Community Development Finance Institutions (CDFIs)

A new option for addressing financial exclusion in Australia

Scoping Study

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Executive Summary

Financial exclusion, that is, an inability to access basic financial services such as credit and debit cards, leases, personal loans and mortgages, is experienced by a significant proportion of Australians: estimates suggest that between 1.3 million and 2.5 million adult individuals, or between 6 and 14 per cent of the population, experience some level of financial exclusion. In addition, many micro- and small business, and social enterprises, experience difficulty in gaining access to credit and loan capital, preventing the establishment or growth. In terms of social impact, financial exclusion generates or sustains cycles of disadvantage in many communities and thus a response to financial exclusion is therefore warranted, as a priority.

Community Development Financial Institutions (CDFIs) are specifically designed to provide products and services to individuals and organisations who have some level of income and a measure of credit worthiness but who are assessed by commercial financial institutions as being too high risk, and so are excluded from receiving mainstream products; this market segment is described in this report as 'underserved'. CDFIs do not, in the main, provide products to people with no or very limited income, for whom charitable services are most appropriate; a market segment described in this report as 'marginally served'. In summary: the underserved exists between the marginally served and the mainstream, and it is this market segment which CDFIs target. That said, there are no hard boundaries between the marginally served and underserved, nor between the underserved and mainstream customers of commercial financial institutions; this issue and its implications are discussed in the body of the report.

An energetic CDFI sector has grown in other developed countries; although at varying stages in their development, all have created significant social and financial outcomes for financially excluded individuals, organisations and communities.

In Australia, the sector is underdeveloped: there were less than 10 CDFI-like organisations identified during the course of this scoping study, which operate a loan portfolio of less than $150 million. As a result, other responses (such as payday lenders) and, on a limited basis, subsidised products (such as No Interest Loans and Low Interest Loans), appear to have expanded to serve the needs of the underserved market segment. There is, therefore, significant scope for the emergence of a CDFI sector in Australia.

Fostering a strong, viable CDFI sector in Australia will require ongoing government support, including: provision of access to low- or no-cost wholesale government-sourced loan capital; establishment of tax incentives to encourage private and philanthropic investment in CDFIs; and, the allocation of grants to support product development or infrastructure.

Mounting a comprehensive program for nurturing CDFIs across Australia will entail securing the support of many stakeholders, as well as a significant lead time. To that end, and in the first instance, a "proof of concept" pilot, limited to one or a few geographic areas, is proposed, in order to obtain local on-the-ground evidence and experience of the nature of, and demand for CDFI products and services. Close monitoring of this demonstration project, including whether customers are migrating from welfare to CDFI services, and from CDFI services to mainstream products, will determine the extent to which desired social outcomes are being generated, as well as provide policy direction to Government, the social sector, and the finance sector, on the best ways to foster the development of a CFDI sector within Australia over time.

Introduction

This scoping study was commissioned by the Department of Families, Housing, Community and Indigenous Affairs (FaHCSIA) to contribute to its assessment of the role a Community Development Finance Institution (CDFI) sector could play in enhancing access by economically marginalised individuals and organisations to mainstream financial products and services.

CDFIs provide financial services (such as loans, deposits, equity investments) and non financial services (financial literacy, home ownership counselling, business development advice) to people, organisations and communities who have been excluded from or underserved by mainstream financial institutions.[1]

In market terms, CDFIs fill the gap between welfare and mainstream financial institutions, a space which is also occupied by payday lenders and with which they can compete. CDFIs target individuals on low incomes, new micro and small businesses, and social enterprises, and are directed to creating sustainable social impact. Well established CDFI sectors operate in the United States of America, the United Kingdom, Canada and several countries in continental Europe. For example, the USA has over 1,000 certified CDFIs operating in every state and serving both rural and urban communities.[2] In the UK, the Government's Social Investment Task Force (SITF) was tasked with designing conditions which would foster a vibrant, entrepreneurial community development finance sector: today there over 80 CDFIs in the UK.[3]

The CDFI sector in Australia is embryonic. The few CFDI-like organisations which exist enjoy no specific policy support from government; consequently they operate on a small scale and with limited impact, compared to the peers in other developed countries.

Going on experience gained both overseas and within Australia, a viable CDFI sector can yield a significant social impact: they promote growth, renewal and sustainability; foster community economic development in disadvantaged and underinvested communities; provide access to capital for underserved individuals and organisations, through investment loans, debt finance and/or equity; and develop innovative financial mechanisms that facilitate financial inclusion.

There are a range of short and long-term strategies Government could adopt, in collaboration with commercial financial institutions, private investors, and the social sector, to foster a CDFI sector in Australia, one which achieves a significant social impact and is self-sustaining over time.

Contents of this Report

This report scopes the need for CDFIs, the experience of other developed countries, outlines a possible programmatic response which could be mounted in Australia to foster the development of a CDFI sector, and proposes a pilot program to obtain local evidence of the need and role of CDFIs within the Australian context.

Consistent with that scope, the report is organised as follows:

Chapter One: *The Nature of Financial Exclusion,* assesses the nature of financial exclusion

[1] Foresters Community Finance – Burkett, Ingrid & Drew, Belinda (2008) Financial inclusion, market failures and new markets: Possibilities for Community Development Finance Institutions in Australia
[2] Coalition of Community Development Financial Institutions 2008
[3] CDFA UK (2008)

and its detrimental impact on individuals, families and communities.

Chapter Two: *The Role of CDFIs,* describes community development financial institutions and the role they play in mitigating financial exclusion.

Chapter Three: *International Learning from CDFI Development*, examines the genesis, role and impact of CDFIs in the United States, England, Europe and Canada. A case study from each jurisdiction is provided, from which lessons for Australian are drawn.

Chapter Four: *The Australian CDFI Sector*, examines the embryonic CDFI sector in Australia.

Chapter Five: *Scope for Growing the CDFI sector in Australia,* considers whether government efforts to foster a CDFI sector within Australia should be undertaken.

Chapter Six: *Developing a CDFI sector in Australia,* examines ways in which Government could facilitate the development of a CDFI sector

Chapter Seven: *The Pilot Progam*, describes an intervention Government could undertake immediately, to help entrench the CDFI concept in this country, create momentum, and provide direction for the future.

Methodology

This scoping study project was undertaken in four phases:

Phase 1: summarised the key research and findings in relation to the effectiveness of CDFIs worldwide. This involved an extensive literature review as well as interviews with key stakeholders in the USA, UK and Canada.

Phase 2: assessed the Australian financial landscape and identified any contextual differences that might impact on the viability and effectiveness of a CDFI sector in Australia. This involved over 20 interviews with key government stakeholders, community sector organisations, existing community development financial institutions, commercial financial institutions and industry associations.

Phase 3: presented a gap analysis to identify the financial service needs that are not being met by current programs and service offerings. This involved extensive literature review, synthesis of data with stakeholder interviews as well as follow up interviews, where required, to confirm data and assumptions.

Phase 4: identified possible sites and models for Government intervention including the possible focus for an initial pilot program. This involved developing recommendations in consultation with the project team.

The final phase has comprised the preparation and delivery of a presentation on the findings of the study to Government, and the preparation of this report.

Chapter 1.0: The Nature of Financial Exclusion

This section provides an overview of the factors that contribute to financial exclusion, and why long-term financial exclusion is a structural problem in Australia.

The great majority of Australians are well served by a strong financial services sector, one which is reasonably competitive and survived the Global Financial Crisis with no direct government financial support or intervention.

However, there is a significant group of Australians who are excluded from, or have limited access to, mainstream financial products and services. This chapter briefly: outlines the financial products and services provided by commercial financial institutions; identifies the group of Australians who are excluded from, or have limited access to, those products; and, assesses the impact this exclusion has on that group.

1.1 Mainstream financial products and services products

The financial health and well-being of individuals, families and communities is fundamentally dependent on gaining access to financial products and services to meet a wide range of needs. In general, it is no longer possible to maintain a secure and sustainable lifestyle in Australia without engaging the services of commercial financial institutions[4].

The necessity for Australians to interact with financial institutions is evidenced by the fact that 99% of Australians over 18 years have at least one bank account, primarily because Government only pays Centrelink and other benefits through bank accounts. This compares with 93% of individuals in the same cohort in the United Kingdom[5].

The products and services provided by commercial financial institutions on which most Australians depend are extensive. These include:

- cash management services (EFTPOS, net banking, savings accounts, check accounts);
- provision of direct credit (debit and credit cards, personal loans), superannuation services, mortgages (housing finance; access to home equity);
- provision of leases (purchase of motorcars and other consumer goods);
- insurance products (car, property, life, among others);
- financial planning services; and
- for many businesses, direct investment through venture capital and equity investment.

Commercial financial institutions charge for the provision of these services using a range of fees, interest, and other charges. These charges are significant and have enabled the financial industry in Australia to be highly profitable, even in an environment which is relatively competitive.

1.2 Profile of Excluded Communities and Individuals

While there is a near-universal need for the range of products and services provided by commercial financial institutions, access to these products and services is not universal.

[4] Aboriginal Social Capital (ASCA). (November, 2009). More than Profit.
[5] Burkett & Sheehan (2009). From the margins to the mainstream. The challenges for microfinance in Australia.

Superficially, Australians appear to be relatively well included. As mentioned, almost every adult Australian has at least one bank account[6]. However, having a bank account does not preclude someone from experiencing financial exclusion: self-evidently, having a bank account has no bearing on a person's income level, capacity to pay for services, or access to collateral to enable them to secure loans. Moreover, maintaining a bank account can result in costs which are significant for low-income individuals. Any understanding of financial exclusion therefore needs to be sufficiently broad as to encompass the range of ways in which people experience financial exclusion.

In the Chant Link report (2004), commissioned by ANZ Bank, a definition of financial exclusion was developed that considered access, as well as an assessment of whether products were appropriate and affordable, while also making a connection between financial exclusion, income and hardship.

> *"Financial exclusion is a lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes of more concern in the community when it applies to lower income customers and/or those in financial hardship. Financial exclusion is observable at individual, family or group household level, but can also be heavily concentrated in suburbs and regions, and sometimes among ethnic minorities in a suburb or region. Financial exclusion can also apply to individual small businesses, non-profit and other community enterprise organisations."*

The Burkett Sheehan report (2009), commissioned by Foresters Community Finance, while commending the definition used in the Chant Link report, proposed a definition which draws on the European Community's definition and is more precise.

> *"Financial exclusion is the process whereby a person, group or organisation lacks or is denied access to affordable, appropriate and fair financial products and services, with the result that their ability to participate fully in social and economic activities is reduced, financial hardship is increased and poverty (measured by income, debt and assets) is exacerbated."*[7]

Both definitions treat the financially excluded as a homogeneous group, though this is not the case: there are those who are at the margin of commercial financial institutions (such as, people with very low incomes), and those who are very distant (such as, people who are destitute). Accordingly, a profile and framework is offered, which segments the financially excluded population, as defined above, into three groups:

(1) "Marginally served" - those who cannot afford financial products and services.

This group comprises those with little or no money; who have a reduced capacity to pay (e.g. on benefits); and those whose income is marginal, such that fees can tip them into a situation where they are no longer able to service costs associated with using mainstream financial services. This group includes the long-term unemployed, homeless and destitute. (for example many. aged pensioners, Indigenous Australians, sole parents, mentally impaired, severely disabled and refugees).

(2) "Underserved" - those who could afford financial products and services but cannot gain access.

This group comprises those who experience prejudice, such as Aboriginal and Torres Strait Islanders, refugees, people from diverse linguistic backgrounds; those for whom service costs are high, by dint of geographic isolation, intensive support needs or who are unable to maintain

[6] Burkett & Sheehan (2009). From the margins to the mainstream. The challenges for microfinance in Australia.
[7] Burkett & Sheehan (2009). From the Margins to the mainstream. The challenges for microfinance in Australia.

a minimum balance; and those who are seen by mainstream financial providers as too risky to price because their income is uncertain or lumpy, who lack credit-worthiness, who lack collateral to support a loan application, or who have security but are judged as lacking the requisite financial skills or, in the case of a business loan, lack the requisite business skills.

(3) "Served" - those that can afford financial products and services and are served by commercial institutions. This group comprises the mainstream Australian population.

This framework is illustrated below.

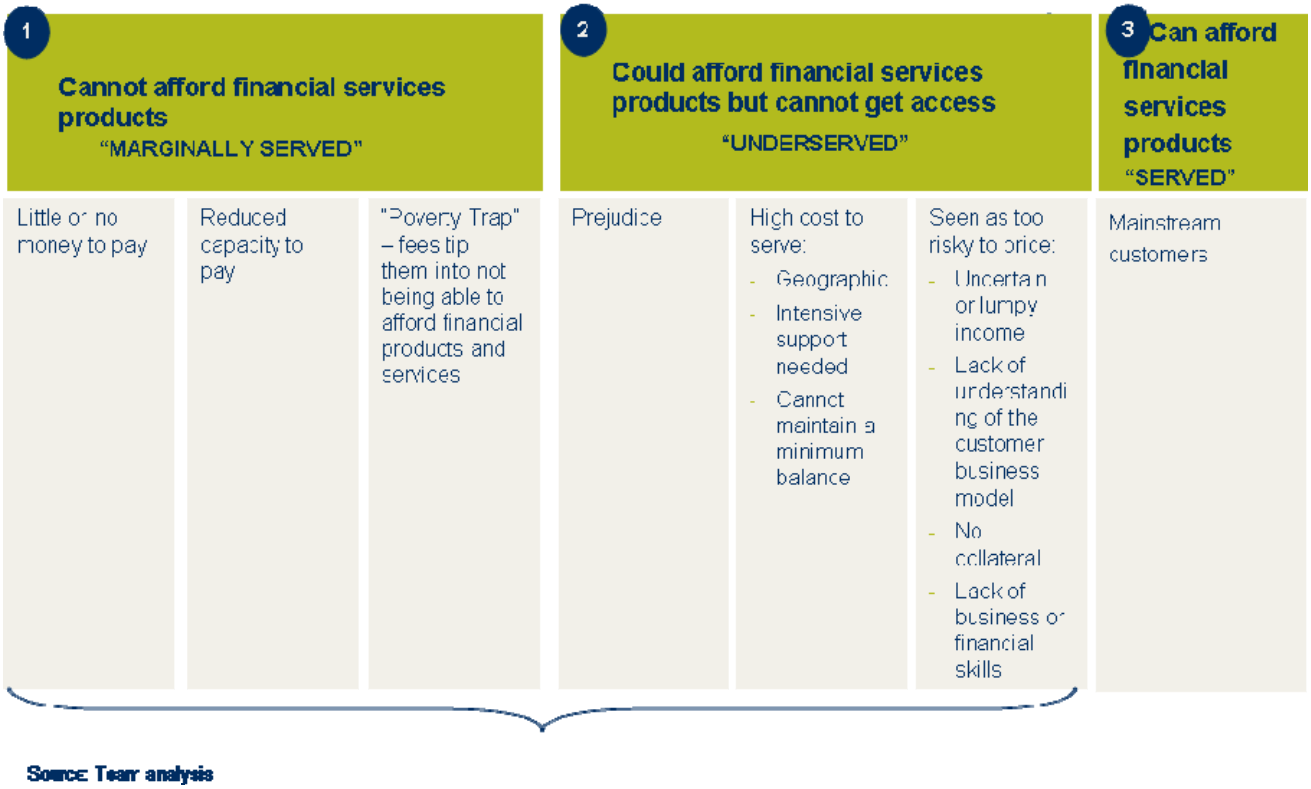

Figure 1.0 Market Segmentation

Use of this framework is advocated on the basis that it usefully disaggregates the financially excluded into six sub-groups, each of which may require tailored responses. It is used extensively in this study, particularly as a basis for mapping responses to overcoming financial exclusion.

1.3 Measures of the Financially Excluded Population

While there is no precise data on the number of people who experience financial exclusion, some useful estimates can be made.

The Chant Link report (2004) commissioned by ANZ found that approximately 1.3 million individuals or 6 per cent of adults in Australia could be considered as financially excluded[8]. This estimate is best regarded as conservative since it was arrived at on the basis of product holdings only, which means, for instance, that people struggling with high cost credit or having inappropriate levels of insurance were assessed as financially included on the basis that they identified as using such

[8] Chant Link & Associates (2004). A report on Financial Exclusion in Australia.

products[9]. It also failed to take into account product availability and awareness.

Another proxy indicator is those people who are below the low-income benchmark; that is for this report, people who have an income that is less than 50% of median income. In Australia, this group comprises around 1.63 million individuals aged 18 or older, or 14 per cent of the population[10].

These estimates suggest that the total number of adult individuals experiencing financial exclusion is between 1.3 and 2.5 million, or between 6 and 14 per cent of the population.

1.4 Factors that contribute to Financial Exclusion

There are a range of interacting factors which contribute to financial exclusion within the Australia, including:

Structural economic factors

- Level of unemployment and underemployment. In 2008, there were 498,100 people who wanted to be in paid work but were not.[11]
- Limited policy support to encourage investment in disadvantaged communities.
- Mismatch between areas of population density and available services.
- Physical access problems brought about by branch closures of commercial financial institutions.
- Limited incentives to develop entrepreneurial and enterprising activities.

Institutional factors

- Lack of appropriate products and services. For example, people on low incomes frequently find that their account can become overdrawn by a small sum of money for a few days simply because cheques take three days to clear, or electronic transfers to and from accounts do not take place on the expected day. These can result in unauthorised overdrafts, bounced cheques and failed direct debits, often incurring fees which are very significant for people on low incomes. For instance, a bounced cheque or failed authorised debit fee of $35 can be the equivalent of three hours salary.
- Identity and credit check requirements. In Australia most banks require a number of sources of both proof of identity as well as credit checks. People on low incomes or those who are looking to establish a social enterprise that do not have a business history nor secure assets find it difficult to access products and services.
- Terms and conditions of bank accounts, bank charges and interest terms. For example, in Australia most banks require a minimum balance for an account to be opened. In many cases, these opening balances are beyond the budgets of people on low incomes.
- Discrimination i.e. Indigenous populations continue to experience disadvantage in requesting and accessing various products and services.
- Lack of appropriate support for business development as well as personal financial management.

[9] Burkett & Sheehan (2009). From the margins to the mainstream. The challenges for microfinance in Australia.
[10] Saunders, Hill & Bradbury (2007) Poverty in Australia, Social Policy Research Centre
[11] Australian Bureau of Statistics, Labour Force Survey, December 2008 ww.abs.gov.au – number of people out of work in December 2008

Community factors

- Lack of positive family and peer role models due to intergenerational transfer of disadvantage. This is a particular problem in Indigenous communities.

Individual factors

- Lack of education and training, including poor basic literacy and numeracy.
- Language barriers.
- Poor or chronic health problems, including long-term disability.
- Lack of work readiness including poor self presentation, poor life and relationship skills, lack of motivation and low self esteem.
- Chaotic or unstable personal circumstances, such as: homelessness, mental illness, drug and alcohol dependence, or criminal background.
- Some cultural groups do not have a history of using financial products and therefore individuals find it hard to "get started" e.g. no track record in employment and or business establishment and no suitable referees[12].

Mainstream discourse about poverty lends most weight to individual factors and discounts the deterministic impact of structural, institutional and community factors. As will be discussed, CDFIs are designed as an institutional response, which requires some structural support, for engaging with financially excluded individuals in ways which take account of the personal challenges outlined above.

1.5 Impact of Financial Exclusion

Financial exclusion deepens disadvantage, which escalates from individuals to families and communities.

For *individuals*: financial exclusion makes day-to-day money management difficult. Individuals find it harder to plan for the future or manage 'lumpy spending', such as unexpected bills or expenses. For those who live in the cash economy, there is the risk of losing their money through theft and fraud. Individuals become more vulnerable to financial distress and can fall into a spiral of debt, hardship, and poverty.

For *families*: on a day-to-day basis, children in low-income families may endure disadvantages relative to their peers from higher income families, as well as having poor access to educational and sporting opportunities, especially outside the context of school. In more extreme cases, children may experience neglect and, in situations where parents are under significant financial pressures, may also experience abuse. Over time, there can be an intergenerational impact, arising from children not being exposed to family practices around the management of money, savings and credit.

For *communities*: the impact of significant numbers of financially excluded individuals and families within a specific community can be to limit the capacity to make investments, build assets or improve lives. In areas of high concentration, this can lead to the 'desertification' of areas as local shops decline and close, fewer new businesses are started and a spiral of economic decline begins.

