

Social Return on Investment Forecast

Foresters Community Finance
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Fair Finance

This report was prepared by Net Balance for Foresters
Community Finance and National Australia Bank



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EXECUTIVE SUMMARY

Nearly three million Australians did not have access to appropriate and affordable financial products in 2011¹. They are 'financially excluded'; unable to secure credit to meet even the most essential of everyday living expenses such as food, rent and utility bills.

Many don't know where to turn for help and end up at the door of payday lenders who charge exorbitant interest rates, sending people into a downward spiral of debt.

The effects of financial exclusion are far reaching. The poor become poorer; poverty is exacerbated. A person's ability to participate economically and socially in their community is severely compromised.

In 2011, Queensland-based Foresters Community Finance, Australia's only Community Development Finance Institution (CDFI) with a core focus on promoting financial inclusion, launched Fair Finance Australia.

The initiative aims to fill the gap in the Australian finance sector for a small scale loan product that offers fair loan conditions, with the ultimate aim of financial inclusion.

Foresters Community Finance commissioned Net Balance Foundation to conduct a Social Return on Investment (SROI) forecast to quantify and communicate the social outcomes generated when people use Fair Finance Australia's services - whether successful with their loan application or not.

Social Return on Investment (SROI) is a framework that examines outcomes for key stakeholders. In particular it looks at what changes from their perspective. Where appropriate, SROI uses monetary values to represent those outcomes. It is important to note that the values calculated, although expressed in monetary terms, do not equate to a financial return.

A central principle of SROI is to involve material stakeholders (defined on page 16) in order to find out what changes for them and how they value this change.

Through stakeholder engagement, primary research and existing literature in the field, Net Balance Foundation gathered insight into the types of outcomes generated and measured the magnitude of their effects. The results were then used to model the social and economic value created and projected over a four year period of Fair Finance Australia operations.

Using the outcome incidence trends gathered from clients during the initial lending phase of Fair Finance Australia, the value of cash flows and the SROI ratio for investment are also calculated.

The information is represented in the tables below.

	Social Value (\$)					Total social Value per stakeholder (\$)	Present Value of Social Value to Stakeholder (\$)
	Month	Year 1	Year 2	Year 3	Year 4		
Ineligible loan applicants	\$ 11,032	\$ -	\$ -	\$ -	\$ -	\$ 11,032	\$ 10,979
Successful loan applicants	\$ -	\$ 613,809	\$ 416,147	\$ 127,764	\$ 95,823	\$ 1,253,543	\$ 1,132,609
Fair Finance Australia	\$ -	\$ 180,000	\$ 60,000	\$ -	\$ -	\$ 240,000	\$ 223,211
Total	\$ 11,032	\$ 793,809	\$ 476,147	\$ 127,764	\$ 95,823	\$ 1,504,575	\$ 1,366,799
						Total Value of inputs	\$ 660,000.00
						SROI Ratio	\$ 2.07

Value of cash flows and the Social Return on investment Ratio

Stakeholder	Outcome	Value Credited
Ineligible Loan Applicants	Increased financial knowledge	\$ 1,099
	Increased awareness of financial position	\$ 9,879
Successful Loan Applicants	Increased financial knowledge	\$ 2,662
	Increased awareness of financial position	\$ 244,748
	Increased control of personal finances	\$ 228,993
	Increased confidence	\$ 656,205
Fair Finance Australia	Financial returns from loan interest income	\$ 232,211

The SROI ratio above indicates that for every dollar invested in the running of Fair Finance Australia, it yields approximately **\$2.07** in social and economic value. The total value of outcomes amounts to approximately \$1.36 million over a four year period. Considering a 25% variation in the magnitude of social outcomes recorded during the data collection process, the SROI ratio could range between **\$1:1.64** and **\$1:2.50**.

Foresters Community Finance took part in a pilot project in 2011/12 funded by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) to assess the role that CDFIs could play in enhancing access by economically marginalised individuals and organisations to mainstream financial products and services.

The SROI calculations in this report present a compelling case for services provided by Fair Finance Australia to be made more widely available.

Summary of recommendations

- Continue use of data collection toolkit to capture information from future clients of Fair Finance Australia. Compare future social outcomes with the forecasted levels predicted in this assessment.
- Further segment stakeholders by their demographic (i.e. Youth, sole parents, disabled, elderly, retired, working poor, etc).
- Identify ways to track the outcomes of clients who were referred to other services to uncover additional social value.

¹ Measuring Financial Exclusion in Australia. Centre for Social Impact, 2012

FINANCIAL EXCLUSION

1.1 Financial Exclusion in Australia

In a recent study conducted by the Centre for Social Impact on the state of financial exclusion in Australia, financial exclusion was said to exist where people lacked “access to appropriate and affordable financial services and products (Measuring Financial Exclusion in Australia. Centre for Social Impact, 2012).” Their definition was limited to “appropriate and affordable” to have a clear focus on simple but essential financial services provided by the mainstream financial services industry, the government and community sector as opposed to “fringe” providers that include payday lenders and brokers. The study went on to identify three essential needs and the related financial services and products that could meet them.

1. The ability to manage day-to-day dealings and payments through access to a transaction account.
2. Access to a moderate amount of credit through a credit card or loan product.
3. The ability to protect key assets through access to basic insurance products.

Using the above definition as a guide to quantify financial exclusion in Australia, the report revealed that approximately 2,995,000 individuals or 17.2% of the adult population in Australia were either fully or severely excluded from financial services in 2011. This figure comprises 192,000 adults (1.1%) who were fully excluded (they had no financial services products) and 2,803,000 adults (16.1%) who were severely excluded (they only had one financial services product) (Centre for Social Impact, 2012). This figure represents an increase from the same study conducted in 2010 that identified 15.6% of the population being either fully or severely excluded (Centre for Social Impact, 2011).

In 2010, a survey by Westpac defined 28% of all Queenslanders ‘financially unfit’, compared to 12% at the same time in 2009. The Australian average is also 28% financially unfit. Women were most severely affected, with more females financially unfit (32%) than males (25%). This indicates that there is a great deal of distress and economic uncertainty in the Queensland community. In 2008, the Queensland Council of Social Service (QCOSS) estimated that 10% of Queenslanders were living in poverty, which equates to receiving less than \$281 per week. A further 10% were identified for being at ‘high risk’ for poverty and social exclusion. It is therefore likely that the proportion of the Queensland community living in or at risk of poverty has increased since the financial crisis, resulting in an increasing demand on social service organisations that provide affordable and appropriate financial assistance and counselling.

1.2 Causes of Financial Exclusion

The financially excluded are not a homogenous group and so it is important to understand and distinguish the range of ways that people come to experience this state. According to the CDFI scoping commissioned by FaHCSIA there are two main groups that fall into this category² (Social Ventures Australia, 2009).

1. Marginally served: Those with little or no money that simply cannot afford financial services such as the long-term unemployed, homeless and destitute (aged pensioners, Indigenous Australians, sole parents, mentally impaired, severely disabled and refugees).
2. Underserved: Those who could afford financial products and services but cannot gain access. This group consists of those that experience prejudice due to cultural and linguistic backgrounds, those for whom service costs are high due to geographic isolation or support needs and those who are seen by mainstream financial providers as too risky to take on.

The results of the previously mentioned report by the Centre for Social Impact corroborate the causes stated in the CDFI scoping study. Some of the demographic factors that resulted in people being more likely to be excluded were: being aged between 18 and 24 (a high correlation with overall financial exclusion), and being born outside Australia (a high correlation with exclusion from general insurance). The report also identified a number of additional difficulties in accessing financial services such as providing identity documents, distance to a bank branch, language and literacy challenges and poor credit records (Centre for Social Impact, 2012).

1.3 Impact

Financial exclusion can hinder an individual’s ability to manage day-to-day expenses, plan for the future and meet unexpected bills or payments. This can impede their capacity to participate fully in social and economic activities ultimately leading to increasing financial hardship and exacerbating poverty (Burkett & Sheehan, 2009). Children from low-income families may endure multiple disadvantages relative to their peers from higher income families such as lack of education and recreational opportunities, neglect and domestic abuse (where parents are under pressure). On a larger scale, financial exclusion of significant numbers of people in a community can limit the capacity to make investments, build assets and improve lives (Social Ventures Australia, 2009).

The majority of individuals who were identified as financially excluded in 2011 stated their most common need for credit was to meet every day living expenses such as food, rent, utility bills and other essential costs such as education, health and auto-repairs (Centre for Social Impact, 2012). Given this, it is apparent that there is a significant gap between income and expenses that is not appropriately addressed by mainstream financial institutions as respondents stated that they were utilising government services such as Centrelink advance payments and fringe credit providers, such as payday lenders to fill this gap (Centre for Social Impact, 2012).

Centrelink’s purpose is to address income support rather than insufficient income, and credit products from the community sector frequently target very particular causes that restrict the eligibility of individuals to obtain credit through these channels. Lastly, though fringe credit providers offer instant credit products, they pose significant threats to unwary individuals with various hidden fees and ambiguous terms that can push customers into a further spiral of debt if not cautious³.

It is clear from the evidence available that there is significant need for a sector that can provide appropriate and affordable financial services and products for those marginally and under served individuals to set them on a path to financial inclusion.

² In addition, the scoping study also detailed a range of structural economic, institutional, community and individual factors that contribute to the financial exclusion of these individuals. See report for further details.

³ See “Payday lending: A business model that encourages chronic borrowing” by Stegman and Faris (2003)

COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS

2.1 Filling the Gap

One potential solution to address the problem of financial exclusion is Community Development Finance Institutions (CDFIs). CDFIs provide financial and non-financial services to those who have been excluded or underserved by mainstream financial institutions (Burkett & Drew, 2008). This may include individuals and other organisations (non-profits, small businesses, social enterprises) that find access to mainstream finance a challenge.

In market terms CDFIs fill the gap between what is provided by mainstream financial institutions and welfare services. They may do this alongside other providers of credit in the market, such as fringe lenders.

The role of CDFIs is to enhance financial inclusion and ultimately achieve both social and financial returns. They seek to do this on the premise that enabling individuals to better control their financial situation will lead to them engaging in a "virtuous circle that prevents them from falling into, or leads them out of, chronic disadvantage and financial exclusion (Social Ventures Australia, 2009)."

2.2 Foresters Community Finance and Fair Finance Australia

Unlike the CDFI sectors in the United States and the United Kingdom that have created significant social and financial outcomes, the sector in Australia is fairly new with very few organisations operating as CDFIs.

Foresters Community Finance Limited (Foresters) is a CDFI based in Brisbane, Queensland that has been delivering community finance and social investment to service and support disadvantaged and underserved people, non-profit organisations and social enterprises in Australia for more than 20 years. Foresters' responds to financial and social exclusion that results from the inability of traditional financial and capital markets to effectively respond to the needs of these individuals and organisations.

In 2011 Foresters launched Fair Finance Australia with the specific objective of filling the gap in the Australian finance sector for a small scale loan product that balances the fairness of loan conditions with an objective to achieve financial inclusion for individuals accessing the products. Fair Finance Australia is part of a CDFI that has the provision of fair finance at its core and acknowledges that addressing social and financial exclusion is not only about service provision; it also includes addressing issues of capacity and structural change. Fair Finance Australia intends to fill the financial services gap by:

- striking a balance between what is fair in terms of interest rates and sustainable for the program long term
- delivering under the auspices of Australia's only CDFI with a core focus on financial inclusion
- being inextricably linked to financial and social inclusion outcomes
- reaching out to a market beyond No Interest Loans Scheme (NILS) clients whose only option may be fringe lenders: and
- proactively linking and referring clients beyond financial issues alone.

Fair Finance Australia has three core offerings.

