Financing Community Economic Development in New Zealand

by LINDSAY JEFFS

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Article

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Abstract

Community economic development and social enterprise are growing fast across the globe in both developed and developing countries. They are major components of a new economics arising from the failure of traditional approaches to address the effects of complex and intractable social, economic and environmental problems. This paper examines how community economic development and social enterprise are currently financed in New Zealand. It suggests some alternative approaches and makes recommendations to stakeholders to reduce barriers, promote best practice and improve success factors. The initial discussion uses the findings of a comprehensive research process completed in 2014 by the New Zealand Community Economic Development Trust to understand the New Zealand context for community economic development and social enterprise. The discussion then outlines some alternative social finance approaches used in the UK, Canada, Ireland and Australia, and their potential use in New Zealand if certain barriers are removed and best practice models are used. The final section considers the potential for self-financing by the not-for-profit sector based on data collected by the author over a two-year period. Recommendations are made on how access to finance by community economic agencies can be improved, and the potentially 'game changing' impact of such access. The author of this paper has an extensive background as a practitioner and academic in the community economic development and social enterprise sectors, both within New Zealand and overseas.

Introduction

In 2014, the New Zealand Community Economic Development Trust (NZCED) was funded by the Lottery Community Sector Research Fund, with support from Unitec Institute of Technology, Auckland, to investigate community economic development and social enterprise in New Zealand. The subsequent report, *Community Economic Development: Understanding the New Zealand Context* (NZCED, 2014), was a result of the growing interest in New Zealand, since the mid-2000s, of the role that community or not-for-profit organisations can play in proactively addressing major social, economic and environmental problems facing humanity locally, nationally and internationally.

The report also built on work undertaken by NZCED (2010, 2011) and the Department of Internal Affairs (2011, 2012, 2013); the Ian Axford (NZ) Fellows Benedict (2010) and Kaplan (2013); academics Grant (2008), Kinsley and Grant (2010) and Simpson (2005); the funder Frykberg (2012), and practitioners Howard (2004), Hutchinson and the New Zealand Social Entrepreneur Fellowship (2001), Jeffs (2005, 2006a, 2006b), Saunders (2009), Sykes and Sykes (2011) and Trotman and Courtney (2008). The initial work demonstrated that whilst there was a growing international body of community economic development and social enterprise-related research coming out of Scotland, Wales, England, Ireland, Continental Europe, Canada, Australia and the USA, little work had been done in New Zealand. Consequently, there was little valid or reliable evidence to inform practitioners working at the community level. As a result, the NZCED decided to attempt to fill some of this knowledge gap. They commissioned Di Jennings to undertake a comprehensive research project, which included a literature review, five focus groups with acknowledged opinion leaders, interviews with ninety-seven community economic development and social enterprise practitioners plus seven case studies.

The subsequent NZCED (2014) report considered:

- the building blocks for community economic development,
- social enterprise operating practices,
- finance and investment options,
- capability building approaches,
- Maori, Pacific and Ethnic enterprises,
- employment issues,
- how impact was demonstrated, and
- the type of support and infrastructure required.

The report acknowledged that there are no universally accepted definitions for either community economic development or social enterprise but that they are related concepts best understood as continuums of activity. Community economic development was viewed as the broader concept being '... rooted in local communities, and embracing social enterprise, community asset ownership, community exchange initiatives (for example, complementary currencies and time banking), as well as small local social value-led businesses' (NZCED, 2014, p. 7).

Social enterprise was seen as an entity that '...operates in markets, but trades for the benefit of people and the planet. An 'asset lock' provides the defining element of a social enterprise as it marks the boundary with private enterprise' (NZCED, 2014, p. 7). Such an asset lock prevents the privatisation of profit or assets.

Social Finance Currently Available in New Zealand

Participants in the NZCED research project considered the lack of financial investment as the single biggest factor impeding community economic development and social enterprise.

When asked what sources of finance they had secured over the previous five years they reported the following:

- 61% from philanthropic organisations,
- 58% from individual donors,
- 32% from community foundations,
- 26% from commercial lenders,
- 22% from suppliers credit,
- 20% from a hire purchase or leasing company,
- 15% from social lender,
- 4% from commercial share issues, and
- 1% from community share issue.