[12] Kempson E, (2006) Policy level response to financial exclusion in developed economies: lessons for developing countries The Personal Finance Research Centre, University of Bristol

Financial exclusion can cause, reinforce or stem from other elements of disadvantage. The impact of financial exclusion, at individual, family and community level, may be grounded by considering a specific example:

> "*A single mother finds it difficult to find work due to her caring responsibilities. Her benefits are barely sufficient to pay the bills. To supplement her income she buys a word processor and starts a small publishing enterprise. While she is self-employed she experiences cash flow problems. She obtains a loan from a payday lender, authorising the lender to debit her bank account directly. After paying off the loan, and associated fee, she finds she still has problems meeting day to day living expenses. She approaches her bank for credit and is provided with a credit card with a $1,000 limit. She uses the card to pay for essentials but then finds she is unable to service the interest payments on the credit card, nor pay off the balance owing. The card is cancelled, which negatively impacts on her credit rating. When she approaches a mobile phone company to obtain a mobile phone on a plan, her application is rejected because of her credit rating. She falls behind in her rent, which results in an eviction for her and her children and reliance on various non-profit organisations for food and shelter. The bank requires that she pay out the balance of the credit card in full. She opts for bankruptcy, so further impairing her ability to obtain any credit in future, including from any suppliers to her business."* [13]

This example illustrates the well-established relationship between financial exclusion and social disadvantage, and the impact it has on families and the community. Over time financial exclusion can make it harder to find a job….which in turn can make it harder to plan for the future and manage spending….which in turn can make people more vulnerable to financial distress…….and therefore a spiral of debt, poverty and hardship can ensue. This relationship may be characterised as a vicious cycle of disadvantage, illustrated in figure 2.0.

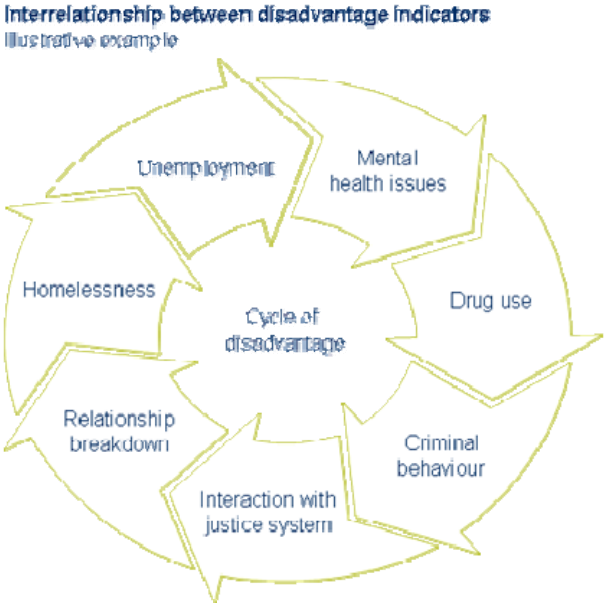

Figure 2.0 Cycle of Disadvantage[14]

[13] Interview with Salvation Army
[14] This diagram is based on SVA Team Analysis. Disadvantage is characterised by the existence/co-existence of many indicators, not all of which are included here

As far as possible, therefore, all Australians should be afforded access to the range of financial products and services, since these are essential to maintaining a secure and sustainable lifestyle.

Chapter 2.0: The Role of CDFIs

This chapter defines CDFIs and illustrates the mechanisms CDFIs use to serve the financially excluded.

In the broadest terms, the role of CDFIs is to enhance *financial inclusion,* in order to yield high social, as well as financial, returns. The thesis underpinning CDFIs is that by enabling financially marginalised individuals to better control their financial situation, they are more likely to engage in a virtuous circle that prevents them from falling into, or leads them out of, chronic disadvantage and financial exclusion. In relation to financially marginalised businesses and organisations, the thesis is that by providing access to affordable funds the communities served by those agencies will be economically and socially enhanced.

By way of background, and before considering the role of CDFIs in policy terms, two anecdotes are given, to illustrate the impact CDFIs can achieve.

The first example is an intervention implemented in Leeds (United Kingdom). In 2004, the Leeds City Council and the local credit union identified a problem with high interest loans from doorstop lenders to low income individuals. This resulted in the development of a financial inclusion initiative, implemented by a consortium of public, private and community sector organisations, which included the establishment of: access to more affordable credit; debt / money advice; and, education in financial literacy.

An evaluation in 2008 showed that the total spend of GBP 3.3 million yielded an increase in disposable income among users of GBP 26 million; a 1:8.50 in financial returns, with concurrent highly positive social returns.[15]

The second example is closer to home: a report by the Northern Territory Consultative Committee (NTACC) assessed, at a high level, the socio-economic benefits of the Traditional Credit Union (TCU), which has operated in the Northern Territory since 1995. The report indicated several positive outcomes:

- the presence of TCU in communities had led to a more widespread understanding of banking, budgeting and saving practises in the communities;
- the number of people using financial services products had increased because of the sense of ownership of the TCU amongst the communities. Many members felt that major banks did not want to serve them;
- increased savings patterns had enabled greater access to loans for consumer goods, with a consequent improvement in lifestyles; and
- employment opportunities increased[16].

The rest of this chapter examines the context, role, characteristics and types of CFDIs.

[15] Financial Inclusion Initiatives, Economic impact and regeneration in city economies - The case of Leeds, University of Salford October, 2009

[16] Northern Territory Consultative Committee. Indigenous Finance and Banking

2.1 Context in which CDFIs operate

There are a broad range of options for addressing financial exclusion. These options are described with reference to the marginally served and underserved subgroups in the financial exclusion market, as outlined in the previous chapter (see Figure 1.0: *Market Segmentation*).

(1) "Marginally served" - those who cannot afford financial products

The effect of financial exclusion surfaces most obviously when people have insufficient funds to meet unexpected or unplanned bills or expenses. This forces people to seek funds from other sources, which may include:

- *Charity* – usually provided by emergency relief agencies, which usually operate under the auspices of charitable organisations. These agencies provide immediate financial relief to individuals in financial crisis, using funds raised by the organisation and granted by the Commonwealth and several State governments. The level of financial assistance provided, and terms on which it is provided, varies between States and Territories, and between organisations.

  In general, assistance is limited to meeting immediate exigencies (such as: food, transport, utility bills), and reuse is discouraged; 'emergency relief', as the name implies, is intended as a one-off provision of financial assistance.

  There is a stigma associated with use of these services which, anecdotally, inhibits some people from using them.[17] In practice, some clients regularly present for assistance, such that it acts as a supplement to welfare benefits.

- *Benefits in advance* – Centrelink provides advances to assist clients in meeting lumpy expenditures, with the rationale that doing so will meet an immediate financial imperative and may encourage the client to manage their expenditures better in future.

- *No Interest Loans (NILS)* – some non-profit organisations, which also provide emergency relief, provide NILS to people with little or no capital and who are on benefits, to enable them to purchase essential items such as furniture and white goods.

The segment of the population who have reduced capacity to pay or those that fall in to the "poverty trap", as defined in chapter 1.0, may also access low interest loans (LILS) and other subsidised products. The use of NILS or LILS products can prevent clients from becoming dependent on emergency relief and develop longer term financial management skills, however, these solutions because of the low cost to the individual still involve high levels of welfare in the first instance.

(2) "Underserved" - those who can afford financial services but cannot gain access

This segment comprises people who experience prejudice, those who are high cost, and those judged to be too risky to price; each is discussed in turn.

For people who experience prejudice – indigenous people, refugees and women – specific products may exist. For example, Indigenous Business Australia (IBA) provides a home loan product targeted at Indigenous populations only.

For people who are expensive to service – by dint of geographic isolation; intensive support needs; inability to maintain required balances – they are often targeted by philanthropic organisations, and by mainstream financial institutions as part of their corporate social responsibility; in addition, some assistance provided by governments in some jurisdictions.

[17] SVA Interview with Salvation Army

Those who are seen as too risky to price – income is uncertain or lumpy; lack credit-worthiness; lack collateral; judged as lacking requisite financial skills – are similarly served by philanthropic organisations and mainstream financial institutions as part of their CRS programs.

Solutions available to this group include extended credit (whereby lenders adjust terms for repayment of outstanding debts), and products underwritten by philanthropy organisations. Some individuals as well as organisations within this group may also have access to facilitated housing loans and social enterprise investment products.

Individuals within this segment also rely heavily on pay day and fringe lenders. Pay day lenders offer short term (payday) loans (1-4 weeks) for small amounts (below $1000). Charges are frequently expressed as a fixed price which, when converted to effective interest rate, can be up to 1000%. Because payday lenders offer a quick turnaround on lending decisions, accept welfare as a financeable form of income, and require no security, they act as an immediate source of (very expensive) finance for individuals and families experiencing cash flow problems. Default rates are low, averaging 7%, as borrowers are generally required to provide direct debit authorization to lenders.[18]

While the terms offered by payday lenders may be considered exploitive, these lenders are frequently the only source of readily available credit for individuals in this segment and thus demand for their services has been increasing rapidly.

(3) Can afford Financial Services Products – "Served"

This segment of the population is served well with commercial products offered by commercial financial institutions.

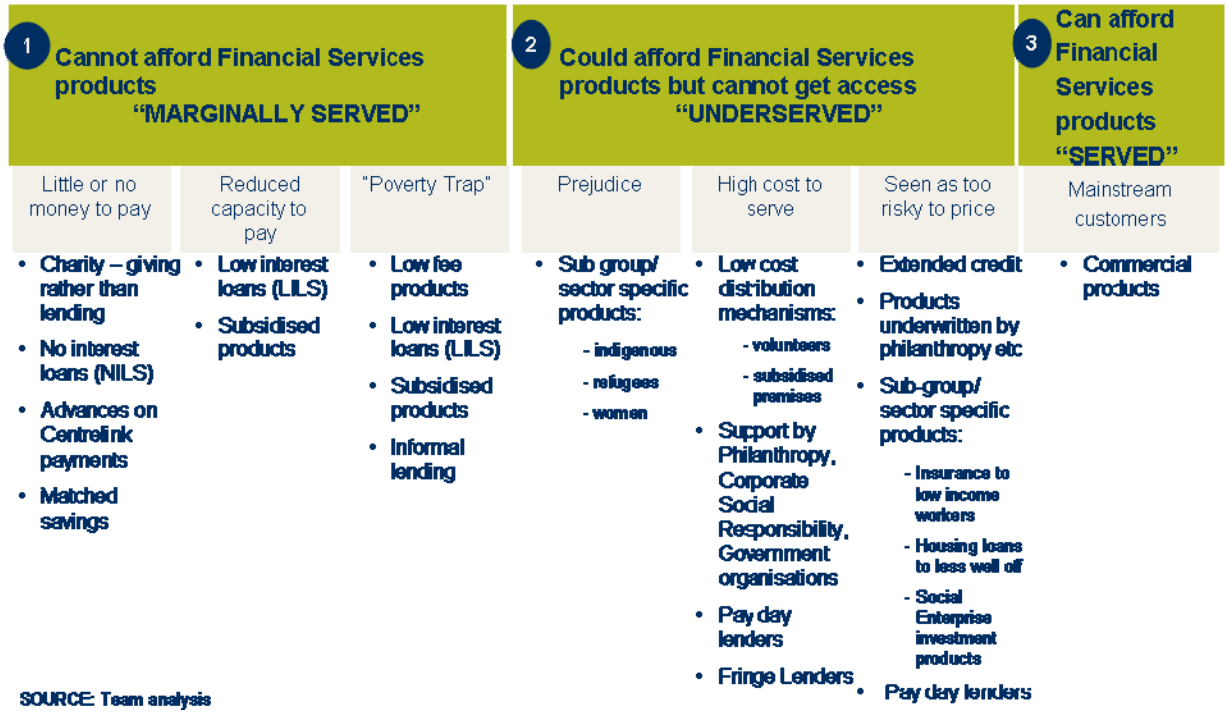

Figure 3.0 Solutions to address financial exclusion

[18] Hughes (2009) Pay Day Lending in Tasmania

Figure 3.0 illustrates the complex range of responses to the diverse and varying financial needs of people who are excluded from, or have limited access to, mainstream financial services products. This complexity, in itself, acts as a barrier to access, especially given the often limited financial and institutional literacy of people experiencing financial exclusion. Moreover, the nature and level of these responses varies considerably between jurisdictions and between communities; there is no overall coherent institutional response.

In this context, CDFIs could develop a range of tailored pathways which ensure equality of access to opportunities for people to move from financial exclusion to financial inclusion, given the formation of a sector with a large footprint, sufficient capacity and co-ordinated marketing.

2.2 Defining CDFIs.

A review of the literature indicates an international consensus on how CDFIs are understood.

The CDFI industry body in the USA defines CDFIs as:

> *" A private sector financial intermediary that has community development as its primary mission and develops a range of programs and methods to meet the needs of low-income communities. CDFIs make loans and investments that are considered unbankable by conventional industry standards and serve borrowers, investors and customers not serviced by mainstream financial institutions. They also link finance to other development activities."* [19]

The CDFI industry body in the UK defines CDFIs as:

> *"Sustainable, independent organisations which provide financial services with two aims: to generate social and financial returns. They supply capital and business support to individuals and organisations whose purpose is to create wealth in disadvantaged communities or under-served markets."* [20]

There is no CDFI industry body in Australia, however, a number of organisations are prominent in providing CDFI-like services and promoting awareness of CDFI approaches. One of these, Foresters Community Finance, uses this definition:

> *"CDFIs are independent organisations focused on the use of financial mechanisms to develop and service people, organisations and communities who are often disadvantaged and have been underserved by mainstream financial institutions."*[21]

In all cases, CDFI's are understood as serving people and organisations who are underserved by commercial financial institutions. CDFIs are not a form of charity nor a substitute for welfare benefits. While in some case they do assist the marginally served, through cross subsidisation as well as charity, this is not the primary social or economic purpose.

2.3 Characteristics of CDFIs

CDFIs are distinguishable from conventional finance providers in a number of ways. Firstly, they prioritise serving those that find it difficult to access mainstream finance. Secondly, they seek to create both social and financial outcomes. Thirdly, they are supported by unique funding sources, combining public, philanthropic and/or private funding.

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[19] CDFI Coalition, USA
[20] CDFA, UK
[21] Foresters Community Finance – Burkett, Ingrid & Drew, Belinda (2008) Financial Inclusion, market failures and new markets: Possibilities for Community Development Finance Institutions in Australia

In the same vein, CDFIs are distinguishable from charitable responses, in that the financial products and services they provide are not free; the customer is required to meet all, or at least a portion of the costs involved in the provision of these goods. CDFIs aim to be self-sufficient or at least largely self-sufficient.

CDFIs typically use a range of approaches to enable them to operate and serve those who are underserved by or have difficulty securing finance from the mainstream. Figure 4.0 outlines some of these approaches and highlights the space where CDFIs operate making them different from either charities or commercial organisations as they aim to combine both social and financial returns.

Figure 4.0 Mechanisms to enable excluded groups to be served

The mechanisms that CDFIs use to enable them to operate where commercial providers do not compete include: securing grant funding from government and philanthropic sources; providing products specifically designed to meet the needs of the underserved (such as, mortgages on affordable housing; loan products for non-profit organisations; credit and debit services for people on low-income); gaining access to capital at below market rates (from governments, philanthropic organisations, private investors); lowering operating costs (for example, by using volunteers, operating in spaces with low rent, gaining in-kind infrastructure report from banks).

2.4 Types of CDFIs

One of the complexities of examining the CDFI sector is the diversity of organisations, in terms of structures, organisational approaches, funding requirements, service offerings, customer focus and outcomes; there is no fixed template for a CDFI.

The following table summarises some typical organisational types for CDFIs, the products and services they offer, and who they serve.

Organisational Type	Description & products offered	Who do they serve	Example
Community Development Banks	Regulated for-profit organisations dedicated to social, community or environmental objectives, offering traditional banking services.	Much like mainstream banks they provide products to both individuals and businesses.	Shorebank (USA) Triodos Bank (UK
Community Development Credit Unions	Regulated, typically not-for-profit they promote community ownership of assets and savings, and provide affordable consumer credit and retail financial services as well as counselling and business planning assistance.	Focus on financially excluded individuals and communities.	Assiniboine Credit Union (Canada) Street UK (UK) Traditional Credit Union (Australia)
Community Development Loan Funds	Typically self regulated they can take a variety of legal forms (for or non-profit) and areas of focus. For example, small business, affordable housing and non profit organisations.	Typically focus on housing, enterprises and non-profit and community development organisations.	ART (UK) Murex Investments (USA) IBA (Australia)
Community Development Venture Capital Funds	Self regulated, they provide equity and debt investments typically focusing on the scaling of businesses and entrepreneurial capacity.	Typically seek higher levels of return than loan funds, they target enterprises in startup or growth phases in disadvantaged areas.	Pacific Community Ventures (USA) Bridges Community Ventures (UK)
Micro Loans	Self regulated and generally non-profit, they are a subset of the loan funds category. They provide micro (very small) credit/loan services to individuals and enterprises.	Typically low income individuals and very small businesses.	Adie (Association Pour Le Droit A L'Initiative Economique (France) Grameen Bank (Bangladesh)

Table 2.0 CDFI Types (Source: USA CDFI Data Project 2005 USA)

In developed countries, Community Development Loan Funds (CDLFs) tend to be the most prominent type of CDFI. This is because they focus on a particular cause, for example affordable housing, that easily aligns with the missions of investors and foundations. In addition, CDLFs typically develop niche products and services that can easily scale increasing their self sufficiency.

For example, in the USA most loan funds service multiple counties and states.[22]

While Australia does not have a defined CDFI sector there are a few CDFI-like organisations that we have identified, including;

- Foresters Community Finance – providing loans for small to medium sized non-profit organisations.
- Indigenous Business Australia – providing home and small business loans to indigenous Australians.
- Fitzroy Carlton Community Credit Cooperative – providing a range of affordable and relevant financial services to support low income as well as mainstream customers in their area. Products include home loans, small low interest loans, advocacy and deposits.

Appendix 1.0 provides a detailed description of the CDFI-like organisations in Australia identified by this study.

[22] CDFI Data Project 2005 (USA)

Chapter 3.0: International Learning from CDFI Development

The section describes the CDFI sectors in the USA, UK, Canada and Europe, including the origin of each sector, its size and impact, as well as key policy and regulatory frameworks put in place to foster growth of the sector.

Community finance has historically played an important role in the context of economic crisis and recovery. The first cooperatives and mutual societies in Europe and North America emerged at the same time as the first labour organisations at the end of the 19th century, to protect working people from the impact of industrialisation on their daily lives and respond to increasing immigration and disadvantaged communities.

The present day context is no different. Over the past twenty years, from crisis to crisis, the community finance sector has grown in number and size throughout most other developed countries to serve the financial needs of disadvantaged communities and micro and small enterprises. In so doing, they have emerged as a distinctive sub-sector of the financial services industry.

In the USA and the UK, the growth of CDFIs has been greatly assisted by specific government policy initiatives. In Canada a strong community economic development movement has drawn support from across all the sectors, whilst in Europe a central European Union fund has acted as a catalyst to the development of specialist financial institutions as part of the social and micro enterprise movement.

3.1 Community Development Finance in the USA

History

- Origins in 1880-1920s with mutual self help credit and investment institutions in response to immigration.
- Emergence of public and privately funded community development corporations together with government's "War against poverty" policies in 1960s.
- Community Reinvestment Act (CRA) of 1977 (and revised in 1995) encouraged banks to meet credit needs of entire communities and provided the foundation for partnership and investment by banks in CDFIs. The CRA served as an incentive for banks and thrifts to provide low-cost loans and investments to CDFIs, which were able to leverage these resources to finance activities that mainstream institutions founds too risky.
- In 1994, the Clinton Administration established a CDFI Fund through the Riegle Community Development and Regulatory Improvement Act, awarding over $1 billion of funding to CDFIs, to support the sectors capitalisation and capacity building.
- The CDFI Fund provides grant funding and technical assistance and implements the following programs:
    - Technicial Assistance program – provides financial assistance for product development, and client support costs. Each CDFI type has a specific set of criteria they must meet to be eligible for this type of funding. For example, CDFIs that are focused on providing products and services to affordable housing organisations can only apply for funding if the housing projects are used to serve primarily lower income populations; this is defined as households with annual incomes of 80% or

less of the area median income.[23]

- Bank Enterprise Award Program (BEA). The BEA program rewards banks and thrifts which are active in community development including support of the CDFI industry, sitting on boards, assessing risk and providing flexible products.
- New Market Tax Credit Program. This permits tax payers to receive a credit against federal income taxes for making qualified equity investments in designated CDFIs.
- Native Amercian CDFI program (NACA) established in 2002. This provides specialised advice to CDFIs serving indigenous areas within the USA.

