The Landcare Revolving Loan Fund

A Development Report

A report for the Rural Industries Research and Development Corporation

by Derek Mortimer
Broken Catchment Landcare Network

March 2003

RIRDC Publication No 03/025
RIRDC Project No BCL-1A

ISBN 0642 58593 8
ISSN 1440-6845

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Project No.BCL-1A.

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Published in March 2003
Printed on environmentally friendly paper by Canprint

Foreword

A revolving loan fund can be described as a capital fund from which loans are made, usually for projects of public benefit. Because capital revolves to continually provide loans, revolving funds have the potential to offer cost effective investment for governments, philanthropists and corporate sponsors in works of public benefit.

The landcare revolving loan fund concept was developed to offer a long term, cost-effective investment in landcare and farm forestry works. It also aims to attract and retain capital for the benefit of rural communities. It is a fund owned and operated by landcare groups.

A small committee representing Landcare groups in the North East of Victoria set up the Landcare Revolving Loan Fund, and the JVAP funded a study into its operation and factors for success so that others can learn form the experience.

This development report provides a brief background and situation analysis of landcare and farm forestry funding, particularly in relation to North East Victoria, a detailed description of the works undertaken to set up and operate a landcare revolving loan fund, and an assessment of results. It concludes with recommendations.

This project was funded by the Joint Venture Agroforestry Program (JVAP), which is supported by Three R&D Corporations — Rural Industries Research and Development Corporation, (RIRDC), Land & Water Australia and Forest and Wood Products Research and Development Corporation (FWPRDC), together with the Murray-Darling Basin Commission (MDBC) funded this project. These agencies are principally funded by the Federal Government.

This report, a new addition to RIRDC's diverse range of over 900 research publications, forms part of our Joint Venture Agroforestry Program R&D program, which aims to integrate sustainable and productive agroforestry within Australian farming systems.

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- purchases at www.rirdc.gov.au/eshop

Simon Hearn
Managing Director
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Acknowledgments

The Principal Investigator extends thanks to those assisting with project research and development:

The Committee of the BCLN: Colin Mason, Meredith Paez, Ken Whan, Charles Jones, Charles Arnold, Leanne Barri, Fred King, Dot Inchbold and Coordinator Dougal Gilmour

The fund raising sub committee: Ken Whan, Charles Jones, Charles Arnold, Leanne Barri, and Dougal Gilmour

The book focus group participants Colin Mason, Meredith Paez, Dougal Gilmour (Broken Catchment Landcare Network) , Alan Pedler, (Goulburn Murray Landcare Network), Susan Sleigh, (Nagambie Landcare Group), Elizabeth Elder and Alison Sadler (literary consultants)

The project steering committee (pre incorporation): Rob Richardson, John Wilson, Charles Jones and Ray Thomas

The committee of the Molyullah/ Tatong Tree and Land Protection Group inc. Leanne Barri,
Bob Whytlaw, Bob Arthur, Kent Muller, Peter and Kathy Zoethout, Bill Sykes, Geoff Moore, Fran Sørensen, Terry Ring, Andrew Marriott, Ann Doherty, Bill Willett, Jim McGeoch, Geoff Rowe

The board and treasurer of the Landcare Revolving Loan Fund: Bill Willett, Bruce Sonogan, Steve London and David Elford

Company Accountant Tony Smith, the law firm Corrs Chambers Westgarth Melbourne for *pro bono* advice, in particular Mr Frank Nelson, Simon Begg, Rob Parker, Tim Wong, Anna Hordern and Madelaine D'Marcy

Melisse Robinson, Cross Country Computers

Angus Howell, Bruce Sonogan, Mark Cotter, David Smith, Lindsay Trapnell, Naomi Wilson, Jenny Exton, Jenny McGrath and other staff at DNRE Benalla.

Phil Stevenson Goulburn/Broken Catchment Management Authority

Board and Staff at the Northeast Credit Union Benalla

Jim Scott and the COFFI committee

Rob Youl Landcare Foundation Victoria

Annette Leverett, Sisters of the Good Shepherd No Interest Loan Scheme Fitzroy;

Julie Orvis, Greg Ramm and staff at the Institute for Community Economics, Springfield, Massachusetts USA

Dr Tania Sourdin and staff, Faculty of Law, University of Western Sydney, Macarthur

Jane Elix, Community Solutions

The Hon Sharman Stone,MHR and the Hon Lou Liebermann.MHR,

Lachlan Polkinghorne and Helen Alexander.

Joint Venture Agroforestry Program.

Luis Azevedo

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Abbreviations

AFG	Australian Forest Growers
AGM	Annual General Meeting
ALC	Australian Landcare Council
ASIC	Australian Securities and Investment Commission
ATO	Australian Tax Office
BCLN	Broken Catchment Landcare Network Inc.
CPI	Consumer Price Index
COFFI	Cooperative Farm Forestry Initiative
DNRE	Department of Natural Resources and Environment Victoria
EA	Environment Australia
ITAA	*Income Tax Assessment Act* 1936
JVAP	Joint Venture Agroforestry Program
LAL	Landcare Australia Limited
LCV	Landcare Foundation Victoria
NECU	North East Credit Union
NGO	Non government organisation
NITs	New Incentive Tracking system
NHT	Natural Heritage Trust
PILCH	Public Interest Law Clearing House
RIRDC	Rural Industries Research and Development Corporation

Throughout this Report the terms ‘the Company’, ‘the Fund’, and ‘the Revolving Loan Fund’ are used interchangeably. All such terms refer to the specific corporate entity ‘The Landcare Revolving Loan Fund Limited’. The distinct exception is the term ‘the Gift Fund’. This term refers to the particular bank account held by the Company to manage tax deductible donations.

Executive Summary

The Landcare Revolving Loan Fund Limited was incorporated on December 15, 1998. It was launched in Benalla, Northeast Victoria by Minister for Agriculture Pat McNamara in February 1999 and the first $7,500 low cost loans for landcare works disbursed from capital provided by local community groups. The company is owned by landcare groups within the Broken Catchment Landcare Network and operated by volunteers.

This development report documents the requisite elements of the revolving loan fund. It describes the background and the need for the project. The report details the legal structure, loan contracts and tax deductibility status, elements of loan policy, the accounting and administration systems employed, and services of a local Credit Union to ease work load on volunteers. The report describes strategies available to attract capital to the fund and efforts at promotion of the project. It concludes with an assessment of results and three recommendations.

It is hoped that this report will be of interest to landcare groups and their support staff throughout Australia, in addition to the researchers and policy makers involved in landcare.

Principal Findings

The objective of the project was 'to create a cost sharing structure for farm forestry and landcare works and encourage landholder uptake of farm forestry by developing a low interest loan fund operated by landcare groups'. On this broad objective the project has proved a success; the company has been created and is in operation assisting landholders with loans for farm forestry and landcare works. Sufficient fund capital however remains to be found to make the Fund viable in the long term.

Several critical success factors have been identified.

For landcare groups to successfully set up a revolving loan fund:

- A demand for a source of low cost funds must exist. The introduction to this report describes the situation that existed that created the demand for the project.

- The revolving loan fund model thoroughly researched and understood setting up a public company and the consequent obligations of operating the fund requires an understanding of the issues involved

- The group must have a project leader and committee plus a paid facilitator with skill in legal and other technical skills.

In brief, provided the need is there, the model is understood and leadership and facilitation is available, groups will have the capacity to set up a revolving loan fund.

For landcare groups to successfully operate a revolving loan fund?

- A leader is required to manage the project. The leader may, for example, be the company secretary or chair, loans officer, or project manager.

- To spread the workload, clear tasks should be distributed between Board members and officers, group representatives, advisory committee and fund committee, and professional advisers.

- Duties should be within the skill levels and time allowances of volunteers.

- Duties requiring specialist skills such as silvicultural advice and banking should be delegated to professionals.

- Sufficient capital must exist within the fund to provide turnover to cover costs. On present cost structure this equates to approximately $75,000 in loans per year. It is very difficult to secure corporate sponsorship for a relatively small fund. The exposure available to large corporations is not large enough to make sponsorship worthwhile for them.

Key Recommendations that have emerged from this report

Three key recommendations have emerged that will help the revolving loan fund to grow or spawn similar organisations elsewhere.

Recommendation One – to governments

Revolving loan funds are a cost-effective investment in landcare. For example a $180,000 grant devolved over five years will provide 12 x $5000 loans each year (total $60,000), every year for landcare works. Thus over ten years $600,000 in landcare loans will be disbursed provided from the original capital base of $180,000.

A landcare revolving loan fund is also a responsible organisation. As a registered environmental organisation the fund managers must demonstrate a requisite degree of responsibility to the wider community. Statutory reporting obligations also apply.

Nonetheless, a revolving loan fund will not comprehensively address land degradation issues. It can only serve as a complement to the direct investment in on ground works, research and extension made by governments.

THEREFORE: Without forgoing existing obligations to natural resource management governments ought to consider investment of capital into landcare revolving loan funds as a cost effective and responsible investment of public monies into on ground landcare work.

Recommendation Two – to Landcare Australia Ltd. (LAL), affiliated institutions and corporate sponsors

Landcare revolving loan funds offers a cost-effective means of exposure for corporate brands. A once off grant to a fund by a corporation will be used year after year to provide loans into the community. Little extra expenditure in corporate signage or logos need by employed to maintain company profile in the community.

The no interest loan also offers financial advantages to a sponsor. A no interest loan for a fixed term by a corporate to a revolving loan fund could be negotiated for requisite exposure. The sponsor forgoes only opportunity cost of the money they provide.

THEREFORE: Landcare Australia Limited and partners ought to consider use of revolving loan funds as a strategy to leverage further sponsorship from corporate Australia.

Recommendation Three – to the Australian Landcare Council (ALC).

The revolving loan fund concept is a means to address the ALC's highest priority viz, the securing of long term funding for landcare works. As a locally owned organisation revolving loan funds can also serve to address another ALC priority, the re-invigoration of landcare groups.

Membership of the ALC has a diversity of expertise and many links to other organisations.

THEREFORE: The ALC ought to consider means to develop the revolving loan fund concept further.

An invitation to landcare networks

This report declines to make recommendations to landcare groups. It is the wish of the Broken Catchment Landcare Network and the Board of the Revolving Loan Fund Limited that this project may serve as an example for groups elsewhere in Australia. On behalf of those organisations, the Principal Investigator extends the invitation to landcare groups and their support staff to visit the revolving loan fund project, situated at Benalla, Northeast Victoria. (Contact details are provided at the top of this report.)

Introduction

Origins of the Concept

A revolving loan fund can be described as a capital fund from which loans are made, usually for projects of public benefit. The Landcare Revolving Loan Fund is modelled on Community Loan Funds operating in the USA. These revolving funds provide low or no interest loans mainly for the provision of housing in low income areas of major cities. The capital base is assembled from donations, grants, and sponsorship, and below market rate loans from the socially responsible investment sector. Community Loan Funds are owned and operated by not for profit bodies of volunteers without specialist banking skills. Since they first began in 1983 Community Loan Funds have loaned millions of dollars and have a repayment history better than banks with less than 1/2 of 1% of loans defaulting (ICE 1993). The Principal Investigator researched these institutions in 1993 to complete a college project on community group management at Orange Agricultural College.

A similar concept is the *No Interest Loans Program* operated by Good Shepherd Youth and Community Service (Good Shepherd Youth and Community Services Inc. 1995) in Melbourne. This program provides assistance to low income people for the purchase of needed consumer items such as washing machines and car repairs. The loan is paid back at no interest.

The Community Loan Funds that inspired the Landcare Revolving Loan Fund are in part inspired by the Grameen Bank established in Bangladesh by Dr Muhammad Yunus in 1976. Grameen Bank is targeted at low income persons however it does charge commercial interest rates and accepts deposits. A key similarity to the landcare fund is that the Grameen Bank is organised and managed by people from the same locality as the borrowers. It has a loan default rate less than that of banks. This is attributed to the "peer pressure' element (Herald International Tribune 1997)

The federal government department responsible for the environment, Environment Australia (EA) has recently developed a ‘Bush for Wildlife Revolving Fund’. These revolving funds will be used for the purchase of environmentally significant land. A conservation covenant is placed on the land title to protect the environmental values. The land is then resold with proceeds returning to the revolving fund ready for further acquisitions. Non government organisations (NGOs) or statutory authorities will operate Bush for Wildlife revolving Funds (Environment Australia n.d.).

The EA model is not a revolving loan fund *per se* but some of its operating principles are similar. For example, land acquisitions are made by the NGO according to broad priorities set by the Commonwealth and in accord with state priorities. The revolving funds must also be managed with good business practice with accurate physical and financial reporting. At the same time the NGO has discretion to purchase lands as they see best meet the broad guidelines. In other words, the NGO is not simply acting as an agent for the Commonwealth.