While the above list suggests a broad range of social finance sources are available, some vital details were not reported:

- No distinction was made between grants, loans (soft or hard) or equity financing.
- No comment was made about what type of finance was provided from what source.
- No explanation was made about the reported high level of financing from community foundations given the extremely low number of such organisations in New Zealand.
- The types of security for loans required by lenders was not reported.
- The terms and conditions attached to the grants or loans were not mentioned.

However, there were several comments from participants stating that in New Zealand grant dependence is in-built into the social finance system.

When asked whether lack of available social finance was impeding development participants said the activities listed below were not being undertaken because of a lack of finance:

- 60% can't do research and development,
- 60% can't grow or expand,
- 53% can't develop tangible assets,
- 38% can't get into early stage trading (first two years), and
- 30% can't do business plan development.

Research participants indicated that it was also difficult to get the right kind of finance at the right time for the various phases of business development. Seed finance was identified as the most difficult form of social finance to procure, while it was acknowledged that scale and maturity helped access to finance.

Various international and local researchers support the participants' comments. For example, Rolo (2011) defines social finance in terms of organisational investment readiness and divides it into three categories - development finance (research and development, new project development and future planning); capital development (acquiring assets, refurbishment, new build and equipment) and working capital (early trading and monthly/seasonal turnover). Jeffs (2006a) adds an additional category of growth or expansion capital, while Burkett (2010) divides social enterprise business development into four phases: start-up, development, growth and maturity. Each phase requires specific forms of social finance. Burkett (2013) suggests that social finance (finance for social impact – demand focused) and social investment (capital that is pooled for the purposes of generating both social and financial returns – supply focused) should be considered separately.

In terms of the sources of social finance in New Zealand, the NZCED (2014) research report states that '...to grow and thrive, many social enterprises need access to social loans that are more affordable than commercial loans' (p. 60). 'Some participants said they avoided loans because they consider them to be too risky' (p. 61). 'A number of participants said that a loan does not fit with their values and philosophy' (p. 62). For some participants, taking a loan to progress an enterprise was a relatively new possibility, while others said that loans for social purposes should be more affordable than commercial loans and provide non-financial support in the form of organisational capacity building and performance measurement expertise in addition to financial support. Participants also noted that there are limited providers of social finance in New Zealand.

Participants' observations concur with those of researchers such as Jeffs (2006b) and Benedict (2010), who noted that the New Zealand social lending market was immature, with social lending being at a far lower level than in the US, UK, Canada, Ireland or other parts of Europe. Saunders (2009) considered that social lending in New Zealand would be a niche market, with only a small number of providers acting as social finance intermediaries who can raise capital for social enterprises from individuals, companies and charitable foundations. Today, the number of social finance providers is still extremely limited, and appears to be decreasing, as some providers have recently exited the market. Current providers include statutory trusts, community foundations, local authorities, commercial and community owned financial institutions as outlined below.

Statutory Trusts

Statutory trusts are set up by statute, and include community trusts, energy and port trusts. They are established from the proceeds of the sale of a public entity such as a trust bank, energy or port company, with the resultant funds invested for the public good and the income derived made available to communities in the form of grants or loans. The eleven community trusts are the largest grouping of the statutory trusts, but only two have loan funds and the others only distribute grants. The Canterbury Community Trust has a community loan pool of up to 4% of its investment portfolio. Loan terms can be up to ten years with an interest rate of 3%. They have also established a $2.5 million 'Social Enterprise Fund' which provides soft loans with capacity building assistance through NZ Business Mentors (Canterbury Community Trust, 2015). The Bay Trust also provides community loans (Bay Trust, 2015).

Other statutory trusts include gaming trusts, whose income is derived from the proceeds of gaming machines (pokies) and the Lotteries Grants Board which distributes funds from the NZ Lotteries Commission. They do not provide community loans.

Community Foundations

In New Zealand there are eleven community foundations who have the objective of 'improving' a specific geographic community by pooling the charitable gifts of donors to create a permanent endowment fund. The income gained from the investments is used to provide grants that support a wide range of community needs (NZ Community Foundations, 2015).

