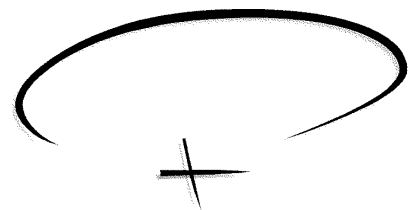


# **Topline Report on Research into Social Lending**



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# Topline Report on Research into Social Lending

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## **Summary of findings**

### **The level of acceptance of social lending amongst community organisations in the E&CCT catchment**

- The level of acceptance of social lending in the E&CCT's catchment area was high.
- Social lending was seen by a majority of community agencies surveyed as an appropriate, valuable and desirable funding tool for community development.
- The majority of survey respondents believed that providing social loans would have either a positive impact on E&CCT's reputation or no impact.

### **The potential uptake of social lending in that catchment**

- It is apparent that there is a significant market for a social lending product in E&CCT's catchment, with 40% of the agencies surveyed either definitely (10%) or possibly (30%) interested in taking up a social loan from E&CCT.
- The most common purposes for which loans would be sought were (1) capital expenditure, commonly to upgrade or expand facilities of various kinds (including equipment and technologies), often for the purpose of expanding or enhancing income-generating services, or (2) as short-term bridging finance.
- Interest was greater amongst organisations that: were in the cities (vs rural centres); provided community development, education and sports services (vs other service types); were 2-5 years old (vs older or younger); already provided income-generating services; had annual incomes of either less than \$100,000 (small loans) or more than \$250,000 (larger loans); had borrowed in the past 3-4 years; had assets obviously suitable for security and/or ready guarantors.
- Interest was less amongst organisations that: had received a grant from E&CCT in 2011; relied on grants as their main source of income; had annual incomes of less than \$100,000; had not borrowed previously, or had encountered difficulties in previous borrowing; had Boards that were risk-averse; could not identify a form of security available to them; did not identify a need to borrow.

### **The type/s of social lending that would be attractive to community organisations**

Community agencies were interested in loans that were:

- Low interest
- Tailored to their specific project needs
- Flexible in their terms and conditions, allowing for some unforeseen circumstances (e.g. major natural disaster)
- Supported in additional ways by the lender (e.g. capacity-building; mentoring; enterprise development training).

### **The risk profile of potential borrowers in terms of their ability to service a social loan**

The main risks of social lending by E&CCT, as identified by community organisations and

key informants, were as follows:

### **Lender**

- Lender naïvety, or lack of expertise
- Insufficient due diligence in assessing loan applications

These factors were seen as entirely avoidable by (1) establishing robust loan management systems, in particular by outsourcing loan management at least initially and (2) starting out with a limited loan fund.

### **Borrowers**

- Projects and innovations lacking market research or an evidence base
- Naïve borrowers
- Young organisations
- No track record in financial management
- Poor financial management previously (e.g. default of any kind)
- History of failed projects
- Poor management or governance capacity or continuity
- Unwillingness to make financial and management information transparent
- Other significant current loans
- Security not available as either 1<sup>st</sup> or 2<sup>nd</sup> mortgage

These factors were seen as able to be managed by (1) establishing robust loan management systems, including robust due diligence mechanisms and (2) setting up education and support functions for potential and actual borrowers.

# 1. Research rationale, objectives and approach

## Eastern & Central Community Trust

The E&CCT is a charitable trust with net assets of \$145 million. It distributes approximately \$5 million within its catchment area to projects that have wide community support and substantial funding in place. The E&CCT's trust deed has a provision within it enabling the trust to undertake social lending. There are a number of perspectives on what social lending constitutes, ranging from an interest-free loan to lending to commercial entities that have limited access to funding. E&CCT decided to undertake formative research to ascertain and increase its understanding of:

- The level of acceptance of social lending amongst community organisations in the E&CCT catchment
- The potential uptake of social lending in that catchment
- The type/s of social lending that would be attractive to community organisations
- The risk profile of potential borrowers in terms of their ability to service a social loan.