The Need for Landcare Loans

Several factors in the Northeast Victoria were perceived as problems with landcare funding. These factors are briefly described below. Combined with an awareness of what other organisations were doing elsewhere in the world these factors served to stimulate development of the project.

Difficulties with Current Government Landcare Programs

Despite being the major provider of grants for landcare work, government programs have attracted criticism amongst landcare groups.

For example, a 1996 Senate inquiry into landcare has noted “substantial frustration” being experienced by groups and landholders for, amongst other things, the complexity of fund application processes, not enough funds ending up on the ground, and funding delays (Senate Rural and Regional Affairs and Transport Reference Committee 1996).

In his 1997 Annual Report the National Landcare Facilitator points out that landcare groups:

- perceive the Natural Heritage Trust (NHT) application process is difficult for landcare groups
- have experienced delays in receiving funding (Polkinghorne et al 1997).

Polkinghorne notes again (1998, p. 24) that landcare volunteer motivation is diminished by frustration with bureaucracy and the high demands placed upon group members voluntary time.

It is clear that frustration with government processes (many of which are necessary for accountability with public funds) remains a concern for landcare groups and this can reduce motivation amongst volunteers.

The NHT program is due to wind up in 2002. Whilst undoubtedly new natural resource management initiatives of high merit will be developed by governments, what this means for landcare groups is not yet apparent.

Completion of the Department of Natural Resources and Environment (DNRE) Farm Forestry Northeast (FFORNE) Incentive Program

The DNRE *FFORNE* program provided grants up to $7,000 and technical advice for hardwood farm forestry establishment to landholders in North east Victoria. The program ran for three years and was targeted at hardwoods. Nearly 1000 hectares were planted in this time. The program was aimed at stimulating farm forestry development and ceased operation in 1999.

The program has stimulated development of a cooperative **-** The *FFORNE* Hardwood Growers' Cooperative, the emergence of farm forestry contractors and consultants in the Northeast region.

Establishment Finance a Limiting Factor for Farm Forestry Development

A major restraint is the cost of plantation establishment. Numerous surveys indicate this difficulty (Dunchue and Sinclair 1995, Washusen 1994, Reid and Stewart 1995). With establishment costs of $1000/ha or greater and the long wait (10 years minimum) for a return, investment in farm forestry is often seen as financially unattractive.

Multiple Interests

Landholders may also have different aims to those of industry sponsored commercial arrangements. Trees not only for timber, but also for shade, shelter and land protection are often stated as reasons why landholders are interested in farm forestry (Washusen 1994, Reid and Stewart 1995). Joint venture schemes with timber processors tend to focus only on timber benefits.

Grants Focussed on Conservation, not Sustainable Agriculture
In his 1997 review of funding for landcare (Polkinghorne et al 1997), the National Landcare Facilitator makes the point that government funding via the NHT has shifted to environment based programs away from development of sustainable agriculture.

Landcare Revolving Loan Fund Landholder Survey
An October 1997 survey conducted by the project of 1100 landcare group members within the Broken Catchment showed a total demand for loans of $669,000, mainly for farm forestry. The survey results demonstrate landholder interest in the revolving loan fund concept.

Landcare Revolving Loan Fund Survey of Landholders 1997	1100 surveys mailed out
Compiled January 1998	112 returned
Loan Amounts and Purposes	
Number surveyed:	112
Number interested in farm forestry loans:	75
Total amount of farm forestry loans:	$344,000
Average of farm forestry loans: $3,155	
Number of forestry loans for plantations:	29
Number of forestry loans for woodlots:	26
Number of forestry loans for timberbelt:	50
Number interested in perennial pasture loans:	75
Total amount of perennial pasture loans:	$241,300
Average of perennial pasture loans:	$2,173
Total amount for other purposes (eg. shelterbelt, wildlife corridor):	$83,700
Total Amount Requested:	**$669,000**

Major Development Milestones
The revolving loan fund project began on an *ad hoc* voluntary basis in early 1995. Assistance with research and development was received from JVAP by the project for the period January 1999 to June 2000.

- *1995:* concept support for a revolving fund from the Molyullah/Tatong Tree & Land Protection Group, Benalla Landcare Farm Forestry Group and the North East Agroforestry Network.
- *Early 1996: pro bono* legal assistance granted to project to refine the legalities involved in setting up a landcare group owned loan fund.
- *July 1997:* the Molyullah/Tatong Tree & Land Protection Group initiate a Loan Fund Pilot Program and invite other landcare groups join in.
- *September 1997:* project steering committee begins meetings.
- *August 1998:* Molyullah/Tatong and the North East Vic branch of the Australian Forest Growers provide a total of $15,000 as fund capital, allowing the first loans to be offered.
- *December 1998:* notification of RIRDC research and development grant; incorporation of company; Seven landcare groups become the inaugural owners.
- *February 1999:* Company launched in Benalla by Minister for Agriculture Patrick McNamara
- *February 1999:* first loans approved.
- *January 2000:* Fund registered as an Environmental Organisation - donations to the Fund are tax deductible.
- *February 2000:* second round of loans approved.

Objectives of the Joint Venture Agroforestry Program (JVAP) Project

The project received financial assistance from the Joint Venture Agroforestry Program to cover the period January 1999 to June 2000. The objectives under this grant were twofold:

- To establish "The Landcare Revolving Loan Fund Limited" - a fund owned and operated by landcare groups in the Broken River Catchment in Northeast Victoria, that provides low cost loans for farm forestry and other landcare work. Fund Capital to be sourced from donations, grants and sponsorship.
- To publish an Information Kit for landcare networks elsewhere in Australia that provides advice and documentation to set up a revolving loan fund.

Project Methodology

The aim of the project was to develop a structure of practical use to landcare groups. It was important that the Fund could function as an independent going concern rather than simply existing as a demonstration or pilot program. To this end the JVAP Project was managed by a separate organisation, the Broken Catchment Landcare Network (BCLN), with the Fund left to manage itself as far as practical, independently of research. Broadly speaking this meant that R&D was used to help set up the technical aspects of the Fund, the Fund had to meet its own operating costs and labour requirements.

A literature review and personal communication with DNRE staff forms the basis of the Introduction.

The research method employed for the bulk of this report consisted of participation, observation and documentation of the setting up process and operation of the fund. It included interviews with bank staff, administrators of a revolving fund in Melbourne operated by the Sisters of the Good Shepherd, contacts with Community Loan Fund administrators in the USA. Major written and personal communication involved *pro bono* lawyers to the project Corrs Chambers Westgarth. In addition advice was obtained from DNRE, a computer retailer and a company auditor on accounting and database systems. Minutes of Director meetings and other company correspondence were also reviewed.

In the interests of being comprehensive, this report includes results of all research on the landcare revolving loan fund, including results of research and development work undertaken prior to commencement of JVAP funded research.

Analysis of the strengths weaknesses, opportunities and threats of the elements of the project is contained in the body of the report and the final Assessment of Results at the conclusion of the report. This analysis was derived mainly from comments of Board members, borrowers, potential sponsors and project steering committees.

Detailed Results and Discussion

Management and Ownership

A Board of three directors, the legal minimum, manages the company. The Board takes general responsibility for the management of the company including adoption of loan policy, loan approval, negotiation of sponsorship and donations, and company administration. Only Directors have the power to approve loans. Directors are elected for two years on a rotating basis. A secretary and treasurer, assist the Board. All positions are voluntary.

Group representatives are landcare group members who assist the Fund with promotion and checking loan applications in their group area. They have the legal status of Company Officer.

The Board is supported by several professional organisations. The DNRE Benalla provides office facilities for landcare group projects including the revolving loan fund. This includes telephone line, computer, and desk and storage space. DNRE have also provided an adapted database and technical advice on appropriate natural resource management strategies and techniques.

Corrs Chambers Westgarth and Smith O'Shannessey provide all legal and financial counsel to the project. In the case of legal counsel this included a half-day workshop held in Benalla by Corrs to brief Directors on the statutory obligations.

The Cooperative Farm Forestry Initiative project (COFFI) provide farm forestry technical advice to revolving loan fund borrowers.

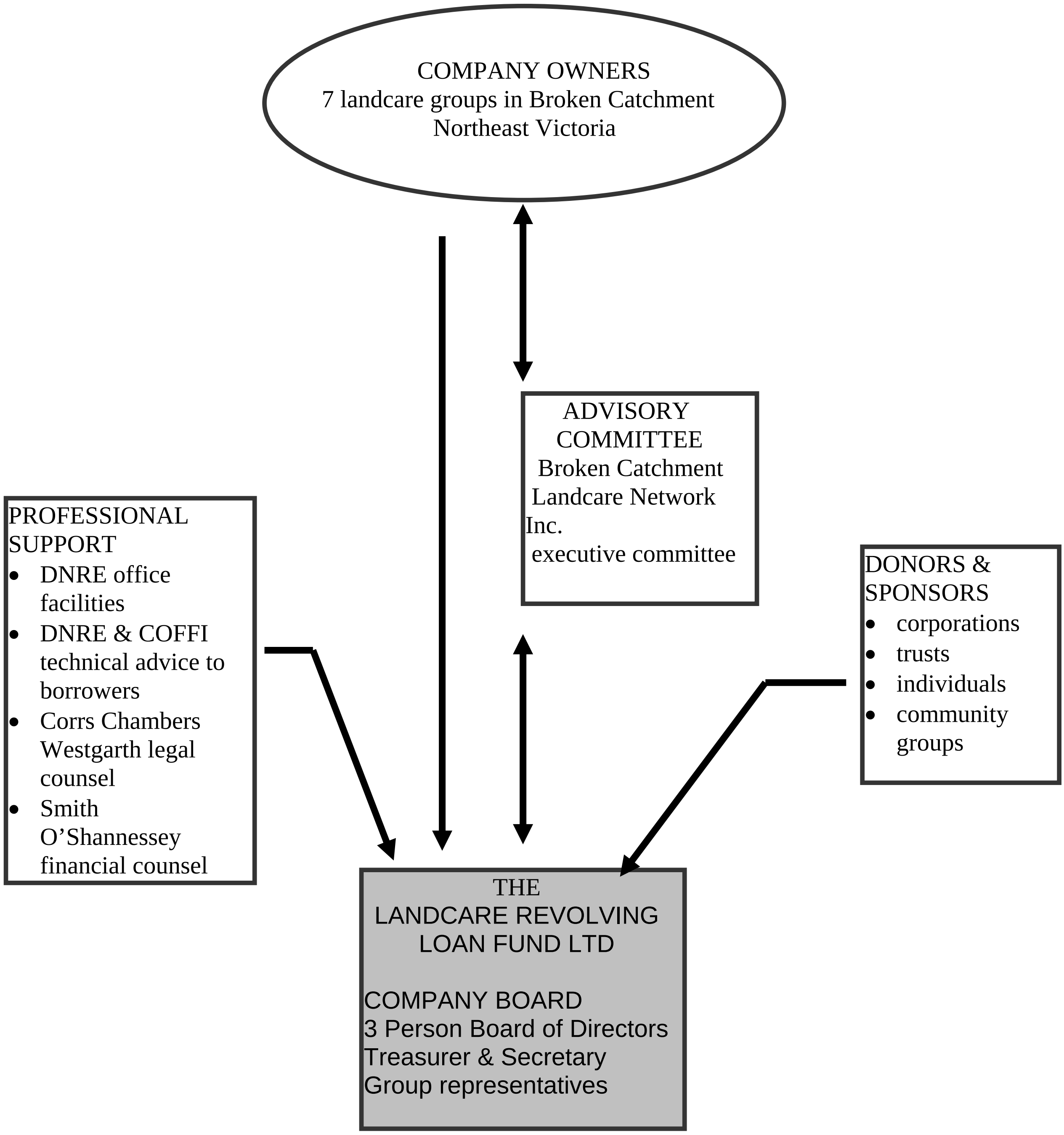
The Company is owned by seven landcare incorporated associations in the Broken River Catchment of Northeast Victoria.

The groups are: Molyullah/Tatong Tree & Land Protection Group, Swanpool & Districts Land Protection Group, Sheep Pen Creek Land Management Group, Dookie Land Management Group, Boweya/Lake Rowan Landcare Group, and Warby Range Landcare and Rabbit Control Group.

The groups have general rights of ownership including the nomination and election of Office Bearers. The company is limited by guarantee; no shares are held.

The BCLN serves as an advisory committee to the Board.