- Another significant factor in the 1990s spurring the growth of the CDFI industry was the significant role played by CDFI trade associations such as the Opportunity Finance Network, the Association for Enterprise Development, the Community Development Venture Capital Alliance, the National Federation of Community Development Credit Unions and their umbrella organisation, the Coalition of Community Development Financial Institutions. These associations served to develop policy and best practices around the community development finance industry. Trade associations led the way in promoting the critical importance of scale and sustainability to the future of the industry; professionalising the management of CDFIs; collecting industry-wide data to document the financial condition and impact of CDFIs; developing ways to increase levels of investment in CDFIs and diversify sources of capital; and advocating for government policies that support the CDFI industry.[24]

Statistics

The most recent large scale CDFI data project conducted in the USA revealed that CDFIs invested $4.75 billion in FY 2006 to create economic opportunity in the form of new high-quality jobs, affordable housing units, community facilities, and financial services for low-income people[25].

Key characteristics, drawn from the data presented in Table 3 (see below) include:

- Of the 1000 CDFIs in the USA, 50% are loan funds and an increasing number are Native Funds.
- 78% of the CDFIs were established in the 1990s following two major policy initiatives:
  - CDFI Fund (1994); and
  - revised Community Reinvestment Act (1995) to explicitly recognize loans & investments in CDFIs as qualified CRA activity.
- 24% of funds go towards personal loans (average size $5k USD). Loans are generally for health, education, emergency, transport and debt consolidation.
- ‘Average loan size to non profit and community organisation is $126k. Most recent activity has been funding charter schools. (This data is included in ‘Other’ in Table 3.)
- CDFIs focus on rural and urban areas. 32% rural and 61% urban with 29% of urban being in minor urban areas.
- 57% of funding goes to social housing related activities. This includes financing to housing developers and direct mortgage lending. Housing is seen as a lower risk segment due to asset security.

[23] ROC USA (2008). Capital Magnet Fund. Housing and Economic Recovery Act
[24] NEF (2007) Reconsidering UK Community Finance
[25] CDFI Data Project 2005

- Microenterprise and SMEs represent the third most popular market for a CDFI to serve. This is characterised by their small loan type ($35k USD average) and high number of transactions

	US
Number of CDFIs	1,000
Investment Volume (m£)	2,200
Total Capital (m£)	10,200
Market Segments served	
Microenterprise	2.0%
SMEs	13.0%
Social & Housing	57.0%
Personal	24.0%
Other	4.0%
Capital Sources	
Corporations	1.0%
Individuals	55.0%
Banks	21.0%
Public Funding	4.0%
Businesses & People Served	272,000
Age Structure	
<2 years	1.0%
2–5 years	7.0%
5–10 years	17.0%
>10 years	82.0%

Sources: CDFA (2006); CDFI Data Project (2005)

Table 3: the US CDFI Market

Funding Sources

As a result of the Community Reinvestment Act and the New Market Tax Credit Program the bulk of funding provided to the CDFI sector is derived from individuals and financial institutions as illustrated by the chart below.

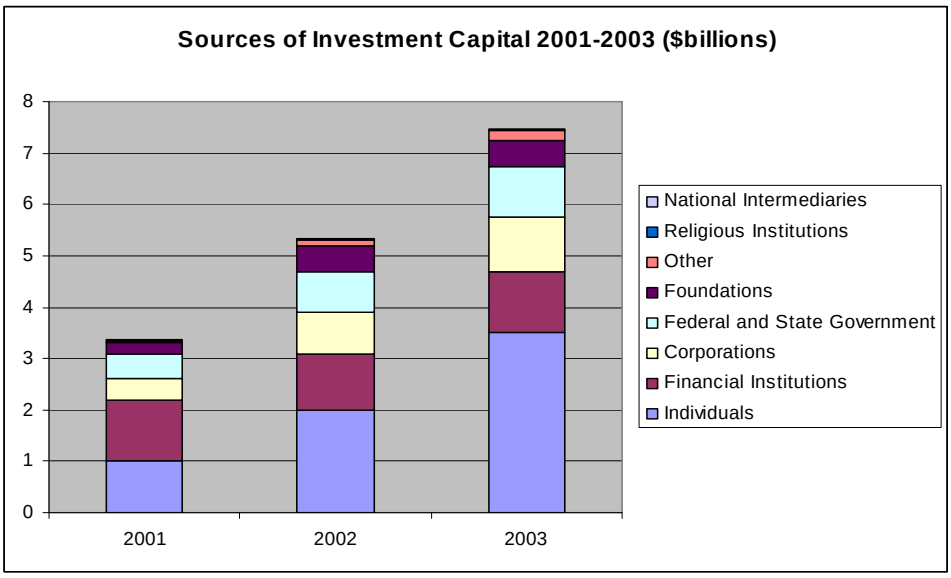

Chart 1.0 USA CDFI Sector Sources of Capital 2001-2003

Outcomes

Social

The CDFI sector in the USA measure social outcomes on the ability of finance and services to reach customer groups that are otherwise overlooked, this includes: low income families, minorities and women. CDFIs are also measured on job creation, increased home ownership, improved financial literacy and entrepreneurial skills[26].

A snap shot of outcomes from FY2006 include:

- 8,185 business and microenterprises financed;
- 35, 609 jobs created and maintained;
- 69, 893 housing units constructed or renovated in low income areas;
- 750 non profit or community service organisations financed; and
- 24,188 payday loan alternatives provided to low income individuals.

Financial

It is understood in the USA that the ability for a CDFI to be sustainable[27] varies depending on age, investment type and target market served. The CDFI 2005 data project broke performance down by CDFI type as follows:

- Credit Unions: those > 10 years old reported average 1.24% profit.
- Loan Funds: have low default of about 4% and represent majority of all CDFI activity.
- Banks: the CDFI banks reported a profit of $1.9m in FY2006.
- Micro credit: these are higher risk CDFIs and therefore earned income is reported to rarely cover costs.

In summary, CDFIs are a substantial part of the financial services landscape in America, and are measurably improving social outcomes for people who are underserved by the commercial financial sector in a sustainable way.

3.2 Community Development Finance in the UK

History

- Since the 1800's, the UK has had a history of mutual financial institutions (e.g. Building Societies).
- In 1997 the Social Exclusion Unit (SEU), established by the Prime Minister at the time, emerged from the Government's desire to tackle issues of social exclusion relating to poverty and disadvantage.
- In 1999 Policy Action Teams on enterprise finance and financial exclusion made recommendations to Government, which led to the more rapid development of the CDFI sector.
- In 2000 the Phoenix Fund, launched to provide grant funding to enterprise lending CDFIs, and the Social Investment Taskforce (SITF) were established and supported by Treasury with wide

[26] CDFI Data Project 2005
[27] Sustainable is defined as the ability to be self sufficient i.e. not rely on government funding both from a capital perspective and operationally.

remit to reduce social exclusion and encourage investment in 'entrepreneurial value creation' in deprived communities.

- In 2002 a framework for investment in disadvantaged communities was implemented that included:
  - The establishment of an industry support organisation: the Community Development Fund Association (CDFA);
  - A Community Development Venture Fund (Bridges Community Ventures) to provide 40m GBP in equity and new equity capital. The UK government invested 20 million GBP on a pound for pound basis with private capital; and
  - A Community Investment Tax Credit (CITR) to encourage investment into disadvantaged communities by giving tax relief to investors who support accredited CDFIs.
- In 2006, the Phoenix fund was discontinued with GBP 11 million made available for transition and oversight of these funds for CDFIs devolved to Regional Development Agencies.
- As a separate initiative to support low income individuals the government established a 'Growth Fund' in 2006 which provides low cost capital to credit unions. Total investment in the Fund to date has reached £80 million[28].

Statistics

Despite the formal CDFI sector in the UK being relatively young there has been significant growth. Key characteristics, drawn from the data presented in Table 4 (see below) include:

- 80 CDFIs.
- Total portfolio value est. AUD660 million.
- 70% of CDFIs target urban customers and 23% target rural areas.
- Social Enterprise represents bulk of CDFI activity and investment – AUD 470 million.
- Micro loans to business represents AUD 52 million.
- ~AUD 7 million distributed in personal loans predominantly to single parent households as well as low income individuals aged between 30-49 years.
- Growth Fund approved 190,056 loans to date to a total value of £82million.

[28] NEF (2007) Reconsidering UK Community Development Finance

No. of CDFIs*	80
Value of Total Portfolios	**£330,808,945**
Micro	£26,562,630
Small	£8,093,921
Medium	£8,420,335
Social Enterprise	£230,003,773
Personal - Consumption	£3,025,607
Personal - Home improvement/Purchase	£580,656
Customers	**% by number**
Start up Businesses	63.0%
Informal Businesses	30.0%
Women-Female led businesses	38.0%
BME led Businesses	23.0%
Lone Parent Households	41.0%
<30 years	27.0%
30-49 years	51.3%
>50 years	16.0%
Urban based	68.5%
Rural Based	23.5%
Semi-rural	11.0%

Source: Inside Out 2008, CDFA report.
* Data from 2006.

Table 4: the CDFI sector in the UK

Funding

Government has been the main funding source of capital (48%) followed by Regional Development Agencies (17%) and banks and building societies (14%). Little has come from individuals.

Outcomes

Social

The most recent CDFA data report for the period 2007-2008 illustrates that the sector serves markets that have difficulty accessing finance, including start up businesses, female and minority business, and individuals.

Table 5 summarises the impact of CDFIs since 2003 showing that the sector has helped create and maintain over 86,000 jobs and loaned and leveraged GBP 750 million into disadvantaged communities.

Outcomes	2007	2008	Cumulative (2003-2008)
Number of Individuals Financed	3,726	6,869	17,038
Number of businesses financed	1,599	1,379	7,005
Number of jobs sustained	1,964	2,321	70,944
Number of jobs created	2,601	1,567	15,829
Total value of loans made (GBP)	104,776,646	76,150,681	358,889,348
Total value of funds levered (GBP)	46,544,580	35,607,006	365,936,215

Table 5.0 UK CDFI Outcomes (CDFA 2008)

Financial

Due to the lack of transparency and lack of standardisation in reporting for CDFIs in the UK at present there is limited information on how sustainable the sector is. A research report by the Community Finance Solutions (CFS) unit at the University of Salford in the UK has reviewed the financial and operational sustainability of five leading UK CDFIs. The study defined financial sustainability as the degree to which the CDFIs are able to cover their costs whilst raising all lending capital through recycling of existing funds and through commercial loans. Operational sustainability refers to the degree to which the CDFIs can cover their costs with income from their core activities (i.e. fee and interest rate income from their loan portfolio, and interest income from deposits).

Chart 2.0 below displays the total activity earnings (fees and interest income, and bank interest earned or paid) as a percentage of total overheads (staff, overhead and governance related costs) by CDFI all sourced from audited accounts for FY 2006/2007. The study reviewed CDFIs that focused on the provision of personal loans (CDFI A-D), while CDFI E is a specialised home improvement loan provider.

The chart suggests that the CDFIs in the sample are some way away from covering their costs exclusively through the income generated from their loan portfolios and therefore their activity must be subsidised in some way. The most sustainable CDFIs in the sample are able to cover just over 60% of their costs through interest rates, fees and bank interest earned[29].

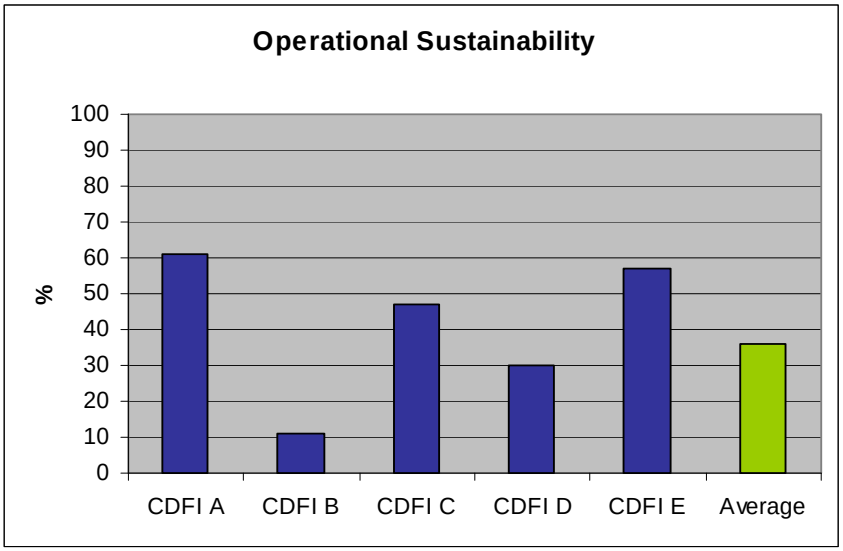

Chart 2.0

According to the CDFA industry survey 2006/2007, only 36% of operating costs are covered by earnings, therefore CDFIs require subsidy to operate.[30]

[29] Dr Karl Dayson, Pål Vik, Bob Paterson and Anthony Salt. (2008) Community Finance Solutions - Measuring Sustainability – UK CDFIs
[30] CDFA Survey 2006/ 2007

3.3 Community Development Finance in Europe

History

Community finance programs and policies have been developed across European Union (EU) members states as a key mechanism to stimulate employment and micro enterprise development.

Examples of policy instruments available to support microfinance institutions include:

- European Investment Fund (EIF) developed to provide funding and issue guarantees to national schemes that in turn provide guarantees or loans to entrepreneurs;
- European Social Fund (ESF) provides funding to microfinance organisations;
- Europe Regional Development Fund (ERDF) developed a credit facility for selected 'potential financial intermediaries', including microcredit institutions; and
- Tax incentives primarily at national level (e.g. Tante Aggath Regeling, TAR in Netherlands) for individuals and corporations that invest directly in small and micro-enterprises or through intermediaries[31].

Statistics

Integrated data on Europe is not readily available, however an unpublished 1999 survey by INAISE of 86 "social investment organisations" in the 15 European Union member states reported:

- combined capital of EUR 1.6 billion and a total loan portfolio of EUR 640 million;
- a total of 27,000 micro-loans worth EUR 210 million were made by micro-lenders in 15 countries, involving 48,000 active borrowers at the end of 2005;
- most European micro-lenders provide loans ranging between EUR 50 and EUR 5,000, with an average loan amount of EUR 7,700. This shows that most lending institutions are still small and relatively new, continuing to experiment with delivery models for their target market; and
- most European microfinance organisations are local or regional and operate on a relatively small scale.

Outcomes

European microfinance has a strong focus on social inclusion and is less concerned with profitability to limit recourse to grant funding. Currently many microfinance programs are not sustainable and are not striving to become so. This means that government and public institutions are the main sources of funding, with 42 per cent of micro-lenders receiving 76 to 100 per cent of their operating funds from public sources.

3.4 Community Development Finance in Canada

Early legislation by government encouraging community investment by banks together with funding for capacity building and patient loans have spurred the development of a community finance sector in Canada.

History

- In 2001, the Financial Consumer Agency Group initiated an Act in Parliament to encourage greater community investment and accountability for financial institutions.

[31] NEF (2007) Reconsidering UK Community Development Finance

- In 2003, the Canadian government developed social economy initiatives to support its growth, including:
  - CAN $17 million over two years for capacity building;
  - CAN $100 million for the creation of patient capital funds; and
  - CAN $15 million over five years for community-university collaborative research related to the social economy.
- In 1997, Quebec's Government established a task force which became what is known today as the Chantier de l'Economie Social, a non profit organisation whose mission is to promote, develop and represent the social economy in collaboration with a wide variety of partners.

Statistics

- From 2003 to 2008, the Quebec government invested CAN $8.4 billion in the social economy.
- In 2004, nearly CAN $330 million was channelled through Solidarity Finance Institutions (CDFIs), using most of these funds (69%) to support social enterprises.
- The Bank of Montreal has developed On Reserve Housing Loan Program agreements with 12 First Nations communities.
- Major banks have contributed to sector development:
  - Bank of Montreal hold CAN $1 billion in trust for First Nations communities and has opened 16 Aboriginal Banking centre's, and established an alliance with Canada Post that has resulted in first time access to banking services for 20 remote communities.

Outcomes

- In 2003, CAN $9.8m was allocated to 505 social enterprises, contributing to the creation over 5000 jobs.
- During 2006, the Development Capital Institutions distributed over CAN $3.9 billion in investments.
- RISQ venture capital fund has assets of CAN $9.25m from both government funds and private funds and provides a loan program to collectives and enterprises. As of 2005, it had invested in 350 enterprises, of which 119 were cooperatives and 232 were non profit.

3.5 Key Insights from International Experience

Governments, across all countries, have developed a variety of regulatory and policy frameworks to combat financial exclusion. There are mixed results, with some jurisdictions succeeding more than others and, within jurisdictions, some achievements as well as some disappointments.

Accordingly, there is no fixed international template which Australia could adopt, if it is decided to nurture a CDFI sector within Australia. Rather, there are a series of lessons which can be learned in fashioning a home-grown approach, some of which are outlined below.

United Kingdom

The establishment of a pilot community venture capital fund delivered good results and encouraged external investment , as did the establishment of a growth fund for credit unions to encourage focus on disadvantaged communities.

The Phoenix fund was set up by Government to develop the sector but was discontinued in 2008, leaving

limited financial support for the sector.

The Community Investment Tax Return (CITR) attracted little investment, in stark contrast to the results of regulatory reform in the US (see below). The CITR's failure was attributed to its complexity and the limits that were placed on lending.

A move of support arrangements from central to regional authorities was disruptive. Government provided most funding as grants with limited performance criteria, resulting in limited data on performance and arguable a less sustainable sector.

United States of America

The legislative changes made to the Community Renewal Act encouraged bank support of CDFIs; this resulted in over 340 agreements between CDFIs and Financial Institutions to the value of US$1 trillion.

A CDFI Fund was established to provide matched capital funding and technical assistance subsidies to CDFIs, and the $864 million awarded to date through this fund has been instrumental in fostering the CFDI sector.

The New Market Tax Credit Program was designed to leverage investment and has attracted over US$16 billion to the CFI sector since 1994.

Development of CFDI trade associations who facilitated the development of best practise data collection tools, as well as the formation of a CDFI Assessment and Rating system for investors.

On the negative side, and as a result of financial crisis, regulatory-motivated investments have decreased. This has put initial pressure on CDFIs which are now looking at more innovative models to support their activities.

Canada

The Financial Consumer Agency Group act (2001) is an example of a legislative move to address financial exclusion (as well as other consumer issues) by all financial institutions. It has encouraged greater community investment by commercial financial institutions.

Coordination of national approaches has sometimes been superseded by states (e.g. Quebec); maintaining a consistent federal approach is necessary to ensure equitable development of the CDFI sector, and to avoid creating inappropriate incentives at State level.

European Union

European Regional Development Fund (ERDF) has provided grant funding for microfinance initiatives.

National tax incentives such as Tante Agaath Regeling (TAR) have been successful in the countries they are implemented in attracting private investment.

Overall, however, many programmes are still nationally based with little successful coordination at EU wide level. In addition, no common performance evaluation mechanisms are in place.

3.6 Redefining Sustainability

There is an inherent tension in CDFIs between their social and financial goals. This tension becomes evident when considering the issue of sustainability. Achieving positive social outcomes, including job creation, enterprise creation, affordable housing developments, as well as increases in income for disadvantaged individuals and communities, requires routine expenditures which commercial financial institutions do not incur.

As illustrated in figure 5.0, overseas examples demonstrate that access to a combination of capital and infrastructure support is critical to achieving scale and also highlights that any given CDFI uses a mixture of mechanisms to be able to operate.

		Business Model at Scale	Access to cheaper capital			Lower operating costs							
			Public	Private	Better able to mitigate risk	Lower compliance	Philanthropic capital	Access to volunteer	Lower cost distribution	Govt subsidy - Operating costs	Govt subsidy - Training services	Govt subsidy - Infrastructure costs	Govt subsidy - Product development
	Established models have reached scale. Access to capital from government (CDFI fund) and private sources (CRA, tax credits)	x	x	x	x		x	x		x	x	x	x
	State funding provides operational subsidy blended with federal regulatory frameworks to encourage private investment	x	x	x						x		x	
	EU central funds provide subsidised capital & country specific regulation, policy and tax incentives drive investment incentives	x*	x	x		x				x			
	Predominantly sustained through government support for capital and operating requirements		x	x						x	x		

Figure 5.0 Mechanisms Framework (Business models at scale appear in countries that have a coordinated funding, regulatory and policy environment with tax incentives to drive investment i.e. Netherlands.)

