



# MINISTRY OF SOCIAL DEVELOPMENT

*Te Manatū Whakahiato Ora*

Bowen State Building, Bowen Street, Wellington 6011, PO Box 1556, Wellington 6140 • Facsimile: 0-4-918 0099

25 NOV 2014

Mr Ken Allen  
[fyi-request-2127-dcbdc15b@requests.fyi.org.nz](mailto:fyi-request-2127-dcbdc15b@requests.fyi.org.nz)

Dear Mr Allen

On 23 October 2014 you emailed the Ministry requesting, under the Official Information Act 1982, the following information:

- *Copies of correspondence between the Ministry of Social Development and the following other parties: The Salvation Army, the Bank of New Zealand, Good Shepherd Microfinance New Zealand, and the Minister of Social Development, and reports on, the establishment of a low income loan scheme in New Zealand. The relevant dates are from 1 July 2013 to 13 August 2014.*

On 13 August 2014 the Government announced the Community Finance Pilot scheme. The scheme has begun with a one-year pilot in South and West Auckland with the Ministry of Social Development contributing to the running costs of the not-for-profit organisations that provide the interface with clients.

The Community Finance Pilot responds to a recommendation made through the report of the Expert Advisory Group on Solutions to Child Poverty for a public-private partnership micro-financing model with the banking section and community groups. The aim of this initiative is to provide modest low-interest and zero-interest loans, as a mechanism to help low-income families access affordable credit and to effectively manage debt.

In November 2013, the Office of the Minister for Social Development wrote to the Bankers Association requesting an expression of interest from any financial institutions wanting to partner with the government and an NGO in the Pilot scheme.

The Bank of New Zealand (BNZ) was chosen as the preferred partner for the Pilot (note that this does not exclude other financial institutions in the future) and Good Shepherd was confirmed as BNZ's preferred NGO partner. The Salvation Army will function as an on-the-ground community provider through:

- providing loan application assistance and on-going support to borrowers
- providing financial management education
- monitoring and reporting on progress

The early decisions on the Community Finance initiative are contained in the Cabinet Social Policy Committee paper - *Expanding the Reach of Microfinance*, dated 31 October 2013 which is publicly available on the Family Services website and can be accessed here: <http://www.familyservices.govt.nz/documents/my-family/everyday-family-life/expanding-the-reach-of-microfinance-cabinet-paper.pdf>

Page 1 of 3

This paper replaced an earlier draft version Social Policy Committee paper (dated 25 September 2013), that was withdrawn and is referred to in the key issues section of the aide memoire, dated 1 November 2013.

Minute SOC Min (13) 24/7, dated 6 November 2013 is publicly available on the Family Services website and can be accessed here:  
<http://www.familyservices.govt.nz/documents/my-family/everyday-family-life/expanding-the-reach-of-microfinance-cabinet-minutes.pdf>

I have enclosed the following documents that respond to your request for all advice regarding the "Step Up" low-interest loans pilot and the selection process of the providers for the Pilot:

- Aide-Memoire for Cabinet Social Policy Committee, *Expanding the reach of microfinance*, dated 1 November 2013
- Report to the Minister for Social Development, *Update on microfinance initiative*, dated 31 January 2014
- Report to Minister's for Social Development (and Minister of Finance), *Microfinance / Community Finance Update*, dated 8 August 2014

You have requested all correspondence between the Ministry of Social Development and The Salvation Army, the Bank of New Zealand, Good Shepherd Microfinance New Zealand, and the Minister of Social Development. To locate and prepare all the information within the scope of this part of the request would remove Ministry staff from their duties. I am therefore unable to provide you with the information requested under section 18(f) of the Official Information Act. This section allows me to refuse a request where substantial collation and research is required to find the information requested.

I have considered whether the Ministry would be able to respond to your request given extra time, or the ability to charge for the information requested. I have concluded that, in either case, the Ministry's ability to undertake its work would still be prejudiced.

A small amount of information is being withheld from the Reports to the Minister for Social Development (and Minister of Finance) under section 9(2)(f)(iv) of the Official Information Act as the information is still under active consideration. This section of the Act allows for information to be withheld in order to protect the confidentiality of advice tendered by Ministers and officials. The public interest in the release of this information at this point in time is outweighed by the greater public interest in the constitutional convention allowing the information to be considered confidentially before decisions are made.

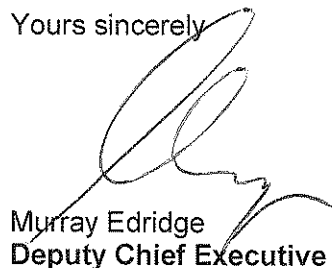
Also, a small amount of information within the documents is being withheld under section 9(2)(g)(i) of the Act as the material contains the free and frank expression of opinions between officials. The need to maintain the effective conduct of public affairs outweighs any public interest in releasing this information.