Figure 1 Management structure



Legal Matters

Pro bono Legal Advice

The project obtained *pro bono* pr legal advice from the Melbourne law firm Corrs Chambers Westgarth. *Pro bono* (or *pro bono publico*) means "for the common good" and essentially is free legal aid (excluding disbursements) for non profit organisations with public interest objectives. The Public Interest Law Clearing House (PILCH), acts as the broker between law firms and non profit organisations. PILCH is an association of law firms, universities and the Victorian Bar Council.

The *pro bono* advice formed the key technical contribution to the project and involved all legal and tax deduction advice, advice on fund raising schemes in addition to advocacy. Corrs Chambers Westgarth involvement began in 1996 with most legal work completed by December 1999.

The arrangement with *pro bono* advice in legal matters proved extremely satisfactory. The lawyers were providing a service in which they were skilled yet out of their usual course of work, the landcare group received the professional advice that it needed. The institution of *pro bono* advice is another avenue for groups to pursue. Corporate donations can be based on service provision rather than cash.

Incorporation process

Before incorporation could take place it was necessary to decide on the legal corporate structure and to draft and adopt a constitution that suited the proposed structure.

Several drafts of the constitution were considered by the steering committee between September 1997 and October 1999.

After incorporation the constitution had to be amended so that it conformed precisely with requirements of EA for registration as an Environmental Organisation. Without this registration gifts to the fund cannot be claimed as a tax deduction.

The drafting process could have been completed earlier but as the project had not received any fund capital in February 1998 it was decided to delay incorporation. This fact did allow more time for the steering committee to consider the drafts and for landcare groups to become familiar with its workings. A potential threat caused by delays however is the loss of momentum, the feeling that nothing was being achieved.

Primary criteria for a workable legal document are economy and clarity of words and, of course, the correct and comprehensive description.

The Corporate Structure

Several structures were examined in detail:

- incorporated landcare group
- private trustee company
- cooperative
- company limited by guarantee

The company limited by guarantee was the eventual choice. It is a non-profit, public benefit oriented structure. Landcare Australia Limited (LAL) is also a corporation limited by guarantee. Limited by guarantee means members (in the present case the landcare groups) do not hold shares. Each member guarantees the company to a certain sum in the event of the company winding up. It is a form of security for company creditors. The company limited by guarantee is a structure under the *Corporations Law* making it a suitable structure anywhere in Australia.

Whilst a simple and familiar structure to landcare groups, the incorporated association is limited in its ability to trade and was therefore unsuitable (*Associations Incorporation Act*).

The private trustee company whilst legally workable conflicted with the project aims of organisation that involved landcare groups in management and decision making. The trustee company would need a trust deed to manage at arms length public monies and donations. This would also significantly increase expense and management complexity.

The cooperative would also need a trust deed to manage public monies adding complexity and cost. The cooperative tends to focus on members and provision of service as distinct from pursuing an objective of public benefit. This may have created considerable difficulty in drafting provisions relating to securing public monies for the capital fund. This is because public monies, especially tax deductible donations need to be applied for the benefit of the wider community, not simply members of the organisation. Finally, the cooperative at the time (1996) remained under specific state legislation. Thus it would be difficult to readily transfer the concept to other parts of Australia.

The final decision of a company limited by guarantee did increase the complexity of the project (although in practice this has not been as difficult as first perceived). However it allowed landcare groups to become members and legally the part owners of the Fund, yet maintain ability to trade, separate from the existing groups.

Constitution

Key points in the constitution are:

- provisions relating to the corporate purpose,
- membership,
- no payment of dividends,
- qualification of the managers of the Gift Fund,
- the Gift Fund and what may be placed therein,
- winding up and disposal of Gift Fund assets.

The Fund purpose, in line with Environmental Organisation requirements is “to protect and enhance the natural environment”. This includes:

- protection of soil water and air quality
- biodiversity
- promotion of ecologically sustainable development

Membership is corporate membership only and limited to landcare groups. The minimum size of the company is five members. “Landcare” is broadly defined in the corporate constitution to admit groups such as rabbit control groups and farm forestry groups.

Director and Officer Qualifications

A job specification was developed for prospective volunteer Directors. It is summarised below:

THE LANDCARE REVOLVING LOAN FUND LIMITED
POSITION DESCRIPTION

DIRECTOR

POSITION: Director – the Landcare Revolving Loan Fund Limited

REPORTING: Annual general meeting of member landcare groups. Some minimal reporting is also required by Environment Australia and ASIC.

KEY OBJECTIVES: To further he company's purpose to protect and enhance the natural environment, the directors must:

- Preserve or attempt to preserve fund capital
- Maintain an equitable distribution of the costs and benefits of the company's activities amongst the general public of Australia
- Recognise both individual and community benefits of its activities.

RESPONSIBILITIES:
Amendment of Loan Policy
Assessment and approval of Loans
Monitoring of Loan Repayments
General Company Business
Annual General Meeting

EXPERIENCE QUALIFICATIONS: A majority of the Board must be 'responsible persons' as defined by Environment Australia. This is to ensure that publicly solicited tax deductible donations will be managed responsibly.

A general knowledge of landcare issues and solutions is needed, in particular an awareness of the Goulburn Broken Catchment Management Authority *Regional Catchment Strategy* and the means to address he priorities identified.

Deep knowledge of the technical or scientific basis for natural resource management is not essential. A basic understanding of the Environment Australia *Register of Environmental Organisations,* the *Corporations Law* and the fiduciary responsibilities of Directors is needed. An ability to understand financial reports is an advantage.

REMUNERATION: Under the *Corporations Law* no remuneration is payable for the position of Company Director.

TERM OF OFFICE: Directors hold office for two years but are eligible for re election.

In order for the company to receive tax deductible donations, Directors qualifications must be sufficient to satisfy Environment Australia and the ATO that Directors have *"a requisite degree of responsibility towards the wider community"*(EA 1997). Environment Australia provide an indicative list of persons who meet the criteria but broadly speaking it means office holders need to hold other public positions in the community. The current three Directors have professional experience in Credit union management, farm forestry and catchment management extension, and landcare farm planning. One member was a former Shire Citizen of the Year and another a Justice of the Peace.

Based on advice from lawyers, a three person Board can function effectively. This has proved correct in practice.

The requirements of EA that the managers of the Gift Fund are “persons with a requisite degree of responsibility to the wider community” did cause concern with the project committee. It was feared such people would not be found. However the three nominee Directors did meet the requirements. It would appear that such people would be readily found in larger rural communities.

Tax Deductibility Status and the Gift Fund

Donations to environmental activities can be tax deductible if the organisation registered as an Environmental Organisation with Environment Australia. The main requirements for registration are:

- principal purpose of the organisation must be protection and enhancement of the natural environment (the term "natural" is used to distinguish the "cultural", "built" and "historic" environment)
- must be a non profit organisation
- the organisation must establish a public fund the "Gift Fund"
- Management of the Gift Fund must be by "Responsible Persons" ie people with high standing in the wider community, not simply office holders within the organisation
- In the event of the company winding up the organisation must ensure Gift Fund monies will be transferred to other Registered Environmental Organisations.

Specific details are provided by EA (Environment Australia 1997).

Applications are processed in batches and can take three months. In the case of the revolving loan fund it took 11 and a half months from application to notification. This was due in part to the need to amend the constitution to meet additional requirements of EA.

Gaining registration as an Environmental Organisation and consequent Deductible Gift Recipient status with the ATO means the fund can solicit tax deductible donations. This makes fund raising considerably easier.

A Gift Fund account was set up at the North East Credit Union to conform with the requirements of EA. The Gift Fund is an account kept separate from operating and other capital account and admits only tax deductible donations and loan repayments that use this account. EA requires registered environmental organisations to provide an annual statement detailing the amount of tax deductible donations made to the gift fund and the total amount donated.

Tax deductible donations are quite distinct from sponsorship. The latter are negotiated on a *quid pro* quo basis such as sponsorship in return for corporate signage at landcare sites.

Charitable Institution Status - fee and income tax exemptions

The Fund successfully applied to the Australian Tax Office (ATO) to be registered as a charitable institution. With charitable status the company has been able to gain relief from:

- Stamp duty,
- FID,
- Standard corporate lodgement fee for annual returns.
- Income tax.

A major benefit of charitable status is that the Fund does not have to pay a range of taxes and charges. For example, the ASIC Annual Return lodgement fee for public companies is $870. But for a "special purpose" companies such as charitable organisations this is reduced to $35.

Relief from income tax is also a great benefit. Without tax relief tax is payable on profits, including administrative fees. Even if the Fund were to charge an administrative fee equal to the current CPI for the purpose of preventing depreciation of Fund capital (and hence not making a profit in real terms) this would still regarded by the Income Tax Association of Australia (ITAA) as a profit. This profit would attract income tax if the Fund did not have the status of a charitable institution.

Loan Contracts

A standard business loan contract was developed for landcare loans and added to a borrower application form and requisite management plan *pro forma* to form a single contract. This is a contract for unsecured loans. An example of part of such a contract/application is provided below:

LANDCARE

THE LANDCARE REVOLVING LOAN FUND LTD A.C.N. 085 583 562

"Low cost loans for landcare"

C/- P O Box 124, Benalla, VIC 3672

Phone (03) 57 611 516

Borrower Code

LOAN APPLICATION

Follow the *Guidelines for Borrowers* to answer questions. Please answer all questions.

PARTICULARS OF APPLICANT

SURNAME Mr/Mrs/Ms ....……..……….............GIVEN NAMES …............…........................

ADDRESS..………...................POSTCODE .……..................

PHONE: home ....…................................... work ....…….............................

DESCRIPTION OF APPLICANT'S BUSINESS...................…………...

APPLICANT'S TRADING NAME................……..

TO: The Landcare Revolving Loan Fund Ltd ACN 085 583 562
PO Box 124
BENALLA VIC 3673 ("**Landcare**")

I/We the abovenamed Applicant ("**Applicant**") apply to Landcare for a loan of $ ..………………
("**Loan**") on the following terms:

1. Applicant declares that the above particulars are true and supplies the following further particulars:

LOAN PURPOSE (clearly describe how your activity will address the guidelines)

....……………...

....……………...

PERSONAL REFEREE: (nominate an executive member of a landcare group)

NAME	ADDRESS	PHONE

CREDIT REFEREES (nominate THREE credit referees)

NAME	BUSINESS ADDRESS	PHONE

GROUP MEMBERSHIP (nominate a community group of which you are a member)
GROUP ....

MANAGEMENT PLAN ("MANAGEMENT PLAN") (please complete the attached management plan)

In addition some work has been done on a loan contract and forest property agreement under the Victorian Forestry Rights legislation (*Forestry Rights Act*) to provide larger loans using the trees as security. According to the 1997 landholder survey interest was expressed for larger loans ($5000 - $10,000) for farm forestry. Such loans would need to be secured. This has not been developed further until the Fund has greater capital to loan.

Originally loan application was to be a two-stage process for borrower - completing and submitting a loan application, and if approved, completing and submitting a loan contract. The eventual document developed by lawyers was more economical for borrower and lender. In the final model, both application and contract are combined in the one document. The borrower makes application by way of loan contract. The letter of approval sent by the Board constitutes acceptance of the contract.

The agreement is subject to a condition precedent – the borrower must submit invoices for the works undertaken prior to receipt of the cheque.

Combining the loan application with the loan contract has reduced needless paper work.

Privacy Act

The *Privacy Act 1988* applies to company staff. Under section 14 of the *Act*,, Directors, and Officers (including group representatives) must not disclose any information regarding a borrower unless approved in writing.

Privacy of borrower information is essential to maintain organisation credibility.

Only two exceptions to the rule are provided for in the borrowers application. The borrower gives written permission in the loan application for company officers to refer their loan application to DNRE for technical advice if needed. In addition borrowers nominate three credit referees on their application; this gives the company secretary the authority to ask for a reference from the person or business nominated.

Loan Policy and Criteria

Two policy documents were produced in consultation with the Board (see Appendix 1). The Loan Policy sets out the purpose for which loans will be made. It details the terms and conditions of the loans. The Loan Criteria document describes conditions that donors have imposed on making loans with their funds. It also lists a number of publicly strategies, such as the Goulburn Broken Catchment Management Authority's Regional Catchment Strategy, to serve as a basis for loan decision making. Neither document is legally binding. The Loan Criteria contains items that may need to be changed from year to year.

The Loan Policy documents presents the purposes of the loan fund and the terms and conditions of the loans. It is the basis of the *Guidelines for Borrowers* brochure, which is distributed to the member landcare groups. The current Loan Policy was developed in the course of three Board meetings and was subsequently amended in February 2000.