- 1. Ethical, fair, accessible and responsible credit products:** The Fair Finance Australia product provides loans of up to \$4000 with a fair, sustainable comparison interest rate of 35% p.a. Offering fair credit aims to assist people to overcome poor credit ratings, develop greater financial capability and eventually develop their pathway to the mainstream credit market. The product design emphasizes affordability based on the structure of the loan repayments, loan terms and flexibility coupled with an interest rate that builds a fair but sustainable product into the market. During the loan application process, the focus is placed on collecting information about other issues faced by the individual that are impacting on their financial situation.
- 2. Referral services:** Accessing fair credit options sometimes needs to be combined, preceded or replaced with referral to counsellors or other service providers. This ensures that people develop a real, practical pathway towards greater financial stability and higher levels of understanding about money management, savings, bad debt avoidance and fair credit.
- 3. Links with other providers of financial inclusion services:** Foresters has a strong relationship with people and organisations across Australia delivering microfinance services. It is therefore in an excellent position to draw on other service opportunities in addition to building on what is missing between them. Fair Finance Australia has developed working relationships with financial counsellors, agencies delivering emergency relief, NILS providers and other critical community service agencies supporting people in financial distress. Fair finance also delivers NILS products and provide access to other semi-commercial products on the market.

Fair Finance Australia is one of a select few community finance organisations in an Australia-wide CDFI pilot program. Funded by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) the pilot is assessing the role that CDFI's could play in enhancing access by economically marginalised individuals and organisations to mainstream financial products and services⁴.

⁴ The CDFI pilot's objectives are to:

- increase the financial inclusion of individuals from target groups including Indigenous Australians and other vulnerable Australians through the injection of business development funding into community finance organisations
- facilitate capital and loan funding through a circle of investors
- test and gain further evidence on the demand for financial services and products and the contribution of CDFIs in meeting this demand: and
- contribute to the investigation of the infrastructure and legislative framework necessary to support CDFIs in Australia.

2.3 Measuring Impact

A key objective of all CDFIs is to increase financial inclusion. In many cases this is facilitated by accessing traditional market capital. This comes with a requirement to demonstrate both the financial and social returns achieved through mobilising the capital (Derban, Binner, & Mullineux, 2005). Several large-scale attempts have been made to develop common standards for reporting CDFI performance. These include:

- The Community Development Investment Impact System (CDIIS) developed by the CDFI Fund
- The CDFI Assessment and Rating System (CARS) developed by the Opportunity Finance Network (2006)
- The Impact Measurement Toolkit developed by the Community Development Venture Capital Alliance (2006): and
- Change Matters 2 (CM2) Logic framework published by Community Development Finance Association (CDFA) in the UK.

These systems focus on financial and social impact measures across a large group of CDFIs. The aim is to establish a set of common standards that enable comparisons between CDFIs with different objectives in diverse locations. However, developing a standard social performance measurement framework for CDFIs is complex as they operate in a diverse range of communities. The kinds of social issues that they seek to address often differ substantially (Kneiding & Tracey, 2009). Additionally, given that the work of CDFIs is emerging in Australia, there have been no previous attempts to quantify the social impacts of CDFIs in this geographical context.

This SROI evaluation of Fair Finance Australia represents the first attempt to quantify and value the social benefit generated by the provision of micro credit to individuals through a CDFI in Australia. The parameters of success were designed based on consultation with clients and staff of Fair Finance Australia and triangulated with relevant secondary research where possible.

METHODOLOGY & APPROACH

3.1 SROI Methodology

To assess the social impact of Fair Finance Australia, the Social Return on Investment (SROI) framework was adopted. SROI measures and accounts for the broader concept of social value. It tells the story of how change is being created for people and organisations which experience or contribute to it by identifying and measuring social outcomes. Monetary values are then used to represent those outcomes where appropriate. It is important to note that the values calculated, although expressed in monetary terms, do not equate to a financial return.

It should also be noted that the model is designed to capture and quantify only the material outcomes for every stakeholder that has benefited from a program or initiative.



3.2 SROI Scope

The scope of this SROI takes into consideration the following elements:

- This SROI forecast focuses on forecasting and quantifying the social impact created during a typical year of Fair Finance Australia's operations.
- The forecast considers the benefits generated by one year's worth of investors' contribution to Fair Finance Australia's administrative and running costs (cash and in-kind).
- We have focused on the social outcomes accrued to individuals accessing loans, and the economic benefits generated for Fair Finance Australia.
- Data collected for the purpose of this forecast includes information from a sample of clients who have applied for and received loans with balances outstanding.
- The SROI is a forecast as Fair Finance Australia is a new service with the majority of loans issued still midway through their terms. There is no outcome-based data collection process in place yet to inform incidence of social outcomes. However, Fair Finance Australia does have a database of demographic and loan-purpose information for each of their clients that has been used to support our data collection efforts.
- A bespoke data collection toolkit with indicator scales was utilised to evidence and measure the change created by Fair Finance Australia. The parameters of the toolkit were informed by stakeholder engagement and operational knowledge of Fair Finance Australia staff.

“THIS IS THE WAY A BUSINESS SHOULD BE RUN”

- BORROWER

THE THEORY OF CHANGE

Fair Finance Australia aims to understand and articulate the outcomes of the investment of time and resources by all of its stakeholders. Further aims are for Fair Finance Australia staff to see more clients and to identify, track and measure outcomes associated with the provision of appropriate and affordable finance to the community.

It is usual for services and programs to be evaluated in terms of their outputs. Outputs inform us that an activity has taken place, such as the number of loans given or number of referrals provided. An SROI analysis goes beyond outputs and focuses on the outcomes, or changes, that occur in the lives of participants as a result of these activities.

In the context of Fair Finance Australia the theory of change is the story of how the service creates change and makes a difference in the lives of its clients. The relationship between investment, activities, outputs, and outcomes are referred to as the theory of change. Fair Finance Australia's Theory of Change is shown in the impact table page 23 and in the graphics on pages 26 and 28.

4.1 Consultation and Data Collection

Stakeholder engagement in SROI is conducted to establish the theory of change, or logical framework, of the intervention. This is a description of how inputs are used to deliver activities that, in turn, result in changes (outcomes) for stakeholders. The involvement of stakeholders at this stage ensures that the SROI measures and values the outcomes that are most important to those directly experiencing the change. Crucially, this should not be confused with data collection to evidence outcomes, which happens at a later stage.

Access to stakeholders

The relatively recent establishment of Fair Finance Australia's operations and the broader undeveloped nature of the CDFI sector in Australia means there is limited information available to inform the development of an impact map and certainly no benchmarks. To gain an initial understanding of the relationships and social value created by Fair Finance Australia, focus group sessions were conducted with Foresters and Fair Finance Australia staff, NAB stakeholders, and one-on-one interviews with clients to uncover the Theory of Change⁵.

Stakeholder Identification

One of the outputs from the engagement process was a list of material stakeholders. Table 1 sets out the stakeholders, how (and if) they were engaged and a description of their impact as a result of their involvement with Fair Finance Australia. As part of the identification we assess whether a Stakeholder is to be deemed "material". This step determines whether significant social value has been created for or by that stakeholder to merit their inclusion in the analysis.

“IT HAS ALLOWED ME TO HAVE
A WHOLE NEW START”

- BORROWER

Table 1 - Stakeholder summary

Stakeholder	Description	Method of engagement	Social Impact valued in SROI analysis	Reason for materiality decision
Successful loan applicants	Stakeholders in this group have successfully received loans from Fair Finance Australia for amounts between \$800 and \$4000. Successful loan applicants in the 2011-2012 period have been: <ul style="list-style-type: none"> Youth Sole parents Disabled Elderly Retired Working poor 	One-on-One Interviews	Yes	Being the recipients of Fair Finance Australia's core service, successful loan applicants are the target group of the CDFI pilot. Through its affordable and appropriate loan products and services, Fair Finance Australia hopes to set these clients on a path to financial inclusion
Ineligible loan applicants	This group includes clients who have been through the loan application process but are ineligible due to factors such as insufficient income to service the loan or credit history. Clients in this group would usually have provided documentation, prepared a personal budget with a loan officer, obtained appropriate referrals and discovered their credit score.	Unable to access, Theory of Change informed by Fair Finance Australia staff	Yes	Even though members of this group are unable to secure a loan for their intended purpose, engagement with loan officers revealed that they experience substantial material outcomes related to increased financial understanding and awareness of their financial position as they complete various stages of the application process.
Interested but ineligible clients	Clients in this group may have initially showed interest in Fair Finance Australia's services or products but did not go through the loan application process. The clients may have requested information through an initial phone conversation or an office drop-in.	Not Contactable	No	It is thought that clients who have attempted to gain information about Fair Finance Australia's products and services may have a better understanding of their credit options in the future. However, it is difficult to evidence this change due to the inability to track these clients down.
Fair Finance Australia	Fair Finance Australia provides affordable and appropriate loan products, referral services and links to financial support services and other parts of the microfinance sector to its clients.	Focus Groups	Yes	As an organisation providing niche financial products and services to the community, Fair Finance Australia is creating positive social outcomes for financially excluded individuals in the community. In this regard, Fair Finance Australia is a material stakeholder. Fair Finance Australia is also likely to have significant financial outcomes (positive or negative) based on its performance during the pilot.
NAB	NAB provides 100% of the capital that is used for the lending purposes.	Focus Group	No	Fair Finance Australia has a longstanding partnership with NAB that underpins the successful tender process that Foresters Community Finance undertook with FaHCSIA.
FaHCSIA	FaHCSIA has been active in exploring the potential for growth of a CDFI sector in Australia and funded the establishment, administration and running costs of Fair Finance Australia through the pilot period.	None	Yes	Through the CDFI pilot FaHCSIA has sought to evaluate the ability of CDFIs to address the issue of financial exclusion in Australia. By funding the pilot project it has contributed to increasing capacity and access to financial products and services for vulnerable individuals. The social benefit generated by FaHCSIA's input is captured in the benefit generated to Fair Finance Australia clients.

⁵See Appendix 1 for details on workshops and client interviews

4.2 Inputs

The operational costs of providing CDFI services at Fair Finance Australia during the pilot period over the first 12 months are listed in the second column of Table 2. These costs were solely supported by FaHCSIA pilot funding.

As the evaluation focuses on valuing the social and economic outcomes generated in a **typical** year of operations, we have used forecasted costs for Fair Finance Australia's operations as inputs. The value of these inputs are seen in the third column and are based on costs required to annually service an average of 240 loans, provide referral services and to link clients to other parts of the microfinance and financial counselling sector.

Table 2 - First year lending Operational costs

Input	Pilot operational costs in year one (annual investment(\$))	Typical operational costs (annual investment(\$))
Administration	75,000	75,000
Communications & IT	75,000	60,000
Marketing and Distribution	150,000	125,000
Support Staff	300,000	250,000
Lending Staff	250,000	150,000
Total	\$600,000	\$510,000

4.3 The Fair Finance Australia Theory of Change

Fair Finance Australia's response to financial exclusion is based on providing access to appropriate and affordable financial products. Individuals on low and irregular income often find themselves in difficult and increasingly stressful situations due to a lack of access to appropriate and affordable products. The compounding negative impacts of these situations may result in people defaulting on debts, obtaining a bad credit rating and subsequent ongoing denial of access to financial products.

Through financial service referrals, knowledge sharing and provision of microloans, Fair Finance Australia begins a process of capacity building with its clients to help them understand their financial position, maintain and improve it.

Client profiles

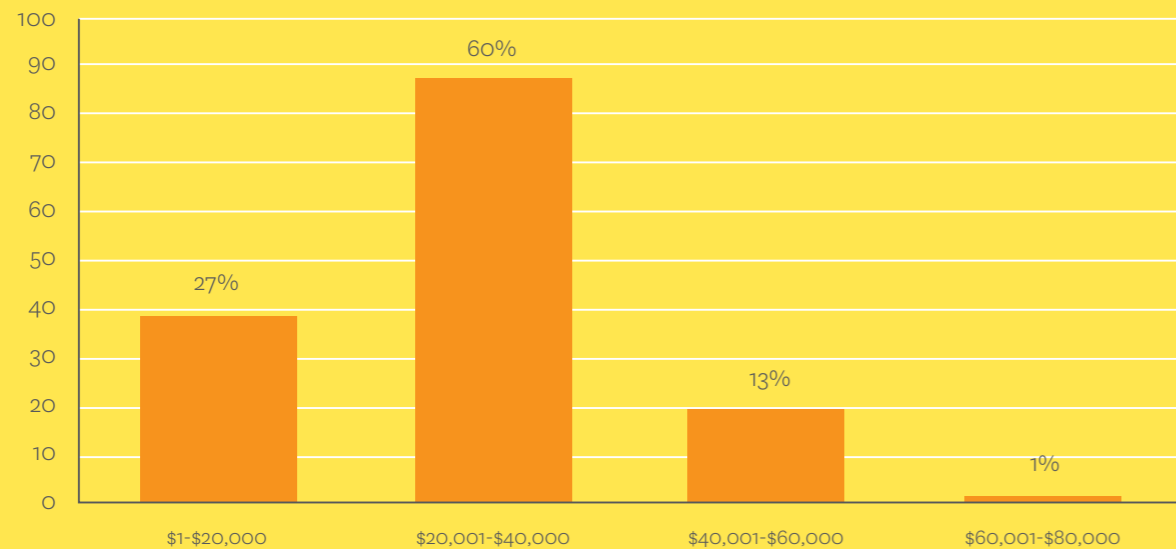
Considering the demographic and income data of current Fair Finance Australia clients, it is evident that this segment of the population is likely to be vulnerable to unforeseen financial shocks when they arise⁶. They also very closely resemble the characteristics described as most common in financially excluded individuals in the "Measuring Financial Exclusion in Australia" study referred to in the first section of this report.

