basis. The contractual commitment is intended to be for 3 years, with an extension option of a further 2 years. After 5 years the contract can then be reviewed and a decision taken on further extensions or a wider re-assessment/options appraisal.

<sup>10</sup> [https://masassets.blob.core.windows.net/cms/files/000/000/568/original/Market\\_Segmentation\\_report\\_An\\_overview.PDF](https://masassets.blob.core.windows.net/cms/files/000/000/568/original/Market_Segmentation_report_An_overview.PDF)

<sup>11</sup> <http://www.gov.scot/Topics/Statistics/SIMD>

## Activities

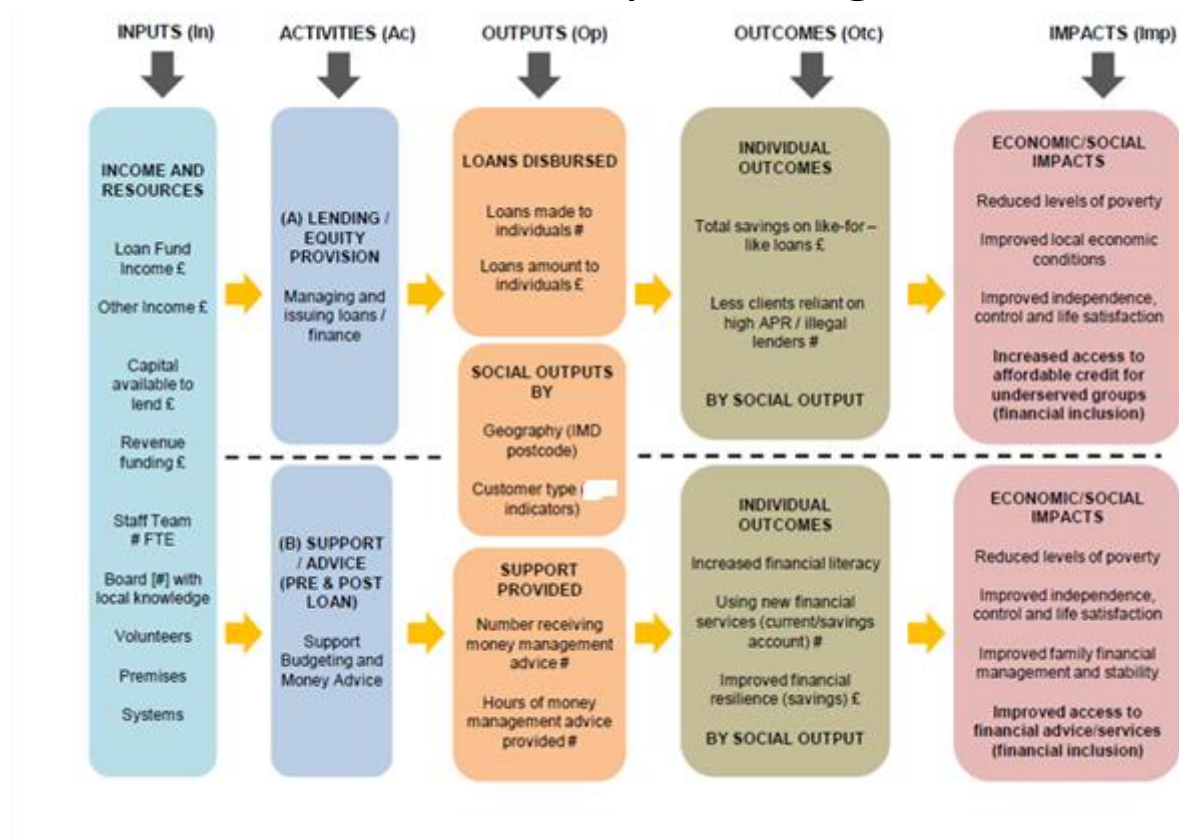
As well as providing telephone and online services, under this initiative, Conduit Scotland has established four shops offering face to face lending services. There are two in Fife and one each in Falkirk and Bathgate (West Lothian) employing 15 members of staff and apprentices. From each shop base, 'pop ups', are provided in local communities, in which staff engage with individuals through community based services and events. Targeted at areas of multiple deprivation, the purpose of this approach is to raise awareness of the service and encourage engagement with the target group.

In addition to providing loans, Conduit Scotland refers applicants to a wide range of local advice and support services within the relevant local authority areas.

The What Works Fund <sup>12</sup>(WWF) supported the evaluation and co-ordination of the CDFI in the initial period (August 2017 to March 2018). The CDFI provider, Five Lamps, has a contract for a period of five years with financial support being provided by the local authority and funding partners for the first three years.

The 'Theory of Change' on which the project is based is summarised below.

## CDFI – Theory of Change



(as submitted in the application for funding)

<sup>12</sup> <https://www.fincap.org.uk/what-works-fund>

## **Intended outcomes**

The main intended beneficiaries of the project are the customers who, by securing affordable loans, will have improved access to financial services and increased awareness and understanding of affordable credit options. If referred onto other advice and support services, individuals will also be likely to gain increased confidence and ability to manage money on a day to day basis. Taken together, the provision of affordable credit and access to other advice and support services is intended to result in individuals developing financially capable behaviours.

It is possible that the different groups of customers may have experienced different outcomes, or similar outcomes to a greater or lesser degree. However, it was not possible to explore this due to a slight delay in commencing the project, the constrained deadline for submitting the evaluation report and the fact that, at this point, the CDFI initiative is still at a relatively early stage of development. This limited the data available for analysis. The difficulties experienced in engaging with customers which resulted in very small sample sizes (two%) were also a contributory factor.

Linking loans provision to advice and support services is likely to offer benefits by increasing access to services and may ultimately promote earlier intervention. This will benefit not only those individuals who are able to access financial services and be referred to advice and support services at the time of need, but also may result in the councils making long term cost savings to the public sector by being able to provide essential services at an earlier stage before individuals reach crisis point. Councils will also gain from opportunities that will arise because of the improved partnership working that has taken place. These are likely to include increased information sharing and the establishment of a structure to work together.



### 3. Overview of the evaluation approach

#### Introduction

(a) The Evaluation sought to address the following research questions which had been agreed with MAS:

- How does the provision of affordable credit influence access to products for consumers who would otherwise be unable to access lending or influence their credit choices more broadly?
- How do face to face, online and telephone channels compare as effective forms of delivery? Are customers more likely to take up support services if referred face to face? Are face to face service points (shops) in the most accessible locations?
- How important is the partnership model involving local authorities? What added value does this bring?

The CDFI is intended to help individuals living in Falkirk, Fife and West Lothian to access affordable credit. The three councils supported the establishment of an inclusive social lender whose primary purpose is to provide loans but which also refers customers to local organisations for advice and support. The initiative is seen to be of particular benefit to those who may be experiencing financial difficulties. The approach supports the UK Financial Capability Strategy which aims to:

*“Improve people’s ability to manage money well, both day to day and through significant life events, and their ability to handle periods of financial difficulty. It will focus on developing people’s financial skills and knowledge, and improving their attitudes and motivation. This, combined with an inclusive financial system, can help people achieve the best possible financial wellbeing.”<sup>13</sup>*

#### Evaluation type

To address the research questions related to the provision of affordable credit for consumers and the partnership model adopted by the local authorities, an outcomes and process based approach to evaluation was chosen. This method was selected as it enabled the focus to be on assessing the difference that the CDFI would make to the identified beneficiaries and the impact it is intended it will create.

