



ANNUAL REPORT

2008

Foresters Community Finance Ltd

&

Foresters Community Finance Ltd

as Trustee for

Foresters Community Trust

Growing Social Returns

*Foresters Community Finance
Annual Report
2008*

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Chairperson's Report

Chair's Report for Foresters Community Finance Limited AGM on 11 December 2008

I regarded it as a great honour and privilege to accept the role of Chair of the Forester's board in September this year, when Morrie O'Connor stepped down from that role. Morrie has shown great commitment to Foresters as Chair over a significant period, and I know that I speak on behalf of all of the board in expressing our gratitude to Morrie for his service, and also our continuing gratitude that he has decided to remain on the board. Morrie brings a wealth of knowledge and history to the board, which will be invaluable as we move forward.

We were pleased to welcome Cheryl Kernot to the board at the last AGM. Cheryl has made a significant contribution over the past year, particularly in terms of her insights into the importance of Foresters' work and its place in an Australian policy setting. In April we welcomed Adam Mooney to the board. Adam was previously the Community Development Finance Manager at ANZ Bank and now serves as Reconciliation Action Plan Director at Reconciliation Australia. A CPA by profession, Adam has brought a sharp and constructively critical mind to board decisions and an increased rigour to our financial analysis and risk management processes. All board members continue to demonstrate their commitment to this organisation as they give generously of their time and expertise. We will continue to look for talented additions to our board.

This is a very exciting time for Foresters, which under the capable guidance of our CEO, Belinda Drew, and her enthusiastic and hard-working team, is positioning itself as a pioneer Community Development Finance Institution in this country.

Community Development Finance Institutions ("CDFI's") are well recognised and defined in both the UK and the US. CDFI's have been defined as 'independent financial institutions that provide finance and support to help individuals and organisations develop and create wealth in disadvantaged communities or under-served markets.' (Community Development Finance Association, 'Annual Review: Building Community Development Finance' (2008), 1)

Foresters is undertaking this role currently through its focus on building capacity within the social sector,

through training programs and securing investment to enable community organisations to asset build and thus better serve their communities. It has plans to further develop its CDFI role in Australia through the provision of safe and affordable finance to low income Australians, in order to inject genuine competition into the market as against high cost, exploitative lenders.

The key obstacles to the start up and growth of CDFI's in Australia are a lack of regulatory support and funding for this work. There are no structures in place through which CDFI's can access finance to support their important social role.

This stands in contrast to the support provided for to CDFI's in the US and UK, enabling those organisations to provide services in otherwise under-served markets on a far greater scale. Key aspects of the regulatory environment in those countries are, first, government funds on which CDFI's can draw to support their work; second, tax incentives to encourage investment in CDFI's; third, at the very least a voluntary disclosure regime requiring banks to disclose their lending activities (being either direct lending or through investment in CDFI's) in under-served markets, or alternatively a ratings system where banks are rated on the extent of those activities.

Foresters, both in its own role as a pioneering CDFI in Australia, and as a member of the Queensland and Australian Microfinance Networks, will continue to lobby the Australian government for necessary regulatory changes.

The Board and I look forward to the next year with great anticipation, as we embark upon a capital raising strategy to support infrastructure costs, further develop our social investment work as we secure an Australian Financial Services Licence, and develop a business plan for 'Fair Finance Australia' to provide safe and affordable credit to people as a genuine alternative to high cost, exploitative credit.



Therese Wilson
Chairperson
Foresters Community Finance





BEAT THE GLOBAL FINANCIAL CRUNCH

INVEST YOUR MONEY IN THE AUSTRALIAN COMMUNITY!
GET BOTH A SOCIAL AND A FINANCIAL RETURN
BY INVESTING IN OUR COMMUNITY INVESTMENT FUND.