- The majority of Fair Finance Australia clients have low to average incomes with over 80% earning under \$40,000 (Graph 1).
- 68% of Fair Finance Australia's customers are either unemployed, retired or not in the labour force (Graph 2).
- 82% of clients receive some form of government benefits (Graph 3).
- The top five reasons (Graph 4) for loans were for essential expenses without which clients' personal capabilities and independence would be compromised;
 - » Car purchase – 28%
 - » Servicing debt – 24%
 - » Moving house – 11%
 - » Paying bills – 12%
 - » Car repairs – 11%

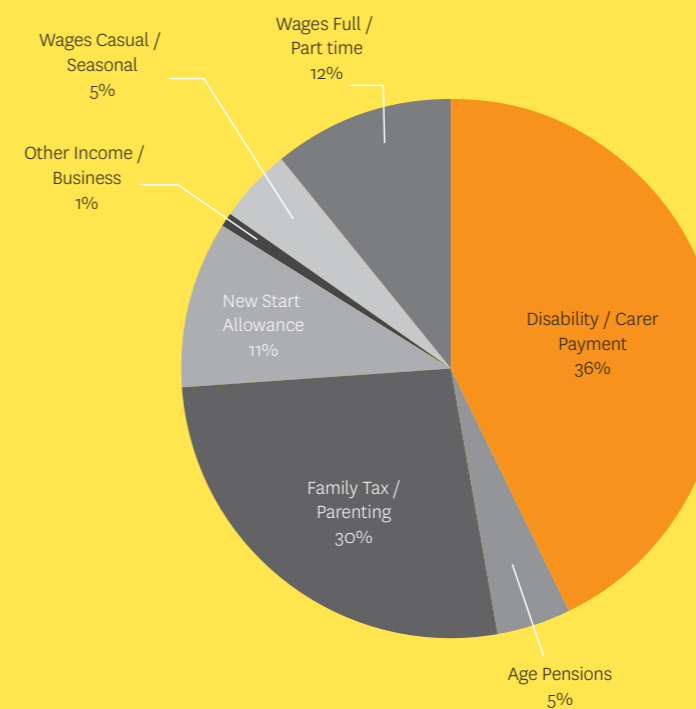
“I WAS GETTING DEPRESSED
WITHOUT A CAR, I DIDN'T
KNOW WHAT TO DO”
- BORROWER

⁶See Appendix 4 for more demographic data

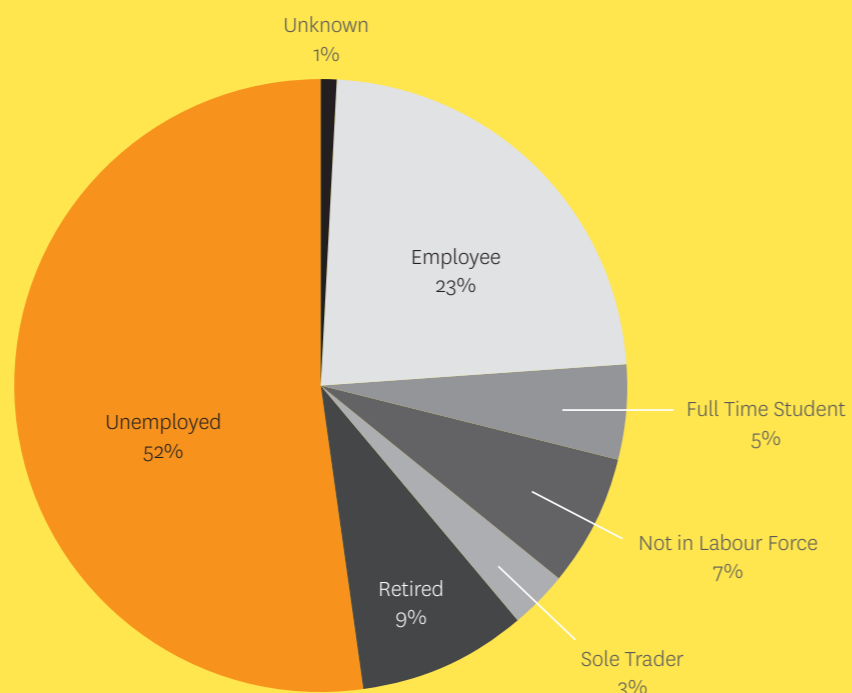
Graph 1 | Salary range of borrowers



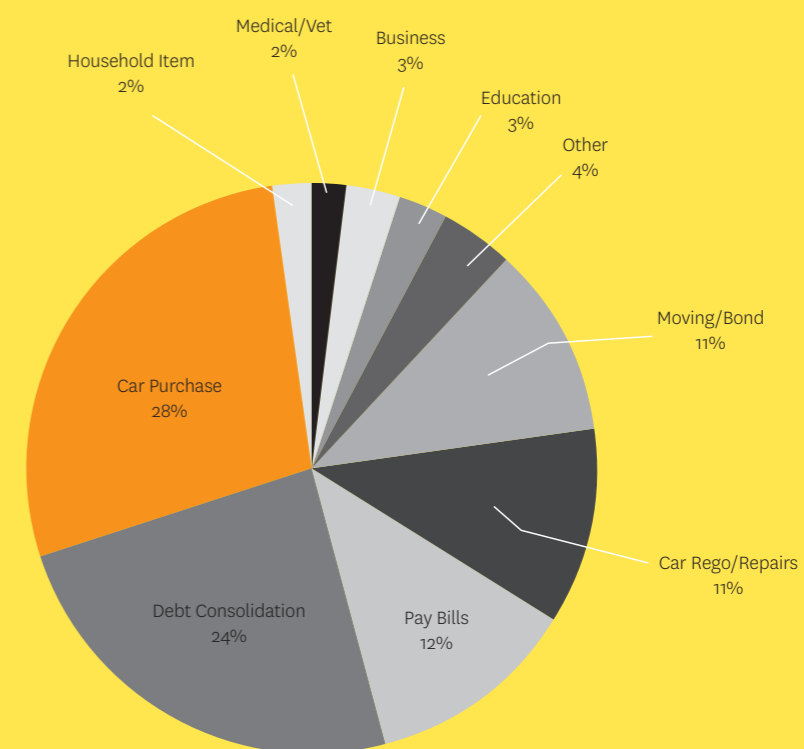
Graph 3 | Income source of borrowers



Graph 2 | Employment status of borrowers



Graph 4 | Loan purpose



4.4 Outcomes

Clients who experienced positive outcomes as a result of their interaction with Fair Finance Australia required financial assistance to genuinely get their lives back on track, gain independence, make new beginnings, fix past mistakes and take advantage of opportunities presented to them (see Appendix 5 - Impact Stories).

We used programme logic to understand where provision of services by Fair Finance Australia leads to short, medium or long term outcomes that enable clients to alter their actions, change their behaviours and that ultimately leads to a change that affects the client's life.

Five main outcomes were identified for the three stakeholder groups:

- Ineligible Loan Applicants
 1. Increased financial knowledge
 2. Awareness of financial position
- Successful loan applicants
 1. Increased financial knowledge
 2. Awareness of financial position
 3. Increased control of personal finances
 4. Increased confidence
- Fair Finance Australia
 5. Financial return from loan interest

The process of identifying and formulating the outcomes created for Fair Finance Australia clients are shown in the impact map on (Table 4).

Table 4 - Impact Table

Stakeholder	Activities	Learning: Knowledge, Skills, Motivation	Action: Behaviour, Practice, Decisions	Change
Ineligible loan applicants	<ul style="list-style-type: none"> • Application process for credit products • Referral services • Links with other parts of the microfinance and financial counselling sector 	Knowledge of credit status Knowledge of outstanding debts Accepting responsibility for defaults Willingness to get help to sort out personal finances Knowledge of appropriate lending institutions Familiarity with loan contracts and terms Knowledge of required documentation Motivation to see a financial counsellor	Ability to make appropriate and informed decisions when dealing with financial products and institutions in the future	Increased financial knowledge
			Working towards adopting positive budgeting practices	Increased awareness of financial position
Successful loan applicants	<ul style="list-style-type: none"> • Ethical, fair, accessible and responsible credit products • Referral services • Links with other parts of the microfinance and financial counselling sector 	Knowledge of credit status Knowledge of outstanding debts Accepting responsibility for defaults Willingness to get help to sort out personal finances Knowledge of appropriate lending institutions Familiarity with loan contracts and terms Knowledge of required documentation Motivation to see a financial counsellor	Ability to make appropriate and informed decisions when dealing with financial products and institutions in the future	Increased financial knowledge
			Working towards adopting positive budgeting practices	Increased awareness of financial position

Table 4 Cont.

Stakeholder	Activities	Learning: Knowledge, Skills, Motivation	Action: Behaviour, Practice, Decisions	Change
Cont.	Cont.	Knowledge of future expense needs Knowledge of budgeting techniques Interaction with financial support services Ability to pay basic bills Taking responsibility for past debts	Changing household purchase priorities Paying off old debts Keeping to a strict budget Planning for the future Ability to repay loans	Increased control of personal finances
		Decreased depression Decreased stress Ability to afford necessities Ability to take advantage of new opportunities Liberated from past constraints Aware of support services Ability to look after self Able to provide for their family Gain trust of friends and family	Surrounded by positive influences Have a sense of stability Make positive changes for the future Increased independence Achieve what was previously thought to be impossible Enthusiastic about new opportunities Have a positive outlook for the future Setting new goals	Increased confidence
Fair Finance Australia	<ul style="list-style-type: none"> Provision of Ethical, fair, accessible and responsible credit products Referral services Links with other parts of the microfinance and financial counselling sector 		Supporting and building capacity of clients to stay on top of loan repayments	Financial returns from loan interest income

Interviews with clients and analysis of Fair Finance Australia data revealed loans were issued for a variety of reasons. There was a tendency for clients to experience a combination of short and medium term outcomes which ultimately led to positive changes in their lives (These will be captured in the “Evidencing Outcomes” section, page 30).

This complex relationship between outcomes is graphically represented in Figure 1 on page 26. This diagram shows the multitude of intermediary outcomes created by Fair Finance Australia’s service in the community and how single outcomes may be contributing factors to long-term change in multiple areas. By picking any single box and following the arrows, you can track how a client may have arrived at a particular

outcome and the different combinations of outcomes that various clients could potentially experience. The diagram also helps emphasise that the provision of affordable and appropriate credit is at the heart of the theory of change of customers journeys to financial inclusion. Additionally the diagram features quotes from clients that help put the outcomes created by Fair Finance Australia in perspective⁷. Figure 1 also refers to case studies of clients that embody the key changes created by Fair Finance Australia (see Case Study 1, 2 and 3 on page 29). Figure 2 shows the multiple facets of awareness-raising outcomes for Fair Finance Australia clients.