The Loan Criteria obliges the Board to take into account official plans and strategies for natural resource management, such as the Regional Catchment Strategy, when considering the eligibility of loan applications.

An example of official strategies and research affecting Board decisions is the cessation in the Goulburn Broken catchment of government grants for the establishment of perennial pasture for salinity control in areas where the annual average rainfall is above 650mm. This decision was made in response to research that showed that sowing permanent pasture was an ineffective measure for lowering water tables in these areas.

The Loan Fund Board likewise ceased to make loans for the establishment of perennial pasture for salinity control in these areas. (The Board does continue to make loans for perennial pasture for erosion control however in all areas of the catchment, in line with DNRE grants policy).

The Loan Criteria document encourages borrowers to seek specialist technical advice for their plans. It is Loan Fund Policy that the Board does not provide technical advice to borrowers. This allows the fund to avoid costly professional indemnity insurance, which would otherwise be necessary. It also mean that the Loan fund Board members can be selected for a range of attributes that do not necessarily include aspects of natural resource management. Catchment Management Officers at DNRE and the COFFI forestry adviser are recommended as sources of advice to borrowers.

Current Loan Status and Purpose

Loan Amounts and Purpose

As at July 1 2000, ten loans had been approved over the period of 17 months for a total of $28,000. Of this $7,500 was approved for farm forestry and $2,000 for fencing native vegetation.
The balance was approved for perennial pasture establishment for salinity and erosion control. The largest loan made was for $5,000, but on average, loans were for $2,000-$3,000 each.
All loan approvals occurred in autumn period (late February - May).

The purpose of loans reflects the *1997 Loan Survey*; landcare loans are primarily used for on ground environmental works that have some potential of commercial return such as farm forestry and perennial pasture. Loans for these works appear to be the strength of the Fund.

The total amount approved is less than the administrative capacity of the Fund or the demand as evidenced by the Loan Survey, however the difficulty in finding capital has limited lending capacity. It was a decision of the Board not to promote loan availability too heavily in the region so they did not create disappointment amongst prospective borrowers.

Overdue Repayments

Of the ten loans made to October 2000 a small proportion of borrowers needed to have reminder letters sent after failure to meet quarterly repayments. No loans have defaulted.

From experience of groups elsewhere it is not expected that loans will default. The small problem of late repayments was due to borrower forgetfulness. This has prompted investigation and development of memory aids such as a borrower schedule attached to the loan pay-in book. Directors decided in October 2000 to make the optional periodic payment system (discussed in further detail under *Loan Administration* below) mandatory. These initiatives are hoped to reduce the need for reminder letters.

Combining a Grant with a Landcare Loan

Some borrowers combined a landcare loan with a government environmental or Land Protection Incentive Scheme grant. The loan are used to supplement grants, which generally do not cover the full cost of the works. A combination government grant and landcare loan is not difficult to organise or administer. The combination often makes the difference between the work going ahead or not being done.

Loan Administration System

Loan Process

The process is as follows:

1. Landcare group advertise availability of loans and provide applications to interested borrowers.
2. Landcare group representative, if group has appointed one, receives loan applications in group area and after checking for mistakes passes application onto Fund secretary.
3. Secretary performs credit check, enters details on database.
4. Board convenes to assess applications and decide on those approved.
5. Approval letters sent out the day following the Board meeting.
6. Borrower submits invoice for works applied for and then receives cheque.
7. Borrower makes quarterly repayments either electronically or manually to North East Credit Union.

Loan Calendar

Dec-Jan	Early February	Mid February	Late Feb-June	June 30
Loans advertised. Guidelines and loan contracts available from landcare groups.	Loan applications checked by landcare group representatives.	Loans approved by Board.	Invoices for activity presented by borrowers. Cheques sent out.	1st repayments due. Repayments quarterly.

Group Representative

To improve access to the Fund each landcare group involved in the project is encouraged by the Board to appoint a group representative. The representative's duties are to ensure advertisements for loans are placed within group newsletters at appropriate times of the year, and to perform a quick check for mistakes on completed loan applications. The applications are then sent on to the company secretary. The group representative is a company officer for the purposes of Directors and Officers (D & O) insurance. They are also under the same obligations as other company officers regarding the Privacy Act. That is, company officers must not disclose personal information of credit applicants to anyone without written permission of the person concerned.

To date (November 10, 2001) one group representative has been formally appointed; it is expected other groups will make appointments at their pre Christmas meetings.

Having a group representative reduces the otherwise considerable demand on the volunteer company secretary to check all loan applications. Experience has shown that applications are not always comprehensively completed and this has meant some follow up telephone calls.

In addition having a 'local face' for the Fund at each landcare group helps to improve access. A graphic demonstration of this occurred at one group where the previous year (1999) no loan applications had been received. But following an announcement at a committee meeting by the group president that loans were available $9,500 in applications were received by the Fund the following week.

Groups have been slow to take up the group representative duties involved. It may be that group members are loath to take on a task where they become privy to neighbours private affairs.

Credit Check

The borrower applicant provides three 'credit references' on the loan application form. The application form includes written authority, from the applicant, for the Loan Fund to check with the applicants nominated referees. The referees are usually are local rural supplies businesses or the Shire Council (rate payments). The secretary of the Loan Fund performs the credit check. This involves telephone call to the nominated referees. Upon receiving confirmation of the applicants' credit worthiness a record is made on the Office Use Only section of the application form.

Financial institutions use a credit agency for reference but the Board consider this option is not needed.

Credit references, providing they have been duly authorised, have been easy to obtain. Businesses in the region have been forthcoming with the needed information. The exceptions are banks. Banks require a written authority to be faxed to them prior to giving the information.

An unexpected strength of seeking Credit references is it also lifts the profile of the company in the business community. The businesses contacted become aware that the fund is in operation.

Board Loan Approval Meetings

Board meetings are quarterly (or sooner as needed) and usually take place in February (in time for autumn works) and winter (for springtime planting). A decision whether to approve a loan or not usually takes the Board about fifteen minutes. Loan policy is described elsewhere in this report.

Because the Board meet quarterly or earlier the longest a prospective borrower would have to wait for a decision on a loan application would be three months. In practice however prospective borrowers have needed to wait for two to three weeks at most for approval of loans. A major reason for the short time period is ensuring advertisement for landcare loans are made via landcare group representative or member relatively close to the closing date for applications.

The secretary failed in several instances to ensure all items were completed on the application form. This prevented the Board from making approvals. These administrative oversights were of a minor nature and ought to be reduced with the involvement of group representatives to check applications. A checklist was also developed modelled on the NECU loan approval checklist to overcome the problem.

Submission of Invoices

Upon receipt of the loan approval the borrower may proceed with their project. However the loan cheque is not sent to the borrower until invoices are presented for the works. The Fund secretary checks that invoices provided by the borrower equal the amount applied for, the borrower then signs the loan contract and the cheque handed over. The borrower commences loan repayments at the end of the present quarter.

Unless invoices are presented to the Fund by the borrower it is very difficult to verify that the works are actually being undertaken. The Fund does not make site visits.

As all invoices must be received before the cheque can be disbursed a problem has arisen for large tree planting works that take several months to complete. The length of time causes a delay in receipt of invoices and consequent delay in handing over the cheques. But costs incurred by the borrower early in the work program need to be paid. For example, a borrower may receive a loan for ripping and mounding soil (undertaken in April) and purchase and planting of seedlings (planting undertaken in September). The cheque would not be disbursed until all works had been completed in September. To overcome this difficulty the Board have decided in such circumstances a 'split payment' should be made with two cheques disbursed. The loan contract and terms remain as one.

Involvement of the North East Credit Union (NECU).

The NECU based in Benalla had been involved in provision of advice to the project since 1996. However they became the effective shop front when the Loan Fund commenced operation in 1999. The NECU provides loan application forms and guidelines and handles loan repayments.

Loan repayments involve the borrower submitting their repayment on a standard NECU pay-in book with the loan fund account name and borrower code attached. The borrower's six-letter code is entered by the NECU teller with the repayment and appears on the statement sent to the loan fund treasurer. In this manner each borrower is readily identified by their personal code on the statement.

Loan repayments may also be made electronically using the Periodical Payments System. This system is a service provided to borrowers by their own banks to make automatic payments on behalf of the borrower to a nominated account in another financial institution. A "Payment Reference" appears on the receiving account to identify the transaction. In the case of loan repayments debited automatically from the borrowers own account to the revolving loan fund account, this reference is the six letter borrower code described above. The fee charged by financial institutions to their borrowers for the periodical payments service ranges between $2.00 per payment to $5.30.

The Periodical Payments System is distinct from Direct Debits. This latter system is more expensive to set up and was not considered worthwhile, at present, by Board.

Involvement of the NECU has eased the administrative workload on the Fund treasurer and provided greater security with a clear "paper trail" for each transaction. The NECU also functions as a shop front and has a sign in its window that it is a Landcare Revolving Loan Fund supporter. This is simply good public relations for both parties.

At its October 2000 meeting the Board decided to make use of the Periodical Payments System mandatory for future loans with a view to improving reliability of loan repayments and reducing the need to issue reminder notices for borrowers in arrears.

Loan monitoring

By the use of Credit Union statements and a customised Excel® spreadsheet, the treasurer is able to monitor loan status. The treasurer obtains the statement, checks off credits identified by borrower code, and enters these repayments against the borrower code on the repayment spreadsheet. The spreadsheet calculates amount of loan repaid and owing and displays repayment dates against each borrower.

If a loan defaults the procedure is:

(i) 1st reminder notice sent to borrower after five working days,
(ii) 2nd reminder notice after ten working days.
Legal remedy at Directors' discretion.

Discussion

The current system of credit union statement and Excel® spreadsheet is regarded by the treasurer as simple to operate and provides accurate and sufficient information to show borrower loan status. The system currently manages 10 borrowers. It does involve manual entering of loan repayments against the borrower. For a greater number of borrowers it would become time consuming and increase chance of error. Other specialised software has been developed to record loan repayments for revolving loan funds including one observed by the Principal Investigator operated by the Sisters of the Good Shepherd in Fitzroy, Melbourne that could be adapted for use by the present Fund should the need arise.

Database

A database used by Catchment Management Officers at DNRE Benalla to record personal details and physical information on government grant recipients was adapted for use by the Revolving Loan Fund. This database, the New Incentive Tracking system (or "NITs"), enables the Fund to record and report on items such as:

- location by parish and shire of borrower,
- hectares,
- activity undertaken,
- environmental objectives of activity,
- amount loaned, and
- funding source (the loan fund may receive grants and donations from a variety of sources).

It also prints loan approval letters and an application summary for use by Directors.

The database is a time saving device of utility and simplicity to a volunteer secretary. The major benefit of the NITs database however is it produces reports to a level expected of Government organisations. This is an important consideration if the Fund is to be accountable to its donors, sponsors and grantors. Reportable information does not disclose borrowers name and location is limited to Parish so as not to contravene the Privacy Act

Technical Advice: to Board and to Borrowers

The purpose of the company is to protect and enhance the natural environment. To assist the Board give practical application to this purpose the Board may refer to a variety of public documents described in Loan Policy. In addition, by permission granted by borrowers in their loan application to the Board, the Board may seek advice regarding a loan application from a Catchment Management Officer at DNRE.

It was a decision of the Board not to provide technical (ie cultural advice) to loan applicants or conduct site inspections. It was felt that this would go beyond the capacity and skill of the Board and that borrowers may place reliance on that advice. This would expose the Board to negligence claims. (The Board assures itself that works are being undertaken by the borrower submitting a management plan, and invoices for works prior to the loan cheque being disbursed).

Instead of providing advice to borrowers directly, the Board decided to refer loan applicants to professional advisers. Consequently, loan guideline forms and approval letters provide contact names and telephone numbers for DNRE Catchment Officers and the COFFI Farm Forestry Adviser.

The decision of the company not to provide advice differs from that of USA organisations. Community Loan Funds in the USA do provide technically skilled officers either directly or through subsidiary groups to help loan applicants prepare proposals. This is possible partly because loan funds in the USA are large enough to employ technical staff. Loan service is often narrowly defined (eg for purchase of housing for rehabilitation) so technical advice can be specialised. Groups in the USA feel that sound technical advice assists with securing loan repayments.

Provision of technical advice to borrowers would strengthen the revolving loan fund project and discussion has taken place with the COFFI project.

The Cooperative Farm Forestry Initiative (COFFI) is a community organisation based in Benalla. COFFI provides farm forestry extension services to landholders for silviculture. Four technical advisers are employed on a part time basis covering Northeast Victoria. It is funded by the Federal Farm Forestry Program in response to recommendations in the Wood and Paper Industry Strategy. The management group consists of members of wood growers cooperatives, landcare groups and the landcare revolving loan fund and DNRE staff.

