BACKGROUND BRIEFING

MITIGATING POVERTY WITH MICROCREDIT

August 2013

PURPOSE

1. As Children's Commissioner, I have a statutory responsibility to advocate for children's interests, rights and welfare, and to report on any matter that relates to the welfare of children[1].

2. The Expert Advisory Group on Solutions to Child Poverty I commissioned in 2012 found that around 270,000 New Zealand children (aged 0-18) are living in poverty. Because of the negative effects poverty has on children's welfare, ensuring that household incomes are adequate, and income support and other safety nets for families in financial hardship are in place, is part of my remit.

SUMMARY

3. Low or unpredictable incomes and exclusion from mainstream banking services are facts of life for too many New Zealand families. As well as contributing to poverty, these circumstances mean that opportunities to overcome hardship and maximise human or material capital are not available to all families.

4. Microfinance is a way that these families can achieve financial inclusion, their financial literacy can be increased, and family and child poverty can be mitigated or prevented. In this paper I discuss the rationale for microfinancing in New Zealand, propose a definition, comment on the Government's recent announcement that it will develop microfinance policy in 2013, and canvas a range of key policy parameters.

5. My view is that there is a place for Government to support microfinance in New Zealand through policy settings and support. However I do not believe that a 'one size fits all' microfinance programme should be introduced in New Zealand. Rather I believe that Government should focus on system settings including

   - defining microfinance and acceptable purpose of microfinance loans;
   - targeting mechanisms;
   - roles and responsibility of actors;
   - provider development

[1] My powers, functions and responsibilities are contained in the Children's Commissioner Act 2003.

- contracting arrangements; and
- evaluation and monitoring requirements

INTRODUCTION

6. Many families in New Zealand experience financial shocks, but for families on low incomes with limited financial literacy, such shocks can lead to problem debt which in turn can lead to material hardship.
7. This is of particular concern when there are children in the family, because of the known negative impacts of poverty on child development. For example, living in poverty, especially if it is severe, persistent and experienced early in life, can have significant impacts on cognitive development.
8. Low-income families are often not able to access mainstream lending, for a variety of reasons including bad credit history or lack of a good credit history, having incomes insufficient to afford repayments of interest-bearing loans, and banks' policies (for example, around minimum loan amounts and approved items). So called 'pay day' lending services have offered loans with minimal checks and high interest rates which can lead to problem debt and families paying many times the face value of their loans.
9. Addressing the issue of pay day lenders behaving in a predatory way towards vulnerable people was part of the rationale for the April 2013 passage of the Credit Contract and Financial Service Law Reform Bill. This legislation is designed to crack down on such lenders.
10. Access to credit is however a normal part of most families' lives. Used well, it allows for income smoothing, and for investment in both human and material capital. The passage of the Bill will not address the issue discussed above whereby some low-income families do not have access to healthy credit, because they are in effect excluded from mainstream banking and financial services in New Zealand. This prevents them from appropriately leveraging their income and prospects to improve their situations.
11. A promising practice in this area is microfinancing: where community-based organisations provide low- and no-interest loans to people with unsustainably high debt, or who cannot access affordable credit. (A definition of microfinancing is suggested below).
12. Ideally, these families would be included in mainstream financial services, as is the norm for most New Zealand families. It is unlikely that microfinance will be able to provide sums of the scale required for major investments such as mortgages. Microfinance should be regarded as a short-term solution to prevent families, particularly those with young children, from living in poverty, and should be part of a suite of initiatives (including income support, welfare transfers, and in-kind programmes such as those around home insulation) to support them and transition them back to financial inclusion.

Expert Advisory Group on Solutions to Child Poverty recommendation

13. In 2012, the final report of the Expert Advisory Group on Solutions to Child Poverty, *Evidence for Action*, assessed some of the available evidence and concluded that there is a practical role for Government (including local government) to play in providing funding and support to microfinance schemes, and generating funding and support from commercial banks. Evidence from Australia in particular highlights that a great deal can be achieved (under the appropriate conditions) with only a modest amount of seed funding or in-kind support[2].

14. *Evidence for Action* included a recommendation that Government support a public-private partnership microfinancing model with the banking sector and community groups, with the aim to provide modest low or no interest loans to help low-income families access affordable credit and effectively manage debt. (Recommendation 48).