In New Zealand, all of the foundations are grant-makers. However, the Acorn Foundation in Tauranga and the Aoraki Foundation in Timaru have established Community Endowment Funds, which are formal agreements between the foundation and a particular charitable organisation. The endowment fund receives money directly from supporters through bequests or donations, and as the capital grows so do the annual distributions back to the charity (Acorn Foundation, 2015; Aoraki Foundation, 2015)

Local Authorities

Many local councils in New Zealand provide not-for-profit organisations loan guarantees or loan facilities that are interest free for a period of time. These councils include Christchurch, Dunedin, Wellington, Auckland and New

Plymouth. Most of these guarantees or loans are for the purchase or maintenance of community facilities or for social housing providers (Christchurch City Council, 2015; Dunedin City Council, 2015; Wellington City Council, 2015; Auckland Council, 2015; New Plymouth District Council, 2015).

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Commercial Financial Institutions

In New Zealand, commercial financial institutions such as banks, finance companies, leasing companies and firms offering supplier credit do not act as social lenders and are often more reluctant to lend to community development organisations and social enterprises than private sector firms. Jeffs (2006b) argues that New Zealand's financial institutions have extremely conservative lending practices; demand loan security in the form of property or personal guarantee and appear to view the third sector with suspicion due to their legal structures and *modus operandi* not fitting the usual business norm. However, investment capital is reportedly available from such sources '...so long as there is a guarantor or the organisation has a strong balance sheet. It is more about security than how well we are trading – especially since the global financial crisis' (NZCED, 2014, p. 66)

Community Owned Finance Institutions

When compared to the social finance market overseas, New Zealand has a limited range of providers of community owned finance institutions, such as social banks, social loan funds, credit unions or faith-based funds.

Community Development Finance Institutions (CDFIs)

CDFIs do not exist in New Zealand. These specialist social enterprises support communities by providing affordable finance to those unable to access mainstream lenders. Overseas examples include the Centre for Self-Help USA and Co-operative and Community Finance UK. The nearest New Zealand equivalent to a CDFI was Prometheus Finance Ltd, which had been the main social lender in the country for several decades. The organisation was proposed by Saunders (2009) and Benedict (2010) to be the lead collaborative social finance intermediary in New Zealand. However, the *National Business Review* 23 December 2014 reported that 'Prometheus Finance, the Wellington-based finance company with a mandate for socially responsible lending, has called in receivers after failing to raise enough capital to support plans to scale up the business without breaching regulated capital requirements' (McBeth, 2014).

The remaining social lenders in New Zealand, such as the Lifewise Employment Regeneration Fund, Auckland or Just Dollars Trust, Christchurch provide very small loans to individuals or private businesses. These organisations are facing increased compliance costs imposed by the National government, and their continued existence is at stake.

No social investment banks such as the Big Society Bank, UK, the South Shore Bank, USA or social loan funds such as Shared Interest, UK exist in New Zealand.

Credit Unions

In New Zealand, unlike their overseas counterparts in Canada, the US, Wales and Ireland, credit unions do not lend to community development organisations or social enterprises. This is a result of the restrictions imposed on credit unions by their governing legislation (the Friendly Societies and Credit Union Act 1982), which limits credit unions to lend to individual members. They also cannot borrow to fund their loan programme like a bank, and must rely on the savings of their members to fund their loan pool.

Since the global financial crisis in 2009, credit unions in New Zealand have been subjected to significantly increased compliance costs. These additional burdens include regulation by the Reserve Bank, compliance with the Non-Bank Deposit Takers Act and, since 2012, additional levies to fund the Financial Markets Authority (FMA). As a result of the impact of these new requirements the micro-finance sector in New Zealand is in retreat. For example, the Awhi Credit Union, a case study in the NZCED report (NZCED, 2014) with branches in Rotorua, Opotiki and Gisborne serving over 2000 predominately Māori members decided to cease operations in October 2014. Its CEO, Rachael Mo, said, 'The organisation has been successfully owned and operated by the community for twenty-three years, but increased compliance costs were killing it' (Opotiki News, 2014). She advised that five years ago, compliance costs were $20,000, but had skyrocketed to $70,000 in 2013 and were expected to be close to $100,000 in 2014, using up to 11% of gross revenue per annum.