Within the Aide-Memoire, the Ministry's communications plan for announcing the initiative is withheld under 9(2)(g)(i) of the Act. The public interest is met through the Minister's announcement of the Pilot on 13 August 2014.

I hope you find this information on the Community Finance Initiative helpful. You have the right to seek an investigation and review of my response by the Ombudsman, whose address for contact purposes is:

The Ombudsman  
Office of the Ombudsman  
PO Box 10-152  
WELLINGTON 6143

Yours sincerely

A handwritten signature in black ink, appearing to read 'Murray Edridge', written over the printed name.

Murray Edridge  
Deputy Chief Executive Community Investment



# aide-mémoire

## cabinet paper

Date: 1 November 2013 Security Level: Budget Sensitive  
For: Hon Paula Bennett, Minister for Social Development  
File Reference: A7126093

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### Expanding the Reach of Microfinance

**Cabinet Committee** Social Policy  
**Date of meeting** 6 November 2013  
**Minister** Hon Paula Bennett, Minister for Social Development  
**Key issues** Microfinance was discussed at SOC on 25 September. Ministers wanted more detail on costs and funding.

Since then, officials have worked up more detail of what a pilot of a car loan product would look like, as the starting point of a microfinance partnership. This will give a stronger steer for negotiations with potential partners from the financial and community sectors. This includes clearer expectations of the NGO:

- the NGO's role is to support people to find out about, get and pay back a loan and build financial skills
- indicative targets - 200 loans in the first six months and 400 loans in the second six months
- government to negotiate a price to part-fund the NGO's delivery, up to \$250,000 for a 12 month pilot - this is a reduction in the upper limit from the previous paper.

#### Funding

This paper has a different approach to funding than the previous version. Negotiations will determine the exact contributions of government, the financial institution and NGO to resourcing the pilot, including through in-kind contributions.

It is proposed that government's contribution is no more than \$250,000 for a 12 month pilot. This will be met through:

Financial year	Funding source
2013/14 \$120,000 to get the pilot underway First 3 months	\$50,000 transfer from Vote Finance contingency  Up to \$70,000 from reprioritisation of existing MSD baseline funding, to be confirmed by joint Ministers' decision in February. MSD would look initially to fund this through any underspend in funding of services that strengthen and support communities.
2014/15 \$130,000 for the rest of the pilot Remaining 9 months	To be considered through MSD's four year plan and Budget 2014 process.

This is an approximately \$350 cost to government per loan which is equivalent to the target rate/per client for contributory funding of budget services.

Funding will also be required for any alternative piloting approach or, at the conclusion of the pilot, any transition of support for borrowers with outstanding loans. This will be considered through MSD's four-year plan and Budget 2014 process.

#### Joint Ministers to finalise details

This version proposes that you and the Minister of Finance finalise decisions on the partnership agreement and pilot details. The Ministerial Committee on Poverty will be updated on progress. The paper notes that if the pilot changed substantially you would bring the proposal back to Cabinet.

#### Communications

9(2)(g)(i)

#### Next steps

- Cabinet agreement to high level parameters.
- MSD negotiates with potential financial and community sector partners on how they can work with government to pilot a car loan product as the starting point of a medium term partnership.
- Partnership agreement and plan for pilot reported to joint Ministers in February.

**Key new material**      Setting expectations through a target, paras 5 – 7.

More clarity about what it means to not replicate or substitute for Work and Income assistance, paras 26 – 27.

More clarity that the provider of capital will be expected to acknowledge that loans will not be underwritten by government, para 28.

Delegation to joint Ministers for final decisions, though returning to Cabinet if the pilot proposal changes substantially. MSD, rather than MBIE, leading on negotiations, para 50.

Financial implications, paras 80 – 85.

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# report



MINISTRY OF  
SOCIAL DEVELOPMENT  
*Te Manatū Whakahiato Ora*

Date: 31 January 2014 Security Level: IN CONFIDENCE  
To: Hon Paula Bennett, Minister for Social Development

## Update on microfinance initiative

### Purpose of the report

- 1 This report updates you on the:
  - outcomes of engagements to date in respect of the car loan microfinance product pilot, and
  - negotiation process that the Ministry of Social Development (MSD) will undertake to secure a partnership agreement.