The COFFI group has discussed and approved the concept of a "one stop shop" that via a facilitator will provide access to finance either by grant or landcare loan, in addition to silvicultural advice and access to wood growers' cooperative. The idea follows analysis of the success of the State Government FFORNE incentive program for farm forestry and other studies.

If such a proposal does eventuate, it will provide the landcare revolving loan fund and its farm forestry borrowers with a clear and formalised access to the other main requirements for farm forestry, technical advice and marketing support. This will help ensure that loans for farm forestry approved by the Landcare Revolving Loan Fund will be effectively used. It will also improve direct access for landholders and improve the services provided by COFFI and the Growers Cooperatives.

Directors and Officers (D & O) Insurance

Directors requested insurance to cover their personal assets from potential threats of litigation. Directors and Officers insurance provides cover broadly for errors and omissions made by Directors and Officers during the course of managing the company. It is not loan insurance. D & O insurance is also distinct from Professional Indemnity (PI) insurance. This form of insurance provides cover fo against claims arising due to negligent advice.

Given that Directors and Officers were not providing advice and that loans were relatively small it was difficult to see any great degree of exposure for Directors and Officers. Consequently PI insurance was not taken out.

However after consultation with numerous insurance providers and the impartial advice of the Victorian Farmers Federation Farm Trees Association, it was decided to take out D & O insurance. This would protect directors and officers personal assets from liability from errors and omissions made by the Company.

Insurance cover has proved the biggest cost of running the company. Cover currently is around $1200 per annum. The entire company costs amount to about $1,700 per annum. This has meant break even point has raised and turnover increased from that envisaged at the beginning of the project. Also, unfortunately the present cover does not provide protection for errors and omissions made on loan documentation. A loan application checklist was developed to provide some degree of security in this area.

Company Administration

Annual management of the company involves three major duties; submission of annual returns, annual audited statements and directors report, and submission of statistical data to EA.

Annual returns need to be lodged with ASIC each January. The Returns are a basic document that verifies company details and contains a statement of the company's financial position by directors. As described elsewhere in this report, as a charitable institution the Fund escapes the full corporate lodgement fee of $870. The returns require a Directors resolution and take half an hour to prepare.

The annual return is distinct from the annual Directors' Report and Audit report submitted on ASIC Form 388. The form contains a full statement by Directors of the affairs of the company in compliance with several sections of the *Corporations Law* and auditors' report complies with Australian Accounting Standards. With approval of the company, the annual company reports (excluding audit) for 1999 are included as an appendix to this report (Appendix Four). Form 388 is submitted to ASIC immediately subsequent to audit. Preparing the reports on a *pro forma* takes two hours to prepare. Audit takes about four weeks. Currently a nominal fee is charged for this service by the company auditor, however standard rates of around $1,200 could be expected.

The Fund also reports to EA at the end of June regarding management of the tax deductible Gift Fund. This involves provision of statistical data on the type and amount of tax deductible donations received by the company, and a copy of the annual audited financial statements of the company. Preparation of these reports requires about 1 hour.

Whilst ASIC and EA send notices prior to deadline some timing of operations is crucial. A calendar of events assists with this (included as Appendix Three). Preparation of reports does require an awareness of statutory requirements and company secretary (or the person who otherwise prepares these reports) would therefore need some training.

Time Requirements for Board and Officers

Directors meet quarterly for loan approval meeting and general business. Meetings are usually scheduled immediately after work, typically 5.30pm, and last for two hours. Providing application forms are correct and credit reference has been checked by the secretary, four to five loans can be processed in approximately 20 minutes.

In addition to loan approval meetings, Directors attend the AGM and are consulted individually. The constitution expressly permits electronic meetings ie telephone or e-mail.

The secretary preparing loan applications and letters of approval in addition to statutory duties. All of these duties require approximately two days each quarter prior to and after Board meetings.

After writing cheques the main demand on the treasurer is monitoring loan repayments, which take place quarterly. This means checking Credit union statements for each borrower. At current borrower levels (10 borrowers) this may take approximately 1/2 hr per quarter.

The Board has not found time demands intrusive, particularly if business has been prepared beforehand. Employment of a loans officer at one day/quarter would considerably reduce the workload of the volunteer treasurer and secretary. Involvement of group representatives to check loan applications for mistakes will also assist.

Accounting System

The accounting system comprises two areas:

- loan repayments accounts,
- capital and operating accounts

Capital and operating accounts are on a cash basis.

The Fund accountant, in conjunction with the Treasurer, has developed a model of profit and loss and balance sheet.

A simple cash based accounting system based on reconciling income and expenses for a period against bank statement is inadequate for the revolving fund. The main reason for this is that such accounts would not accurately present total capital assets as a balance sheet item, or the amount actually out on loan. For example, if the fund had a total capital of $30,000 and $20,000 of this was out on loan, the capital account using a cash based system would only display the balance ie. $10,000. It would not record the true and correct asset of $30,000.

The accounts are managed using the software package Quicken®

Capital Appreciation Adjustment

The aim of the Fund is for its capital to retain its value in real terms. An amount equal to the rate of depreciation therefore needs to be added to the capital fund to make allowance for depreciation of capital. After consultation with DNRE farm economist, it was decided to use the CPI as a measure of depreciation. Other agriculturally based indexes are available that may more accurately reflect the nature of loans, however the CPI was a well-known and readily accessible index. The adjustment is made annually.

CPI is taken from ABS catalogue # 6401.0 Consumer Price Index.

Capital Depreciation Adjustment is calculated in the following manner:

Total Fund Capital x Average Annual CPI%. = Appreciation Adjustment Payable to the Capital Fund

For example: The estimated CPI% for 1999 is 2.24%. With a nominal Total Fund Capital of $120,000 the adjustment is $2,688. This sum is transferred from the Operating account into the Capital account each February.

Basis of Administration Charge

The current administration charge is $40 for every $1,000 loaned. Thus a borrower of $5,000 (the maximum currently allowable) incurs a charge of $200. This charge is payable up front and is deducted from the amount approved. For example the borrower of $5,000 would receive a cheque for $4,800.

The administration charge covers two parts:

- an allowance for capital depreciation - this amount is returned to Fund capital
- an allowance for operating and overhead expenses - this amount remains in the Fund operating account.

Some judgement was required by Directors when initially setting the administration charge. It included consideration of the maximum term and size of loans, and prediction of CPI movements and operating costs of the company. The Board discovered by present value analysis that at the rate of $40/$1000 at current CPI of 2.4% the maximum loan term could be three years. Whilst not difficult for someone with an understanding of present values and a compounding calculator such calculations do need a level of financial expertise.

Other Income

In addition to the administration fee the company derives income from membership and interest. The company presently requires the company owners, the landcare groups, to pay an annual subscription of $25 per group.

The company also derives income from interest earnings on Fund Capital sitting in the Company’s accounts and awaiting further disbursement.

Bank interest on capital is potentially a major income source that could be used to keep loan administration charges very low. Most loans are disbursed in autumn - winter. They are paid back by increments per quarter. Prudent investment on a higher yielding short term money market for repayments made in spring and summer quarter could therefore be undertaken. Some calculations are provided below under *Indicative Financial Data* based on the NECU investment account of 4.65%.

This idea has been discussed by the Board but due to the current relatively low fund capital and that the company is still new and settling in investment of loan repayments on higher yielding accounts has not been considered worthwhile.

Group membership subscriptions could also be increased to say $100/group p.a. or new groups encouraged to join the Fund.

Expenses
A summary of expenses is provided in the section on indicative financial data. As noted D & O insurance is by far the major cost to the company. The company does gain relief from some office operating expenses due to the provision of facilities at DNRE offices in Benalla. Also note the Capital Depreciation Adjustment (transfer to Capital account). This is a journal entry but an expense nonetheless.

Indicative Financial Data
(not actual amounts)

At $120,000 in loans/year

CASH INCOME	TOTALS	
Membership		250.00
Admin Charge		3,600.00
Bank interest:		
loan repayments		2,067.00
loan loss reserve $6,000		279.00
Grants/fund raising		
TOTAL INCOME	$	6,196.00
PAYMENTS		
Overheads:		
File returns		(35.00)
Insurance		(1,000.00)
Admin:		
telephone		(50.00)
postage		(40.00)
stationary		(40.00)
printing		(40.00)
bank charges		-
Operating:		
Audit	$	(400.00)
Transfer to Capital a/c's	$	(2,688.00)
TOTAL PAYMENTS	$	(4,293.00)
NET PROFIT(LOSS)	$	1,903.00

NOTES:
MEMBERSHIP 10 X $25 = $250
ADMIN CHARGE @ $30/$1000 loaned. $120,000 to be loaned. 30 x 120 = $3,600
BANK INTEREST all interest calculated at 4.65%.
Quarterly loan repayments are compounded at 4.65%. Assumes that $30,000 will be repaid quarterly

Loan loss reserve = 5% of Fund Capital. 5% of $120,000 = $6,000
ADMIN secretarial and treasurer expenses only
FUND TRANSFER a sum equal to the annual CPI% increase of Fund capital must be transferred into the Fund Capital account to prevent capital depreciation.
The estimated CPI for 1999 is 2.24%. Thus 2.24% of $120,000 = $2,688

Turnover required to Break Even

The amount of loans required to cover company costs is calculated as follows:

Net Overhead costs/net income = turnover in $ required to breakeven.

(For ease of calculation *Net Overhead Costs* excludes the journal entry Capital Appreciation Adjustment and to balance, the *Net Income* excludes the same amount).

Net income: $18/1,000 loaned
Net running costs: $1,376

1,376/18 = 76.44.

Therefore for the company to cover its present overhead costs it must make $76,500 in loans annually.

A turnover of around $80,000 p.a. is within the administrative capacity of the Fund. According to the 1997 landholder survey for the project sufficient demand exists to support such turnover. However with an existing capital of $30,000 current turnover capacity is not sufficient to cover costs. This represents a considerable threat to the viability of the Fund. Clearly further fund capital is needed.

A number of measures other than increasing turnover may be undertaken to cover costs. These include subsidised service provision such as DNRE office facilities and generous auditing rates. Additional fund raising via operating grants or local fund raisers will also offset expenses. As described elsewhere these initiatives have allowed the company to remain a going concern despite lack of turnover.

Strategies to Raise Fund Capital

The revolving loan fund requires a capital fund from which to make loans. Once a capital base has been built it will no longer need to seek capital. The Board of the Revolving Loan Fund were not involved directly in fund raising. A fund raising committee was established and examined the strategies described below.

In the course of research and development the Victorian State Government gave two grants for conducting a fund campaign; a Partnership Initiative grant of $3700 in 1999 to enable production of a prospectus and development of a fund raising strategy, and a 2nd Generation grant of $9,200 was made in October 2000. This latter grant will be used to employ a professional campaign manager.

Fund capital obtained by the project, its type and source is described below:

- Molyullah/Tatong Tree & Land Protection Group Inc. $10,000 no interest loan
- Sheep Pen Creek Land Management Group Inc. $10,000 no interest loan
- Northeast Agroforestry Network $5,000 grant
- Anonymous regional trust $6,000 tax deductible donation

The raising of fund capital has proved the biggest difficulty for the project. As will be shown below, a number of strategies were considered and are documented here. Whilst a difficulty for this project a comparison of experience in the USA is worthwhile.

No Interest Loans

The concept of a no interest loan is that the lender can assist the Fund at a cheaper cost to itself or in greater quantity than it could otherwise afford as a grant. A lender forgoes the opportunity cost of capital by making a no interest loan, but not the capital itself. It was felt that no interest loans would be attractive to the corporate and community group sectors to maximise their involvement in the Fund without incurring substantial loss. This strategy has certainly proved successful in winning no interest loans from landcare groups.

For example: assuming an opportunity cost interest rate of 6%, a $100,000 loan provided for five years to the Fund would cost the sponsor $33,882 in interest forgone *($100,000 x 6% compounded over five years*).

The fund campaign committee failed to attract any corporate (ie commercial focussed) sponsorship of no interest loans over the campaign period (January 1999 - November 2000).

The committee did however attract community group sponsorship of no interest loans. Two landcare groups in the Broken Catchment (and part owners of the fund), The Molyullah/Tatong Tree & Land Protection Group and the Sheep Pen Land Management Group made no interest loans to the Fund. The loans were for $10,000 each and for a term of 5 years. The condition was borrowers in those group areas have first right of refusal on that money. The group receives an annual report describing the purposes the money has been put.