## Key research objectives

The key objective of the research is to ascertain community interest in social lending and to gauge the likely shape it could take. The research investigated:

- How social lending is perceived amongst the community groups in E&CCT's catchment area
- The potential uptake of social lending amongst community organisations
- The position and willingness of community organisations to service loans

Key questions were:

### **Potential of social lending**

- There are clear advantages to the community to offer loans?
- Reasons why social lending may not be attractive to some community groups?
- The perceived benefits of having access to a loan through E&CCT?
- In what ways do you think social lending could meet the needs of your organisation and/or provide additional benefits to your organisation and its clients/end users (e.g. extend the reach and type of work of organisations, build stronger social projects, provide better focus on sustainability in projects)?

### **Appropriateness of a social lending approach**

- How would social lending framework respond appropriately to community organisations based on organisational needs and goals?
- Where do community organisations secure funding now, have they had good or bad experiences with lending organisations, and what is the likelihood they could acquire funds by way of a loan from E&CCT?
- If community organisations have secured funding in the past how useful was this? What were the limitations?
- What changes, if any, would have to occur within community organisations to make social lending a viable funding framework (e.g. culture of the organisation, management)?

- The impacts of E&CCT image as a community trust

### **Risk profiling of community organisations**

- The security that could be offered
- Expected length of loan contract
- The form of assets that could be offered by way of security
- What would community organisations need for social lending to be viable (e.g. technical assistance, support with managing loan)? What features make a loan viable to community agencies?
- Do community organisations think they are in a position to undertake social lending? If not, why?

### **Uptake of social lending**

- *Are there certain types of organisations social lending would appeal to (e.g. size, category, activity level)?*
- *What is the most likely category of recipients?*
- What conditions would support uptake of social lending?
- What are the barriers for community organisations in the uptake of social lending?

### **Benefits of social lending**

- What kinds of organisations benefit from social lending? In what ways?

These questions were reflected in the interview guides (**Appendix 1**) and survey (**Appendix 2**).

## **Research design and methods**

### **Mixed method research**

Reflecting the objectives of the research, the design incorporated both qualitative and quantitative data collection, as set out in **Table 1**.

<b>Data collection medium</b>	<b>Information focus</b>
<i>Literature/evidence review and analysis</i>	What's already known about social lending by community trusts, with a focus on the New Zealand experience
<i>Key informant interviews</i>	Perspectives from social lending managers in agencies that have been involved recently in social lending e.g. other NZ Community Trusts and The Tindall Foundation
<i>Community agency focus groups</i>	Perspectives on the desirability and viability of social lending
<i>E-survey</i>	Quantitative (and potentially some qualitative) data on the key research questions

### **Rapid evidence review**

A rapid evidence review focused on information from the New Zealand context on the relevance of social lending to New Zealand, including perceived risks, enablers and recommendations for effective application of social lending here.

## Key informant interviews

Key informant interviews were undertaken with four organisations that had either undertaken social lending or considered doing so (ASB Trust, The Tindall Foundation, Prometheus Lending Services, and Christchurch City Council) to obtain their views on the suitability and feasibility of social lending in New Zealand, including risks and enablers.

## Focus groups

Two focus groups were held – one in Hastings and one in Palmerston North – each including 7-8 people representing agencies that were previously successful applicants to E&CCT. Agencies were selected to represent a wide range of agency attributes relevant to the topic, including:

- Culture (Pacific, Māori, other migrant cultures)
- Location – urban and rural
- Size (e.g. annual income)
- Legal status
- Service focus (e.g. health, social services, arts, environment, recreation, disability, kaupapa Māori, etc.).

Focus groups were 2½ hours long and held in the evenings, to optimise attendance. Participants were asked questions around the topics set out above (see **Appendix 1**), including their reactions to a social loan test concept (**Appendix 3**) developed by E&CCT. Each participant was given a koha of \$50 in petrol vouchers.

## E-survey

All applicants to E&CCT in the past three years (n=573) were sent an email invitation inviting them to take part in an online survey (see **Appendix 2**). Questions were based on the following topics:

- Demographics of the organisation (e.g. size, service type, location, legal status, cultural affiliations, etc.)
- Where funding is secured currently, including loans
- Likelihood to take up a loan offer from E&CCT if it was made available
- Potential uses of loans, including whether it would allow for innovation
- Reasons for seeing social lending as attractive or not
- Responses to relevant loan parameters (e.g. duration, amount, terms and conditions)
- What security might be offered?
- Reactions to a social lending test concept
- Whether E&CCT's brand image would improve, stay the same or deteriorate if it offered social loans.

