

PASCAS FINANCE Micro Credits

Guidance provided by Many Rivers Opportunities

Discussion Paper on the Establishment of a National Indigenous
Micro-Enterprise Development Initiative in Australia:

Options and recommendations for consideration

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GLOSSARY OF TERMS

ATSIC	Aboriginal and Torres Strait Islander Commission
ATSIS	Aboriginal and Torres Strait Islander Services
BD	Business Development
BDP	Business Development Program
BDO	Business Development Officer
BEC	Business Enterprise Centre
DEWR	Department of Education and Workplace Relations
IBA	Indigenous Business Australia
LO	Loans Officer
MED	Micro-Enterprise Development
MENA	Middle East and North African
MF	Micro-Finance
MFI	Micro-Finance Institution
MRO	Many Rivers Opportunities
NAB	National Australia Bank
NEIS	New Enterprise Incentive Scheme
NGO	Non-Governmental Organisation
OIA	Opportunity International
PBI	Public Benevolent Institution
PM	Program Manager

‘ Micro-finance: it’s not rocket science. It’s about the right amount, given the right way, to the right people at the right time. If we take enough time to listen and keep doing the right things, the results take care of themselves. The value we add is really marginal, but it can make a big difference.’

Leigh Coleman
Project Director
Many Rivers Opportunities

EXECUTIVE SUMMARY

Micro-Enterprise Development (MED) is a concept that is gaining momentum in the world of international development. The UN international year of micro-credit has drawn attention to what is becoming an increasingly respected method of poverty alleviation and development. MED provides economic empowerment through the provision of credit, training, mentoring and increasingly other financial products like savings and insurance to marginalised people. The project has been active in the Australian Indigenous community for the last 5 years, experimenting with methods of delivering MED in an Australian context and its potential to establish support from corporate and philanthropic sectors.

This report also looks at the potential for accommodating or mainstreaming MED services to include Indigenous and non-Indigenous clients and to transition the program into a widely implemented enterprise development initiative.

Case for MED in Australia In 2000, ATSIIC initiated discussion with Opportunity International and later Emerge Australia that became the beginning of a series of pilot programs. These pilots were commissioned to test recognised International MED principles and methodologies to gauge the relevance MED might have in the Indigenous communities in Australia.

These pilots tested various methods and approaches including financial and non-financial services in remote, rural and urban contexts.

Unlike most developing countries and many industrialised countries, MED had not been seriously tested or implemented in Australia prior to these pilots.

This report identifies that the destructive cycle brought on by unemployment leads to a passive welfare culture where individuals are given handouts or 'sit down money' rather than encouraged to take ownership of their own future. This cycle cannot be altered by solutions imposed externally. The way out is reached only by empowering individuals and communities to develop their own plans and solutions - which help to create successful societies. Ongoing handouts continue to reinforce to the recipient that they are subject to support by external sources. One solution to undo the destructive cycle that a dependency on welfare has created is through **Micro-Enterprise Development**.

The pilot results, options and recommendations described in this report take into account three important implications. Firstly, the existence of a passive welfare culture in Australia. As described above, a passive welfare culture is a culture where people are not encouraged to take hold of their own future but are rewarded for sitting back and doing nothing. The second implication is high and commercially unsustainable transaction costs. In developing countries MED programs have been able to keep transaction costs low and consequently establish a solution that is financially viable. This is something that is considerably more difficult to do in Australia because of high transaction cost. The last implication considered is the disincentives for clients due to government policy and regulations. Australia has a highly regulated market and there are many hoops that a micro-business must jump through in order for them to become a legitimate business.

The core components of the MED are:

1. Micro-finance - providing micro-business loans to individuals who would otherwise be unable to gain access to financial services for their business.
2. Business development services - providing business advice and services such as marketing, accounting and legal, at a nominal cost or free of charge.
3. Capacity building - are personal and business development activities and training designed to increase the capacity of individuals and communities to sustain enterprise activities over the long term Pilot results (to September 2005).

The pilots have:

- Engaged 249 micro-businesses in Sydney, Northern NSW and Cape York.
- Extended 127 micro-loans.
- Extended \$362,673 in micro-finance.
- Maintained a recovery rate of 96% p.a. on these loans which are unsecured (character based) business loans.
- Maintained a 55% retention rate on clients taking out subsequent loans.
- Seen 100% of clients that take out a subsequent loan increase their business income by an average of 100% per client, and assets by an average of 300%.
- Seen 27% of clients that take out a subsequent loan move off welfare completely—this figure is projected to be higher once clients have been in the program for 3 years.

The projected cost benefits to government even during the short time period of the pilots has been significant—i.e., costs of \$2.5 million in funding the pilots versus benefits of \$4.6 million in welfare savings. This investment into redirecting people from passive welfare to personal income equates to a government saving ratio of \$1:\$1.85.

Apart from the strong results and impact of the pilots in terms of clients and communities, other outcomes and deliverables include:

- A MED methodology that works in Australia.
- A centralised MIS and online banking system.
- Staff manuals, client training manuals, and documented policy and procedures.
- A centralised support centre and highly trained staff.
- Implementation via four retail enterprise Hubs.
- A design for a national rollout.

Extended evaluations to date are all positive and include reports from two universities and an independent MED consultant, who works with the World Bank, and a recent external consultant engaged by IBA to access the project.

Options for the delivery of MED on a National scale

	Existing pilot	Option 1	Option 2	Option 3	Option 4
Institution	PBI or NGO	Federal Gov	Gov service provider	Private/Gov partnership	Financial Institution
Critical factors	By invitation	Centralised decision	By tender	Collaboration	Institutional/commercial decision
Partners	Federal Gov	Federal Gov	Federal Gov Possibly State Gov	Banks, mining, other corporate and Fed and State Gov/s	Banks
Controlling entity	Hillsong Emerge	Government bureaucracy	NGO	Constituted national body	Banks
Timeline	Fixed Apr 02–Dec 04	Immediate	Contractual	Phased implementation	Staged
Delivery	Hillsong Emerge and Balkanu	Existing Gov networks	Existing Gov and non-gov networks	Existing Gov and non-gov networks and private sector networks	Branch network
Funding	Grant program	Government	Grant program	Grants, endowment and/or Investment	Banks
Continuity in funding	None	Periodic	Short term	Long term	Outside commercial business model
Level of institutional funding commitment	Short term	Ongoing	Fixed term	One off	Ongoing
Continuity of services for client	NIL	Conditional	Limited	Ongoing	Conditional
Responsiveness to market	N/A	Low	Mixed	High	Low
Overall sustainability (based on above critical factors)	Unsustainable	Medium	Short term	High	Low

This report takes a serious look at each one of these options, including the option of doing nothing, and assesses each as a potential way to move forward. Option 3 is the recommendation highlighted in this report and is discussed at length among the other options listed.

A way forward

A model for implementation is described in this report and draws on the considerable advantages of collaboration between government and the private sector.

What is described in the report, if implemented, would see a relatively fast rollout of MED services and benefits to cover 55% of the Indigenous population within 5 years. A second stage is also described that would take this coverage to 75% in 10 years.

The current potential of the Indigenous community in Australia to absorb micro-finance for MED is estimated to be 12,000 loans with a value of \$30 million. Stage 1 of the rollout would see 34%, or \$10 million, of this potential reached. Based on the projected statistics from the pilots, it is anticipated that an initial investment of \$35 million into the program would return to the Australian public \$133 million in direct savings from the welfare associated costs attributed to an estimated 30% of clients participating in the program moving off welfare dependence.

Impact comparison analyses between the pilot and stage 1

Identifier	Pilot	Stage 1
Years	3	5
Hubs	3	13
Market penetration	2.18%*	5%**
Market coverage (Aust)	19%	55%
Clients serviced	332	8,000
Loan clients	93	2,670
Loans made	127	4,000
\$ value of loans	\$362,000	\$10,000,000
Average loan size	\$2,500	\$2,500
Interest rate	13%	13%
Provision for bad debt	4% p.a.	5% p.a.
Recovery rate p.a.	96%	95%
Total cost	\$2.5 million	\$35 million
Cost per client	\$7,530	\$4,375
Cost per \$ loaned	\$1: \$6.9	\$1: \$3.5

*This figure is based on Northern NSW hub only.

**This figure indicates the depth of penetration into the working age population.

	Program Cost	Government savings	Cost benefit ratio
Pilot (93 x \$50,000)	\$2.5 million	\$4.6 million	\$1 = \$1.84
Stage 1 (2,670 x \$50,000)	\$35 million	\$133 million	\$1 = \$3.8

(Note that the loan portfolio is included in the cost of \$35 million)

Program benefits

The economic benefits are seen in:

- Clients' increased incomes and asset accumulation.
- Job creation; reduction in welfare payments.
- A pathway for clients into the real economy and ability to access the formal banking sector.
- The development of a micro-finance institution (MFI) that can attract investors and maintain services.
- The ripple effect on other local businesses.
- Increasing local wealth creation.
- Building of real local economies with increasing tax revenue back to government.
- Significant cost benefit savings to government.

The social benefits are seen in

- Increasing availability of goods and services in regional and remote communities.
- Empowering individuals in dysfunctional communities.
- Rebuilding families and leadership; increasing disposable income to purchase necessities.
- Building local ownership.
- Confronting the passive welfare culture.
- Developing positive role models.
- Reaching the most marginalised people, families and communities.
- Building positively on the wider Australian community's impression of Aboriginal and Torres Strait Islander people.

The cultural benefits are seen in:

- Increased disposable income which allows people and communities to promote and invest in what is valuable to them.
- Building sustainable micro-businesses that promote culture. Examples of this are cultural and eco-tourism, arts, crafts, dance, food, history and story telling and cultural promotions.

‘Only by entering into the real economy will Aboriginal people have both the will and means of seeing our culture survive. We cannot rely on others to save our culture’ (Noel Pearson, 2005).

Collaborative:

If structured and supported by government as an independent MFI, MED can both facilitate and draw on collaboration from Federal, State and Local governments as well as corporate and philanthropic support. As MED services become available in a community, they add value and strength to what already exists in terms of: local leadership, ownership and management; building local assets; social, community, and cultural capital.

Corporate and philanthropic

The proposals outlined within this report have been tested with both corporate and philanthropic interests, who have expressed, in writing, their support and intent to be involved as major partners.

Recommendations

It is recommended that the Federal government:

1. Support the creation and development of a sustainable, national MED organisation
2. Provide funds in 2006 to accommodate half of the required costs needed to launch stage 1 (5-years) of an MED national initiative. This includes central office operating costs, the loan portfolio and half of the hub costs. A total Federal investment of at least \$12 million (\$12–\$24 million). This investment will be matched by corporate and philanthropic investors in Australia.
3. Nominate various government representatives to form part of an interim steering committee with the following objectives:
 - a. Oversee the process to transition the pilot into the new national initiative.
 - b. Set the criteria for the selection of board members.
 - c. Develop a plan to syndicate State and Territory governments, interested corporations and philanthropic foundations.

FOREWORD

As part of the pilot project deliverables to Indigenous Business Australia (IBA), we have been asked to provide a report on how we believe MED services could be rolled out to Indigenous people nationally. This report has been written for that purpose.

Deliverables included in the contract to IBA are:

- The level of operational sustainability achieved by the project.
- An assessment of the project's long-term sustainability.
- Potential opportunities to establish a financial support base from the corporate or philanthropic sectors.
- The organisational capacity (staff, systems, organisational learning) required for the development of MED on a national scale.
- A suggested delivery model for the development of MED on a national scale, including the identifiers which support the development of MED in a particular area, and partnering model in the field.
- A comprehensive report addressing the following:
 - The feasibility / sustainability of MED in the Australian Indigenous context.
 - The level of operational and financial self sufficiency that could be achieved and the likelihood of achieving it.
 - A measure of the overall gap in the operational and financial sustainability of MED.

‘ We have to get away from this notion that Aboriginal people are not interested in business. Encouraging the growth of small business can empower the individual in a dysfunctional community. It can rebuild families, rebuild leadership.’

Noel Pearson
Indigenous Leader

‘ Micro-finance is an idea whose time has come...

A small loan, a savings account, an affordable way to send a pay-cheque home can make all the difference to a low-income family or to a small-scale enterprise; and, with access to micro-finance, people can take real strides towards breaking the vicious circle of poverty and vulnerability... Where once the poor were commonly seen as passive victims, microfinance recognises that poor people are remarkable reservoirs of energy and knowledge. And while the lack of financial services is a sign of poverty, today it is also understood as an untapped opportunity to create markets, bring people in from the margins, and give them the tools with which to help themselves...

Our collective challenge is to sustain this momentum, and to meet the growing global demand for increased access to financial services.’

Kofi Annan
United Nations Secretary-General

1.0 THE CASE FOR MED IN AUSTRALIA

1.1 MED: an international perspective

1.1.1 What is MED?

Micro-enterprises are very small income-generating businesses owned and operated by entrepreneurs who derive most of their livelihood from the business. Micro-enterprises employ very few people, most of whom are family members. They use very little capital and typically are unable to acquire loans from commercial banks (<http://www.opportunity.com.au>).

Micro-Enterprise Development (MED) started as micro-credit—the provision of collateral free loans to poor adults.

Over time, this has expanded to include a broader range of services, including savings and insurance—encompassed by the term micro-finance.

MED means providing these businesspeople with access to micro-finance and business development services that will enable them to start and/or develop their own businesses.

MED helps an adult to increase his/her income, which has an immediate and lasting impact on the family's ability to afford food, shelter, education and healthcare. As the business income increases, the business is able to expand, and the effect spreads beyond the family into the local community—through employment and contributions to the local economy.

MED clients are typically self-employed, often household-based entrepreneurs. In urban areas, micro-enterprise activities are diverse and include shopkeepers, service providers, artisans, street vendors, manufacturers, and so on. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade.

Traditionally, and especially within the not-for-profit and government sectors, MED service provision to poor entrepreneurs has been characterised by permanent subsidising, which in turn has limited the effectiveness and sustainability of programs. While highly subsidised services might benefit the few who have access to them, in the long run they hinder economic growth, employment generation, and poverty alleviation by creating a passive rather than active welfare culture. In micro-finance, specifically, charging interest has a number of important consequences.

By paying back the loan with interest, the client's business is shown to be truly competitive, and therefore their income less vulnerable. This is a major break in the poverty or welfare cycle, as these people are more likely to sustain their financial independence in the future. They also prove that they would be able to manage a larger loan. And by managing larger and larger loans, they are eventually able to move onto becoming clients of the formal banking sector. Charging interest prepares clients for participation in the formal banking sector and allows the program to move towards self-sustainability.

1.1.2 Good practice

There are two well respected international organisations whose principles the project has used in developing a MED model for the Australian context. They are the **Consultative Group to Assist the Poor** (CGAP—World Bank) and Opportunity International. Below is an outline of each organisation's principles and how they have been used and adapted in the pilots.

CGAP

CGAP is a consortium of 28 public and private development agencies working together to expand access to financial services for the poor. The principles below were developed and endorsed by CGAP and its 28-member donors, and further endorsed by the Group of Eight leaders at the G8 Summit on 10 June 2004. (<http://www.cgap.org/keyprinciples.html>)

1. Poor people need a variety of financial services, not just loans.

Like everyone else, the poor need a range of financial services that are convenient, flexible, and affordable. Depending on circumstances, they want not only loans, but also savings, insurance, and cash transfer services.

While it may seem that all Australians have every opportunity available to them to access appropriate financial services, the reality is very different. According to an ANZ study, financial exclusion is a real issue in Australia today (<http://www.anz.com/aus/values/commdevFinance/research.asp>):

- Around 120,000 people, or 0.8% of Australia's adult population, could be considered totally excluded with no ownership of financial products.
- Around 6% of adults have minimal financial access, owning only a transaction account.
- Risk factors influencing financial exclusion include unemployment, poverty, disability or long-term illness and low education levels.
- Factors causing long-term financial exclusion include financial illiteracy, learned dysfunctional credit or savings behaviour and intergenerational exclusion.
- Special factors affect Indigenous Australians, who are the only ethnic group in Australia consistently associated with financial exclusion.

2. Micro-finance is a powerful tool to fight poverty.

When poor people have access to financial services, they can earn more, build their assets, and cushion themselves against external shocks. Poor households use micro-finance to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education.

Micro-enterprise loans have never been available in Australia before. We believe that they could be used as a strategy for poverty alleviation among the Indigenous community as well as other marginalised communities in Australia. The current project is in the early stages and services only Indigenous Australians.

3. Micro-finance means building financial systems that serve the poor.

In most developing countries, the poor comprise the majority of the population, yet they are the least likely to be served by banks. Micro-finance is often seen as a marginal sector—a ‘development’ activity that donors, governments, or social investors might care about, but not part of the country’s mainstream financial system. However, micro-finance will reach the maximum number of poor clients only when it is integrated into the financial sector.

The project has set up systems and processes for the current project stage in order to meet the needs of Indigenous Australians (see section 2.5). In Australia, a national initiative must meet the needs of the people it is seeking to serve if it is to play a valuable role.

4. Micro-finance can pay for itself, and must do so if it is to reach very large numbers of poor people.

Most poor people cannot get good financial services that meet their needs because there are not enough strong institutions that provide such services. Strong institutions need to charge enough to cover their costs. Cost recovery is not an end in itself.

Rather, it is the only way to reach a scale and impact beyond the limited levels that donors can fund. A financially sustainable institution can continue and expand its services over the long term. Achieving sustainability means lowering transaction costs, offering services that are more useful to the clients, and finding new ways to reach more of the unbanked poor.

It is unsure whether Australia would have the economies of scale to sustain a financially viable national MED initiative from direct recovery. This report discusses and suggests how this could be achieved in Australia.

5. Micro-finance is about building permanent local financial institutions.

Finance for the poor requires sound domestic financial institutions that provide services on a permanent basis. These institutions need to attract domestic savings, recycle those savings into loans, and provide other services. As local institutions and capital markets mature, there will be less dependence on funding from donors and governments, including government development banks.

Any national initiative must be considered a long-term commitment. A short-term initiative is not in the interests of any marginalised peoples who could benefit from these types of services. Nor is it in the interest of anyone seeking to set up such an initiative in Australia. This report addresses these issues.

6. Micro-credit is not always the answer.

Micro-credit is not the best tool for everyone or every situation.

Destitute and hungry people with no income or means of repayment need other kinds of support before they can make good use of loans. In many cases, other tools will alleviate poverty better—for instance, small grants, employment and training programs, or infrastructure improvements. Where possible, such services should be coupled with building savings.

The project has established a network of local organisations and uses a referral program. The two Sydney hubs have networked with a total of 71 external community based organisations that send referrals both ways.

7. Interest rate ceilings hurt poor people by making it harder for them to get credit.

It costs much more to make many small loans than a few large loans. Unless micro-lenders can charge interest rates that are well above average bank loan rates, they cannot cover their costs. Their growth will be limited by the scarce and uncertain supply of soft money from donors or governments. When governments regulate interest rates, they usually set them at levels so low that micro-credit cannot cover its costs, so such regulation should be avoided. At the same time, a micro-lender should not use high interest rates to make borrowers cover the cost of its own inefficiency.

Opportunity International worked closely with the national government in the Philippines to deregulate the bottom end of the regulatory requirements for banks and financial institutions, allowing for better effectiveness in delivering micro-credit.

This is an untested principle in Australia but should be considered in setting up a national initiative. The current pilot procedures have been reviewed by Mallesons Stephens Jaques (see inclusion 9) who concluded that it conforms to current legal and regulatory requirements.

8. The role of government is to enable financial services, not to provide them directly.

National governments should set policies that stimulate financial services for poor people while simultaneously protecting deposits. Governments need to maintain macroeconomic stability, avoid interest rate caps, and refrain from distorting markets with subsidised, high-default loan programs that cannot be sustained. They should also clamp down on corruption and improve the environment for micro-businesses, including access to markets and infrastructure. In special cases where other funds are unavailable, government funding may be warranted for sound and independent micro-finance institutions.

The current pilot has kept this principle in mind in recommending options for a national initiative in Australia. Please see recommendations in section 5.0.

9. Donor funds should complement private capital, not compete with it.

Donors provide grants, loans, and equity for micro-finance. Such support should be temporary. It should be used to build the capacity of micro-finance providers; to develop supporting infrastructure like rating agencies, credit bureaus, and audit capacity; and to support experimentation. In some cases, serving sparse or difficult-to-reach populations can require longer term donor support. Donors should try to integrate micro-finance with the rest of the financial system.

They should use experts with a track record of success when designing and implementing projects. They should set clear performance targets that must be met before funding is continued. Every project should have a realistic plan for reaching a point where the donor's support is no longer needed.

An independent and sustainable national initiative in Australia would have the ability to attract government and private sector capital. The recommendations of this paper point towards a way forward that would sustain services and be free from external donor subsidies.

10. The key bottleneck is the shortage of strong institutions and managers.

Micro-finance is a specialised field that combines banking with social goals. Skills and systems need to be built at all levels: managers and information systems of micro-finance institutions, central banks that regulate micro-finance, other government agencies, and donors. Public and private investments in micro-finance should focus on building this capacity, not just moving money.

A significant nationwide initiative in Australia should have the capacity to build and invest in its staff. People are the key to providing a strong institution.

11. Micro-finance works best when it measures—and discloses—its performance.

Accurate, standardised performance information is imperative, both financial information (e.g., interest rates, loan repayment, and cost recovery) and social information (e.g., number of clients reached and their poverty level). Donors, investors, banking supervisors, and customers need this information to judge their cost, risk, and return.

Opportunity International

In Australia, Opportunity International has a lot of experience and already available standards, information-gathering systems and procedures, and monitoring and evaluation programs, which would be available for any national MED initiative. Opportunity International and partner organisations world-wide conform and report to a global Microenterprise Coalition.

The following principles were tested by the current pilots and developed by Opportunity International as good practice (Opportunity International, 2001: 20). These principles will be reviewed in detail as part of the pilot learnings (section 2.6):

- Development / self-help vs. imposed solutions.
- Leveraging entrepreneurial skills via training, mentoring and group interaction.
- Simple, fast lending procedures.
- Lending decision made in the field.
- ‘Character lending’ and ‘character borrowing’ relationship is paramount.
- Small loans graduating to larger loans.
- Standardised methodology.
- Loan repayment data entered and reconciled daily.
- Management information system capabilities.
- Hand up not a hand out.

1.2 MED in Australia

1.2.1 History of micro-credit and MED in Australia

While there are various different micro-finance programs within Australia, micro-enterprise development is a relatively new and untested concept. Ingrid Burkett (2003: 36-54) gives a summary of micro-finance services available in Australia. These include:

- Micro-loans with no collateral / no credit history that focus on the provision of small loans for essential goods and services to people who do not usually qualify for credit from mainstream financial institutions. Examples of this type of provider include the First Nations Credit Union and the Brotherhood of St. Laurence (Burkett, 2003: 36).
- Savings and loans circles are groups of people that contribute monies that are then lent to individuals within the group. An example of an Australian organisation that engages in this model is the Foresters ANA Friendly Society (Burkett, 2003: 38).
- Matched savings schemes which focus on poverty alleviation through asset development and usually focus on assets such as home ownership, tertiary education and micro-enterprise development. Organisations in Australia that have used this model include the ANZ Community Partnership Program through the Brotherhood of St. Laurence and the Foresters ANA Friendly Society (Burkett, 2003: 46).
- Lending for enterprise, which is the same as micro-enterprise development. Micro-enterprise development is in its infancy in Australia. Some of the organisations that have experimented with micro-enterprise development include the following:
 - Many Rivers Opportunities—the Opportunity International pilot in Northern NSW that was expanded to Sydney and Cape York.
 - Hillsong Emerge pilots in Redfern and Mt Druitt, which are described in section 2.0.
 - The Brotherhood of St. Laurence small business loans scheme.
 - First Business Finance (FBT), which was a State government pilot from the mid 1990' that was relatively successful but was not given funding to continue. FBT would check and process applications for credit and then present these to an independent financial institution—usually a credit union (see Burkett 2003: 42).
 - Maleny Credit Union, which has also supported the development of local enterprise for many years, particularly advocating support for collective and community enterprises and cooperatives (Burkett, 2003: 42).