A more formalised means of attracting no interest loans is by means of issuing debentures. This scheme is under investigation by the committee and its facilitator. A debenture scheme would entail the issuing of debenture certificates to local community groups, businesses and Council for small no interest loans to the company. Being a public company the revolving loan fund can avail itself of the facility. Much of the onerous ASIC requirements relating to debentures are avoided due to the tax deductible and charitable status of the company. Preliminary legal and market analysis has been undertaken on a debenture scheme.

Some preliminary investigation and discussion has taken place with the ethical investment sector. The project qualifies as ethical and under could avail itself of relatively substantial ($100,000) loans provided by ethical investors. Such loans would be at market rates. Consequently it would be necessary for the Loan Fund to mix market rate loans from the ethical investment sector with grants and donations to offer an attractive rate to borrowers.

That the fund campaign committee failed to attract corporate sponsorship of no interest loans was not due to lack of interest in the concept by corporate representatives. Indeed in one case the corporate representative themselves suggested the idea to a member of the campaign committee. The problem was that the sponsoring company still needed to gain some commercial benefit for the expense of making the no interest loan. The revolving loan fund project has been unable so far to offer the requisite exposure for sponsorship deals.

Landcare groups in common with other community groups can find their accounts have an amount of discretionary capital. This is money earned from for example nursery sales, accumulated interest from government grants, and member subscriptions. This money is discretionary because it is not tied to obligations the group has to a funding body. In other words, the group is free to do with it what it wants. In the case of the two groups mentioned this discretionary money was considerable. No quantified data could be found on the amounts of discretionary funds groups have but clearly it is a source of funds for the revolving loan fund. It is also within a landcare groups area of interest.

As an example of low interest loans to revolving funds, in the United States, the Ford Foundation has provided the Institute for Community Economics Revolving Loan Fund with a $US2.5 million loan at 1% interest (ICE 1991). This loan complements existing low or no interest loans made to the ICE fund from the ‘socially responsible’ sector.

Grants

The project applied for grants from philanthropic organisations on several occasions (4) and the Natural Heritage Trust prior to the commencement of the JVAP project in 1999. The grant applications were primarily for fund capital with an allowance for project management. Early in the project (1996) an application was made to a philanthropic organisation for a research grant. All applications were unsuccessful. Due to unfavourable advice from NHT officers a proposed application to NHT in 1999 was abandoned. In 2000 following advice and support from several Federal politicians another NHT application was made. This application was based on the new concept emerging from NHT the Devolved Grant. It was unsuccessful.

The Landcare Revolving Loan Fund can provide cost effective use of grants because it continually revolves the grants around as loans rather than grants to landholders. Dollars invested now will continue to provide assistance to landholders into the future. Over time grants will no longer be needed for a given loan turnover because loan repayments provide capital for additional loans. This can be demonstrated using a model cash flow below.

Figure 2 Capital Reflows

Landcare Revolving Loan Fund - Indicative Cash Flow
Assumptions:
Amount of loan: 12 x $5,000 loans made each year
Repayment terms: $1,000/year/loan paid quarterly over five years
Total Grants needed: $180,000 raised over 5 years
Total Loans in Operation: 60 (after 6 years)

Capital Cash Flow over 6 years

	Yr 1	**Yr 2**	**Yr 3**	//	**Yr 6**
Loan	12 x$5,000	12 x$5,000	12 x$5,000		12 x$5,000
sourced from:					
Loan Repayments:	0	12,000	24,000		60,000
Grants:	60,000	48,000	36,000	//	0

As can be seen, grants (or sponsorship and donations) are needed to start up the fund in year one, but by year six, loan repayments provide all necessary capital for loans. On this scenario, a total of $180,000 in grants are needed to provide 12 x $5,000 loans each year. Note the Capital Depreciation Adjustment ensures value of capital remains the same in real terms over time.

The Natural Heritage Trust has had a strong influence on grant applications in general. For example, philanthropic organisations previously applied to by project proponents were contacted again in late 1998 and 1999 regarding the value of making a submission for the project. These trusts[1] have broad environmental and social objectives. With the advent of the NHT, however, philanthropic organisations have tended to focus on needy projects other than the environment such as homelessness and drug abuse.

Additionally, because the revolving loan fund would provide loans for projects that had a commercial outcome (such as farm forestry) philanthropic support would be less likely to be forthcoming, despite environmental requirements placed on the loans.

Consequent to these discussions with philanthropic trust officers no further trust applications were made. Helpful discussion with one trust administrator has suggested a grant application that focussed

[1] The Reichstein Foundation, the Sidney Myer Foundation, The Potter Foundation, The Foster Foundation.

on the social benefits to rural communities of the loan fund may be favourably received. This "angle" has not been pursued.

Examples of grants, both government and corporate made to revolving loan funds in the USA are more instructive.

The Vermont Housing and Conservation Board (a statutory authority) has made grants of capital to the Vermont Community Loan Fund (a community group non profit low cost loan provider) (ICE 1990).

The Clinton administration passed the *Community Development Financial Institutions Act* (1994). This enabling legislation establishes a fund to provide equity grants on a matching basis and grants for technical assistance providers to a range of community organisations including revolving loan funds (ICE 1993b: ICE 1995).

Citibank has provided an equity grant of $50,000 to a revolving loan fund (established for the provision of low income housing). The major condition was that the low interest loans be disbursed in areas that Citibank had a presence (ICE 1993a).

Tax Deductible Donations

Due to its registration as an Environmental Organisation, the company is a Deductible Gift Recipient under the ATO. This facility enables the company to solicit tax deductible donations from the public. The company applied for registration in February 1999 and received confirmation of registration in late January 2000. With the changes in the tax system at July 1, 2000, additional application needed to be made to the ATO to become a Deductible Gift Recipient.

The company did receive a tax-deductible donation of capital from a local trust.

A fund raising strategy using tax deductible donations has not been explored due mainly to the recent granting of the facility. Considered discussion with the project accountant suggests that regional populations do support organisations and individuals with both a tax problem and benevolent disposition. It was considered that approaches to these people and organisations could be made discreetly via accountants and lawyers at appropriate time of the year.

A recommendation of the National Landcare Facilitator (Polkinghorne et al 1997) was that a facility should exist whereby individuals and community people could make a contribution to landcare on a scale smaller than the large sponsorship arrangements managed by Landcare Australia. The Facilitator considered tax deductibility the key. The Landcare Revolving Loan Fund is an organisation that could address the recommendation. It is a community based tax deductible organisation for landcare.

LAL, and the Marketing Consultant

Meetings and proposals were made to Landcare Foundation Victoria in 1997 and Landcare Australia Limited in 1999. In response to a request for start up assistance the Landcare Foundation Victoria provided $300 to meet incorporation expenses. Project participants also benefited from a fund raising workshop for landcare groups held by LAL and the Australian Association of Philanthropy at Shepparton, Victoria in 1995. In addition the Landcare Foundation Victoria conducted a half day fund raising workshop for the project in Benalla in February 1999.

A September 1999 meeting was held in Sydney with the LAL. A proposal was developed for a particular sponsor using the no interest loan concept. The sponsor did not accept the proposal.

The Landcare Foundation Victoria was not in a position to assist the project in 1999 mainly due to time constraints on staff. Consequently in February 1999 the fund raising committee sought to employ a marketing consultant. The committee proposed that the consultant's remuneration would be based on a percentage of funds raised. Advertisements were placed for the position in regional newspapers over two weeks. Due to lack of response to these advertisements, an approach was made to a marketing consultant through an intermediary in Melbourne.

The marketing consultant also considered the concept of interest free loans as a viable sponsorship strategy. The consultant believed $100,000 could be raised. Initial discussions made by the consultant to corporate contacts were positive to the idea. However after five months of attempting to reach an agreement with the consultant on a specific fund raising strategy and a fee percentage to the liking of the consultant the committee terminated the arrangement.

The ability of Landcare Australia Limited to assist landcare groups is dependent largely on the interest of its sponsors. Landcare Australia cannot help a landcare project no matter how fervently it believes in the project, if a sponsor cannot be similarly enthused. A major need of sponsors is exposure; the revolving loan fund operated in a catchment that national sponsors had not heard of.

Fees charged for fund raising by professionals average between 15 - 20% of total funds raised. The amount requested by the marketing consultant was within this range. However the fund raising committee had concerns regarding the approach developed by the consultant. The consultant considered that the fund should be a national organisation that would broker no interest loans with companies and then on loan that money to landcare group projects. This national organisation would have a virtual office with a marketing arm and service arm following the model of "Aussie Home Loans". The name of the Fund would be sold in return for sponsorship. The consultant expressed the view, that only as a national organisation could the revolving loan fund succeed in attracting sizeable corporate sponsorship.

The project committee rejected this approach. The plan of the marketing consultant helped focus the Fund committee on what they regarded as really important viz; a locally owned and operated capital fund for the provision of landcare loans.

Operating Assistance

State Government has provided a total of $13,000 over two years for the fund raising campaign. In addition through the then Minister for Agriculture and local member Pat McNamara a start up grant to assist with overheads and operating expenses of the fund of $2,000 was provided in late 1998. The BCLN has conducted two film nights at a local cinema to assist operating expenses, mainly due to the shortfall caused by D & O insurance.

DNRE provides office facilities for the project, and local accounting firm has provided nominal rates for company account auditing for the first two years.

Large professional fund raising organisations do work on a commission basis as described for the marketing consultant above. However a commission is a big demand on a person with some sales skill but not organised on a full time professional basis. The fund committee decided to concentrate on a local fund facilitator and fund campaign using the state grant.

Fund raising remains a difficulty. Small towns such as Benalla do not offer a large source of donations or sponsorship. People engaged to raise funds do not possess the skills required to mount a large fund raising campaign. As a consequence of these problems, in the opinion of the Principal Investigator, landcare fund raising ought to be left to professional organisations with 'high end' contacts such as Landcare Australia Limited.

Many small businesses fail in the first 12 months of operation due to cash flow problems. Whilst a non profit organisation, the loan fund like a commercial business does need to make a profit to remain a going concern. The first year of operation can be particularly hard when business and clients need to be found and established. The state start up grant of $2,000 therefore provided an essential support. It has allowed the company to operate at a rate below breakeven point whilst it builds capital and promotes loans to landholders. An extra $1,000 would have been requested had the cost of insurance been anticipated. Instead the committee conducted film nights to meet the extra cost. These nights also served as a promotional vehicle for the fund (a slide advertisement for the project appeared on the screen) and a chance to socialise.

Similarly the nominal fee required by the company auditor has ensured company viability in its critical start up phase.

Promotion

Landcare Groups

Presentations were made to five member landcare groups at their normal group bimonthly committee meetings. The presentations were made to explain the operation of the Fund and loan conditions. Presentations to committee meetings of the Broken Catchment Landcare Network also helped to disseminate the project concept and development. The groups of the Ovens Landcare Network adjacent to the Broken Catchment Landcare Network were invited to consider becoming members of the Fund at their AGM in September 2000.

Advertisements for loans are placed in landcare group newsletters at the appropriate time of year.

Promoting the Fund through landcare groups in the scheme is a simple means of reaching possible borrowers. It also serves to involve each group. A demonstration of the effective local promotion occurred in April 2000. Up to that time no loans had been made in the Sheep Pen Creek landcare group area, despite that group being a member of the fund and put in $10,000 loan to the fund. At a committee meeting of the group the President announced the loans were available; one week later the fund had applications for $9,500 from landholders in that group.

A particularly well received presentation to a landcare group was made by the Principal Investigator in conjunction with the DNRE and COFFI farm forestry advisers. The success of this presentation, reported in local newsletters suggested landholders wanted not only low cost finance, but the information on how to use it.

Media

Local media included local and regional (North East Victoria) newspapers, ABC Radio and community radio and *The Weekly Times*. The Fund has been listed on the AFG Service Directory. *Victorian Landcare* magazine has also run two stories, including a two page spread and a feature article in the *Australian Landcare* magazine reaching 78,000 readers was published in December 2000. A project brief appeared in *The Facilitator*, the newsletter of the National Landcare Facilitator to landcare facilitators throughout Australia.

The Swanpool Cinema south of Benalla, a cinema well patronised by landcare group members runs a slide advertisement for the revolving loan fund each week. A 1000mm x 500mm sign with the familiar ‘caring hands’ logo and words ‘Landcare Revolving Loan Fund Supporter’ remains in the front window of the North East Credit Union, situated in the main street of Benalla.

Local media generally has been supportive of prepared articles on major developments with the project. This support has improved as media becomes acquainted with the revolving loan fund idea. Indicative of the pitfalls early in the project was a regional newspaper printing submitted copy with the ambiguous headline “Low interest from revolving fund”.