Just over half of those invited responded to the survey (n=266<sup>1</sup>), which is a very high survey response rate.

## Layout of the report

*The report is structured so that earlier chapters provide useful background detail to the*

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<sup>1</sup> Of the 573 emails sent out, 50 'bounced back'; thus the response rate was 51%.



*information in the later ones. Accordingly:*

- **Chapter 2** provides information on:
  - The *demographic profile* of the community organisations responding to the survey
  - Their primary and other *income sources*
  - The *borrowing patterns* of those organisations
  - The organisations' *attitudes towards borrowing*
- **Chapter 3** outlines the organisations' *attitudes towards borrowing*
- **Chapter 4** outlines *key informants' perspectives on social lending, including benefits, best uses and risks*
- **Chapter 5** outlines the community organisations' *reactions to a social lending and a 'test' loan model, including:*
  - *Level of interest* in social lending and *purposes* for which loans might be sought
  - Preferred *loan features*, including *terms and conditions*
- **Chapter 6** outlines *the key enablers of successful social lending*
- **Chapter 7** describes the perceived *possible impacts of social lending on E&CCT's image*.

## **Terminology**

- 'Respondents' refers to people who responded to the survey
- 'Participants' refers to the community organisations that took part in the research – both survey respondents and focus group participants
- 'Key informants' refers to the four key informants interviewed.

## 2. The community organisations, their income sources and borrowing patterns

### Demographics of the organisations

**Q1.<sup>2</sup> Which of the following sectors are your organisation's services mainly focused on? (Multiple answers possible)**

- Respondents included a broad coverage of the not-for-profit sector.

	Total Sample	
	N=	%
Education	111	42
Sports	89	34
Community development	67	25
Social services	63	24
Health	50	19
Arts	37	14
Environment/conservation	25	9
Kaupapa Māori	24	9
Migrant/refugee services	5	2
Pasifika services	3	1
Other (primarily disability and elder services <sup>3</sup> )	45	17
<b>Base</b>	<b>266</b>	

**Q2. Which cultural populations does your organisation mainly provide services to?**

- The cultural focus of services roughly represented the cultural demographic of the general population.

	Total Sample	
	N=	%
All cultures	229	86
Māori primarily	31	12
Pacific primarily	6	2
Other cultures (migrant/refugees; deaf; various European cultures)	7	3
<b>Base</b>	<b>266</b>	

**Q3. In which area(s) is your organisation physically based? (Multiple answers possible)**

- Respondents represented the total E&CCT catchment well.

	Total Sample	
	N=	%

<sup>2</sup> Where Q numbers are given, these reflect the survey question numbers.

<sup>3</sup> Others services described themselves as: religious; rescue and safety services; youth services.

Hawkes Bay	128	48
Manawatu	67	25
Poverty Bay	43	16
Wairarapa	36	14
Horowhenua	30	12
Tararua	13	5
<b>Base</b>	<b>266</b>	

**Q4. Is your organisation based in a city or rural centre? (Multiple answers possible)**

- Respondents represented both urban and rural centres.

	Total Sample	
	N=	%
City	176	66
Rural	131	49
Both	40	15
<b>Base</b>	<b>266</b>	

**Q5. What is your organisation's legal status?**

- A majority of respondents were incorporated societies or charitable trusts.

	Total Sample	
	N=	%
Incorporated Society	127	48
Charitable Trust	77	29
School	31	12
Church	4	2
Marae or runanga	3	1
Limited liability company	1	*
Other <sup>4</sup>	17	6
Not a legal entity	6	2
<b>Base</b>	<b>266</b>	

**Q6. How many years has your organisation been in operation?**

- 91% of respondents had been in operation for more than 5 years, suggesting good stability.