15. In March 2013, as part of my work to progress the recommendations of *Evidence for Action* I held a preliminary meeting with senior officials from relevant government departments to share information about the concept and implementation of microcredit in New Zealand.

Government's Current Proposal

16. In May 2013, the Minister of Social Development, the Hon Paula Bennett, announced[3] that officials would further investigate microcredit for New Zealand:

    The Government is aiming to prevent families taking on unsustainable debt by:

    - *Partnering with the private sector and NGOs to promote access to affordable credit for those who struggle to access it.*
    - *Building financial literacy.*

    Officials will work with financial institutions and NGOs to identify options for government support. Ministers expect to make further decisions by September.

Comment

17. I support this general idea and approach. However in my view the goal of the policy or programme must be to alleviate or prevent poverty, and in particular, child poverty. This is a related but different concept to 'preventing unsustainable debt'. This needs to be made explicit from the very beginning of the policy development process because having clear and agreed outcomes in mind ensures that policymaking is robust.

18. I believe that the goal of the policy development process underway should be to provide an approach to enable effective support for non-government organisations (NGOs) and the private sector to provide tailored services to their communities within a framework of clear objectives, minimum standards and best practice. The key outcome of these services should be *to significantly reduce the likelihood of children and families from living in the kind of poverty that damages their life chances*.

[2] I acknowledge the different cultural and income support framework in New Zealand.

[3] http://www.beehive.govt.nz/release/microfinance-support-people-low-incomes

19. I do not believe that a 'one size fits all' microcredit programme is appropriate. Situations facing New Zealand families vary significantly according to dimensions such as family size, location (which impacts on housing and other expenses), family composition (e.g. how many adults), cultural preferences and education. Communities, or key individuals located within and linked to communities, are best placed to determine the details of programmes that are intended to better them.

20. While one size does not fit all, minimum standards need to be established that ensure that families' situations are improved by microcredit and they do not live in poverty. These might include, for example, that:

- poverty alleviation or prevention is an explicit goal of Government's support for microcredit;
- criteria for lending are responsible and sustainable in terms of loan size, reason, timeframe, and interest rate charged;
- budget advice or other financial literacy services are provided alongside the loan;
- providers are trained and have access to ongoing professional development; and
- families are transitioned to mainstream financial providers when possible.

21. I therefore would like to see Government providing administrative funding, setting policy and minimum standards and promulgating best practice guidance; commercial banks or private investors providing capital; and NGOs, communities and the private sector providing front-line services and feeding into future policy design and decisions.

22. In the rest of this paper I discuss

- what is known about microfinancing in Australia and New Zealand, focussing particularly on microcredit; and
- key questions the current policy development process should address.

BACKGROUND

WHAT IS MICROFINANCE?

23. Burkett & Sheehan[4] propose the following definition of microfinance that I am happy to adopt.

> … "Microfinance is a set of tools, approaches and strategies addressing the needs of people who are financially excluded… [it] seeks to provide fair, safe and ethical financial services for people who, because of their circumstances, are not able to access mainstream financial services. Its purpose is to alleviate and eliminate poverty. Therefore exploitative, predatory or unfair lenders are not included in the definition."

24. Microfinance products include no-interest loans, low-interest loans, and savings accounts (which may have a matching contribution). Microfinance loans are known as microcredit.

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[4] Burkett, I & Sheehan, G. (2009). *From the Margins to the Mainstream: The Challenges for Microfinance in Australia*. Brotherhood of St Laurence and Forresters Community Finance, Melbourne. p. v

25. Microfinance has a long history in developing nations, having been pioneered by the Grameen Bank in Bangladesh in the 1970s. The Good Shepherd Trust began the first microfinance initiative in Australasia in Australia in 1981. The first microfinance-like initiative in New Zealand was established by the Māori Women's Welfare League in 1987, and the first formal microfinance initiative was established by Nga Tangata Trust in 2011. As such, this is a relatively new sector in New Zealand.

WHAT IS KNOWN ABOUT MICROFINANCE IN AUSTRALIA AND NEW ZEALAND

26. Ayres-Warne & Palafox (2005)[5] found that access to no-interest loan schemes (NILS) in Australia:

- offered real solutions to essential needs;
- assisted in helping people who were experiencing hardship and distress to feel better;
- improved people's day to day lives;
- enabled parents to spend more time with children;
- reduced people's embarrassment about their homes;
- created community advocates of the loans programmes;
- strengthened people's money management skills; and
- improved people's outlook on the future.