Evidence from the USA and UK indicates that operating costs can be up to 20-30% higher for CDFIs compared to commercial financial institutions, especially in the short term. Until they reach scale and build portfolios which enable them to cross subsidise, they are dependent on external funding.[32]

In summary, there is little evidence of CDFIs that are self-sustaining in the short or medium term without government support in some form – be it tax incentives, operational subsidy or R&D support. Those that are sustainable without government support tend to be in the housing loan sector where capital is secure and where scale can be achieved. On the other hand, it can readily be argued that investment in CDFIs, even at significant (20-40%) subsidy levels, yields social impacts that would be considerably more expensive to achieve in other ways.

[32] SOURCE: USA CDFI Data Project (2005); Interviews and Team Analysis

Chapter 4: The Australian CDFI Sector

This section presents the current landscape for community finance in Australia.

Unlike our developed world counterparts, Australia has not had a history or strong national focus on community development finance. Over the last decade there have been various government enquiries that have investigated the extent of financial exclusion. These enquiries have resulted in ad hoc short-term initiatives and imposed red tape on the small number of community finance institutions. For example, the 1997 Wallis Inquiry into the Financial System subjected a number of financial institutions, such as credit unions and friendly societies, to greater regulation under a new Australian Prudential Regulation Authority (APRA) and licensing provisions governed by the Australian Securities and Investment Commission (ASIC).[33]

Furthermore, these reforms have made it more difficult for existing financial institutions to respond to local community development finance needs, and have reduced the potential for new, specialised institutions to emerge to address such needs. For instance, it is now almost impossible for new, locally based credit unions to be formed—a consequence of the demanding nature of current capital adequacy and prudential requirements imposed on large and small banking and financial institutions alike. [34] As a result, it is arguably more difficult to create a CDFI in Australia and for commercial financial institutions to serve the "underserved" segment.

4.1 Profile of the CDFI sector in Australia

There are very few organisations that can be described as CDFIs in Australia, comparable with those in the USA and the UK. There are however, a wide range of organisations, programs and activities that are operating across the community focused finance spectrum, ranging from philanthropic or grant making organisations and welfare through to mainstream financial institutions, as illustrated in figure 6.0 below.

[33] ACCORD – Parker, Kathryn & Lyons, Mark (2003) Community Development Finance Institutions: Evidence from Overseas and Australia
[34] ACCORD – Parker, Kathryn & Lyons, Mark (2003) Community Development Finance Institutions: Evidence from Overseas and Australia

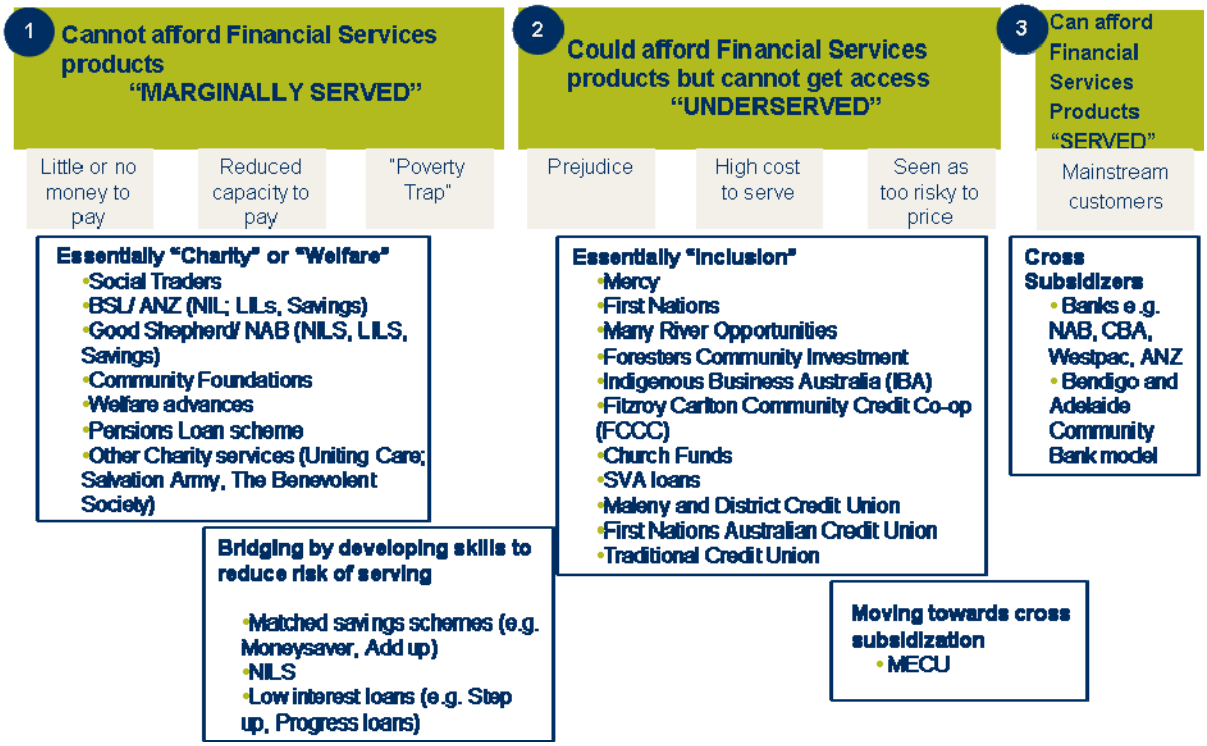

Figure 6.0 Australian Landscape

(Appendix 1.0 provides further context and detail on many of the CDFI like organisations in Australia.)

4.2 Mechanisms to support the CDFI sector in Australia

Australian governments do not provide access to capital (such as operating a CFDI fund), or operational subsidies, or structure tax incentives to encourage investment by philanthropic organisations or individual investors.

Accordingly, CFDI-like organisations within Australia reduce costs by operating in a non-government context and draw support from philanthropic sources. Two of these are described below.

(1) Foresters Community Finance – Community Investment Fund

- Provides assistance to SME non-profit organisations (DGR only).
- The fund provides commercial rate loans as well as purchasing and maintaining property assets which are leased to community organisations (NOTE: the community organisation can purchase units in the trusts that maintain these investments to increase their equity stake in these over time).
- Has supported numerous organisations with capacity building training.
- Currently has 13 non-profits in the portfolio.
- Has invested over $1.5m in property assets for non-profit organisations to lease.
- Zero defaults last 3 yrs.
- In 2008 provided investors with 5.85% return .
- 5.23% average return over last 3 yrs.
- Diverse revenue/income i.e. loan returns, fees for training and capacity building programs.

(2) Indigenous Business Australia – Home Loan Program

- Provides affordable home loan finance to eligible Indigenous people to assist in reducing the disparity between the rates of home ownership in Indigenous households (36%) and that in other Australian households (71%).
- Home ownership loans.
- Since 1975, $1.39 billion lent helping more than 13,740 families participate in home ownership.
- Default rate 0.4%.
- Strong demand with waiting list for loans, approx 2000 families and 18 month wait.
- Investments / Partnerships enable communities to purchase assets.
- In 2008–09, portfolio asset value grew by 7.55 per cent and 893 jobs were created or supported (30% were Indigenous).

4.3 Future Opportunities in Australia

There are further initiatives being explored to enable greater support to the "underserved" and "marginally served" segments in Australia, However, as detailed below, these initiatives are being constrained by limited access to low cost capital or operational support funding.

- **Foresters Community Development Finance:**
  - The organisation is looking to embark upon a capital raising strategy to support their own infrastructure costs and to further develop their social investment work. Foresters has formed a subsidiary company called Social Investment Australia, which was recently awarded an Australian Financial Services Licence that will enable them to offer a range of new products to the mainstream financial services sector in 2009. Net revenues from this activity will be used to cross-subsidize other non-profitable activities.
  - They are also in the process of developing a business plan for 'Fair Finance Australia' to provide safe and affordable credit to low income individuals as a genuine alternative to high cost, exploitative credit. However, implementation of these products cannot proceed without product development support.

- **Social Ventures Australia:**
  - A non-profit the organisation that is currently investigating the possibility of establishing a Social Enterprise Investment Fund (SEIF) for longer term investments in social enterprises focused on employment creation, as well as an investment fund for indigenous social enterprises.
  - Progress of this initiative is contingent on SVA securing capital and operational support for capacity building programs within the social enterprise community.

- **Many River Opportunities:**
  - Focused on micro finance for indigenous enterprise the organisation has plans to roll out to 15 regional centers over the next 5 years with the objective of establishing 4,000 micro enterprises and 5,700 jobs. Total funding for the first 3 years of the National Program is $27 million. This initiative is contingent on the organization securing capital support.

Chapter 5: Prospects for Growing a CDFI sector in Australia

This section discusses the potential for development of a CDFI sector in Australia

As seen in Chapter 4, there are some CDFI-like organisations that already exist in Australia and a number of organisations or partnerships that provide products and services to the financially excluded.

An insight into the prospects for growing the CDFI sector beyond this modest base can be gained by:

- comparing Australia with the United States and the United Kingdom;
- examining the growth in payday lending;
- reviewing the history of credit unions and friendly societies in Australia;
- examining the demand for advances on benefits;
- examining the demand for existing Low Interest Loan schemes (LILS);
- assessing the reliance on credit cards amongst low income households;
- examining the demand and competition for funding from non-profit organisations and social enterprises;
- observing the rise of self employment as an option in Australia; and
- reporting on the demand for product being experienced by existing CDFI-like organisations.

Each of these aspects is considered below.

5.1 International Comparison

Using CDFI activity in the United Kingdom and the United States as a benchmark, the CDFI sector in Australia appears to be underdeveloped.

The Australian economy is approximately 1/3 the size the UK economy and 1/15 the size of the US economy measured by Gross Domestic Product (GDP). Population sizes vary on similar scales. All else being equal, and on face value, it could be expected that the number of CDFIs and the size of the CDFI loan portfolio in Australia would vary in the same proportions. However, this is not the case.

The USA has approximately 1,000 CDFIs managing a loan portfolio of AUD$20 billion. If the Australian sector was on par with the USA, there would be 65 CDFIs managing a portfolio of $1.3 billion. Instead, Australia has approximately 10 CDFI-like institutions managing a portfolio of $150 million dollars.

Similarly, the UK has 80 CDFIs managing a loan portfolio of $900 million. If the Australian sector was on par with the UK, there would be 26 CDFIs managing a portfolio of $300 million.

Thus, using the US and UK as benchmarks, the number of CDFIs in Australia might be expected to be in the range of 25-65, administering a loan portfolio of $300 million to $1,500 million.

In summary, and as illustrated in figure 8.0 below, an international comparison suggests that the Australian CDFI sector is somewhere between half and one fifth the size it could be.

Australian economy is 1/3 UK & 1/15 USA

	USA	UK	AUS
Population (Million)	307	61	21
GDP (AUD Billion)	13.8	2.3	0.8

CDFI Sector

	USA	UK	AUS
# CDFIs	1000	80	~10
Size of CDFI loan Portfolio (AUD Million)	$20,000	$900	~$150

Australia has:

- ~ 10 CDFIs; could support 25-65
- $150 million loan portfolio; could potentially have $300 - $1500 million
- somewhere between a half and 1/5 of the potential scale

Figure 8.0 Sizing the market

5.2 Growth in pay day lending

The international comparison is very high level. A more grounded assessment of the need for CDFI's can be obtained by examining local factors, of which the growth in payday lending is significant.

Over the last ten years, the pay day lending market has grown from 1 store in Queensland in 1998 to over 800 nationally today and, while the market is unregulated, its size is estimated to have increased to somewhere between $500m-$800m.[35]

Pay day lenders tailor products to low income workers and people on benefits. They offer:

- Short term (payday) loans (1-4 weeks) for small amounts (below $1000), frequently based on fixed price fees which, when converted to effective interest rate, amount as high as 1000%.
- Quick turnaround on lending decisions.
- Accept welfare benefits as a legitimate source of repayments.
- Low default rates (3%); borrowers are usually required to provide direct debit authorization.

While the terms offered by payday lenders may be seen as exploitive, these lenders are frequently the only source of readily available credit for people on low incomes and thus demand for their services has been increasing rapidly. Current legislative reviews into capping interest rates are unlikely to be implemented nationally and, in any event, fees charged would remain very high when considered on an effective interest-rate basis, compared with fees charged by mainstream providers.

This rapid growth evinces the emergence of a significant market in Australia for serving the needs of the financially excluded.

[35] Hughes (2009) Pay Day Lending in Tasmania

5.3 Diminished Role of Credit Unions and Friendly Societies

A further indicator of the potential role for CDFIs is the diminished role of Credit Unions and Friendly Societies in Australia.

Today, there are about 150 credit unions, compared with over 3,200 just thirty years ago[36]. Traditionally, credit unions served an extensive range of niche communities, defined in geographic, demographic and industry terms. Their remit, especially those which served geographic communities, was focused on inclusion. Because they are member owned, the focus was less on returns for shareholders and more on the provision of low-cost products and services.

The rapid decline in the number of Credit Unions followed moves by governments to regulate these institutions in the same way as banks and building societies. The 1997 Wallis Inquiry into the Financial System was significant in this regard. Following the Inquiry, credit unions were subjected to greater regulation, under a new Australian Prudential Regulation Authority (APRA), and greater licensing provisions, governed by the Australian Securities and Investment Commission (ASIC). The policy rationale was to establish a level playing field between financial institutions. However, the effect of increased compliance costs, higher capital adequacy requirements and greater prudential requirements, shifted Australian credit unions away from the traditional community finance model. In consequence, it is now almost impossible for new, locally based credit unions operating on this model to be formed[37].

These changes in the regulatory environment resulted in many credit unions closing or consolidating with other unions to form large institutions, so as to reduce costs of operation and to enable them to compete with banks for customers and in the process operate more like mainstream banks. This has diluted responsiveness to local needs and a focus on the most disadvantaged. Those credit unions that continue to operate traditionally and maintain a strong focus on their community mission, such as the Traditional Credit Union in Northern Territory and Fitzroy Carlton Community Credit Co-op in Melbourne, require cross-subsidization from other product areas as well as low cost mechanisms, such as access to cheaper capital and reliance on volunteers, in order to survive**.**

Friendly societies, though never as well established in Australia as credit unions, have experienced a similar decline. A Friendly Society, (sometimes called a *mutual society*, *benevolent society* or *fraternal organisation*) comprises a group of people who join together for a common financial or social purpose. Before modern insurance and the welfare state, friendly societies provided financial and social services to individuals, often according to friendship, religious or political affiliations. Friendly societies have operated in Australia for over 160 years and were traditionally involved in encouraging and supporting self-help within community, founded on concepts of thrift, savings and the pooling or sharing of risks within a community.

Today, most of the approximately 30 friendly societies which remain in operation have narrowed their focus, principally offering life insurance products. For this reason, most are registered under the *Life Insurance Act 1995*. Life insurance is promoted as a means of long-term saving as well as provision for family members after death, and currently over one million Australians save and invest using friendly society products[38].

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[36] ABACUS

[37] ACCORD – Parker, Kathryn & Lyons, Mark (2003) Community Development Finance Institutions: Evidence from Overseas and Australia

[38] Chris Wright, President, Friendly Societies of Australia (2008) http://www.treasury.gov.au/documents/1363/PDF/FSA.pdf

Credit unions and friendly societies can be regarded as legacy CDFIs. So regarded, the need for CFDIs arises in large part to fill the vacuum created by the decline of these highly responsive, financially inclusive, and locally targeted financial institutions.

5.4 Demand for Advances on Benefits

A further indicator of the potential market need for CDFIs is the demand made on Centrelink for advances on benefits.

Over the last three years there has been consistent demand for advances on welfare payments, specifically from sole parents, people with a disability, people unemployed and the indigenous population. This group traditionally relies on welfare and has limited alternatives. As a result it is likely, given the absence of more affordable credit that they also rely heavily on pay day lenders, the costs of which can exacerbate their situation.

The level of demand for advances on benefits is shown in the chart below. In summary:

- Between 1.4 million and 1.6 million Centrelink clients seek at least one advance on their benefits each year.
- The funds advanced are between $600 and $700 million per annum.

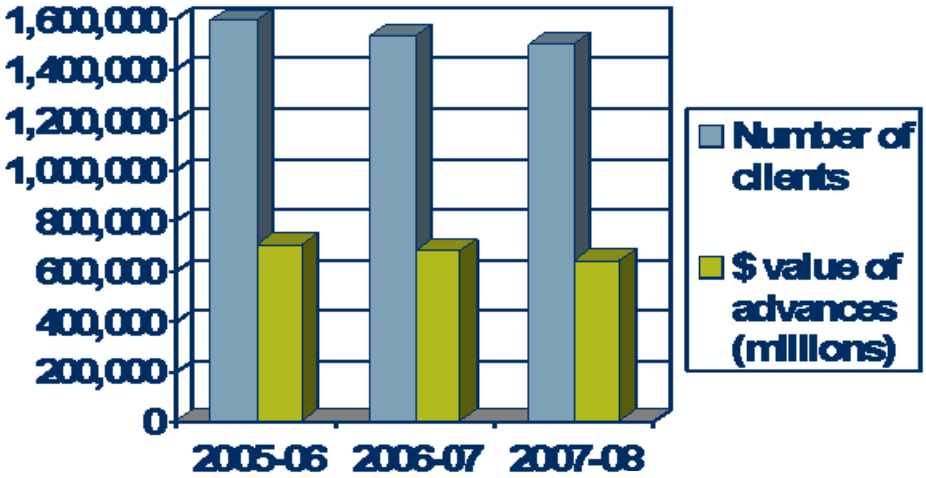


Chart 3.0 Combined Value and Customer numbers for PPS, DPS and NSA customers [39]

5.5 Increasing demand for Low Interest Loans (LILS) products

The demand for Low Interest Loans (LILS) is another indicator of the potential role a CDFI sector could play in Australia.

In partnership with Good Shepherd and Brotherhood of St Laurence respectively, NAB and ANZ , have developed two affordable loan products to enable low-income customers (specifically those on pensions) to access affordable, fair and safe mainstream finance.

[39] FaHCSIA Advances Data

To date these products have been limited in scale and reach, however, low default rates illustrate that many low income people are capable of repaying loans and are also able to pay close to standard interest rates. Both banks currently only provide a limited number of loans per annum, as detailed in Table 7.0 below.

Based on funding available from within the banks Corporate or Community sector budgets. They estimate that the market for these or similar micro credit loans to low income people is large and untapped[40].

Progress Loans (ANZ) Key Statistics (May 2006 – May 2009)	
Number of loan applications	898
Number of loans approved	671
Number of loans drawn down	678
Number of loan customers	531
Average loan value	$2,183
Interest Rate Fees	13.69% pa (fixed) $40
Loan default rate	1.2%
Average customer profile	Limited or no savings; between 45 and 64, on DPS or PPS, Female

Step Loans (NAB) Key Statistics (Oct 2004 – Dec 2007)	
Number of loan enquiries	3,861
Number of loan interviews	1,080
Number of loan applications	882
Number of loan approved	650
Average loan value	$2,600-$3,000
Interest Rate	7.24% pa (fixed)
Loan default rate	4%
Average customer profile	Individuals (93%) and Couples (7%); aged between 25 and 44 yrs, majority Female (80%) Most on Centrelink fixed income pension; 7% in part time work

Table 7.0 Low Interest Loan comparisons[41]

Very significantly, it is estimated that the current market for these products is only being tapped at 2-5 per cent[42], suggesting that a very substantial market need exists for low interest loan products that could be delivered through non-government organizations or CFDIs.

5.6 Increasing reliance on credit cards

A further and perhaps more alarming indicator of need is credit debt amongst the lowest wealth quintiles in Australia. Data from Melbourne University's Household Wealth survey, indicates that while the lowest wealth quintile groups have the lowest ownership of credit cards, they;

- carry significant debt – highest for bottom two quintiles of wealth; and
- most seldom pay off entire credit card balances.

Credit cards are likely to place more pressure on lower income groups because they do not have structured repayments nor support mechanisms.

[40] Source: NAB, interview
[41] Source: Literature from interviews with NAB, ANZ, BSL and Good Shepherd

[42] Source: NAB, interview

Credit Card debt by household wealth quintile	2002				2006			
	% with card	Debt> 0 (%)	Mean debt ($)	Seldom pay off (%)	% with card	Debt>0 (%)	Mean debt ($)	Seldom pay off (%)
1st quintile group	39.4	24.4	705	21.1	40.6	21.8	869	18.7
2nd quintile group	58.6	31.0	802	24.4	58.2	26.6	1,007	21.4
3rd quintile group	58.0	21.2	495	16.0	61.3	21.1	668	15.6
4th quintile group	69.0	19.2	484	14.4	68.8	17.5	671	12.0
5th quintile group	73.6	13.7	422	8.1	73.6	10.9	408	7.2
Total	59.6	21.9	582	16.9	60.5	19.6	725	14.9

Source: Source: Families, Incomes and Job, Volume 4. Household Wealth. Melbourne University

5.7 Increasing demand for alternative sources of finance from small to medium sized non-profit organisations

Many non-profit organisations report significant difficulties in accessing capital including;

- Fixed development capital e.g. investment in property or other tangible asset;
- Working capital that can finance a short term cash flow shortage before an already committed grant is paid; and
- Growth capital used to support new program development; expansion etc.