The presence of the NECU in the main street of Benalla with the revolving loan fund sign in the front window helps to maintain general exposure of the Fund to the community.

Some discussion has taken place regarding a web site probably in the form of a North East landcare site. Links to farm forestry groups and landcare institutions would improve such an initiative. However at present it is difficult to assess the practical value for the project by this form of media.

Field Days and Conferences

Presentations were made at a range of regional events between February 1999 and August 2000 including the Agroforestry Expo North East Victoria field day at Longwood, poster presentation at a farm forestry field day at Benalla, the Mitchelton Goulburn Broken landcare forum, and the North E East Landcare Forum, Beechworth.

A poster presentation and delegate attended the AFG annual conference in Mt Gambier and an abstract on the project included in conference proceedings. A poster presentation and delegate also attended the AFG 2000 Conference in Cairns.

Attempt was made to make an oral presentation at the Landcare 2000 Conference, however the submission was declined.

Presentations at field days and small conferences are of value; the most valuable part being after the presentation when face to face networking and introduction to prospective borrowers can take place. On several occasions prospective borrowers approached presenters afterwards to inquire about loan conditions.

Since contact with the organisers of the Agroforestry Expo the project has had space on the University of Melbourne Master tree Growers website. Currently only the Guidelines for Borrowers is presented on this media.

Australian Landcare Council & National Landcare Facilitator

The Australian Landcare Council received a presentation on the project at their Melbourne meeting in March 2000. The Council is the peak advisory council to the Federal Government on landcare issues. It provides advice to government for example on NHT and has played a major role in securing the landcare tax rebate scheme. Council membership is drawn from community figures from all States and the Northern Territory.

Under its Strategic Plan the Council sets as its main priority the securing long-term resources for landcare. It was in this context that the presentation was made. The Council also sets as a priority the allocation of resources to landcare groups (Australian Landcare Council 2000). After the presentation, the ALC congratulated proponents of the revolving loan fund project.

The National Landcare Facilitator originally approached the project in 1997 for a project brief. The Facilitator’s 1997 Annual Report included a brief overview of the concept (Polkinghorne *et al* 1997). Additionally the Facilitator has, where appropriate, referred the project to other landcare groups.

The Council presentation did raise awareness of the project to Council members and has served as introduction to possible avenues of assistance. It also served as a useful network tool; several Council members discussed the project privately after the meeting. As the key advisory committee to government placing highest priority on landcare funding and a recognised need to reinvigorate landcare groups the Council may offer an opportunity to develop the project further.

The National Landcare Facilitator’s 1997 Report gave the project a place in the national funding context by an independent authority. The Facilitator has also helped disseminate the concept to landcare groups saving much travel on the part of the project proponents.

Politicians

Presentation and briefings were made to Federal parliamentarians the Hon Sharman Stone, Lou Liebermann MP and Senator John Woodley. Presentations have also been made at the local state level to local members Pat McNamara and subsequently Denise Allen. Before his retirement Pat McNamara officially launched the project in February 1999.

The federal briefings were informal and helpful particularly in relation to government programs such as NHT, tax deductibility of donations, and the EA Bush for Wildlife Revolving Fund.

The Principal Investigator has observed that a perception exists in the community (whether justified or not) that silence from political leaders at best has the effect of expressing doubt or at worst disapproval, about the revolving loan fund project. The consequences of this are:

- project proponents and groups involved feel that what they are doing is wrong
- government officers are uncertain of the role they ought to play and what their programs can offer the project
- corporate sponsors eschew controversy and decline involvement.

Consequently the public launch with Pat McNamara in February 1999 proved of great benefit to the morale of landcare groups and improved interaction with DNRE staff. The launch also opened the door to initial corporate offers of support.

Assessment of Results

Capacity of Landcare Groups to Set Up a Revolving Fund

It is not the purpose of this report to detail the reasons why landcare groups around Australia are losing interest in landcare but it is prudent to acknowledge that this loss of interest is occurring. Groups are losing vigour and is a concern of peak policy organisations such as the Australian Landcare Council. In the Goulburn Broken Catchment the health of 60 of the 120 landcare groups is considered “moderate” by the Catchment Management Authority (O’Kane 2000). Some of the reasons are frustration, burn out and the heavy expectations placed upon landcare volunteers (Polkinghorne 1998). Additionally internal conflicts can occur within groups as a loss of purpose grows.

If this trend of disinterest continues, other landcare revolving loan funds will be less likely to developed.

On the other hand writers such as Peters and Waterman (1982) have shown that organisation members (volunteers or employees) are willing to work under difficult conditions and limited financial rewards provided an organisation has a purpose. Curtis et al (1999) make similar points specifically for landcare groups; effective landcare groups are those with clear goals, plans and objectives. People in organisations need activities that they can achieve and have significance. As Fitzgerald (1997, p.31) points out, volunteers only perform their work ‘if they personally believe that their work is making a contribution to their community’.

The purpose of this project has been to create a structure that landcare groups can own, is simple to operate that will address groups perceived needs in the catchment. The entire project spanned from early 1995 through incorporation in 1999 to 2000 and involved years of part time work for the project manager and various voluntary committee members and supporters. In addition to setting up the structure and operating systems, fund capital also needed to be found and despite major efforts has been largely a fruitless task. Much of this work was voluntary or provided *pro bono*. This lengthy and difficult process of setting up the Fund involved considerable commitment by project proponents and supporters.

That groups have spent five years from late 1995 developing the concept to get it up and running and have put up cash to start the Capital Fund in the absence of grants from other organisations is indicative that groups do have the capacity to set up a revolving loan fund.

So what does it take to get a landcare network to commit to such a task? In the opinion of the Principal Investigator to determine whether a group does have the capacity to set up a fund the essential questions to ask are:

1. **Does a need for a revolving loan fund exist?** The introduction to this report provided some of the reasons that served to compel proponents of the current project. These needs were of local and immediate interest to landcare groups and their members. The need served as the stimulus and created the sense of ownership that has been apparent amongst proponents.

Determining whether a need exists is quite distinct from determining whether grants are readily available to kick start the project. On this point, Polkinghorne makes the comment (1999) that landcare groups place too much emphasis on funding and less on strategy. It is necessary to determine at first if a need exists, not whether grants exist.

2**. Is the revolving loan fund model thoroughly researched and understood?** A thorough understanding of the concept and operation will allow proponents to assess whether the identified needs can be met by a revolving loan fund. Setting up a public company and the consequent obligations of operating the fund do require consideration. The possibility that identified needs can be met by other means (such as lobbying government for improved services for example) should be thoroughly explored.

3. **Does the group have a project leader and committee and a paid facilitator with skill in legal and other technical skills?** Work of Rush and Associates (1992) indicates a high need for facilitators during the "setting up" phase of landcare project development, particularly to handle paperwork and technical issues.

A project leader (as distinct from authority) is needed to keep the project focussed on goals.

In brief, provided the need is there, the revolving loan fund model is understood and leadership and facilitation is available, landcare networks and groups will be well placed to set up a revolving loan fund.

There are several ameliorating factors that will make it easier to set up a revolving loan fund for groups in the future. They are;

- Technical work on legal, administrative and accounting systems have been developed by the project and are being documented. This information will be available to groups in the future.
- Policy makers, government officials and other landcare and farm forestry institutions are becoming acquainted with the concept and the proof that it is indeed viable, responsible, cost effective and of interest to landholders. This will make it easier to some extent to for proponents to receive practical assistance and essential recognition. Unambiguous approval of a revolving loan fund project from government will also enhance the ability of the project to attract corporate sponsorship.

Notwithstanding the above comments proponents could expect a minimum of two years development time to incorporation, allowing for research on needs, refining of legal and administrative systems, establishing a viable capital fund and due process.

Capacity of Landcare Groups to Operate a Revolving Loan Fund

The Landcare Revolving Loan Fund has been set up and is now operating, albeit at a capacity below demand and break even point. Despite operating at a relatively low capacity it is possible to point to several factors that make the project operate despite the restrictions and demands placed upon landcare group volunteers. These factors are:

- Delegated, clear tasks are distributed between Board members and officers, group representatives, BCLN advisory committee and fund raising committee, and professional advisers. This reduces the workload (or at least appears that way if others are assisting)
- Duties are within the skill levels and time allowances of volunteers
- Duties requiring considerable time commitment or specialist skills such as silvicultural advice and banking are delegated to professionals
- There is a leader to tie it all together. The leader may for example be the company secretary or chair, a loans officer, or a project manager.
- Appropriate recognition, approval and support from within and outside the group (local peers).

Capacity of a National Organisation to Operate a Landcare Revolving Loan Fund

Several factors indicate that a large, state or federally based organisation, either as government or non government landcare institution would not be well placed to operate a revolving fund on the model discussed in this report. Whilst not wishing to prevent initiative it is prudent to note some of the hurdles. These hurdles are:

Administrative Complexity

At present the landcare revolving loan fund is relatively simple to operate within the Broken River Catchment: - landcare groups promote loans and provide application forms to their members, loans are assessed within two weeks of application closing dates, and loans are repaid through the local credit union.

A national organisation may be faced with administrative difficulties in promoting, assessing, disbursing and monitoring the loans it makes to landholders. For example a Victorian Government operated farm forestry loan scheme in the 1980's faced difficulties in managing loans.

Default

Revolving Loan Funds in the USA have a default rate of around 0.5% of monies loaned. This low rate is attributed to the close relationship between lender and borrower - the “peer pressure” element. The Principal Investigator believes this peer pressure element also exists with the Landcare Revolvong Loan Fund. A national organisation may lose this nexus.

Loss of Ownership

The landcare revolving loan fund as far as the Principal Investigator is aware, is the only landcare fund source owned by landcare groups. Groups can directly control Fund operation by selection of Fund Directors for example, and provision of advice to the Board via the Landcare Network Advisory Committee. The provision of loans is a service groups can offer landholders in their area. Group members have spoken of the sense of pride and the re-invigoration of landcare groups. A national organisation, even if operated by a respected organisation, would destroy this sense of ownership.

Comparative Analysis

The Landcare Revolving Loan Fund differentiates itself from other funding programs by being *owned and operated by landcare groups*. The administrative hierarchy is small; landcare groups can contact the decision-makers directly, and assist with promotion and assistance to prospective borrowers. Because of the close relationship between borrower and lender, loans should be repaid on time.

A comparison between government grants (the major landcare fund source) and landcare loans is tabulated below to identify similarities and differences.

Table 1 Comparison of Government Grants and Landcare Loans

QUALITIES	GOVERNMENT GRANTS	LANDCARE LOANS
Service Access	9-10 months from application to receipt of grant (NHT, State programs)	4 weeks from application closing date to loan approval
Major Areas of Funding	wildlife habitat, stream and gully erosion, facilitator employment	farm forestry, perennial pasture establishment
Product Performance	grant + conditions: must address priorities under Regional Catchment Strategy	loan + conditions: must address soil, water, or air quality, repay loan
Personal Contact	via Catchment Management Authority, DNRE & landcare group	via landcare group
Technical Support	DNRE + agencies	DNRE, COFFI
Distribution	via DNRE or landcare group	via landcare group
Location	Catchment wide	Catchment wide
Price	nil $ + in kind landholder contribution	$40 per $1,000 loaned
Promotion	via landcare group, press	via landcare group
Managerial Expertise	trained and experienced salaried staff	broad experience, volunteers
Financial resources	ca. $20 million in Murray electorate	$30,000 in capital

The recently instituted Environment Management Grants and Waterways Grants have considerably speeded up the provision of grants to landholders from the government Sector. These grants are different from the NHT and 2nd Generation Grants referred to in the above Table.

Interaction with Landcare Institutions

The project has interacted with organisations that may be called the institutionalised landcare viz; The Australian Landcare Council, the National Landcare Facilitator project, Landcare Australia, the Landcare Foundation Victoria and the Natural Heritage Trust. To a lesser extent institutionalised landcare also includes organisers of the Landcare 2000 conference and the Goulburn Broken Catchment Management Authority which has the responsibility for supporting landcare in that catchment.

Interaction between proponents and institutions offers great rewards if successful. The relationship developed by the project with DNRE Benalla is one example. The authors Chamala & Mortiss (1990) provide instructive analysis:

Table 2 A Comparison of Volunteers and Professionals, from Chamala and Mortiss (1990)

SOIL AND WATER MANAGEMENT VOLUNTEER	SOIL AND WATER MANAGEMENT PROFESSIONAL
Sometimes has sudden ideas and expects a rapid response	Expects a regular and predictable flow of administration
May propose the use of original and unorthodox methods	May see these proposals as a threat to professional standing and a career risk if they are to be followed and the venture is a failure
Motivated by friendships and loyalty to the district	Rewarded for service to their organisation (statewide)
Sees some cases as deserving of special attention	Unwilling to set precedents that may affect policy
May request money for projects as seasons demand	Has to work within constraints of budgets set on an annual basis

Persons working within institutions inherently work within a policy framework. If it is understood that innovation means working outside boundaries then the policy frameworks and structures that have developed around landcare can work to prevent innovative solutions by ‘grass roots’ problem solvers.