27. Corrie (2011)[6] found that microfinance had positive impacts, but needed to be available in the context of other social services because of the complexity of the issues faced by vulnerable low-income families.

28. Both of these were small Australian studies and there is limited information about microfinance in New Zealand. A 2012 article about the Nga Tangata Trust[7] stated that in developed countries such as New Zealand, "the role of microfinance is to provide a path to engagement with mainstream lenders through access to financial literacy and affordable credit for asset-building." (p 9).

29. In 2009, the Families Commission undertook research on issues faced by families accessing budgeting services[8]. This report found that the causes of debt were complex and included income being inadequate, personal behaviours, family members having health and disability needs, and changes of circumstances (e.g. unemployment, birth of a child). It found that the easy availability of consumer credit was problematic, and that debt had major impacts on family well-being and led to children missing out on experiences. The study also found that many families prioritised debt repayments over food, which is of particular concern when there are young children in the family.

[5] Ayres-Warne, V. and Palafox, J. (2005). *NILS: Small Loans, Big Change*. Good Shepherd Youth & Family Service, Collingwood, Melbourne.

[6] Corrie, T (2011). *Microfinance and the Household Economy: Financial inclusion, social and economic participation and material wellbeing*. Good Shepherd Youth & Family Service, Collingwood, Melbourne.

[7] M. Claire Dale, Fiona Feng & Rhema Vaithianathan (2012): Microfinance in developed economies: A case study of the NILS programme in Australia and New Zealand, *New Zealand Economic Papers*, DOI:10.1080/00779954.2012.687543

[8] *Escaping the Debt Trap: Experiences of New Zealand Families Accessing Budgeting Services*, 2009, available at http://www.familiescommission.org.nz/sites/default/files/downloads/escaping-the-debt-trap.pdf

30. In 2012, the Families Commission undertook further research on debt, focussed specifically on Pacific people[9]. This report found that they were likely to be vulnerable to problem debt, and reasons for this included:

- high unemployment and low-paying jobs;
- low levels of home ownership;
- higher negative wealth (liabilities exceeding assets);
- living in multi-family households and in Auckland where cost of living is higher; and
- limited financial literacy.

31. As noted, the Expert Advisory Group on Solutions to Child Poverty recommended that the *Government should investigate a private-public-partnership model with the banking sector and community groups to establish schemes similar to those operated by Good Shepherd Microfinance.*

32. It stated that: *Social lending is where "an organisation provides no or low cost loans to people where a social benefit, rather than a profit, is the main outcome. It is not well developed in New Zealand but there is an increasing appetite for it"[10]. These community organisations have an important role to play as they fill the void between banks who will not lend to those with bad credit or little ability to meet loan conditions, and predatory loan sharks who charge high interest rates. There is a role for the government to encourage and support philanthropic social lending. A discussion paper from a recent financial summit on social lending[11] recommended the following:*

- Social lending should be encouraged. Any social lending model will need adaptation to meet the needs of New Zealanders. Clear criteria need to be established regarding loans for necessities as opposed to wants.
- Partnerships between communities and non-finance groups with financial organisations – be they banks, second or third tier lenders, and especially credit unions, perhaps with some funding and promotional assistance from government.
- The government should aim to reduce compliance costs to social lending initiatives and to make the process as easy as possible. Increased compliance is likely to mean that lenders would have to adopt the same approaches as first tier lenders have already, which low income customers find confusing and inappropriate.

33. The report also summarised as an example the Australian-based Good Shepherd Microfinance (GSM). *As a community finance-credit organisation, GSM helps those living on low incomes and financial hardship through microfinance programmes…GSM has four main services: the No Interest Loan Scheme (NILS); StepUp (low interest*

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[9] *Pacific Families and Problem Debt*, 2012, available at http://www.familiescommission.org.nz/publications/research-reports/pacific-families-and-problem-debt

[10] Ministry of Consumer Affairs (2011b) . Financial Summit 2011 - Access to Affordable Credit / Social and Community Lending Breakout Group. Wellington: Ministry of Consumer Affairs. Available at http://www.consumeraffairs.govt.nz/pdf-library/Access-to-Affordable-Credit- Social-and-Community-Lending-Breakout-Group.pdf.