1.2.2 Need / benefits in Australia's Indigenous community

The need for MED

Aboriginal and Torres Strait Islander communities in Australia continue to face substantial economic and social difficulties that contribute to the erosion of social and cultural capital. The debilitating impact of inter-generational dependence on welfare income has seen the deterioration in education and healthcare and an increase in anti-social activities like crime and drug dependency:

- The welfare trap is described in the Exhibit on page 20, which shows the destructive cycle occurring in these communities. Initial unemployment leads to unconditional welfare payments ('sit down money') and thus to the gradual erosion of an individual's self esteem and motivation, and the

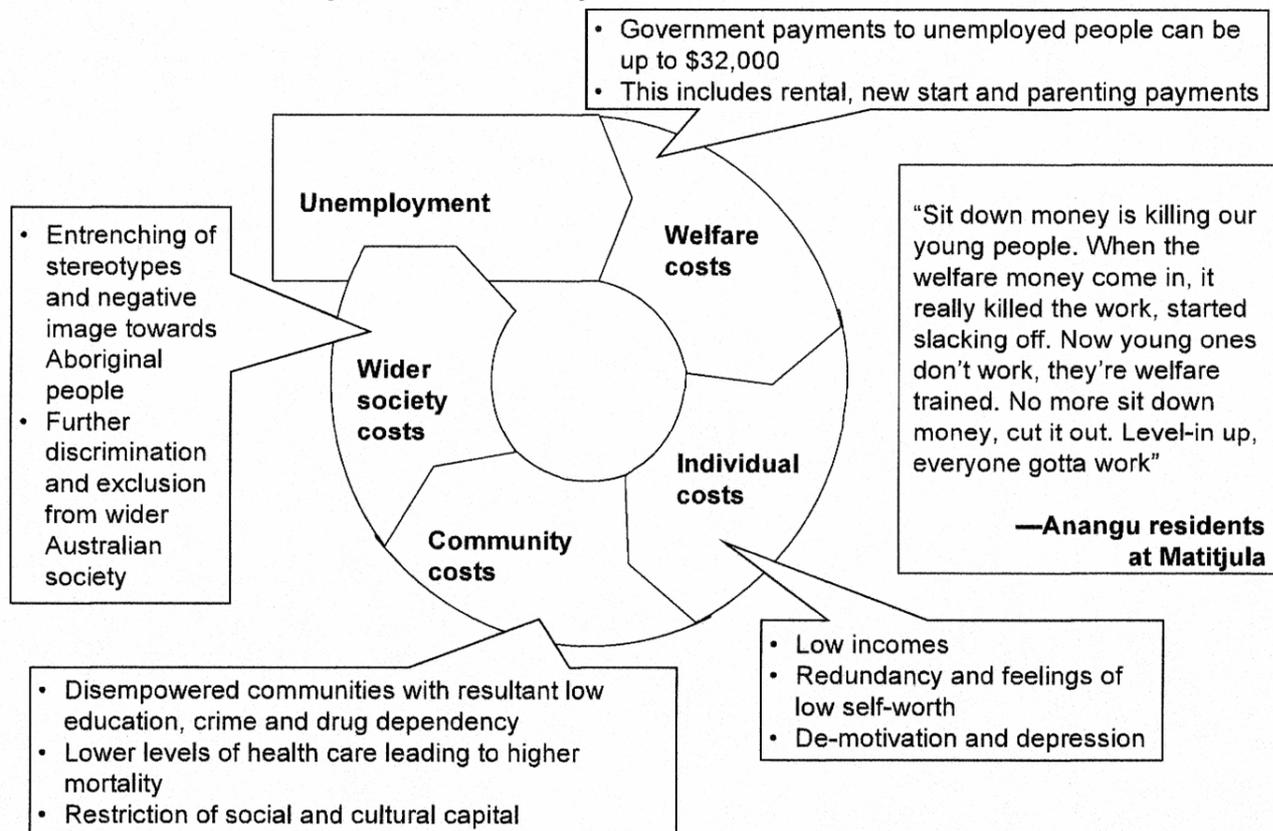
associated symptoms of depression. This has direct consequences for the community, resulting in a decrease in the quality of life.

- The cycle is completed by the entrenchment of stereotypes and negative images of Aboriginal and Torres Strait Islander people, and further discrimination and exclusion from wider society—including employment opportunities.

This destructive cycle cannot be stopped and reversed by outside-imposed solutions and further handouts, but only by empowering individuals and communities to develop their own plans and solutions to create successful societies.

One solution to unwind the destructive cycle that a dependency on welfare has created is through Micro-Enterprise Development (MED).

Welfare dependency destructive cycle



Source: Owen Stanley and Mark Bromley Paper 2004; Centre for Aboriginal Economic Policy Research

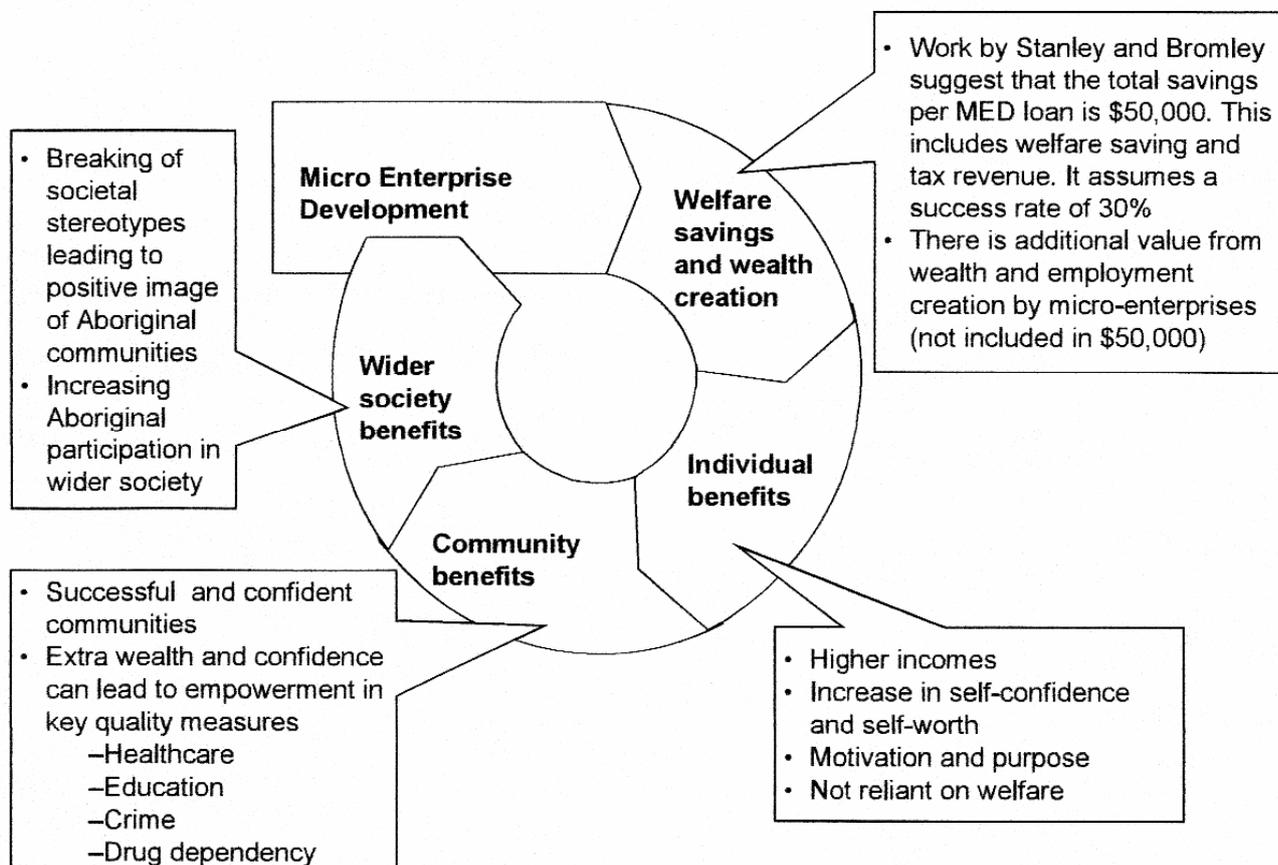
The benefits of MED

The benefits from a MED initiative in Australia are more than just direct savings from welfare payments, tax revenue and wealth creation from micro-enterprises. Additional benefits come from the knock-on effects from micro-enterprise to the individual, local community and the wider society. These can help create a positive cycle resulting in greater job creation and enterprise, and ultimately a confident and empowered community. However, it has been difficult to prove and quantify these benefits as they are too complex, subtle, diffuse or long-term to measure easily in dollars:

The benefits are:

- It has been shown that the direct savings from a MED loan is in the order of \$50,000 per loan client (Stanley and Bromley, 2004), assuming a business success rate of 30% (Stanley and Bromley, 2004). This is the long-term saving from welfare reduction and tax revenue that accompanies moving an individual off welfare and into an enterprise. Compared to the average loan size of \$2,500, the Northern NSW pilot has shown that the benefits are up to 20 times the size of the original loan. In addition, the benefit figure does not include the additional value that will result from a successful business in wealth creation and increased local employment.
- Empowering an individual to succeed as an entrepreneur has positive effects not only on their wealth but also on their self-confidence and motivation. This in turn impacts their local community, creating a confident and successful society with improvements in the quality of life—education, healthcare and life expectancy, as well as a reduction in crime and drug dependency.
- A further effect in this positive cycle is the change in attitudes from the wider Australian society towards Indigenous Australians. Successful, confident and self-sufficient Indigenous individuals and communities successfully overturn common stereotypes. Changes in attitudes from other Australians will reduce discrimination and encourage inclusion into wider society, with a resulting increase in opportunities.

MED is one approach to reverse the cycle



Source: Owen Stanley and Mark Bromley Paper 2004; Centre for Aboriginal Economic Policy Research

‘ Microcredit and micro-finance will however reach the maximum number of poor clients only when it is recognized as a national priority and integrated into the financial sector. Our goal is far beyond extending more credit to more poor people. Our goal is to figure out how to work together in partnership to build financial sectors that work for everyone and in particular for those that are trying desperately to climb the economic ladder to get out of poverty.’

H.E. Mr. Dirk Jan Van Den Berg
Permanent Representative
The Netherlands Mission to the United Nations

2.1 Background

The project has engaged in research and pilots over the last 5 years to test the enterprise development model through initiatives in Redfern, Sydney. The target group was predominantly the Indigenous community, but included other socially and financially excluded people. During this time the Aboriginal and Torres Strait Islander Commission (ATSIC) approached Opportunity International Australia—an international not-for-profit organisation specialising in microfinance and micro-enterprise development—to launch a ‘local initiative’ in northern NSW. Part of ATSIC’s rationale for testing MED and micro-finance via a non-government organisation was to see if the relaxing of direct government policies and procedures would improve public perceptions and deliver better results, particularly with regards to the loan portfolio and the whole area of engagement. Both these pilots drew on recognised good practice and successful methodologies from economically developing countries. ATSIC was interested to see if these principles and methodologies could be applied and adapted to Indigenous communities and people in Australia.

While these methods needed testing in an Australian context, most of the underlying principles were found to be universal. The two initiatives worked in close cooperation, sharing expertise and lessons learned. ATSIC underwrote the cost involved in capturing and sharing the learning’ of these two projects. On 31 October 2004, the project received government funding from ATSIIS (now IBA) to further expand and implement these lessons within the Aboriginal and Torres Strait Islander community. The two initiatives were merged together and expanded. These programs now operate out of four hubs around Australia—Inner Sydney, Western Sydney, Northern NSW, and Cape York.

The Western Sydney Enterprise hub builds on the success of the 18-month pilot project funded by the Commonwealth Department of Transport and Regional Services, the NSW Premier’s Department and Blacktown City Council. This pilot was called the Mt Druitt Enterprise Learning Centre.

The Northern NSW hub builds on the pilot project there, which was built around provision of micro-credit to individuals demonstrating the capacity to absorb small amounts of capital and apply it to an existing enterprise.

The Cape York Enterprise hub is a partnership with Balkanu. Balkanu is a local Indigenous organisation well established in the Cape. Balkanu is a leader in the stimulation of economic development in the Cape York region.

2.2 Objective and approach

Objective

Our objective is to see Aboriginal, Torres Strait Islanders and, in time, other marginalised groups empowered to develop and fulfil their potential through enterprises that contribute to the growth and development of their families and communities.

Approach

The project believes that there are three complex barriers to developing enterprise or enterprise mindsets, all of which serve to limit access to business development services, and particularly micro-finance, in marginalised communities in Australia. They are:

- Passive welfare, which sees the community as poor, unable and disempowered.
- Over-regulation, which creates barriers to making small steps, leading to greater confidence and the ability to take larger steps.
- High transaction costs mean that ‘formal sectors’ cannot afford to engage with people in disengaged communities and as a result these people are unable to make positive choices about their own development.

While acknowledging barriers to enterprise development, the projects approach is to focus on opportunities rather than obstacles. In academic circles this is often referred to as strength based development.

The key to mobilising individual potential is to assist people to identify their own desires and dreams—to discover their personal vision, identify skills and talents, and connect with internal motivations. We believe that this can be done through the following:

- Empowerment—to equip through access to resources, opportunity and choices. With empowerment comes a responsibility to use these resources, opportunities and choices effectively.
- Partnership—a relationship that is characterised by mutual cooperation and responsibility. Our partnerships are characterised by the encouragement of each other’s strengths.
- Transformation—a process of positive change. When people are transformed they believe in the value of their own knowledge and their ability to change their circumstances.

2.3 Why start with the Aboriginal and Torres Strait Islander community?

Opportunity International Australia were approached by ATSIC (Aboriginal and Torres Strait Islander Commission) in 2000 based on ATSIC’s research into MED that worked in developing countries. Up to that point, business finance specifically for Indigenous people in Australia was limited and almost exclusively available only to established businesses with sophisticated plans and valuable assets that could be taken as security. Government experiments with smaller loans had been largely unsuccessful even though there was an identified market for small amounts of capital to assist micro-enterprise.

The combination of expressed demand for micro-enterprise credit, support from the major Indigenous representative body (ATSIC), and the fact that Aboriginal and Torres Strait Islander people were disproportionately excluded from financial services and economic opportunities made it the community most attractive to the project. The combination of micro-finance, capacity building and business development services is experiencing success in Australia’s least advantaged community, and it is delivering tangible and measurable impact. This also suggests it will work with other marginalised groups.

Both the project and Opportunity International’s approach to MED in other countries has been to target the most excluded people and build methodologies and systems to engage and service them. Then, as you increase reach and target other, but less disadvantaged, groups you remain accessible to the first group.

This ‘bubble up’ approach is counter to the ‘trickle down’ theory that never reaches or produces a user friendly methodology for the poorest people to access.

2.4 Model developed by the pilot

The project consists of three components—capacity building, business development and micro-finance (loans).

These three components work together as a dynamic model where people can move between each component as appropriate.

Capacity building

‘Capacity building’ is the term given to activities co-ordinated by enterprise development organisations that provide assistance to entrepreneurs in the area of life skills and business development. The aim of capacity building is to increase the capacity of individuals and communities to sustain enterprise activities over the long term—it is the vehicle for transformation.

After 4 years of pilot operations, it is our experience that finance alone will not create enterprising communities.

Entrepreneurs and communities need capacity building assistance as an integral part of the process.

Capacity building takes people through many stages, building into their lives the values and resources they need to run their own business. It is expected that not everyone will take the same pathway and some may be referred to other organisations that offer employment or education services. Five capacity building sessions designed for different stages of the project are outlined below.

Dreaming session

The dreaming session is designed to be informal and creative, even for those who don’t like art. It is used as a tool to draw out the desire of a person and is a creative way of building the process of defining vision, motivation and value.

Visual representation of participants’ thoughts, desires and dreams can be an extremely powerful tool, as it is often the first time they have clearly seen or articulated their aspirations. The relaxed and creative activity usually enables people to readily identify and articulate their dreams. Staff are then given the opportunity to view people’s aspirations and work with participants to establish how these fit into an enterprise vision.

Most clients who participate in the dreaming session will express feelings of motivation and hope for the future afterwards.

Pathways session

Using visual mapping techniques, the facilitator assists participants to map out the steps needed for them to achieve their dreams. This session moves individuals from possibilities to choices and helps them shape their goals.

Identity session

The Identity session discusses personal and cultural identity, attitudes, values and how they relate in business. It provides practical exercises for identifying one's own values and how they relate in a business context.

Idea session

The Idea session helps people tap into their innate imagination and the power of a dream. It follows up the dreaming session with practical exercises that help define what their own business will look like.

Product session

The Product session is a practical application of market research and product development. It is designed to help people to clearly measure what aspects of their product works and what aspects need to change to have a product that sells.

Business development

The project provides advice and support to micro and small enterprises so that they transition from an informal to a formal economy and are better equipped to make sound business management decisions. There are two ways of achieving this—direct service provision and service brokerage.

Direct service provision

One-on-one and group meetings with participants to deliver services that address the issues they commonly face.

Examples of common issues are: market access, input supplies, technology, business planning and management, and business compliance.

Service brokerage

Leverage external expertise in the micro and small business development services market. This is done through mentors and organisations in the for-profit, not-for-profit and government sectors that are most appropriate to fulfil participants' needs.

Micro-finance

The provision of small amounts of finance to be applied to enterprise activity begins with identifying people with the capacity to absorb finance. The '3 Cs' of character, capacity and cash flow form the basis of the investment decision.

Character: Who are we dealing with?

The assessment of character answers the question of whether we are dealing with a basically trustworthy person and is facilitated through interviews, observation of their behaviour and relationships to the wider community, and a formal credit check. Specifically, the following questions are addressed: Who knows them? What have they been doing? Are there general signs of stability? Is there a positive history with respect to credit?

Capacity: Room for investment?

In assessing capacity, a broad definition is adopted and the following questions are addressed:

- What is their general capacity as an individual (financial literacy, motivation, focus)?
- What is their organisational capacity (record-keeping, allocation of resources etc.)?
- What is the market capacity (room for growth, diversification, distribution and pricing issues)?
- What is their operational capacity (plant and equipment, labour, layout, premises)?
- What is their financial capacity (is the enterprise generating income, what is its cost structure)?

Cash flow: How much can be absorbed?

If it is clear some absorptive capacity exists, then how much is appropriate? Does the enterprise need a large injection of cash or can a series of smaller loans allow for a gradual build up of investment expertise? The following questions are addressed:

- What is the historical cash flow of the enterprise (last 6–12 months)?
- What is the enterprise's projected cash flow (at least for the term of any likely loans)?
- How can credit be turned into increased cash income quickly?

2.5 Intellectual capital developed by the pilot

Capacity building

Intellectual capital for capacity building includes:

- Client training manuals (inclusion 12):
- Identity facilitator workbook.
- Identity participant tips and helpsheets.
- Idea facilitator workbook.
- Idea participant tips and helpsheets.
- Product facilitator workbook.
- Product participant tips and helpsheets.
- Capacity building staff manual—there is a version that was complete in 2004 (inclusion 6). This is being updated and is due to be submitted at the end of November 2005.

Business development

A business development manual is currently being written and is due to be submitted at the end of November 2005.

Micro-finance

- An opportunity international loans manual was completed in 2004. This is currently being updated and is due to be submitted at the end of December 2004.
- MIS System.

2.6 Outcomes of the pilot

2.6.1 Progress towards objectives

Indicator	Original Target	Current Sep 05	Projected 05	% of Target
Loans to first-time borrowers*	129	93	109	85%
Total cumulative loans disbursed*	214	127	150	70%
Grafton cumulative loans disbursed*	132	113	125	95%
Sydney cumulative loans disbursed*	41	6	11	27%
Cape York cumulative loans disbursed*	41	8	14	34%
Total value of loans disbursed	\$403,000	\$362,673	\$431,673	107%
Cumulative individuals engaged in business development services	418	249	332	80%
Project cumulative repayment rate	>90%	89%	90%	100%
Arrears rate (>30 days)	<10%	11%	10%	100%
Portfolio risk rate (>30 days)	<20%	22%	22%	90%
Loan loss (default) rate p.a.	<5%	4%	4%	125%
Participating business with increased net income (at second loan cycle)	80%	100%	100%	125%
Increase in business investment capital (at second loan cycle)	50%	100%	100%	200%
Retention rate of borrowers	30%	55%	55%	183%

* Grafton is much closer to the targets set than Sydney or Cape York. The Sydney and Cape York pilots (i.e. Urban and Remote) got off to a slow start in terms of setting the pilots up and into implementation mode. Contributing factors were:

- The contract was not signed and funds disbursed until 3 months into the pilot.

- It took longer than anticipated to sign the contract with Balkanu.
- The loan officer in Sydney resigned the day before they started. Hence first loans were not made in Sydney until 23 March 2005 and Cape York until 12 April 2005.

2.6.2 Key impact measures and cost benefit

KEY IMPACT MEASURES

For 23 repeat clients taking out a total of 58 loans

Measure	Metric	Baseline	End-cycle	Change	Impact assessment
Enterprise income	\$ per month per client	\$927	\$2,017	2.2x	\$1.71 of additional annual enterprise income generated per \$1 loaned to repeat customers
Share of income from enterprise	Percent of income	29%	54%	1.9x	Majority of income from enterprise for average client
Asset position	\$ per client	\$3,598	\$13,313	3.2x	123% of average loan value translated into net assets
Total income earning jobs in ventures	Clients plus employees	23	38	+15	This figure is now in our data collection. One business has employed 13 people from the local CDEP program
Clients earning majority of income from enterprise	Number of clients	8	14	+ 6	Most clients now earn majority of income from enterprise
Clients earning income from own business	Number of clients	15	23	+ 8	35% of repeat clients have not previously had a business before MED
Clients receiving welfare payments	Number of clients	15	11	- 4	NPV of welfare savings for these 4 clients estimated at \$680,000 (\$2.20 per \$1 lent in total program)*

* Based on Stanley & Bromley study estimating NPV of welfare saving \$170,000 per client taken off welfare

Source: Many Rivers MED client loan data as at 30 September 2005; Stanley & Bromley Study May 2004

COST-BENEFIT ANALYSIS OF MANY RIVERS PILOT

	Last 3 years
Costs	
Direct cost of operating hub (\$300,00x 3yrs)	\$900,000
Attributable central office costs*(\$133,000 x 3yrs)	\$400,000
Total cost	\$1,300,000
Loans disbursed	113
Value of loans made	\$306,473
Total program cost per loan	\$11,504
Total program cost per \$1 lent	\$4.24
Measured benefits	
Annual income increase per \$1 of loan financing to repeat clients	\$1.71
Percent of loan financing to repeat clients so far	57%
Projected direct savings to Government 78 clients x \$50,000 (based on all Grafton loan clients)	\$3.9 million**
Cost benefit ratio is	\$1:\$3

*Central costs pro-rated over 3 centres

** Based on the Stanley & Bromley May 2004 Report on Projected Direct Savings to Government

2.6.3 Frequently asked questions

What is the effect of financial regulations on MED in Australia?

The biggest regulatory impediment to MED in any country is to have a government interfere adversely by setting artificially low interest rates (see section 1.1.2 point 6). This is not the case in Australia and is not likely to happen. The interest rate cap in Australia is approximately 45%. Mallesons have evaluated the loaning processes and procedures and confirmed that they conform to legal requirements. ‘The program has not experienced any financial regulatory hurdles in implementing the pilot in Australia’ (Mallesons, 2004).

It is expected that financial regulation will shape to some degree the way a national initiative is rolled out. Especially if there is the intention to create a micro-finance institution (MFI) which will also need to be able to raise capital. Clayton Utz, a national law firm with considerable commercial banking experience is offering to do research into this area. For the purpose of this report it was not possible to undertake such an assignment.

How many move from capacity building to MED?

A separate report has been submitted to IBA entitled ‘Capacity Building and Business Development Support’ October 2005 (see inclusion 11). This report takes an in-depth look at the client referral process of the Western Sydney and Inner City enterprise hubs from January to September 2005.

Of the 149 people who were referred for assistance, 50% became ongoing clients of the enterprise hubs and 40% of hub clients moved from capacity building to MED services.

Do micro-businesses become small businesses?

Benchmark data that has been collected shows that there is a trend towards micro-businesses becoming small businesses. For example, from the pilots we can see that:

- There is a 55% retention rate from the 1st to 2nd loans and 100% retention rate from 2nd to 3rd to 4th to 5th loans. This is a good indicator that micro businesses taking out micro-loans are increasing their capacity to handle financial resources.
- With the repayment rate at 89% and an annual recovery rate of 96% of loans disbursed, it is evident that microlending to micro-businesses can be engaged and developed towards formal banking standards.
- There is a transition of clients from being contacts to capacity building to business development assistance and on to loans at commercial rates. For example, all loan clients in Sydney have received business development assistance previous to taking out a loan.
- Of the 46 surveyed in the ‘Capacity Building and Business Development Report, October 2005’, indicators show that 37% of capacity building clients have already moved into business development support and all loan clients have graduated from business development services.
- The average increase in business assets measured on 23 clients who took out multiple loans is from \$3,598 to \$13,313—an increase of 307%. This is another indication of moving from micro to small.

- The Capacity Building and Business Development Report, October 2005 provides detailed information on 46 micro business clients that are increasing their businesses, using the following indicators:
 - Developed their product / service.
 - Strengthened their business structure.
 - Graduated to the loans program.
 - Increased skills in marketing, finance and operations.
 - Addressed business and regulation issues, e.g., ABN, BAS reports.
 - Increased networks, referrals, mentors or attended courses.
 - Registered business name, letterhead, business cards, etc.

How long do micro-businesses that have been given MED support last?

It is too early to measure this accurately from the pilot. One indication of the sustainability of micro-businesses is from Opportunity International in the Philippines who have slowly developed a portfolio of 500,000 current borrowers. The majority of these businesses have taken out multiple loans and have continued to expand over a long period of time, indicating that micro-businesses do last.

In Sydney, of the 46 businesses the hubs are currently assisting, 32 are receiving ongoing business development support. The remainder continue to access capacity building services.

2.6.4 Case studies

Sonia Kennedy—Puukoo

Sonia Kennedy of Puukoo Designs is a single mother born and bred in Sydney.

Her father is of the Wiradjuri Nation. Before she started Puukoo in 2002, Sonia held many positions—including volunteer Aboriginal lecturer, guide at the Olympic Park Visitor's Centre over the Olympic period, and 10 years at the Sydney Opera House.

After leaving the mainstream labour market, Sonia completed an accredited Small Business Management Course through DEWR's New Enterprise Incentive Scheme (NEIS) and took up art full-time. Her interest in ceramics developed to the point of designing and creating her own moulds.

Sonia has been in exhibitions at North Sydney Art Gallery, and had sell out sales at Darling Harbour, QVB Building, Sydney Airport, the Rocks and Circular Quay.

Sonia came into contact with the project Enterprise Development through her mother Janice, who is a member of a group of Indigenous women who hand paint silk scarves. Sonia is an amazing talent. Not only does Sonia paint on canvas, she also creates her own moulds to produce lamp bases, bowls and cups.

In order to process invoice orders. So through the project's network of contacts, a printer was donated and a volunteer found to install it.