### Executive summary

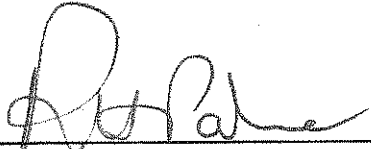
- 2 In Budget 2013, the Government announced it would explore ways to support alternative financing options for low income people to prevent unsustainable debt and alleviate its impacts. On 11 November 2013, Cabinet agreed that the pilot, pending negotiations with potential partners, would be a car loan product [CAB Min (13) 39/5 refers].
- 3 MSD intends to work toward a pilot partnership with the Bank of New Zealand (BNZ) through direct negotiations, and to seek your approval of a partnership agreement by the end of March 2014.
- 4 MSD also intends to explore the potential for other microfinance products, and proposes reporting to you on this work in December 2014.

### Recommended actions

It is recommended that you:

- 1 **note** that MSD intends to work toward a car loan product pilot in partnership with BNZ
- 2 **note** that MSD will contact BNZ, Kiwibank, and ASB to inform them of that outcome 9(2)(g)(i)
- 3 **note** that Cabinet authorised the Minister of Finance and the Minister for Social Development to finalise the partnership agreement and pilot details
- 4 **note** that MSD will seek approval from joint Ministers for a pilot partnership agreement by the end of March 2014
- 5 **note** that MSD considers that the present focus should be on developing and implementing a microfinance pilot for car loans, with a view to using the lessons learned to inform any future initiatives

6 note that MSD will update you on this broader work in April 2014.



Murray Edridge  
Deputy CE Family and Community Services

21/1/14

Date



Hon Paula Bennett  
Minister for Social Development

2 Feb 14

Date

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## Background

- 5 In 2012, the Expert Advisory Group on Solutions to Child Poverty recommended that government investigate and implement a public-private-partnership micro-financing model, as a mechanism to help low-income families access affordable credit and effectively manage debt.
- 6 In Budget 2013, the Government announced it would explore ways to support alternative financing options for low income people to prevent unsustainable debt and alleviate its impacts.

## Cabinet decisions

- 7 On 11 November 2013, Cabinet agreed that the government's interest in microfinance will be within the following high-level parameters [CAB Min (13) 39/5 refers]:
  - the microfinance scheme will be targeted at low income people who are vulnerable to unsustainable debt and unable to access suitable finance from reputable sources
  - the microfinance scheme should not replicate or substitute for assistance provided by Work and Income
  - government will not provide capital or guarantees, and the provider of capital will be expected to acknowledge this
  - the government will contribute to operating costs if appropriate
  - financial education will be integrated into the delivery of a microfinance scheme
  - government must have a role in practical learning and monitoring outcomes
  - the microfinance scheme must be scalable
  - the microfinance scheme is a medium-term commitment.
- 8 Cabinet also:
  - agreed that the preferred pilot, pending negotiations with potential partners, is for a car loan product offered in an area with a high number of people on low incomes, active predatory lenders and supportive community organisations
  - agreed to proceed with negotiations for a microfinance partnership and pilot
  - agreed that the partnership model would be initially with one financial institution and one non-governmental organisation
  - authorised the Minister of Finance and the Minister for Social Development to finalise the partnership agreement and pilot details.

## Update on discussions with financial institutions and interested parties

- 9 To prepare for negotiations for a car loan product pilot, MSD has:
  - held initial discussions with interested financial institutions

- met with organisations currently involved in the planning or delivery of microfinancing initiatives.

*The Retirement Commissioner*

10 At your request, the Retirement Commissioner, Diane Maxwell, engaged with potential partners and led the thinking about a car loan product.<sup>1</sup> Diane Maxwell envisages a product based on:

- \$7 to \$8,000 average loan (with a maximum of \$10,000)
- 3-5 year payback
- repayment plan to include on-road costs, registration, insurance and scheduled maintenance
- other terms and conditions, such as purchase from an approved vehicle provider.

*Financial institutions*

11 Your Office wrote to the Bankers Association on 18 November 2013, requesting expressions of interest from any financial institutions wanting to partner with government and an NGO in the pilot scheme. As a consequence, MSD has held discussions with BNZ, Kiwibank and ASB.

12 The position following initial discussions is as follows.

- BNZ is developing a car loan product and is interested in partnering with government to deliver this product
- Kiwibank has expressed interest 9(2)(g)(i)  
9(2)(g)(i)
- ASB has 9(2)(g)(i)  
9(2)(g)(i)
- No other financial institutions have contacted MSD to express interest.

*Other organisations*

13 MSD has also met with the New Zealand Council of Christian Social Services and the Federation of Family Budgeting Services. These organisations have reiterated the need to take account of ongoing vehicle maintenance and operational costs.