Faith-based Social Savings and Investment Funds

New Zealand, like most other Western countries, is home to several faith-based funds providing loan and financial services at a lower cost to church and community ministries. These would not normally be considered bankable due to insufficient equity or inadequate income sources to meet loan servicing costs. Such organisations have approval from the Reserve Bank, are registered with the Department of Internal Affairs (DIA), and are exempt from income tax. Depositors can receive market rate interest. Examples of these funds include Baptist Savings, Presbyterian Savings and Development Society, Catholic Development Fund and the Anglican Church Pension Board. Such funds now have to meet the requirements of the Non Bank Deposit Takers Act which means that they must have a Capital Adequacy Ratio of more than 10%. To meet this requirement, Baptist Savings have decided that '...all future loan requests will require the borrower to buy 5% of the value of the loan in non-redeemable shares... We will lend you the extra funds required to purchase the shares' (Baptist Savings, 2014). The extra loan will incur interest, but to offset the costs the borrower will be paid a dividend on the new shares equivalent to the interest charged. When the loan is repaid the shares remain as an investment for the borrower. The new legislation has also forced Baptist Savings ($90 million deposits) and the Presbyterian Savings and Development Society ($42 million deposits) to amalgamate.

Asset Transfer

Asset transfer is a special form of social finance whereby the central and/or local government sells or transfers public assets to community ownership. A form of such transfers in New Zealand has been '[a]ssets returned to iwi through Treaty settlements [which] illustrates the concept of collective/community ownership. The development of iwi-based social enterprise development has increased following Treaty of Waitangi claim settlements' (New Zealand Business Council for Sustainable Development and Westpac, 2005).

Some council-owned assets have also been transferred to community organisations. For example, when the Auckland supercity was created, the ownership of surplus assets were sometimes transferred to a community organisation (NZCED, 2014).

Alternative Social Finance and Social Investment Models for New Zealand

Community economic development and social enterprises are major components of the 'new economics' movement arising from the failure of the neo-liberal economic model to address problems such as growing inequalities in health, wealth and opportunity; resource depletion, population growth, climate change and environmental degradation. Governments in many Western countries have prepared major reports on the role that community economic development and social enterprise can play in alleviating some of these problems (Department of Trade and Industry, 2002, 2003; Department of Community, Rural and Gaeltacht Affairs, 2003; Department of Enterprise, Trade and Industry, 2004; Bernas and Reiner, 2011). All of these reports suggest that third sector organisations have a vital part to play in achieving societies' broader social, environmental and economic goals.

As a result, a number of governments have passed enabling legislation to support the sector, and have provided funding to establish various forms of social finance. In addition, the market has responded with new social finance tools which may include social loan funds, community sector banks, Community Development Finance Institutions (CDFI) and social impact bonds.

Social Loan Funds

Social loan funds come from not-for-profit organisations established to offer loans and other financing services to social enterprises and other organisations pursing social or environmental goals. Such funds provide loans at below market rates, or longer loan terms or repayment holidays (capital payments not being due until the project is profitable). Social lenders such as Clann Credo, Ireland and Futurebuilders, England, also offer small grants as part of their investment packages.

Community Sector Banks

Community sector banks are specialist banks providing a wide range of financial services for not-for-profit organisations, for example, Charity Bank, Triodos Bank and Unity Trust Bank UK, Southbank USA, VanCity Canada and Community Sector Bank, Australia.

COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS (CDFI)

CDFIs are increasingly popular in the UK with sixty organisations being members of the Community Development Finance Association (Community Development Finance Association, 2015). Over 1,000 organisations belong to the CDFI Coalition in the USA (Community Wealth, 2015).

SOCIAL IMPACT BONDS

Social impact bonds are contracts with the public sector in which the public sector commits to paying for improved social outcomes. Investment is raised from socially-motivated investors who pay for a range of interventions to improve social outcomes. Such bonds are being used in the UK, the USA and Australia.

In New Zealand, the government has prepared a report on social bonds (DTI, 2011), and is now piloting social bonds with the Ministry of Health being the lead agency. The Ministry states that 'Social bonds are an innovative way for private and not-for-profit organisations to partner in delivering better social outcomes – and be rewarded by government' (Ministry of Health, 2015).