“I WAS ECSTATIC WHEN I WAS APPROVED, I HAD FOUND SOME FREEDOM IN MY LIFE”
- BORROWER

⁷See Appendix 3 for more quotes from client interviews

Figure 1 - Outcomes experienced by successful loan applicants

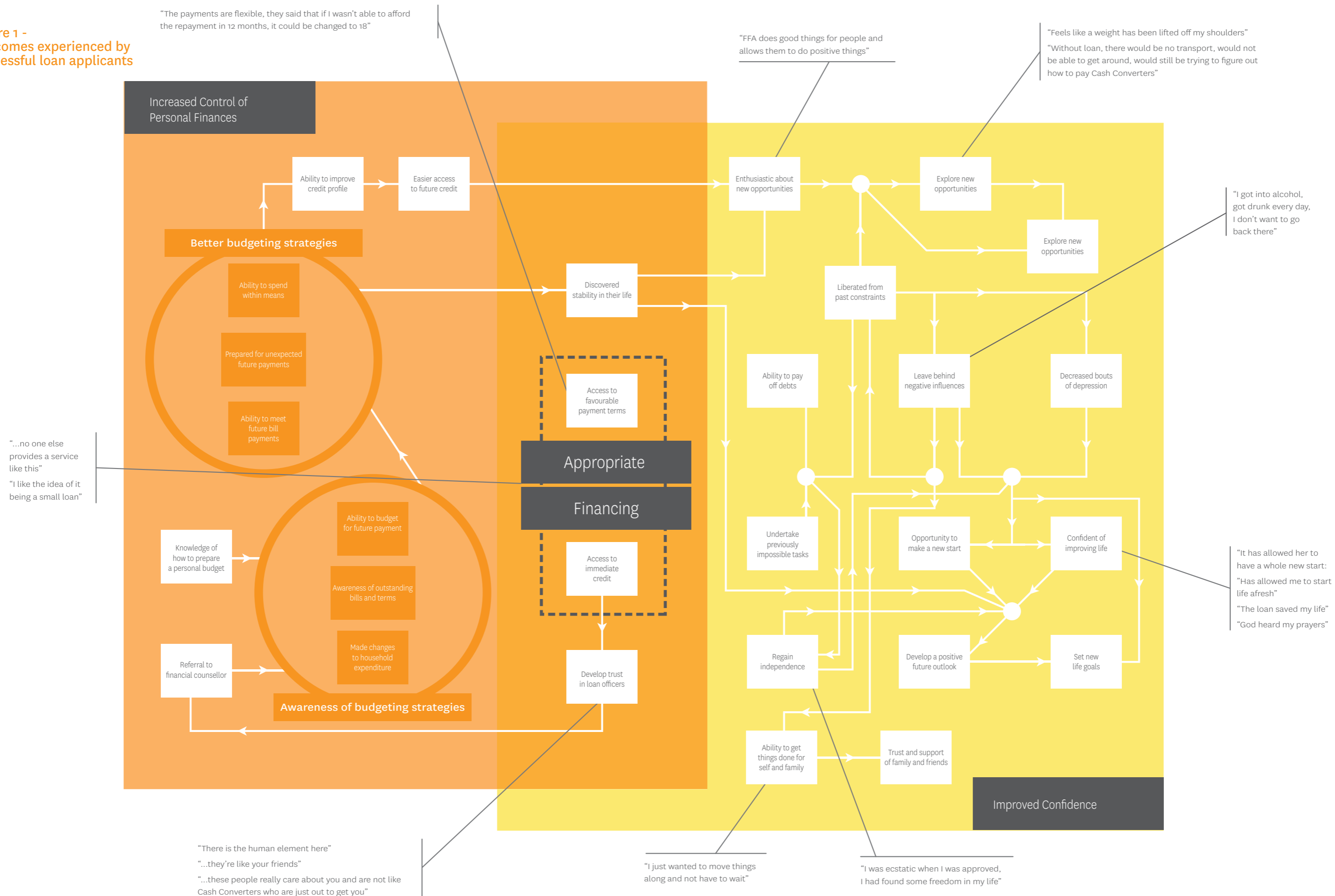
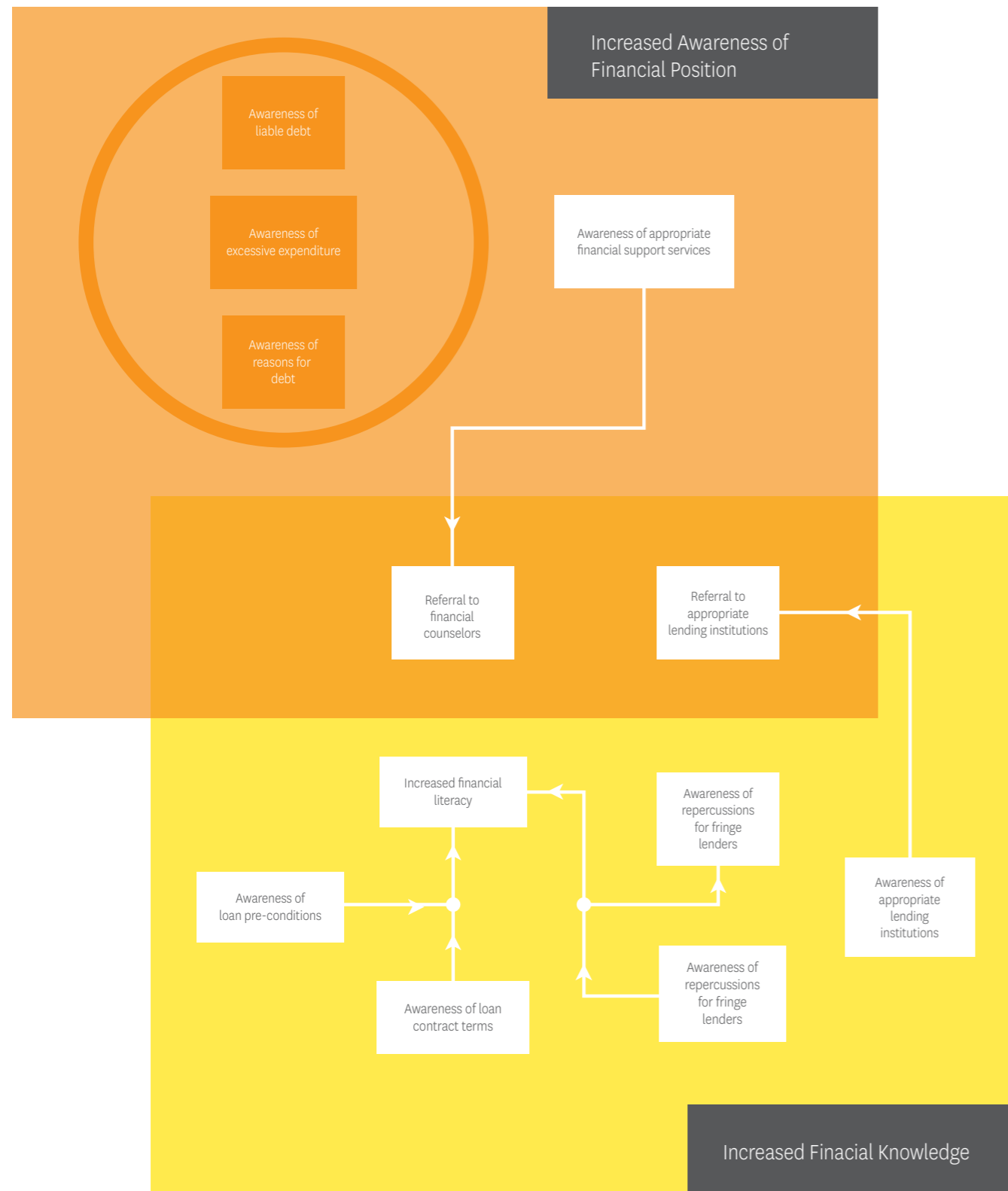


Figure 2 – Outcomes experienced by ineligible and successful loan applicants



Case Studies

1 | Astrid

Astrid is a 70 year old woman who had just returned home to Brisbane after 20 years living in the US due to a separation from her husband. She has returned to her children who are also living here. She was a registered nurse with over 25 years' experience in the US and Australia, and held senior positions in hospitals.

Due to circumstances, she rushed her departure from the US and had to get her belongings shipped at a later date. These included her personal and professional documents. The initial quote from the shipper was \$2000, which ballooned to \$5000. Her children in the US were able to pull together the deposit amount but not the rest due to financial problems of their own. She therefore had to figure out how to pay for the rest on arrival in Brisbane. Once in Australia she was having issues with the shipping company regarding dispatch of container and arrival date – the container was supposed to be shipped in February but hadn't yet due to non-payment of full amount.

She was not able to get a loan from any major bank due to her lack of credit history in Australia and additionally did not have any assets in Brisbane. She is living with her children in a share house and does not have a car to get around. Her children were willing to get loans from fringe lenders but she did not want them to go through those channels. She was referred to FFA by NAB. She met with a loan officer at FFA and was taken through the assessment process. She said it was extremely straightforward. The loan officer was very reassuring and helped her realise that it wasn't because of any fault of her own that she was unable to secure a loan in other places. It was just the issue of not having a credit history in a new country. Astrid has now secured a loan and has been able to pay her freight bills. She is expecting her belongings soon and is excited to begin a new life in Brisbane.

2 | Ross

Ross is a trained accountant who used to work for the public service and started a real estate business. A solicitor made an error in a deal that made him and his company bankrupt. Things spiralled down from there, leading to a divorce and other personal problems. He had moved to Tweed Heads where he got into alcohol and other problems, drank everyday and got into trouble. He was recently robbed and assaulted which prompted him to turn things around, and to get on with life.

He required money for a solicitor for his "victim of crime" claim and an additional \$1000 for a car payment on a vintage Mercedes that he is restoring for weekly wedding rentals and other occasions. His is being helped by his daughter in law who is a wedding photographer. He also found out that he had one unpaid debt on a credit card from some

time ago due to which he cannot get a loan from any major bank. He is aware that fringe lenders charge exorbitant interest and hidden fees and will not go to them for assistance. Anywhere he went, loan requests were rejected as the credit card default showed up on computerised applications and bankers would not process his request further. He was referred to FFA by NAB.

At FFA, he was assessed by a loan officer, who called up the debt collection agency on the spot and re-negotiated his debt down from \$2000 to \$1000. He additionally received a loan of \$2000 for the solicitor and car payment on a repayment plan that he can easily afford. He doesn't need to borrow money anymore. FFA has allowed him to restart his life and reconnect with his family.

3 | Josh

Josh is a refugee from D.R. Congo who had been in a refugee camp in Malawi for the last 13 years. His pregnant fiancée and her family were relocated to Australia as refugees. After giving birth to their child on arrival she passed away due to medical complications. Josh was allowed to come to Australia as a refugee in order to care for his child. He left his parents and other family behind to come here a year ago. He did not have any belongings. When Josh arrived he was staying with his fiancée's mother and his child. He was encouraged to find a wife to help take care of his child. He was close to a fellow Congolese refugee who is now in Finland and she was willing to come to Australia to help him.

In Australia, he first worked at a blueberry farm for a few months and now works for the UNHCR as an advocacy campaigner. All these jobs were and are on a casual basis and he also receives basic benefits from Centrelink. He is in a difficult position as he needs to send half of his earnings back home to support his family in Malawi after which he is only left with half for himself and his child. Additionally, getting to work and finding permanent employment requires him to travel a lot.

He approached a major bank for a car loan but because he had only been working casually for 8 months he was rejected (The minimum amount for a loan consideration is 1 year of casual work experience). He also recently found out from his lawyer that he was required to pay up front for the legal service required to bring his new fiancée to Australia from Finland.

He was not confident of getting a loan from a major bank and when he approached a community group that offered loans, they wouldn't offer him a loan for his specific purpose as they only provided loans for home furniture and appliances. Josh discovered FFA online and was informed of what was required over the phone. His loan was assessed immediately and sanctioned in a day. There was no discrimination based on his refugee status or the fact that he was sending half his pay back to his parents every month. He has now paid the lawyer and expects his fiancée to be in Australia by December. He considers FFA staff to be his friends and family and is grateful for their immediate help.

EVIDENCING OUTCOMES

The previous section identified the outcomes generated by the activities of Fair Finance Australia. We now focus on how we evidenced and measured the incidence of these outcomes in order to understand the extent to which change has occurred.