14 On 19 December, the meeting with Kiwibank, was also attended by representatives from Nga Tangata Trust and Good Shepherd. The discussion included a description of the operation of the Nga Tangata scheme (Kiwibank and Nga Tangata Trust), which has a different lending focus and way of operating. For example, the focus is on debt consolidation and no interest loans are offered on the basis that if interest is charged,

<sup>1</sup> Diane Maxwell has engaged with:

- financial institutions: BNZ, ANZ, Kiwibank, ASB, Westpac, New Zealand Bankers' Association, New Zealand Association of Credit Unions, and Financial Services Federation Board
- community and other organisations: Nga Tangata Trust, Good Shepherd, Budgeting Services, Veda Advantage, Maori Women's Development League, Pacific Island community representatives, the Children's Commissioner.

registration of Nga Tangata as a financial institution would be required. We will maintain a watching review of their activities.

### **Working toward a pilot partnership with BNZ**

- 15 MSD intends to work toward a pilot partnership with BNZ, as the preferred partner, through direct negotiations.
- 16 Direct negotiations are suitable for situations where MSD is purchasing a service that fits with another service that is either already in operation, or an extension of an existing service delivered by the provider. BNZ has indicated it is intending to develop a car loan product.
- 17 MSD will directly engage with BNZ based on a minimum scope of the service outcomes. These outcomes are in development, but are likely to focus on the target group, responsible lending, aligning with government objectives and existing initiatives, and an evaluation of the pilot.
- 18 There is a risk that direct negotiations may be perceived as not being a fair and transparent process. However, the success of the pilot depends, in particular, on the willingness of the financial institution to provide loan capital over a defined period and to take overall responsibility for the loan scheme, including minimising default and managing the complex end of the collections process.
- 19 BNZ has indicated it is committed to a car loan product, and that this will go ahead whether it is in partnership with government or not. Tight timeframes associated with the pilot, as well as the complexity of the car loan product, mean that partnering with an organisation that has already completed work on a car loan product is desirable.
- 20 The choice of financial institution for the pilot would not preclude other financial institutions from being considered in future. Once the pilot is completed, if a decision is made by Cabinet to expand the initiative, then MSD would undertake a competitive dialogue process, which would involve more than one potential partner.
- 21 MSD also considered a closed Request For Proposal process. While this would ensure the selection process was competitive, it would take a relatively long period of time, could compromise flexibility around negotiations, and does not recognise that the main financial partner is the financial institution.

### **Communication of decisions**

- 22 In the first instance, MSD will contact BNZ, Kiwibank, and ASB to inform them of the outcome of the discussions.
- 23 MSD will also support your Office to announce the partnership once an agreement has been reached.

### **Timeframes**

- 24 The following indicative timeframe was provided in the November Cabinet paper:
  - January 2014 – negotiation and contracting process for an NGO partner for the delivery of the pilot.
  - February 2014 – Ministers confirm partnership agreement and government's funding of pilot, partnership agreement signed.

- First half 2014 – pilot begins, update Ministerial Committee on Poverty on progress.
- 25 MSD is aiming to implement the pilot in the first half of 2014. However, to allow sufficient time to negotiate a car loan product that meets government's objectives, MSD proposes seeking approval to the partnership agreement in March 2014.

**Other matters**

- 26 Microfinance has the potential to improve financial outcomes for low income people who are at risk of unsustainable debt and have poor financial literacy.

9(2)(f)(iv)

- 27 9(2)(f)(iv)

- 28 MSD considers that the present focus should be on developing and implementing a microfinance product for car loans, with a view to using the lessons learned in this process to identify products for which microfinance would be suitable.

- 29 MSD therefore proposes progressing work on broader initiatives alongside work on the car loan product, and will update you on this work in April 2014.

- 30 MSD will also ensure the Ministerial Committee on Poverty is kept informed as the car loan pilot progresses.

**Next steps**

- 31 9(2)(g)(i)

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# report

Date: 8 August 2014 Security Level: IN CONFIDENCE  
To: Hon Paula Bennett, Minister for Social Development  
Hon Bill English, Minister of Finance

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## Microfinance/Community Finance Update

### Purpose of the report

1 This report:

- sets out the negotiation process used to select the partners in the community finance initiative<sup>1</sup>, which have been confirmed as Bank of New Zealand (BNZ), Good Shepherd New Zealand (GSNZ) and The Salvation Army (SA)
- describes the proposed framework under which the partners will operate and outlines the proposed operational details of the initiative (pilot details), and
- seeks your approval of the pilot details and the proposed parameters of the Outcome Agreement currently being developed by the Ministry of Social Development (MSD) in negotiation with GSNZ as required in SOC Min (13) 24/7.

