



Social Impact Loan Program

Case Study

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**SHARED
VALUE
PROJECT**

Background

A Bit of History Bendigo and Adelaide Bank (Bendigo) had its origins on the Australian goldfields in 1858, before forming the Bendigo Land and Building Society primarily financing miners' cottages. Its purpose was to act as a key enabler for local community building and strengthening. 140 years later, in 1998, with its core purpose of community strengthening still at heart the bank established its unique Community Bank® branch model.

Under the Community Bank® model Bendigo Bank and a local community owned social enterprise operate a branch together. Recognized as a leading example of Creating Shared Value at the Shared Value Initiative's 2014 Annual Summit, the Community Bank® model has delivered significant social and business value empowering local communities with jobs, governance, community investment and funding and Bendigo with a strong point of difference and proven competitive advantage organically growing its business by over \$30billion.

A New Initiative More recently, in 2015, Bendigo partnered with a number of long-standing Credit Unions in an operating model much like the Community Bank® model but with the express purpose of enabling these community-owned social enterprises to invest their substantial accumulated capital and profits in the sustainability of their communities. This was the genesis of the Alliance Bank® model. Already the Alliance Bank® model enjoys over \$1 billion in banking business and 40,000 customers. And from a community perspective, the social enterprises employ over 150 people through 22 branches maintaining strong community connections and knowledge.

Bendigo's partnerships with community-owned social enterprises provide a unique connection to its customers and their communities. The Alliance Bank® and Community Bank® models operate in about 340 communities nationally, with the community-owned social enterprises employing almost 2000 directors and employing 1600 locals. In addition, these enterprises are owned by over 100,000 individuals in the community, and apply their profits to community strengthening and building activities (as at Dec 2016 this is over \$165m). Together this provides a depth of local knowledge, connection and relationship that is difficult to replicate in traditional business models.

The Opportunity

"The increasing impact of compliance and prudential regulation are limiting access to financial services and hindering national productivity", says Bendigo's CEO Mike Hirst. As centralization and automation of banking decisions have taken hold so too has a level of financial exclusion, particularly rural and regional areas, small business and financially illiterate customers. The financial sector's inherent risk aversion affects innovation in the SME segment most where financing should be a key enabler. "SMEs are the most productive economic entities due to their structures, flexibility, payback periods and lower capital intensity," Hirst has said. "This lack of adequate financing for SMEs is detrimental to the broader national agenda. Similarly, rural and regional populations are often underserved as banks reduce the size of their branch networks. The departure of local banking undermines community economic infrastructure."

But it's not just Bendigo saying this. There is a significant body of evidence that this is a real social issue. For example, CPA Australia has said that SME access to finance is a significant issue for many businesses, notwithstanding the significant contribution the sector makes to the broader economy (SMEs contribute 57 per cent towards the industry value added by business and employ 70.5 per cent of private sector employee).

The Strategy

In considering the SME financial exclusions issue Bendigo looked to its social enterprise partners. In terms of lending with loans coming from Bendigo's balance sheet there are still centrally determined risk and return requirements that must be met. Bendigo is subject to the same prudential requirements of all licensed banks. However this means that local businesses and projects that don't meet requirements, but that the community-owned social enterprises want to support for wider community purposes, go unfunded. Together Bendigo and its Alliance Bank® partners worked on a solution, the Social Impact Loan Program.

The Social Impact Loan program enables Alliance Bank® partners to support businesses and projects that have wider community benefits (ie social impact). Leveraging Bendigo's infrastructure, Alliance Bank® partners can apply the profits from running their social enterprise to borrowers that wouldn't qualify for loans from Bendigo's balance sheet because of the risk and return restrictions. Alliance Bank® partners determine the risk and reward themselves and importantly can consider local knowledge and community benefit in making these Social Impact Loans.

The first Social Impact Loan was made by BDCU Alliance Bank® in December 2016 (see http://www.bendigoadelaide.com.au/public/media_centre/latest_media_announcements_detail.asp?nID=886). It enables local apprentices to access a no-interest loan to purchase tools of trade, and is part of a wider Apprentice Support Program designed to support community sustainability through seeding and fostering local business. The broader program includes discounts on tools from local suppliers, a financial literacy mentoring program and a professional mentoring program.

Results – Value for Business and Society

Launching in December 2016, it is early days for the Social Impact Loan Program, and each particular program will generate unique social and business outcomes, however things are already looking good for the BDCU Alliance Bank® Apprentice Support Program. The first beneficiary, Rhys Hamilton, a 20-year old carpenter from the Southern Highlands said, "This means I can get the tools I need; I am buying a drop saw and laser level. I want to do a good job and having the right tools will make a big difference. I couldn't have bought them without BDCU's help."

His employer, Shane McDonald of Wilderness Carpentry added, "BDCU Alliance Bank is helping young people by supporting them financially so they can stand on their own two feet. That's really important, particularly in regional Australia, because young people tend to move to the city. We need to keep talent here and it's great to see a local bank playing its part in keeping the local economy and community vibrant."

The Apprentice Support Program is designed to:

- * build credit worthiness
- * Increase personal confidence, financial literacy and business and leadership skills
- * Improve financial self-reliance and independence
- * Create financial savvy employees

However the social outcomes of this program are broader than the individual. The social outcomes for the community are:

- * Apprenticeships provide a genuine option for school leavers.
- * Young people remain in the local region and don't have to leave to seek gainful employment.
- * Successful apprentices will often commence their own business and subsequently employ others.

* Young people who successfully complete their apprenticeship and then go on to form and run their own businesses employing others effectively become the future leaders of the community.

Shared value business outcomes are expected to be realised initially through the apprentice's circle of influence, and in the long term through the relationship with the apprentice as they move to the next stage of their careers.

An apprentice is estimated to have at least 5 people in their circle of influence, which equates to 200 people that become aware of the BDCU Alliance Bank Apprentice Support Program, and potentially 200 people who become advocates for BDCU and the opportunities that the organisation provides in the community.

A conservative estimate of the number of Alliance Bank products that could be made available to the circle of influence of our first 40 apprentices is as follows:

- 40 mortgages
- 80 personal loans
- 120 savings accounts
- 120 transaction accounts
- 40 term deposits

These products are conservatively estimated to generate revenue of \$189k in the first year and \$171k in the second year.

As the available pool of Apprentice Support funds are recycled through to new apprentices a cumulative increase in shared value outcomes is expected, which provides additional opportunity to extend the funds directed to the program.

Lessons Learned, Challenges and Outlook

In terms of the potential, the Apprentice Support Program sees the initial application of \$200,000 of Alliance Bank® partner capital, out of a total capital pool of over \$40million.

Bendigo is in negotiation with a number of other credit unions who are seeking to join the Alliance Bank® model bringing further capital (and the total capital within the mutual bank/credit union industry exceeds \$6 billion). The program may also be adopted by Community Bank® partners adding approximately \$20m per annum to the shared value story.



Rhys Hamilton 20, Carpentry Apprentice, Shane Mcdonald, and Kylie Blatch, BDCU Alliance Bank®



Jan Edwards CEO and Kristina Freire Chair, BDCU Alliance Bank®