For economically significant non-profits their sources of income is more diversified as they have teams dedicated to fundraising efforts; for small and medium sized non-profit organisations the picture changes considerably – most rely 80-90% on government funding, as illustrated in the charts below.[43]

- Small to medium non-profits have difficulty accessing funding due to:
  - perceived risk;
  - competition for government funding;
  - lack of skills; and/or
  - limited offerings (special purpose banks such as Community Sector Bank have increasingly offered same services as mainstream banks).

5.8 Increasing demand for alternative sources of finance from social enterprises

A further indicator of the demand for specialized financial services products can be found in the fast emerging social enterprise sector. Social enterprises are recognized as an innovative model for achieving long lasting social impact: overcoming social exclusion and providing real jobs to Australians disadvantaged in the labour market.

Social enterprises are businesses that are set up to operate for a social purpose; in the Australian context, “social enterprise” is most commonly used to describe businesses which are set up to create employment opportunities for people who are seriously disadvantaged in the labour market[44].

[43] Productivity Commission Draft Research Report (2009). Contribution of the non-profit sector

Like any business, social enterprises need access to finance to develop, grow and reach favorable economies of scale. Because social enterprises aim to generate both financial and social returns there are a range of products and services that could be developed specifically for this sector including: affordable loans; equity products; quasi-equity; venture capital etc.

It is estimated that there are over 530 social enterprises in Australia. Demand for finance for social enterprises is evidenced by the:

- high level of interest and applications indentified through round 1 of the Jobs Fund – 250,000 applications. A high proportion of these were for social enterprise start up, growth and scaling;
- growing number of intermediaries providing business and capacity building support for social enterprise; and
- growing number of social enterprise clients in SVA's venture portfolio.
  - Over the last 3 years SVA has provided support to over 100 social enterprises with skills, training and networks.
  - The organisation has also assisted many social enterprises to access finance from philanthropic and commercial sources as well as invested in and provided low interest loans to more than 20 social enterprises.[45]

5.9 Rise of self employment

Many interviewees believe that as a result of rising underemployment in Australia self employment will increase.[46] Even though not the right avenue for everyone, in disadvantaged communities, where large private sector employers are not present, self employment is critical to economic growth.

In Australia barriers to self employment include:

- Complex tax system;
- Lack of business planning skills and support;
- Lack of awareness of support services; and
- Lack of finance for early stage/ start up enterprises.

Research undertaken by ANZ into micro credit for SMEs demonstrated that there was need and demand for a product that could be offered by a niche community finance provider[47].

5.10 Strong demand for financial services products from existing CDFI customers

The final indicator of the need for CDFIs is the demand placed on existing organisations that are operating in this space.

Interviews conducted with, and research into, four existing CDFI-like organisations in Australia revealed that the demand for products and services typically exceeds supply. Supply is restricted because of limited access to capital and because of the limited operating capacity of the CDFIs

[44] Social Traders (2009)
[45] Social Ventures Australia, interim findings on Social Traders FASES Research project
[46] Campbell. (2008) Journal of Australia Political Economy. Pressing towards full employment? The persistence of underemployment in Australia

[47] Business Enterprise Centre Interview, Brunswick Melbourne. Interview with ANZ.

considered. Anecdotal evidence suggests that the experience of the CDFI-like organisations reported on in the chart below is indicative of more widespread experience.

CDFI	Description	Business Model	Current portfolio	Forecasted Demand
Foresters Community Investment – Community Organisation product	Provides loans and direct investment to community sector organisations with Deductible Gift Recipient (DGR) status to help them to build assets to create, assist and promote sustainable and resilient community and local organisations.	Capital from investors: Foresters pool funds from social investors and provide commercial rate loans to community organisations as well as purchasing and maintaining direct property assets which are leased to community organizations. Fee for services: charge fee for service to clients	$3.7million 13 loans on the books	Pipeline demand for $5million in loans – average loan is $310k 85 attended workshops for financial capacity building
Foresters Community Investment – micro credit	Operate a number of micro loan funds in Queensland, including a distress fund, disability equipment fund, and micro credit fund i.e. small credit to people not necessarily on welfare. All but the disability equipment fund are no longer open to new applications due to limited resources to support the funds.	Interest and fees	Not known	At the time of operation Today Tonight ran a story on the mirco loan product. This stimulated more than 500 phone calls within the space of five days. It is believed that there is continuing demand for micro loans of this nature.

CDFI	Description	Business Model	Current portfolio	Forecasted Demand
Fitzroy Carlton Community Credit Co-op	5,000 members predominantly low income across Carlton and Fitzroy (population 14,000 Carlton; 11,000 Fitzroy) 80% of members are on benefits NOTE: most emergency loans are repaid at 10% interest and funds are never given in cash only cheque which is made out to the organisation that is owed the money	Operates as a bank under APRA laws. Claims to be the only bank in Australia that works on an inverted structure – it loses money on its member services and relies on making money from its investments	2300 loans outstanding at anyone time $3 million loan portfolio comprising of home loans, low interest loans, emergency loans	Estimated that they could establish two similar co-ops at public housing sites in Collingwood and Richmond Melbourne. Combined these suburbs have a population of 30,000 with a large proportion living in public housing. Estimated demand is 5000 for micro loans
Many River Opportunities (MRO)	Provides mirco business loans to indigenous entrepreneurs with support and finance (avg. loan $5,000)	Philanthropic support MRO act as a broker between client and the bank (Westpac)	As of June 2008 they had provided support to over 330 micro enterprises, issued loans to 57 of these.	MRO has plans to role out the offering to 15 regional centres over the next 5 years with aim of establishing 4000 enterprises and creating 5700 jobs.
Indigenous Business Australia	IBA provides financial services products to indigenous populations to promote and encourage self-management, self-sufficiency and economic independence. Provide home loans and business enterprise loan fund.	Capital and infrastructure support from government	$88.8 million 348 loans	Pipeline demand for 1500 in loans for first home buyers

Source: SVA Interviews

In summary, all indicators – international comparison; growth in pay day lenders; decline in credit unions and friendly societies; demand for advance in benefits; reliance on credit cards from low wealth households; the demand on alternative finance sources from non-profit organisations and

social enterprises; and the demand experienced directly by existing CDI-like institutions, support the proposition that there is significant scope for the development of a scaled and sustainable CDFI sector within Australia.

Chapter 6: Strategies for Developing a CDFI sector in Australia

This section examines some of the challenges in developing a CDFI sector in Australia and considers the approach that could be taken.

The previous chapter indicated that there is a potentially significant role for CDFIs in the Australian financial landscape, for moving the financially excluded towards being financially included.

This chapter canvasses a range of issues for Government to consider in developing its approach to fostering a CDFI sector within Australia. The issues considered are:

- Establishing priorities;
- Removing structural barriers which impede the development of the CDFI Sector; and
- Options for direct government investment in CDFIs.

The final section draws on the preceding discussion and frames a preferred CDFI development strategy, which is advanced for consideration by Government.

6.1 Establishing Priorities

It would be neither prudent nor possible for Australia to try to escalate quickly from 10 to fifty CDFIs, and from a loan portfolio of $150 million to $1 billion, to use the midpoint between the USA and UK benchmarks as a guide (see Chapter 5.1).

In this context, Government may usefully give consideration to establishing priorities. In policy terms, resource allocation priorities may be established on the basis of spread, equity and adequacy.

When spread is adopted as the priority policy objective, available resources are distributed to every catchment area at a level sufficient to ensure there is some minimum response to existing need. On this basis, effort would be directed to ensuring that access to a CDFI is available in every location across Australia.

When equity is adopted as the priority policy objective, available resources are distributed on the basis of highest need. On this basis, geographic areas are assessed using needs-based planning and available resources are distributed to ensure that each area has a fair share correlated to need.

When adequacy is adopted as the priority policy objective, available resources are distributed on the basis that any response made within any geographical area is sufficient to ensure that all anticipated demand is met at an adequate level. The idea behind this objective is to gain quality information on actual levels of demand and on the costs associated with meeting that demand. Once this information is obtained, it can then be used to inform the procurement of additional resources for roll-out of the program to other geographic areas.

The first and third objectives are not necessarily mutually exclusive: usually, when adequacy is adopted as the priority, the area or areas selected for participation in the program will be those with the highest need. Alternatively, it may be decided to build on existing infrastructure, and this may not exist in areas of highest need.

The overall view of the study is that, of these three objectives, highest priority should be accorded to adequacy, that is, to testing a well resourced response within a limited number of geographic areas.

This approach will enable the collection of on-the-ground evidence as to the nature and extent of need, the nature and extent of responses which should be mounted, and the level of investment required to develop adequate CDFI responses in other geographical communities. This approach

has informed the framing of the pilot program, detailed in the next chapter.

Within a designated geographic area, and even within an adequacy response, it is still likely that some prioritisation will need to occur. In this context, priority suggestions are made in regard to individuals, small to medium non-profit organisations and social enterprises, and to micro-enterprises.

In relation to individuals, priority should be given to those who are living off some welfare benefits supplemented by other income-generating activities, as well as those not on benefits who struggle to meet needs on low incomes; that is, people who fall within the underserved segment of the financially excluded population. Priority assistance should be the provision of personal credit in amounts ranging up to $5,000, to cover employment transition, disability equipment and debt consolidation.

In relation to small to medium non-profit organisations and social enterprises, priority should be given to loans used for asset acquisition, working capital, growth capital and insurance. With social enterprises, priority should also be given to assisting the enterprise to achieve investment-readiness, and to assess equity and venture finance. In relation to micro enterprises, priority should be given to the provision of micro loans and for meeting insurance costs. Again, these organisations fall within the underserved segment.

Our assessment of the market for small to medium sized business was limited, due to data availability and time. It appears, however, that there are a number of support services and financial services products already in place to support this segment and, although these may not be widely accessible, it is proposed this target group not be accorded priority in the first instance.

Comprehensive information underpinning to these priority recommendations can be found in Appendix 2.0.

6.2 Structural Barriers impeding the Development of the CDFI Sector

There are number of structural barriers that currently inhibit the development of a CDFI sector in Australia. This section discusses these and proposes strategies for removing them.

Limited access to cheap capital

CDFIs require access to capital at less than market rates because their *raison d'être* is to provide financial products at lower total costs to customers with a higher risk profile, compared with mainstream financial institutions. Investment by philanthropic individuals and foundations is strongly inhibited by the lack of Deductable Gift Recipient (DGR) status (which would enable private contributors to claim a tax deduction on funds gifted to CDFIs) or other tax incentives.

Lack of CDFI-specific infrastructure support mechanisms

There are considerable costs associated with establishing a CDFI. These include attracting suitable expert staff, establishment of offices and IT infrastructure, market research and product development costs, and working capital to support the CDFI during its establishment phase. If a CDFI sector is to be scaled up in Australia, the provision of such support mechanisms will be required.

Limited CDFI footprint

In its modern form, the CDFI sector is relatively new. Awareness of this model has only recently started to grow in Australia, both within governments and the social sector. Accordingly, there is no association or industry group which is engaged in supporting, promoting or advocating for the development of such a sector in this country.

6.2 Strategies for Overcoming Structural Barriers

There are a range of methods that might be used to address structural barriers which impede the development of the CFDI sector in Australia, as identified in the previous section. These may usefully be grouped into three areas: regulation, investment and advocacy.

Regulation

The development of a sympathetic regulatory environment could provide an ecosystem in which CDFIs could thrive. Key regulatory reforms which warrant close examination include:

- Establishing a compliance regime which takes account of the characteristics of CFDIs. It is essential that this compliance regime is rigorous to ensure the credibility of CDFIs as legitimate and sound financial institutions. At the same time, this regime needs to be low cost, in tune with the scale of CDFIs, and reflective of their social mission.
- Extending DGR status to CDFIs to enable them to readily attract philanthropic support.
- Establishing tax incentives against income for qualified investments into CDFIs to enable them to more readily attract private investment.
- Providing guarantees to investors in CDFIs to enable them to more readily attract private investment.
- Requiring banks to disclosure patterns of lending in disadvantaged areas to enable CDFIs to more accurately identify their target customer base and direct funding to areas in need of redevelopment.

Direct Investment

While regulatory reform along the lines outlined above would enable CFDIs to more readily attract private investment and philanthropic funding, governments could also provide capital directly to the sector. This could be for the purposes of infrastructure and development costs, as well as the direct provision of low cost capital. This strategy is considered in more detail in the next section.

Advocacy and non-financial support

In addition to regulatory reforms and direct investment, governments could support a range of ‘soft’ support strategies to promote the growth of CFDIs, including:

- providing access to government distribution mechanisms e.g. Centrelink;
- encouraging non-profits to establish/ partner with CDFIs;
- developing pathways to transition NILs clients to LILs to CDFIs to commercial institutions;
- supporting the establishment of an industry association;
- developing and imposing clear performance measurement and evaluation guidelines;
- encouraging cross subsidization of CFDIs by mainstream financial institutions, to enhance access by CFDIs to expertise, infrastructure support and capital (e.g. by promoting matched funding strategies); and

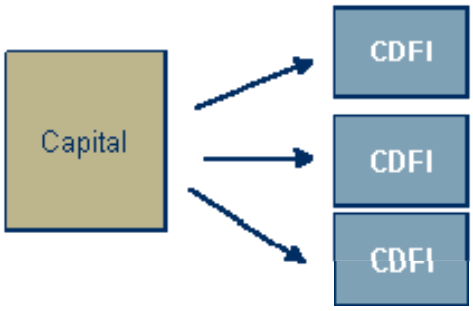
- Encouraging banks to sit on boards of CDFIs, assess risk and open up infrastructure i.e. marketing through branches etc.

6.3 Strategic Options for Direct Government Investment

The Government's engagement with CDFIs should be congruent with the long-term goal of a viable and self-sustaining CFDI sector. This section examines three options for direct government investment into the sector, two of which illustrate how inappropriate strategies could be counter-productive

Option 1: Provide free capital – "pseudo equity" - to develop or expand specific organisations

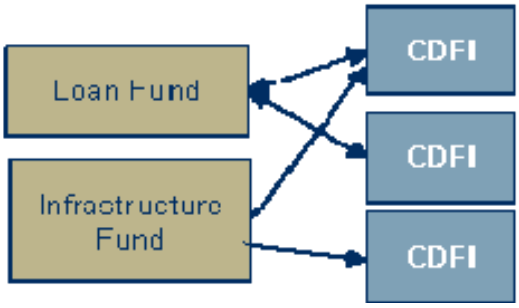
Under this option, Government selects 'winners' from existing CFDIs, and simply provides free capital which they can use to on-lend to customers.



The advantage of this approach is that it is highly visible, can be implemented quickly, and achieves immediate benefits for individuals and communities in which the selected CFDIs operate. However, there are many potential disadvantages. This approach would not encourage long-term sustainability, provides no incentives for securing private investment, does not provide any infrastructure funding (a key need for CDFIs) and could readily be viewed as another form of 'welfare', as government would be the dominant, if not the sole, provider of capital, government would have 'pseudo equity', that is *de facto* though not *de jure* ownership of CDFI.

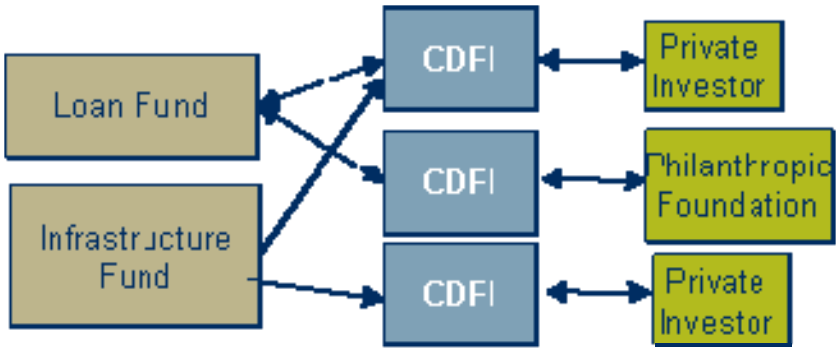
Option 2: Develop a loan and infrastructure fund

Under this option, specific support would be provided for both infrastructure support and access to low-cost loan capital (as distinct from free capital or 'pseudo-equity').



The advantage of this approach is that it would seed the development of the sector, via the Infrastructure Fund. The loan fund could be geared to require that loan terms match social outcomes and that capital is recycled into the sector over time. However, this option establishes a strong reliance on government funding, which may not be sustainable over the course of political cycles. Insofar as CFDIs are not necessarily required to pay interest on capital provided, it would not instil business rigour within CDFIs. While this option is more sophisticated that option one, and more congruent with achieving a scaled CFDI sector, if falls short of achieving a self-sufficient sector over time.

Option 3: Develop a loan fund, and an infrastructure fund, and implement structural reforms to encourage matched funding and private contributions. Establish a Community Finance Advisory Group for sector support



This comprehensive option is most likely to yield a scaled, self-sufficient CDFI sector over time which achieves significant measurable reduction in the number of financially excluded individuals, families and communities.

The Loan Fund would seed and develop the sector through the provision of low cost capital which is matched to social outcomes. Capital would be able to be recycled into the sector over time, as CFDIs move to sustainability.

The Infrastructure Fund would facilitate the scaling of CFDIs to meet needs across the country, while also providing a competitive environment and career paths for staff.

Establishing a regulatory environment, including appropriate compliance regimes, DGR status and tax incentives, would readily attract investment by private investors and philanthropic foundations, enabling government investment to either remain static or taper off over time.

The formation of an industry body would oversee the development of the sector, including the establishing of training regimes and practice expertise, resulting in the development of robust business acumen within the sector.

This option is premised on a long-term commitment to the sector by Government and would require a whole-of-government approach.

6.4 Preferred Government CDFI Development Program

This section draws on the discussion above to frame a preferred program, with associated strategies and activities. If implemented by Government, the program would foster a self-sustaining CDFI sector in Australia.

The program comprises four inter-related strategies:

1. Build the capacity of CDFIs to serve the "underserved".
2. Leverage funding and resources from private and community sector.
3. Ensure a robust approach to measuring performance and reporting of CDFIs (financial and social).
4. Promote economic revitalization and community development.

The activities associated with each of these strategies is detailed below.

Overall, the program should be underpinned by a set of principles and these are enunciated first.

6.5 Principles for a Government CDFI Program

Key principles which should inform the design and implementation of the Program include:

1. Focus on Underserved Sector

Government supports CDFIs which address that segment of the population which is underserved by mainstream financial institutions. CDFIs should not compete with mainstream financial institutions; rather, they are intended to provide pathways for individuals and organisations to overcome financial exclusion and move to the use of mainstream services where possible.

2. Accountable and Outcomes focused

Performance measurement and reporting is inclusive of both financial results and social impact. Specifically, CDFIs are required to use Social Return on Investment (SROI) methodologies to measure and report on performance. In support of strong governance, boards of CDFIs must demonstrate legal and financial expertise and include representatives drawn from the social and private sectors.

3. Sustainable

CDFIs are expected to be financially self-sufficient over time and industry support mechanisms should encourage sustainability of the CDFI market over time, as defined earlier (i.e. sustainability will NOT necessarily exclude ongoing funding support). That said, there is scope for reducing the establishment and operating costs of CFDIs. While CFDIs will be required to comply with prudential requirements, no or low cost compliance models will reduce costs significantly. CDFIs also have some scope for accessing volunteer support, further reducing operating costs. Sharing of infrastructure between CDFIs and between CDFIs and mainstream financial providers may also be explored. Distribution costs can also be defrayed by using existing infrastructure, such as other social organisations, Centrelink or the use of a community member model, such as that pioneered by Grameen Bank.

4. Adaptable and Supportive

Industry support mechanisms should be put in place to provide business and financial expertise to CDFI Management and be flexible as needs evolve.

6.6 Strategies and activities

To deliver upon the objectives outlined we have identified nine specific strategies with associated activities.