Foresters provides loans to Community Organisations

Some of the not-for-profit community organisations that have benefited from Foresters' loans over the past 16 years include:

- Central Coast Post School Options
- Collingwood Park Kindy
- Domestic Violence Resource Centre
- Independent Youth Housing Group
- Nundah Community Enterprise Co-op
- Othila's Young Women's Housing & Support Service
- Sandgate & Bracken Ridge Action Group
- Sisters Inside
- Special Housing Association of Redlands
- Sunshine Coast Regional Housing Committee
- Tarragindi War Memorial Pre-School & Kindy
- Union Co-operative Society
- Women's Community Aid Association
- Women's Legal Service
- Working Against Violence Support Service
- Yeronga Hyde Road Kindergarten
- Youth & Family Services, Logan

We need more investment

We have a number of organisations who meet our strict credit requirements waiting for over \$20 million in loans over the next twelve months. We are also establishing a number of unit trusts to enable properties to be purchased to house community organisations and people with a disability. Plans for the redevelopment of the Foresters' property at Gympie for a Community Centre are also progressing. We need your investment in the Community Investment Fund now so that we can fund the loans and unit trusts, help these organisations become sustainable and develop community facilities.

What return does it pay?

Importantly, the Fund provides a social return on investment that is unmatched by any fund in Australia. No other Fund invests in strengthening Australia's community organisations.

In addition, the returns paid to investors in the past three years by the Community Investment Fund were:

2005/6	5%
2006/7	5%
2007/8	5.85%

This is no guarantee of the level of future financial returns.

Get more information about our Investment Fund and obtain a Product Statement by

visiting our website at www.foresters.org.au email us at info@foresters.org.au

or call us on 07 3257 3166

CEO's Report

As CEO of the newly named Foresters Community Finance it is my honour and privilege to report to you the progress made over the last year. The last twelve months has been a momentous period. The Board and members' decision to rename and rebrand reflects more closely the focus of work in this organisation. The new logo, a wattle flower, reflects the Australian Natives Association heritage, while we maintain the name Foresters and add Community Finance to reflect the core purpose of the organisation.

There have also been a number of other very important milestones. Early in the 2008 we began the implementation of a program of community finance products and services for the benefit of the social sector. These products and services are now provided on a fee-for-service basis and are aimed at supporting the social sector to develop financial and social sustainability through asset building. This is by no means new work, however, the products and services are now offered to the social sector in a way that is more accessible for them and more financially sustainable for Foresters.

Foresters has also continued to build on the work commenced last year offering increased training and education to the social sector focussed on social innovation. This training has mainly been delivered to groups of organisations who want to build financial sustainability, reduce reliance on government funding and understand how to build assets through better management of their financial capacity. As demand for training continues to grow we will continue to explore creative ways to deliver this training, including the exploration of online technologies.

The past six months has also seen a greater and more strategic focus on building interest in Social Investment. I reported last year that Foresters had formed a subsidiary company called Community Investing Australia. That company has also been renamed, Social Investment Australia, which we think more aptly, reflects not only its focus, but also its stakeholders, social investors. We have submitted an application for an Australian Financial Services Licence under this company and look forward to offering a range of new products to the mainstream financial services sector in 2009.

The Community Investment Fund, our current product offering, continues to grow as we spend time

promoting it to key groups in the community. These groups include but are not limited to community or not-for-profit organisations, foundations and high net worth individuals with Prescribed Private Funds. Our message to these potential Social Investors is to put your money where your values are - as all of these groups and individuals are actively engaged in making society a better place. We are therefore asking them to use some of their investable funds to strengthen the depth and reach of their social objectives.

We have also embarked over the last number of months on a strategy to build a set of social accounts. These social accounts will enable us to consistently report to investors and other interested stakeholders about the impact that our work is having. Our commitment is to build this framework in the first half of 2009 and report back to investors and stakeholders against this framework at next year's AGM.

Foresters Community Finance Continues to strongly focus on five strategic goals which include:

- To cement our position as a highly regarded provider of social investment products in Australia;
- To extend our role as a significant investor in the strength and capacity of the social sector in Australia;
- To grow our reputation as Australia's leading funds manager for Social Investment;
- To have robust and deeply held partnerships and alliances with organisations of like mind and values;
- To develop geographic reach beyond south east Queensland.