Sonia did not have the ability or know-how to charge a licence fee for the use of her work, so the project introduced her to an organisation called Viscopy who licence her artwork and will collect royalties on her behalf.

Although Sonia's work is amazing, sales in the past few years have suffered due to inconsistent production. The project's Business Development Officer provided business development services by meeting with Sonia on a regular basis. Sonia was taken to the Paddington markets for market research and to help motivate and encourage her to pursue her desire to build her artwork into a flourishing business. Sonia continues to receive support and encouragement from the Sydney (Redfern) Enterprise Hub run by the project.

Sines and Kelly Services

Working for several local businesses in Kempsey, Tom and Karen were tired of not being independent, having no real household income to provide for their large family, and wanted to own their own house. So they began looking into starting their own business.

Tom has a range of experience in labour related jobs and in being a foreman on work sites. He has various driver's licences and work permits that allow him to teach others.

Karen has a permanent job at the local school. She has extensive experience in administration, bookkeeping, computers and general office skills. Karen currently works until 3pm and tends to her business bookwork after that.

Recently, Tom and Karen shifted their office into their house garage in Kempsey to save costs. Their business was created to fill a gap in the community's employment and services market.

Due to their strong links with the community and the ad-hoc nature of many government services, Tom and Karen began applying for contracts. 'Sines & Kelly Services' was established in January 2004, offering a lawn mowing service to Kempsey and its surrounding communities, employing three. Today, the business offers and has contracts for: homecare service to Elders; transport services; a painting service for new homes, Aboriginal housing and Housing Commission houses; and a second lawn mowing service. They started out using their own money and efforts, with no outside assistance. Today they employ 13— all local Aboriginal people from a local CEDP program.

Tom and Karen have obtained skilled local workers in their fields, in association with TAFE training, Community Options, Boorogen Djugun Aboriginal Corporation and Guri Wa Ngundagar Aboriginal Corporation, who have provided the workers. All work is on a 'top-up' basis for 3 days with 2 days being CDEP work placements.

The business saw a direct benefit in dealing with the pilot in Grafton. The finance offers them an immediate benefit, allowing the business to build assets, increase production and have reliable contracts. A relationship with the project has assisted them with business development support and provided an initial loan to purchase new lawn mowers and a second loan to pay for public liability insurance.

Sines and Kelly Services will be recognised as an outstanding micro-business by the United Nations (UN) at the closing event to the UN year of micro-credit.

Phil Burton—Custom Motor Body Works

Phil Burton's family are from the Queanbeyan area. Phillip and wife Susanne trade as a partnership under 'Custom Motor Body Works', to manufacture and modify trailers to customers' specific needs. Phil started his business when he found an old trailer at the tip. He bought it home and fixed it up and sold it.

Phil has 35 years experience in the motor trade. He understands the need for a reliable and professional team to tend to all his customers' needs.

This is a family owned business and Phil's wife and two sons are integral to their success. Phil's business idea came from many requests by market and stall holders and others in specific industries that needed trailers that were a bit out of the ordinary, requiring special components and differing sizes and shapes. After examining the market he found there were no custom trailer manufacturers between Sydney and Brisbane and saw a substantial gap.

Phil concentrates on customised trailers including but not limited to: go-karts, golf buggies, gardening services, rubbish removal, motor bikes, boats and cages and canopies for market traders. He provides caravan services and repairs as well as maintenance of relocatable homes.

Shaun Edwards-Kalk

Shaun Edwards-Kalk is a young Indigenous artist, descending from the Western Cape York culture of the Kokoberrin people near Kowanyama. After a childhood in which art was actively encouraged, he undertook his formal training at the Far North Institute of TAFE in Cairns.

Shaun's work derives from his own people. He has managed to learn traditional information from his elders, senior men and women in his family, about country spirituality, identity and language. The current issues facing the people in his community of Kowanyama are reflected in his work.

Shaun is currently taking up full-time employment with the Sydney University, having recently worked for Qld Health in Brisbane.

Shaun has had an ongoing relationship with Michael Winer, Chief Executive Officer of Indigenous Enterprise Partnerships (IEP) and it is through this connection that Balkanu and the project was made aware of Shaun's need for assistance.

Although Shaun is fully employed, he spends most of his own time pursuing his art. He has been working towards having his art viewed by larger audiences. In the last 2 years, Shaun has exhibited in Paris, Dusseldorf, Berlin, Washington and New York—all of these being group exhibitions. Collectors of his work include The Australian National Gallery, Griffith University, institutional bodies and many private owners.

In 2004, Shaun had his first solo exhibition ‘The Last of Then’ at the Charles Ginn Gallery at Paddington in Brisbane.

Having provided the ongoing funds to create his works of art, Shaun was finding it difficult to source the funds for his exhibition ‘Kanbaw Nyek’ (Once Before Once After’) held at the Ochre Gallery in Melbourne from 1–16 October. To hold this exhibition, Shaun needed to bring a couple of elders to Melbourne from the Kowanyama community, hire a company to provide media publicity and organise potential buyers, as well as travel to Melbourne himself for the opening of the exhibition.

Although Shaun had some funds of his own to contribute, Balkanu assisted by providing him loan funds to make up the total required. The date of the exhibition was drawing close and Shaun was anxious about gaining some assistance. Balkanu were able to give him this support when he needed it, so that he could focus on finalising art work and transportation.

Having the exhibition has given Shaun greater exposure in Australia, with many lessons learned from this exercise, given that this is only his second solo exhibition. He is working towards further solo exhibitions—the next one possibly in Sydney. Not only will this provide a greater market for his art, but also it will give him the opportunity to generate more income with higher pricing.

Through the continuation of his work, Shaun hopes to inspire today’s Kokoberrin youth, as well as future generations, through his paintings and his contribution to his own community, as well as to the wider international art community.

Shaun has the potential to reach great heights as an individual / role model and an artist. Balkanu will continue to work with Shaun as needed. From his experiences at the exhibition in Melbourne, we can support him in ensuring future exhibitions run more smoothly and provide more benefit to him and his people.

2.7 Sustainability of the project

The pilot has generated \$6,355 in interest payments. This will increase as the loan portfolio expands. At the beginning of the project the interest rate was set at 10%, and this has been increased to 13%. The lower rate was considered by the program steering committee to be too far from the market rate for an unsecured micro-loan. However, the interest collected to date does not cover bank charges let alone operational costs. Sustainability of the project can only be realised by:

- Continued government funding.
- A build up of financial support from the corporate sector.
- The creation of an ethical investment fund or an endowment fund (this is the preferred long-term option).

2.8 Learnings from the pilots

2.8.1 Principles that work

Based on experience in metropolitan Sydney and its partnership with Opportunity International Australia in northern NSW, the project has settled on a number of principles that have been critical to its success to date. These are described below.

Development vs. imposed solution

Placing resources in the hands of entrepreneurial individuals breaks the pattern of dependency so familiar to Aboriginal and Torres Strait Islander communities. Participants in the enterprise development program become the drivers of their own success. Experience has shown repeatedly that small inputs such as finance, training and support go a long way if careful identification of participants is made and they remain responsible for their own outcomes.

An enterprise mindset

Enterprise thinking moves beyond business ownership. It is a mindset that, once adopted, allows individuals and communities to be creative and resourceful when it comes to enhancing opportunities for themselves.

Relationship is paramount

Whether lending money, building social capital or engaging in formal training, it is imperative that a sense of positive, lasting connection is developed with participants. The relationship is based on trust, which in turn is based on assessing the character of individuals. Likewise, participants need to believe in the character of the programme and those delivering it. This aspect has been difficult for larger institutions such as governments and banks to achieve. A great deal of time is spent getting to know participants and their community. Most contact takes place in the field, not in offices.

Addition of value

Programs can only offer so much. Participants need to remain the drivers of their own destiny. The key to the project's engagement with individuals is that it takes what is already there—a sense of purpose, innovation and local knowledge—and adds a vital missing component. Whether the assistance needed is finance, connection to markets or financial literacy, everything the program offers has to add value that is recognised by the participant.

Simple lending procedures

Once it is established that a loan is appropriate, application and approval is made by a field worker who already has a working relationship with the loan candidate. The time between application and disbursement of the loan is typically less than a week. In order to maintain this responsive culture, the project must support a Management Information System (MIS) that puts accurate and up-to-date information in the hands of loan officers, field staff and management each day.

2.8.2 Learnings from the Many Rivers Opportunities (MRO) pilot

Establish credibility with the local Indigenous community

Staff must first establish credibility with the local Indigenous community. In addition, the MED product should respond to realities in the field in an innovative way, with the flexibility to change if necessary.

Enterprise drives MED

Enterprise drives MED: It is important to find a way to add value to an established income generating activity in discussion with the client, not through imposing a solution on them. This may not always be through lending, but could involve other services such as introducing the client to a supplier or providing cash flow training.

Indigenous Australian entrepreneurs are like any other entrepreneur

Indigenous Australian entrepreneurs act like entrepreneurs all around the world—they are rational decision makers and recognise value when they see it.

Lending decisions should be based on character, capacity and cash flow

It is important to avoid making training a pre-requisite to credit.

Business support / training can take many forms

Support does not have to be formal to provide value. Every opportunity should be taken to bring borrowers together to learn from each other.

Use a basic business plan

A basic plan will take clients through all the sections of an advanced business plan but:

1. Clients are walked through each section, step-by-step (some will be able to complete a first draft on their own—depending on experience and how they prefer to work).
2. Content is much more simplified.
3. Terms are thoroughly explained.
4. Sections are completed by answering key questions.

Getting an outside consultant to help micro-entrepreneurs to write a fancy business plan can often be counter productive. Evidence of this showed up in our dealings with a number of clients who showed us lengthy, well written business plans that according to them did not help them understand their business better or help them get a loan.

2.8.3 Learnings from current projects in Urban, Rural and Remote contexts

Business development services are imperative

There is a need in Sydney to add another Business Development Officer (BDO). It is estimated that a BDO can engage and work with up to 50 clients within a 1-year period. This is very cost effective compared to other government funded business assistance. Enterprise Hubs in Sydney are able to deliver ongoing support and business development services at a rate of \$53.50 p.a. on a continuing basis (Capacity Building and Business Development Report, 2005: 8).

Business development services are a crucial part of the MED service. Without these it is very difficult for microbusinesses to get off the ground in a developed country where there is a well established formal economy.

There is a need in North Eastern NSW to add another BDO. Need and take up of business development services have been greater than expected.

Prior to its partnership with the project, Balkanu provided business development support and at first, the loan officer was able to cover both roles. However, as the micro-finance side of the program started to gain momentum, it created a greater demand for business development services and consequently a BDO has been added.

Business development services need to be responsive, personalised and free

Business development services need to be responsive, personalised and free of charge. However, while highly subsidised services might benefit the few who have access to them, in the long run they hinder economic growth, employment generation, and poverty alleviation. Thus, enterprises should eventually internalise the costs of skills training, management development, market research, design and other services that the organisation or an alliance partner may provide in an early phase. The more that the owners and managers are involved early on in planning and the more they assume responsibility for costs, the better chance that they will manage with progressively decreasing support from external agencies. Some examples of services used include developing marketing materials, setting up record keeping systems and ensuring that insurance, taxation and other legal requirements are understood (and taken responsibility for). These services need to be personalised and responsive to what their needs are.

Partnering with local Indigenous organisations can be an effective way to engage a local community

Working with an organisation that does not already have strong established links with the Indigenous community can be difficult. It takes time to build relationships and awareness of services within the local Indigenous community.

In Sydney, the project set up these contacts with the assistance of a Community Liaison Officer who is working with staff to find the gate keepers in the community and to build the relationships and trust required for micro-enterprise development services to be taken up by the local community.

Working with a partner is an optimum scenario for an expansion model, as it utilises local knowledge and relationships, enabling the program to hit the ground running rather than having to spend time building a relationship with the local community.

Balkanu was already providing some business development services to the local community and it was the microcredit part of MED that was not available. By providing this micro-credit service to Balkanu, both parties were able to capitalise on lessons learned in developing countries and the North Eastern NSW pilot.

Locations within major cities should be considered carefully

One of the major learnings from working in Redfern is that the community is very transient. People often are only passing through and therefore it becomes difficult to help them build their business. Our experience shows that there are other regions within Sydney that would benefit highly from MED services, including Marrickville, Matraville and the Blacktown council area.

Establish capacity building functions

Even though capacity building is a critical service in a MED initiative, not all MED organisations are well equipped to provide it. Therefore, capacity building might be best served by organisations that include social development programs. However, its linkages to micro-finance and business development services are highly valuable. Westpac (Graham Paterson) sees this as a vital missing component of micro-finance and MED.

The project, with IBA support, has established capacity building functions in the two enterprise hubs in Sydney. The results so far in 2005 have seen 46 micro-enterprises receive ongoing assistance (Capacity Building and Business Development Report, 2005: 7).

MED works well in a rural setting

At this stage the take up of MED services has been greater in rural areas as opposed to urban and remote areas. This could be simply because the program has been running longer. However, it is certain that rural areas provide a good setting for MED services, and we believe that reasons for a higher take up of services are as follows:

- Well integrated community, not only internally but also with the wider community.
- Connection to the land—Indigenous people in rural communities feel they have a responsibility to the land and that the land also has a responsibility to provide for them.
- While there are less access markets, the market is not as saturated as opposed to capital cities where the market is more competitive.
- Access to MED services in rural areas is limited and the project has been able to play a part in filling this gap.

Offers tourism and other opportunities

Because traditional culture remains intact in remote areas, there is a great opportunity for local people to capture and develop the tourism market. The tourism market is not the only opportunity available. Some of the other industries that the Indigenous community have the opportunity to take advantage of are mining, fishing, live stock and agriculture.

Building local leadership is important

There is strong belief in local leadership. People who are developing their businesses feel a responsibility to develop opportunities for the younger people in their communities.

2.9 Financial performance

The financial operations are split into two areas—a loan portfolio, which is a financial pool used for providing loan disbursements and collecting repayments; and the operating costs to run the organisation. The performance of both of these areas is measured using a handful of core metrics shown in the chart below.

KEY PERFORMANCE MEASURES

	Unit	Hubs			Central	Total	
		Sydney	Grafton	Cape York			
Start date		Jan 05	Nov 02	Apr 05			
Loan portfolio							
Number of loans to date	Number	6	113	8		127	<ul style="list-style-type: none"> • Average loan size for Grafton is \$2,700 • Approximately 1.5 loans per borrower on average • Bad debt expense is greater than interest income
Value of loans to date	A\$K	22	306	34		362	
Bad debts	A\$K	0	23	0		23	
Operations							
Operating expense (annualised)	A\$K	210	300	230	440	1,180	<ul style="list-style-type: none"> • \$1.2million funding sustainable for opex at current scale • Central costs are understated as hubs some costs are attributed to hubs
Core metrics							
Cost to loan ratio	x					6.74	<ul style="list-style-type: none"> • For every \$1 lent it costs \$6.74 to provide • Unlikely to achieve Operational self-sufficiency • Bad debt percentage is reducing loan portfolio sustainability however most bad debt came from one loan officer
Operating self sufficiency	%					2%	
Bad debts p.a.	%					4%	

Source:1) Discussions with Peter Cain
2) MIS report September 2005

Loan portfolio

The total current size of the loan portfolio (including Sydney, Grafton and Cape York) is 127 loans valued at \$362,673 as of September 2005. In Grafton, the average loan size was \$2,700 and the average number of loans per borrower was 1.5.

Bad debts over the project life so far (i.e., \$22,520) have been significantly higher than the interest earned on loans at the standard commercial unsecured lending rate of 13% (i.e., \$6,355) during the same period. Given that costs are greater than income on the loan portfolio, initial indications are that the loan fund would need to be topped up to continue providing the same number of loans per year. Even though a large proportion (28%) of the bad debts actually can be traced back to one loan officer, who has since left the organisation, it is still unlikely that interest income would exceed bad debts, resulting in a reduction of the total loan fund.

Operations

The current pilot operates at an annual operating cost of \$1.2 million per annum. These costs include the operation of hubs and a central office. However, it should be acknowledged that both the Sydney and Cape York hubs have been rolled out through initiatives that are supported from sources other than this pilot (including IBA). At current levels of activity (loan size, number of clients etc.) it is reasonable to expect that \$1.2 million per annum would be sufficient to fund operations into the future.

The current central office costs reported are \$430k per annum. However, it is also important to note that, under the current system some of the costs incurred by the central support service office are actually allocated to, but not borne by, the hubs. For example, all technical services are provided to the project via an affiliated organisation. This has the effect of underestimating the expenses actually incurred to run a central support office and must be kept in mind when budgeting for such central support services. The cost structure of the pilot accommodated this by applying a 10% indirect administrative overhead.

Core metrics:

- Total cost to loans. Currently the total cost (including hub and central support costs) to loans ratio is 6.74, which implies an expense of \$6.74 for every \$1 lent. This ratio is also expectedly high due to the small scale of pilot operations and the limited timeframe the project has been running, as discussed previously. This does reduce considerably in a national rollout.
- Operating self sufficiency—the percentage of operating expenses that are covered by interest income generated from loans. Currently, income from loans granted is minimal and therefore the level of operating self sufficiency is negligible. We believe that unless significant scale is achieved and the level of bad debts kept low, interest income will not be large enough to cover loan portfolio losses without considering operating costs. Therefore, the level of self-sufficiency at the scale of the pilot project is expected to remain negligible.
- Bad debt. The current rate of bad debt is 10 percent. Bad debt is currently defined as any loan not repaid within 12 months after becoming due. Given most loans are on average for less than 1 year, having bad debt defined as no repayment within 12 months is likely to understate the value. However, when annualised over the life of the project to date, the bad debt rate per annum is 4%.

2.10 Evaluations

2.10.1 Many Rivers Opportunities final evaluation

Many Rivers Opportunities (MRO): Project Evaluation Report

Ruth Goodwin-Groen, March 2004

There are three major conclusions from this evaluation:

- The pilot project achieved its primary goal of showing that key principles of international micro-enterprise development can be successfully implemented in lending to Indigenous Australian micro entrepreneurs.

- The pilot project did not set out to carefully document cost effectiveness. It needs another year of operations for robust conclusions about the cost effectiveness of the pilot to be made to ensure ability to replicate.
- The pilot project's lessons learned about successful lending are probably applicable in other contexts, but before rolling out the program it needs to be tested in more challenging environments.

Without an extension, the MRO project would just be a very promising pilot project working with Indigenous people. However, a 1-year pilot extension and additional pilots could bring significant benefits for Indigenous micro entrepreneurs. With the lessons learned, a cost effective model could be rolled out or franchised so that Indigenous micro entrepreneurs across Australia could have access to loans that will enable them to flourish as never before.

Opportunity International Australia (OIA) will be uniquely placed to make a significant contribution to the financial inclusion of Aboriginal Australian micro-entrepreneurs and their communities. The question will then be whether OIA can fully realise that vision.

Recommendations

This will require a modified MRO pilot project continuing for another 12 months with a focus on the bullet points above. As data from the modified MRO project becomes available, plans can then be made for expansion into other regions with similar groups of Indigenous Australians (e.g., Dubbo, Kempsey, Taree). Such an expansion would require a new structure / approach / partnerships that worked creatively with the challenges of distance. Any expansion should be housed within an organisation independent of OIA and with a CEO passionate about the mission.

Another pilot project to test this methodology should be started as soon as possible in two or more remote areas of Australia with challenging business environments and a wider range of indigenous communities. This might be in regions such as Cape York, the Eastern Kimberleys or around Alice Springs. This new pilot project would probably need 2 years of data before an assessment could be made about what aspects of the model can be applied across Australia.

Integrating the lessons of these three pilots together with the other pilot project running in Redfern, Sydney (called Hillsong Emerge), OIA will then have the basis to establish a national micro-finance program. OIA will be uniquely placed to make a significant contribution to the financial inclusion of Aboriginal Australian micro entrepreneurs and their communities. The critical question is whether OIA can own that vision.

2.10.2 UTS report Redfern project

Redfern / Waterloo Micro-Enterprise Development Initiative for Indigenous Australians - A Project Review

Andrew Chodkiewicz, June 2004

Objective of the review

The aim of this review was to assist Hillsong Emerge with the design and implementation of an evaluation process for its Redfern / Waterloo Micro-Enterprise Development initiative for Indigenous Australians. The field-work stage of the project has had a strong focus on community development and capacity building. Some micro loans have been disbursed, but micro-finance played only a small role in the overall project.

Project activities

The project was implemented as a capacity building project for Indigenous women, which included a small microfinance component. The project started with the project officer making contact with the local Indigenous community in order to connect with local Indigenous women. It involved working with both individuals and organisations in the area over a 6-month period.

Results of the project

As a result of the connections made in the community, out of 100 contacts made, a total of 21 Indigenous women were involved in the micro-enterprise development project. These participants took part in:

Orientation meetings

Orientation meetings were organised but did not happen as initially planned.

Training workshops

A number of business or enterprise training workshops were organised and consisted of two groups of women. There were between 6–9 women attending at any one time and the one training group ran for 4 hours a week for 12 weeks.

Community network groups

Initially two groups were formed to support women entrepreneurs and they met once a month over a 6-month period.

Mentoring—business breakfasts

Business breakfasts were organised and they ran monthly.

Mentoring & ‘Business Buddies’

A number of volunteer mentors and ‘Business Buddies’ were involved in the project, with about 13 volunteers coming forward and about 9 participants making use of their support.

Enterprise ideas & business plans

A number of enterprise ideas emerged during the project. By the end of the program a number of participants said they would be continuing with their idea, while some said they would be dropping them.

Those participants who wanted to follow through with their ideas were able to move on and develop business plans. The ideas for microbusinesses covered areas of textile design and fashion, catering, Aboriginal performance, and Aboriginal tourism.

Micro-loan disbursements

After the participants completed the various micro-enterprise development components—training sessions, the mentoring program and business plan formulation—they were offered the opportunity to take up a micro-loan.

The process for applying for a micro-loan did not follow a set procedure. A total of five micro-loans were provided to participants in the project with a total of \$3,921.50 disbursed. By the end of 2003 a total of \$2,721.15 had been repaid with a balance of \$1,200 left outstanding, which has subsequently been recovered.

Capacity building for enterprise development

From the outset of the project, this project had a major focus and interest in building the capacity of individuals to develop both enterprise thinking and set up and sustain a micro-business.

Conclusion

If this work can be developed as part of a broader ‘nation building’ approach, it is more likely they would prove to be one of a number of effective ways of initiating and sustaining a greater number of micro-enterprises in Indigenous communities and making a contribution towards sustainable economic development in Indigenous communities.

This review also points to the need for further piloting of micro-enterprise initiatives, and the inclusion of an evaluation component as a key aspect of the project, in order to collect and analyse more systematically the various outcomes and impacts of the initiative. The current pilot has combined the capacity building learnings from the Redfern pilot with the non-financial learnings from the MRO pilot.

2.10.3 UTS Report Mt Druitt Enterprise Learning Centre

From Welfare to Work through Enterprise thinking - Final Report Mt Druitt Enterprise Learning Centre

Terms of reference:

- Jointly funded project by Federal, State and Local governments and in kind donations; total funding was \$194,420.
- It was managed by Emerge Australia Limited.
- The project operated for January 2003 to June 2004.
- The purpose of the project was to encourage enterprise development in Mt Druitt.

Deliverables and outcomes

The project was divided into three phases of deliverables, as shown on the table below.

Phase	Deliverable	Outcome
Phase 1	20 people participate in project	51
Phase 1	5 successful placements in NEIS program	N.A.
Phase 1	5 successful placements in TAFE course	2
Phase 1	5 start-up Micro-Enterprise or income generating activities	36
Phase 2 *	Commencement of a micro loan system	Yes 1 loan was made and system was made available
Phase 2	Creation of an entrepreneurial thinking network in Mt Druitt	Informal networks established in the form of groups of clients getting together and through various meetings held at Emerton offices
Phase 2	Partnership with other local businesses in the area	Through various partnerships with local businesses and council to sponsor markets and marketing workshops
Phase 2	Development of facilitators within identifiable groups within the community	Informal facilitators-have taken the responsibility to market goods for clients This has been limited
Overall outcome	The creation of tools for ongoing usage and policy decision making	Both regular network meeting and a 35-page facilitators hand book have been created Various other tools to test business were created and outlined in final report
Overall outcome	All participants have an identified pathway to employment, training or community activity (volunteering)	The success rate is very high with 36 out of 51 now operating micro business; however success rate is not 100% (all)
Overall outcome	Improvement in overall community capacity to address its own issues	The marked improvement is clearly seen in the increase of clients accessing existing services. However further development is needed

*This aspect was not continued as it did not receive funding during the pilot period

Summary

The Mt Druitt Enterprise Learning Centre with its approach of working at people's 'point of desire not there point of need' has identified the need for development of enterprise development work in Greater Western Sydney and the social outcomes it delivers. The Mt Druitt Enterprise Learning Centre has subsequently moved to Seven Hills and is known as the Western Sydney Enterprise Hub. The learnings from this pilot were incorporated into the design and implementation of the current pilot.

‘ The two key ingredients to a well-functioning market economy are competition and access—competition so that performance keeps improving and access so that everyone has a chance to participate and nobody’s talents are wasted.’

Raghuram G. Rajan

Economic Counsellor and Director, Research Department International Monetary Fund
Advisor for the International Year of Microcredit 2005

3.0 Options for the delivery of MED on a national scale

This section of the report presents alternative options for establishing and delivering a national Micro-Enterprise Development (MED) program.