5.1 Formulating indicators

The outcomes identified during the stakeholder engagement process previously had no means of being captured. In order to quantify these changes, a bespoke survey toolkit with descriptive indicator scales was designed to capture clients' experiences. The primary purpose of the tool was to:

- collect data to evidence the occurrence of qualitative stories of change that we had heard during the stakeholder engagement workshops;
- see how they compared with the client's previous position prior to making contact with Fair Finance Australia; and
- understand where the client saw themselves in the future.

As this was the first attempt at an evaluation of the social benefit created by a CDFI in the Australian context, no previous indicator sets exist that our data collection could draw on. We have modelled the indicators of social impact on the stories of change from Fair Finance Australia loan officers' experience.

5.2 Data collection

Loan officers were asked to consider the two outcomes for ineligible loan applicants:

- Increased financial knowledge; and
- Increased awareness of financial position.

Successful loan applicants were measured against four outcomes. The two detailed above plus the following outcomes:

- Increased control of personal finances; and
- Increased confidence

Clients picked which of the aspects they felt they had experienced as a result of their interaction with Fair Finance Australia and the receipt of the loan.

Going forward it is envisaged that this data will be gathered at the three-month and 12-month mark from the day the loan was issued and again after the final repayment to track the change in the magnitude of outcome achievement. For the purpose of this forecasted evaluation, we have collected data from a spread of clients at different points in their loan repayment cycle.

Additionally, Fair Finance Australia staff will record qualitative data related to successful loan applicant outcomes at the different stages in order to build a database of case studies that reflect the diverse needs of clients that Fair Finance Australia serves (see Appendix 5 – Impact Stories).

Data on interest income for the economic return has been provided by Fair Finance Australia based on projections of a number of loans issued during a typical year and the average loan term.

“I AM PAYING MORE FOR THE
LOAN NOW BUT I GOT WHAT
I NEEDED, SO IT’S WORTH IT”
- BORROWER

Table 5 - Outcome indicators and descriptive scales

	Outcome	Outcome Achievement	Indicators
1	Increased financial knowledge	Very Low	Client has no understanding of basic banking processes Client has no understanding how to apply for a loan Client does not know why they are having difficulties obtaining a loan anywhere
		Low	Client has a limited understanding of basic banking processes Client has a limited understanding of loan application process but does not possess any relevant documentation Client is still unsure why they are having difficulties obtaining a loan anywhere
		Average	Client has a basic understanding of different banking institutions and processes Client has the bare minimum documentation required to apply for a loan Client is (now) aware of basic terms of a loan contract Client has some understanding why they are having difficulties obtaining a loan anywhere
		High	Client is aware of banking institutions relevant to their situation and appropriate to their need Client has most of the documentation required to conduct a loan assessment Client is aware of what to look for in loan contracts (interest rates and loan terms) Client is aware of the dangers of entering into contracts with fringe lenders
		Very High	Client has access to all documentation required to apply for a loan Loan officer is confident that client can obtain a loan at an institution more appropriate to their needs Client is aware of what they can do to make them more credit worthy
2	Increased awareness of financial position	Very Low	Client is unaware of the extent of their liabilities Client is unaware why they are in debt Client doesn't know where or how they spend their money and has no intention of finding out
		Low	Client has a limited understanding of the extent of their liabilities Client has a limited understanding of why they are in debt Client has a limited understanding of their expenditure
		Average	Client is aware of all their outstanding liabilities Client is aware of why and how they got into debt Client understands that they have issues with their expenditure and is trying to find out where they are falling behind
		High	Client has a good understanding of their liabilities and what can be done to address them Client is aware of problems with their expenditure and how it is affecting their financial position Client is aware of the options available to assist their financial position
		Very High	Client is fully aware of the extent of their liabilities and their consequences Client has a full understanding of their expenditure patterns and has a budget to reference in the future Client knows their credit score and understands its relevance

	Outcome	Outcome Achievement	Indicators	
3	Increased control of personal finances	-1	I am unable to meet my Fair Finance Australia loan repayments and am going into arrears	This outcome is further reinforced by current data collected on individual clients' repayment rates
		Base Case	I am committed to paying back my Fair Finance Australia loan	
		+1	I have regularly been able to meet my Fair Finance Australia loan repayments	
		+2	I am regularly making my Fair Finance Australia payments and have been able to do one of the following: 1) Follow a budget 2) Stay on top of my bills 3) Take responsibility for my previous debt	
		+3	I am regularly making my Fair Finance Australia payments and have been able to do two of the following: 1) Follow a budget 2) Stay on top of my bills 3) Take responsibility for my previous debt	
4	Increased confidence (+1 for any Yes answer)	Base Case	I have a sense of personal achievement as a result of getting a loan	Additional question for "Successful loan applicants" that allow us to find out if there are any other factors contributing to their success. · "Have you received assistance from any other organisation or individuals to help you handle your finances?" (Y/N) · If yes, "Who" and "Have they played a significant role in doing so?" (Y/N)
		+1	I feel confident that I could access another loan in the future if I needed to (Y/N)	
		+1	Access to Fair Finance Australia finance has increased my confidence that I can deal with future financial crisis (Y/N)	
		+1	Access to Fair Finance Australia finance has increased my confidence about planning for my future (Y/N)	
		+1	I would recommend Fair Finance Australia to family and friends (Y/N)	

5.3 Modelling outcome incidence during a typical year of operations

Fair Finance Australia and Net Balance acknowledge that the volume of operations during the pilot phase is not indicative of a typical year due to the time and resources spent on other activities establishing Fair Finance Australia's operational model and presence in the community.

We have therefore applied outcome incidence data on activity volumes more representative of a typical year of operations, once Fair Finance Australia has established itself in Brisbane and surrounding areas. Table 6 sets out the activity data for the pilot phase and a typical year of operations

Table 6: Fair Finance Australia Activity

	Pilot Phase	Typical Year	Source
Number of successful loan applicants	104	240	Fair Finance Australia
Number of ineligible loan applicants	105	160	
Loan interest (average loan term of 16 months)	\$30,000	\$240,000	

Based on activity during a typical year, Table 7 shows the forecasted number of incidences per outcome.

Table 7: Forecasted outcome incidence

Stakeholder	Outcome	Number of Clients	Outcome Incidence	Source
Ineligible Loan Applicants	Increased financial knowledge	160	42.4	Modelled based on Fair Finance Australia staff and client provided responses
	Increased awareness of financial position	160	43.3	
Successful Loan Applicants	Increased financial knowledge	240	58.6	
	Increased awareness of financial position	240	61.4	
	Increased control of personal finances	240	114.8	
	Increased confidence	240	60	
Fair Finance Australia	Financial returns from loan interest income	240	\$240,00	

UNDERSTANDING IMPACT

SROI methodology makes an important distinction between outcomes achieved and impact. It defines impact as the difference between the outcome for participants and taking into account what would have happened anyway (deadweight), the contribution of others (attribution), whether a benefit has simply been moved from one place to another (displacement), and the length of time over which outcomes last (benefit period and drop-off). An appreciation of all of these elements is critical to conducting robust cost-benefit analyses.

Being a new sector in Australia, there is very little research on the behaviours of CDFI clients and the effectiveness of these institutions in Australia. As a result we have relied on feedback from Fair Finance Australia staff's experience with clients, our engagement with various stakeholders and related literature on financial exclusion to assign impact.

6.1 Deadweight

Deadweight is an appreciation of what would have occurred anyway, in terms of achievement of outcomes, in the absence of the intervention/activity. In order to determine the deadweight, we must consider each outcome and ask the question; "How much of this would have happened anyway?"

Where the outcome was dependant on the provision of the loan, the deadweight is straightforward as the clients were unable to receive loans anywhere else. However, for the remaining outcomes, deadweight has been determined by conversations with Fair Finance Australia staff and clients. Table 8 shows the deadweight assigned to each outcome and the rationale used.

Table 8 - Deadweight

Stakeholder and Outcome	Deadweight	Rationale	Source
Ineligible Loan Applicants / Successful Loan Applicants Increased financial knowledge	30%	This outcome stems from a client's level of financial knowledge of the banking system and other systems that impact their day-to-day financial transactions. In addition to relevant financial knowledge passed on to Fair Finance Australia staff during the application process, there are other online tools and initiatives provided by the Australian Securities and Investment Commission (ASIC) (Money Smart, Money Minded) and Financial Counsellors / Help lines to aid clients with their financial difficulties. However, given the typical characteristics of Fair Finance Australia clients and staff's knowledge of their capabilities, we have concluded that most of the clients are unlikely to increase their financial knowledge through online material.	Fair Finance Australia staff

Stakeholder and Outcome	Deadweight	Rationale	Source
Ineligible Loan Applicants / Successful Loan Applicants Increased awareness of financial position	15%	Even if clients are ineligible for a loan on their first attempt, central to achieving this outcome is the individual client's understanding of their own financial position with regards to: <ul style="list-style-type: none"> - personal debt; - credit history; - balancing income and expenditure; - awareness of the importance of budgeting; and - the availability of support options to help them sort out their personal financial situation so they don't spiral into further debt. Financial support agencies have urged people to seek help before it is too late. Some clients delay getting help for too long, either because of refusing to acknowledge the trouble they are in, or not understanding the financial complexities (Lifeline Community Care, Queensland, 2010). By approaching lenders early, more options are available to the financially distressed and the repayment options may not be as serious (Lifeline Community Care, Queensland, 2010). There are other online tools and initiatives provided by the Australian Securities and Investment Commission (ASIC) (Money Smart, Money Minded) and Financial Counsellors / Help lines to aid people with their financial difficulties. However, due to the large demand on such resources, there is often a wait of between two to four weeks to see a financial counsellor in some agencies, and this delay often negatively affects the options available. Loan officers help clients construct a personalised budget and inform them of strategies and resources to help rectify their habits regardless of whether they are offered a loan. Fair Finance Australia staff has informed us that many of the online resources that are accessible to clients may not translate into action and that the one-on-one interaction guarantees that clients have a demonstrated understanding of budgeting and awareness of financial position. The deadweight thus accounts for the availability of other options and is low because of the difficulty of clients accessing these services and the ineffectiveness of reading online material.	Fair Finance Australia staff / Lifeline Community Care Queensland
Successful loan applicants Increased control of personal finances	15%	Central to achieving this outcome is the client's ability to successfully exercise their financial budgeting techniques in order to keep on top of bill payments and take responsibility of previous debt Loan officers help clients construct a personalised budget and inform them of strategies and resources to control their finances in the future. Fair Finance Australia staff has informed us that many of the online resources that are accessible to clients may not translate into action and that the one-on-one interaction guarantees that clients have a demonstrated understanding of budgeting and awareness of financial position. The deadweight thus accounts for the availability of other options and is low because of the difficulty of clients accessing these services and the ineffectiveness of reading online material.	Fair Finance Australia staff Clients
Successful loan applicants Increased confidence	0%	None of the clients who obtained loans at Fair Finance Australia would have been able to obtain access to similar affordable and appropriate credit products at alternative financial institutions. Thus there is no deadweight applied to this outcome.	Fair Finance Australia staff Clients
Fair Finance Australia Financial returns from loan interest income	0%	Fair Finance Australia's loans are the only microfinance operation being conducted by Fair Finance Australia and thus the only avenue to earn interest income	Net Balance / Fair Finance Australia

6.2 Attribution

The concept of attribution in SROI is an 'assessment of how much of the outcome was caused by the contribution of other organisations or people'⁸. A highly subjective element of evaluation, credit is usually claimed in its entirety or completely omitted. In organisations engaged in direct delivery, understanding the amount of credit for outcomes can be relatively straightforward through engaging with beneficiaries and wider stakeholders. It becomes more complex when organisations work in partnership with others to create change to beneficiaries.

Similar to deadweight, attribution in this evaluation has been based on our understanding of the theory of change from stakeholder engagement and input from Fair Finance Australia staff. Table 9 shows the attribution assigned to each outcome and the rationale used.