We have made significant headway on each of these strategic goals. The name and brand of Foresters is increasingly well known, although there is still some way to go. We have opened a range of opportunities to build constructive partnerships with likeminded organisations and in the next six months I am confident that we will see some of these relationships bring great benefit to the company. As we continue to expand our relationships with stakeholder groups we will utilise technology to assist us to increase our reach to stakeholder groups.

I reported last year that Foresters will be establishing an organisational structure which can hold the conceptual and practical wisdom of a decade of work carried out through various Microfinance Projects . In the interim we have developed a business case for the establishment of Fair Finance Australia, modelled on

the UK based company of the same name. We were fortunate to spend two days in Brisbane with Faisal Rahman who is the Managing Director of Fair Finance UK. In early 2009 we will continue the development of a Business Plan and the formation of a company.

Over the coming twelve months Foresters is faced with challenging but exciting times as we further consolidate our financial position through a capital raising strategy for the company that will allow us to pursue growth towards sustainability and greater impact. I take up this challenge with the Board and staff with great enthusiasm and conviction. The work of Foresters is now in sharp focus, the value of its work is clear and therefore the proposition for investment in the company itself is strong.

In conclusion, I would like to thank my dedicated staff team who have worked tirelessly toward realising significant milestones on the path towards our strategic goals. Thanks also to each and every Director of the Board of Foresters for their time and effort throughout the year. I would like to make particular mention of Morrie O'Connor who this year stepped down as Chair of the Board after a great length of service and contribution to the company.

Finally, to the members of Foresters, our investors and community asset builders for continuing to shine the light on the importance of community development finance in Australia. Keep believing and keep investing because this exciting journey has only just begun.



Belinda Drew
CEO
Foresters Community Finance



INVEST IN THE AUSTRALIAN COMMUNITY AND TURN \$25 PER WEEK INTO \$1300 PER ANNUM!



The Foresters Community Investment Fund has a *Regular Investment Plan. With only **\$25 per week** you can turn your small deposit into **\$1300 per annum!**

HERE'S HOW...

- Direct Credit**
You can arrange for your employer to transfer your regular investments directly into the Fund account.
- Electronic Funds Transfer (EFT)**
You can make your regular contributions by Electronic Funds Transfer (EFT) from your financial institution.
- Deposit via the internet**
You can make deposits via the internet by following your financial institution's procedures for transferring amounts to our Fund account.
- Account Details**
Credit, EFT and Deposit via the Internet and Direct Debit transfers.

Account Name:
Foresters Community Investment Fund

Institution: Maleny & District Credit Union (MCU)

BSB No. 704-606

Account Number: 081655010

Financial Overview of 2007/8

Foresters Community Finance Ltd

WHK Horwarth were appointed auditors for 2007/8 replacing Ramsey & Associates.

During 2007/8, total revenue decreased by 7.2% compared with 2006/7. This reduction was wholly due to a one-off government grant to establish the Choosability Fund and the distribution of profit from a share of the sale of Cabbage Tree Unit Trust in 2006/7. In contrast, income from management and administration, interest, investment, consultancy, training and research increased by over 260% to \$156,000 during 2007/8. This strong growth continues into the current financial year and indicates the substantial change occurring in the company's underlying operational performance.

Overall, expenses increased by 12% primarily due to increased employee benefits, illustrating the cost of hiring additional staff and the cost of travel and accommodation as research, training, promotional and consultancy work has been undertaken. The full impact of much of the foundational work undertaken in 2007/8 will not be apparent until 2008/9 and 2008/10. The overall loss for the financial year was 23.5% higher than in 2006/7.

In 2008, Foresters' property at Red Hill Road, Gympie was revalued upwards by \$80,000 and plans are now taking shape to redevelop the site as a Community Centre that Gympie needs.

The Foresters' office relocated to Bowen Hills in March 2008 due to the sale of the Albert Street, Brisbane property by the property owners. While this relocation involved some expense, overall administration expenses remained virtually the same as in 2006/7. In addition Foresters hold a share in a company called C21 Ltd. This Company owns a fifty per cent share of community sector bank. This shareholding has increased significantly in value in the last financial year and the full value of this shareholding will be reflected in the upcoming financial year.