*“Outcomes evaluation is about measuring the actual change that has occurred, from a specific activity, on a range of stakeholders based on the principle of measuring what matters to stakeholders.”<sup>14</sup>*

To identify the effectiveness of service delivery and referral pathways in relation to customer channel choice, a customer journey mapping exercise was undertaken. This sought to identify key touchpoints, from a user perspective, in relation to accessing both loans and external support services and to identify barriers and enablers.

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<sup>13</sup> [https://www.fincap.org.uk/uk\\_strategy](https://www.fincap.org.uk/uk_strategy)

<sup>14</sup> <https://www.nefconsulting.com/our-services/evaluation-impact-assessment/outcomes-evaluation/>

### **Contribution to existing research**

There is a recognition of the need for access to affordable credit as a contribution towards mitigating the poverty premium.

The Affordable Credit Working Group, established by the Carnegie UK Trust,” is seeking to bring new solutions to this area with a focus on identifying alternative options to the commercial high cost credit market”. The group recognises that access to CDFIs offer one such solution.

There are a variety of models of Community Development Finance Institutions and the approach adopted by the Consortium, of working with a loan provider who is required to make referrals for advice to wrap around services, is unique. This evaluation will improve understanding of the effectiveness of this method of service delivery.

### **Evaluation Methodology**

A key objective was to improve understanding of the effectiveness of this CDFI delivery model which was based on referring applicants for loans to locally based advice services. To enable this to happen, stakeholder engagement at all levels, building on the consultation that had already occurred, underpinned the evaluation process. This was achieved through a combination of structured surveys, workshops, focus groups and one to one interviews. Further details of the methods applied can be found in the table below.

<b>Outcome</b>	<b>Data Collection/Methodology</b>	<b>Quantities</b>
Customers have Increased awareness and understanding of affordable credit options	Conduit Scotland (CS) management information  Individual surveys - (survey monkey: baseline data) individual surveys- (survey monkey: follow up data) one to one interviews of service users/ Case studies and follow up one to one interviews of council funded money advice service users	270 individuals have been referred or signposted  69 responses received 37 responses received 25 interviews/ 6 follow-up interviews carried out 40 interviews carried out
Customers have improved access to financial services	CS staff one to one interviews CS management Information: CDFI Service users broken down by demographic characteristics/ awareness of available services/reason for accessing service/ influence of shop front number of loans and value by demographic characteristics and channel used to access loan Individual surveys - (survey monkey: baseline data) individual surveys- (survey monkey: follow up data) one to one interviews of service users/ Case studies and follow up  one to one interviews of council funded money advice service users  customer journey mapping	Interviews held with 8 CS staff members based on management data for 2469 applications  69 responses received 37 responses received 25 interviews/ 6 follow-up interviews carried out 40 interviews carried out  20 carried out
Customers have increased confidence and ability to manage money on a day to day basis	individual surveys - (survey monkey: baseline data) individual surveys- (survey monkey: follow up data)  one to one interviews of service users/ Case studies and follow up  one to one interviews of council funded money advice service users	69 responses received 37 responses received  25 interviews/ 6 follow-up interviews carried out  40 interviews carried out
Vulnerable customers are better able to access/ engage with key services at an earlier stage	CS management information - referrals one to one interviews of service users/ Case studies and follow up  one to one interviews of council funded money advice service users  customer journey mapping  Interviews with CS staff	270 individuals have been referred or signposted 25 interviews/ 6 follow-up interviews carried out  40 interviews carried out  20 carried out  10 interviews carried out with staff and CS contract manager
Partnership working between councils has improved	stakeholder interviews workshop /self-assessments	3 focus groups were involving 15 council staff 10 individual interviews held with council staff

## **Amendments**

In the original evaluation proposal, it was hoped to explore the following research question:

*Does engaging customers through public awareness campaigns improve their confidence and readiness to seek affordable credit? For whom is this approach most effective and why?*

Unfortunately, as a result of delays in starting the outreach, or pop-up activities, that are an integral part of the initiative, and the timescale for reporting of the evaluation, it was not possible to gather the data required to offer any meaningful assessment.

In addition, difficulties in securing adequate sample sizes of customers resulted in a variation in both the number and type of interviews carried out. Both these areas are considered further in the section on 'Limitations of the evaluation and future evaluation'.

#### 4. Key Findings: outcome/impact evaluation

The research questions to be addressed during the pilot phase in the initial year<sup>15</sup> of the CDFI were:

- How does the provision of affordable credit influence access to products for consumers who would otherwise be unable to access lending or influence their credit choices more broadly?
- How do face-to-face, online and telephone channels compare as effective forms of delivery? Are customers more likely to take up support services if referred face-to-face? Are face-to-face service points (shops) in the most accessible locations?
- How important is the partnership model involving local authorities? What added value does this bring?

##### Caveats

The sample sizes of Conduit Scotland customers interviewed were very small and equated to c 2% of all those applying for a loan in the time period considered in the evaluation (September 2017 to February 2018). Furthermore, because of difficulties in identifying individuals willing to take part in the surveys and interviews, random sampling was not achieved and self-selection took place. Both these factors should be taken into account in considering the results reported below and the findings outlined below should be treated with caution. In relation to comparisons between baseline and follow up it should be noted that data was matched in 75% of cases.

**Question: How does the provision of affordable credit influence access to products for consumers who would otherwise be unable to access lending or influence their credit choices more broadly?**

In the period covered by the evaluation, 1 June 2017 to 28 February 2018, management information provided by Conduit Scotland states that 79% of loan applications were made online, 11% were over the phone and 10% took place on a 'face-to-face' basis in one of the shops. The total number of loan applications was 2469 and of these 765 were successful. 53% of the total number of applications were declined for affordability or credit history, which is in line with projections. One in five of the applications made was for an additional loan.

**Key finding: The CDFI successfully reached two of the three identified target groups who are most likely to be experiencing financial exclusion.**

The three key target groups for the CDFI were identified as individuals who were dependent on benefits (or if in work on a low wage), single parents, and individuals living in either social housing or the private rented sector. The characteristics of applicants for loans in the period covered by the evaluation are:

- 66% are living in social housing or in the private sector
- 40% are on benefits<sup>16</sup>

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<sup>15</sup> The CDFI went online in June 17, and shops were opened incrementally until Aug 17. The period covered is 10 months.

<sup>16</sup> A breakdown can be provided by Conduit Scotland

- 30 % are single parents

Single parents, although a key target group, account for a little under one third of loan applicants. This suggests that to improve levels of engagement with single parents, a targeted approach may be required.