1. Building capacity of CDFI to serve eligible target markets

Strategy	Activity
Develop a loan fund to invest in CDFIs	Provide capital to CDFIs that includes the following investment types: 1. **No obligation loans** – no interest and no defined term rotating loans for CDFIs to on-lend and recycle back into their own capital pool. 2. **Soft loans** – low interest rate unsecured/ secured loans (i.e. below market rate). Interest rate setting should take into account both financial and social returns as well as risks of organisation. 3. **Patient capital** – long-term unsecured loans. Time frame before capital is repaid will be set based on financial and social returns and ongoing measurement reporting. **Matching Investment Type** - the fund will match investment type to CDFI based on their life stage, risk profile, target market, product and service match and capabilities. *(see Appendix for assessing CDFIs)* **Performance Measurement** - Renewal of loans to be tied to key performance metrics and dependent on loan type. For example, this may include: – loan book default rate (i.e. for no-obligation loans they should be reviewed every 3 years and as long as 90% capital retained capital remains with CDFI); – matched funding; and – social impact.
Develop Infrastructure fund to support CDFIs	Establish Infrastructure Fund – provide grant funding for: 1. Financial and technical assistance. 2. Product development. 3. Operational support. 4. Research.

2. To leverage funding and resources from private and community sector

Strategy	Activity
Develop tax incentive	Expand tax incentives to CDFIs to encourage investment by private investors and philanthropic organisations to; – build other sources of capital; and – access more philanthropic funding. (NOTE: USA provides 39% tax credit over 7 years to equity investments made in CDFIs. Investor benefit from returns (lower than market) and tax credit against income)
Develop relationship with Responsible Investments Australia to attract new sources of capital	Develop a relationship with Responsible Investments Australia (RIA) to certify CDFIs as investment opportunities for investors that are interested in opportunities that take into account environmental, social and ethical as well as financial returns.
Capital guarantees	Provide guarantees on investments made in CDFIs. – Deposits. – Other capital sources. (NOTE: The current Government deposit guarantee is in place until 12 October 2011 for bank deposits held in Australian-owned banks, Australian subsidiaries of foreign-owned banks, building societies and credit unions. This could be extended to CDFIs)

3. To develop a robust, accountable and professional sector

Strategy	Activity
Develop compliance efficiencies	Create an efficient compliance framework for the CDFI sector within ASIC new credit legislation. In order to minimise costs but ensure compliance for CDFIs under existing regulation promote use of: – white label compliance (e.g. compliance overseen by 3rd party); – umbrella compliance (e.g. 4-5 CDFIs under same compliance); and – compliance training and support for CDFIs (e.g. understanding of appropriate legal structures and potential exemptions).
Develop an evaluation framework to measure the performance of CDFIs that access funding	Create straightforward mechanisms for individual CDFIs to measure and report their impact – financial/ social. Use Social Return on Investment (SROI) or similar tool to measure social and financial returns from individual CDFIs funded year on year.
Establish CDFI working group	The main roles of a trade association would be: – strengthening and expanding a national industry of performance-driven CDFIs; – capacity building, through training, consulting, promotion of best-practice and benchmarking; – provision of information such as model CDFI business plans, lending guidelines and CDFI news; and

	– representing the sector to Governments and others.

4. To promote economic revitalization and community development amongst high needs groups in deprived areas

Strategy	Activity
Invest in systematic market research	Assess and fund research projects around market need as well as innovative financial solutions to meet the need.

The following figure provides a diagrammatic overview that encompasses this approach.

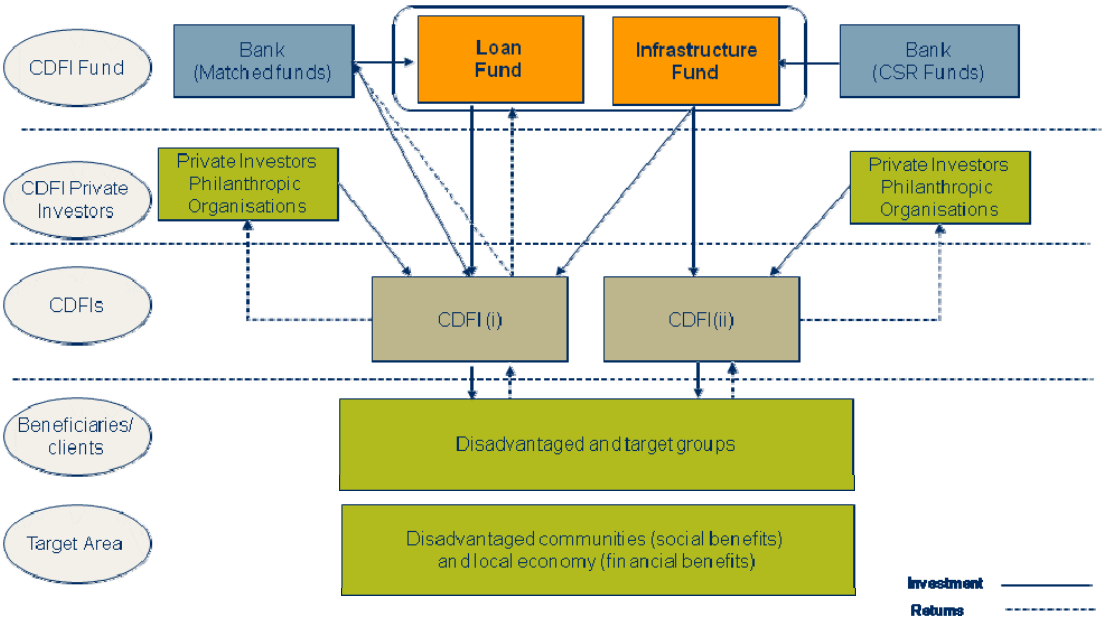


Figure 9.0 Fund Framework

In summary, it is this study's finding that a comprehensive approach to the development of a CDFI sector within Australia should be preferred over 'low hanging' fruit approaches, such as those outlined in options one and two. While these options may be easier and quicker to implement, there is a risk that they may impede the development of a scaled, self-sustaining, highly impactful industry which achieves measurable improvement in financial inclusion.

Chapter 7: The Pilot Programme

This section highlights the objectives for a pilot, how it could be implemented and evaluated.

7.1 Overview

A comprehensive approach by Government, as outlined in the previous chapter, is a significant undertaking which will require lengthy lead-up times and close consideration by a range of stakeholders.

In parallel with that work, and in support of it, it is proposed that a pilot program is initiated, to build momentum, providing a demonstration of the concept in Australia, and further develop local expertise, as a precursor to the implementation of a full-fledged strategy.

It is envisaged that the Pilot program be designed as a full-fledged strategy operating 'in miniature' – consistent with the resource allocation priority of adequacy, discussed above - so that it demonstrates both the efficacy of CDFIs and the viability of government strategies for growing a CDFI industry within Australia over time.

Specifically, a pilot programme could be implemented in the short term in order to:

- build an evidence base for the need for, and demonstrate the ability of CDFIs, to deliver financial and social outcomes in specific "underserved" sectors, and to understand where the needs of the "underserved" segment are being met today;
- encourage investment from private and community sector, consistent with a multi-stakeholder, sustainable industry over time;
- provide momentum for establishing a regulatory environment which would support the sector, such as DGR status and tax incentives;
- develop expertise in financial reporting and social impact measurement, including in relation to existing CDFIs; and
- demonstrate the efficacy of full-fledged government support for the development of a CDFI industry within Australia.

In general terms, the parameters proposed for the pilot are:

- limited government funding of $7 million; and
- constrained time frame of 2 years.

7.2 Pilot Proposal

In developing an outline for a pilot programme the objectives as well as challenges highlighted above have influenced the approach recommended as follows.

Pilot Structure

- A Loan Fund should be established outside of Government, on appropriate bona fides, funded by:
    - an allocation of $5 million of government funding;
    - $7 million of match funding from banks and philanthropic sources.

- An Infrastructure Fund, operated under the same auspice as the Loan Fund, funded by a government allocation of $1.5 million.
- Establishment of a CDFI working group, with funding of $0.5m to meet operating costs.

Target Group

- The pilot should be directed to people experiencing financial exclusion in relation to specified gaps:
    - Personal micro credit;
    - Non-profit loans;
    - Home loans; and
    - Insurance.

Participating Agencies

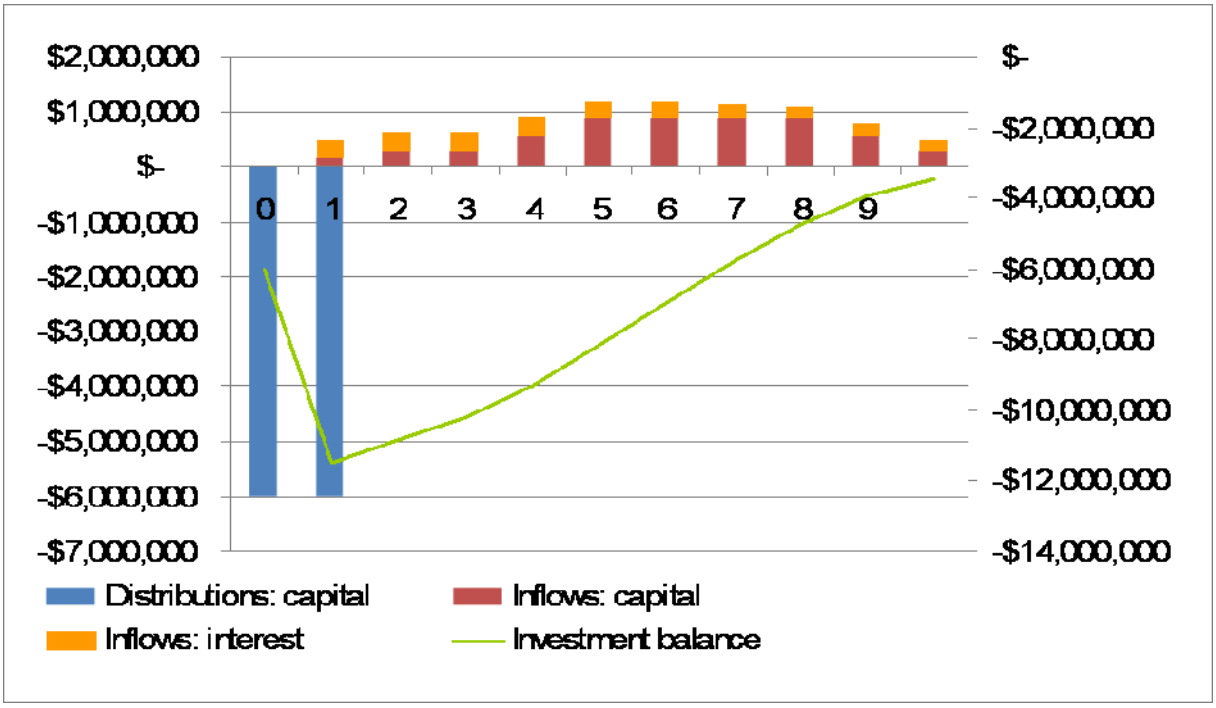
- Fund up to four CDFI or bank/non-profit partnership; credit unions; Community Development Venture Capital Funds which have new products ready for market; can scale existing products to meet experienced demand; or are servicing high needs as specified, or those that can demonstrate effectively their ability to implement a CDFI approach (i.e. in partnership) in a relatively short period of time
- Entities should be required to meet all of the following requirements in order to be eligible for funding:
    - be an existing legal entity;
    - have social purposes as their primary mission;
    - be a existing Financing Entity, or linked to a Financing Entity;
    - comply with regulations based on product or service being offered i.e. to provide investment vehicles they must have a Financial Services License;
    - primarily serve an high needs Target Market;
    - provide development services in conjunction with its financing activities;
    - maintain accountability to its defined Target Market; and
    - be a Non-Governmental entity, and not be controlled by any governmental entities.

7.3 Assessing the economics of the Pilot

The following chart gives a high level illustrative overview of the economic case for the pilot outlined above.

The model presented matches government capital with contributions from banks and distributes it via either a no obligation loan, low interest loan or patient loan to four CDFIs based on their life stage, financial services product and focus. All capital is distributed by year 2 with funding recycled back into the fund in the form of interest on loans and capital repayments. This funding could be used to redistribute to other CDFIs.

As detailed in the table below, this also assumes $1.5 million in infrastructure funding in the first two years ie. $375,000 per CDFI, and provides modest funding of $0.5m to establish a working group.



Assumptions

Total loan fund	$12 million (Public funding $5m + Private funding $7m)
Total infrastructure fund	$1.5 million (Public funding)
Initial Distribution period	2 years
Expenses for first 2 years	$0.5million (Public funding)
Investment types	30% no obligation loans; 35% soft loans (5% interest rate; 10% principle return; 10 year term; 5% default); 35% patient capital; 3 year repayment holiday; 7% interest and 20% principle)
Investment allocations	70% existing growth stage CDFIs; 30% mature CDFIs

7.3 Evaluation

While the short time frame for the pilot may not provide conclusive evidence in regard to CDFIs, it should provide a view on direction and provide an opportunity for government to test approaches.

The following table gives a starting point for how the pilot could be evaluated:

Impact of Government Investment	• # of people served; value of products • breadth of products offered • product take up • # people accessing CDFI rather than welfare • # people access CDFI rather than pay day lending • # people accessing CDFI rather than credit cards
Financial Sustainability	• Financial performance of supported CDFIs • New capital funding to support CDFIs • New Philanthropic support
Operational Sustainability	• Reporting (costs and social benefit) • Ability to meet compliance obligations • Contribution to policy through research/ experience
Impact on clients/ community **(Note: this will be dependent on CDFI purpose; target market and product service type)**	• Increase in money management skills • Increase jobs created • Increase in business skills • Increase in savings behaviours • Increase in affordable houses • Decrease in debt • Other positive outcomes

7.4 Risks

The following table highlights some of the risks inherent in running and evaluating the pilot as well as providing advice on how to mitigate these risks.

Risk	**Mitigation Strategy**
Labour intensive activities of CDFIs mean that economies of scale can be achieved from larger deal flow. Risk is that reorganisation designed to deliver economies of scale could dilute community development focus of sector	Infrastructure fund is critical to support CDFIs to serve higher needs groups that may not be as financially attractive to serve. Expansion should only take place where networks and personnel are in place to enable needs of clients for services required to be clearly understood and met.
Potential government support introduces risk of distorting competition	This can be mitigated by having only a social mission organisation involved who are addressing 'underserved' segment. This can also be mitigated by involving banks (i.e. on advisory groups; CDFIs partnering with banks as channel to market).

Potential that CDFIs are unable to meet capital repayments	Provide comprehensive support to assist CDFIs to manage their repayments and run effectively and efficiently.
No policy support for tax incentives or more efficient compliance	In the long term this represents a high risk to developing a CDFI sector. Without alternative funding sources government will be the main source of capital in the longer term.
Total level of resources are uncertain. We cannot be 100% clear on the extent of the need and continuing cost of addressing need and where ongoing support will be required. Some investments will generate commercially comparable results, others will secure a 'blended' social and financial return, others may not generate any financial return	Firstly there should be robust criteria for distributing funding and also broader definition of sustainability i.e. NOT simply hard nosed financial sustainability.

7.5 Timing

Subject to Government will and budgetary allocations, the pilot could commence almost immediately, beginning in April 2010. Outlined below is a potential timeline of activities.

Action	Timing
Briefing to Minister	December 2009
Refine: – Exact criteria for access to loan fund; – Exact criteria for access to infrastructure, and supported activities; and – Expected returns from loan fund under different scenarios (i.e. mix of financial and social mission).	January – March 2010
Seek preliminary expressions of interest from qualified organisations	February 2010
Tender	April 2010
Tender awarded	May 2010
Funds allocated	June 2010
Roundtable convened with CDFI sector to discuss: – role of Working Group;	March 2010

– use of sector development funds; – approach to researching need; and – approach to monitoring performance of pilot, and performance reporting more broadly.	
Plan developed for working group	March – May 2010
Working Group convened	June 2010
End of pilot	June 2012

Chapter Eight: Conclusion

Evidence from other jurisdictions as well as in Australia demonstrates that CDFIs can address the needs of individuals and organisations underserved by commercial financial institutions. Australia is well placed to draw on lessons learned elsewhere and from the experience of existing CDFI-like organisations within Australia in developing its own CDFI industry.

Government involvement in promoting the development of this industry should be carefully designed to ensure that it focuses on key needs in the underserved market segment, and is sustainable in the longer term. To this end, a pilot program conducted in selected geographic locations, designed as a miniature demonstration of a full-fledged strategy is advanced as warranting close consideration for immediate implementation.

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Appendices

1.0 Australian CDFI Landscape Directory

2.0 Needs Assessment

1.0 Australian CDFI Landscape Directory

Members and Education Credit Union (MECU)

Organisation	MECU (Members and Education Credit Union) Limited
Contact	Phillip E Doughty (Chief Executive Officer) www.mecu.com.au
Mission	MECU is a member-owned financial cooperative (a mutual company limited by shares) that commits to enhancing its members' financial well-being in a socially responsible way. MECU provides its members with banking, insurance and wealth management services.
Organisational History	MECU was formed in 2003 as a result of a merger between Members Australia Credit Union and Education Credit Union. Upon merging, the credit union became Members and Education Credit Union Limited, or MECU for short. Since this time more than 27 credit unions have joined MECU and over the last year it has merged with two other credit unions. RegionalOne Credit Union (ROCU), the largest member owned credit union in Victoria as well as Maroondah Credit Union (MCU). Additionally, MECU was the first Australian credit union to receive an investment grade rating from Standard and Poor's.
Location – Geographical Coverage	MECU has a presence in regional and outer urban areas in the following states: Australian Capital Territory; New South Wales; Queensland, South Australia and Victoria
Stakeholders/ Partners	MECU serves over 140,000 members throughout Australia. It operates over 33 Service serviced by approximately 330 staff. MECU targets regional and outer urban communities, providing a sustainable and socially responsible approach to banking. While it does not explicitly target the low income or disadvantaged population it does offer products and services with lower fees and in some cases lower interest rates on credit i.e. a low rate visa card.
Objectives	MECU's purpose is to provide its members and their families with value for money, compelling integrated banking, insurance and financial planning solutions, as well as memorable superior service in a profitable and sustainable way. MECU aims to become the pre-eminent socially responsible banking brand in Australia.
Product/ Services (Demand; usage; gaps)	MECU offers its members: - General access/savings/investment accounts - A whole range of loans (car, home, personal, commercial, investment, and equity loans) - Credit and debit cards (including those at lower interest rates to mainstream banks.) Through its Community Sector Banking division MECU offers community sector organisations i.e. non profits etc, the following products: - Fixed term deposits at guaranteed rates for the life of the investment - Community Access Accounts - Merchant facilities
Financing	MECU owns assets exceeding $2.3billion with $240million in capital. In 2008 MECU was one of the few Australian financial institutions to report an increase in profit. MECU's post-tax profit rose by 4.4% to $18.3 million taking member reserves to $209m up 15.8%. Assets grew 21.9% to $1.8 billion; its loan portfolio grew 26.7% to $1.4b and member deposits grew 24% to $1.6b.
Competitive Advantage	- Social and environmental responsible banking - Focus on regional and outer urban areas - Low interest credit cards - Contribute to local community through sponsorships etc

Traditional Credit Union (TCU)

Organisation	Traditional Credit Union (TCU)
Contact	Cathy Hunt (General Manager) Website: www.tcu.com.au
Mission	To provide personalised quality financial services for Indigenous people and organisations in remote communities while respecting and valuing the cultural heritage of Indigenous Australians.
Organisational History	The Traditional Credit Union (TCU) was originally developed by a group of Aboriginal Elders to provide financial services to residents of Arnhemland communities who had no access to banking and other financial services. TCU received grant funding from the then Government Department ATSIC and the Arnhemland Progress Association and was incorporated as a credit union on December 1994. Its first remote branch opened in Milingimbi in 1995 and today has a network of twelve branches and one agency throughout the top end of the Northern Territory.
Location – Coverage	TCU operates 12 branches and one agency in rural indigenous communities in the top end of the Northern Territory including; Angurugu, Minyerri, Galiwinku, Ngukurr, Gapuwiyak, Numbulwar, Gunbalanya, Ramingining, Maningrida, Wadeye, Milingimbi and Warruwi.
Stakeholders/ Partners	TCU has over 15,000 members, the majority of which are indigenous people or communities. Partners: NAB and TCU have formed a partnership to help expand access to Financial Services for remote Indigenous people. NAB is providing TCU with up to $1 million in interest free loan capita to fund the opening of branches in remote locations in the Northern Territory, providing access to financial services for more than 3,250 Indigenous customers in the next five years.
Objectives	- To increase participation of Indigenous people in all sectors of money matters - To increase employment opportunities for indigenous people - To reduce impediments to Indigenous employment - To increase the benefits of Indigenous involvement in the financial services industry - To build a long term sustainable financial services industry in the indigenous community - To develop partnerships with Indigenous and non Indigenous corporations and individuals to assist the understanding of common goals.
Product/ Services (Demand; usage; gaps)	- Personal banking products - Business banking products (including business and commercial loans) - Community Sponsorship - Financial Counseling to members – they have a Financial Counsellor who travels regularly to communities providing free counseling and advice on TCU products and services - Financial Literacy – working in partnership with ANZ's financial literacy and Indigenous capacity building programs - Training programs for staff – offering Certificate II and III in Financial Services Program
Financing	In FY2008 TCU reported total revenues of $4.7million and operating profit of $52.3K. TCU also paid a dividend to all its members in the form of a Financial Literacy training program (valued at $80K).
Competitive	- Local presence

Advantage	- Networks and reputation within the communities in which it operates. - TCU employs 66 staff (21 full time, 29 part time + casuals/contractors). Of these staff, 80% are Indigenous and TCU maintains a 98.5% local Indigenous employment rate at its remote branches.