Table 9 - Attribution

Stakeholder and Outcome	Attribution	Rationale	Source
Ineligible Loan Applicants / Successful Loan Applicants Increased financial knowledge	100%	The awareness raising aspect of this outcome is attributable to Fair Finance Australia as they provide an informational service. We thus attribute this entire outcome to Fair Finance Australia as we are only valuing the short term benefit of this informational service and not how clients put it into practice.	Fair Finance Australia staff
Ineligible Loan Applicants / Successful Loan Applicants Increased awareness of financial position	100%	This outcome is wholly attributed to Fair Finance Australia as all the required information to reassure and inform clients about their financial position is provided by loan officers during the application process.	Fair Finance Australia staff
Successful loan applicants Increased control of personal finances	75%	A large proportion of the impact can be attributed to Fair Finance Australia as loan officers provide the required information to assist clients with managing a personal budget and the loan itself would play a role in decreasing the financial burden on the client. There could be other factors that aid clients in controlling their finances such as guidance from a financial counsellor and/or online budgeting tools.	Fair Finance Australia staff and Clients
Successful loan applicants Increased confidence	100%	The wording used in the data collection surveys directly ties the incidence of the outcome to the Fair Finance Australia customer service experience and the loan. It is thus wholly attributed to Fair Finance Australia.	Survey
Fair Finance Australia Financial returns from loan interest income	100%	Interest income is completely attributable to the loans issued by Fair Finance Australia.	Net Balance / Fair Finance Australia

6.3 Displacement

This is an assessment of how much of the change is a net benefit (i.e. a new change) or simply the movement of change from one place to another. For example, in employment, if one individual gets a job then they are stopping someone else from getting a job – the benefit is displaced.

Displacement is usually relevant to outcomes providing value to the state. However, in this SROI evaluation the state has not been identified as a material stakeholder and thus we do not take into account displacement in our calculations.

6.4 Benefit period and drop-off

It is acknowledged that outcomes are not static, but instead dynamic and occur at different points in people's lives and have different durations. SROI takes into account that benefits may last beyond the period of the intervention and, as such, takes account for this in the modelling of outcomes over time. This is known as the benefit period. Furthermore, that outcomes may deteriorate over time and is taken into consideration and is known as drop-off. Furthermore, outcomes may deteriorate overtime which is taken into consideration. This is known as drop-off. The benefit period and drop-off levels vary by outcome and are explained in Table 10.

⁸Nicholls J. et al., 2009

Table 10 - Outcome benefit period and drop-off

Stakeholder and Outcome	Benefit Period	Drop-off	Source
Ineligible Loan Applicants Increased financial knowledge	1 month As we are unaware of these stakeholders' actions after they leave the Fair Finance Australia office, it is difficult to make an estimate of the longevity of the impact of the outcome on the client. We therefore only value the immediate impact of the service.	100%	Net Balance assumption
Ineligible Loan Applicants Increased awareness of financial position			
Successful Loan Applicants Increased financial knowledge	2 years We assume that successful clients will have to make a concerted effort to stay on top of their financial position as they manage their household finances and pay off their loan. Both knowledge and awareness play a significant role in doing so. This is a conservative estimate as the effect of practising diligent budgeting is likely to have a longer term effect on the clients' lives.	10% after Year 1 <ul style="list-style-type: none"> We assume that there may be slight changes to the financial system with the introduction of new products and regulations in future years. 	Net Balance assumption
Successful Loan Applicants Increased awareness of financial position			
Successful loan applicants Increased control of personal finances	2 years Budgeting, awareness of one's financial position, and knowledge of institutions and support services are all components of financial knowledge. Financial literacy is a skill for life, with significant benefits for everyone no matter what their age or income. It affects the opportunities that clients can pursue and their sense of security (ASIC, 2011). However, this may not be true for everyone and individual experiences may inform people differently. We are therefore conservative and only value this outcome for 2 year loan term.	10% after Year 1 <ul style="list-style-type: none"> We assume that there may be slight changes to the financial system with the introduction of new products and regulation in future years. 	Net Balance and Fair Finance Australia staff assumption
Successful loan applicants Increased confidence	4 years – 2 year loan + 2 years Due to the diverse reasons for loan requests, we are conservative with the benefit period of this outcome. We assume that in some cases the loan enables clients to make a quick fix to problems that they are facing in life (repairs, breakdowns) where in other cases it may be to pay for goods or services that may have a lasting impact on them, (cars, medical bills, education).	50% after year 1, and 25% after every other <ul style="list-style-type: none"> We assume that there will be other factors contributing to increasing the quality of life for clients 	Net Balance assumption
Fair Finance Australia Financial returns from loan interest income	2 years Based on average loan term of 16 months (adjusted in the Drop-off section).	66% after year 1 The drop off accounts for the 16 month average loan term	Net Balance and Fair Finance Australia staff assumption

6.5 Financial Proxies

Non-traded outcomes were valued using standard techniques of economic valuation and triangulated with the descriptions of outcomes derived from existing research and stakeholder engagement. The proxies used in the SROI are a combination of the costs of publicly available economic goods and services, secondary research utilising already present studies that value the impact of appropriate intervention services and the "willingness to pay" approach. The chosen proxies are shown in Table 11.

Table 11 - Financial Proxies and Rationale

Stakeholder and Outcome	Financial Proxy Rationale	Proxy Value & Source
Ineligible Loan Applicants / Successful Loan Applicants Increased financial knowledge	Fair Finance Australia staff provides clients with information to improve their basic financial knowledge in order for them to achieve this outcome. Similar information can be accessed through various non-profit and corporate resources. As this outcome is not dependent on any action taken by Fair Finance Australia staff, clients could access the required information to achieve this outcome by purchasing the relevant publications.	Cost of DVD and workbook for adult language, literacy and numeracy learners - Right on the money: Taking control of personal Finances A\$37.18 Source: LiteracyNet, Department of Industry, Innovation, Science, Research and Tertiary Education ⁹
Ineligible Loan Applicants / Successful Loan Applicants Increased awareness of financial position	Access to their credit file allows clients to make more informed decisions regarding their finances in the future. Information in a credit file includes: <ul style="list-style-type: none"> overdue accounts payment defaults clear-outs credit score: and payment status. Through the application and interview process, Fair Finance Australia staff uncovers these details and make clients aware of what aspects of their credit history pose the greatest hindrance to their future creditworthiness.	Cost of obtaining client's personal credit file A\$49.95 Source: My Credit File report ¹⁰ and Cost of provision of 2 hours of counselling by a social worker in private practice at no cost to the client A\$220 (Adjusted for inflation) Source: National review of tele-counselling and web counselling services, 2002 ¹¹
Successful loan applicants Increased control of personal finances	In a study that measured financial exclusion in Australia, the essential needs that can be met by access to financial services are (Centre for Social Impact, 2012): <ul style="list-style-type: none"> ability to manage day to day transaction and payments access to a moderate amount of credit: and the ability to protect key assets. This outcome is fully achieved when a client is confident in their abilities to maintain a reasonable household budget, meet future bill payments and, handle financial shocks. The described indicators are components of the three aspects of financial inclusion and thus we make an assumption that clients who achieve this outcome are on the path to being financially included individuals.	Average annual cost of basic financial services Basic Bank account – A\$88 Low cost credit card – A\$808 General insurance – A\$898 Total - \$1,794 Source: Measuring Financial Exclusion in Australia – CSI, May 2012

⁹ <http://www.deewr.gov.au/Skills/Programs/LitandNum/LiteracyNet/GeneralResources/Pages/FinancialLiteracy.aspx>

¹⁰ Veda Advantage - <http://www.mycreditfile.com.au/personal/credit-file.dot>

¹¹ [http://www.health.gov.au/internet/main/publishing.nsf/Content/E82FC46AF0BBE758CA2570DB0082CD66/\\$File/tele7.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/E82FC46AF0BBE758CA2570DB0082CD66/$File/tele7.pdf)

SROI RATIO & FINDINGS

Table 11 Cont.

Stakeholder and Outcome	Financial Proxy Rationale	Proxy Value & Source
Successful loan applicants Increased confidence	<p>Being in a state of financial exclusion is highly likely to impede an individual's ability to participate in social and economic activities (Burkett & Sheehan, 2009). Given that the aim of Fair Finance Australia is to put their clients on a pathway to financial inclusion, we inferred from stakeholder engagement that clients had gained an urge and increased confidence in their abilities to re-engage with society.</p> <p>The Australian Social Inclusion Board specify the frequency of people's social interaction with family and friends, their involvement with community groups, and participation in community events or activities as being key indicators of one's ability to constructively participate in society. These activities can range from sports, arts, craft, hobby or special interest groups to name a few.</p> <p>In the Theory of Change section we have identified a number of pathways through which clients can achieve increased confidence outcomes and to understand the value placed on this change, a willingness to pay approach is adopted.</p> <p>We use the amount that Queenslanders on average spend on participation in society as an indication of how much value is placed on the improvement to one's confidence.</p>	<p>Average weekly spend by low and average wage earners in Queensland on recreation and culture-related activities</p> <p>A\$109.20 (adjusted for inflation in 2011)</p> <p>Source: Australian Bureau of Statistics, 65300D0001_200910 Household Expenditure Survey, Australia: Summary of Results, 2009-10</p>
Fair Finance Australia Financial returns from loan interest income	<p>Estimated value of loan interest generated by issuing 240 loans annually</p>	<p>A\$240,000</p> <p>Source: Fair Finance Australia</p>

7.1 SROI Ratio and Social Value

Given the outcome incidence trends gathered from clients during the development phase of Fair Finance Australia, the value of cash flows and the Social Return on Investment ratio for investment into a typical year of services is shown in the table below.

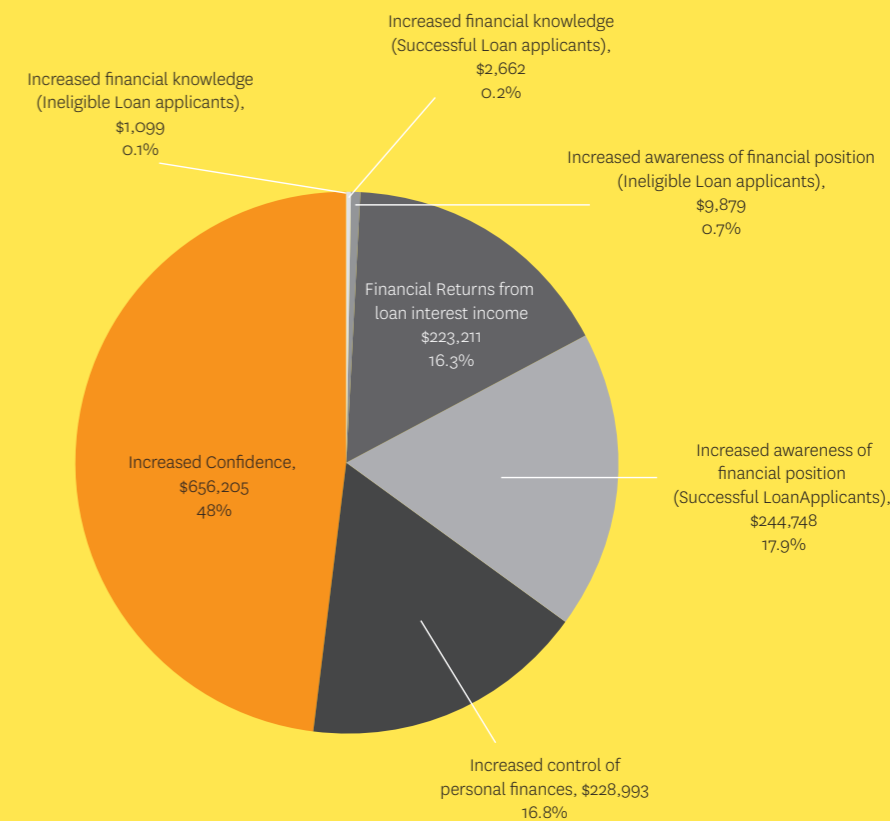
	Social Value (\$)					Total social Value per stakeholder (\$)	Present Value of Social Value to Stakeholder (\$)
	Month	Year 1	Year 2	Year 3	Year 4		
Ineligible loan applicants	\$ 11,032	\$ -	\$ -	\$ -	\$ -	\$ 11,032	\$ 10,979
Successful loan applicants	\$ -	\$ 613,809	\$ 416,147	\$ 127,764	\$ 95,823	\$ 1,253,543	\$ 1,132,609
Fair Finance Australia	\$ -	\$ 180,000	\$ 60,000	\$ -	\$ -	\$ 240,000	\$ 223,211
Total	\$ 11,032	\$ 793,809	\$ 476,147	\$ 127,764	\$ 95,823	\$ 1,504,575	\$ 1,366,799
						Total Value of inputs	\$ 660,000.00
						SROI Ratio	\$ 2.07

The SROI ratio above indicates that for every dollar invested into the running of Fair Finance Australia, it yields approximately \$2.07 in social and economic value. The total value of social and economic outcomes amounts to approximately \$1.36 million over a four year period across five outcomes. The individual value of these outcomes are presented in Table 12 and graphically represented on the next page.