Option overview

	Existing pilot	Option 1	Option 2	Option 3	Option 4
Institution	PBI or NGO	Federal Gov	Gov service provider	Private/gov partnership	Financial Institution
Critical factors	By invitation	centralised decision	by tender	collaboration	Institutional/commercial decision
Partners	Federal Gov	Federal Gov	Federal Gov Possibly State Gov	Banks, Mining, other corporate and Fed and State gov/s	Banks
Controlling entity	Hillsong Emerge	Government bureaucracy	NGO	Constituted national body	Banks
Timeline	Fixed Apr 02–Dec 04	Immediate	Contractual	Phased implementation	Staged
Delivery	Hillsong Emerge and Balkanu	Existing Gov networks	Existing gov and non-gov networks	Existing gov and non-gov networks and private sector networks	Branch network
Funding	Grant Program	Government	Grant program	Grants, endowment and/or Investment	Banks
Continuity in funding	None	Periodic	Short term	Long term	Outside commercial business model
Level of institutional funding commitment	Short term	Ongoing	Fixed term	One off	Ongoing
Continuity of services for client	NIL	Conditional	Limited	Ongoing	Conditional
Responsiveness to market	N/A	Low	Mixed	High	Low
Overall sustainability (based on above critical factors)	Unsustainable	Medium	Short term	High	Low

3.1 Existing pilot

3.1.1 Funding

The funding for the existing pilot comes from the Business Development Program which was formerly under ATSIC and is now under IBA. The current pilot has leveraged off an existing organisation, by using its existing structure and social capital. The pilot has also built on the contributions of Opportunity International in Northern NSW and the ongoing work of Balkanu in Cape York. The current pilot has built on previous action research and pilots funded by ATSIC, NSW Department of Women, NSW Premier's Department, Department of Transport and Regional Services, Blacktown Council, Opportunity International and Emerge. The funding, excluding loan funds, to the projects is \$2.4 million.

3.1.2 Structure

The pilot has been implemented via contracts formerly with Opportunity International and currently with Hillsong Emerge. Both of these organisations are not-for-profit Public Benevolent Institutions. Opportunity International is a registered overseas aid organisation. Hillsong Emerge is an Australian based and community focused organisation.

Both organisations are corporations limited by grantee.

3.1.3 Delivery

The pilot has been delivered in Sydney via two Enterprise hubs, one in the inner city (Redfern) and one in western Sydney (Blacktown—Seven Hills). In Northern NSW the program is delivered via the Many Rivers Enterprise Hub located in Grafton.

These hubs are run by Hillsong Emerge and have funding support from IBA under a capacity-building project. In Cape York the pilot is delivered via a partnership agreement with the Balkanu through business hubs at strategic locations. At this stage the delivery is primarily out of the Cooktown hub but connecting with other locations.

While some kind of office or hub is important for clients and staff, most of the delivery and time spent is in the field, hence two hubs in Sydney can cover a wide area—as can Grafton and, similarly, the Balkanu business hubs.

3.1.4 Impact

Many of the costs of a pilot are not associated with achieving large numbers but with quality outcomes. These outcomes include testing various MED approaches, and developing a delivery system and recommendations for the delivery of a national program. The pilot has had impact in the community as well as on the lives of individuals. This is evident through the loan and business development outcomes:

- 249 of ongoing contacts with individuals.
- 127 loans made (accumulative).
- Quarterly loan portfolio developed.
- Outcomes in enterprises assisted.
- A methodology developed to produce these outcomes.

- Measurable socio-economic benefits to the government and community have been realised (Bromley and Owen, 2004).
- There have also been some immeasurable impacts such as influence towards extended families and the role models that successful Indigenous entrepreneurs play in their communities.

3.1.5 Feasibility / sustainability

In terms of the clients and their businesses, it is too early to measure the viability of their enterprise over time. Longitudinal studies will need to be made. One client has received five loans; however, the average number of loans per client is estimated at 1.5. Retention rate from 1st to 2nd loans is 55%, and from multiple loans the retention rate is 100%. This is an early indication that businesses are ongoing and value this service.

From the program and delivery point of view the pilot may not be a feasible way of rolling out the program, as direct costs of service delivery may be too high and the level of return from the interest income on clients has only been \$6,355 against total pilot costs of \$2.4 million.

3.1.6 Issues for consideration

The advantages of a pilot period are that it has allowed maximum flexibility to test different difficult approaches with a high degree of responsiveness to community and client needs. Now that a preferred methodology has been developed, the flexibility of the pilot has been tightened up and systemised into an implementation model. This is a deliverable of the pilot. If the project was to continue under a pilot option it may not deliver the best service to the client—i.e., possibly be too flexible and may continue to be expensive and not deliver economies of scale; it would be very limited in attracting a broader support base from the private sector; and the long-term feasibility of the program would be limited due to its inability to demonstrate viability via internal cost recovery or not having a structure that can develop ongoing internal subsidy or attract that subsidy.

3.2 Option 1—Existing government organisations

This option discusses how the current program could be run using existing government structures and some of the issues that should be considered were such an option to be implemented. While the Federal Government itself is best equipped to write these options, we have done our best to look at it with the information available. A more comprehensive study should be done by the Government of Options 1 and 2.

3.2.1 Funding

The operational funding required for a national MED service centre would need to come from the Federal Government. There is an indication from State Governments that they may consider contributing small amounts of capital towards a national MED service centre. Funding for staff activities and overheads in rural, urban and remote locations could wholly be funded by the Federal Government, or negotiations could be made with State governments to partially fund hubs. Local governments are also funding Enterprise hub type activities through subsidising BECs and Chambers of Commerce activities. While this is currently done on an ad hoc basis, local funding has the potential to build local ownership and leadership for a national MED initiative. Individual hubs, depending on their location, could also attract a

degree of interest and financial support from the corporate sector. The current pilot has attracted some interest from the corporate sector. Generally speaking, it is most likely that a government run program would have to be funded by government program funds.

3.2.2 Structure

If existing government organisations were to deliver MED services to just the Indigenous population, then the logical way to structure a national rollout of MED to the Indigenous community across Australia would be via IBA using its existing BDP and loan programs. This structure is already in place for small, medium and large business loans, including a central office type facility in Canberra and regional centres in Cairns, Brisbane, Sydney, Wagga Wagga, Melbourne, Darwin, Adelaide, Perth and Broome.

3.2.3 Delivery

Under this option the government would deliver the loan program and national support services (i.e., training, monitoring). The delivery in the field could be via existing government Regional Centres or ICC offices. The field or retail end of the program could be delivered via non-government organisations or a mix of both. Another variation for government delivery would be to outsource the training and monitoring functions.

3.2.4 Impact

Traditionally, both here in Australia and overseas, government agencies often struggle to obtain high impact (quantity and quality) when they attempt to directly deliver loan and business development services. However, the business development program under IBA should not necessarily be included in such a broad generalisation. An assessment of running a national MED directly under IBA needs to be considered.

One expert on small enterprise development—Professor Malcolm Harper from Cranfield School of Management, Mansfield University in the UK—believes that micro-enterprises' best chances of succeeding are inversely proportional to their distance from large government and large private organisations. He maintains that really large institutions are not well positioned to be able to respond and adapt to the dynamic and fast changing needs of micro-businesses (Harper, 1991: 7-11). This is not only applicable to large government run programs but also to large banks. For example, National Australia Bank (NAB) hires staff under a sponsorship arrangement to connect directly with potential clients in its 'Step-Up program' (this is a micro-finance pilot to assist people in the welfare sector with subsidised loans for purchasing household goods—e.g., white goods). A big challenge for NAB and directly run government MED programs and in fact all MED programs in trying to get impact and economies of scale is 'engagement'. MED requires time intensive up-front investment, and large institutions and bureaucracies are not well positioned to respond in a dynamic and responsive manner, which is critical if engagement is to happen and be maintained.

When a project is having difficulties with engagement it will always have a slow or low impact. In fact, a large challenge for the pilot described in section 2 was engagement. In Grafton it took some 9 months before a loan was given. In Sydney it was a bit faster because of learnings gained from the Northern NSW

project. In Cape York the engagement was quicker partially because of the partnership between the project and Balkanu and because of learnings from the Northern NSW and Sydney projects.

OPTION 1: EXISTING GOVERNMENT ORGANISATIONS

Model	Entity involved	Responsibility				
<pre> graph TD GA[Government agency] --- PC1[Partner centre] GA --- PC2[Partner centre] GA --- PC3[Partner centre] PC1 --- P1[3 people] PC2 --- P2[3 people] PC3 --- P3[3 people] </pre>	<ul style="list-style-type: none"> • Partner Centre Funds: Fed Gov 	<ul style="list-style-type: none"> • Provide funds for operating costs and loan portfolio • Provide funds for BDO & LO 				
	<ul style="list-style-type: none"> • Agency such as IBA 	<ul style="list-style-type: none"> • Governance of system • Control and provide funding • Ongoing MED development 				
	<ul style="list-style-type: none"> • IBA BDP program or other Gov program 	<ul style="list-style-type: none"> • Central MF loan disbursements control and management through IBA • Hire and manage loan officers 				
	<ul style="list-style-type: none"> • Local Indigenous community 					
<table border="1"> <thead> <tr> <th>Pros</th> <th>Cons</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> • Existing network in place </td> <td> <ul style="list-style-type: none"> • Good Practice says Gov should stay at arms length • Difficult for large organisations to connect with micro-businesses (Cranfield University) </td> </tr> </tbody> </table>		Pros	Cons	<ul style="list-style-type: none"> • Existing network in place 	<ul style="list-style-type: none"> • Good Practice says Gov should stay at arms length • Difficult for large organisations to connect with micro-businesses (Cranfield University) 	
Pros	Cons					
<ul style="list-style-type: none"> • Existing network in place 	<ul style="list-style-type: none"> • Good Practice says Gov should stay at arms length • Difficult for large organisations to connect with micro-businesses (Cranfield University) 					

3.2.5 Feasibility / sustainability

Whether government directly delivers the program or not, subsidies or funding support to cover expenses will be needed. It is unlikely that the structure and delivery of a government MED program could attract funding and investment support from the corporate or philanthropic sectors. During the preparation of this report we tested this possibility with large financial institutions and charities. These groups did not feel that their objectives could be well met by funding a government run MED program. They also expressed that their shareholders and donors interests would not support such an investment. However, this would not be the case if the Federal Government utilized existing non-government networks such as BECs. For example, Balkanu has been able to attract both government and corporate sector funding and support.

Since it would be difficult for government to mobilise a broad financial support base or investment fund, except from government budget allocations, sustainability of the project would require ongoing political will and support. Also, given that impact and economies of scale would be challenging for a government run program income from loan interest might be low even if high repayment rates are attained.

3.2.6 Issues for consideration

Advantages:

- There is an already existing structure and national network/s.
- Has the ability to control and allocate funds to existing MED organisations. This could minimise overlap and reduce double funding.
- As the BDP now comes under IBA it is better positioned than previously in terms of culture and being arm's length from mainstream government departments.
- Both IBA and the BDP have a history of running business loans programs.
- Positioned for a fast rollout across Australia.
- Less difficult to terminate.
- Complements and links to existing government loan programs and BDP services.

Disadvantages:

- There could be difficulties in obtaining State government support and cooperation to fund and implement a Federal-led national initiative.
- Inability to attract corporate and philanthropic support.
- The first 5 years of a national rollout as described in section 4 will require significant funding as outlined in section 4.5. Under this model these funds or a large portion of them may have to come from the Federal Government
- There is no structure in place to create ethical or commercial investment funds. Therefore, there is no ability to build an endowment fund which may be required for long-term sustainability of services.
- Slow bureaucratic policy driven procedures and guidelines.
- Engaging and maintaining relationships with clients can be difficult for large government and large business organisations—hence, there is a potential for low impact in the community.
- Ongoing political will is required to fund and sustain the services.
- The pilots have shown that unsecured micro-lending should be relationship based. It may be difficult for the Government to build and maintain this with its existing policy's guidelines and procedures as well as staff turnover and staff movement between departments. This would affect repayment rates.

Concluding comments

In considering direct government involvement in the delivery of MED, CGAP has provided an overview of global experience (inclusion 10). This is a World Bank donor brief entitled 'The Role of Governments in Micro-Finance—Helping to Improve Donor Effectiveness in Micro-Finance'. The World Bank thinks that governments or government authorities should not get involved directly in delivering micro-finance.

3.3 Option 2—Government through service providers

This option looks at the Federal Government tendering out the running of a National MED program. A tender could be given to one organisation or to a number of organisations. As indicated in the previous option, there is also a possibility of combining Option 1 and Option 2, where some functions are run by

government and others are tendered out. For the purposes of this discussion, the description and issues relating to the combination option are adequately covered in Options 1 and 2. As noted above, while the Government itself is best equipped to write these options, we have done our best to look at it with the information available. A more comprehensive study should be done by the Federal Government of Options 1 and 2.

3.3.1 Funding

Under this option all direct costs for a central office would need to be covered by the Federal Government. Significant funding in Stage 1 would be required as described in section 4.5 of this document. There could be significant value brought to a new program if the implementation was done by an organisation with existing penetration, experience and networks. For example, if a bank won the tender it would have existing branch networks which could possibly make their tender better value for money and would bring savings to the government. Under this option hubs could still attract corporate and/or philanthropic funding as per the current arrangements with Balkanu.

OPTION 2: GOVERNMENT THROUGH SERVICE PROVIDERS

Model	Entity involved	Responsibility
	<ul style="list-style-type: none"> • Partner Centre Funds: Fed Gov • Hub Funding: Fed Gov • Agency such as IBA • 2A: Multiple partners - Government, private sector or not-for-profit organisations eg BEC, Hillsong Emerge, Balkanu and Banks • 2B: Single Partner (tendered) • Local implementation partner • Local Indigenous community 	<ul style="list-style-type: none"> • Provide funds for operating costs and loan portfolio • Provide funds for BDO & LO • Governance of system • Control and provide funding • Partner selection • Ongoing MED development • Each partner absorb MF loan disbursements control and management of loan offices • Partners match government funding with own investment • Hire and manage loan officers in addition to normal activities
Pros	Cons	
<ul style="list-style-type: none"> • The use of multiple partners will reduce risk of any one partner failing to deliver and increases coverage however costs are spread 	<ul style="list-style-type: none"> • Partner runs banking activities associated with MF hence costs replicated • Multiple hubs can serve an area duplicating delivery costs • Hub effectiveness may reduce as selected on overall partner ability not hub ability 	

3.3.2 Structure

Under this option the program would sit under a government contracted organisation. If a financial institution was the implementer, they may choose to use their existing loan portfolio—in which case the loans fund would sit in their structure and the rest of the program would be structured under terms agreed to through the tender process. Another option would be to have the Federal Government provide loan fund administration. IBA might be in a position to do this.

3.3.3 Delivery

There are many alternatives for delivery depending on the tender. For example, if an organisation that had a national network like the Business Enterprise Centres (BEC) won the tender, it might design delivery via its existing network.

On the other hand, if an organisation won the tender who did not already have a national network, it could choose its own implementation partners—for example, the relationship that currently exists between Balkanu and Emerge. Hubs could be run by any level of government or by a non-government organisation, even possibly a financial institution.

Therefore, delivery is very flexible under this mode.

3.3.4 Impact

The discussion around impact is speculative since we could find no examples of MED programs that have gone out for tender (outside of the pilot, which is not in implementation mode). Accumulated findings from overseas brought together by the World Bank (CGAP) indicate that micro-finance (in MED) is best positioned to reach large numbers of clients and attain viability/sustainability if it is implemented by an organisation who specialises in MED. If MED is being tacked onto another program, it may be difficult for it to receive the attention required for it to become a viable longterm solution in Australia. Mixing MED with other forms of financial or welfare assistance can be difficult as the cultures of these programs are very different. The client's perception of the program may also be affected if the program sends mixed messages. The main message that a MED program needs to give is that the client is 'doing it themselves' as opposed to 'we are helping you do it'.

Another impact which should be considered is that if the MED program hinges on government finances the service provider does not own the program—it is contracted to run it for another party. Unlike the outsourcing of other programs like the Job Network or NEIS, the outsourcing of a direct financial relationship is not to be considered good practice. This may have a negative effect on the quality and quantity of anticipated impact.

However, the pilots run under contract have been able to engage marginalised Indigenous clients and communities while contributing to strengthening business initiatives, with some good results. The pilots have also implemented and administered a reasonably healthy loan program. In most cases successful contractual outsourcing is best achieved via a competitive tender process for best results and impact. The pilots have demonstrated that if the government funds a suitable organisation/s then significant impact might be achieved.

3.3.5 Feasibility / sustainability

Similar to the situation in Option 1 and because no structure has been developed to build a broad financial support and investment base for a central office, feasibility and sustainability can only be achieved through interest income on loans. Even with improved economies of scale this option will only result in continued government funding.

Outsourcing to a financial institution or commercial bank will not change this dynamic. History shows that banks close regional branches and do not engage this sector because it is not seen to be in their short-term interest. On the other hand, specialised micro-finance institutions (MFIs) in developing countries have been able to do much better than commercial banks, and in many cases have become feasible and sustainable. Those who don't become sustainable inevitably go out of existence. Therefore, if outsourcing via the tender process is to be attempted, it should only be considered a stepping stone to developing a market driven approach—otherwise feasibility and sustainability are not an option.

It must be recognised that if the definition for feasibility is widened to include broad social-economic factors highlighted in section 2.6 of this report, feasibility under the tender process will be achievable. But sustainability may require ongoing government funding.

3.3.6 Issues for consideration

Advantages:

- Possibility of attracting an organisation/s that has existing capacity and a national network can bring savings to government.
- Possibility of tendering to an existing financial institution will translate into savings for the government realized by using their existing loan portfolio.
- Pilot has been run using an outsourced contract with positive results.
- Could be a stepping stone before supporting the establishment of a viable MFI.
- Has a defined life and is easy to terminate.
- High degree of control over costs.
- The service continually evolves for the better if the potential contractors all compete for government and private funding; the most efficient and effective operators will survive.
- Utilising current networks could mean that national reach could be obtained very quickly.

Disadvantages:

- Most costs would need to be covered by the Federal Government.
- Lack of organisations with MED experience, capacity or focus.
- Lack of specialised MED implementing organisation/s in Australia.
- Winning tendering organisation may not apply focused effort and have the culture required for effective MED outputs—e.g., mixed messages to clients.
- Outsourcing a financial relationship is not considered good practice.
- Unable to attract corporate or philanthropic donors or investors—hence not viable or sustainable.
- Needs continued political will to be sustained.

- Impending threat of contract or program termination leads to insecurity of staff and client loyalty, affecting the quality of the loan portfolio.
- Service providers can blame the government for poor performance due to bad design.
- Is contrary to global best practice—see CGAP good practice (in section 1.0).

3.4 Option 3—Private/government sector consortium/partnership

Under this option a partnership or consortium is developed that supports a national service centre and rollout across Australia. This would be an independent organisation solely focused on implementing MED in Australia.

3.4.1 Funding

Depending on the structure and ownership of the new unit it could be launched with financial support from the corporate and philanthropic sectors. For example, National Australia Bank (NAB) and Opportunity International Australia (OIA) have both indicated in writing (see appendix 3) their ability and willingness to be major partners in a national initiative. This option, with interest from various State and Local governments (see appendix 3) as well as mining and development companies, has the potential to engage a broad base of support necessary to build sustainability. Using this model for implementation, the total funding costs for a 5-year Stage 1 rollout are outlined in section 4.5. Through this option it may be possible to initially gain matching funds from corporate and philanthropic organisations which could complement funds from various levels of government (i.e., Federal, State and Local). Hence a significant portion of the project could be met by agencies or organisations other than the Federal Government.

Thereby building broad involvement and ownership that will be necessary to deliver long-term sustainability. Another point to note is that depending on how the partnership would be structured or constituted, an investment prospectus could be established that attempts at growing endowment funds. This concept was put to investment and ethical fund managers to gain an indication as to the market for such support. Indications are positive that given the right structure and leadership an endowment fund could be established to help fund ongoing expenses.

3.4.2 Structure

This option could be structured as a micro-finance institution (MFI) that has the ability to raise and lend money.

However, initially this could be a not-for-profit organisation or some kind of government sanctioned organisation. A board of directors or a steering committee would need to be set up. The organisation would employ management and staff who would be responsible for raising and developing the funding and financial model for the organisation.

This structure could involve government and non-government representatives on a board or at a committee level. Funding partner interest could be met by representation and/or by a contract that makes their continued investment dependent on certain outcomes.

This option allows for a structure that has the ability to attract both funding and investment support from the private sector .

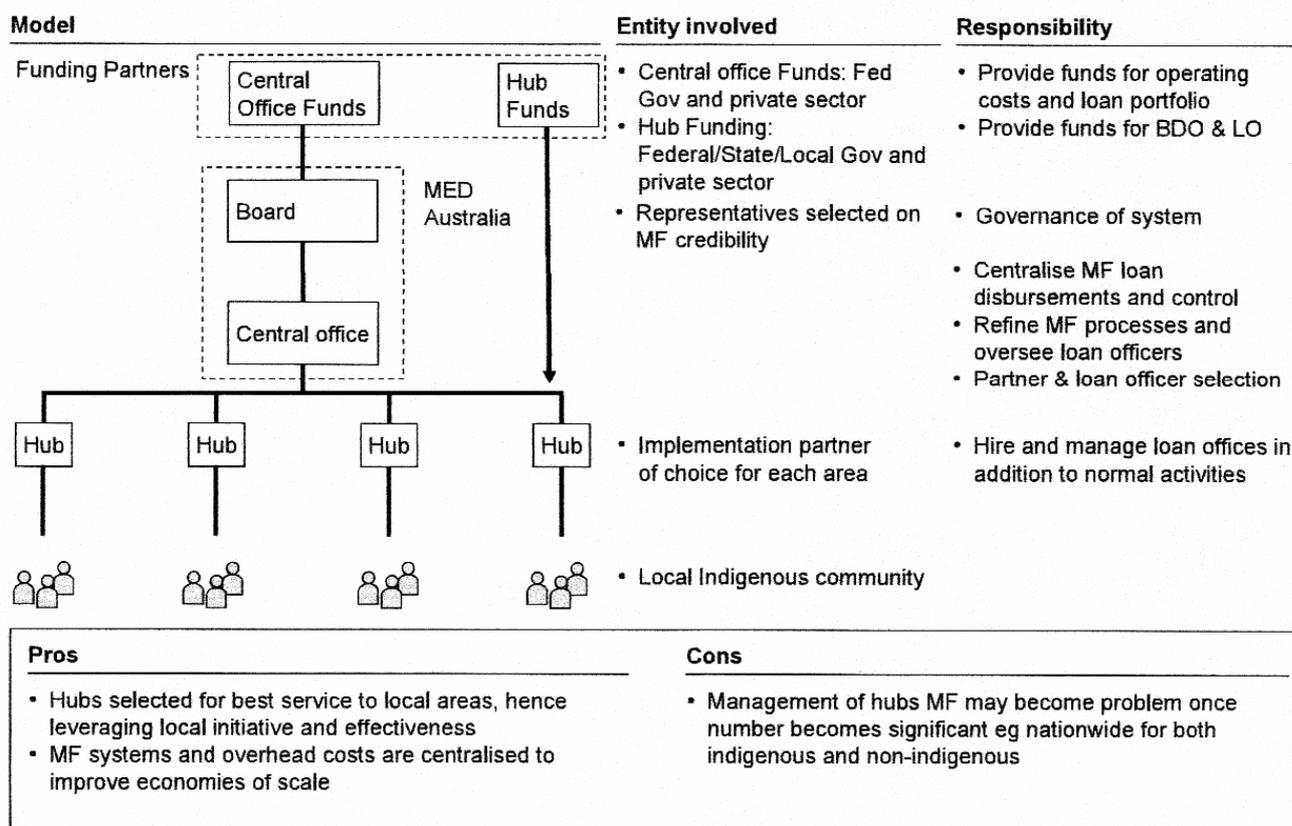
3.4.3 Delivery

Similarly to Options 1 and 2, Option 3 allows for various forms of delivery. To maximise the advantages of this option the National Service Centre would need to be a non-government entity and possibly a new or existing entity that is focused on MED.

This would give the corporate and philanthropic sectors a structure that would meet their mutual interests. These options have been tested positively on some of the organisations mentioned—i.e., NAB and Opportunity International.

In terms of delivery in the field, this kind of organisation would identify and work with a variety of enterprise hubs and take advantage of those out in the field that have the most to offer from both a delivery and impact view point, as well as contributing local funding and support.

OPTION 3: PRIVATE SECTOR/GOVERNMENT PARTNERSHIP



A national MED office would take responsibility for the main items:

- The continuing development of MED processes and procedures—e.g., loan processes.
- Managing the loan portfolio, providing loan funds to the hubs and ensuring compliance with loan polices—e.g., a real time banking type Management Information System (MIS).
- Raising funds for the central office and helping the implementation partner obtain local State funding.
- Training and monitoring MED staff in the hub.

3.4.4 Impact

In order to attract funding this type of organisation would need to demonstrate strong outcomes. The better the impact, the more marketable it would be to corporate, philanthropic and government interests.

The size and quality of the loan portfolio and the income from the program would also form part of the business plan and be an internal dynamic of accountability to maintain and grow the service.

When the pilots were first conceived by ATSEC and Opportunity International, it was intended to mainstream the program and see support for Indigenous and non-Indigenous housed in a viable and sustainable program.

The strengths of this option lie in its ability to provide a long-term solution. For example, both the Grameen Bank in Bangladesh and Opportunity International's MED program in the Philippines are viable and sustainable. This is because of their ability to attract both government and private sector funding. However, through deregulation, seed funding and supporting MED as a concept, the governments of these countries have been critical players in seeing MED become established as a permanent service to the poor. In both these cases the financial needs of the informal business sector far out weighed the government's ability to provide for them directly. This would most likely be the case in Australia.