Foresters ANA Community Trust Investment Fund

In 2007/8, the total assets in the Community Trust Investment Fund decreased by 10% as a result loans being repaid to the fund and limited increased investment opportunities. Again the foundational work undertaken in this financial year will be realised in the next financial year with current contracts for 2.2 million in investment committed. This will be further enhanced by a campaign strategy to partner with six community organisations to raise 5 million dollars in capital in the first half of 2009. The Fund is projected to grow to 8 million dollars in funds under management by June 2009.

The overall performance of the fund was excellent, and 5.85% per annum, interest was distributed to investors for the period ending 30 June 2008. This was an increase of 0.85% over the previous two years. The Fund's steady performance since the time it was established in January 2005, reflects its low risk and low volatility structure and the financial value of investing in the community sector. This performance significantly contrasts with that of the Australian and world equity markets as the high risk US residential mortgage arrangements came unstuck.

It would be an enormous challenge in the current economic climate to find any other Fund in Australia or overseas that could compare with the financial and social returns provided by the Community Trust Investment Fund.



Ian O'Malley
Social Investment Manager
Foresters Community Finance



*Foresters Social Investment
Manager, Ian O'Malley with
granddaughter, Hannah*

Ethical Investment Policy

1. Foresters Community Finance Ltd (Foresters) values

The following values, formulated by the members of Foresters Community Finance Ltd. (Foresters) underlie its objects and work:

- Mutual Aid – self-help, reciprocity, beneficence
- Social Justice – a more equal rather than less equal society
- Ecological Sustainability – a relationship between people and the earth that supports the survival of the planet and its species
- Active Citizenship – participation and engendering excitement for social change

Foresters enacts these values by finding and creating opportunities for ethical investments which focus on building sustainable, just, strong and resilient communities and on local businesses and organisations that support them.

2. Applying the policy

The Directors will:

- a. always act in the best interests of Foresters members.
- b. ensure that all Directors, staff and contractors are aware of and apply Foresters values to the extent possible and practical.
- c. apply Foresters values when investing its own funds and funds invested by Foresters members.
- d. exclude investments that are inconsistent with at least one of Foresters values. However, investments do not have to expressly promote all Foresters values.
- e. at all times operate within the constraints of the law.

3. Applying the Mutual Aid principle

In applying the Mutual Aid principle, the Directors will expect organisations in which they invest to:

- a. show how invested funds will promote the principles of mutual aid - self-help, reciprocity and beneficence
- b. establish a mutual partnership with Foresters which furthers the values of mutual aid beyond their financial investment; and
- c. commit to exploring how the financial investment can build further opportunities for

mutual aid in relation to their own constituency, community and society.

Borrowers will need to show that they are fiscally responsible and financially viable.

4. Applying the Social Justice value

In applying the Social Justice value, the Directors:

- a. will invest in activities which are socially responsible and consistent with the principle of social justice, including equity and equality.
- b. will not invest in activities or organisations that breach human or civil rights or that support or maintain unjust, discriminatory or oppressive social structures.

5. Applying the Ecologically Sustainable value

In applying the Ecological Sustainability value the Directors:

- a. will invest in activities and organisations that support the survival of the planet and its species.
- b. will not invest in activities that may cause harm to the planet or its species.
- c. will actively look to support environmental activities that offer the citizens of Australia tangible opportunities to create change within their own spheres of influence.

6. Applying the Active Citizenship value

In applying the Active Citizenship value, the Directors will:

- a. invest in activities and organisations that participate and engender positive social change.
- b. pay particular attention to activities that promote the participation of people in problem solving for solutions that meet their needs as they define them.

7. Compliance with the policy

- a. The Directors will check compliance with the Foresters values at least once every year through the application of an ethical screen developed to provide objective and subjective data across all of the value areas discussed above.
- b. Where inconsistency with the application of the policy is identified, the Directors will take appropriate action to redress the situation. If the situation is not resolved to the satisfaction of Directors, the Directors will divest Foresters and/or the relevant fund of the investment when it is in the best interests of the members or investors to do so.