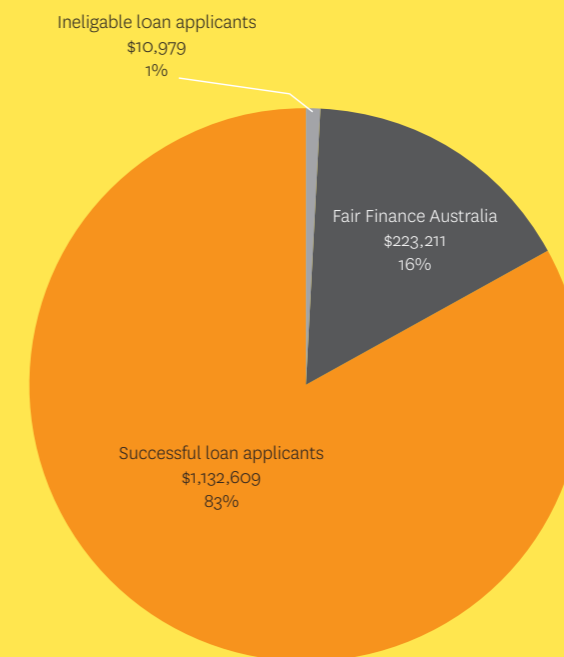
Table 12 - Present value of outcomes

Stakeholder	Outcome	Value Credited
Ineligible Loan Applicants	Increased financial knowledge	\$ 1,099
	Increased awareness of financial position	\$ 9,879
Successful Loan Applicants	Increased financial knowledge	\$ 2,662
	Increased awareness of financial position	\$ 244,748
	Increased control of personal finances	\$ 228,993
	Increased confidence	\$ 656,205
Fair Finance Australia	Financial returns from loan interest income	\$ 232,211

Graph 5 | Value created per outcome



Graph 6 | Value created per stakeholder



INSIGHTS & RECOMMENDATIONS

7.2 Sensitivity Analysis

This step in the SROI methodology systematically varies assumptions in order to test for areas of sensitivity in the model. These are assumptions that, when changed, significantly affect the ratio.

Improvements in future outcomes

Net Balance is aware that as Fair Finance Australia staff gain more experience in targeting and assessing the needs of potential clients, there is likely to be an improvement in the magnitude of outcomes generated, and thus an increase in outcome incidence. If we adjust the model to reflect varying degrees of improvements in outcome incidence, the following SROI ratios are achieved.

Percentage	SROI Ratio
10%	2.24
25%	2.50
50%	2.94
75%	3.37
100%	3.80
All clients achieve maximum possible outcome	5.36

Number of clients

- If the number of ineligible loan applicants processed were doubled to 320, the SROI ratio increases to **1:2.09**
- If the number of successful loan applicants processed increased by 50%, the SROI ratio increases to **1:2.93**

First year lending input costs and operations

- If we consider the entire amount of input costs that went into the pilot phase of the CDFI project (\$850,000), the SROI ratio decreases to **1:1.61**
- If we only take into account the number of loans serviced during the pilot period, the ratio drops to **1:0.77**

Impact

- If we set the deadweight of all the outcomes to 50% (i.e. assume that 50% of the outcomes generated by Fair Finance Australia would have occurred anyway) the SROI ratio drops to **1:1.27**
- If there is no deadweight assigned to any of the outcomes (i.e. assume that all the outcomes occurred as a result of the clients' relationship with Fair Finance Australia), the SROI ratio increases to **1:2.20**
- If the benefit period of the "Increased Confidence" outcome is reduced to two years (average duration of loans) outcomes, the SROI ratio drops to **1:1.79**
- If the benefit period of the increased financial knowledge and increased awareness of financial position for successful loan applicants are reduced to one month like the ineligible applicants, the SROI ratio drops to **1:1.72**

Financial proxies

- If the financial proxy for increased confidence was halved, the SROI ratio drops to **1:1.57**
- If the financial proxy for increased control of personal finances is halved, the SROI drops to **1:1.90**
- If we halve the proxies for increased financial knowledge and awareness of financial position, the SROI drops to **1:1.88**
- If we only halve the awareness raising aspect of the Increased financial knowledge and awareness of financial position proxies (the educative material) the SROI drops to **1:2.06**
- If we remove the personal support element (value of social workers time) from the above outcomes, the SROI ratio drops to **1:1.69**

8.1 Insights

- From the results of the SROI it is clear that the majority of outcomes are achieved by successful loan applicants. This is attributable to the greater number of successful clients and the fact that the valuations assigned to the outcomes achieved by this stakeholder group are considerably higher than ineligible clients.
- Given that the primary purpose of SROI is to measure program outcomes rather than outputs, the essential element to consider is the number of outcome incidences generated by Fair Finance Australia during the course of a year. It is fitting that the model is fairly sensitive to outcomes achieved by the stakeholders. Considering this we feel that the SROI in Fair Finance Australia falls between \$1:1.64 and \$1:2.5. This range considers a 25% variation in the magnitude of social outcomes recorded during the data collection process.
- The greatest portion of social outcomes is generated through clients' achievement of increased confidence. This reinforces Fair Finance Australia's primary purpose which is to tackle social and financial exclusion not only through service provision, but also by addressing issues of capacity and structural change for clients.
- Ineligible loan applicants only experience 1% of the social benefits generated even though there are a substantial number of clients in this group. The sensitivity analysis additionally demonstrates that the SROI ratio only increases by \$0.02 even if the number of unsuccessful clients doubles.
- The personalised assistance provided to clients in obtaining awareness of their financial position is a key driver of value. If this aspect of the outcome was not valued, the SROI drops to **1:1.69**. This demonstrates the significance of the role of Fair Finance Australia staff who treat clients on a case by case basis, and are willing to work with clients in increasing their capacity to payback their loans over a period of time.
- It is important to note that we have not considered the social outcomes associated with clients who are referred to other appropriate services to suit their particular needs. Presently, Fair Finance Australia staff have no way of keeping track of the activities of referred clients after they go through the application process. It was beyond the scope of this forecast to capture valid indicator data to value these outcomes. It is thus likely that the social value is undervalued in this sense.

8.2 Recommendations

- Use the indicator toolkit to collect data on future clients of Fair Finance Australia in order to compare future social outcomes with the forecasted levels predicted in this evaluation. We believe the indicator scales can serve as a valuable tool to assess potential clients' loan eligibility as they were designed under close consultation with Fair Finance Australia loan officers and management.
- Further segment stakeholders by their demographic (i.e. youth, sole parents, disabled, elderly, retired, working poor, etc.). From past experiences we acknowledge that clients from different demographics are likely to achieve varying magnitudes of outcomes. It would be a useful exercise to collect and analyse data specific to demographic groups as such data can provide insights into:
 - » which segments of stakeholders Fair Finance Australia is presently best equipped to serve
 - » areas where staff need to build their capacity to communicate effectively; and
 - » the need to develop new loan products to serve the needs of certain groups (culturally and linguistically diverse (CALD) and Indigenous Australians).
- Identify ways to track the outcomes of clients who were referred to other services. It is likely that these clients would have been unaware of the existence and relevance of services had it not been for the intervention of Fair Finance Australia loan officers.

“I JUST WANT TO TELL AS MANY PEOPLE AS I CAN ABOUT THIS SERVICE”

- BORROWER

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LIMITATIONS

Net Balance Management Group Pty Ltd (Net Balance) has prepared this report in accordance with the usual care and thoroughness of the consulting profession. This report has been prepared for use by Foresters Community Finance, and only those third parties who have been authorised in writing by Net Balance.

The report is based on generally accepted practices and standards at the time it was prepared. No other warranty, expressed or implied, is made as to the professional advice included in this report. It is prepared in accordance with the scope of work and for the purpose outlined in the project brief. The methodology adopted and sources of information used by Net Balance are outlined in this report.

Please note that all results have been reported as recorded. Any percentages that do not add up to exactly 100% are the result of rounding errors.

This report was prepared in October 2012 and is based on the conditions encountered and information reviewed at the time of preparation. Net Balance disclaims responsibility for any changes that may have occurred after this time.

This report should be read in full. No responsibility is accepted for use of any part of this report in any other context or for any other purpose or by third parties. This report does not purport to give legal advice. Legal advice can only be given by qualified legal practitioners.

APPENDICES

Appendix 1 – Stakeholder Engagement

Workshop 1

27th June 2011, held at Foresters Office, Brisbane

Invitee	Organisation
Ross Wyatt	Net Balance
Arjun Ravi	Net Balance
Belinda Drew	Foresters
Peter Pamment	Foresters
Stephanie Rogers	Foresters

Workshop 2

2nd May 2012, held at NAB Offices, Melbourne

Invitee	Organisation
Ross Wyatt	Net Balance
Arjun Ravi	Net Balance
Belinda Drew	Foresters
Peter Pamment	Foresters
Corinne Proske	NAB
Elliot Anderson	NAB
Lisa Thiedman	NAB

Workshop 3

12th June 2012, held at Foresters Office, Brisbane

Invitee	Organisation
Ross Wyatt	Net Balance
Arjun Ravi	Net Balance
Peter Pamment	Foresters
June Yee	Foresters
Maria Bruno	Foresters

Client Interviews

12th June 2012, held at Foresters Office, Brisbane

Invitee
Jan
Erris
Barbara
Janet
Leo
Ben

Appendix 2 – Note on Financial Exclusion in Queensland

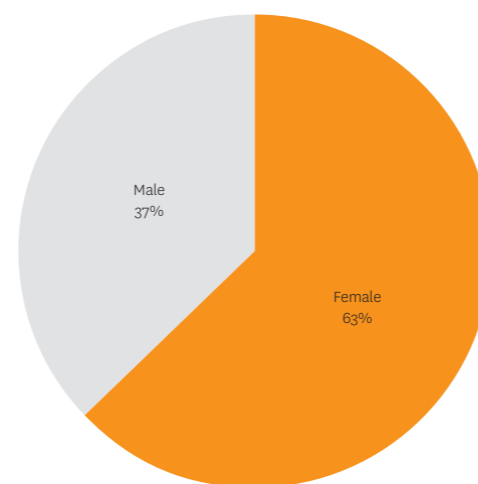
In 2010, a survey by Westpac defined 28% of all Queenslanders 'financially unfit', compared to 12% at the same time in 2009. The Australian average is also 28% financially unfit. Women were most severely affected, with more females financially unfit (32%) than males (25%) (Bankwest, 2010). This indicates that there is a great deal of distress and economic uncertainty in the Queensland community. In 2008, the Queensland Council of Social Service (QCOSS) estimated that 10% of Queenslanders were living in poverty, which equates to receiving less than \$281 per week. A further 10% were identified as being at 'high risk' for poverty and social exclusion (Queensland Council of Social Services, 2010). It is therefore likely that the proportion of the Queensland community living in or at risk of poverty has increased since the financial crisis, resulting in increasing demand on social service organisations that provide financial assistance.