Fig. 2 Resident status of loan applicants

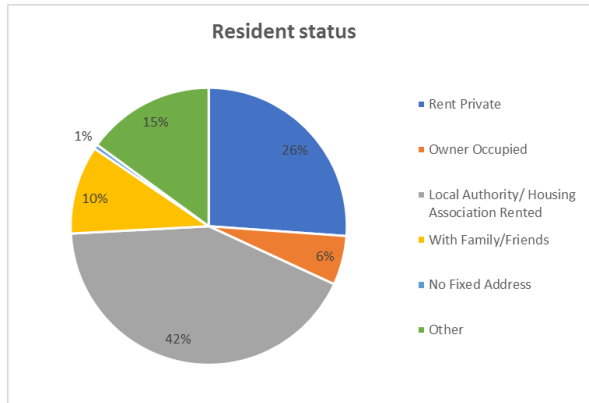


Fig.3 Employment status of loan applicants

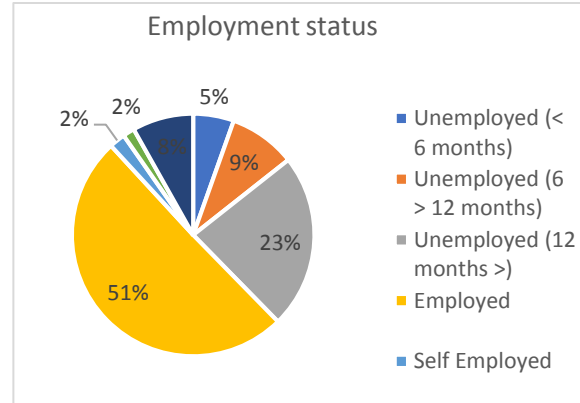
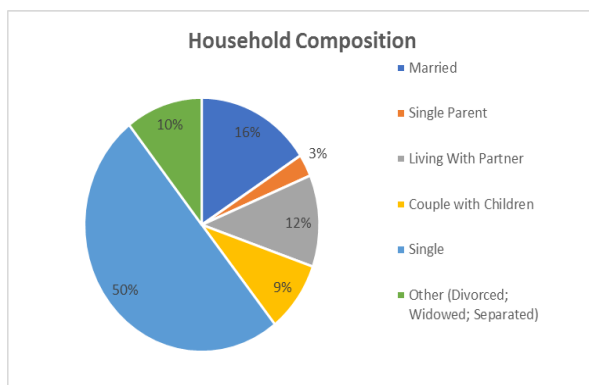


Fig.4 Household composition of loan applicants



Data provided by Conduit Scotland management information and relates to 2,469 applications.

### Key finding: Customers report improved confidence and capacity in relation to financial services and support as a result of using the CDFI

As can be seen from figures 5 and 6, a comparison of data collected during follow-up surveys with that collected to establish a baseline<sup>17</sup>, suggests that, across all areas, there was some improvement in levels of confidence and capability. The greatest reported improvement was in relation to reduced levels of stress or worry. Whilst the most marginal area of progression occurred for budgeting skills, it should be noted that the numbers reporting a decline in this skill reduced markedly, suggesting that initial skills gained were maintained. An increased number of applicants report greater confidence to seek support at an early stage before things get out of hand, which would suggest that there is more likelihood of early intervention strategies taking place.

<sup>17</sup> Data that is referred to as baseline was collected shortly after the loan was approved or declined. It was not possible to collect information pre-intervention. As a result, it is likely that the base line will be slightly higher than would be expected and will include some of the benefits gained because of the intervention. The comparison with follow-up data allows the degree and likely duration of the benefit to be considered.

Fig.5 Survey responses (Baseline data based on 69 responses)

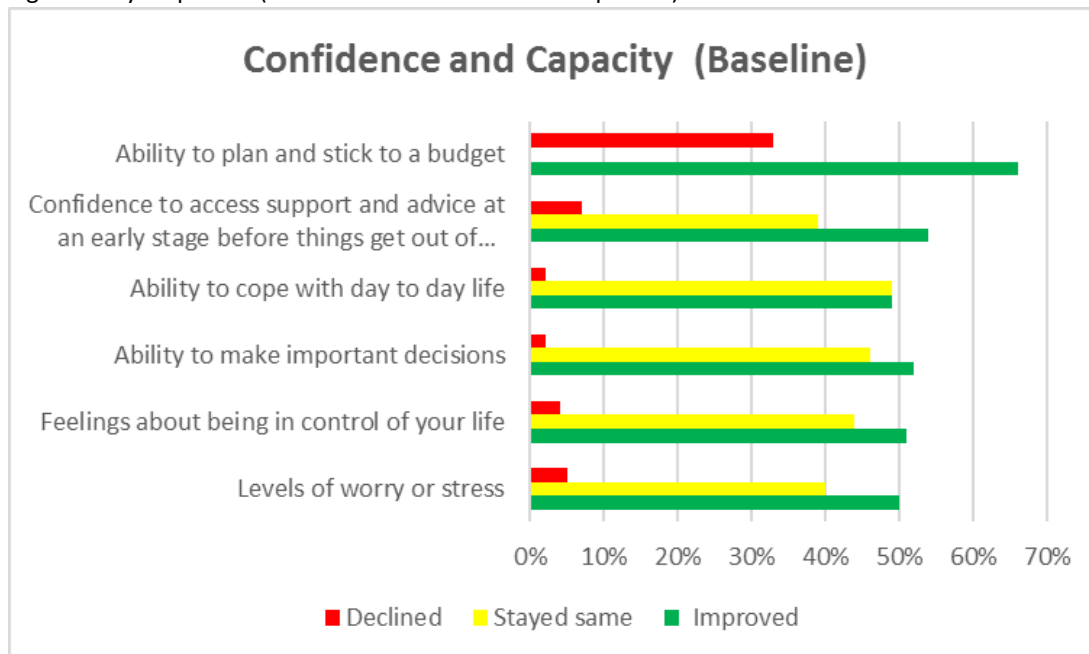
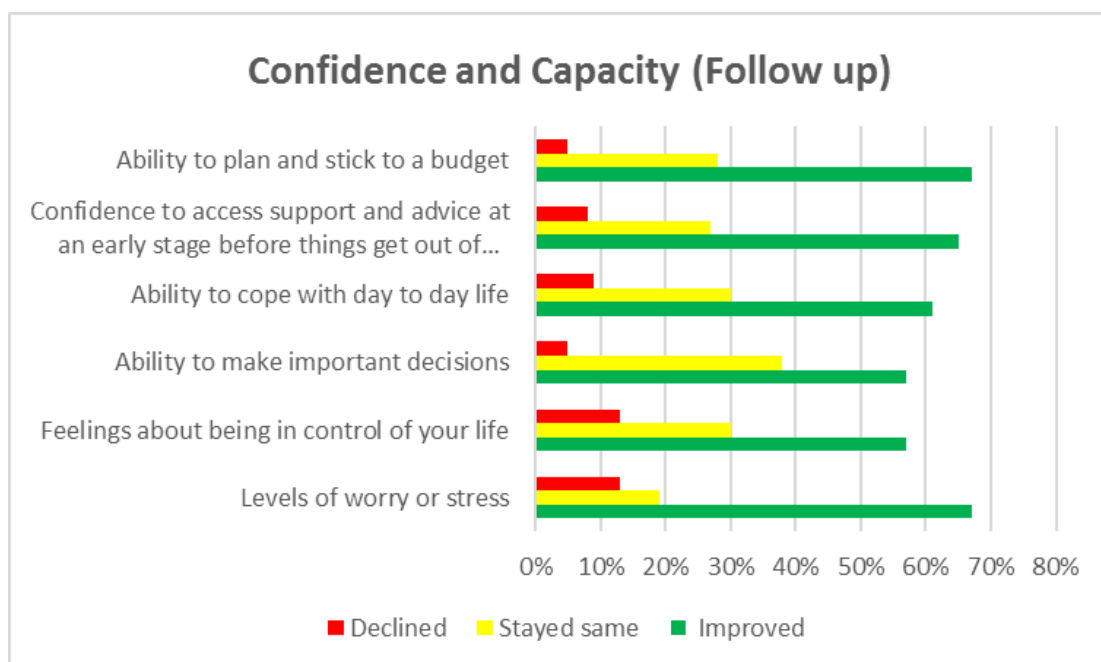


Fig.6 Survey responses (Follow up data based on 37 responses ,75% were matched)



**Key finding: Customers report improved understanding and awareness of financial products as a result of using the CDFI.**

A comparison of data collected during the follow up surveys with that collected to establish a baseline (figures 7 and 8) suggests that, across all areas except one, there was some improvement in levels of understanding and awareness of financial products. The greatest areas of improvement it appears

were in relation to the understanding of financial terms and of when to use credit. The ability to access a wider range of financial products also reflected a marked improvement, whilst money management skills showed little change. The ability to make payments when they are due did not show any improvement, however increased numbers reported that their ability had been maintained and none reported a decline.