[11] See footnote 10

loans); AddsUp (matched savings program); and Good Money (community finance hubs).

- *NILS offers interest-free loans to the value of up to $1,200 for essential household goods and services. Repayments are made in affordable amounts for a period of between 12 and 18 months. In 2011 18,000 NILS loans were issued with a borrower default rate of less than 5 percent.*
- *StepUP provides low interest loans to individuals and families on the Family Tax Benefit Part A, or a holder of a current Centrelink Concession Card. StepUp offers loans between $800 and $3,000 for personal or household purposes such as car repairs, furniture, medical and housing expenses etc. Interest is charged at a fixed low rate, and loans can be repaid over three years with no added fees.*
- *AddsUp is a savings plan in collaboration with the National Australia Bank which helps those on low incomes to develop financial independence. The scheme matches savings of $300 or over dollar for dollar up to $500.*

34. The report commented that *while a predominant view amongst the social lending sector is for it to operate outside of the realm of government…the GSM example shows that there is a practical role for the government (or perhaps local government) to play in providing funding and support to microfinance schemes. Indeed, the Australian evidence highlights that a great deal can be achieved (under the appropriate conditions) with only a modest financial contribution from the state. Benedict notes that "government will want to provide some direct funding in order to help the private social lending system accomplish some of the government's goals" (2010, p.50). It is to be hoped that this sentiment might apply in New Zealand.*

35. More detail from the EAG report is available in the appendix to this briefing.

MICROFINANCING IN NEW ZEALAND

36. I have identified a range of existing providers of microcredit in New Zealand. They are small and several of them are very young (although they have older parent organisations). Most are charitable trusts and also provide budget advice or other services. At least two appear to have accessed capital from commercial banks. I have not identified other microfinance products such as savings accounts of the type provided by GSM and described above.

Name	Governance Structure	Description	Location
Nga Tangata Trust	A charitable trust under the aegis of the New Zealand Council of Christian Social Services. Accredited by Good Shepherd Australia. Capital through Kiwibank.	Interest-free loans of up to $2000 for purposes that support personal or family well-being or build assets. Debt consolidation loans of up to $3000.	South Auckland
Good Shepherd and Aviva	Partnership between NZ arm of international trust and NZ NGO (formerly Christchurch Women's Refuge). Capital from banks.	Interest-free loans of up to $2000 plus advice and support. A 12-month pilot which began in May 2013.	Christchurch

Newtown Ethical Lending Trust	An initiative of the Newtown Community and Cultural Centre. Funded by donations.	Provides interest free loans on a two-year term. Also provides budget advice.	Wellington
Māori Women's Development Incorporated	Māori Women's Welfare League.	Provides loans of up to $20,000 to establish businesses.	Nationwide
Kingdom Resources	Not known, but governed by a board, with about eight staff.	Provides loans of $3,000 to $20,000.	Christchurch
Ray of Hope Trust	Not known	Not known	Tauranga

37. Information about and from these providers and their ways of working, products, and learnings, should be incorporated into the policy development currently underway regarding microfinancing for New Zealand.

38. Work and Income New Zealand also fills some elements of the role of microcredit provider through its recoverable assistance payments to beneficiaries. In the month of April 2013, over 2,000 such payments were made totalling over $1m. Notably, $340,000, or around a third, was for accommodation, gas and electricity, and rent arrears.

KEY QUESTIONS

39. There is a series of outstanding policy design decisions I consider important. These decisions will establish the parameters for the design of microfinance policies and programmes for New Zealand, and therefore need to be worked through strategically before too much thinking about operational issues is done.

What do we mean by 'microfinance'?

40. There are a range of potential microfinance products including no-interest loans, low-interest loans, or matched savings accounts. The Minister's announcement quoted earlier focusses on credit, with associated financial literacy education. The purpose mentioned is to prevent families from taking on unsustainable debt. However note the definition discussed earlier that includes the purpose of poverty alleviation for families in the term 'microfinance'. In my view, no-interest loans provided by community organisations are not microfinance if this purpose is not explicit. I also note that preventing debt is not the same as preventing or alleviating poverty.