COMMUNITY SHARES

Community shares refer to the sale of shares in a community enterprise serving a particular community. Such enterprises can range from shops, pubs, community buildings, renewable energy projects, and local food schemes to social housing. The community investor can get their money back and may also receive interest or dividends on the money they invest. Such share offerings are becoming increasingly popular in the UK and Scotland (Community Shares UK, 2015; Community Shares Scotland, 2015). However, in New Zealand such share issues are subjected to the same regulations as those applying to large cooperatives such as Fonterra.

While all of the above tools could play a role in developing the social finance sector in New Zealand, they are medium to long-term solutions. The following approaches appear to offer the best short-term social finance alternatives:

Crowd-funding

Crowd-funding describes the process of pooling (generally over the internet) a large number of small contributions to fund a business, project or individual. Often the projects are arts and culture or sports-related, or provide other community good benefits. Most crowd-funding overseas and in New Zealand currently provide no promise of any benefit (financial or in-kind) to contributors. Consequently, this type of activity is not regulated by existing New Zealand security law. Examples of crowd-funding platforms in New Zealand include Givealittle, Boosted, Kickstarter and Spark My Potential.

More recently, equity-based crowd-funding, rather than donation funding, is starting to play an important role in small-scale capital raisings (maximum of $2 million over a twelve-month period), typically for a start-up enterprise looking to raise venture capital. Investors receive either company shares or other returns depending upon the success of the venture. Such activity is subject to regulation in New Zealand through the Securities Act and the Financial Markets Conduct Act. Oversight is provided by the Ministry of Business, Innovation and Employment and the Financial Markets Authority. PledgeMe is now a Financial Markets Authority licensed equity crowd-funder.

Although there are some excellent examples of successful crowd-funding for culture, art and heritage projects on the Ministry of Culture and Heritage and Creative New Zealand websites, no research appears to have been undertaken to verify the results from either the donor/investor or recipient perspectives.

Peer-to-peer lending

Peer-to-peer lending is the practice of lending money to unrelated individuals, or 'peers', without going through a traditional financial intermediary. The lending takes place online on peer-to-peer platforms. Most peer-to-peer loans are unsecured personal loans made to an individual rather than a company. Interest rates are set by lenders or are fixed by the intermediary company on the basis of an analysis of the borrower's credit. Lending intermediaries are normally for-profit businesses who generate revenue by collecting a one-time fee on funded loans from borrowers and by a loan servicing fee to investors (either a fixed amount annually or a percentage of the loan amount).

In New Zealand, peer-to-peer lending became practicable on 1 April 2014, when the relevant provisions of the Financial Markets Conduct Act 2013 came into force. The Act enables peer-to-peer lending services to be licensed. The first peer-to-peer licensed lending service is *Harmoney* which officially launched its service on 10 October 2014 ('Peer-Peer Lending', Wikipedia, 2015). In January 2015, Trade Me became one of the owners of *Harmoney* and their newsletter claims that *Harmoney* can 'provide lower rates for borrowers and higher returns for lenders – a win-win for everyone' (Trade Me Newsletter, 2015).

Some writers are asking why not establish peer to peer lending from one non-profit to another non-profit (Next in Nonprofits, 2015). It is argued that charities who have healthy reserves could earn higher returns by investing in another non-profit, while also achieving a mission related benefit. The borrower may borrow at a lower cost and with more favourable terms, including a no-payment and no-interest period. Risk can be further mitigated by bringing in more than one lender to a deal.

Big Issue Invest, UK, is an example of a not-for-profit that has established a loan fund to lend to other not-for-profit organizations and disadvantaged individuals. Their website states that '[w]e are the social investment arm of *The Big Issue*. We help prevent poverty and create opportunity for communities by backing sustainable social enterprises, charities and ventures' (Big Issue Invest, 2015). It claims that £25.5 million has been lent to 310 organisations, directly benefitting 1.8 million people and creating 320 jobs.