### Executive summary

- 2 In Budget 2013, the Government announced it would explore ways to support alternative financing options for low income people to prevent unsustainable debt and alleviate its impacts. On 11 November 2013, Cabinet Social Policy Committee agreed that the pilot, pending negotiations with potential partners, would be a car loan product [SOC Min (13) 24/7 refers].
- 3 On 31 January 2014, we advised you (Minister Bennett) that MSD would continue to work with BNZ as the preferred financial institution partner, through direct negotiations.
- 4 After further discussions, I can now confirm that BNZ, GSNZ and SA are the partners in this initiative with MSD. Each has its own distinct role and function. MSD will contribute funding to GSNZ and monitor and evaluate progress. BNZ will provide capital of \$10 million over five years, design the loan products and approve low-interest loan applications. GSNZ will establish the systems and processes to support this initiative and provide SA accreditation. SA will be the 'face' of the initiative providing loan application assistance, on-going support and financial management education to borrowers.

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<sup>1</sup> Formerly referred to as the microfinance pilot

- 5 An announcement about the partnership was made on 5 May. A full ministerial launch of the initiative is planned for 13 August.
- 6 A number of enhancements to the original November 2013 Cabinet Social Policy Committee paper (November paper) are proposed as a result of negotiations with the partners. These include a focus away from solely a low-interest car loan product to two loan products being introduced concurrently; a no-interest loan for essential new household goods and services; and a low-interest loan for other higher-cost assets in addition to cars. The no-interest loan product will provide a more stepped approach for asset building and provide a pathway from which to progress no-interest loan 'graduates' to the low-interest loan. <sup>9(2)(g)(i)</sup>
- 7 The loans will be introduced in two Auckland locations based on need – Manukau City and Henderson, Waitakere.
- 8 I seek your approval to the proposed parameters of the contractual arrangements currently being developed by MSD in negotiation with GSNZ, as outlined in this report. MSD had a one year Grant in place with GSNZ for 2013/14, which is to be followed by a three year Outcome Agreement with GSNZ (for the period 1 July 2014 to 30 June 2017). The Outcome Agreement will be based on the Ministry of Business, Innovation and Employment (MBIE) contracting framework. It will be outcomes based to enable flexibility and innovation. GSNZ will then sub-contract services to SA. An agreement solely with GSNZ will ensure quality assurance, consistency of lending process and scalability of the initiative. <sup>9(2)(g)(i)</sup>
- 9 The 2013/14 Grant includes available funding of \$120,000 in line with SOC Min (13) 24/7. The Outcome Agreement will include funding of \$375,000 for 2014/15, \$297,500 for 2015/16 and \$200,000 in 2016/17, to come from MSD Baseline. <sup>9(2)(g)(i)</sup>
- 10 MSD has signed non-legally binding Letters of Intent with BNZ, GSNZ and SA outlining how the respective partners intend working together.
- 11 Next steps will include implementing the initiative, with the first loans expected to be provided from the two locations in Auckland by August 2014; reporting back on progress in December 2014 and on future options at the completion of the 12-month pilot; and <sup>9(2)(f)(iv)</sup>

### Recommended actions

It is recommended that you:

- 1 **note** the Ministry of Social Development (MSD) has a confirmed community finance partnership with Bank of New Zealand (BNZ), Good Shepherd New Zealand (GSNZ) and The Salvation Army (SA)
- 2 **note** the proposed partnership framework includes two non-government organisations (NGOs) – GSNZ and SA
- 3 **note** MSD intends contracting with only GSNZ, and GSNZ will sub-contract services to SA
- 4 **note** the initiative will be enhanced to include a no-interest loan product in addition to a low-interest loan product
- 5 **note** the low-interest loan product will include other high-cost assets in addition to cars
- 6 **note** the loans will be introduced in two Auckland locations where need is high – Manukau City and Henderson, Waitakere

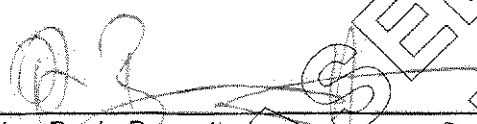
- 7 **note** MSD has signed non-legally binding Letters of Intent with BNZ, GSNZ and SA
- 8 **note** that Cabinet Social Policy Committee authorised the Minister of Finance and the Minister for Social Development to finalise the partnership agreement and pilot details [SOC Min (13) 24/7 refers]
- 9 **note** MSD had a one year Grant in place with GSNZ to 30 June 2014 for \$120,000 (in line with SOC Min (13) 24/7) to cover establishment costs which will support the implementation of the community finance initiative
- 10 **agree** to the pilot details and proposed parameters of the Outcome Agreement currently being developed by MSD in negotiation with GSNZ for the period 1 July 2014 to 30 June 2017 for the on-going implementation of the community finance initiative, as set out in this report and required in SOC Min (13) 24/7.