41. In order for any new policy or programme to be effective, and genuinely be *microfinance*, I encourage the Minister and her officials to make poverty alleviation a clear goal for their ongoing policy design and development. Doing so will also mean that the resultant New Zealand policy or programme can be considered as microfinance by the international academics and practitioners currently developing microfinance as a field.

42. In my view savings accounts would not be an appropriate use of the scheme/available funding. While it is helpful for families to have a 'cushion' against adverse events, a matched savings account implies that in effect a grant or free gift is being made to the recipient. If there is a limited amount of funding available, this means that that funding is not available to be loaned to another recipient. Other products such as Kiwisaver fit this niche for families that have the ability to save.

43. As noted earlier, at present budget advice is often made available alongside a loan. This provides the opportunity for financial literacy to be improved alongside a family's quality of life or asset base. I note the inclusion of budget advice in the Minister's thumbnail sketch of the programme she envisages and support it, because increasing financial literacy is one way of alleviating poverty.

44. This 'bundling' of services - loans and advice - has implications for implementation and workforce development, because these services may require different skills and expertise. Issues include whether functions should be separated or not, and the quality of both services being kept high.

What should be the purpose of the loan?

45. One question here is whether the goal of the loan is to address existing debt, or prevent new debt. As noted true *microfinance programmes have the goal of poverty alleviation or prevention*, so either a low- or no-interest loan could potentially meet this definition. Therefore I do not have a strong preference.

46. More importantly, this key principle leads to the criteria that loans should be to smooth a family's income over an expense that is not part of day-to-day living, and that will reduce the family's poverty or likelihood of entering poverty by improving the quality of the family's asset base, such as through the purchase of a car (which can support employment and participation in education). This definition can include both unexpected and planned expenses.

47. A related principle is that *lending to low-income people who have limited opportunities to improve their financial position in the short-term must be responsible*. This principle leads to the idea that loans should not be for basic living costs, because if a family cannot meet these payments then they are unlikely to be able to meet loan repayments. In this situation the issue may be either that income is inadequate, or that assistance with budgeting or financial literacy is required.

48. The scale of the recoverable assistance payments being made for basic living costs means that careful thought is required in this part of the policy design about the way that microfinance will interface with existing income support, welfare transfers, and credit instruments. Microfinance should not be treated as the silver bullet to the kind of persistent poverty that damages childrens' and families' life chances.

How and to whom should the loans be targeted for optimum effectiveness?

49. When funding is capped, as is the norm for most policies and programmes, consideration needs to be given to a 'gateway' of some kind. In this case it makes sense for eligibility to be tagged to family size, composition and income. Therefore an existing instrument such as eligibility for the Community Services Card may be a useful proxy. The size of the gateway, and therefore the size of the cohort eligible for microfinance support, may need to be set against the amount of funding and other in-kind support (budget advice and financial literacy services) available.

50. Poverty in childhood can have significantly adverse effects on child development, learning and health. Family income levels in the years from birth to age seven or eight have been found by numerous studies to be particularly important for later outcomes[12].

[12] See among others Dickerson, A. & Popli, G. (2012). *Persistent poverty and children's cognitive development. Evidence from the UK Millennium Cohort Study*. Working paper 2012/2. Institute of Education University of London: Centre for

Therefore the age of the children in the family is a useful targeting criterion, with this younger cohort receiving priority within the target group.

What are the key roles and responsibilities?

51. The proposal outlined by Minister Bennett appears to be premised on partnership. A key issue for any partnership approach is the roles and responsibilities of the different actors. There are at least three potential models here, which all have commonalities with the purchasing of social services:

- Government funds or otherwise incentivises delivery agents (who can either be independent third parties, or effectively an arm of Government) to deliver a fully-designed programme on its behalf, complete with targeting and lending criteria and so on;
- Government funds or otherwise incentivises third parties to deliver completely independent, tailored programmes in their communities that meet agreed outcomes and minimum standards; or
- Government funds or otherwise incentivises a combination approach whereby third parties provide a locally-relevant service but are able to access with centralised 'back office' functions.

52. An alternative approach would be for Government itself to provide microcredit, for example, through Work and Income (as already happens). However I would see this option as less preferable to Government using policies, programmes and incentives (including funding) to generate a tailored response from the private and community sectors. Government is not a bank and does not necessarily have expertise in this area. A half-way house might be for KiwiBank to be given the role of prime provider of commercial capital to any new Government-mandated microfinance scheme.