3.4.5 Feasibility / sustainability

Given Australia's relatively small, sparse and remote population, there may still need to be a level of subsidy required as the program grows. This report shows that the model described in section 4 sees the level of subsidies continually reducing. However, because of the ability of this option to attract investment and endowments, the level of subsidy could be recovered internally in time. In other words, structured as an MFI an organisation could build up enough investments to cover short falls in expenses and running costs so that no external subsidies are required.

3.4.6 Issues for consideration

Advantages:

- The national structure ensures MED service consistency across the country through the development of standardised processes that hubs have to adopt.
- The overhead costs for operating a MED service (loan portfolio management and development of loans processes) are only undertaken once.

- The outcome of the initiative can be closely monitored by the Federal Government through interfacing with a single entity, and the Government can also exert control through representation and/or contractual arrangements.
- Implementation partners are selected based on their capability, interest to be involved and local community links—i.e., social capital. The central office structure would have control over the selection of partners so that the best operator is selected, albeit that they may come from different organisations. The quality of the partner is considered a critical factor for the program's success.
- The model can be implemented quickly and ensure that early successes are delivered. The national rollout is a scaled up version of the current pilot model.
- Most likely to attract corporate and philanthropic support.
- High degree of internal accountability and direct accountability to clients—i.e., client's needs being met.
- Conforms to international industry good practice.
- Success would require the program to evolve into the mainstream—i.e., serving Indigenous and non-Indigenous clients
- Could become sustainable and viable as an independent standalone organisation.

Disadvantages:

- Initial start up and roll-out could be slowed down by the speed of mobilising funding from non-Federal Government sources.
- Could be difficult to stop or terminate once established.
- Because of its independence there could develop areas of overlap and duplication of existing service and programs.
- Rather than a competitive tendering process, this is an option that partners with other interested parties (both an advantage and disadvantage). If the other parties prove to bring little value to the table yet have a mandate to provide a high degree of leadership and influence, this could be an impediment.

3.5 Option 4—Financial institutions

Banks have traditionally been the providers of financial services to various communities in Australia since the early colonial days, but in recent years they have looked at ways of extending such services to communities otherwise deprived of financial services.

This is in line with a growing trend within financial institutions to acknowledge their social responsibility to the wider community, and in 2005 to become more involved in the world of Micro-Enterprise Development. The latter has had more of a profile as 2005 is the official 'United Nations Year of Micro Credit'.

The provision of micro-enterprise finance could be pursued on a standalone basis or on an industry basis.

The following initiatives have been introduced by the banks:

1. National Australia

<http://www.national.com.au/Community/0,,49803,00.html>

The Step-Up loan is a National product facilitated by Good Shepherd Youth and Family Service. These personal, unsecured loans are between \$800 and \$3,000 for individuals and families living on a low income and are offered at a reduced interest rate of 7.15%.

The loans provide affordable credit for the purchase of essential household goods and services (e.g., refrigerators, washing machines, beds). In addition, repaying a Step-Up low interest loan establishes a credit rating and an entry into the mainstream credit system.

Successful applicants are ‘mentored’ by a Micro-Credit worker throughout the loan process and repayment period who offers support and access to information and referral services.

This product is currently being piloted in five locations across Australia. These pilot locations (Collingwood, St Albans, Hastings in Victoria, and Bathurst and Winmalee in NSW) have been selected for their availability of community support—via Good Shepherd Youth and Family Service, the Josephite Foundation and Winmalee Neighbourhood House—and for having a large enough low-income demographic to make the program viable.

The National supports Australia’s largest micro-credit scheme—No Interest Loans (NILS®). The scheme, which is coordinated by Good Shepherd Youth and Family Service, helps financially disadvantaged people obtain access to funds for white good purchases. Each loan is between \$500 and \$1,000 in value and is provided along with basic financial planning/budgeting advice. Support from the National has included:

- Organising and funding an annual conference for NILS® providers throughout Australia.
- Supporting the national administration service of the network.

2. Westpac

<http://www.westpac.com.au/internet/publish.nsf/Content/WIWCCP+Enterprise+Partnerships>

Indigenous Enterprise Partnerships aim to facilitate the creation of a real economy in Cape York. Westpac is involved at the board level as well as on the ground, with an extensive skills transfer program. It currently has one full-time project manager, three 12-month fellowships and around 50 employees seconded to the Cape for 1 month each year.

They are working with the local indigenous communities in Cape York on two initiatives designed to build financial independence:

- Family Income Management—helping individuals, households and extended families develop budgets to help establish savings for short- and long-term goals.
- Business Hubs—developing business plans and training existing or aspiring Indigenous entrepreneurs.

3. Australia & New Zealand Banking

<http://www.anz.com/aus/values/commdevFinance/objectives.asp>

In response to expected legislation forcing banks to provide micro-finance, ANZ conducted some research on financial exclusion which concluded that financial exclusion is a very real issue in Australia:

- Around 120,000 people, or 0.8% of Australia's adult population, could be considered totally excluded with no ownership of financial products.
- Around 6% of adults have minimal financial access, owning only a transaction account.
- Risk factors influencing financial exclusion include unemployment, poverty, disability or long-term illness and low education levels.
- Factors causing long-term financial exclusion include financial illiteracy, learned dysfunctional credit or savings behaviour, and intergenerational exclusion.
- Special factors affect Indigenous Australians who are the only ethnic group in Australia consistently associated with financial exclusion.

In response to the financial exclusion research findings, ANZ has committed to:

- Fund additional resources to assist the delivery of MoneyMinded financial education to 10,000 potentially 'at risk' Australians in 2005, including Indigenous communities.
- Expand ANZ's Saver Plus matched savings and financial literacy program into Indigenous communities.
- Initiate micro-finance programs including funding, financial literacy education, mentoring and support to facilitate the development of Indigenous businesses—delivered with the assistance of local credit unions.
- Commence the development of a new loans program tailored to the needs of people on low incomes who are currently using 'payday' lenders and other fringe credit providers.
- Undertake further research into adult financial literacy levels and whether there is a connection between low levels of financial literacy and individuals' ability to manage credit. This follows ANZ's commitment to undertake research into Australian financial literacy levels every 2 years. The findings will be released mid-2005.

4. Commonwealth Bank

In an article earlier this year (AFR, 8 July 2004) the Commonwealth Bank said it had an educational program to help Indigenous people understand banking. However, it had no special loans for Indigenous or low-income earners. 'We treat everyone equally and have products for everyone,' a spokesman said.

3.5.1 Funding

Funding—Banks already have traditional sources of funding through the capital markets and money markets.

Lending—Banks already provide traditional sources of lending through their extensive branch networks.

Networks—Banks have a large existing network of branches and systems which can be used to service the micro credit sector.

Market Sectors—Banks typically provide finance to four sectors:

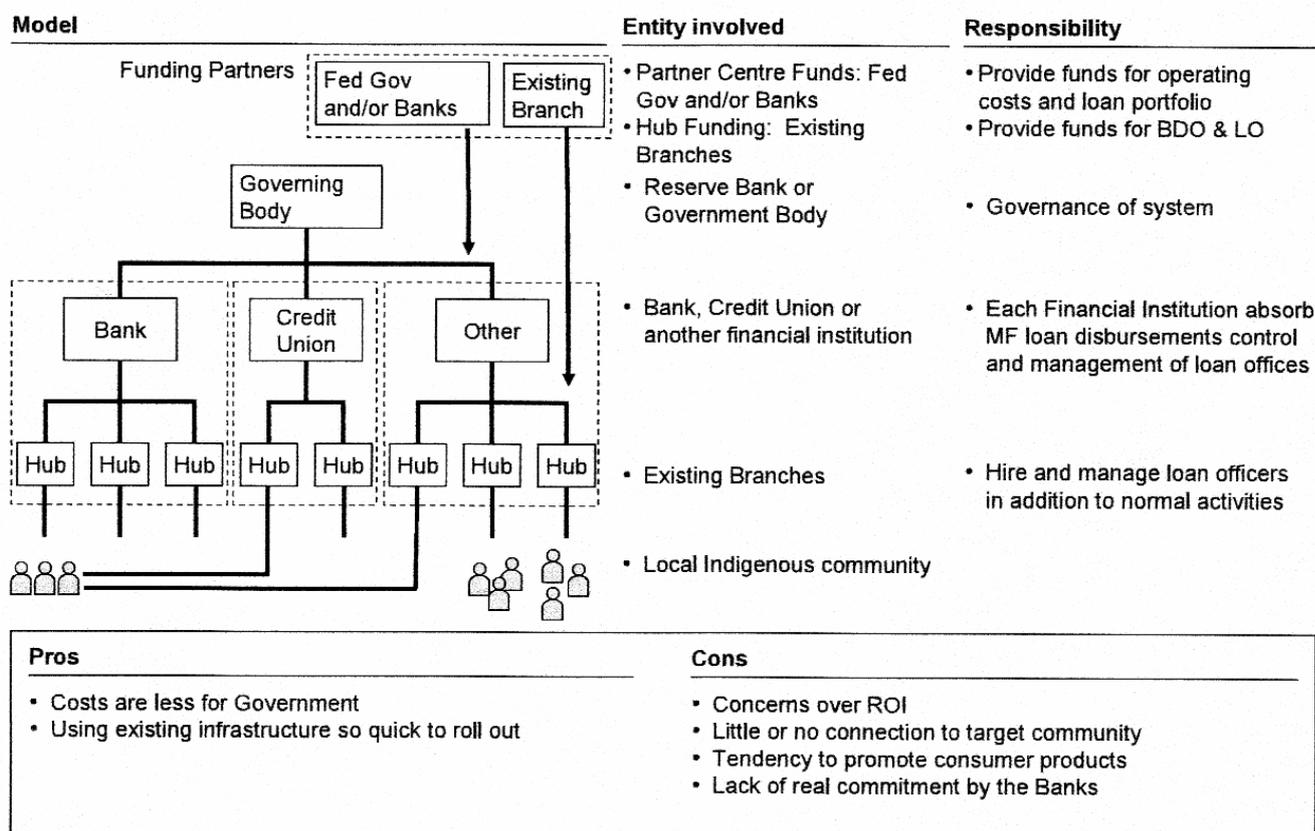
- Private.
- Corporate.
- Middle market.
- Small and medium enterprises.

3.5.2 Structure

The concept could be rolled out on a stand-alone basis or on an industry basis. Whichever method is adopted would not necessitate the establishment of a National MED Office. Banks could operate using their own nationwide branch networks, systems and funding.

This obviates the need to fund the national body operating overheads or provide loan funds

OPTION 4: FINANCIAL INSTITUTIONS



3.5.3 Delivery

The concept could be implemented in a very short period of time. For this to work, the following issues would need to be addressed:

- Banks need to have a commitment to embrace micro-enterprise development.
- Banks need to extend the concept of relation banking to the Indigenous community.
- The Federal Government would need to issue a directive to the banks to extend services to the less privileged communities.
- The regulators—i.e., APRA and RBA—would need to employ moral persuasion tactics to encourage the banks down the micro-enterprise path.
- IBA or the Federal Government may have to underwrite loan losses for the first 3 years.
- A ‘micro-credit sector’ could be added with relative ease to the existing market sector.

3.5.4 Impact

From the implementation point of view the impact would be immediate. The banks have the capacity to role out a nationwide MED initiative immediately, but not necessarily the will. It should also be considered that should legislation be introduced to force the banks to provide micro-financial services for enterprise, then there would be a period of time while this legislation is introduced.

From a community point of view the impact would be slow and gradual. Time would be required for the banks to build trust with the individuals and communities within Australia that are financially excluded.

Another consideration is that if the banks took up the initiative on a voluntary basis then the risks would be that the focus would shift and the banks would pull out of the micro-finance market, as they have done previously. This is evident in the ongoing cycles of banks shifting between centralising and de-centralising retail services.

3.5.5 Feasibility/sustainability

There are existing economies of scale to be had from banks taking over the role and the market is big enough to support some if not all of the players.

Market (see section 4.0):

- 10,000 to 12,000 loans.
- Average loan size—\$2,500.
- Market size \$25 million to \$30 million.

Interest rate—The interest on unsecured loans is 13% per annum. This is consistent with unsecured lending by current financial institutions.

Margin—There is invariably a spread of 5% to 7% over cost of funds.

Gross profit—The gross profit is likely to be in the order of \$1 million to \$1.4 million.

3.5.6 Issues for consideration

Advantages:

- Continuity in funding.
- No need to invest in systems.
- Banks have facilities to train relationship/business development officers.
- Banks are familiar with the concept of relationship lending.
- Relatively easy to add a micro credit sector.
- Financially viable if there are existing economies of scale and market.

Disadvantages:

- Lack of real commitment by banks to provide services to this community.
- Strong tendency on the part of the banks to promote consumer products thereby losing sight of the need to promote enterprise development.
- Concern over banks' ROI (Return on Investment).
- Concern over banks' ROARC (Return on Risk Weighted Capital).
- Reluctance to absorb additional costs of Business Development Officers.
- Responsiveness to market—slow.
- Continuity to clients—likely to be conditional.
- Perception based on third-world findings that banks hinder the process.
- Lack of trust of banks by Indigenous communities.

3.6 Option 5— Not done at all by the Government in Australia

3.6.1 Impact

It is highly unlikely that the non-government and private sector will pick this up and deliver MED services to engage Indigenous and other marginalised communities in Australia since financial exclusion has existed and has been growing for a long time. If this was going to happen it would probably have been done by now.

The finance industry and commercial banks tend to pull out of regional areas that they consider are not delivering a profit. Bendigo Bank is an exception to this. However, their requirements for business loans are quite stringent as they have to run according to a business plan and shareholder interests. NAB may also be an exception in as much as they are redefining their National Business Strategy to include regional and small enterprise sectors.

The Government would play a critical role in initiating and encouraging the development of MED services in Australia. It is highly unlikely that business financial services will be made available to 'all' Australians without some type of government intervention.

Two different approaches often contend with each other. One says that if we get the macro environment right then the micro will take care of itself and marginalisation will disappear. The Commonwealth Banks alludes to this approach by saying that their services are open to all customers (Financial Review 8 July 2005). Therefore, they don't need to target special marginalised groups. On the other hand, there is a strong and broadly supported argument that poverty and marginalisation need to be directly targeted in order to bring people into the mainstream economy.

Tom and Karen, who have developed Sines and Kelly Services (see section 2.6.3) would almost definitely still be on Centrelink payments if the Federal Government had decided to do nothing and leave it to the marketplace. Instead, Tom and Karen now have a growing business that employs 13 people. There are numerous Tom and Karens around Australia who will not be given the opportunity if the Federal Government chooses to do nothing.

3.6.2 Issues for consideration

Advantages:

- Short-term cost benefits.
- No risk of experimenting with a new program.

Disadvantages:

- Continued disenfranchisement of Indigenous communities in Australia.
- Loss of potential long-term savings that a MED initiative could bring.

‘ In the first half of the 20th century, through to the 1960s, our parents and grandparents in Hope Vale were working on dairy farms, growing crops, supplying timber, as well as producing arts and crafts.

These were self reliant and industrious communities, built on the hard work of black people. So this concept of micro-business is not foreign to us.’

Gerhard Pearson
CEO
Cape York Development Corporation

4.0 MODEL FOR implementation

A national model for MED services to Australia's Indigenous population is outlined below. The intent is to develop a strategy independent of specific stakeholders, to successfully develop MED on a national basis. The lessons learnt from the pilots are integrated with assessments of options to arrive at recommendations and considerations on the MED model, the delivery model, key organisational capabilities, potential partners and subsequent funding requirements.

4.1 Organisational learnings

The experience from running the pilots has helped form a core set of MED operating principles that focus on: (1) core principles, (2) critical services, and (3) a distinctive approach.

1. Core principles:

- MED in Australia should first be offered to the Aboriginal and the Torres Strait Islander communities. This is based on the principle that MED services should first be offered to the most marginalised communities. Once established, services can easily filter up but are unlikely to filter down. Once the MED program in Australia is established and proven to work for one of Australia's most marginalised groups, it can then be expanded to other disenfranchised groups—such as immigrants, people with a disability, mature aged workers, etc.
- MED is aimed at helping foster business activity. To that end the clients need to be undertaking some sort of enterprise. The enterprise could be an existing business operating through the formal or informal economy, though we aim for a transition from informal to formal, or simply a hobby or activity that has the potential to generate an income. The lack of both credit and business skills is limiting economic growth.
- The MED services provided need to be value-adding to the clients in the form of capital or business development services. Micro-finance is provided to clients that need small amounts of capital for business purposes—e.g., up to \$4,000 on the first loan—and cannot access this through other means such as credit cards, loans or grants. Normally the clients do not have collateral, such as a house, which they can borrow against.
- For those that require micro-finance, they must be capable of paying it back. Loans should not be provided if they are likely to become a financial burden. The individual receiving the loan must accept the conditions that it is not a grant and that both principal and interest will be paid back. The repayment of both principal and interest is seen as a critical element of developing an enterprise mindset.
- The focus is also on individual lending, not group lending. It is believed that commercial responsibility for micro-credit becomes diluted when shared among a group and therefore increases the loan default rate. Mutual guarantees were tested and found to be inappropriate in Australia and other developed countries (UK and USA). However, group support in a business development sense is still vital.

2. Services

There are three critical services to deliver a successful MED service, namely business development (BD), micro-finance (MF) and capacity building (CB):

- Business development services provide support to enterprises by providing either the direct service of business skills or services brokerage.
- Micro-finance is the provision of small loans (less than \$4,000 on the first round and up to a limit of \$15,000 after three rounds) to individuals with a capacity to absorb finance.
- Capacity building is the term given to activities coordinated by enterprise development organisations that provide assistance to entrepreneurs in the area of life skills and business development. The aim of capacity building is to increase the capacity of individuals and communities to sustain enterprise activities over the longterm—it is the vehicle for transformation.

The pilot studies have included capacity building in the Sydney hub. Capacity building is aimed at providing assistance to entrepreneurs in the very early stages of business formation, such as idea generation. The experience has shown that capacity sessions are very labour intensive, require very long time horizons, and generally tend to focus on individuals with potential enterprises rather than actual ones. However, in 2005 the two hubs in Sydney have seen 50% of capacity building clients graduate to MED services.

3. Distinctive approach

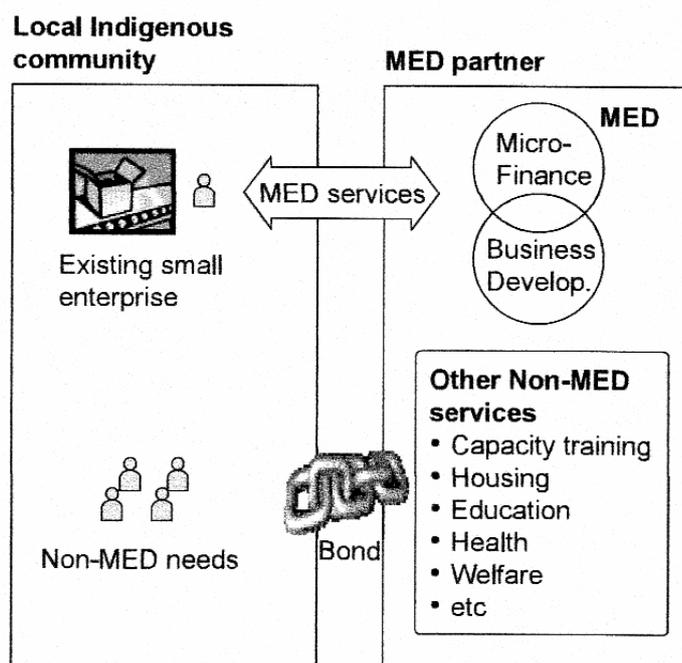
The critical questions that need to be asked are: (1) what makes the proposed MED initiative distinctive; and (2) why is it that MED is more successful than simply providing loans or grants? These questions are answered by the following:

- Tailor-made MED services are provided. Once a client is identified, they are assessed as to their needs. This could involve the provision of one, both or none of business development support, micro-finance and capacity building.
- The depth of the service provided is considered one of the important factors in keeping the loan default rate low. The depth of service directly translates to time with the client. This may mean spending 2–4 hours with a client every 2 weeks for 3–12 months. It is clear that other business development services provided through other government agencies are unable to provide this level of personal coaching. In cases cited, client requests for support have taken over 3–6 months for a response. This personal service means that each business development officer can only serve 30–50 clients per year.
- Individuals are empowered to help themselves by ‘giving people a hand-up not a hand-out’. MED is a move from grants and other forms of passive welfare which sees the community as poor, unable and disempowered. MED provides the community with access to resources and empowers them to take responsibility to use these resources effectively. The business development, capacity building and loan officer’s time is not charged to the client. However a commercial rate of interest is charged on the loan. The clients are expected to pay back both interest and principal similar to other non-Indigenous banking customers. In the future, business development services may be offered at a nominal fee so that clients incorporate this cost into the reality of doing business.

- Loan criteria are based on relationship lending as opposed to collateral lending. Loans are provided using decision criteria that include: a character assessment of the client, the capacity / capability of the enterprise, and the potential cash flow to determine if a loan can be absorbed.
- Repayment defaults result in follow-up by MED staff, not immediate loan foreclosure. Again based on a personal relationship between the MED office and the client, it is understood that there may be times when the loan cannot be immediately repaid. A remedial plan is then implemented in consultation with the client. Clients are aware that they will pay for any default bank charges, so it's still in their interest to pay on time.
- Provision of loans is not the performance objective of loan officers. They are there to objectively measure the capital need of the client and balance that against the loan absorption capacity. The objective is to develop enterprises.

CORE MED CLIENT FACTORS

Business Model



MED

- **Target clients:**
 - Focus on individuals that have existing enterprise e.g. a hobby.
 - Limited funding is provided to start-ups
- **Services:**
 - Critical MED services are micro finance and business development; a client may take one or both.
 - Other services provided by partner are not critical to MED but may ensure a bond/relationship is in place with community; this provides MED with a client 'pipeline'
- **Distinctiveness:**
 - Tailor made, time intensive, MED support that isn't pushing loans
 - Proven MF procedures
 - Focus on poorest community (Indigenous)

4.2 Organisational capabilities

To provide MED services it is believed there are a number of core activities that need to be undertaken in either the central office or in the hub. The diagram below summarises these and the processes and assets that are required for them to occur.

Organisational capability—Central Office

CORE ORGANISATIONAL CAPABILITIES CENTRAL OFFICE

Activity	Description	Process	Systems/Assets
Identify Partners & Develop relationship	Source implementation partners for Hubs in required regions	Meet partners and make assessment of capability	Potentially utilise an CRM system
Loan Portfolio Management	Provide disbursement of loan funds to hubs and monitor loan performance of hubs	n/a	- Online banking system for loans payments and disbursement - Portfolio management software for hubs to review balances and payments
Develop & Enforce Loan Approval Process	A process from client assessment through to loan disbursement has been developed for use in the field	Standard lending procedures that must be followed by loan officers	Lending documentation and client assessment criteria
Training and monitoring of Hub MED staff	Loan officers and business development officers require ongoing training on MED processes	Hub staff attend workshops and are continuously trained and support by Program Managers	Training manuals developed

Central Office—Identify partners and develop relationship

The central office would be tasked with seeking out and identifying organisations that could take on the role of delivering micro-enterprise development in their local area. This needs to be done at the highest level of these organisations.

The potential partners would be identified by the central office as having met identifiers' criteria (seen below). Once identified, both the CEO and the relevant Program Manager (PM) would visit this organisation at least on one occasion to evaluate their potential as a MED facilitator.

Identifiers for potential partners:

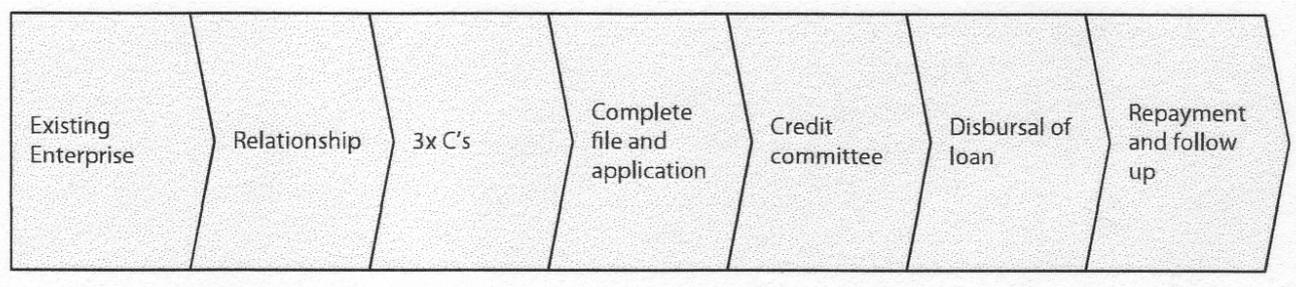
- Current status of relationship with supporters—implementation partners are more likely to receive funding if they already have a relationship with the supporters of a national MED model. For example, the Adelaide Enterprise Development Centre already has a relationship with IBA and therefore if they were to become an implementation partner of MED Australia they should find it much easier to receive the funding they will require to add a loan officer (LO) and business development officer (BDO) to their existing program.

- Do they provide existing business services and are they effective? An optimum situation would be that the partner already provides business support services to micro-businesses.
- Level of connection/respect from business and local community—the end aim is for services to micro-business to be integrated into the wider business community. For this to happen, implementation partners must be able to integrate well with their local business community.