Appendix 3 – Quotes from Client Interviews

- “Feels like a weight has been lifted off my shoulders”
 - “The repayments are what you can afford”
 - “Without loan, there would be no transport, would not be able to get around would still be trying to figure out how to pay Cash Converters”
 - “No one else provides a service like this”
 - “They’re like your friends”
 - “These people really care about you and are not like Cash Converters who are just out to get you”
 - “I’m home and I’m lost”
 - “Has allowed me to start life afresh”
 - “When I got the money from Fair Finance Australia I cried”
 - “Fair Finance Australia was able to give me an answer to my problems”
 - “I didn’t know which way to turn”
 - “They were so calm, non-judgemental, and the only thing that worked smoothly at the time”
 - “The payments are flexible, they said that if I was able to afford the repayment in 12 months, it could be changed to 18”
 - “The loan saved my life”
 - “I like the idea of it being a small loan”
 - “I would not have any idea about where to get a loan from”
 - “I didn’t know where to go”
 - “I have no freedom, and I hate relying on people”
 - “I don’t like getting into debt”
 - “I don’t like going through banks”
 - “They are a really good lot of people”
 - “They could have easily said no”
- “I was ecstatic when I was approved, I had found some freedom in my life”
 - “I just wanted to move things along and not have to wait”
 - “I can easily afford the finance”
 - “Fair Finance Australia fills a niche in the market”
 - “I’m excited”
 - “My life wouldn’t be very good if it weren’t for here”
 - “I got into alcohol, got drunk every day, I don’t want to go back there”
 - “It saved my life”
 - “Cash Converters is only for those who are really desperate, I don’t know how by law they get away with it”
 - “There is the human element here, because it goes through a computer at the big banks, it HAS to be clean”
 - “It is a human thing”
 - “When they approved my loan, I was elated, I felt like I was on top of the world”
 - “Does good things for people and allows them to do positive things”
 - “The only way I found out about this service was through NAB”
 - “God heard my prayers”
 - “I left it to faith when I heard how much money I needed”
 - “I will invite June to my wedding when my fiancée arrives”
 - “Without this office I don’t know where I will be, I had no other options”

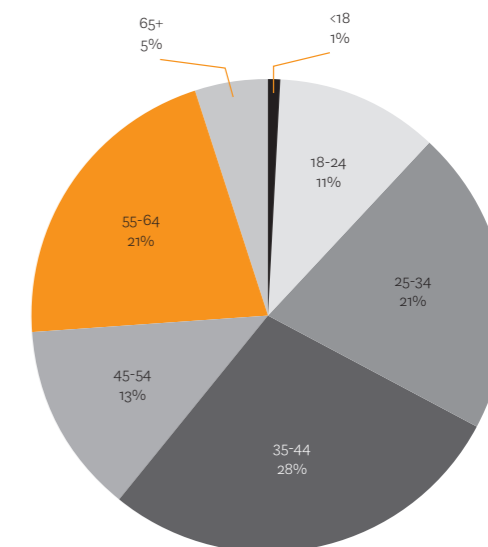
Appendix 4 – Client demographic charts

Gender



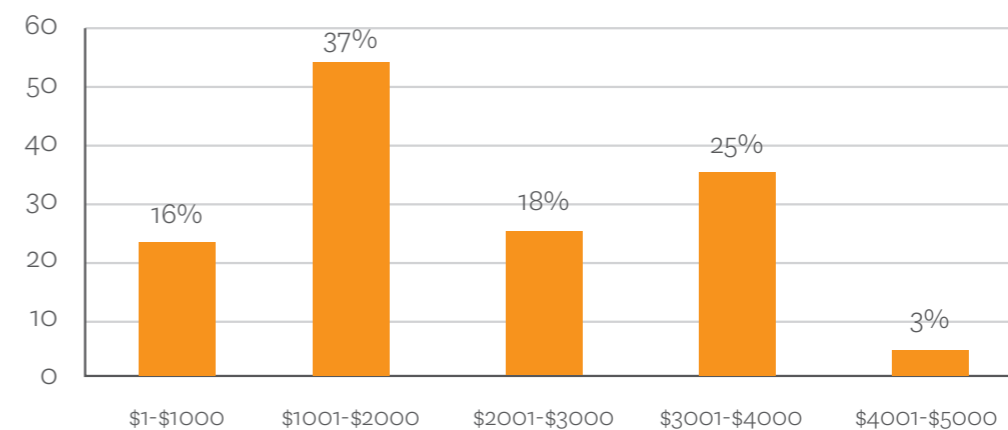
Source: Fair Finance Australia

Age Groups

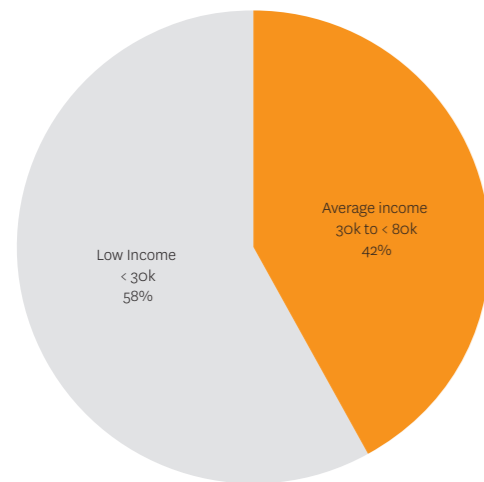


Source: Fair Finance Australia

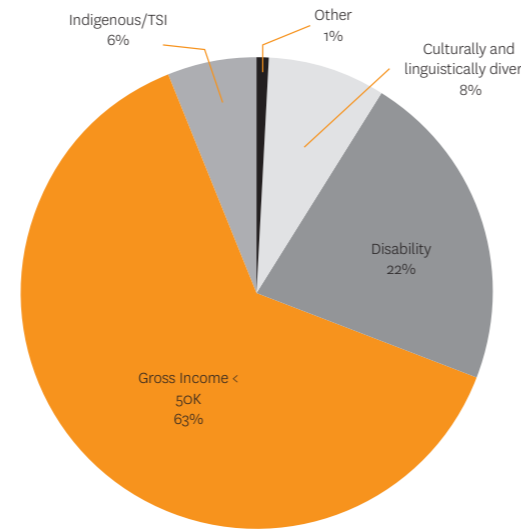
Loan Amount



Source: Fair Finance Australia

Income Level


Source: Fair Finance Australia

Client Profile


Source: Fair Finance Australia

Appendix 5 – Impact Stories

Client is an age pensioner suffering from marital stress and financial difficulties due to ex partner. She is trying to pay off her rent in arrears and sort out issues with landlord.

Client has attempted to get a personal loan from a bank, was rejected hence had to go to payday lenders when she had no option. Had incurred major dental bill when daughter had a tooth infection associated with a wisdom tooth and had to have surgery for removal of it hence the set back in clients finances.

Client is buying an airconditioning unit to improve health, as get very sick during summer time.

Client found her debt had spiralled out of control due to expensive borrowings from payday lenders. She has sought help from a financial counsellor. Our assistance with consolidation of her payday loans has placed her back on track with her life. She was suffering from anxiety and extreme stress about how she could meet all the bills.

Client could not pay her electricity bill on time so default of \$280 was recorded and still on credit history as not paid hence she could get a loan from anywhere except a payday lender at extreme costs. Have suggested she put her complaint in writing to have default marked as paid. Loan was taken with payday lender to help with the removalist costs and cleaning up previous home including removal of carpets and hire of skip bins. Was having problems meeting terms and needed to consolidate.

Client was desperate to secure unit but needed deposit by days' end otherwise would lose the property - had tried so many places but could not get any help due to casual work and existing debt arrangements.

Client had a history of drug abuse and drifted in and out of rehabilitation. Is now on track to maintain a clean life and help others through his experience. Finance for a laptop would help him educate himself on use of a computer and improve self-confidence.

Client had an argument with her sister and was kicked out so she checked herself into a hotel for a week and racked up some loans with payday lenders. Client was almost homeless and sought assistance of a financial counsellor. She managed to secure a rental place with a friend and had went in just to purchase a fridge from a buy now pay later company but the sales person told her the minimum purchase for rental agreement is \$2000. She was sold a whole lot more items which will take 3 years to clear and 2.5 times more in payments over that period. Also purchased a bed through a rental company. Soon found herself struggling to keep up with the payments and was so anxious and stressed. We managed to consolidate her payday loans to ease her loan payments and she is so grateful for our assistance.

Client had been homeless and was living with his children in a friend's garage. Had been a bouncer in a pub but was always picked by the young hooligans because of his size (daring attacks) - as a result he lost his front teeth in the brawl and decided his job was becoming too dangerous so quit but could not secure another job so moved to a friends home in the Gold Coast. Had just managed to get a factory job but had no money to meet the bond and 2 weeks advance rent for a proper home which would be walking distance to work. Our loan helped him and his children (1 daughter and 2 sons - all teenagers) into a proper home.

Client had been in prison for 3 years and just getting himself organised for a job interview. A loan for a mobile and iPad helped him to organise a resume for the first time so he could secure construction work.

Client had been using a friends bicycle for transport and needed a car for ease of transport. He is careful with his finances but his ex-wife still has an influence on getting him to buy things for her, which is draining his finances.

Client had emotional breakdown which required hospitalisation following years of bullying, emotional, physical and Psychological abuse. As a result, lost home, car, career and savings and is just starting to rebuild life. – Required loan to start a business to record his experience to help others in the situation he had experienced.

Client had managed to secure a home through Housing Commission in Townsville when they had to move out of a condemned home in outback Queensland. Our loan enabled transportation of a recently purchased vehicle which enabled client to move his family to their new home in Townsville.

Client obtained a loan to help & support her pregnant daughter to get baby essentials to start a new life. Daughter is a victim of domestic violence under treatment as been physically abused by ex partner when found out she's pregnant.

Client is in the process of selling existing home and need bond and 2 weeks rent to secure a home to move into with her son. She intends to clear entire debt upon settlement of her property scheduled for October. Property is unencumbered so she will receive the entire amount of \$107,500 less legal expenses.

Client was managing to survive on Disability Support Pension and needs a loan to meet car repairs and maintenance for ease of mobility. Previously had a Step Up loan in Victoria which was repaid on schedule.

Client needs a car so she can start looking for a part time job. Having a car will make her life easier to see her doctor, family and friends.

Client is a mother of 5 young children with lots of debts everywhere. Partner unemployed and centrelink income is not enough to pay all her bills.

Motorcycle would enable mobility to places where public transport is not available as he has injured in legs in an accident and finds it hard to walk long distances.

Our loan purchased new furniture for home as moving to Hervey Bay.

Client is on disability pension suffering from diabetes, anaemia and other ailments on going medical treatments and the car is very important for doctors appointments.

Our loan has help client set up her drama business for a community organisation which is a day respite for adults with an intellectual disability. It is an opportunity for clients to express themselves physically and emotionally and be both therapeutic and enjoyable.

Our loan will assist a single mum transport her children - 2 active boys around as public transport is difficult at times when she needs to take them to the doctors

Single mum with 4 children and carer for her mum. Car would be used to transport mum to doctors and children to school (2 with high needs). Engine on her existing old vehicle had seized and mechanic advised it would be too expensive to repair and had recommended purchase of another car from a client of his whom he knew were upgrading their vehicle.

Single parent trying to pay off her certificate course fees so she can be a qualified fitness trainer/gym instructor.

Sole mother and a carer of her twin sons. She is in financial difficulties due to unforeseen medical bills and expenses for the sickly children and for herself. She is very happy that we are able to consolidate her debts from the different pay day lender's and makes her repayment affordable.

Sole mother of 5 months old baby wanting to buy some baby's equipment. Christine is struggling as she got some debts with pay day lenders.

Sole mother trying to pay off her pay day lender's loan but not getting anywhere due to a very high interest rate.

Sole parent trying to make ends meet after being redundant last Christmas with lots of debts. Can't access bank loan due to part 9 arrangement. Ana was very happy that we were able to approve her car loan. Needed car for work and to take son to school.

Sole Parent wanting to buy a car so she can pursue further studies and can look for a part time job.

Sole parent with 2 children suffered from domestic violence from partner now ex partner after a long court case for child custody. Through our loan Margaret was able to pay a lawyer to fight for the custody of her children. She won the court case and very happy we approved her loan the next day.

Sole person with disability trying to buy a car so he can see his family regularly and attend doctors appointments. Previous car was stolen and is lost without a car.

Stressed when bond loan declined as just over income limit. Tried so many places and was worried about being homeless again. Has to move out of current residence which is up for mortgagee sale - auction as owner had not paid his home loan but collected rent from her (owes her 2 weeks rent). Had secured another place but needs to make bond deposit by 10/10/12 before she could get the keys to the new home.

Was homeless and have just secured a home through Housing Association. Our loan has help him with furnishing his new, stable, home which will set him up on a good start

Young artist wanting to showcase her art work around Australia. Needs extra funding to be able to do this.

Young mother needed a car for her little baby and to be able to see family regularly. Sarah will also use the car to find a part time job when baby is a bit bigger.



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