PP  
 Murray Edridge  
 Deputy CE Family and Community Services

Date

8/8/14



Hon Paula Bennett  
 Minister for Social Development

Date

13/08/14

Hon Bill English  
 Minister of Finance

Date

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## Background

### *Government and Cabinet Social Policy Committee decisions*

- 12 In 2012, the Expert Advisory Group on Solutions to Child Poverty recommended that government investigate and implement a public-private-partnership micro-financing model, as a mechanism to help low-income families access affordable credit and effectively manage debt.
- 13 In Budget 2013, the Government announced it would explore ways to support alternative financing options for low-income people to prevent unsustainable debt and alleviate its impacts.
- 14 On 11 November 2013, Cabinet Social Policy Committee agreed that the government's interest in microfinance will be within the following high-level parameters [SOC Min (13) 24/7 refers].
  - the microfinance scheme will be targeted at low-income people who are vulnerable to unsustainable debt and unable to access suitable finance from reputable sources
  - the microfinance scheme should not replicate or substitute for assistance provided by Work and Income (WI)
  - government will not provide capital or guarantees, and the provider of capital will be expected to acknowledge this
  - the government will contribute to operating costs if appropriate
  - financial education will be integrated into the delivery of a microfinance scheme
  - government must have a role in practical learning and monitoring outcomes
  - the microfinance scheme must be scalable
  - the microfinance scheme is a medium-term commitment.
- 15 Cabinet Social Policy Committee also:
  - agreed that the preferred pilot, pending negotiations with potential partners, is for a car loan product offered in an area with a high number of people on low incomes, active predatory lenders and supportive community organisations
  - agreed to proceed with negotiations for a microfinance partnership and pilot
  - agreed that the partnership model would be initially with one financial institution and one non-governmental organisation
  - authorised the Minister of Finance and the Minister for Social Development to finalise the partnership agreement and pilot details.

### *Microfinance in New Zealand*

- 16 Microfinance is an emerging social and economic policy lever that removes barriers for low-income people to access affordable credit. A number of small and scattered initiatives dotted around New Zealand have developed to respond to local community needs.
- 17 Challenges facing existing microfinance operators include: improving access to lending; lifting the volume of lending; increasing the value of lending (e.g. to support asset building); and gathering information to inform development of microfinance within the New Zealand context.



## Partnership negotiation process

18 As advised in our report to you (Minister Bennett), dated 31 January 2014:

- at your request, the Retirement Commissioner, Diane Maxwell, engaged with potential partners and led the thinking about a car loan product.<sup>2</sup>
- MSD held initial discussions with BNZ, Kiwibank and ASB in response to your Office writing to the Bankers Association on 18 November 2013, requesting expressions of interest from any financial institutions wanting to partner with government and an NGO in the pilot scheme.
- From those initial discussions: BNZ was interested in partnering with government to deliver a car loan product; Kiwibank expressed interest in a pilot partnership, but 9(2)(g)(i) and we undertook to keep a watching brief of their activities; and ASB indicated 9(2)(g)(i) wanted to be kept up to date. No other financial institutions contacted MSD to express interest in a pilot scheme.
- MSD continued to work with BNZ as the preferred financial institution partner, through direct negotiations. BNZ had indicated it was intending to develop a car loan product whether it was in partnership with government or not. This, coupled with the tight timeframes associated with the pilot and the complexity of the car loan product, meant that partnering with an organisation that had already completed work on a car loan product was desirable.

19 Since that 31 January 2014 report and further discussions to date, other partnership members have now been confirmed. These are Good Shepherd New Zealand, as BNZ's preferred NGO partner, and The Salvation Army, as the on-the-ground community provider. Their various roles are covered later in this report.

20 The partners continue to meet regularly to support the successful implementation of the initiative, with the first loans expected to be provided by August 2014.

21 An announcement about the partnership was made on 5 May. A full ministerial launch of the initiative is planned for 13 August.

## Positive enhancements

### Loan products

22 As discussions with partners progress, there has been a positive enhancement made to the loan products to that originally envisaged in the November 2013 Cabinet Social Policy Committee paper (November paper), 'Expanding the Reach of Microfinance' [SOC Min (13) 24/7 refers].