53. As noted previously, one size will not fit all because of the diverse range of circumstances New Zealand families face. The EAG found that there was no one 'poor child' and that there were differences in terms of income source, household tenure, family size, community, ethnicity, and age. For basic safety, and to ensure that these families are protected from further disadvantage, minimum standards for microcredit should be set by Government.

54. I also believe that an outcomes focus is preferable to an input one, so Government should be funding providers to keep families out of poverty, rather than funding them to deliver a set number of loans granted (for example).

55. Therefore I see Government providing administrative funding, setting policy, minimum standards, and outcome requirements, and promulgating best practice guidance. The role of commercial banks or private investors should be to provide capital and the link to the banking system required (with the intention of transferring these clients to mainstream financial services when possible), with NGOs and communities providing front-line services and feeding into future policy design and decisions. A coordination role may be necessary: this could be either undertaken by Government itself or

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Longitudinal Studies; and Gregg, P., Propper, C., & Washbrook, E. (2007). *Understanding the relationship between parental income and multiple child outcomes: A decomposition analysis*. Research Paper No. CASE 129. Centre for Analysis of Social Exclusion, London School of Economics, contracted out.

56. There are already differences in the approaches taken by the microcredit providers in New Zealand and it is likely that there is not one but many exemplars. For example, Nga Tangata Trust and Aviva are both affiliated to Good Shepherd Microfinance. This allows for a set of operational policies and guidelines to be established which is applicable in more than one situation, and for a link to commercial credit to be made by a 'parent' organisation thus removing the necessity from the smaller NGOs to have this link themselves. Kingdom Resources has an explicitly Christian focus which also provides it with guidance, and may provide it with a strong way of connecting to the needs and aspirations of its potential and actual clients.

What provider development is needed?

57. My view is that financial literacy support like budget advice should always be provided with microcredit, as part of its poverty alleviation/prevention goal, and that NGOs and the private sector should deliver services tailored to their communities within a system of minimum standards and best practice, and agreed outcomes. Therefore there is likely to be a need for workforce development, both prior to the roll-out of the microfinance policy or programme and as ongoing development for workers (whether they are employed or volunteers).

58. It is important that the workforce is capable of delivering the programme or policy effectively, which, as noted, has two distinct elements, loan provision and financial literacy support. This has implications for timing, and decisions around scale – e.g. piloting in an area where there is a strong existing workforce may be a good idea.

59. A sensible assessment of the number and type of likely providers and their current levels of expertise and capacity is therefore necessary. One of the minimum standards mentioned could be, for example, that all microfinance providers are affiliated with the New Zealand Federation of Family Budget Services, or another suitable organisation, or that they are able to show that their staff have the same expertise and access to the same level of training and support as those of affiliated providers.

60. A related question is whether or not microfinance providers could be established as direct competitors to pay day lenders. In this case, additional levels of support for providers would be required as such services would need to have a very strong presence.

What evaluation and monitoring is needed?

61. New Zealand differs from other countries in key regards, including our income support system, the bicultural Treaty-based foundation to our laws and social supports, and Pacific notions of family and community reciprocity, obligation and support. What we do is likely to be different to microfinance programmes in other countries.

62. Therefore it is important that any microfinance programme incorporate a robust evaluation, including a good baseline of information, and agreed performance standards that should in my view be reported on publicly.

63. The kind of monitoring and evaluation that will be required should be considered alongside the initial policy development, so that it can be both formative (providing real-time information to inform ongoing development and delivery) and summative (assessing, at some future date, whether or not the policy or programme was a success by measuring it against criteria and objectives).

Appendix: Extract from Expert Advisory Group on Solutions to Child Poverty: Working Paper 13 – Problem Debt and Poverty[13].

Social lending

42. Social lending is where "an organisation provides no or low cost loans to people where asocial benefit, rather than a profit, is the main outcome. It is not well developed in New Zealand but there is an increasing appetite for it" (Ministry of Consumer Affairs, 2011b). These community organisations have an important role to play as they fill the void between banks who will not lend to those with bad credit or little ability to meet loan conditions, and predatory loan sharks who charge high interest rates.