Fig.7 Survey responses (Baseline data based on 69 responses )

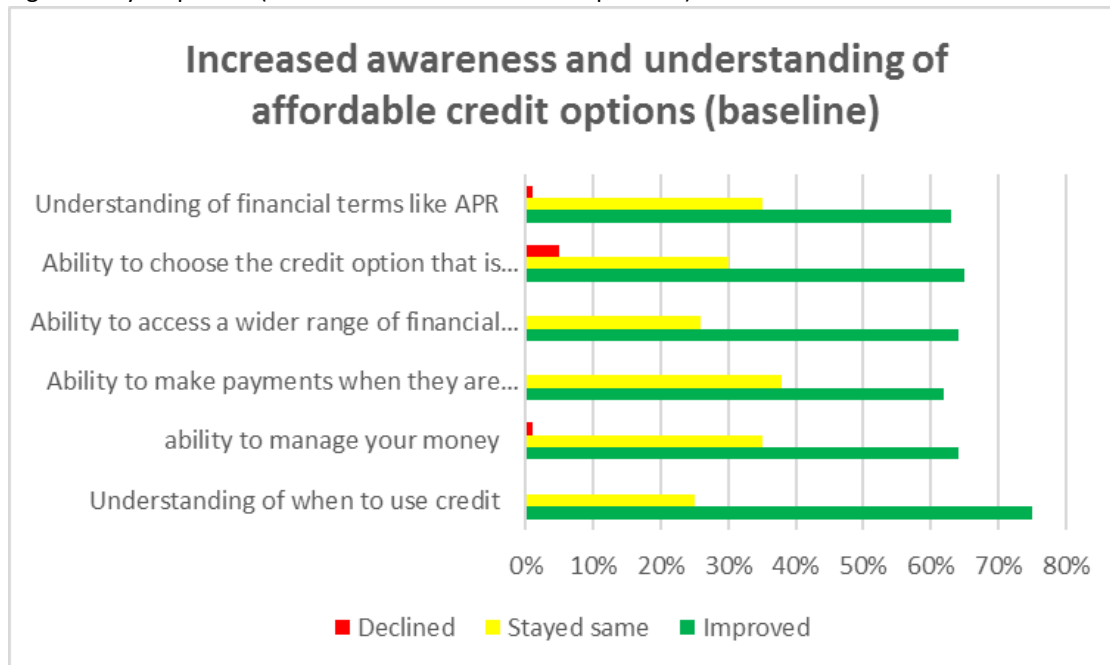
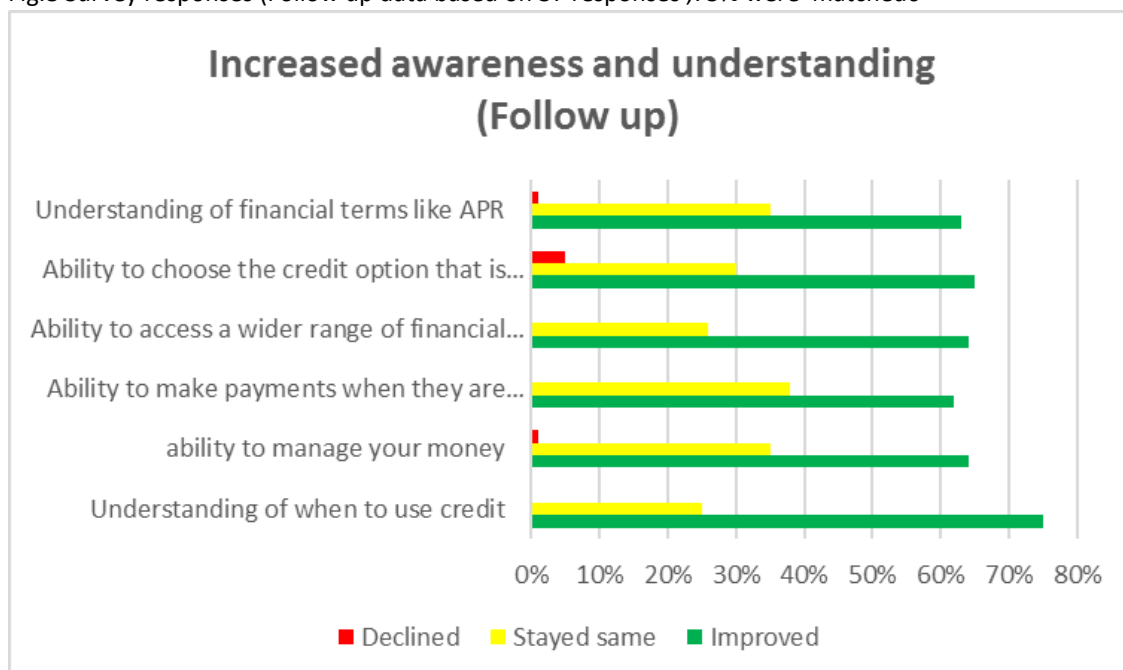


Fig.8 Survey responses (Follow up data based on 37 responses ,75% were matched)





It should be noted that one-to-one interviews with service users of local authority funded advice services, recorded slightly better improvements in relation to confidence and capacity and similar findings in relation to increased awareness and understanding. These interviews were conducted on the basis of attributing any changes occurring as the result of getting help and support and to identify attitudes to credit. Given that different methodologies were used, a straight comparison between local authority funded advice service users and CS customers is not possible.

**Key finding: Service users of local authority advice services are more likely to borrow money from friends and family**

Users of local authority funded advice services were asked about their attitude towards debt and borrowing. None of the 20 interviewed were familiar with the term 'affordable credit' or had heard of Conduit Scotland. With one exception, the service users interviewed said that they would not borrow money from a loans company or affordable credit provider. When asked what action they would take if a financial emergency came along, the overwhelming majority responded that they would borrow the money required from friends and family. The main reason stated for not seeking a loan was that they would not be able to afford the repayments. One individual who stated he was currently using a loans company (Provident), said that he had used their services for several years and had a good relationship with them. He added that he would not change provider, even if a lower interest rate was offered.

*"I've got money for years and they have always been understanding. If I need to miss a few weeks, that's fine".* Advice service user

Data from individual interviews with service users of local authority funded advice services in January and February 2018

**Key finding: Customers are less likely to apply to higher cost 'for profit' credit providers after getting a loan from Conduit Scotland**

When customers who had already used a higher cost credit provider were asked, in the online survey, if they would do so again in the future, 89%<sup>18</sup> said that they would not. Of the 11% who said that they would, responses included that they would only do so if they couldn't get a loan from Conduit Scotland or that they were already using such a provider.

Data from surveys and one to one Interviews

**Key finding: Conduit Scotland customers are very satisfied with the service provided**

Customers reported a 99%<sup>19</sup> satisfaction rate with the services provided and 97% said they would apply again.

*"I am happy with Conduit Scotland and would get a loan again in future, and I would also spread the word about my positive experience".* Customer

Data from surveys and one to one Interviews

**Conclusion**

Those Conduit Scotland customers who took part in the evaluation process reported extremely high satisfaction levels with the services provided and indicated that they would be less likely to use high

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<sup>18</sup> Based on 69 responses

<sup>19</sup> Ibid 13

cost credit providers in the future. Some improvement in confidence and capacity in relation to financial services, and awareness and understanding of financial products, in both instances as a direct result of using the CDFI was reported. It should be noted that given the small numbers interviewed these results should be treated with caution.