Central Office: Loan application and approval process

The loan application and approval process is based on a methodology developed through pilot programs here in Australia and MED programs in developing and developed countries. The critical factors for approval are: character, capacity and cash flow, disclosure of all relevant information, and enterprise activity. Once an application is complete under normal circumstances, and within policy, a decision should be made and relayed to the client within 3 working days.

Once a loan is approved (note: due to the relationship-based approach a high proportion of applications are approved), funds can be disbursed on the same day. The loan process is described below:



- Existing enterprise activity. MED adds value to individuals who are experiencing the realities of 'working for themselves'. Many clients will 'blend' enterprise with other forms of income such as welfare, CDEP or wage work. As long as there is current income-generation and a desire to develop their enterprise, prospective clients are considered eligible for participation.
- Evidence of income generation is required. It may take several forms such as invoices, receipts, bank statements, formal accounts or verification from community members or clientele. Loan officers are encouraged to gather sufficient evidence without excluding prospective clients on the basis of prohibitively formal processes and requirements.
- On occasion, loan applications will be considered from people who have demonstrated consistent progress towards establishing their enterprise. In selected cases, credit may be extended as a means of helping the applicant take the next step.
- Relationship. Loan officers use a relationship based approach to lending, preferring to add value to a client's current enterprise by building a relationship with the individual. This means the loan officer visits the clients where their enterprise takes place rather than booking meetings in their own office. This approach allows loan officers to have a better understanding of the enterprise and therefore make a more informed decision as well as building a stronger relationship which will in turn increase the repayment rate.
- Developing a relationship with prospective clients extends to:
 - Knowing their context
 - Knowing who they mix with

- Knowing what people think of them
 - Knowing whether they can verify claims
 - Knowing whether they have fully disclosed their credit history.
- The three Cs: character, capacity and cash flow. These three simple judgments determine the creditworthiness of a micro-enterprise. They simplify the decision-making process and get to the heart of whether MED can add significant value or not. Notwithstanding that generic business training for clients and the development of a written business plan are important components of future business development, they are not essential ingredients of the initial credit decision:
 - Character is assessed through relationship. No matter how profitable a business is, or how astute its owner may be, if a credit applicant is not of good character, the loan will not be repaid. Micro-finance is unsecured by tangible means leaving the person's character as the key indicator of likely repayment.
 - Capacity—tiny amounts of credit applied to an enterprise that has the ability to turn over cash quickly, can further penetrate an existing market or quickly diversify into others, and has a need for working capital in particular, can reap spectacular results. Applying credit to an already heavily indebted enterprise in need of expensive inputs and facing a saturated market probably condemns it to failure. A judgment has to be made on the likely effect on the enterprise of a relatively small injection of capital. Offering and accepting credit is a business decision and making that decision is facilitated by proper completion of loan processes (next section). The loan officer must develop an eye for businesses ready to absorb credit.
 - Cash flow (the effect of cash-in and cash out)—if character determines whether a loan should even be considered and capacity determines that the business is ready to absorb credit, then cash flow determines how much credit should be offered. Every loan approval must be preceded by a thorough 'projected cash-flow analysis'. By using historical figures to determine the flow of cash in and out of the enterprise, and taking into account the proposed injection of cash, the likely effect of a loan can be determined. Any projection is based on an element of guesswork, so the ability to repay the loan out of future business earnings is balanced against discretionary income from other sources (such as wages, CDEP, etc).
 - These three Cs are weighed using a points system that assists the loan officer's decision making process.
- Complete file and application. Loans are made as a business decision, therefore accurate information is essential. For a loan to be approved it is required that all loan documents are complete and made available to the credit committee, including a credit check as well as all supporting documentation of enterprise activity. However, disclosure of likely information, problems or faults (rather than a good credit score) is seen as a factor.
- Credit committee. All loans would be approved by the loan officer with the agreement of the credit committee (made up of other loan officers or business development officers in the local hub), not by the central office. Loans that fall outside of policy can be approved by the Program Manager (PM) or General Manager (GM).
- Disbursal of loan. Once a loan is approved the money will be disbursed by the central office, usually within the same working day.
- Repayments and follow up. Regular contact with the LO and BDO plus regular loan statements lead to a higher repayment rate. However, a loan is delinquent (in arrears) when a repayment is past due.

A delinquent loan does not necessarily indicate a ‘delinquent’ borrower. Some borrowers may occasionally fail to make a payment on time due to:

- Unexpected financial difficulties
- Fluctuations in cash-flow
- Difficulty accommodating to repayment processes
- Challenging family circumstances (e.g., a death in the family).

Different measures are taken to deal with borrowers who are experiencing difficulty but are nevertheless keen to honour their commitments, than those taken with a truly delinquent borrower who appears to be making little or no effort to make on-time payments. Past-due payments are ranked according to how long a payment is overdue (called aging). Standard aging categories of 1–30 days, 30–60, 60–90, 90–120 and greater than 120 days are used.

Central Office: Centralised services

While the hubs will have their own structure and will be encouraged to function as an independent unit, the central office will supply various centralised services, including but not limited to the following (these services would be subsidised by an annual contribution from the hubs):

- **Loan.** The central office is responsible for making any decisions on loans that are outside of policy. Loans that are outside of policy can be made, but the decision to make them should be through the central office based on information provided by the implementation partner. The central office must also provide up-to-date loan portfolio information on a daily basis to the implementation partner. This will be done as per system outlines (see ‘core organisational capabilities’ table).
- **Support tools.** All documentation will be supplied and updated by the central office to ensure a uniform methodology is used for MED service delivery. This support would extend to regular visits by the relevant Program Manager.
- **Recruitment.** Recruitment decisions will be made by the field office, the central office will provide relevant Human Resources tools and support and would when possible be involved in the interview process.
- **Training.** Through annual workshops, up-to-date manuals and field based training courses, all MED staff Australia-wide would be connected to current good practice. Training would extend to both LOs and BDOs.

Organisational Capabilities—Hub

Implementation partner (hub): Identify potential clients

Identifying clients eligible for micro-enterprise support, and particularly credit, will be done by hubs. By establishing credibility with local leaders and observing local protocols, loan officers will identify micro-entrepreneurs who often work in a ‘grey’ economy and may therefore be more difficult to locate without local knowledge.

The methods will vary depending on the location. However the guiding principles of connecting with grassroots organisations and leadership will remain the mainstays of MED. Once identified, clients have

the ability to move very quickly into the loan application, which is towards the end of the approval process—not the beginning.

CORE ORGANISATIONAL CAPABILITIES HUB

Activity	Description	Process	Systems/Assets
Locate Potential Clients	The task of finding prospect clients that are: <ul style="list-style-type: none"> - Indigenous - Have or are building an enterprise - Need Micro-Finance - Can absorb a loan 	The implementation partner is expected to be in constant contact with the Indigenous community and funnel prospects to their MED staff	
Approve Loans	Assessment of the loan absorption capability of the individual and the likelihood they will repay	The MED hub staff make the final loan approval decision as a team	Assessment criteria
Management of Client Relationship & Loan Management	Loan repayment management by Loan Officer	Visits to the client; often every 2-4 weeks	
Business Development Support	Enterprise development aid by Business Development Officer	Visits to the client; often every 2 weeks	

Implementation partner (hub): Approval of loans

The loan approval process as outlined above is defined and monitored by the central office, but it is implemented and used by the implementation partner or more specifically the loan officer. If the loan is within policy, then the loan officer, after consultations with the Credit Committee, makes the final decision to approve the loan. The client is in fact dealing with a person who can make a loan. This is empowering for the loan officer and something that has typically not been experienced by the client.

Implementation partner (hub): Management of relationship and loan

The loan officer is also responsible for the ongoing relationship with the client. They should have easy up-to-date information as to where the loan is at any given time (i.e., real time MIS). This information will be provided through the central office and is part of the top-down reporting requirements. This relationship is important for ensuring that the loan officer is able to monitor business performance and recommend business development services as needed.

Implementation partner (hub): Business development services

Where possible an implementation partner should be chosen on their ability to provide effective business development services. This means that the central office will not monitor these services as closely as the loan process. However, the central office is able to provide advice and tools as required by the implementation partner. It is recommended that the implementation partner has a designated role called a Business Development Officer which may or may not already be providing these services as part of pre-existing activities of the implementing organisation. If this function already exists and can be applied to MED clients, it will bring a cost saving to the program. Otherwise, this person will maintain an ongoing relationship with clients, and provide one-on-one advice to loan and non-loan clients.

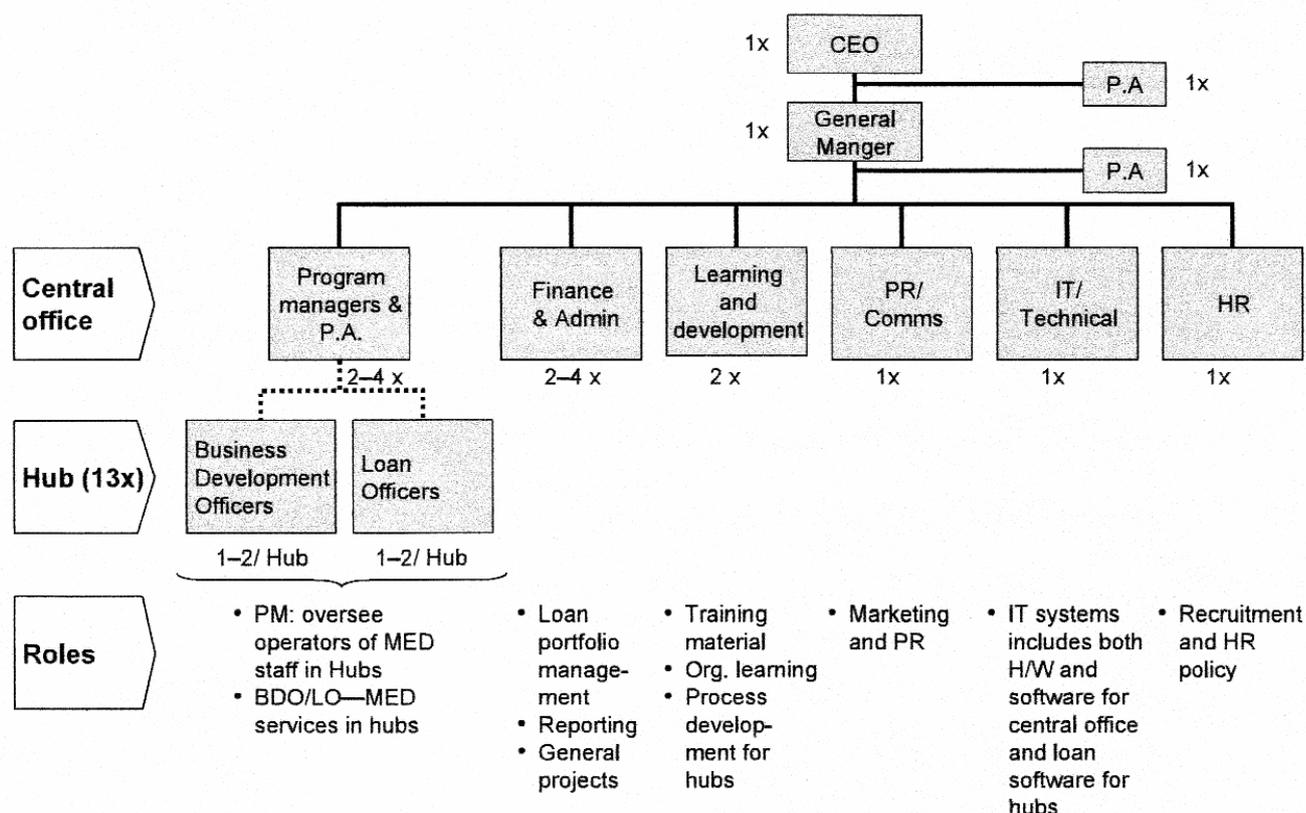
Implementation partner (hub): Networking within the community

The implementation partner should hire staff based on their ability to network with other organisations within the community that provide services that clients can use. The two Sydney hubs have built relationships with 71 other organisations and have a referral system in place in order to provide client needs even if they are not able to be met by the pilot.

4.3 Organisational staffing requirements

The core roles and staffing levels required to implement a national model are shown in the diagram below. The staffing requirements would be built over a period of time as hubs go online.

ORGANISATIONAL STRUCTURE



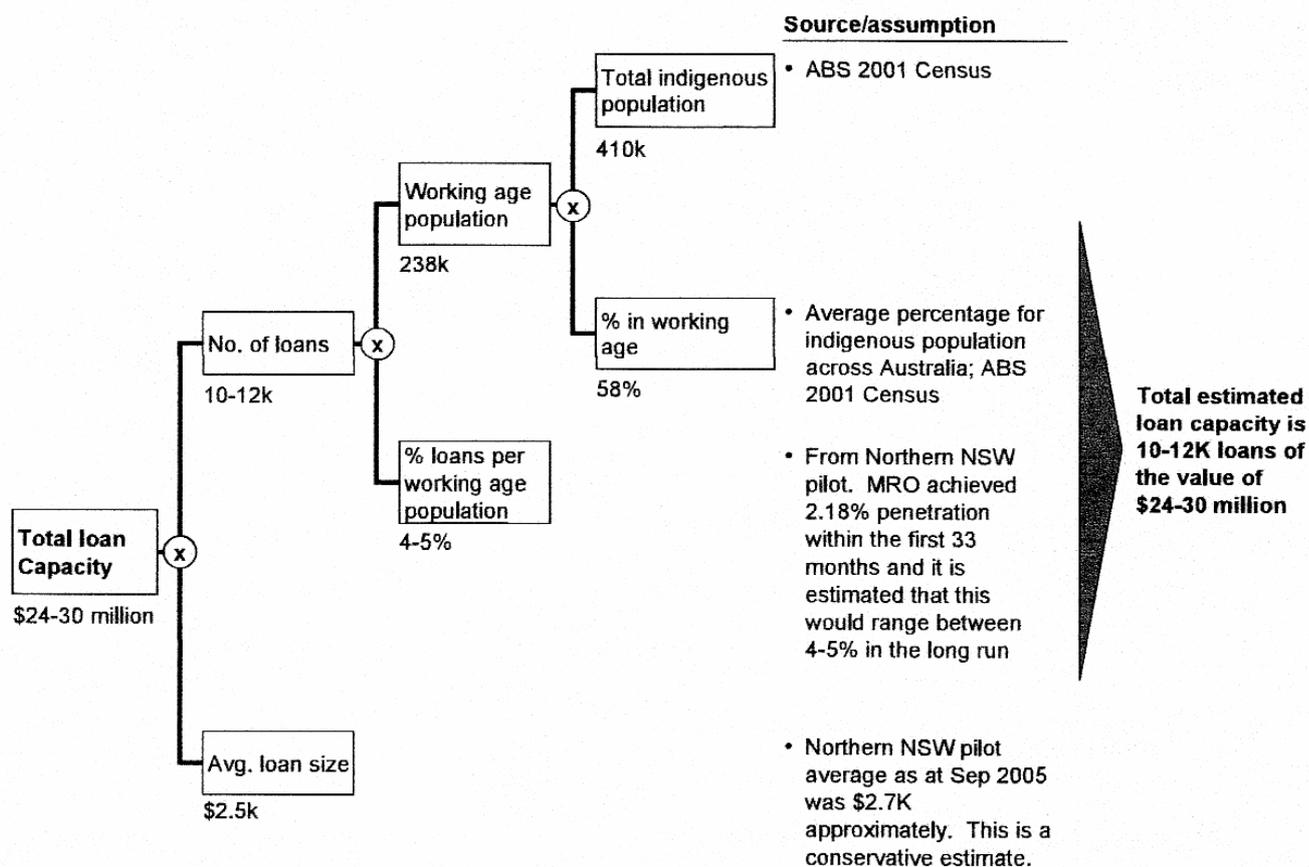
4.4 Rollout phasing and market research

The market size for MED in the Indigenous community

The market size for micro-finance in the Indigenous community is estimated at 10,000–12,000 loans valued between A\$24 and 30 million. The assumptions used to calculate this are as follows:

- There are 410,000 Indigenous persons in Australia as per the 2001 census. On average 58% of these are of working age.
- Based on the 33-month pilot, the number of micro-loans disbursed is 2.18% of the pilot area's working age population. This percentage of loans is estimated to be between 4–5% in the long term. Therefore, applying this 4–5 percentage to the working age Indigenous population of Australia (i.e., 58% of 410,000), results in an estimate of 10,000–12,000 loans.
- The average loan size of the pilot is approximately \$2,500. Multiplying the loan size with the total potential market of 10,000–12,000 loans generates a total loan pool worth \$24–30 million.

Market size



The market size for non-financial MED services would be considerably larger. More work could be done on sizing this market.

Identifiers for a national rollout

Given the Indigenous population is extremely dispersed across Australia it is unlikely that the entire population could be reached in an economic manner. A ‘phased rollout’ is proposed that initially focuses on the most attractive areas based on the evaluation criteria shown below. A phased rollout would allow the model to be further tested and ensures that the central office management has the capacity to ensure each hub is implemented successfully.

Percentage of Indigenous population (quantitative)—ensure a sufficient population exists that will support a MED operation while also trying to cover as much of the Indigenous population as possible. Obtaining complete coverage is unlikely considering how dispersed the Indigenous population is around Australia.

Presence of an appropriate implementation partner (quantitative/qualitative)—the process for rolling out hubs and providing MED services is much more economical and quicker if a partner’s network into the local community can be leveraged. The ‘appropriateness’ of an implementation partner may be assessed based on the ‘partner identifiers’ described earlier in this document.

Accessibility to markets (qualitative)—one cannot assume that a capital city is always going to have the best access to markets. Remote areas may have unique markets such as mining and tourism. Regional areas may have a better chance of providing products and services as the market is not saturated. For example, it is very difficult to get tradesman services in regional areas—so access to market could be greater. Therefore, this is also an important factor to consider while evaluating different regions.

Transience of the population (qualitative)—this can be used to describe situations such as Redfern where Indigenous people are often just passing through. They may not be in a position to set up a business in Redfern. Another example of this is in the top end of Australia, where parts of the country are inaccessible during the wet season so there is a migration to the major towns.

A proactive/interested State government (qualitative)—it will be much easier for hubs to be established if there is an interested and active State government that is willing to participate and fund implementation partners. For example, the QLD State Government is well on its way to rolling out Indigenous micro-business support hubs around QLD using a partner model. They are interested in adding a loan component to their existing model.

Well established, focused communities (qualitative)—there are many Indigenous communities that have strong and committed local leadership. It will be much easier to work in communities that already have these qualities rather than having to develop these qualities independently. Cape York is an example of a community with strong focused leadership that has shown a lot of initiative in building the local community.

Rollout phasing

The above factors are combined (shown on the following diagram) to develop a recommendation for rollout locations; initially it is recommended that a further 10 hubs be developed in addition to the current pilot hubs.

ROLLOUT PHASING IS BASED ON FACTORS LIKE POPULATION SIZE AND IMPLEMENTATION EASE

- ▶ Pilot
- Phase 1
- ✱ Phase 2 possibilities

Factors for area selection

- Population size
 - Indigenous population that can support MF activities
- Ease implementation
 - State backing
 - stated support for MED program
 - Partner (Hub)
 - Identification of suitable partner
 - Community
 - Cohesiveness of indigenous community and support for business development

Rationale for phasing

- Start with best opportunities to determine feasibility of going further
- Start with no more than ten hubs in order to both minimize implementation risks and further test MED feasibility

Area prioritisation matrix

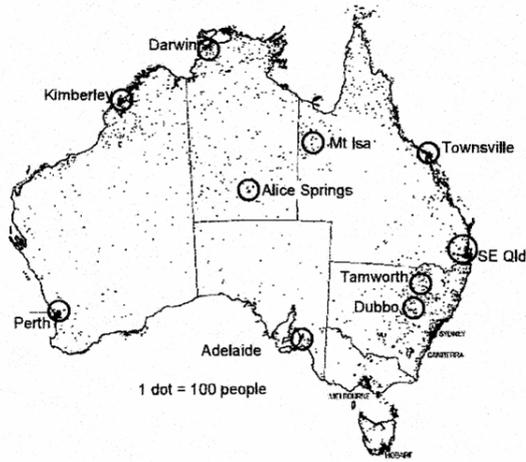
Indigenous Population size	H (>10k)	<ul style="list-style-type: none"> • Dubbo (NSW) • Tamworth (NSW) • Townsville (QLD) ✱ Newcastle (NSW) ✱ Melbourne (VIC) 	<ul style="list-style-type: none"> • Perth (WA) • Alice springs (NT) • Darwin (NT) 	<ul style="list-style-type: none"> ▶ Sydney (NSW) ▶ Cape York (QLD) ▶ Mid North Coast (NSW) • SE Qld (QLD) • Adelaide (SA) • Kimberly (WA)
	M (5–10k)	<ul style="list-style-type: none"> ✱ East Arnhem (NT) ✱ Rockhampton (QLD) ✱ Maryborough (QLD) ✱ Port Augusta (SA) ✱ Orange (NSW) ✱ Tweed (NSW) 	<ul style="list-style-type: none"> • Mt Isa (QLD) ✱ Wollongong (NSW) ✱ Geraldton (WA) 	
	L (<5k)		<ul style="list-style-type: none"> Torres Straight (OS) Shepperton (VIC) 	
		Low	Medium	High

The resulting rollout locations for the next phase of MED development are shown on the diagram below. It is expected the provision of these 13 regions (including the pilot regions) would cover 55% of the Indigenous population with a maximum loan capacity of 6,500 loans in the long term.

Further rollout locations have been identified and are shown in the chart below. Further rollout should not occur until MED has been successful in the initial areas proposed in Phase 1.

PHASE 1

Rollout locations for indigenous communities



Market sizing

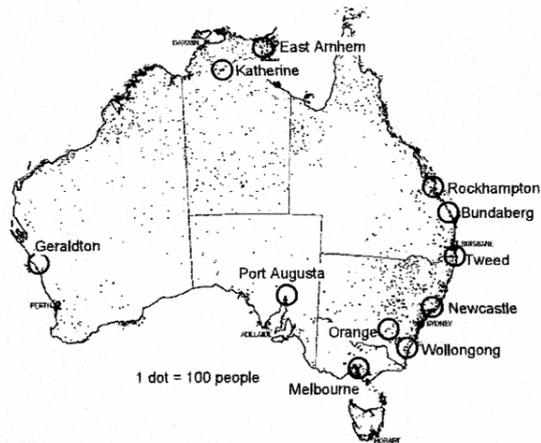
	Population Coverage Thousands (% indigenous pop)	Loan capacity Number at high end
Pilot	78	(19) 2,260
SE Qld	35	(9) 1,024
Perth	20	(5) 580
Kimberley	14	(3) 393
Alice Springs	13	(3) 377
Dubbo	13	(3) 373
Tamworth	12	(3) 353
Townsville	12	(3) 336
Adelaide	11	(3) 320
Darwin	9	(2) 275
Mt Isa	9	(2) 246
Total	226	(55) 6,540

Source: ABS website

Rollout in these areas would have covered 76% of the Australian Indigenous population, with loan absorption capacity of ~10,000 loans in the long term.

POTENTIAL FOR PHASE 2

Rollout locations for indigenous communities



Market sizing

	Population Coverage Thousands (% indigenous pop)	Loan capacity Number at high end
Pilot	78	(19) 2,260
Phase 1	148	(36) 4,280
Newcastle	12	(3) 349
Melbourne	12	(3) 348
East Arnhem	8	(2) 230
Rockhampton	8	(2) 227
Wollongong	8	(2) 220
Katherine	8	(2) 218
Bundaberg	7	(2) 205
Port Augusta	7	(2) 190
Orange	7	(2) 189
Tweed	6	(1) 177
Geraldton	6	(1) 176
Total	313	(76) 9,071

Source: ABS website

4.5 Financial model

Based on financial results of the pilot, and assumptions on MED in Australia, a financial model was developed to predict and evaluate certain key metrics of the proposed national rollout. Pertinent outputs from the model such as required levels of funding, cost to lend ratios, and size of loan portfolio are shown in the following table.

FINANCIAL MODEL FOR PHASE 1 ROLLOUT

	Unit	Pilot	2006	2007	2008	2009	2010	Total	
Market									
Number of loans	Number	139	310	740	912	912	998	4,011	• By 2010, in Phase 1, expect to have provided ~4k loans which represents ~34% of loan capacity of market
Value of loans	A\$K	347	775	1,849	2,281	2,281	2,495	10,027	
Market covered	%	1	3	6	8	7	9	34	
Net cash flow									
Loan	A\$K		463	1,151	617	228	442	2,901	• Opex for hubs rises sharply as number of loans increase implying optimum utilisation of LOs and BDOs would be important
Central office opex	A\$K		2,313	2,485	2,501	2,501	2,424	12,224	
Hub opex total	A\$K		1,600	4,600	5,400	5,400	5,600	22,600	
Total			4,376	8,236	8,518	8,129	8,466	37,725	• Total of ~\$38m required over 5 years for rollout of phase1
Financial metrics									
Total cost to loan x		6.7	5.6	4.5	4.0	3.9	3.7		• Total cost to loan decreases as economies of scale arise • Some operational self sufficiency also achieved
Operational self sufficiency	%		3	5	5	5	6		
Organisational Metrics									
Number of hubs	Number		3	13	13	13	13		• At expected loan rates in 13 hubs, 23-28x LOs and 23-28x BDOs are required
Number of loan officers	Number		8	23	27	27	28		
Number of BDOs	Number		8	23	27	27	28		

Source: Modelling of pilot projects

Market

The total potential market for micro-finance within the Indigenous community in Australia amounts to a maximum of approximately 12,000 loans valuing \$30 million. By 2010, and still in Phase 1 of the recommended phases, 34% of this market (ie \$10 million) would have been covered. The loan take-up is a core driver of costs through the financial model and hence the assumptions are outlined as follows:

- The Grafton pilot achieved loans equivalent to 2.18% of the working population after 3 years. It is assumed that in the following 5 years loan take-up could reach 5% of the working age population.