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8. Ethical Screen

Foresters requests organisations that wish to borrow money or in which Foresters intends to invest to complete a questionnaire which will help assess their ethical aspirations. Foresters officers then meet with the organisations to clarify any points of contention. A report is then presented to the Investment Subcommittee for review and recommendation to the Foresters Board. Each investment is reviewed annually to assess application of the policy.

9. Questionnaire

PART A: Investment managers and potential borrowers are requested to answer the following questions:

Do you already have in place, or do you intend to put in place:

1. A process to ensure that the members of your Board of Directors or Management Committee and your staff are of good fame and character?
2. A Code of Conduct at all meetings of your Board of Directors or Management Committee?
3. A policy that requires members of your Board of Directors or Management Committee to disclose conflicts of interest in respect of all matters that may come before the Board or Committee?
4. A Human Resources policy that provides for:
 - equality of opportunity?
 - compliance with OH&S legislation?
 - non-discrimination?
 - ongoing training?
5. An environmental policy?
6. A policy requiring staff and officers to always act in accordance with the law?
7. An Annual Report in which your policies are disclosed?

PART B: Potential borrowers are requested to answer the following questions:

Would funds provided by Foresters:

1. Promote the principle of Mutual Aid?
2. Promote the principle of Social Justice?
3. Promote Ecological Sustainability?
4. Promote Active Citizenship?

Environmental Policy

1. Definitions

In this document, the term 'the environment' includes the natural, built and social environment in which Foresters Community Finance Ltd (Foresters) operates.

This document applies to Foresters and to all subsidiaries and associate companies.

2. Policy Statement

- a. Foresters is committed to environmental best practice, and to the continual improvement of its environmental performance, recognising its obligations both locally and globally, to the present and succeeding generations.
- b. Foresters is committed to implementing the requirements of all applicable Commonwealth, State and local environmental legislation and regulations and, where possible, exceeding any relevant minimum requirements.
- c. Foresters will manage the activities over which it has control and which impact upon the environment in accordance with the principles of ecological sustainability.
- d. Foresters aims to raise the environmental awareness of its Members and the organisations with which it does business by promoting the concept of ecological sustainability and by openly recognising the ongoing need to move toward an ecologically sustainable future.
- e. Foresters will monitor its use of natural resources, both renewable and non-renewable, and maximise the efficiency and effectiveness with which they are used, with a view to minimising environmental impacts.
- f. Foresters, will to the extent practicable and within the limits of its budget foster and promote environmental awareness and education.
- g. Foresters will provide appropriate environmental training for its staff and will encourage them to apply sound environmental practices at work, at home, and within the wider community.
- h. Foresters is committed to transparency in, and public access to, the formulation and implementation of its environmental policies and objectives.

- i. Foresters will formulate, publish, implement and monitor objectives set out in this Policy, and will periodically review their efficacy and promote their continued development. Interested Members are encouraged to comment on the Policy, goals and objectives, and their implementation.

3. Policy Implementation

- a. Foresters commits itself to establishing and maintaining a formal environmental management system in accordance with this Policy.
- b. Foresters is committed to the promotion of awareness of environmental issues, and to the promotion of ecological sustainability, recognising that it is a contributor to the opinions and ideas, cultures and lifestyles of its Members.
- c. Foresters is committed to acting in an environmentally responsible and ethical manner.
- d. Foresters is committed to working in co-operation with government, industry and the community at large to address environmental issues in general, as well as to improve the Foresters environs.
- e. Foresters is committed to waste avoidance, waste reduction, re-use and recycling.
- f. Foresters aims to reduce its consumption of materials and energy and to implement environmentally sound waste management practices. This includes eliminating unnecessary energy use, pursuing a programme of energy conservation, and reviewing water usage. Foresters is committed to the long-range goal of maximum use of renewable energy sources.
- g. Foresters is committed to re-use of materials wherever practicable.
- h. Foresters will promote schemes for the collection of materials appropriate for recycling.
- i. Foresters will seek ways of disposing of waste in environmentally acceptable ways, and will support environmental research.
- j. Foresters will distribute information in the most environmentally-friendly manner possible.
- k. Foresters will regularly monitor, and review wherever practicable, its acquisition of materials and energy and its disposal of waste.