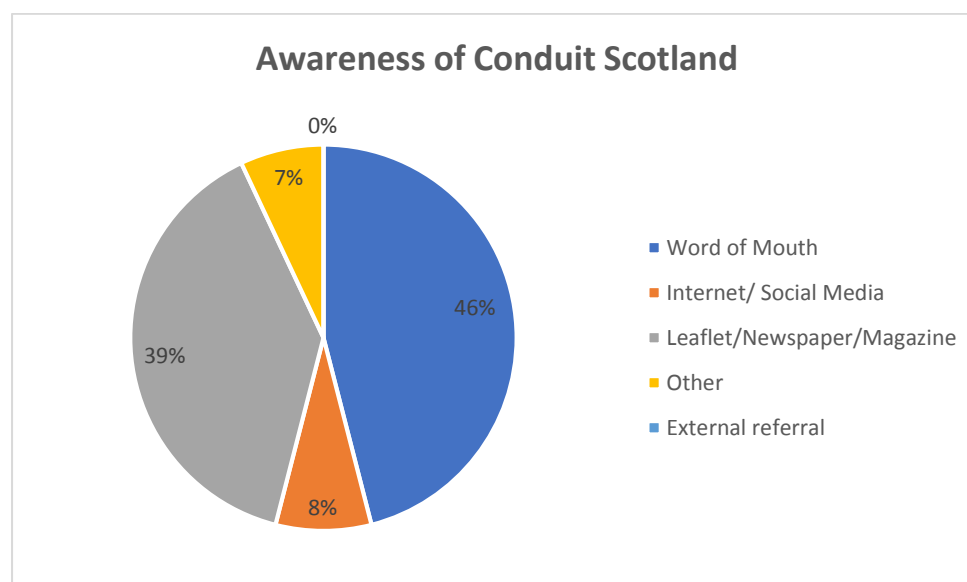
**Question: How do face-to-face, online and telephone channels compare as effective forms of delivery? Are customers more likely to take up support services if referred face-to-face? Are face-to-face service points (shops) in the most accessible locations?**

**Key finding: Individuals are most likely to become aware of Conduit Scotland through word of mouth.**

**Key finding: Face-to-face services in shops are not well used**

In the first year of operation, *“Five Lamps expects that the number of loans will be in the region of 1,300<sup>20</sup> and in the proportion of 40% online, 35% telephone, 25% face-to-face”*.<sup>21</sup> By the end of February 2018, 11% of loans have been made in the shops. When considered on an area basis, this equates to: 12% in West Lothian, 7% in Fife and 11% in Falkirk. In each area, the shops are within reasonable proximity to the main shopping area. The shops in Kirkcaldy (Fife) and West Lothian are both on the main thoroughfare. In the one-to-one interviews, several customers stated that they, *“had come across the shop by chance”*. Whilst lack of awareness of the shops is a factor in the extent to which they are used, it is likely that customer preference for online services is also important. This was not fully considered in the evaluation.

Fig. 9 Source of awareness of Conduit Scotland



Data from Conduit Scotland Management Information

A little under half of Conduit Scotland customers have become aware of the loans provider through 'word of mouth'. When routes to awareness of the services provided were explored in more depth in the one-to-one interviews, the most common reasons given by customers were, *“by chance when*

<sup>20</sup> This was revised with the agreement of MAS to 1000

<sup>21</sup> Application to MAS WWF

*walking past the shop” or “through searching online” or on the “recommendation of a friend or family member who had had a good service”.*

Conduit Scotland see the provision of ‘pop-ups’ or community based outreach activities as being a key element of raising awareness. To date, there have been six ‘pop ups’ held in West Lothian, 13 have taken place in Fife and a further five in Falkirk. It would appear that the impact, so far, of these may have been limited and no reference was made to ‘pop-ups’ in any of interviews.

There is no verifiable evidence of signposting/referral by external agencies to Conduit Scotland.

However, it should be noted that the recording methods in relation to both ‘pop- ups’ and signposting by external agencies are still under development and this may result in improvements to the evidence base. As the majority of loan applications are made online, it is not surprising that c40% of applicants became aware of the service through social media or online.

**Key finding: Most customers indicated a preference for applying for a loan using online services as they are convenient and confidential.**

**Key finding; Referral pathways and processes from Conduit Scotland to local advice and support services are still being developed.**

Interviews took place with 20 Conduit Scotland customers in relation to their customer journey from initial application to decision and, when offered and accepted, onward referrals to another organisation. Two caveats must be considered in relation to the findings, which are not truly representative of the customer base. Firstly, most of the customers who took part in this exercise had accessed the loans service using the shops, whilst the majority (c70%) of loan applicants access services online. Secondly, the ‘journey’ could only be recorded for those who were given a loan, as none of the customers who were declined were willing to participate. Nevertheless, the results provide a snapshot of the views of customers who were drawn from diverse demographic backgrounds.

The issues reported in relation to finding out about Conduit Scotland services have already been considered.

The barriers and enablers for each segment of the journey are outlined in the diagram below. Individuals liked online access as it was convenient but could be seen as process driven, in that a series of ‘closed’ questions were asked that did not allow individual circumstances to be adequately reflected. Although one individual who has applied for online loans from other providers commented that it felt “*less formal*”. The location of shops appeared to operate as a barrier for individuals who lived in areas out with the main towns. One individual commented that it had taken “*two bus journeys to get to the shop*”. Several people who had started their application online stated that, whilst they would have liked to complete the process remotely, they had experienced difficulties providing the necessary documentation this way and, as a result, had used the shop.

In relation to being referred or signposted onto other advice and support organisations, 80%<sup>22</sup> of customers stated that they were not asked if they wished to be referred onto other services. This may be because several of the interviews took place before referral processes were in place. When these

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<sup>22</sup> Based on 94 responses

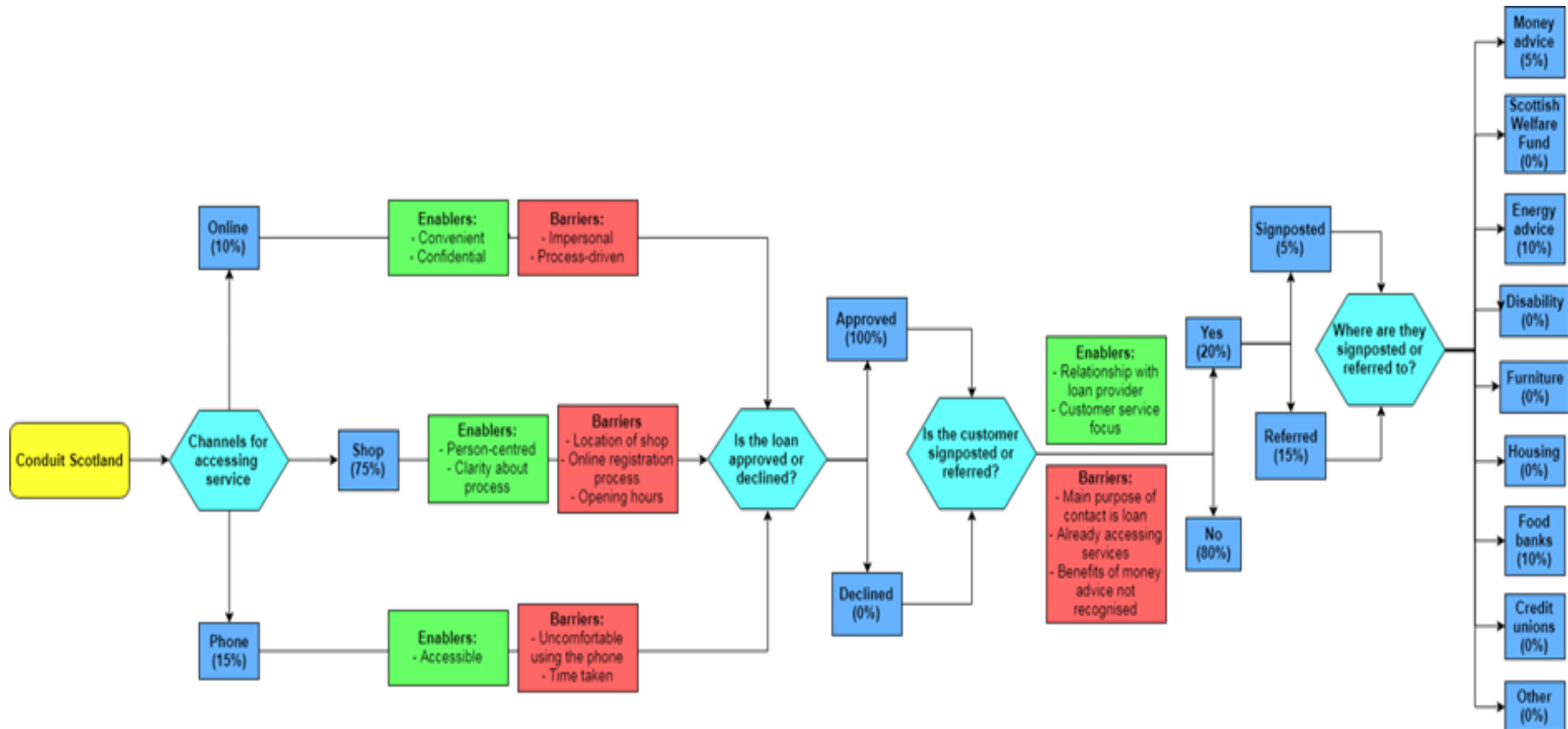
customers were asked if they would have taken up the offer of a referral for further advice or information<sup>23</sup> if it had been made:

- 15% said they would have been interested in getting advice in relation to energy
- 10% would have liked to know more about credit unions
- 10% wanted advice about getting furnishings or white goods
- 65% were only interested in getting a loan and would not have accepted the offer.
- 5 % didn't know

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<sup>23</sup> An outline of potential referrals was provided. e.g. help with reducing heating costs, money advice, food banks etc.

Fig 10. Customer journey



**Key finding: 11% of Conduit Scotland Customers who apply for a loan are referred onto other services and most commonly to the voluntary sector**

In each local authority area, different referral pathways are used, and each route is at a different stage of development. This reflects varying provision and circumstances across the three areas. In West Lothian, initially an advisor was located in the Conduit Scotland shop, whose role was to offer money and debt advice. Following staff sickness absence, other mechanisms were developed. Fife Council has a referral tracking system in place (FORT – Fife Online Referral & Tracking system). Falkirk Council held introductory meetings to make sure Conduit Scotland staff were aware of the options for referrals to advice service and agreed referral routes, based on existing referral mechanisms into these services, were established. These were based on telephone or email depending on the nature of the service and the needs of the individual.

The rate of referrals is very similar across all three local authority areas. Whilst having a dedicated tracking system, such as the one in Fife, may be expected to improve the process, this does not seem to be the case thus far. However, before reaching this conclusion, two points should be considered. Firstly, the tracking system is not used consistently to make referrals and, secondly, the number of loan applications made face-to-face in Fife is lower than in the other two areas.

Consultation with the organisations and agencies to whom referrals are made, suggests that, in some areas, there is a lack of awareness of the referral process. All those consulted suggested that the number of referrals made was very limited and, in some instances, when a referral from Conduit Scotland was followed up, the individual concerned indicated that they were unaware that they had been referred.

In Fife, discussions are ongoing between Kingdom Credit Union and Conduit Scotland to seek to establish a set of mutually agreed principles, which would underpin a referral process.

Fig.11 Number of referrals per 100 loan applications by local authority area

Local Authority Area	Number of referrals per 100 loan applications
Falkirk	12
Fife	11
West Lothian	11

Fig.12 Breakdown by % to other organisations

Number to CAB/CARF/Welfare Rights/Money Advice	27%
Number to Scottish Welfare Fund	10%
Number to Credit Union	5%
Number to Third Sector Organisations <sup>24</sup>	36%
Number to Other	19%

Data from Conduit Scotland Management Information and focus groups and one to one interviews with agencies and organisations to whom referrals might be made

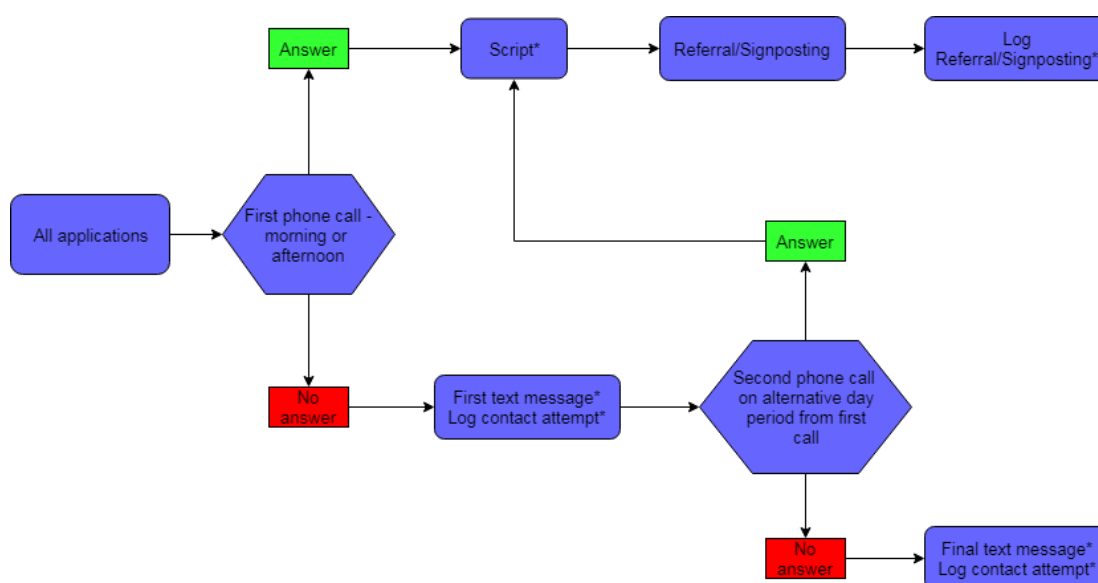
<sup>24</sup> In each council area, there are a variety of third sector organisations providing multiple types of support including energy advice, food banks, mental health support etc

In relation to the influence of channel choice<sup>25</sup> on onward referrals to advice and support services, there is limited evidence and, no conclusions can be drawn. Data provided by Conduit Scotland suggests that, in West Lothian, twice as many customers are referred because of face-to-face contact when compared to telephone whilst, in Falkirk, numbers of referrals arising from face-to-face and telephone contact are very similar. In Fife, twice as many customers are referred as a result of contact by telephone in comparison to face-to face contact.

Conduit Scotland staff follow the process outlined below to contact loan applicants to see if they can assist with a referral to an organisation offering advice and support.

Staff indicated that it could be challenging to make contact and that, when they did, individuals frequently said that they weren't interested and, depending on the outcome of their application were either satisfied with getting a loan, as that was all they wanted, or were reluctant to enter discussions if they had been refused. Most staff expressed the view that engaging with people and establishing a relationship was easier on a face-to-face basis but that the limited use of the shops made this difficult. Suggested ways to improve engagement included increasing outreach activities at which loans could be provided and co- locating with other services.