In New Zealand, a form of peer-to-peer lending is practiced by some iwi authorities when they lend money to tribal members or ventures. For example, in 2005 the Ngāi Tahu Fund was established '...to ensure whānau have the ability to access resources to strengthen Ngāi Tahu cultural excellence through sustainability, innovation and tenacity' (Ngāi Tahu, 2015). Tribal members and groups of members can apply for funding for projects designed to meet specific cultural objectives. The Ngāi Tahu Fund has completed nineteen funding rounds, contributing over $7.6 million to Ngāi Tahu individuals, whānau, hapū and rūnanga throughout New Zealand. Benedict (2010) suggests that iwi invest a portion of their settlement dollars into a social lending fund that can be recycled and leveraged on behalf of the community.

As the above examples demonstrate, the limits to peer-to-peer lending are only those determined by the imagination of the parties involved. Such investment and lending has the potential to create a means for the sector to take control of its own future.

Community Currencies

Community currencies are locally created currencies, and are a means of providing an economic safety value. They were popular in the Great Depression, when many local authorities created their own currency. Due to the 2008 Global Financial Crisis, there has been a renewed interest in community currencies and councils such as Bristol, Brixton, Lewes, Totnes and Stroud Councils in the UK, Langenegg in Austria and Nantes in France have established their own currencies (Rogers, 2013).

In the 1980s Local Exchange Trading Systems (LETS) became an international movement with HANDS, Golden Bay (operating since 1989) being the most successful New Zealand example. Such systems ensure that wealth created by trading stays in the community. The world's oldest and most successful complementary currency system is the WIR Bank established in Switzerland in the 1930s as a means for Swiss businesses to trade with each other at a time when the economy was in crisis and there was an absence of credit. The system operates as a bookkeeping system for clearing local transactions and does not use any paper bills. The WIR bank lets its 62,000 members make deposits and payments in Swiss francs or WIR francs (Rogers, 2013; Kaminska, 2009).

The town of Ashhurst in New Zealand is planning a Business to Business (B2B) system with support from the Palmerston North City Council Communities Initiative Fund. Another variation of the WIR Bank system operating in New Zealand is the Waiheke Island credit card (Flexipay), which is a locally owned and operated business. The card is available only to local residents and can be used only at local retailers (including national supermarket, hardware and petrol retailers) (Flexipay, 2015).

In Christchurch, Project Lyttelton has created, in collaboration with the Lyttelton Harbour Information Centre and the Lyttelton Harbour Business Association, the Lyttelton Harbour Voucher. The vouchers, which can be spent at participating local businesses, are designed to strengthen the local economy and create awareness of the importance of buying locally to keep local businesses alive (Project Lyttelton, 2015). Meanwhile, the Elmwood Club in Christchurch is launching an Eftpos-based loyalty, gift and prepay programme, whereby the card holder receives an agreed fixed discount for purchases at participating retailers. The Club bills the retailers monthly for the full amount of the purchase and the value of the discount (Ecardz, 2014).

Local currencies are especially useful as a tool for community economic development, as they are designed to encourage local businesses, local jobs, local producers, local artists, community initiatives, charities and volunteers. They help to create strong networks to ensure that the community thrives even in a recession. Keeping the currency local helps to protect the community from speculators who are interested in investing only if they can make a profit.

TimeBanking

TimeBanking is a way of trading skills in a community using time rather than money as the measurement tool. For every hour participants 'deposit' in a Timebank, by giving practical help and support to others, they are able to 'withdraw' equivalent support. Everyone's time is of equal value, irrespective of what is being exchanged. Timebanking is growing in New Zealand and is being actively promoted by TimeBank Aotearoa. However, New Zealand's Inland Revenue Department has issued tax guidelines for TimeBank participants, which state that people cannot trade in the area that is their main income earner. While TimeBanking is not being used extensively by social enterprises, it is an important tool in community economic development as it reduces the need to raise cash providing 'in-kind' labour.

Barter Systems

Barter systems facilitate a trade-exchange network, which offers a means of conducting business that involves the exchange of goods and services. The networks can be international or national networks run by commercial firms such as Bartercard. In New Zealand, Bartercard has 7,000 member businesses, including some not-for-profit organisations trading over $200 million worth of goods and services outside the cash economy each year (Bartercard, 2015). Other barter systems provide free services such as Swap or Trade it. Barter networks can be locally or community owned and operate in the local area. Such systems expand the trading and buying options for community economic development agencies and social enterprises.