- l. When services, materials, equipment, food or energy are purchased, preference will be given to items produced in ways which cause least harm to the environment, and which generate fewest waste materials. Equipment designed for 'repairability' rather than planned obsolescence will be favoured. Other things being equal, preference will be given to local suppliers or sub-contractors so as to promote links with the community and to reduce transport needs.
- m. Foresters is committed to sustainable design principles in land-use, transportation, landscape and building planning and construction.
- n. Foresters aim to minimise adverse environmental impacts of all buildings that it owns in part or in whole, landscaping of those properties and developments over the whole of their lifespan.
- o. Foresters is committed to landscaping and grounds maintenance practices which minimise water and energy use and promote integrated pest management. The use of fertilisers, soil conditioners and pesticides will be minimised.
- p. Foresters is committed to the retention and enhancement of any heritage plantings, and to landscaping and grounds maintenance practices which use native vegetation wherever practicable, and create habitat niches for native fauna wherever practicable.
- q. Foresters aims to ensure that all materials used in Foresters will be as harmless to the environment as is practicable.
- r. Foresters aims to reduce the environmental impacts associated with transport to and from, and within, Foresters by encouraging staff, Members and visitors to use environmentally-friendly means of transport.

2008 FORESTERS LAUNCH!

Financial Inclusion, market failures and new markets: Possibilities for Community Development Finance Institutions in Australia

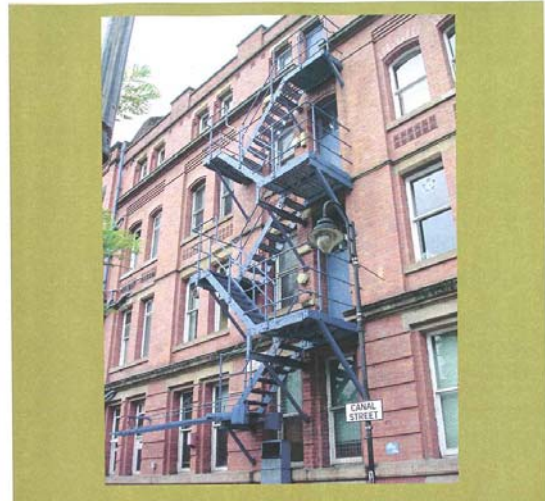
By Dr Ingrid Burkett & Belinda Drew

This report explores the nature of financial exclusion in Australia and argues that the development of specific and independent Community Development Finance Institutions could make a significant contribution to addressing this exclusion.

Financial exclusion is redefined as much broader than has been the case in Australian research to date. While most definitions have focussed on the exclusion of individuals, this report argues that exclusion extends to non-profit organisations, social enterprises and micro enterprises. In understanding why financial exclusion occurs, this report makes a link between capability and market failure, and argues that the opportunities to address financial exclusion must address these two factors in combination.

Whilst many Community Service Organisations and some of the mainstream financial institutions have, in recent years, made attempts to address financial exclusion (particularly as it relates to individuals), these initiatives have been relatively small scale and have lacked the impact needed to make significant inroads to addressing exclusion across the country. The report concludes that new approaches are needed which can build on current responses to develop innovative solutions to the issues involved in financial exclusion.

Community Development Finance Institutions harness such new approaches. They are independent organisations focussed on the use of financial mechanisms to develop and service people, organisations and communities who have been excluded from or underserved by mainstream financial institutions. 'Though there are a handful of such organisations operating in Australia, the sector is very much underdeveloped – particularly compared to other 'developed' economies such as the United Kingdom and the United States. The report concludes with an overview of what could be learnt from these two countries and how a thriving CDFI sector could be developed in Australia in coming years.



Financial Inclusion, market failures and new markets: Possibilities for Community Development Finance Institutions in Australia

**A Foresters Community Finance Occasional Paper written by
Ingrid Burkett and Belinda Drew**



Growing Social Returns