Fig. 13 Process used by Conduit Scotland staff to contact customers regarding referrals



Data from Conduit Scotland Management Information and focus groups and one to one interviews with agencies and organisations to whom referrals might be made

Whilst a critical element of the CDFI is referring customers onto wrap around advice and support services, this will take time to establish and is dependent on establishing robust referral pathways and processes and developing relationships.

<sup>25</sup> Channel choice in this context is the route by which a customer makes a loan application. Options are telephone, online or face to face

## **Conclusion**

In relation to the influence of the route through which individuals apply for a loan on the subsequent take up of advice and support services, there is limited evidence and, at this point, no conclusions can be drawn. This should be reviewed when robust referral mechanisms have been established.



## 5. Key Findings: process evaluation

### Question:

**How important is the partnership model involving local authorities? What added value does this bring?**

15 members of staff from Falkirk, Fife and West Lothian Council who had contributed, according to their specific roles, at all stages in implementing the CDFI from conceptual development, procurement through to delivery and support were consulted. Engagement took the form of workshops and individual interviews.

**Key finding: All three local authorities acknowledge that working in partnership has been integral to the process of delivering a cost effective CDFI**

Representatives of all three local authorities acknowledged that working in partnership, whilst not without its challenges on occasion, had been integral to the process of delivering the CDFI. Each local authority has different policies and processes, but shared the objective of delivering a CDFI that met the needs of local people in their respective communities. The delivery method adopted had to offer considerable local flexibility within a consistent approach to the core principles underpinning the partnership agreement. In each area, different local support arrangements and engagement mechanisms operate in relation to the CDFI. By working together, the three councils have been able to share resources and experience. There is a recognition that having worked together on this initiative makes it more likely for the three authorities to work together on an individual or collective basis in the future. This is already taking place in relation to sharing the learning from rolling out Universal Credit.

The model adopted offers a cost-effective solution. By combining resources, the three councils were able to provide significant financial support through loans capital, which will be repaid in year 5, and assisting with ongoing revenue costs. The initial investment by the councils is likely to offer value for money through reducing levels of individual debt, enabling earlier intervention, and increasing economic resilience.

**Key finding: The role of the CDFI is not universally understood and greater clarity on how it relates to existing services is required.**

**Key finding: Support from the respective councils in the Consortium has been critical in enabling the CDFI to be accepted into existing networks which have an interest in financial inclusion**

Conduit Scotland has invited local advice and support services to attend 'meet and greets' in their shops, which have proved useful in raising the profile of the loans company. These take the form of sharing information about Conduit Scotland and, at the same time, asking participating organisations to provide an outline of the services they provide. Discussion takes place about how organisations can work together. The sessions are also used to raise the awareness of Conduit Scotland staff of existing local advice and support agencies to which referrals may be made.

Fig. 14 Number of Individuals attending meet and greets

Local Authority Area	Number of individuals* attending
Falkirk	18
Fife	40
West Lothian	15

- Several individuals came from the same organisation

There is still widespread suspicion of the role of the CDFI and a reluctance on the part of advice and support services to engage. When asked about how they might work in partnership with Conduit Scotland many services said that this was not an option. The reasons given for this included: that they felt interest charges on loans were too high; they were unwilling to associate with an organisation that would get their customers into more debt and concerns that the primary purpose of Conduit Scotland was to make loans and not to address individual needs. One individual commented that a referral had been made for advice following a successful loan application but that, if the referral had been made in the first place, the loan might not have been required as grants were available to meet the purpose of the loan. A lack of consistent messaging by Conduit Scotland staff as to the role of the social enterprise and confusion over suggestions about what is meant by ‘collaborative’ working was also put forward by the majority of advice and support services interviewed as barriers to engagement.

Working with the councils has facilitated Conduit Scotland’s ability to connect with local networks which have an interest in alleviating poverty and/or promoting financial inclusion. The leadership role of the three councils has been commended by the Affordable Credit Group set up by the Carnegie Trust UK. In more general terms the group recognise that,

*“There are significant reputational risks involved for policymakers in supporting even socially-motivated community lending services.”<sup>26</sup>*

Without the active support of the councils which provided credibility and accessibility, it is likely that Conduit Scotland would have experienced even greater difficulty in establishing relationships.

The grant awarded by MAS, as well as covering the costs of an initial evaluation, funded a coordination post which was responsible for developing a project management structure and supporting and synchronising activities between the three councils and Conduit Scotland.

The relationship between Conduit Scotland and the three authorities is underpinned by an agreed governance arrangement. Oversight is provided by a Strategic Advisory Board which has representatives from Five lamps, the three councils, Carnegie UK and the Improvement service. At a more practical level, support to Conduit Scotland from the three local authorities is provided through regular meetings involving all parties. In the course of these meetings, examples of what is working well in each area are shared and the progress towards an agreed action plan is discussed. This enables the three authorities and Conduit Scotland to benefit from sharing learning and experiences. Each authority has tested new approaches in their locality that the others can consider. One example is in Fife Council, where in recent months the focus of activity has been to support Conduit Scotland to engage with local housing associations. This has proved to be very successful, as housing providers see a benefit in including information about Conduit Scotland in their starter packs for new tenants as it offers an alternative to purchasing household contents using higher cost credit providers.

<sup>26</sup> <https://www.carnegieuktrust.org.uk/carnegieuktrust/wp-content/uploads/sites/64/2016/04/Gateway-to-Affordable-Credit.pdf>

## **Conclusion**

By adopting a leadership role councils have been able to articulate and promote the benefits offered by a CDFI linked to wrap around services. As a result of combining resources, the three councils were able to provide a cost effective option that increases the affordable credit choices available for individuals living in their constituent areas. For smaller councils working in partnership has offered economies of scale that would not otherwise have been possible. Establishing and supporting the CDFI has enhanced partnership working between the three local authorities and has enabled them to consider other areas in which working collaboratively and/or sharing learning would be beneficial.

## 6. Limitations of the evaluation and future evaluation

### Methodological

There were some challenges in obtaining all the necessary data required to carry out the evaluation. Some of the reasons for this have been outlined in preceding sections. It should also be pointed out that the management information provided by Conduit Scotland, and the data that was required for the What Works evaluation were not always in alignment. In this case the data required for the MAS evaluation was not explicitly referred to in the tender documents and was therefore not a clear and stated reporting requirement for the successful contractor. Future projects should ensure integration of the evaluation requirements from the outset.

The opening of the shops was delayed for a few months and this meant that there were further postponements to delivering activities that were based in the shops. One of these was the 'pop-up' or outreach activities whose purpose was to promote Conduit Scotland to the wider community. Challenges in recruiting and retaining appropriately skilled staff also contributed to the delays in delivering this activity.

Due to the lack of marketing and engagement activity, it was agreed with MAS that it would not be possible to address the following research question:

*Does engaging customers through public awareness campaigns improve their confidence and readiness to seek affordable credit? For whom is this approach most effective and why?*

In the past few months, Conduit Scotland has produced a revised marketing plan. The plan outlines a variety of approaches and contains indicators that will measure the rate to which each marketing approach is successful. Although the results are not available at this point, they will be very helpful to any future evaluation.

It had been planned to consider how the integration of advice and wrap around services with the provision of an alternative personal lending service for individuals who are excluded from mainstream credit options would improve their capacity to make informed choices around credit use. To do this, baseline and follow-up surveys were to be sent c1,000 customers and 30 individual one-to-one in-depth interviews were to be carried out. Whilst requests to complete the survey and to take part in the interviews were made to loan applicants by Conduit Scotland on behalf of the Improvement Service, the take up rate was relatively low, despite modest financial incentives being offered.