On the other hand landcare volunteers have much to gain through the expertise and access to information and resources that the professional can offer. In the opinion of the Principal Investigator landcare groups with an interest in developing a revolving loan fund will interact with landcare institutions more effectively if a measure of independence is maintained. To simply give up a good idea because government or corporate funding is not available at the beginning can miss the reason why such projects ought to be developed in the first place.

Recommendations

Recommendation One – to governments

Revolving loan funds are a cost effective investment in landcare. For example a $180,000 grant devolved over five years to a revolving loan fund will provide 12 x $5000 loans each year (total $60,000), every year for landcare works. Thus over ten years $600,000 in landcare loans will be disbursed provided from the original capital base of $180,000.

A landcare revolving loan fund is also a responsible organisation. As a registered environmental organisation the fund managers must demonstrate a requisite degree of responsibility to the wider community. Statutory reporting obligations also apply.

Nonetheless a revolving loan fund will not comprehensively address land degradation issues. It can only serve to complement to the direct investment in on ground works, research and extension made by governments.

THEREFORE: Without forgoing existing obligations to natural resource management governments ought to consider investment of capital into a landcare revolving loan fund as a cost effective and responsible investment of public monies into on ground landcare work.

Recommendation Two – to LAL, affiliated institutions and corporate sponsors

Landcare revolving loan fund offers a cost-effective means of exposure for corporate brands. A once off grant to a fund by a corporate will be used year after year to provide loans into the community. Little extra expenditure in corporate signage or logos need be employed to maintain company profile in the community.

The no interest loan also offers financial advantages to a sponsor. A no interest loan for a fixed term by a corporate to a revolving loan fund could be negotiated for requisite exposure. The sponsor forgoes only opportunity cost of the money they provide.

THEREFORE: Landcare Australia and partners ought to consider use of revolving loan funds as a strategy to leverage further sponsorship from corporate Australia.

Recommendation Three – to the Australian Landcare Council

The revolving loan fund concept is a means to address the ALC's highest priority viz, the securing of long term funding for landcare works. As a locally owned organisation revolving loan funds can also serve to address another ALC priority, the re-invigoration of landcare groups.

THEREFORE: The ALC ought to consider means to develop the revolving loan fund concept further.

Appendices

Appendix One: Loan Policy and Criteria

1. **Loan Purpose**

1.1 Principal Purpose to 'protect and enhance the natural environment'
includes activities that protect and enhance:
- Soil, air and water quality
- Wildlife habitat.
- Activities that promote ecologically sustainable development.

1.2 Charitable purpose
- General improvement of agriculture
- Preservation of native flora and fauna
- General ecological improvement.

2. **Size and Duration of Loan**
- $1,000 - $5,000 loans in multiples of $500
- 1-5 years
- one loan/person

3. **Repayment Frequency and Amount**
- $250 paid quarterly

4. **Fees and Charges**
- Upfront administration charge that reflects the CPI and overhead costs
- Loan contracts to specify that Directors have the discretion to impose an interest charge

5. **Method of Loan Disbursement**
- Loan agreement agreed and contract signed
- Borrower to present treasurer invoice(s) detailing the costs of materials and services
- Treasurer disburses cheque

6. **Method of Repayment**
- Via Periodical Payments to the North east Credit Union

7. **Overdue repayments/loan default**
   1. loans to be charged interest at 'the default Interest Rate" as specified in the loan contract
   2. reminder letter after five working days of due date
   3. 2nd letter after ten working days
   4. legal remedy at directors' discretion

Borrowers always to be encouraged to discuss renegotiation of loan; - as soon as a problem is foreseen or has arisen.

8. **Expected date of Loan Approvals, and Loan repayments**

loans shall be approved in the months of;
- February
- May
- August

Loans shall commence repayment on the last day of the quarter that next follows cheque disbursement.

Loans shall be assessed against the following Criteria.

In the event that the fund is unable to meet all loan requests, directors shall assess and approve loans that best meet the Loan Criteria.

Loan Criteria

1. Principal Purpose;
Loans shall address the Principal purpose of the landcare revolving Loan fund Ltd.

1. Donors requirements

- Molyullah/Tatong To reflect the loan made by the Molyullah/Tatong Tree and Land Protection Group, $10,000 should be applied in that group region. Molyullah/Tatong members to be given first priority to this money, and if any money remains at the close of applications then that money shall be released for other loan applications.
- AFG $5,000 grant by the Northeast Victoria Branch of the AFG to be used for farm forestry only. If any farm forestry loans are made within the Molyullah/Tatong region then this would satisfy AFG requirements).
- Sheep Pen Creek To reflect the loan made by the Sheep Pen Creek Land Management Group, $10,000 should be applied in that group region. Sheep Pen Creek members to be given first priority to this money, and if any money remains at the close of applications then that money shall be released for other loan applications.
- Donations to the Gift Fund These must address the Landcare Revolving Loan Fund Ltd principal purpose.

1. Advice from Public Bodies
The Board shall have regard to advice including reference to publicly available strategies, reports or other literature, from the bodies listed below:

3.1 Member landcare groups

- advice to be received via the Broken Catchment Landcare Network executive committee

3.2 DNRE Catchment Management Officers

- Includes landcare, farm forestry, pasture, flora, fauna and fisheries extension officers

3.3 Goulburn Broken Catchment Management Authority

3.4 Northeast Catchment Management Authority

3.5 Private Forestry Council Victoria

4. Technical Advice to Borrowers
Borrowers shall be encouraged to seek technical advice from the following advisers:

4.1 COFFI Forestry Adviser

4.2 DNRE Catchment Management officers

- Includes landcare, farm forestry, pasture, flora, fauna and fisheries extension officers

Appendix Two: Calendar of Events

November	December 31	January	February	March 31	May	June 30	August	September 31
	loan repayment			loan repayment		loan repayment		loan repayment
			loan assessment		loan assessment		loan assessment	
begin loan advertising via landcare groups	mailout director nomination forms	Director nominations due 15 days prior to AGM. AGM (late January)						BCLN advice due
	close books for audit	file ASIC returns by 31st.				file EA gift fund statistical data + audited financial statements		

Appendix Three: Position Descriptions

THE LANDCARE REVOLVING LOAN FUND LIMITED
POSITION DESCRIPTION

DIRECTOR

POSITION:	Director – the Landcare Revolving Loan Fund Limited
REPORTING:	Annual general meeting of member landcare groups. Some minimal reporting is also required by Environment Australia and ASIC.
KEY OBJECTIVES:	To further he company's purpose to protect and enhance the natural environment, the directors must: • Preserve or attempt to preserve fund capital • Maintain an equitable distribution of the costs and benefits of the company's activities amongst the general public of Australia • Recognise both individual and community benefits of its activities.
RESPONSIBILITIES:	*Amendment of Loan Policy* *Assessment and approval of Loans* *Monitoring of Loan Repayments* *General Company Business* *Annual General Meeting*
EXPERIENCE QUALIFICATIONS:	A majority of the Board must be 'responsible persons' as defined by Environment Australia. This is to ensure that publicly solicited tax deductible donations will be managed responsibly. A general knowledge of landcare issues and solutions is needed, in particular an awareness of the Goulburn Broken Catchment Management Authority *Regional Catchment Strategy* and the means to address he priorities identified. Deep knowledge of the technical or scientific basis for natural resource management is not essential. A basic understanding of the Environment Australia *Register of Environmental Organisations*, the *Corporations Law* and the fiduciary responsibilities of Directors is needed. An ability to understand financial reports is an advantage.
REMUNERATION:	Under the *Corporations Law* no remuneration is payable for the position of Company Director.
TERM OF OFFICE:	Directors hold office for two years but are eligible for re election.

COMPANY OFFICER - GROUP REPRESENTATIVE

POSITION: Company Officer - Group Representative

REPORTING: Board of Directors - The Landcare Revolving Loan Fund Limited

KEY OBJECTIVES: To provide landholders in your landcare group area with easy access and guidance to the revolving loan fund.

RESPONSIBILITIES:

1. Promote loans and supply loan application forms to landholders
It is expected that this would be done through normal landcare group meetings and via group newsletters. No additional time other than attendance at group meetings is expected.

2. Collation of loans and check
Collate loan applications in the group area. Check applications for mistakes, confer if needed with applicant to improve application. Note: Company Officer is not required to prioritise or otherwise assess loans or perform credit checks. These tasks are purely the responsibility of the Fund Directors and Secretary. It is expected the task of loan collation and checking will take one (1) evening, at home, twice per year - most demand being in February and April.

EXPERIENCE QUALIFICATIONS: A general knowledge of landcare issues and solutions in the group area will be useful. Membership of landcare group executive committee is desirable but not essential.

RESOURCES: The Company Officer, like all positions in the company is a voluntary position. Disbursements such as telephone and postage will be reimbursed by the company. Loan Application forms, Guidelines and “fliers” for inclusion in newsletters or other means of promotion will be provided at appropriate times of the year. The company officer will be covered by Directors and Officers liability insurance currently held by the company.

METHOD OF APPLICATION FOR POSITION: The Company Officer - Group Representative must be nominated by the respective landcare group. Only groups that are members of the Fund are permitted to nominate a group representative. Acceptance of the nomination is the sole discretion of the Board of Directors of the Landcare Revolving Loan Fund Limited.

Appendix Four: Sample Directors' Report

LANDCARE **THE LANDCARE REVOLVING LOAN FUND LTD** A.C.N 085 583 562
PO Box 124, Benalla, VIC 3672 telephone (03) 57 611 516 fax (03) 57611 628

DIRECTORS' REPORT

This Directors' Report applies to the activities of the company within the accounting period of December 15, 1998 to December 31, 1999.

Review of operations and results within Accounting Period
The Fund began its first year of operation with many tasks to complete. We have developed a loan policy and criteria to use when assessing loans based on the broad guidelines required by Environment Australia and the corporations law. Loan contracts, borrower guidelines, and the accounting system involving the Northeast Credit Union were also developed.

We decided, in view of the relatively small amount of fund capital available to loan, not to publicly advertise the first loans. Instead we approached potential borrowers identified in the BCLN 1997 landholder survey. In this way we hoped to limit loan demand to what we could supply.

Four loans have been disbursed for 1999 to a total of $7,500:
Three loans for perennial pasture establishment,
One loan for fencing remnant vegetation.

Loans generally were for $2,000 and were applied in the Molyullah/Tatong, Warrenbayne/Boho and Boweya/Lake Rowan landcare group areas. Borrowers are meeting their quarterly repayments.

Directors have also contributed advice to the BCLN fund campaign activities.

We believe the Fund needs to and has the capacity to manage more loan turnover to be successful and we look forward to the fund raising efforts of the BCLN to help us in this regard. We also look forward to the contribution of each landcare group to help distribute information about the Fund to potential borrowers in their areas.

Significant change in state of affairs
The Directors decided, as a precautionary measure and after considerable advice, to take out liability insurance for Directors and Officers of the Fund. Executive committees of landcare groups we understand are being encouraged to take out similar insurance.

The present annual insurance cost is $975 and is the single biggest cost to the company. We hope to secure part of this insurance as sponsorship.

Net profit or loss
The company has recorded a net profit of $3,700 for the accounting period.

Any matters arising since the end of the Accounting Period
No matters have arisen that affect operations since the end of the accounting period.

Significant changes to operations within Accounting Period
No significant changes to operations have occurred within the accounting period.

Likely developments in company operations
Depending upon success of the BCLN fund raising committee and others, the company is prepared to disburse a greater number of loans in 2000.

Directors' interests
No Directors of the company have entered into contracts or other financial interests with the company.

Names, Responsibilities, Qualifications, and Experience of Directors

Mr Bill Willett	Chair	farmer and farm planner, landcare group coordinator, former member Dryland Implementation Committee, CMA.
Mr Steve London	Director	Manager, Northeast Credit Union, former Benalla Shire secretary, former secretary Broken River Improvement Trust
Mr Bruce Sonogan	Director	farm forestry adviser DNRE, Chair, Cooperative Farm Forestry Initiative

Number of Directors' Meetings Held:
6

Meeting Attendance:

Directors names	6/6
	6/6
	6/6

This Directors' Report is made in accordance with a resolution of Directors.

Signed

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Dated...............................

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