Community and Statutory Trusts Social Loan Funds

Jeffs (2006a) urged NZ's community trusts to commit 4% of their investment capital either as community loans, loan guarantors or to social loan providers However, only one trust has established such a set percentage, while another offers community loans. Why do other trusts not provide community loans? It cannot be argued that it is for financial reasons, as grants deplete the Trust's available investment funds and undermine the Trust's obligation to grow its capital corpus each year at the rate of inflation and population growth. It can be postulated that grants benefit the funder's stated objectives rather than the receivers; build financial, emotional and intellectual dependency; provide the grantmaker with a performance control mechanism through the required accountability reporting whilst supporting the notion of 'doing good'.

Pressure from the not-for-profit sector will be required if community and other statutory trusts are to develop community or social loan funds. If 4% of community trusts investment portfolios - similar to Canterbury Community Trust - were available for community loans, the combined funds would exceed $120 million.

Community Asset Ownership

Community asset ownership describes the ownership by community groups of physical assets providing benefit to local communities in perpetuity. Such assets help the community to build financial independence, leverage greater community benefit, build a more stable long-term future and reduce dependence on philanthropy (Burkett and Drew, 2007).

In New Zealand, some councils and the central government have in the past sold assets to the private sector in a manner that reinforced inequalities of wealth. The current National-led Government has signalled its intention to privatise more public assets in the future. The Prime Minister, John Key, in his 2015 State of the Nation speech revealed that the government intends to sell up to 2,000 state houses this year, with another 1,000 to 2,000 being sold to community housing providers in the following year (Otago Daily Times, 2015).

In the UK the transfer of land and buildings from public to community ownership has become an important part of community economic development. Over 150 local authorities in England alone are working to progress community asset plans (Wyler and Blond, 2010). The UK government has funded an external Asset Transfer Unit that is managed by Locality (a nationwide network of community-led organisations) to achieve its objectives of building bottom-up prosperity and resilient communities (Aiken, Cairns and Thake, 2008). It has also passed legislation (the UK Localism Act 2011) that gives local community groups the right to make a bid to buy a property that has a community use when it comes up for sale. In Scotland, the Community Empowerment Act allows communities with a population of less than 10,000 to apply to register an interest in land and the opportunity to buy that land when it comes up for sale.

A variation of asset transfer was outlined in the NZCED report where community organisations obtain a long-term lease of a council or government owned building at a reduced or 'peppercorn' rental or through an arrangement where the council owns the land and the community organisation the building.

In New Zealand, the localism and devolution agendas have not achieved the same levels of public awareness as in the UK and Europe as New Zealand has one of the most centralised systems of government in the OECD with

health, social services and education being delivered by central not local government. This degree of centralisation reduces the pressure on both central and local governments to adopt a community-owned asset approach and poses a challenge for the development of a community economic development movement that is fundamentally devolutionist in nature.

Social Enterprise Investment Fund

Government-created funds such as social enterprise investment funds have become increasingly common in Western countries since the early 2000s and have made a significant difference to the sector (Bank of England, 2003).

Participants in the NZCED research were given a list of nine possible actions that central government could do to support community economic development, and asked to choose which would be most helpful. The development of a Social Enterprise Investment Fund was the third most popular choice behind an enabling, supportive and effective policy framework and adoption of social procurement policies. In the UK, the creation of Big Society Capital in 2012 was funded by a combination of dormant accounts in banks and building societies (£400 million) and commercial bank finance (£200 million) (Big Society, 2015). In Ireland, the central government passed legalisation in 2001 and 2005 to use the money from dormant accounts for social purposes. In New Zealand, the Inland Revenue Department receives the unclaimed money. In Scotland, the government created Social Investment Scotland, with a repayable loan pool of about £25 million.

Self-Financing Collective Social Investment Fund

New Zealand's current not-for-profit sector is dominated by organisations based on a charity model, rather than a trading or a self-help model. As a consequence, most organisations look for handouts, grants and donations (cash, bequests and in-kind). Their surplus funds are normally invested in term deposits with the major banks which in some cases lead on to the various causes which the not-for-profit exists to modify or eradicate. Others invest in fixed assets such as property or occasionally a share portfolio. As a result they are passive investors, and there is little evidence of any serious attempts to look for new solutions.