Fitzroy and Carlton Community Credit Co-operative (FCCC)

Organisation	Fitzroy and Carlton Community Credit Co-operative Ltd (FCCC)
Contact	Greg Fisher (TBC) Website: www.fccc.com.au
Mission	FCCC has a commitment to assist lower income members of the community better manage their finances.
Organisational History	FCCC grew out of the Action Resource Centre Project under the auspice of the Brotherhood of St Laurence in 1977. The aim was to provide a savings and loan facility relevant to the needs of people on low incomes. The organisation has now grown into an independent community-managed credit union based in Fitzroy providing appropriate and supportive financial services to people on low income.
Location – Coverage	FCCC is based in Melbourne, Victoria and serves low income families and individuals who work and live in the cities of Yarra, Darebin, Moreland and Melbourne and the suburb of Heidelberg West.
Stakeholders/ Partners	Members (no. unknown) Partners: CUNA – offers insurance products.
Objectives	- To provide a range of affordable & relevant financial services to its members & served communities recognizing ongoing commitment to social justice. - To provide members with the opportunity to better understand their financial circumstances through community education.
Product/ Services (Demand; usage; gaps)	- Regular Banking / Internet Banking - Business services (bookkeeping / payroll) - Personal loans - Housing loans - Insurance (in partnership with CUNA)
Financing	No Annual report or financial information available
Competitive Advantage	- Services a specific geographical area with high needs – located at the base of commission housing in Melbourne's inner city. - Respected as an independent member driven organization by its members.

Social Business Australia (SBA)

Organisation	Social Business Australia
Contact	Trent Bartlett (Founding Chair) & Ian Greig www.socialbusiness.org.au
Mission	Develop and grow social businesses in the competitive environment of the real economy in Australia.
Organisational History	Recently formed
Location – Coverage	Based in Sydney
Stakeholders & Partners	Stakeholders: - Social enterprises - Not for profit organisations - For profit organisations - Philanthropic foundations - Social Investors

	Partners: SBA has strong links with the national and international social business movements, including: - Capricorn Society Ltd - Australian Employee Ownership Association (AEOA), who has recently set up an employee buyout centre, which has been funded by the Federal Government to support and advise on employee buyout strategies for saving jobs in distressed businesses. - Mercury Centre Co-Operative; and - Community Cooperative Connections and Co-Operative Alliance
Objectives	- To ensure that social businesses have all they need to scale up and trade successfully - To increase the number of social business operating in the Australian economy - To educate the wider public about a different, more ethical way of doing business
Product/ Services (Demand; usage; gaps)	While SBA is still establishing itself it intends to offer the following services; - Training – SBA will support training, particularly in the technical areas that are critical to the commercial success of social business - Marketing – SBA will advise and consult on media campaigns, branding opportunities, and publicity strategies aimed at expanding the market for social business - Educating – SBA will help grow the market for capital investment in businesses that have a social purpose at their core. It will be working to ensure that finance providers, such as credit unions, mutuals, CDFIs and industry super funds, fully comprehend the competitiveness and efficiency of social forms of business Additionally, SBA is interested in establishing a social business fund that would provide loan capital to social businesses on softer terms.
Financing	No Annual report or financial information available
Competitive Advantage	Few other organisations focused on social enterprise activity

FORESTERS

Organisation	Foresters Community Finance Ltd.
Contact	Belinda Drew (CEO) & Peter Ball (Fund manager) www.foresters.org.au
Mission	Foresters' mission is to assist community organisations to build financial and social sustainability thereby making a contribution to the strength of civil society. Foresters focus largely on channeling capital into underserved markets that typically have difficulty securing finance from mainstream financial markets. This finance or investment strategy has to date been utilised to assist with the acquisition of strategic assets that are aligned with the mission of those nonprofit organisations.
Organisational History	Foresters Community Finance, formerly Foresters ANA Mutual Society, has over fifteen years of experience in the fields of community finance and social investment.
Location – Coverage	Currently operating in South east Queensland with a view to expand operations to other states in the coming years.
Stakeholders/ Partners	- Third and Fourth sector organisations - Social Investors - Employees
Objectives	Aims to: **Develop innovative social investment products**

	by offering investment products that provide sound, transparent investment choices for a growing community of Australians who seek a positive financial return on their investments while maximizing social impacts. Forester's social investment products contribute to the development of community owned assets, increase affordable housing stock, and capitalise social businesses. **Provide the Third and Fourth Sectors with access to a different kind of capital -** Wealth and assets owned through community organisations can be leveraged to bring benefits for everyone in a community. **Build participation and collaboration in creating a better Australia - c**atalyse new projects and collaborations, bringing people, organisations and ideas together to create new opportunities by exploring the possibilities of using new and old approaches to responding to social needs. **Building knowledge and awareness of the role of money in society –** uses its experiences to extend and communicate the body of knowledge and methodologies for using money and financial systems to achieve greater social good in Australia.
Product/ Services (Demand; usage; gaps)	Foresters operate a Community Investment Fund that aims to attract investors that want a social and financial return. The fund provides commercial rate loans to community organizations with Deductible Gift Recipient (DGR) status as well as purchases and maintains direct property assets which are leased to community organizations. Terms for Investors: Minimum Investment: $1000 if lump sum or regular investments of $25/week or $50/fortnight or $100/month. Interest Rate: 5-6% annually Funds available at call A management fee of 2.4% pa is deducted for the Fund's total assets and paid to Foresters. Terms for investees: All mortgage loans are approved in line with credit risk policy. Interest rates are generally set at 4.25% above the Reserve Bank Cash Rate vary with this rate. Given Foresters objective of providing a financial return to their investors they apply a strict social investment screen to all of their investments that is assessed by their employees and board initially and then on an ongoing annual basis. Examples of investments are those that can be secure e.g. community housing providers with National Accreditation or , disability service providers that comply with state standards. **Social Innovation Education Program** Foresters is providing an educational framework for innovative practice across a range of fields including community finance, social business and community economic development. Delivering core skills related to building the capacity of the Third and Fourth Sectors to move beyond a reliance on traditional forms of funding. Programs offered include: - Building Financial Sustainability - Understanding Financial Statements - Community Asset Building - Governance for Innovation - Community Economic Development - Getting off the Funding Treadmill. - Research **Future**

	Foresters are looking to embark upon a capital raising strategy to support infrastructure costs, further develop their social investment work. Foresters has formed a subsidiary company called Social Investment Australia, which was recently awarded with an Australian Financial Services Licence that will enable them to offer a range of new products to the mainstream financial services sector in 2009. Furthermore, Foresters are looking to develop a business plan for 'Fair Finance Australia' to provide safe and affordable credit to people as a genuine alternative to high cost, exploitative credit.
Financing	Foresters has loaned over $8million to more than 35 community organizations over the last 15 years. Its current portfolio is approximately $5million. Cash within the portfolio is invested in Maleny Credit Union, MECU &CBA.

COMMUNITY SECTOR BANKING

Organisation	Community Sector Banking (CSB)
Contact	Rob Hunt www.cs**banking**.com.au
Mission	CSB's mission is to enhance the capacity and capability of the community sector to deliver positive Social Impact through the creation and aggregation of capital. This is achieved by providing both banking and non-banking services and through the application of capital to projects and products that deliver positive social impacts.
Organisational History	CSB was established in 2002 as a 50/50 joint venture between Bendigo Bank and a consortium of twenty not-for-profit organizations. Community 21 (C21) is the name of the commercial entity established by the consortium which provided the initial capital for the establishment.
Location – Coverage	CSB is located in 236 towns across Australia with head offices in Corrimal, New South Wales.
Stakeholders/ Partners	- Shareholders (20 non profit organisations) - Bendigo Bank - Customers – community organisations - Staff - Communities
Objectives	CSB's objectives are to develop and deliver initiatives that generate positive Social Impact and contribute to the social development of Australia.
Product/ Services (Demand; usage; gaps)	CSB provides day to day banking services such as ATM access, phone, internet, deposit, loan and withdrawal services with the assistance of Bendigo and Adelaide Bank branches targeting community organisations. Bendigo and Adelaide Bank's community based approach to banking remains an important source of direct and indirect support for CSB's banking services for community sector organisations and their staff. Most importantly, in addition to providing a tailored banking service, CSB reinvests banking profits into the community sector and facilitates the development of broader and more effective community, government and business partnerships in order to support the broader objectives of its stakeholders. Specific products and services include; - Cash Management Trading Accounts - Salary Benefit Card - Gift Fund Account - Capacity Builder Account - Lending Financial Services

	- Insurance Services - Fleet services – centralized resource that provides a full suite of motor vehicle fleet management services for not for profit organizations. Additionally, CSB provides whole suite of Bendigo Bank's products.
Financing	CSB financials are aggregated into the Bendigo and Adelaide Banks financial statements and are not segmented.
Competitive Advantage	CSB operates under Bendigo's Bank's Licence – it offers the support of the Bendigo's financial expertise, extensive infrastructures, systems and security

MALENY CREDIT UNION

Organisation	Maleny and District Community Credit Union ("Maleny" or MCU)
Contact	Greg Stevens (CEO) www.malenycu.com.au
Mission	Maleny aspires to lead by example to advance social change for community benefit.
Organisational History	Since 1984, Maleny Credit Union has fostered sustainable community development in the Hinterland region.
Location – Coverage	Hinterland region - wider communities on the Queensland Sunshine Coast
Stakeholders & Partners	Stakeholders: Investors, Community members (5100), Micro finance groups , Staff Partners: MCU is a financial partner for the Australian Government's Interest Free Green Loans Program, will assist a number of Australian families to install approved water and energy efficient products such as renewable energy systems, wall insulation, glazing, efficient hot water systems and water tanks. The loans will be provided by financial partners, of which Maleny Credit Union (MCU) was one of the first.
Objectives	Maleny aims to; 1. Deliver value through innovative, ethical products and excellent services 2. Retain money and jobs in our community and building community capital 3. Positive influencing the financial services sector; 4. Empower our community and individuals by making decisions locally 5. Being a leader in environmental and social responsibility; 6. Conduct our business with integrity 7. Promote financial inclusion; and 8. Treat all members equally and with respect and dignity
Product/ Services (Demand; usage; gaps)	MCU offers a range of products and services including; Loans, Term deposits, Savings and access products, Insurance as well as other support services such as financial planning service, free car search service and non-cash payment facilities
Financing	As of FY2009, MCU revenues were $3.6 million and net profit of $313K. MCU has total assets of more than $55 million.
Competitive Advantage	Geographic focus

SOCIAL TRADERS

Organisation	Social Traders
Contact	David Brookes (Chief Executive Officer) www.socialtraders.com.au
Mission	Fund research and raise awareness of the potential of social enterprise to deliver innovative and important social outcomes for the community. Specifically they support the development of viable social enterprises by

	improving access to finance, skills and markets.
Organisational History	Social Traders is an independent social enterprise development company established in 2009.
Location – Coverage	Melbourne based with the objective of providing services on a National scale. The organisation intends to deliver services through an online portal as well as through non profit; educational and government partners.
Stakeholders/ Partners	Social Traders is the result of a collaboration between the Victorian Government as part of the State Government's whole-of-government policy action plan to reduce disadvantage, and a private Philanthropic Foundation - each contributing matched funding.
Objectives	Goal 1: Demonstrate the benefits of social enterprise Goal 2: Open up markets to social enterprise Goal 3: Increase finance available to develop social enterprise Goal 4: Increase the trading capacity of social enterprises Goal 5: Establish a coordinated approach to social enterprise development in Australia
Product/ Services (Demand; usage; gaps)	Social Traders are still developing their offering to Social Enterprises. It is expected that they will develop a grant based fund for start up and growth stage social enterprises. The fund would be a competitive grant based scheme. Neither the size of this fund nor the operating model is yet established.
Financing	Social Traders were awarded $8million in matched funding from Victorian Government and private Philanthropic Foundation over a period of four years.

Fair Business

Organisation	Fair Business
Contact	Alex Shead CEO www.fairbusiness.com.au
Mission	Fair Business provides jobs for long term unemployed people by acquiring (or creating) and actively managing businesses with growth potential. Ultimately the organisations aims to hand over the businesses to its employees. Within 5 years they hope to be able to facilitate employee buy-outs, enabling people to develop their business and management skills in a sustainable business and giving them a real stake in their own futures.
Organisational History	Fair Business was formally established in October 2008 as a non-profit organisation to provide opportunities for long-term unemployed people to secure and maintain employment. By using their commercial expertise, Fair Business buys and grows existing businesses, or starts new ones, with the aim of creating new jobs for its target group. Fair Business creates opportunities for people who struggle to find jobs elsewhere by proactively recruiting people who have been out of work for more than two years, or who have never worked and face barriers to employment.
Location – Coverage	Fair Business is head quartered out of Sydney and operates social business in NSW Gardcheck Property Services, a cleaning and property services business and The Social Roasting Company, a coffee been roasting and coffee retail business, based in Melbourne.
Stakeholders / Partners	Stakeholders: investors, Long term unemployed & staff Partners: Fair Business work along side other non profit organisations to offer support to their employees.
Objectives	Fair Business aims to; - Increase employment rate among long term unemployed and disadvantaged people - Decrease government expenditures on unemployment benefits
Product/	Support People who are long term unemployed (two years +) and / or those

Services (Demand; usage; gaps)	who experience significant barriers to employment including people with disabilities, mental health problems, lack of skills and qualifications, or a lack of work history. Fair Business develops integrated, supportive workplaces where the previously long-term unemployed work side-by-side with other staff while receiving workplace integration support.
Financing	Fair Business has been financed to date through a combination of the following: • Significant patient capital investment from the founder for business acquisitions (soft loan repayable over extended time period on sub-commercial terms); • small one-off donations to support business development; and • small grant to develop employment support strategy. Fair Business has a number of immediate investment needs: • Debt finance of around $100K for each current business, which will release the patient capital currently invested for use in future enterprise development. • Start-up investment of around $250K for two new enterprises to cover cash flow in first year's trading, with potential for repayment once enterprises are established. • Infrastructure investment of around $250K per annum for three years, to support Fair Business core operations (management, business development, employment support) in period before critical mass is achieved. Over the past 3 to 6 months, Fair Business has been pursuing a range of options to meet its investment needs, including: discussions with mainstream financial institutions; relationship building with current and potential philanthropic supporters; discussions with SVA about strategic investment; and submission of an application to the Jobs Fund. Accessing funds in this way has been time consuming and resource intensive and has involved adapting the business plan and supporting information for different audiences.

Good Shepherd

Organisation	**Good Shepherd Youth and Family Services**
Contact	**Michelle Sainsbery** ***National Microfinance Manager*** www.goodshepvic.org.au
Mission	Good Shepherds mission is to promote a world of justice and peaceful co- is the right of every human being.
Organisational History	Good Shepherd Youth and Family Service is a community services agency which has been helping people in Melbourne battle poverty and need for more than 140 years. Good Shepherd is also well known for pioneering no interest loans for disadvantaged families and youth and were the first organisation to offer the No Interest Loan Scheme (NILS) since 1981. Good Shepherd Youth and Family Service started its first No Interest Loans Scheme in Victoria, with the funding, foresight, vision and generosity of Good Shepherd Sisters.
Location - Coverage	Good Shepherd Youth and Family Services has centres which are based in local communities through out Victoria, including; Hastings, Mornington, Rosebud, Frankston, Dandenong, Moorabbin, St Albans The organisation also operates various programs through partner networks nationally.
Stakeholders /	NAB , Department of Planning and Community Development, Ian Potter

Parters	Foundation
Objectives	The objectives of the Good Shepherd are to; • Provide quality services to its target group • Influence policy through research and through advocating on behalf of those with whom we work; • Inform the community of the various social issues affecting them; • Listen to the community's needs and respond appropriately; • Participate in the lives of local communities; • Work cooperatively with other organisations and groups in the development and coordination of effective services and strategies to bring about positive social change; and • Ensure our services are culturally relevant, recognising and respecting different lifestyles, attitudes, religions and values within the community Good Shepherd's services are all provided free and are available from centres in Collingwood, St Albans, St Kilda and Peninsula
Product/ Services (Demand; usage; gaps)	Good Shepherd operate a number of financial service schemes and services to individuals and families in need including: - No Interest Loans NILS – No Interest Loans - Financial Counseling - Step Up - Adds Up
Financing	The Good Shepherd has been supported by government, non profit, philanthropic and the banking sector. It currently services 4000 clients nationally and has recently been awarded additional funding from FaHCSIA to expand the NILS network to another 50 networks.

BENEVOLENT SOCIETY

Organisation	**Benevolent Society**
Contact	Keith Bryant
Mission	Our purpose is to create caring and inclusive communities and a just society.
Organisational History	The Benevolent Society is Australia's first charity, established in 1813. For almost 200 years they have been leaders in identifying the evolving needs of the community and pioneering vital social reforms and services.
Location – Coverage	The Benevolent Society works with individuals and communities in metropolitan, regional and rural New South Wales and in South East Queensland.
Stakeholders/ Partners	Stakeholders include: - 800 staff members - 900 volunteers - Disadvantaged individuals and families - Government
Objectives	The strategic objectives are to: - deliver leading edge programs and services; - invest in research and evaluation to increase our knowledge about social issues and to find better solutions for our clients and the communities they live in; - use their expertise as a platform for influencing policy change.
Financial Product/ Services (Demand;	The organisation supports more than 16000 individuals and families yearly. The Benevolent Society is one of ANZ's partners in the Financial Inclusion and Financial Literacy Program with The Brotherhood of St Laurence, Berry St and The Smith Family. Their programs focus on improving the financial skills,

usage; gaps)	knowledge and confidence of individuals and families who are vulnerable to financial exclusion and included Saver Plus, Money Minded
Financing	The Society's revenue has increased by $37 million (213%) over the last 10 years. Figures for FY2008 are: - $55 million - Approximately 91% of revenue is spent directly on service delivery and a further 4% is spent on leadership, social initiatives and research. - 71% of income comes from Government. Fundraising, trust and foundation grants provide 5% of our income. Client fees generate 14% of our income and our investment portfolio has contributed a further 10%.

First Nations Australian Credit Union

Organisation	First Nations Australian Credit Union
Contact	Paul Briggs, Chair
Mission	assist members to take better control of their finances and economic futures
Organisational History	First Nations Australian Credit Union was established in 1999 with support from Australian National Credit Union both technically and financially together with seed funding from ATSIC.
Location – Coverage	Operates in all states and First Nations is making its services and products as accessible as possible to Indigenous Australians as well as addressing issues such as literacy, the location of many Indigenous communities in remote and rural areas, as well as the different cultures that exist amongst different Clan groups
Stakeholders/ Partners	2,900 members living in areas including Broome, Torres Straits, Port Augustus, Alice Springs, Fitzroy Crossing, Lockhart River, Cairns, Perth and Victoria
Objectives	to create a Credit Union with national access that is owned and operated by indigenous people
Product/ Services (Demand; usage; gaps)	offers a full range of financial products and services including savings and transaction accounts, ATM cards, cheques, loans personal and mortgage, budget accounts, insurance and financial planning. Specific products include a unique loans policy, Clan Account, Budget Account and My Moola Indigenous guide to budgeting with brochures in all Giropost Post Offices.
Financing	total assets of $13.9 million, $13.6 million in deposits and $5.8 million in loans and overdrafts

Indigenous Business Australia (IBA)

Organisation	IBA
Contact	Kaeley Woods, Deputy General Manager Indigenous Business Australia
Mission	IBA strive for a nation in which the First Australians are economically independent and an integral part of the economy.
Organisational History	Indigenous Business Australia (IBA) is a progressive, commercially focused organisation that promotes and encourages self-management, self-sufficiency and economic independence for Aboriginal and Torres Strait Islander peoples. IBA has been one of the longest lasting and arguably the most successful of Indigenous-specific commercial organisations. Originally known as the Aboriginal and Torres Strait Islander Commercial Development Corporation (CDC), it was established in March 1990 following the proclamation of the *Aboriginal and Torres Strait Islander Commission (ATSIC) Act 1989*.