	Total Sample	
	N=	%
Less than 2 years	8	3
2-5 years	17	6
More than 5 years	241	91
<b>Base</b>	<b>266</b>	

<sup>4</sup> Mainly both Inc Soc and Charitable Trust, and kindergartens.

## Income sources

### Q7. Has your organisation received a grant from E&CCT in any of these last three years?

- The majority of those responding (84%) had received a grant from E&CCT in the last three years. Some had received grants in more than one of those years.

	Total Sample	
	N=	%
Received grant in 2009	111	42
Received grant in 2010	117	44
Received grant in 2011	159	60
No grants received	41	16
<b>Base</b>	<b>266</b>	

### Q8. What was the main source of your organisation's income in the past two years?

- Main income from (1) grants and sponsorship and (2) government contracts were around twice as common as any other source.
- Income from services provided was the main source of income for only 14% of respondents.
- 'Other' fundraising and public donations were the primary source of income for 5% and 4% respectively.

	Total Sample	
	N=	%
Grants and sponsorship	89	33
Contracts for services	75	28
Membership fees and subscriptions	41	15
Income from services provided	37	14
Other fundraising (e.g. raffles)	16	5
Donations from public	12	4
Other (investments)	2	1
<b>Base</b>	<b>266</b>	

### Q9. And what other sources of income did your organisation have in the past two years? (*Multiple answers possible*)

- A majority respondents had multiple revenue streams.
- Income from grants and sponsorship was also much more common than any other secondary source of income.
- Fundraising and public donations were a greater secondary source of income than membership fees or services provided.
- 27% had secondary income from service provided and 26% received some income on investments.
- Only 1% had no other source of income.

	Total Sample	
	N=	%

Grants and sponsorship	154	60
Other fundraising (e.g. raffles)	123	49
Donations from public	116	45
Income from services provided	80	31
Membership fees and subscriptions	77	30
Interest on investments	66	26
Contracts for services	34	13
<b>Base</b>	<b>255</b>	

**Q10. What was your organisation's income from all sources in the 2010-2011 financial year?**

- 55% earned less than \$100,000 per annum.

	Total Sample	
	N=	%
Less than \$100,000	141	55
\$100,000 - \$250,000	49	19
More than \$250,000	59	23
Prefer not to answer	9	3
<b>Base</b>	<b>258</b>	

**Borrowing history**

**Q11. Has your organisation borrowed money in the past 3-4 years (including overdrafts)?**

- Only 14% of organisations had borrowed funds in the past 3-4 years.

	Total Sample	
	N=	%
Yes	36	14
No	214	83
Not sure	8	3
<b>Base</b>	<b>258</b>	

**Q12. Whom did your organisation borrow from? (Multiple answers possible)**

- The majority of borrowers got their loan from a bank (71%), or a private lender (31%).

	Total Sample	
	N=	%
Bank	25	71
Commercial or private lender	13	31
Local Council	2	6
Other (national parent body)	3	9
<b>Base</b>	<b>35</b>	

**Q13. How easy did your organisation find it to service that loan?**

- Almost half (42%) had found it difficult to service their loan/s.

	Total Sample	
	N=	%
Very easy	3	9
Easy	17	49
Not very easy	14	40
Hard	1	2
<b>Base</b>	<b>35</b>	

**Q14. What were the main reasons why your organisation had some difficulty servicing its previous borrowing? (Open answer<sup>5</sup>)**

The main difficulties in servicing loans were:

- Poor assessment of their ability to repay the loan (5)
- The recent economic downturn, affecting various sources of income (3)
- Fluctuation in donations (2)
- Financial personnel inadequately skilled (2)
- ‘Hidden’ costs of loan compliance, and ‘bureaucracy’ (2)

<sup>5</sup> Responses to open questions are listed in order of response type frequency.

### **3. Participants' attitudes towards borrowing**

#### **Philosophy of borrowing**

- Most participants were not opposed to borrowing in principle, and saw it as a way to build both improved services to their communities and improved income capacity for their organisations.
- However, borrowing was seen widely as unrealistic for not-for-profit organisations, by definition, and especially in the current NZ and global economic context.
- Most participants saw it as prudent and responsible to their organisation to be financially cautious, or even risk-averse.