- The take-up curve expected at Grafton is then applied to the Sydney and Cape York hubs and then to the Phase 1 regions. The start date is adjusted to suit—i.e., Phase 1 take-up does not start until 2007.

Net cash flow

The total cash flow required to support a MED initiative of the scale recommended is ~\$8 million per year. This cash flow is comprised of three parts—a loan fund, central office operating expenditure, and incremental hub costs—described below.

1. Loan fund. To be able to extend micro-finance amounting to ~\$10 million by 2010, a loan fund of ~\$3 million is required (or an annual top-up of ~\$0.5 million). The additional loan funds required each year are shown in the table above. The following assumptions were used to estimate the size of the loan portfolio:

- Average length of loan is 1 year; this was based on the contract terms of the pilots
- A bad debt provision of 10% was assumed based on the pilot project targets and actual performance. This implies that 90% of the loans are repaid by borrowers before the end of a year and that money is used to extend future loans. The current recovery rate is 96% p.a.

2. Central office operating expenditure. It is expected that running a central office will require ~\$2.5 million per annum. However, this cost would be significantly reduced if Options 1 or 2 were taken and IBA were to take over the running of the central office. The major costs areas for this are:

- Staff costs are based on the organisation chart provided in an earlier section, there are fixed staff costs and variable program manager costs that change with the number of hub staff. It is assumed that one program manager is required for every 15 hub MED staff (either loan officers or business development officers).
- Non-staff costs such as rent, marketing, training, monitoring and external and internal auditing. While most costs have been scaled from the pilot experience there are also new costs included to reflect the true standalone nature of the operation.
- One-time costs include set-up costs towards IT systems, portfolio management software, building set-up and miscellaneous.

3. Hub operating expenditure. The incremental costs relating to the provision of micro-finance and business development service activities in the hubs are included. These are the expenses for LOs and BDOs. This total incremental cost for all hubs is ~\$5 million p.a. The assumption used to generate this cost is:

- A loan officer can handle from 40 clients per year. It is assumed that one BDO is required per loan officer. Although BDO support is likely to be more intensive (e.g., one BDO per 50 clients per year), it is intended to approach implementation partners that currently provide business development services. Hence only the incremental costs are included.

Financial metrics:

- Total cost to loan ratio over the period 2006 to 2010, declines from 5.6 to 3.7. This is mostly due to the high fixed costs of the central office, which are now spread over a larger volume of loans.

However, a part of this decline can also be attributed to better utilisation of the business development and loan officers at the hubs.

- Operational self sufficiency¹ improves from the pilots but it must be recognised that the income generated from loans still only covers 6% of total central office costs (operating costs and their share of hub costs).

Funding structure

As shown through the cash flow forecast, the MED operation will not generate enough income to become self-sufficient.² There are a number of reasons why self-sufficiency is unlikely to be achieved in Australia, as described below:

- High interest rates cannot be charged. Interest rates approximately equal to commercial interest rates for unsecured loans are used to ensure maximum participation and larger economic benefit as there will be more people coming off welfare.
- Relatively small market size for micro-finance. Populations living in poverty and without access to capital are generally a lot higher in developing economies, making the market size for micro-finance in Australia relatively smaller. However, reasonable scale is possible to reap cost efficiencies and lower the cost of lending.
- Large transaction costs involved for each loan—e.g., relationship building required with each loan. As seen from the pilot and from experience with similar initiatives in other developed economies business development is key to the success of micro-finance in Australia. However, these transaction costs will reduce with economies of scale and learning.

Therefore, in addition to funds for disbursement of loans, funding is required for both central and hub office expenses. The options are discussed below.

Hub funding

The plan is to partner with organisations (privately or government run) that already have some existing capabilities and networks within the Indigenous communities in the target areas. This ensures that hubs are largely setup and funded by implementation partners, and the incremental cost of adding micro-finance to such operations is simply the cost of loan officers and business development officers.

There are two options for funding hub operations, as follows:

- Option 1: The implementation partner is responsible for funding to cover the full cost of loan and business development officers. The central office would support the hub in obtaining state or private sector funding for part of the costs. This process ensures the partners value the MED activity as they must make substantial financial commitments. However, this may lead to resistance on take-up by potential partners or limit the number of entities willing to operate a hub.
- Option 2: Implementation partners and the central office both equally share the cost of the MED staff. The central office uses centrally generated funds to cover half of the costs while also working with the hub to raise state and private enterprise funds for the remaining half of the costs. This approach removes potential resistance from implementation partners for developing hubs, ensures that the Federal Government has involvement at a local level, ensures the central office has financial

influence over the MED operations of a hub and should also make the funding decision easier for local funding partners as they are matching national funds. Option 2 is the preferred model for the reasons listed above. Given this funding model, the question then arises on how to fund the central office in a sustainable manner. A number of funding modes are discussed in further detail below.

1 Refers to a state where income from interest on loans is sufficient to cover all/ part of the operating expenses.

2 ‘Self sufficiency’ is defined to mean a state where all expenses to lend are met out of interest earnings and funding is required only for the loan amount.

Central Office funding

There are four options for funding the central office and hub expenses:

- Option 1: Self-funding: This is the scenario when interest rates charged cover the full operational costs of the Central office. As discussed earlier, this model may not be sustainable in Australia in light of the standard commercial interest rates and the relatively smaller volumes of loans. Furthermore, if adopted, this approach may induce lending to clients when not actually required, increasing the risk of the loan portfolio.
- Option 2: Annual funding model: Private or government funds pay for central office costs on an annual basis. This model is also not believed to be sustainable as changes of government or competing private sector interests for capital mean funds may not be available. This would also result in the MED organisation spending a large portion of time sourcing capital rather than extending loans.
- Option 3: Capital fund used over limited time: Funding is guaranteed for a significant period of time—e.g., 5 years. The capital could be provided upfront with agreed annual withdrawals until it is completely exhausted in the agreed timeframe. The rationale behind this funding proposal is that it provides enough time to build the MED organisation and prove the concept nationally, while also allowing enough time for the organisation to secure further funding.

It is recommended that a longer term perspective be adopted towards developing MED in Australia by considering Option 3, and therefore allowing the operation to gain scale. During the 5-year period, the central office should seek to develop a more sustainable source of funds that does not rely on continuous requests for external grants or donations.

It is envisaged an endowment fund could be built that will provide investment income indefinitely into the future. Funding partners would be asked to make large one-off payments into the endowment fund.

Funding requirement summary

Using the funding scenarios in Option 3 above, it is expected that the central office will require upfront funding of ~\$24 million over the next 5 years. Local government and businesses will be required to provide the additional \$10 million required to fund the other half of the incremental hubs costs.

STATEMENT OF REQUIRED FUNDING

A\$k

	Annual					Capital fund (5 years)
	2006	2007	2008	2009	2010	
Central office						
• Loans	463	1,151	617	228	442	
• Own opex	2,313	2,485	2,501	2,501	2,424	
• 50% of hub opex	800	2,300	2,700	2,700	2,800	
• Total	3,576	5,936	5,818	5,429	5,666	23,857*
Hub office						
• 50% own opex	800	2,300	2,700	2,700	2,800	10,075*
Total	4,376	8,236	8,518	8,129	8,466	33,933*

* NPV based on discount rate of 5% as assuming invested in low risk investment fund

4.6 Impact comparison analysis between the Pilot and Stage 1

The table below is an impact comparison between what the pilots have been able to achieve and what stage 1 is expected to achieve.

Identifier	Pilot	Stage 1
Years	3	5
Hubs	3	13
Market penetration	2.18%*	5%**
Market coverage (Aust)	19%	55%
Clients serviced	332	8,000
Loan clients	93	2,670
Loans made	127	4,000
\$ value of loans	\$362,000	\$10,000,000
Average loan size	\$2,500	\$2,500
Interest rate	13%	13%
Provision for bad debt	4% p.a.	5% p.a.
Recovery rate p.a.	96%	95%
Total cost	\$2.5 million	\$35 million
Cost per client	\$7,530	\$4,375
Cost per \$ loaned	\$1: \$6.9	\$1: \$3.5

*This figure is based on Northern NSW hub only

**This figure indicates the depth of penetration into the working age population

Below is the projected direct savings to government based on the Owen and Bromley (2004) study, and calculated against the pilot loan clients:

	Program cost	Government savings	Cost benefit ratio
Pilot (93 x \$50,000)	\$2.5 million	\$4.6 million	\$1 = \$1.84
Stage 1 (2,670 x \$50,000)	\$35 million	\$133 million	\$1 = \$3.8

(Note that the loan portfolio is included in the cost of \$35 million)

4.7 Economic, social, cultural, and collaborative benefits

The economic benefits are seen in:

- Clients' increased incomes and asset accumulation.
- Job creation; reduction in welfare payments.
- A pathway for clients into the real economy and ability to access the formal banking sector.
- The development of a micro-finance institution (MFI) that can attract investors and maintain services.
- The ripple effect on other local businesses.
- Increasing local wealth creation.
- Building of real local economies with increasing tax revenue back to government.
- Significant cost benefit savings to government.

The social benefits are seen in:

- Increasing availability of goods and services in regional and remote communities.
- Empowering individuals in dysfunctional communities.
- Rebuilding families and leadership; increasing disposable income to purchase necessities.
- Building local ownership.
- Confronting the passive welfare culture.
- Developing positive role models.
- Reaching the most marginalised people, families and communities.
- Building positively on the wider Australian community's impression of Aboriginal and Torres Strait Islander people.

The cultural benefits are seen in:

- Increased disposable income which allows people and communities to promote and invest in what is valuable to them
- Building sustainable micro-businesses that promote culture. Examples of this are cultural and eco-tourism, arts, crafts, dance, food, history, story telling and cultural promotions.

'Only by entering into the real economy will Aboriginal people have both the will and means of seeing our culture survive. We cannot rely on others to save our culture' (Noel Pearson, 2005).

Collaborative:

If structured and supported by government as an independent MFI, MED can both facilitate and draw on collaboration from Federal, State and Local governments as well as corporate and philanthropic support. As MED services become available in a community, they add value and strength to what already exists in terms of: local leadership, ownership and management; building local assets; social, community, and cultural capital.

4.8 Feedback from parties interested in MED

To test the delivery model concept and to validate potential rollout locations, potential partners have been identified. A more detailed summary of examples of potential partners is provided in appendix 2. In short, there is overwhelming interest in providing MED services at both a local and a national level. However, this should not be considered an exhaustive list as the pilot had limited resources available to survey other regions throughout Australia. It is expected that this discussion paper will create interest among other community, government and corporate interests throughout Australia. For the purpose of example, a brief summary of the level of partner capacity and interest is shown in the following table.

Partner	Commitment to National Level	Commitment to hub Level
Queensland State Government	The QLD Govt has indicated its interest in helping to fund a central office for a future nation-wide MED initiative.	Has already provided funding for the development of MED hubs in Cape York (including Cairns, Weipa and Cooktown) through a partnership with the Balkanu Corporation. They have also recently joined with the Brisbane City Council to fund a Business hub to service the South East part of the state. The QLD Govt is very interested in establishing more hubs throughout QLD.
Northern Territory Government	The NT Govt is very interested in a partnering arrangement for a nation wide MED initiative. Whilst not yet directly supporting any MED initiative, their interest is very high. They are prepared to consider funding a central office in the same way that QLD may be prepared to.	As part of its participation in a National MED Initiative, is prepared to consider funding for hubs strategically placed throughout the Northern Territory. NT Govt has some existing infrastructure and organisational ability already in place for assisting Indigenous business throughout the NT.
Brisbane City Council	n/a- hub level interest	In partnership with the QLD Govt has established a Business hub to service Indigenous Business / Enterprise in the South East corner of the state. As yet there is no micro-finance position or lending activity taking place from the hub. The BCC is very interested in joining a National MED Initiative with a particular focus on the provision of micro-finance services.
Goolarri Media	n/a- hub level interest	Is very interested in partnering in a local MED hub to service the Broom region of Western Australia. There is significant support from Goolarri in terms of logistics and networking support (including their Patron, Mr Pat Dodson) with strong connections to a wide range of Indigenous community organisations and locally based governmental services and agencies. Goolarri currently run the Indigenous Stock Exchange (ISX).
Balkanu Corporation	n/a- hub level interest	As per the QLD Govt above.

4.9 Corporate and philanthropic sectors

During the course of the pilot, the project was approached by members of both the corporate and philanthropic sectors who were interested in the possibility of different levels of involvement in a national program.

Two of these are of particular interest—National Australia Bank from the corporate sector and Opportunity International from the philanthropic sector. These possibilities have been explored for the purpose of this document. Other parties such as various mining and development corporations have expressed interest in investing capital in a national MED program with hubs in communities where they have a vested interest. However, it is premature to explore any of these possibilities until MED has moved from pilot form to a national program.

National Australia Bank has actively explored the possibilities of becoming a major partner and financial contributor of a nationwide MED initiative. However, this financial partnership would be contingent on numerous factors outlined below. These same factors arose in conversations with various corporations.

Factors	Description	Impact on program
Level/nature of government support	What level of financial support will the Federal Government allocate to this program? How will the Government be involved in the implantation?	Government involvement is vital for MED's success in Australia
Workable model	Is the proposed model accessible to all disenfranchised communities? Is this model meeting international MED good practice?	The correct model will be vital in not only securing financial support but also in the overall success of the program
Exclusivity to raise goodwill	Exclusive partners in each sector	Exclusivity is required to promote long-term support, this will not harm fundraising efforts as there is potential to find partners from various other industries
Current economic environment	The level of support will depend on a strong economy	As with the majority of non-profit enterprises for social outcomes the level of financial support is determined by economic factors

There is the interest and intention from the corporate sector to support a model that includes the factors outlined above. As these factors are in line with MED good practice we would recommend that the type of partnership NAB has proposed would be advantageous to the proposed national initiative. Attached is a letter from Richard Peters, head of corporate responsibility Australia for the National Australia Bank (see Appendix 3).

While financial support can be found in the Corporate Sector, a partnership with a reputable philanthropic interest will need to be established. The options for an eligible philanthropic partner are very narrow as MED is relatively new, however Opportunity International has been a pioneer in this field of providing support and fundraising reach to micro-finance organisations. This partnership would serve vital areas as follows:

- Raising private sector funds to match government investment.
- Managing the investment portfolio.
- Managing micro-finance institution standards and providing technical support.
- Monitoring and evaluating.
- Providing due diligence.

4.10 Assessment of long-term operational sustainability

This term is generally used to measure the program's ability to cover operational costs from self generated income. In the pilot period this was less than 1%. Stage 1 in a national rollout is expected to see this rise to 6% (see financial model for national rollout section 4.5).

In order to attain operational sustainability the loan portfolio would need to be 20 times that it's expected to achieve in Stage 1. An average of \$33 million in loan funds would need to be disbursed to generate enough interest income to cover the current operational costs.

It does not make commercial sense to only target difficult to reach client groups who live in regional and remote Australia. Economies of scale will only have the opportunity to be realised when the program is opened up to non-Indigenous clients.

One of CGAP's guidelines is that a program being set up in a developing country must have a minimum target of 20,000 current clients. Without taking operational costs into account, the potential market in the Indigenous community in Australia has been estimated to be 12,000 loans per annum, that is 8,000 clients with an average of 1.5 loans per client. Unless MED is mainstreamed it will continue to be expensive in terms of operational sustainability.

4.11 The case for extending MED to 'all' marginalised people in Australia

4.11.1 Potential markets

Potential markets could include Middle East and North African (MENA) immigrants, seniors, people with a disability, unemployed, etc. These groups include a large number of target customers in a similar situation to the Indigenous community—i.e., many of them may be on welfare or without collateral.

4.11.2 Model and implementation

The model could be mainstreamed into the initiative that is set up for Indigenous Australians. Implementation of this could wait until the Indigenous program has been proven and is working well—e.g., 1–3 yrs. It would then be possible to select a further market to provide services to other communities (e.g.,) MENA immigrants—implementation partners would need to be set up based on their ability to link to community, to understand their needs and find targets and their location. Setting up a new group of implementation partners will ensure that a national network is developed and services could be tailored for them—e.g., national meetings/conferences and training. Existing Indigenous hubs could be opened up to non-Indigenous clients that meet the program criteria in the areas that these hubs service.

4.11.3 Issues for consideration

Advantages:

- Economies of scale may be realised to achieve sustainability of a central office. The central office cost is relatively fixed and would reduce as the market is expanded. However, the LO and BDO are variable costs; the more clients the greater the number of these people.
- Use of tried and tested processes brought to Indigenous community reduces implementation risk

- Could utilise other government departments for delivery.

Disadvantages:

- Rollout needs to be carefully managed so as not to reduce impact of services on Indigenous community.

4.11.4 Recommendation

The recommendation is to research and test opening up existing hubs to non-Indigenous clients and/or set up new hubs in strategic locations where other marginalised communities can be found.

‘ Entrepreneurs like a challenge... They look for something which is in the too hard basket and go and throw all their resources and skills at it... entrepreneurs need flexibility and are able to move quickly when they see an opportunity and capitalise on it.’

David Bussau
Founder, Opportunity International
Ernst & Young 2003 Entrepreneur of the Year

5.0 RECOMMENDATION

5.1 Why should the Federal Government support MED in Australia?

The Federal Government should support the development of a MED initiative in Australia as:

- There are measurable cost benefit savings to the Government in terms of a decline in welfare payments.
- There is considerable potential for socio-economic benefits from the knock-on effect of the creation of microbusinesses.
- MED confronts the passive welfare culture and produces fast and tangible results attracting others to participate. That is, it creates its own momentum and market.
- The Indigenous community is significantly disadvantaged in terms of self employment indicators and MED provides a way to rectify this imbalance.
- There is growing support from the corporate and philanthropic sector for such a program, and if the Government takes a lead then others will follow.
- MED is a concept whose time has come in Australia and the Federal Government is well positioned to promote the development of these services on a national scale.

5.2 Recommendation for a national program

It is recommended that the Government support the creation of an independent organisation that has the ability to be established as Australia's first MFI. This organisation should serve the needs of regional and remote Australia.

It should be structured in such a way that it has the ability to attract funding from government, corporate and philanthropic sectors. And it should have the ability to create an ethical investment fund that would sustain MED into the long-term.

It is recommended that the Government provide at least \$12 million dollars in upfront costs to set up such an organisation. Immediate arrangements should be made to put a plan in place to expand the existing pilots in Sydney, Northern NSW and Cape York, into a national MED initiative.

Lastly, it is recommended that research be done to test the feasibility of rolling out MED services to 'all' marginalized Australians and to the community at large.

5.3 Next steps

If IBA agrees to support this recommendation then there are four clear steps required on behalf of the Federal Government:

1. A whole-of-government high-level delegation to be formed to conduct a workshop to gain a detailed understanding of the proposal and report back to the Minister.
2. The initiative requires ~AU\$24 million funding for a central office over a 5-year period. The Federal Government is being asked to provide at least up to \$12 million (\$12–24 million towards these costs with

the remainder being provided from the private sector. In order to start operations in 2006 the funds will need to be allocated in the 2006/7 budget. New or existing funding for enterprise hubs could also be applied at the federal level.

3. To develop the new organisation, IBA is asked for interim funding for:

- The three pilot sites to continue operations and transition into the new organisation; currently funds end on Dec 2006 and organisation is costing \$1.2 million p.a. to operate.
- (If Options 1 or 2 are taken and IBA were to take up the delivery of a national MED initiative, than interim funding would still be required to make) this transition.
- The costs of the steering committee and the process to initiate building of the new organisation.

4. A person nominated from IBA to form part of the steering committee. It will be expected that this will be a full-time role for 6 months from January 2006.

5.4 Implementing a national model

The plan is designed to develop a fully functioning, nationwide, MED organisation within 1 year of funding availability. The major activities required to develop the organisation are listed below.

Transition the pilot into a new independent MED organisation

Once Treasury has provided confirmation that funding will be available in 2006, an interim board/steering committee can be formed to initiate the development of the new organisation.

The steering committee could include the current project manager (owing to their role in running the pilot) and DEWR and IBA representatives. Its role is to:

- Oversee the process for transitioning the pilot capability into the new organisation
- Recruit board members and key executive personnel for the new organisation
- Take an active lead in syndicating the plan to State governments; State governments will require lead-time to allocate funds
- Mobilise private sector support.

Form a new MED organisation:

- ‘MED Australia’ will be a completely new independent organisation constructed entirely for the purpose of providing MED services. This is considered essential in order not to alienate potential client groups or discourage investment from either the government or the private sector.
- The organisation will be developed as a non-profit NGO, in time it could transition to a more formal financial institution known commonly as a Micro-Financial Institution (MFI). The underlying organisational mission is to provide help to those in need, not to generate a profit. The government can participate through representation, business reporting and via ongoing programs to support enterprise hubs.
- To adopt good practice management of the new organisation, a board of directors should be appointed to ensure the assets are protected and the organisation fulfils its corporate mission. The board composition should contain a mix of skills and attributes that include:

- Solid business sense; the areas of financial analysis (e.g., asset management and liquidity), legal and regulatory expertise and public relations
- Micro-finance experience
- Fundraising experience; many board members of micro-finance organisations are expected to play a role in fundraising
- Preparedness to take responsibility for governance and all assets on behalf of the organisation.

Put funding in place from both the Government and the private sector for both the central office and hubs:

- The Federal Government is expected to make the first move by providing a budget for funding the central office and funding the formation of the new organisation.
- The private sector funding is also sought to contribute towards the central office costs. It is expected that Federal Government support will be required before the private sector will commit funds.
- Other governments funding will be sought to cover half of the costs for loan officers and business development officers in the hubs.

Implementation partners' recruitment and development:

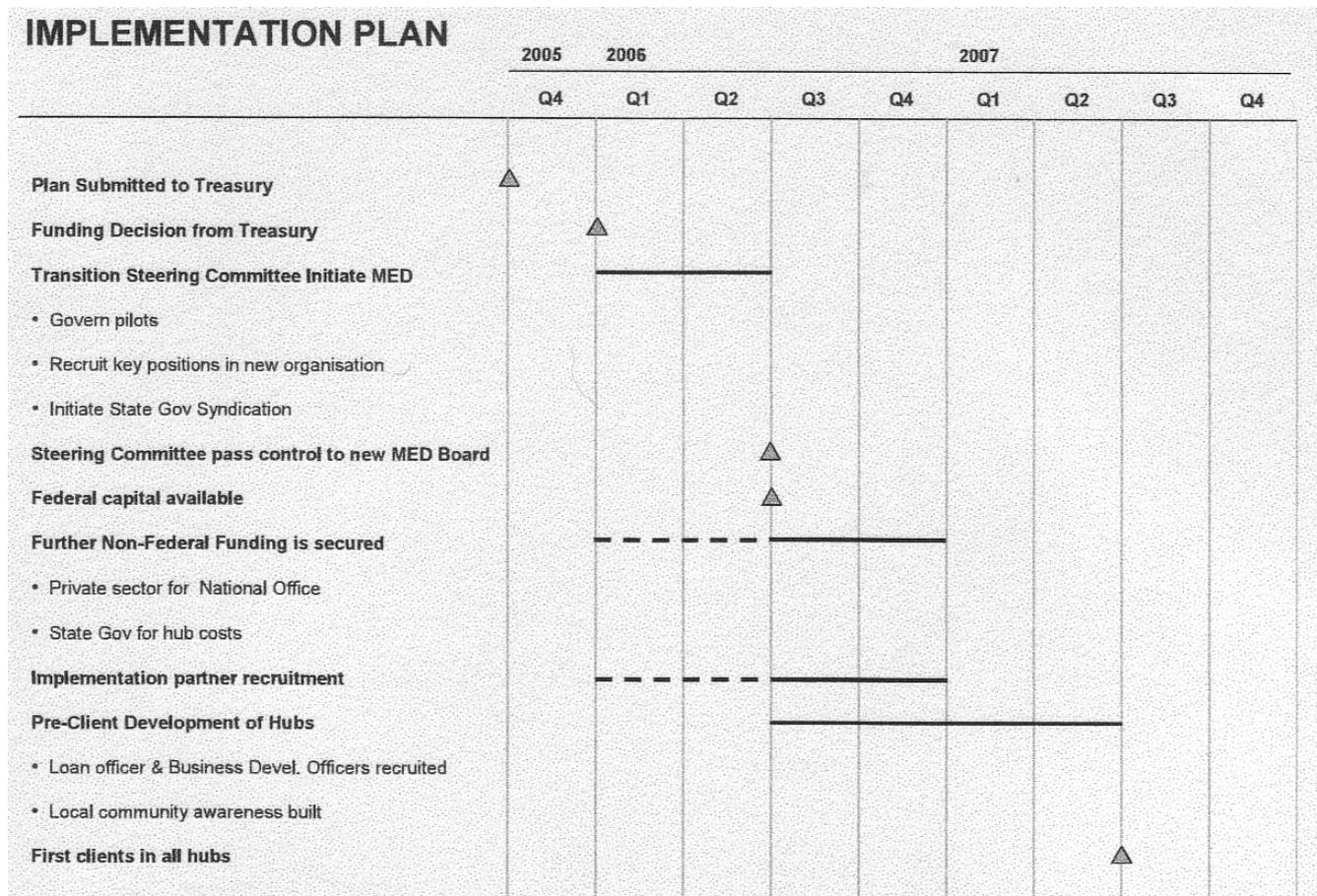
- There will need to be a small team involved purely in partner recruitment during the first 6 months of the company's initiation. Implementation partners will need to be identified and assessed on their ability to provide MED services.
- Funding from State Government will need to be approved.
- Loan officer recruitment will be a joint responsibility of the implementation partners and the central office.