43. There is a role for the government to encourage and support philanthropic social lending. A discussion paper from a recent financial summit on social lending (Ministry of Consumer Affairs, 2011b) recommended the following:

> a) Social lending should be encouraged. Any social lending model will need adaptation to meet the needs of New Zealanders. Clear criteria need to be established regarding loans for necessities as opposed to wants.
>
> b) Partnerships between communities and non-finance groups with financial organisations – be they banks, second or third tier lenders, and especially credit unions, perhaps with some funding and promotional assistance from government.
>
> c) The government should aim to reduce compliance costs to social lending initiatives and to make the process as easy as possible. Increased compliance is likely to mean that lenders would have to adopt the same approaches as first tier lenders have already, which low income customers find confusing and inappropriate.

Good Shepherd Microfinance

44. A good example of social lending is the Australian based Good Shepherd Microfinance (GSM). As a community finance-credit organisation, GSM helps those living on low incomes and financial hardship through microfinance programmes. Microfinance is defined as "the provision of financial services – such as loans (microcredit) and savings accounts (microsavings) – to people on low and limited incomes who can't easily access mainstream financial services" (GSM, 2012). GSM has four main services: the No Interest Loan Scheme (NILS); StepUp (low interest loans); AddsUp (matched savings program); and Good Money (community finance hubs).

45. NILS offers interest-free loans to the value of up to $1,200 for essential household goods and services. Repayments are made in affordable amounts for a period of between 12 and 18 months. In 2011 18,000 NILS loans were issued with a borrower default rate of less than 5 percent.

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[13] The paper can be found at http://www.occ.org.nz/__data/assets/pdf_file/0009/9846/No_13_-_Problem_debt.pdf

46. StepUP provides low interest loans to individuals and families on the Family Tax Benefit Part A, or a holder of a current Centrelink Concession Card. StepUp offers loans between $800 and $3,000 for personal or household purposes such as car repairs, furniture, medical and housing expenses etc. Interest is charged at a fixed low rate, and loans can be repaid over three years with no added fees.

47. AddsUp is a savings plan in collaboration with the NAB which helps those on low incomes to develop financial independence. The scheme matches savings of $300 or over dollar for dollar up to $500.

48. Good Money community finance hubs incorporate services such as NILS, StepUP and financial counselling, which offer customers a more integrated way of accessing financial assistance and support. Good Money is a socially responsible alternative to fringe lending.

49. In order to help develop and facilitate its services, GSM has a number of corporate and business partners, including: the Federal Government's Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) (which oversees more than 220 accredited community organisations to deliver NILS loans); the National Australia Bank (NAB); and the Victorian and Queensland Governments.

50. The Federal Government's 2011 Budget allocated $18 million over three years to GSM for no interest and low interest loan schemes, including NILS and StepUP. This funding helps to subsidize overhead costs (including the salaries of some of the staff employed to manage the loans) and research to assess the impacts of the various schemes. The NAB has committed $130 million for the expansion of NILS to over 400 outlets nation-wide, and is the principal partner of the StepUp and AddsUp programmes. The funding from the NAB involves an implicit subsidy of several million dollars per annum, and forms part of its philanthropic activities. The Victorian Government has committed $6.7 million since 2006, with the Queensland Government providing $1.2 million during 2008-2010 and ongoing support for NILS worker training, marketing and coordination.

51. It is interesting to note that the NAB owns the Bank of New Zealand (BNZ). Thus, there may be some potential for the NAB to expand its microfinance services into its New Zealand subsidiary. Aside from this, other banks in New Zealand, such as Kiwibank, have expressed interest in the GSM model and there are a number of local charitable organizations that are keen to collaborate with GSM.

52. While a predominant view amongst the social lending sector is for it to operate outside of the realm of government (Benedict, 2010), the GSM example shows that there is a practical role for the government (or perhaps local government) to play in providing funding and support to microfinance schemes. Indeed, the Australian evidence highlights that a great deal can be achieved (under the appropriate conditions) with only a modest financial contribution from the state. Benedict notes that "government will want to provide some direct funding in order to help the private social lending system accomplish some of the government's goals" (2010, p.50). It is to be hoped that this sentiment might apply in New Zealand.

Recommendation 5:

The government should investigate a private-public-partnership model with the banking sector and community groups to establish schemes similar to those operated by Good Shepherd Microfinance.