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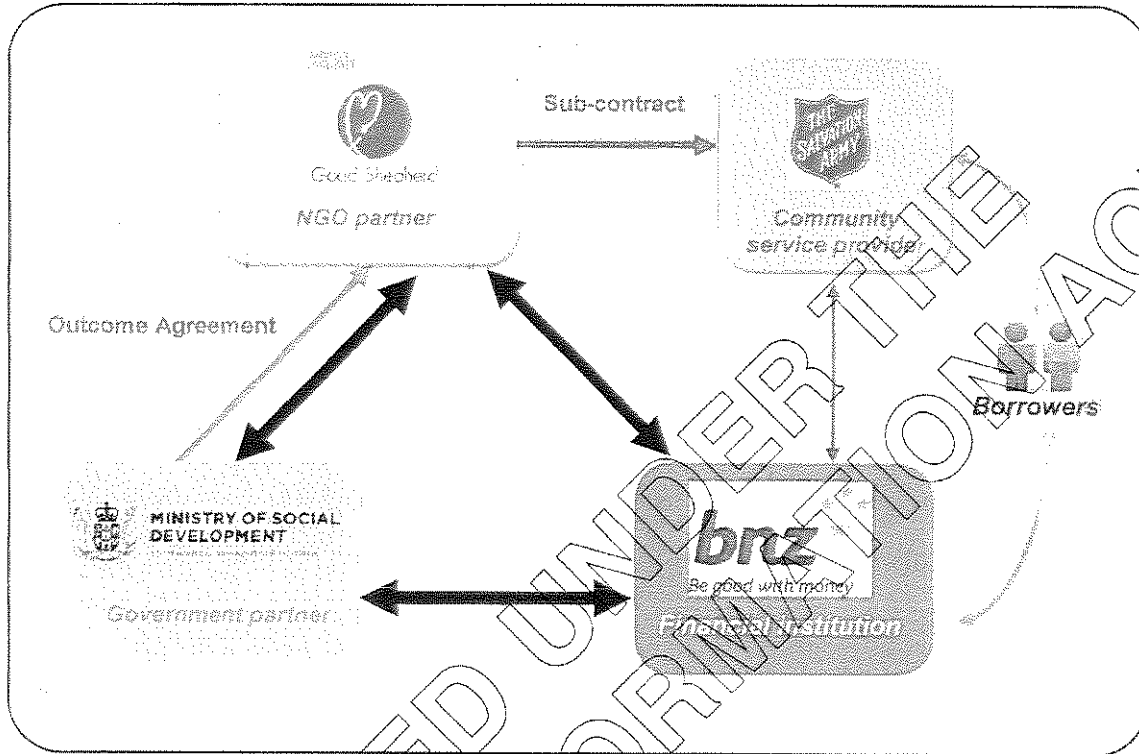
<sup>2</sup> Retirement Commissioner engaged with:

- financial institutions: BNZ, ANZ, Kiwibank, ASB, Westpac, New Zealand Bankers' Association, New Zealand Association of Credit Unions, and Financial Services Federation Board
- community and other organisations: Nga Tangata Trust, Good Shepherd, Budgeting Services, Veda Advantage, Maori Women's Development League, Pacific Island community representatives, the Children's Commissioner.

- 23 As per my verbal update to you (Minister Bennett) on 16 April 2014, two loan products (not one) will be offered. The no-interest loan will be for up to \$1,000, over a term of up to 18 months, for new essential household goods and services. The low-interest loan will be for \$1,000 to \$5,000, at a rate of 6.99% for up to three years for cars and other higher-cost assets.
- 24 The maximum value of \$5,000 for the low-interest loans is lower than the \$10,000 mentioned in the November paper. Calculations have shown that a loan as high as \$10,000 would be unaffordable for people on low incomes. Whereas, \$5,000 over three years equates to an affordable payment of \$36 per week.
- 25 As noted in the November paper, research commissioned by the Ministry of Consumer Affairs in 2007 found that among Pacific consumers in South Auckland, car loans were the second most common form of loan obtained from fringe lenders (after loans for purchase of everyday items). The community finance products will be available to people who are alienated from financial institutions/banks and vulnerable to predatory fringe lenders.
- 26 Discussions with partners have also highlighted the value of making available two complementary loan products to fit the diverse circumstances of low-income people. This suite of products provides more of a continuum of support to improved financial management by having a stepped approach of assistance starting from the no-interest loan and 'graduating' to the low-interest loan.
- 27 In keeping with the November paper, MSD will ensure that the existing assistance being provided via WI Special Needs Grants (SNGs) and what is being proposed under the community finance scheme is well co-ordinated (but not duplicated).
- 28 Those accessing SNGs will be WI clients who are not necessarily receiving a benefit but are in a crisis situation and in immediate need of assistance. Community finance loans are expected to be accessed by low-income people not requiring crisis interventions, but who are asset building and responding to life situations, such as seeking employment. In terms of a continuum of support, the SNGs are at the financial crisis end, while community finance is further along the financial stability spectrum.
- 29 The loan products will be offered in two Auckland locations – Manukau City and Henderson, Waitakere.

## Partnership framework

- 30 The proposed framework pictured below shows the various relationships between the four partners and is based on the National Australia Bank / Good Shepherd Microfinance Australian model. It is different from the three-way partnership envisaged in the November paper.