Location – Coverage	IBA has national coverage and operates from 19 locations across Australia
Stakeholders/ Partners	IBA's main stakeholders include; 242 employees, of which 24 per cent are Indigenous Australians ; Indigenous population (individuals, families and communities); Australian Government; Indigenous Concile
Objectives	IBA's objective is to provide quality leadership in facilitating and enabling Aboriginal and Torres Strait Islander engagement in the wider economy. IBA will build and extend its role in meeting this objective by its strategic pathways.
Product/ Services (Demand; usage; gaps)	IBA Investments IBA Enterprises IBA Homes
Financing	IBA has assisted over 13,740 families into home ownership since 1975 and has net assets of approximately $1bn.

Brotherhood of St Laurence

Organisation	Brotherhood of St Laurence (BSL)
Contact	Gerard Brody and Genevieve Sheehan
Mission	Fight for an Australia free of poverty
Organisational History	Established during the Great Depression, the Brotherhood of St Laurence was the vision and creation of Fr Gerard Tucker, a man who combined his Christian faith with a fierce determination to end social injustice. The Brotherhood has developed into an independent organisation with strong Anglican and community links. Today, we continue to fight for an Australia free of poverty.
Location – Coverage	Primarily Victoria but some programmes nationwide
Stakeholders/ Partners	Key partnership with ANZ Strong believer in delivering projects through/with partners
Objectives	. The Brotherhood of St Laurence will work with others to create 1. an inclusive society in which everyone is treated with dignity and respect 2. a compassionate and just society which challenges inequity 3. a society in which all create and share prosperity, and share responsibility for each other 4. a sustainable society for our generation and future generations.
Product/ Services (Demand; usage; gaps)	- Progress Loans - Saver Plus - Money Minded - Achiever Business Loan
Financing	Approximately $50m revenue per year

Teachers Credit Union

Organisation	Hornsby Teachers Association Credit Union
Contact	Steve James (CEO) www.teacherscreditunion.com.au
Organisational History and Mission	The Hornsby Teachers Association Credit Union was formed on 27th September 1966 in response to a group of teachers recognising the need for a mutual financial organisation that understood their needs. Its name changed to Teachers Credit Union in 1967.Teachers Credit Union merged with TAFE and Community Credit Union in November 2008
Location –	NSW, ACT and WA (5 offices)

Coverage	
Stakeholders/ Partners	- 155,000 members - Teachers around Australia (target market) - Community organisations funded and supported by the Credit Union Partners: Life insurance products are issued by Zurich Australia Limited For each policy sold, Teachers Credit Union receives from Zurich a commission of 20% (plus GST) of premiums paid. All other insurance products (home & contents, landlords, loan repayment, motor vehicles…). Teachers Credit Union receives commissions on these insurance products as a percentage of the premium paid for each policy ranging from 5-20% depending on the product.
Objectives	Key promises to their customers (from website): 1. We will be fair and ethical in our dealings with you 2. We will focus on our members 3. We will give you clear information about our products and services 4. We will be responsible lenders 5. We will deliver high customer service and standards 6. We will deal fairly with any complaints 7. We will recognise member rights as owners 8. We will comply with our legal and industry obligations 9. We will recognise our impact on the wider community 10. We will support and promote this Code of Practice.
Product/ Services (Demand; usage; gaps)	- home loans - Teacher's credit cards - Personal Loans - Car loans - Insurance (home & contents insurance, landlords insurance, motor vehicle and CTP insurance, life & trauma insurance, funeral plans, income replacement insurance, mortgage and loan repayment insurance - Savings Accounts - Redi-credits (RediCredit is an overdraft which is an option for a little extra cash. It is attached to Everyday Account and if you don't have sufficient funds in your account it will access your overdraft) - Term deposits
Financing	Membership exceeds 155,000 with assets exceeding $2.4 billion.

MercyCare

Organisation	MercyCare
Contact	Jeff Simper(CEO) http://www.mercycare.com.au
Mission	Mission is to bring compassion to life through quality, caring services and through advocacy where we work for justice and support people to enrich their lives. Our core commitment is to those who are vulnerable and distressed in times of disadvantage.
Organisational History	Services can be traced back to the Sisters of Mercy starting in 1846
Location - Coverage	Australia wide
Stakeholders/ Partners	Community, employees
Objectives	Provide highest quality services to achieve its mission
Product/	Mercy Lending Services offer affordable and manageable interest free loans.

Services (Demand; usage; gaps)	People can borrow between $100-$1000 and choose your repayment term of either 12 or 18 months This financial service is in addition to their main services in - Aged care - Family & Community Services - Mercy Hospital
Financing	Primarily through payment for service provision in aged care and hospital services.

Westpac

Organisation	Westpac
Contact	Gail Kelly (CEO) www.**westpac**.com.au
Organisational History and Mission	Westpac began trading on 8 April, 1817 as the Bank of New South Wales. In 1992, with the merger of the Commercial Bank of Australia, it changed its name to Westpac Banking Corporation. Today Westpac is one of Australia's biggest banks and has branches and affiliates throughout Australia, New Zealand and the near Pacific region and maintains offices in key financial centres around the world including London, New York, Hong Kong and Singapore
Location – Coverage	National
Stakeholders/ Partners	Mainstream customer bank in many local communities around Australia For Indigenous Capital Assistance Scheme (ICAS) - partnership with the Department of Employment & Workplace Relations (DEWR).
Objectives	Besides it commercial objectives, Westpac highlight the following social/philanthropic objectives 1, Community Involvement: Being actively involved in the community is fundamental to the sustainability of our business. 2. As signatory to a number of human rights agreements we believe in respecting basic human rights in everything we do. 3. Addressing the educational, financial and employment disadvantage of indigenous Australians.
Product/ Services (Demand; usage; gaps)	Besides its mainstream products, under its Social and Community Focus objectives it targets disadvantaged people, including: indigenous, elderly, pensioners, low income, non profit / community organisations. Products are: Services offered to **Community Organisations (eg business and financial workshops, tools)** Responsible Products – Everyday Banking: **Westpac Basic** or **Deeming accounts**, for Pensioner Concession Card or Health Care Card holders **Indigenous Capital Assistance Scheme** for eligible indigenous business owners providing access to finance and business support **Youth and student services** with products for high school and tertiary students, workers aged under 21 and university graduates. **Low Rate MasterCard or Visa** for eligible customers. **Environmentally Responsible Products** include: green home loans, green credit card, carbonSMART, and socially responsible investment strategies. **Financial First Steps**, a program to enable consumers, particularly young people to gain basic money management training. **Others**: Supporting improved financial literacy and access to finance for the Indigenous community with programs such as the Indigenous Capital

	Assistance Scheme and Family Income Management program **Westpac Assist or Business Assist** is a team of specialists who take the time to understand your situation and find the best possible way to help you control and manage your financial obligations
Financing	As at 31 March 2009 the Westpac Group employed approximately 38,000 people in Australia, New Zealand and around the world, and had global assets of $594 billion Nb- Through ICAS, as of Dec 2007, $6m has been lent to indigenous businesses.

ANZ

Organisation	ANZ
Contact	Gerard Brown, Head of Corporate Affairs www.anz.com.au
Organisational History and Mission	ANZs history dates back over 170 years and today is one of the largest companies in Australia and New Zealand and a major international banking and financial services group, which is among the top 50 banks in the world.
Location – Coverage	Nationwide - Australia and New Zealand
Stakeholders/ Partners	Mainstream customer bank in many local communities around Australia. Partners – for its low income products, most are in partnership with the Brotherhood of St Laurence. ANZ and FaHCSIA are also working together to expand some fo the programs
Objectives	**Individual Prosperity** For people: Helping to create pathways to security and prosperity through our products and services and innovative education and employment programs for the disadvantaged. **Thriving Communities** For local communities: Championing the development of local leaders and contributing our skills and resources to help create solutions to important community issues. **Navigating Responsible Growth** For our business and region: Being a role model for responsible business growth and business behaviour and making decisions that balance economic, social and environmental considerations in every market across our super-region.
Product/ Services (Demand; usage; gaps)	Besides its mainstream offerings, ANZ has several products focused on low incomes **Saver Plus** is a program that helps people on low incomes establish a long-term savings habit. **MoneyMinded** is ANZ's adult financial literacy program. **MoneyBusiness** to build the money management skills and confidence of Indigenous people **Progress Loans** of between $500 and $3,000 to pay for essential household items.
Financing	ANZ has assets of AUD$471.02 billion Data re progress loans

Progress Loans general metrics	**2008**	**2007**
Number of locations	3	2
Total applications	403	301
Total approved	322	209
% approved	79%	69%
Number of loans drawn	294	179
Lending total	624,064	-
Average loan size	$2,130	$1,722

Salvation Army – SALVOS

Organisation	Salvation Army - SALVOS
Contact Details	www.**salvationarmy**.org.au
Mission	Its mission in Australia: "save souls, grow saints and serve suffering humanity". Our values flow from this - we value Transformation, Integrity and Compassion.
Organisational History	The first Salvation Army meeting in Australia was held in Adelaide on 5 September 1880, For almost 130 years the Salvation Army has grown to be one of Australia's strongest and well recognised charity.
Location – Coverage	Operations around Australia 21 Moneycare Offices throughout NSW, ACT, Victoria and Queensland.
Stakeholders	low income clients
Objectives	In order to better address the underlying factors contributing to financial hardship. Moneycare aims to break the cycle of dependence upon welfare assistance
Product/ Services (Demand; usage; gaps)	Moneycare assisted more than 2000 people in 2007-2008. Clients come from all walks of life, but have difficulty paying debts or are being harassed by creditors or debt collectors. The free service offering a mixture of counselling and financial advice. Moneycare does not lend money or provide material aid. If the client needs financial assistance he or she is referred to the closest Community Service Centre which provide limited practical assistance for low-income families and individuals who are struggling to make ends meet. Community Services assistance may include: -Cash/ cheque -Food vouchers or parcels -Toys and food hampers at Christmas -Clothing, furniture and other household items -Accommodation -Housing costs -Electricity, gas, rates and other bills -Public transport fares -Medical and educational expenses
Financing	The Salvation Army have a presence in over 100 countries. The Australian operation is split into two parts and derives income from a range of sources.

Indigenous Consumer Assistance Network

Organisation	ICAN - Indigenous Consumer Assistance Network
Contact	Aaron Davis (CEO) aaron.davis@ican.org.au Kym Dann - Money Management Coordinator kym.dann@ican.org.au www.ican.org.au
Organisational History and Mission	Located in Cairns, Queensland the Indigenous Consumer Assistance Network (ICAN) provides consumer education, advocacy and assistance services to Indigenous people
Location – Coverage	Queensland (based in Cairns)
Stakeholders/ Partners	Indigenous Australians in Queensland Partners to the ICAN Project include Members of the ICAN Steering Committee: - Australian Securities & Investments Commission (ASIC)

	- Australian Competition & Consumer Commission (ACCC) - Indigenous Coordination Centres (ICC) - Office of Indigenous Policy Coordination - National Indigenous Consumer Strategy (NICS) - Queensland Office of Fair Trading (OFT)
Objectives	Data collected by ICAN reveals that Indigenous people often fall prey to unscrupulous used car dealers, finance companies, payday lenders, telemarketers and door to door salesmen. ICAN aims to turn this situation around by providing Indigenous consumers with assistance to alleviate consumer detriment, education to make informed consumer choices and advocacy to highlight consumer disadvantage.
Product/ Services (Demand; usage; gaps)	In April 2006, ICAN received sponsorship from the Commonwealth Bank of Australia (CBA) to develop and deliver a new "Personal Finance and Consumer Assistance Training" Program.ICAN sourced the topics covered in its training from its client database, which now holds close to 500 client data files with a wide range of consumer and financial matters experienced by Indigenous people nationwide. Centrepay is a free direct bill paying service offered to customers receiving payments from Centrelink. Through Centrepay you can choose to pay bills by having a regular amount deducted from your Centrelink payment. Centrepay is voluntary.
Financing	FaHCSIA funds the ICAN Money Management Programs in Yarrabah and Palm Island "ICAN Personal Finance and Consumer Assistance Training Program" and the "ICAN Financial Counsellor Mentorship Program" are sponsored by the Commonwealth Bank Foundation.

Victoria Teachers Credit Union

Organisation	Victoria Teachers Credit Union
Contact	William Wolke (CEO) www.victeach.com.au
Mission	To provide members with the financial services, relationships and advice they need to help build and protect their financial position at the different stages of their lives.
Organisational History	Forty-eight people signed up at Victoria Teachers Credit Union's first meeting in 1972. Together, they contributed a start-up capital of $480. Since then, the credit union has grown substantially with 80,000 members and over $1 billion in assets as of today.The founding Members of Victoria Teachers Credit Union were educators who wanted to create a better economic life for people working in education and their families. Their goals were to provide superior service to Members, a fair deal, and develop a strong, secure organisation that puts its Members first. Today it remains the only financial institution in Victoria focusing solely on people working in education and their families.
Location – Coverage	Victoria
Stakeholders	- 80,000 members - Staff - Teachers in Victoria - Community organisations focusing in Education Insurance provider partner include: CGU Insurance Limited; Allianz Australia Insurance Limited; Australian Unity Health Limited; Zurich Australia Limited;

	Swann Insurance
Objectives	The Credit Union is committed to supporting the education community by building lasting, mutually beneficial relationships with various education related organisations.
Product/ Services (Demand; usage; gaps)	- Savings and transactions (internet banking, deposit your salary, pay your bills) - Cards (visa/debit/ATM) - Investments - Loans (home loans, car loans, student loans, personal loans) - Insurance (vehicle, home, health & life) - Financial planning - Starting out package (helps young people between 18-25 years of age, Victoria Teachers Credit Union setting up and managing their finances, offering student loans, pre-approved credit cards, discount on insurance policies, fee exemptions, car loans)
Financing	Over half a billion dollars in assets, and revenue as of June 2009 was 72.7 million with profits of $7.2 million.

ACOSS

Organisation	The Australian Council of Social Service (ACOSS)
Contact	David Thompson www.acoss.org.au
Organisational History and Mission	Peak council of the community services and welfare sector. Established in 1956, ACOSS is the national voice for the needs of people affected by poverty and inequality. ACOSS's vision is a fair, inclusive and sustainable Australia where all individuals and communities have the resources they need to participate in and benefit from social and economic life. The aims of ACOSS are to reduce poverty and inequality by developing and promoting socially, economically and environmentally responsible public policy and action by government, community and business while supporting non-government organisations which provide assistance to vulnerable Australians.
Location – Coverage	National presence / advocacy
Stakeholders/ Partners	- Members - Councils - Disadvantaged Australians - Government (ACOS is funded by Fachsia) Through its network it links and brings together partners across community service remits
Objectives	1) Advancing policy solutions for low income and disadvantaged Australians 2) Ensuring an independent, diverse and valued community welfare sector 3) Maintaining an effectively governed and well resourced organisation 4) Engaging the community.
Product/ Services (Demand; usage; gaps)	ACOSS provides advocacy for Australia's disadvantaged people based on high standards of community consultation, policy development, analysis and research. ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.
Financing	Ongoing financial supporters include HESTA Super Fund and FAHCSIA with a grant under the National Secretariat Program. Constant fundraising, sponsorships, donations, and management fees for funded projects.

	Revenues as of June 2008 were $1.4 million, of which 34% was a grant from FAHCSIA and 20% came from membership and donations. An important revenue stream is Project Income and Management Fees which together account for 37% of revenues.

2.0 Needs Assessment

Individuals - lowest income quintile is and should be served by welfare and charity. To address those in the poverty trap an expansion of no interest loans and no fees savings products is needed

1 Cannot afford F.S products			2 Could afford F.S products but cannot get access			3 Can afford F.S products
Little or no money to pay	Reduced capacity to pay	"Poverty Trap"	Prejudice	High cost to serve	Seen as too risky to price	Mainstream customers

Who	Lowest income Quintile: refer to people who are currently unemployed and dependent on welfare. Broadly include: long term unemployed, Disabled, Aged, Refugees, Indigenous populations, sole parents and public tenants.
Size	3.49m 1,635,000 people living below 50% of median income (ACOSS 2008) $319 gross income/week (upper boundary) >50% incomes <$10,000/yr& 59%-71% no credit cards & > 90% no personal loans (BSL 2006)
Financial Need/ Concerns	•**Reduce volatility of income:** that is, to put a floor or safety net under the worst case situation that they could find themselves in, so that their efforts to rise out of poverty cannot leave them worse off (and particularly subject to a sudden drop in income, where there can be real suffering). •**Build savings:** that is, to provide a backstop against which they can try to improve their lives. This is particularly important because many individuals may not have the courage to, or it would be imprudent for them to, take risks to improve their life if, in the worst case, they could not continue to support their expenses or those of their family. • **Build assets: that is, to build assets which enable them to improve their income opportunities or get a job e.g. buy a car**
Currently Served by	Welfare system NILS, Progress Loans, Saverplus, Add Up, Step Up, FCCC Pay day lending Charity Bills payment schemes
Gap/ Opportunity	Access to flexible emergency credit Build savings /assets Insurance Bill payment schemes

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2. Individuals - Low to medium income groups represent the largest potential for a CDFI. They require access to micro credit, home loans and insurance.

Who	Second and third quintile: •**Working poor very low income (Second Quintile)** refers to people who are unemployed and are actively looking for work or people who are underemployed i.e. when a person's hours of work are below what they are willing and able to work. •**Employed on mid income (Third Quintile)** refers to people employed, who have no social welfare income but lower incomes as a result of rising prices for household goods.
Size	~7 million (3.47 million second quintile & 3.5 million third quintile) Second Quintile: $524 gross income/week (upper boundary) Third Quintile: $750 gross income/week (upper boundary)
Need, Quality, Quantity	Cash flow problems as likely as lowest income quintile 19.9% and 12.6% respectively unable to raise $2000 (in week) Approximately 10% with cash flow problems Unable to build capital reserves as a result of increasing use of credit cards Limited ability to leverage credit and build assets More likely to take up dissavings actions such as increasing balance owed on credit cards High need for loans to cover basic living expenses e.g. car repairs, utility bills, rent, appliance repairs, infringements
Currently Served by	Welfare Pay day lending Bills payment schemes Mainstream
Gap/ Opportunity	Access to credit (micro loans and home loans): existing consumer credit from mainstream not meeting need due to loan size, payment terms – see payday lenders filling need Insurance not seen as necessary item Financial Management and advice on building a capital reserve

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3. **Non-profit organisations and social enterprises** - experience difficulty accessing funding as they are seen as too risky to price, sometimes despite a strong track record

Who	Small to medium sized non-profit organisations and soc al enterprises
Size	Size: 700,000 non-profit organisations in Australia divided as follows: 136,000 incorporated associations and 11,700 companies limited by guarantee 58,779 economically signif cant .e. based on employee numbers and volunteer contributions (Productivity Commission Draft Report, October, 2009) Over 530 social enterprises (Social Traders, FASES project)
Need, Quality, Quantity	**Working capital:** that can underpin a short-term cash flow shortage and tide an organisation over before an already committed grant is paid. **Hard development capital:** investment in property or other tangible assets which tends to be low risk since property or physical equipment can generally be sold for close to the purchase price less depreciation **Soft development capital:** Capital used to support the start-up or growth of a charity and the development of its products, services or projects which may generate surplus income.
Currently Served by	Government Philanthropy Foresters Community Investment Fund, MECU, Community Sector Bank, Mainstream Commercial Banks
Gap/ Opportunity	Development of specialist non profit loan products including: • Soft loans • Quasi-equity/ equity • Patient Capital Financial management and advice Insurance 60

4. **Small to Medium Sized businesses** - the market for small to medium sized enterprises is well covered by mainstream and alternative support services. Some niche opportunities may, however, exist.

Who	Small Medium Enterprises <20 employees
Size	Size: 1.6 million
Need, Quality, Quantity	Require startup capital greater than $20k i.e. currently available from commercial Financial Institutions Financial management and support services
Currently Served by	Mainstream Commercial Banks e.g. NAB micro loans BECS, Friends and family support for startup Many River Opportunities – Indigenous focus Torres Straight Islander micro development
Gap/ Opportunity	Development of specialist micro enterprise loans for start ups Insurance for small to medium sized enterprises