To compensate for the lack of data, it was agreed with MAS, that a customer journey mapping process would take place with 20 Conduit Scotland customers. This provided detailed information about access to personal lending and referral services from a customer perspective. However, it must be acknowledged that the customer journeys recorded cannot be considered as being representative of all service users. The customers who participated in the mapping process had accessed services through the shops, whilst the majority of customers used an online platform, in addition all of the participants had been given a loan. Consequentially, it is possible that customers applying for a loan on line or who were declined a loan may have had a different experience. Additional interviews with 40 service users of council funded advice services who acted as a control/ comparison group were also conducted.

In relation to customer interviews, whilst it is acknowledged that the sample sizes are lower than hoped for, it is accepted that engaging with the target group can be challenging. Engagement took place, either through completion of an online survey or participation in a one-to one interviews, with

94 customers and it was possible to repeat the process, after an interval of two/ three months, with 43 of these individuals.

Given the small sample sizes and lack of random selection the results were not tested for statistical significance. Accordingly, the reported findings in relation to the anticipated Conduit Scotland customer outcomes should be treated with caution and should be considered solely in the context of the methodological limitations of this evaluation.

### **Timescale**

The What Works funding was provided for the pilot phase of an initiative that is intended to operate for a minimum of between three to five years. Producing an evaluation after a little under one year was always going to be challenging, but delays in opening the shops meant that the timescale for carrying out the evaluation was reduced further.

Activities, such as the pop ups, that would have contributed to the intended outcomes did not take place in the anticipated timescale. To track the changes experienced by customers over a period, it had been intended to carry out baseline and comparison surveys. With a reduced timeframe available, the opportunity to repeat these surveys at meaningful intervals was limited.

The shortened time, along with issues with data collection, resulted in a refocusing of the original evaluation plan. These revisions were discussed and agreed with MAS.

### **Context**

The CDFI that has been established by the Consortium of the three councils is a new approach that has not been tested previously. The local authorities involved are working in partnership with a socially responsible loans provider which, as well as providing loans, makes referrals for support and advice to external agencies and organisations.

It was possible to make reasonably accurate predictions in relation to the number of loans that were likely to be provided, based on existing business models. However, it was harder to estimate the channel which customers would choose to make loan applications (*particularly, because the shop-based approach and pop-up locations were relatively new innovations for this type of lender*) or the number of customers whom it would be possible to refer to wrap around services and who would ultimately choose to take up such referral offers.

It had been anticipated that having four shop front locations would increase accessibility and engagement with Conduit Scotland. To date, this has proved to have had only a limited impact, as the footfall in the four shops, and correspondingly the number of loans made on a face to face basis is lower than predicted. As a result, at this stage, it has been difficult to address one of the research questions concerning the accessibility of the shops in relation to location and in terms of engagement channel preference.

### **Future Evaluation**

The Consortium has agreed that the CDFI will continue to be evaluated but have yet to determine the form this will take. Whilst the findings of this evaluation will assist the discussions, the final decision on future evaluation approach will be made by the Consortium partners.

The offer of undertaking a more nuanced evaluation of the initiative has been made to the partner councils by the Improvement Service. The intention is that this would take place over the course of the next few years, thereby helping to overcome the issue of the inevitable time-lags to impact. It

would also provide the opportunity for more detailed analysis of data relating to CDFI customers, wider stakeholder feedback, project objectives and the overall impact, sustainability and value for money of the project. The intention would be that the additional evaluation work would be placed within the public domain.

## 7. Implications and Recommendations for Policy and Practice

### A co-ordinated approach to the CDFI in Falkirk, Fife and West Lothian

The MAS What Works funding was provided to co-ordinate and evaluate the pilot phase of the CDFI in its first year of operation and was intended to assist with supporting governance and reporting requirements and to provide robust evidence on which further developments could be based.

The majority of members of the Consortium delivering the CDFI believe that having a dedicated CDFI co-ordinator, who could ensure that a consistent approach was adopted which still took account of the different structural and policy arrangements in each of the constituent areas, was very important. As well as facilitating sharing of effective practice, it allowed issues to be identified and highlighted at an early stage and to be resolved in a consensual manner. Without the CDFI Co-ordinator it was suggested that progress would have been delayed.

The extent to which ongoing co-ordination and evaluation will be required, and the ways in which the identified needs will be met, is still to be discussed by the Consortium partners.

### Expansion of the role of CDFIs

The contribution that CDFIs can make to providing more affordable credit for those most financially excluded is well documented and has been outlined.

To encourage further development of this approach, in January 2018 an 'Affordable Credit Loan Fund' was set up by the Carnegie UK Trust, in partnership with Social Investment Scotland. The purpose of the fund is to support social enterprises operating on a not-for-profit basis to extend their reach and increase the number of loans they can offer. Whilst the fund will provide capital loans of c£1 million to UK affordable credit initiatives, it is hoped to work with other charities and social lenders to increase the size of the fund. This approach of offering loans to social credit lenders is a response to the difficulties that social credit lenders have in establishing a 'lending pot'. It is possible that the council's supplier, Five Lamps, will benefit from the opportunities offered by this fund.

Responsible finance providers operate in a variety of ways and the approach taken by the CDFI of integrating a loan provider with wraparound services is a new model that has not previously been tested.

Both the Scottish Government and local authorities in Scotland recognise the contribution that the community lending sector can make to ensure that *"everyone who needs it has access to the financial products they need to help them get on in life."*<sup>27</sup> The Scottish Government has commended the initiative of Falkirk, Fife and West Lothian councils in working together to establish the CDFI.

The findings from this initiative will be of interest to councils in Scotland, and further afield, that are considering innovative ways of improving financial inclusion in their communities.

### Conclusions

The CDFI approach that is being delivered by the Consortium is still in the early stages of delivery, and as such it is too soon to conduct a fuller evaluation of the effectiveness of the model. Conduit Scotland is fulfilling its primary function of providing loans to two of the three priority groups that were identified, and satisfaction levels with the services on offer are extremely high. There still appears to

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<sup>27</sup> Equalities Secretary Angela Constance MSP, Carnegie UK Loan Fund.

be limited awareness of Conduit Scotland but a revised marketing strategy is being prepared to address this issue.

In relation to referrals of customers by Conduit Scotland to local services for advice and support, this is a clearly an area which requires further discussion and development. In the early stages of operation, it appears that referral mechanisms were not always in place, or if they were may not have been used consistently. There still appears to be a reluctance on the part of many services and organisations to accept that there might be circumstances in which signposting a low-cost loan company could be considered. It will take time address this issue and to establish the relationships, and build the understanding, that is required to integrate Conduit Scotland fully within existing financial inclusion strategies.

On a positive note, as well as being able to access more affordable credit Conduit Scotland some customers are already demonstrating some improvement in levels of financial capability and are suggesting that they would be less likely to use high cost credit providers in future.

Although limited in nature the findings from this evaluation highlight that to increase the effectiveness of this model there are three essential elements:

- early establishment of clear and robust referral pathways with external advice and support services – particularly in relation to customers making on line applications
- clarity from the outset on the role of the loans provider and their relationship with advice and support services including other affordable credit providers
- allowing adequate time for setting up systems and processes before launching the initiative.



## **8. Sharing and learning activities**

The CDFI Consortium Strategic Advisory Board is meeting in June 2018 and at that point all partners will discuss and consider how best to share the findings of this evaluation. The Consortium Partners intend to review the results of the project after one full year of operation before any further sharing and learning as it felt this timeframe will be more useful.

In addition each of the three councils in the partnership will be reviewing progress after a complete year of operation (in relation to overall performance, co-operation activities and their own local area) with a view to developing an evaluation plan for the CDFI over the three year contractual period.