- 31 MSD will:

- fund GSNZ's (and, indirectly, SAs) operating (set-up and on-going) costs
- ensure the assistance provided under the community finance initiative and WI SNGs are well co-ordinated
- provide an interface with WI, for example, where employment opportunities have been identified that require private transport
- monitor and evaluate progress in the first 12-month pilot period to understand success and how best to scale up the initiative
- develop a research and evaluation programme that will inform future work in this area.

- 32 BNZ will:

- provide capital totalling \$10 million (over five years)
- design the loan products
- set business parameters for the loan products
- approve loan applications (for the low-interest product)
- support financial management education
- establish a community finance team to support this initiative and work closely with community partners.

33 GSNZ will:

- establish the systems and processes to support this initiative
- provide quality assurance through accrediting the community service provider (SA)
- provide training and support to SA
- monitor and report on progress
- contribute to a research and evaluation programme.

34 SA will:

- provide loan application assistance and on-going support to borrowers
- provide financial management education
- monitor and report on progress.

35 The established partnership framework allows for future scalability of the pilot. This includes the ability to add products (such as savings, debt consolidation or insurance) and expand the reach of the community interface (by increasing the number of locations and NGOs delivering the service). By establishing a backbone organisation (GSNZ), scalability of the pilot can be achieved while minimising risks.

36 All four partners will work together to develop a research and evaluation programme that will inform future community finance initiative development. The expectation is that issues and opportunities will arise in the initial years of implementation and there will need to be a rigorous process of learning, identifying opportunities and refining the initiative in place.

#### **Proposed agreement parameters**

37 MSD has signed Letters of Intent with BNZ, GSNZ and SA. These outline how MSD intends working in good faith with these partners but do not create any legally binding obligations.

38 In terms of legally binding contractual arrangements, MSD had a one year Grant in place with GSNZ to 30 June 2014 for \$120,000 (in line with SOC Min (13) 24/7) to cover establishment costs which will support the implementation of the community finance initiative. The follow-on Outcome Agreement with GSNZ is under development. The proposed parameters of that Outcome Agreement between MSD and GSNZ, to which we seek your approval, include:

- a) A three year term from 1 July 2014 to 30 June 2017 covering on-going implementation support throughout the term of the loans (three years in total) in keeping with the medium- to long-term intention of the initiative.
- b) Funding from MSD Baseline of \$375,000 for 2014/15, \$297,500 for 2015/16 and \$200,000 for 2016/17.
- c) Further funding and the source of any further funding will be considered during the review of the pilot.
- d) Delivery of a no-interest loan product (up to \$1,000, for up to 18 months for new essential household goods and services) and a low-interest loan product (between \$1,000 to \$5,000 at a rate of 6.99% for up to three years for cars and other higher-cost assets).
- e) Delivery of the loans in two Auckland locations – Manukau City and Henderson, Waitakere.

- 39 A three year Outcome Agreement solely with GSNZ (who will then sub-contract services to SA to provide the interface with borrowers) will ensure quality of service, consistency of lending process, and future scalability of the initiative. As the main party, GSNZ will be accountable for ensuring its sub-contracted party (SA) complies with any Intellectual Property and legal requirements, such as Anti-Money Laundering (AML) legislation.
- 40 The Outcome Agreement will be based on the MBIE streamlined contracting framework and will be outcomes based (as opposed to outputs based) to enable flexibility and innovation. The framework is used in contracting between government agencies and NGOs, and is aimed at reducing duplication by government agencies and the compliance cost burden on NGOs.
- 41 All partners in this initiative, including Government, have committed to helping grow microfinance in New Zealand. The substantial investment in the Initiative by BNZ and GSNZ in terms of capital and Intellectual Property is evident. At the completion of the 12-month pilot, if Government decides to re-evaluate its role as a partner in the community finance initiative, this would need to be signalled to the partners to allow them to make adjustments for any business impacts.

### Next steps

- 42 You (Minister Bennett) are launching the initiative on 13 August.
- 43 MSD will continue to work with your office (Minister Bennett) regarding the launch.
- 44 In December 2014, MSD will provide an update on progress to you (Minister Bennett).
- 45 MSD will also provide a report to you (Minister Bennett) and Minister English at the completion of the pilot regarding future options.
- 46 Future work will involve evaluation of the car loan product as agreed by Cabinet Social Policy Committee. This will provide insight into whether the introduction of other specialised microfinance products would be suitable in the long term, including a potential savings product. Work is under way on putting in place a structure to inform this evaluation.
- 47 This work will also consider the on-going role Government should have in the microfinance area. This is likely to be informed by the scale and nature of the problem and where the gaps are in the New Zealand market.

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