Training will be provided by the central office.

- Business development capability will be assessed and supplemented if necessary. The central office can train new businesses development officers.
- Building local awareness of the MED service should begin before clients are involved—e.g., undertake meetings with local Indigenous groups, government services and local councils. The start of official services could begin with a launch event.

Further rollout past Phase 1 is not recommended for at least 2–3 years:

- Once the initial model is operating successfully, the service could be rolled out to further hubs for the Indigenous community and/or the model could be taken to non-Indigenous disenfranchised groups.
- To ensure the current planned model is successful, it is recommended that it operate at least 2–3 years before further expansion is considered. Moving into new areas for the Indigenous community may be more expensive to operate as population density reduces. Moving to non-Indigenous is likely to require additional implementation partners to operate hubs, as the existing partners are unlikely to be strategically positioned to connect with large number of clients from other disenfranchised communities.



5.5 Ethical Investment Fund

Opportunity International has recently announced the launch of an ethical investment fund in order to support MED worldwide. It is recommended that an MFI be created in Australia and should be structured in such a way that it could attract ethical investments. The concept of an ethical investment fund is to provide an opportunity for interested parties to invest in the socio-economic benefits that are realised through supporting MED in Australia. These funds would go towards covering the operational cost of the program and also provide a source for the large loan fund that would be required for future growth.

This idea has been tested with some fund managers who have been enthusiastic and expressed that this would attract significant funds if structured appropriately. From a long-term view point an ethical investment fund has the potential to raise the funds required to sustain a national program. Through ethical investment there is an opportunity to run a nationwide program without the need for external subsidies.

5.6 Possibility to replicate in other countries

Australia is one of the last countries to experiment with MED. This program has benefited from decades of testing and development of MED principles on a global level. As with other technologies the last

person to implement them is often in the best position to take advantage of other people's learnings. Overseas experiments, especially in industrialised countries similar to Australia, have designed and structured programs in such a way as to require commercial viability, and this has proved unsustainable. This is in line with international good practice in developing countries. However, Australia has the opportunity to define a new approach—a national initiative that provides MED services to marginalised communities and is structured in such a way that it can attract ethical investment funds and therefore has the ability to remain sustainable over the long term.

An attempt to implement MED services along these lines is likely to attract global interest and has the potential to be replicated in other countries.

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Potential Partner Name	Main Contact Name	Contact Details	Commitment to MED at a National Level	Commitment to MED at a Hub Level	Description of Current Services (with MED focus)	Sector	Area/Community (Location name)
NSW							
Hillsong Emerge	Leigh Coleman	(02) 9087 8222	Hillsong Emerge are committed to see a National initiative in whatever form it may take post the pilot period.	Hillsong Emerge currently provide administrative and project oversight to pilot Hubs in Inner and Western Sydney and Grafton in northern NSW.	See previous section.	Church/Community	Inner Sydney, Western Sydney, Northern NSW
NT							
Northern Territory Government - Department of Business, Industry and Resource Development (DBIRD) & NT Govt Indigenous Business and Industry Service (IBIS)	Joe Martin-Jard	(08) 8999 5542	The NT government are very interested in a partnering arrangement for a nation wide MED initiative. Whilst not yet directly supporting any MED program, their interest is very high. They are prepared to consider funding a central office in the same way that Qld may be prepared to.	The NT government as part of their participation in a National MED initiative are prepared to consider funding for Hubs strategically placed throughout the Northern Territory. The NT government have some existing infrastructure and organisational ability already in place assisting Indigenous business throughout the NT.	The NT government currently assists Indigenous people to own and operate their own businesses through the Indigenous Business and Industry Service (IBIS) who also work closely with the Department of Business, Industry and Resource Development (DBIRD). Indigenous people looking for advice on who to talk to about how to start a new business are encouraged to contact their local IBIS Branch. They assist with sourcing information and services available through the Department of Business, Industry and Resource Development (DBIRD).	Government	Northern Territory
QLD							
Balkanu Corporation	Gerhardt Pearson	(07) 4051 9089	Balkanu Corporation is a regionally focussed organisation serving the greater area of Cape York Peninsula, Qld.	Balkanu currently operate Business Hubs as a joint partnership with both the Federal government and State government of Qld. Their aim is to increase the number of Hubs currently operating and expand services across Cape York from Cairns to the Torres Straits.	See previous section	Community/Political/Indigenous Enterprise	Cape York
Brisbane City Council (BCC) - Business Hub	JM John Armstrong	(07) 3403 5571	No immediate plans to support an MED program at a national level.	The BCC is in partnership with the Qld government have established a Business Hub to service Indigenous Business / Enterprise in the South East corner of the state. As yet there is no micro-finance position or lending activity taking place from the Hub. The BCC are very interested in joining a National MED initiative with a particular focus on the provision of micro-finance services.	See previous section	Indigenous Enterprise	Brisbane

QLD						
QLD Govt - Dept of State Development, Trade & Innovation	Jonathan West	(07) 3224 2375	The QLD government have indicated that they are interested in helping to fund a central office for a future nation wide MED program.	The QLD government have already provided funding for the development of MED Hubs in Cape York (including Cairns, Weipa and Cooktown) through a partnership with the Balkanu Corporation. They have also recently joined with the BCC to fund a Business Hub to service the South East part of the state. The QLD government are very interested in establishing more hubs in Qld.	The two known initiatives are by: a. The Qld Government Department of Indigenous Business Development via programs with Balkanu, Torres Strait Regional Authority and Western Cape Traditional Owners Group, and b. The Brisbane City Council – Business Hub	Government Queensland
WA						
Goolarri Media Enterprises	Kevin Fong	(08) 9192 1325	No immediate plans to support an MED program at a national level.	Goolarri Media are very interested in partnering in a local MED Hub to service the Broom region of Western Australia. There is significant support from Goolarri in terms of logistics and networking support (including their Patron, Mr Pat Dodson) with strong connections to a wide range of Indigenous community organisations and locally based governmental services and agencies.	Goolarri Media are one of the most progressive and active Indigenous organisations in Broom, Wester Australia. Goolarri are not simply limited to media and media related activities but are connected either formally or informally to a wide range of Government (at all levels), business and other Indigenous organisations.	Indigenous Media organisation Kimberly Region, NT
General Partners						
National Australia Bank	Richard Peters and Tim O'Leary	(03) 8634 1570	The NAB are very interested in being a major partner and financial supporter of a National MED initiative.	N/A	N/A	Banking Australia

Full Financial Model

MARKET FORECAST

Inputs	Units	
Population		
% Working Age	%	58%
% of working age population granted loan MAX	%	3.3%
% of people going through process, granted loan	%	80.0%
Currently, no. of loans granted=2% of working age population. E If the % of loans per working age person increases to 5% in the I		
Loan Value		
Average number of loans per person	Number	1.5
Average loan amount	\$/loan	2,700

Market Take-up		2005	2006	2007	2008	2009	2010
Many Rivers	Cumm %	40.00%	52.00%	64.00%	76.00%	88.00%	100.00%
Sydney and Cape York	Cumm %	1.00%	15.00%	40.00%	52.00%	64.00%	76.00%
Phase 1	Cumm %			5.00%	20.00%	35.00%	52.00%
Phase 2	Cumm %					5.00%	20.00%

Phase on or off		
Many Rivers	Y/N	Y
Sydney and Cape York	Y/N	Y
Phase 1	Y/N	Y
Phase 2	Y/N	N

Phase (P=Pilot, P1=Phase 1, P2=Phase 2, N/A= Not Applicable)

Sydney	Syd
Far North QLD - Cape York and balance	Syd
SEQ - Brisbane + Moreton	P1
Perth	P1
Kimberley	P1
Central NT - Alice Springs	P1
North Western NSW - Dubbo	P1
Northern NSW - Moree + Tamworth	P1
Hunter (Newcastle)	P2
Melbourne	P2
Northern QLD - Townsville	P1
Adelaide	P1
Mid-North Coast NSW - Coffs Harbour	P
Darwin	P1
North West QLD - Mt Isa	P1
East Arnhem	P2
Fitzroy (Rockhampton)	P2
Illawarra (Wollongong)	P2
Lower Top End NT - Katherine	P2
Wide Bay-Burnett - Maryborough/ Bundaberg	P2
Northern SA - Port August/Whyalla	P2
Central West NSW - Orange	P2
Richmond-Tweed	P2
Central WA - Geraldton	P2

Market Size

Units

Indigenous Population By Region	Units	PEOPLE			MAXI
		Ind Pop	Working Pop	MAX people granted loan	Number loans
Sydney	Number	38,749	22,474	748	1,123
Far North QLD - Cape York and balance	Number	28,909	16,767	558	838
SEQ - Brisbane + Moreton	Number	35,320	20,486	682	1,023
Perth	Number	20,015	11,609	387	580
Kimberley	Number	13,555	7,862	262	393
Central NT - Alice Springs	Number	13,009	7,545	251	377
North Western NSW - Dubbo	Number	12,879	7,470	249	373
Northern NSW - Moree + Tamworth	Number	12,176	7,062	235	353
Hunter (Newcastle)	Number	12,031	6,978	232	349
Melbourne	Number	12,015	6,969	232	348
Northern QLD - Townsville	Number	11,597	6,726	224	336
Adelaide	Number	11,047	6,407	213	320
Mid-North Coast NSW - Coffs Harbour	Number	10,283	5,964	199	298
Darwin	Number	9,497	5,508	183	275
North West QLD - Mt Isa	Number	8,492	4,925	164	246
East Arnhem	Number	7,940	4,605	153	230
Fitzroy (Rockhampton)	Number	7,836	4,545	151	227
Illawarra (Wollongong)	Number	7,584	4,399	146	220
Lower Top End NT - Katherine	Number	7,521	4,362	145	218
Wide Bay-Burnett - Maryborough/ Bundaberg	Number	7,070	4,101	137	205
Northern SA - Port August/Whyalla	Number	6,567	3,809	127	190
Central West NSW - Orange	Number	6,508	3,775	126	189
Richmond-Tweed	Number	6,116	3,547	118	177
Central WA - Geraldton	Number	6,082	3,528	117	176
		312,798	181,423	6,041	9,062

People actually granted loan

		upto 2005	2006	2007	2008	2009	2010
Sydney	Number	7	112	299	389	479	569
Far North QLD - Cape York and balance	Number	6	84	223	290	357	424
Brisbane	Number	-	-	34	136	239	355
Perth	Number	-	-	19	77	135	201
Kimberley	Number	-	-	13	52	92	136
Central NT - Alice Springs	Number	-	-	13	50	88	131
North Western NSW - Dubbo	Number	-	-	12	50	87	129
Northern NSW - Moree + Tamworth	Number	-	-	12	47	82	122
Hunter (Newcastle)	Number	-	-	-	-	-	-
Melbourne	Number	-	-	-	-	-	-
Northern QLD - Townsville	Number	-	-	11	45	78	116
Adelaide	Number	-	-	11	43	75	111
Mid-North Coast NSW - Coffs Harbour	Number	79	103	127	151	175	199
Darwin	Number	-	-	9	37	64	95
North West QLD - Mt Isa	Number	-	-	8	33	57	85
East Arnhem	Number	-	-	-	-	-	-
Fitzroy (Rockhampton)	Number	-	-	-	-	-	-
Illawarra (Wollongong)	Number	-	-	-	-	-	-
Lower Top End NT - Katherine	Number	-	-	-	-	-	-
Wide Bay-Burnett - Maryborough/ Bundaberg	Number	-	-	-	-	-	-
Northern SA - Port August/Whyalla	Number	-	-	-	-	-	-
Central West NSW - Orange	Number	-	-	-	-	-	-
Richmond-Tweed	Number	-	-	-	-	-	-
Central WA - Geraldton	Number	-	-	-	-	-	-
		93	299	792	1,401	2,009	2,674

Value

Number of Loans (cumulative)	Number	139	449	1,188	2,101	3,013	4,011
Value of loans (cumulative)	A\$k	375	1,212	3,209	5,672	8,135	10,830

Market Size

Maximum potential market

		Total
Number of Loans	Number	11,882
Value of loans	A\$k	29,705

Market coverage (% of total mkt covered)

		upto 2005	2006	2007	2008	2009	2010
This incorporates expected take-up rates	%	1%	4%	11%	19%	27%	36%

INCREMENTAL HUB COSTS

Inputs	Units				
Max Clients per loan officer	Number		40		
Loan officers per BDO	Number		1		
Loan Officer Costs					
Salary	A\$K pa		50		
Other	A\$K pa		50		
			<u>100</u>		
Business Development Officer Costs					
Salary	A\$K pa		50		
Other	A\$K pa		50		
			<u>100</u>		
Choice			2	1	2
National Office share of Loan/ BD officer cost			50%	0%	50%
					100%

Calculation

	Units	upto 2005	2006	2007	2008	2009	2010
People passing through loan process							
Sydney	Number pa	9	140	374	486	599	711
Far North QLD - Cape York and balance	Number pa	7	105	279	363	447	530
Brisbane	Number pa	-	-	43	171	298	443
Perth	Number pa	-	-	24	97	169	251
Kimberley	Number pa	-	-	16	65	115	170
Central NT - Alice Springs	Number pa	-	-	16	63	110	163
North Western NSW - Dubbo	Number pa	-	-	16	62	109	162
Northern NSW - Moree + Tamworth	Number pa	-	-	15	59	103	153
Hunter (Newcastle)	Number pa	-	-	-	-	-	-
Melbourne	Number pa	-	-	-	-	-	-
Northern QLD - Townsville	Number pa	-	-	14	56	98	146
Adelaide	Number pa	-	-	13	53	93	139
Mid-North Coast NSW - Coffs Harbour	Number pa	99	129	159	189	218	248
Darwin	Number pa	-	-	11	46	80	119
North West QLD - Mt Isa	Number pa	-	-	10	41	72	107
East Arnhem	Number pa	-	-	-	-	-	-
Fitzroy (Rockhampton)	Number pa	-	-	-	-	-	-
Illawarra (Wollongong)	Number pa	-	-	-	-	-	-
Lower Top End NT - Katherine	Number pa	-	-	-	-	-	-
Wide Bay-Burnett - Maryborough/ Bundaberg	Number pa	-	-	-	-	-	-
Northern SA - Port August/Whyalla	Number pa	-	-	-	-	-	-
Central West NSW - Orange	Number pa	-	-	-	-	-	-
Richmond-Tweed	Number pa	-	-	-	-	-	-
Central WA - Geraldton	Number pa	-	-	-	-	-	-
		116	374	990	1,751	2,511	3,342

	Units	upto 2005	2006	2007	2008	2009	2010
Number of Loan Officers							
Sydney	Number pa	1	4	6	3	3	3
Far North QLD - Cape York and balance	Number pa	1	3	5	3	3	3
Brisbane	Number pa	-	-	2	4	4	4
Perth	Number pa	-	-	1	2	2	3
Kimberley	Number pa	-	-	1	2	2	2
Central NT - Alice Springs	Number pa	-	-	1	2	2	2
North Western NSW - Dubbo	Number pa	-	-	1	2	2	2
Northern NSW - Moree + Tamworth	Number pa	-	-	1	2	2	2
Hunter (Newcastle)	Number pa	-	-	-	-	-	-
Melbourne	Number pa	-	-	-	-	-	-
Northern QLD - Townsville	Number pa	-	-	1	2	2	2
Adelaide	Number pa	-	-	1	2	2	2
Mid-North Coast NSW - Coffs Harbour	Number pa	3	1	1	1	1	1
Darwin	Number pa	-	-	1	1	1	1
North West QLD - Mt Isa	Number pa	-	-	1	1	1	1
East Arnhem	Number pa	-	-	-	-	-	-
Fitzroy (Rockhampton)	Number pa	-	-	-	-	-	-
Illawarra (Wollongong)	Number pa	-	-	-	-	-	-
Lower Top End NT - Katherine	Number pa	-	-	-	-	-	-
Wide Bay-Burnett - Maryborough/ Bundaberg	Number pa	-	-	-	-	-	-
Northern SA - Port August/Whyalla	Number pa	-	-	-	-	-	-
Central West NSW - Orange	Number pa	-	-	-	-	-	-
Richmond-Tweed	Number pa	-	-	-	-	-	-
Central WA - Geraldton	Number pa	-	-	-	-	-	-
No of loan officers needed each year		6	8	23	27	27	28

Total Loan Officer Cost							
Salary	A\$K	300	400	1,150	1,350	1,350	1,400
Other	A\$K	300	400	1,150	1,350	1,350	1,400
		<u>600</u>	<u>800</u>	<u>2,300</u>	<u>2,700</u>	<u>2,700</u>	<u>2,800</u>

Total Business Development Officer cost							
Number of BDOs	Number	5	8	23	27	27	28
Salary	A\$K	250	400	1,150	1,350	1,350	1,400
Other	A\$K	250	400	1,150	1,350	1,350	1,400
		<u>500</u>	<u>800</u>	<u>2,300</u>	<u>2,700</u>	<u>2,700</u>	<u>2,800</u>

Responsibility for Cost							
Total hub cost	A\$K	1,100	1,600	4,600	5,400	5,400	5,600
Implementation Partners	A\$K	550	800	2,300	2,700	2,700	2,800
MED Australia (National Office)	A\$K	550	800	2,300	2,700	2,700	2,800
		<u>1,100</u>	<u>1,600</u>	<u>4,600</u>	<u>5,400</u>	<u>5,400</u>	<u>5,600</u>
Total hub cost (cumulative)	A\$K		2,700	7,300	12,700	18,100	23,700

NATIONAL SUPPORT OFFICE

Inputs	Units	Source
Staff Ratios		
Loan Officers and BDOs per Programme Manager	Number	15
On-costs	%	15%
		Assumed - TBD
		From 2006 Budget prepared by

Staff Costs

Staff Numbers	Units	Upto 2005	2006	2007	2008	2009	2010
CEO	Number	1	1	1	1	1	1
COO	Number	1	1	1	1	1	1
Admin Support	Number	2	2	2	2	2	2
Program Managers	Number	-	2	4	4	4	4
Finance staff	Number	-	2	4	4	4	3
Learning & Development	Number	-	2	2	2	2	2
PR/ Communications	Number	-	1	1	1	1	1
HR	Number	-	1	1	1	1	1
IT staff	Number	-	1	1	1	1	1
Total	Number	4	13	17	17	17	16

Staff Costs per Person

		Salary	On-Costs	Vehicle	Travel	Total
CEO	A\$K pa	120	18	20	20	178
COO	A\$K pa	100	15			115
Admin Support	A\$K pa	30	5			35
Program Managers	A\$K pa	70	11		20	101
Finance staff	A\$K pa	70	11			81
Learning & Development	A\$K pa	70	11			81
PR/ Communications	A\$K pa	70	11			81
HR	A\$K pa	70	11			81
IT staff	A\$K pa	70	11			81

Total Staff Costs

		Upto 2005	2006	2007	2008	2009	2010
CEO	A\$K pa	490	178	178	178	178	178
COO	A\$K pa	316	115	115	115	115	115
Admin Support	A\$K pa	190	69	69	69	69	69
Program Managers	A\$K pa	-	201	402	402	402	402
Finance staff	A\$K pa	-	161	322	322	322	242
Learning & Development	A\$K pa	-	443	443	443	443	443
PR/ Communications	A\$K pa	-	221	221	221	221	221
HR	A\$K pa	-	221	221	221	221	221
IT staff	A\$K pa	-	221	221	221	221	221
		996	1,831	2,193	2,193	2,193	2,112

Non Staff costs

	Units	Upto 2005	2006	2007	2008	2009	2010
Rent	A\$K pa	100	50	50	50	50	50
Marketing and Promotion materials	A\$K pa	20	100	100	100	100	100
Training LO and BDO	A\$K pa		32	92	108	108	112
Admin (IT, sundry, contingency etc)	A\$K pa	50	50	50	50	50	50
		170	232	292	308	308	312

One-time costs

	Units	Upto 2005	2006	2007	2008	2009	2010
IT setup		-	50				
Software		-	100				
Furniture		-	50				
Other	A\$K	70	50				
		70	250	-	-	-	-

Costs

	Units	Upto 2005	2006	2007	2008	2009	2010
Staff	A\$K	996	1,831	2,193	2,193	2,193	2,112
Non-staff	A\$K	170	232	292	308	308	312
One-time (setup)	A\$K	70	250	-	-	-	-
Total National office costs		1,236	2,313	2,485	2,501	2,501	2,424
National office cumulative costs			3,548	6,033	8,534	11,035	13,459

OUTPUTS

Financial Inputs

	Units	
Discount Rate	%	5%

Key Stats

	Units	upto 2005	2006	2007	2008	2009	2010
Number of Hubs	Num	3	3	13	13	13	13
Number of Loan Officers	Num	6	8	23	27	27	28
Number of BD Officers	Num	5	8	23	27	27	28
Opening Loan Fund Balance	A\$k	375	837	1,997	2,463	2,463	2,694
Cumulative Value of Loans	A\$k	375	1,212	3,209	5,672	8,135	10,830
Cumulative Number of Loans	Num	139	449	1,188	2,101	3,013	4,011

Calculation

	Units	upto 2005	2006	2007	2008	2009	2010
FUNDFLOW							
Loan Fund							
Income (interest)		49	109	260	320	320	350
Outgoing							
- Bad debt (loan granted /less loan repaid)		37	84	200	246	246	269
- Bank charges		11	25	60	74	74	81
		49	109	260	320	320	350
Total loan fund contribution to costs		-	-	-	-	-	-
Operating Costs							
Staff	A\$k	(996)	(1,831)	(2,193)	(2,193)	(2,193)	(2,112)
Non-staff	A\$k	(170)	(232)	(292)	(308)	(308)	(312)
Share of hub cost (LO and BDO)	A\$k	(550)	(800)	(2,300)	(2,700)	(2,700)	(2,800)
		(1,716)	(2,863)	(4,785)	(5,201)	(5,201)	(5,224)
One-time costs							
	A\$k	(70)	(250)	-	-	-	-
Free Cashflow							
	A\$k	(1,786)	(3,113)	(4,785)	(5,201)	(5,201)	(5,224)
NPV							
	A\$k		(21,178)				

Output Metrics

	Units	upto 2005	2006	2007	2008	2009	2010
Cost to Loan Ratio (cumulative)							
Cumulative loan lent	A\$k	375	1,212	3,209	5,672	8,135	10,830
Cumulative cost (National office)	A\$k	1,786	4,898	9,683	14,884	20,085	25,309
Cumulative cost (hub office)	A\$k	550	1,350	3,650	6,350	9,050	11,850
Cumulative Total cost for lending		2,336	6,248	13,333	21,234	29,135	37,159
National Office Cost per \$ lent (cumulative)		4.8	4.0	3.0	2.6	2.5	2.3
Hub Office Cost per \$ lent (cumulative)		1.5	1.1	1.1	1.1	1.1	1.1
Total Cost per \$ lent (cumulative)		6.2	5.2	4.2	3.7	3.6	3.4
Per Loan							
Average Loan Size	A\$k	2.7	2.7	2.7	2.7	2.7	2.7
Cumulative cost (National office)	A\$k	12.9	10.9	8.1	7.1	6.7	6.3
Cumulative cost (hub office)	A\$k	4.0	3.0	3.1	3.0	3.0	3.0
Total cost	A\$k	16.8	13.9	11.2	10.1	9.7	9.3
Operational Self Sufficiency							
	%	3%	3%	5%	6%	6%	6%
Cost to Loan Ratio (annual)							
Loans lent	A\$k	375	837	1,997	2,463	2,463	2,694
Cost (National office)	A\$k	1,236	2,313	2,485	2,501	2,501	2,424
Cost (hub office)	A\$k	1,100	1,600	4,600	5,400	5,400	5,600
Total cost for lending		2,336	3,913	7,085	7,901	7,901	8,024
National Office Cost per \$ lent		3.30	2.76	1.24	1.02	1.02	0.90
Hub Office Cost per \$ lent		2.94	1.91	2.30	2.19	2.19	2.08
Total Cost per \$ lent		6.23	4.67	3.55	3.21	3.21	2.98

Statement of required funding

A\$K	upto 2005	2006	2007	2008	2009	2010
New loans	375	837	1,997	2,463	2,463	2,694
Loans repaid	337	754	1,797	2,217	2,217	2,425
Cash required for loans		500	1,243	666	246	477
Operations fund						
National office costs	1,236	2,313	2,485	2,501	2,501	2,424
Hub office costs	550	800	2,300	2,700	2,700	2,800
Total funding required	1,786	3,613	6,028	5,867	5,447	5,702
Option 1 - Annual funding						
Loan+National+Hub	1,786	3,613	6,028	5,867	5,447	5,702
Option 1(b) - Annual funding						
Loan+National	1,236	2,813	3,728	3,167	2,747	2,902
Option 2 - One time						
Loan+National+Hub		24,072				
Option 2(b) - One time						
Loan+National		13,996				

A\$K

Central office		Annual					Capital fund (5 years)
		2006	2007	2008	2009	2010	
	Loans	500	1,243	666	246	477	
	Own opex	2,313	2,485	2,501	2,501	2,424	
	50% of hub opex	800	2,300	2,700	2,700	2,800	
	Total	3,613	6,028	5,867	5,447	5,702	24,072
Hub office	50% own opex	800	2,300	2,700	2,700	2,800	10,075
Total		4,413	8,328	8,567	8,147	8,502	34,147

Note: Discount rate used for Capital fund and Perpetuity fund calculations = 5%