By contrast, in Scotland, when faced with the lack of suitable social finance, Community Business Scotland launched the Scottish Community Enterprise Investment Fund in 1990 by means of a share offer that raised over £0.5 million. After ten years in operation, the fund was passed on to the Charity Bank (Community Business Scotland, 2015).

Could such an approach be tried in New Zealand? As previously discussed, the community share model and public capital raising approaches face major legal, regulatory and financial difficulties. However, direct investment through placing some of their term deposits into a collective sector owned social investment loan fund could result in a sector owned and operated fund.

Is Such an Approach Feasible?

The following research was conducted over a two year period to test the feasibility of the concept. The sample was selected based on organisations whose staff members had attended the Financial Management module of Unitec's Graduate Diploma in Not-for-Profit Management in Auckland, Wellington, Christchurch and Dunedin during 2013 or 2014. It is worth noting that the Graduate Diploma tends to attract students predominantly from small to medium-sized organisations with paid staff, rather than large organisations or citizen-based or voluntary organisations who deliver predominately social services. Community development, cultural, sports and professional agencies are also represented. The amount of each organisations' term investments was stated in the publically available financial statements.

The total sample was seventy-three agencies with thirty-three agencies from Auckland, eighteen from Christchurch, thirteen from Wellington and nine from Dunedin. However, to prevent distortion, four organisations with term deposits of greater than $7 million each were excluded from the sample as were seven organisations with no term deposits, reducing the sample to sixty-two organisations.

The sixty-two organisations together had term deposits of $27,268,000, or an average of $439,806 per organisation. The range of term deposits were as follows:

- Thirteen had term deposits greater than $1 million,
- Seven had term deposits between $500,000 to $1 million,
- Nine had term deposits between $200,000 to $500,000,
- Seventeen had term deposits between $100,000 to $200,000,
- Sixteen had term deposits under $100,000.

If these organisations placed just 10% of their term deposits with a community owned social investment fund or a peer-to-peer investment pool, then the initial capital pool would be in excess of $2.5 million. These not-for-profits would still receive interest on their investment, and would be directly contributing to civil society. If the number of groups participating was tenfold larger then the loan pool would exceed $25 million.[1]

Analysis of this small capital pool suggests that the idea is completely feasible. The pool could help the sector gain control over its destiny. Peter Quamby, a leading figure in establishing community banking in Australia states:

> It is from here that we can stop seeking permission to fulfil our mission [...] By gaining greater control over capital we can approach social issues differently – we can be far more creative in the way we approach issues such as social housing, indigenous enterprise, health, aged care and employment' (Quamby, 2004, cited in Jeffs, 2006).

All that is needed is the will to make it happen.

Recommendations

This paper suggests that the best ways to progress the social finance and investment agenda are that:

1. The not-for-profit sector establishes its own social investment fund.
2. The not-for-profit sector, through its peak bodies, establishes a crowd-funding platform similar to that established for the creative sector.
3. Some not-for-profit organisations trial peer-to-peer lending and report their experience back to the sector.
4. Local communities are encouraged to create their own community currency. A national not-for-profit sector credit card is investigated.
5. The New Zealand Government passes amendments to the Community Trust Act 1999 mandating all community trusts to commit 4% of their investment pool to the creation of a social investment fund.
6. The New Zealand Government, in partnership with local government, follows the lead of the UK and Scottish governments and passes legislation that supports the transfer of land and buildings from public to community ownership.
7. The New Zealand Government changes its current policy of money from dormant bank accounts or unclaimed life insurances being transferred to the Inland Revenue Department, and instead uses this money to establish a Social Enterprise Investment Fund.
8. The New Zealand Government instructs the Financial Markets Authority, the Reserve Bank and the Inland Revenue Department to remove the unnecessary restrictions that are preventing the growth of time banks, credit unions, locally owned cooperatives and social loan funds.

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[1] Please note that if the four organisations excluded from the sample (having term deposits of more than $7 million) also invested 10% of their term deposits then the initial loan pool would have been increased by another $26 million.

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