Common themes in participants' reactions to the test loan concept were:

- The need for E&CCT to be a wise lender, so as not to “waste” its fund on unwise lending
- Expect E&CCT to be a wise lender, as it is dispensing funds that belong to the community
- The need to clearly communicate the purpose of social lending, to avoid unrealistic expectations and assumptions amongst potential borrowers
- The importance of E&CCT as lender setting the boundaries for borrowers, based on evidence of good practice in the loans industry, so as not to inadvertently encourage unwise borrowing
- Important for lender to be flexible to borrower's context
- An assumption that loans would be for clearly defined projects, normally with a clear (albeit possibly indirect) income-generation goal and outcomes.

#### **Perceived benefits of borrowing for community organisations**

- Opportunities to provide enhanced services
- Opportunities to grow more secure income streams
- Opportunities to develop improved financial management capability
- Opportunities to generate knowledge and share gains with one another
- Better opportunities for enterprise partnerships
- Longer-term vision
- Stronger community sector generally

#### **Main barriers to borrowing**

The perceived main barriers to borrowing from commercial lenders were:

- Not having ever considered borrowing as an option
- Risk aversion by Boards; fear of debt
- Lack of a secure income stream
- Lack of assets to provide as security
- Not knowing agencies that provide social lending
- Lenders' scepticism about the ability of community organisations to service a loan

- Lack of entrepreneurship and calculated risk-taking amongst management and governance personnel of community organisations, especially in smaller organisations



## **4. Key informants' perspectives on social lending**

### **Benefits of social lending**

- 'Recycles' limited community funding
- Invests in NZ, rather than overseas
- Fills a need
- Enables growth of community services
- Promotes social enterprise
- Builds agencies' capabilities and capacity – financial management, organisational management
- Builds business confidence and dignity
- Allows large sums to be made available to community agencies for enterprise development
- Can help to leverage other support for agencies, both financial and other contributions (e.g. in-kind support, labour)

### **Best uses of social loans**

- For purchase of capital items (facilities [including expertise] or equipment [software, kitchen equipment, etc]) to support social enterprise development
- As bridging finance to support enterprise development
- In combination with grants or other support services (e.g. capacity building)

### **Risks**

#### **Lenders**

- Lender naïvety, or lack of expertise

#### **Borrowers**

- Projects and innovations lacking market research or an evidence base
- Naïve borrowers
- Young organisations
- Limited track record in financial management
- Poor financial management previously (e.g. default of any kind)
- History of failed projects
- Poor management or governance capacity or continuity
- Unwillingness to make financial and management information transparent
- Other significant current loans
- Security not available as either 1<sup>st</sup> or 2<sup>nd</sup> mortgage

Key informants views on mitigating these risks are incorporated into the chapter on **Enablers of successful social lending**, p 19.

## 5. Reactions of participants<sup>6</sup> to the social lending concept and ‘test’ model

### A) Level of interest and loan purposes

#### Q15. Might your organisation ever be interested in a loan of this kind (loan test model provided)?

- 60% of respondents were not interested in a loan. However 40% were possibly (30%) or definitely (10%) interested.
- Interest was greater amongst organisations that: were in the cities (vs rural centres); provided community development, education and sports services (vs other service types); were 2-5 years old (vs older or younger); provided income-generating services; had annual incomes of either less than \$100,000 (small loans) or more than \$250,000 (larger loans); had borrowed in the past 3-4 years; had assets obviously suitable for security and/or ready guarantors.
- Interest was less amongst organisations that: had received a grant from E&CCT in 2011; relied on grants as their main source of income; had annual incomes of less than \$100,000; had not borrowed previously, or had encountered difficulties in previous borrowing; had Boards that were risk-averse; could not identify a form of security available to them; did not identify a need to borrow.

	Total Sample	
	N=	%
Yes, definitely	24	10
Maybe	77	30
Probably not	111	44
Definitely not	41	16
<b>Base</b>	<b>253</b>	

#### Q16. If you would not be interested in a loan, what are the reason/s? (Multiple answers possible)

- The main reasons for not being interested in social lending were to do with insufficient resource, caution and philosophical opposition, or some prohibition on borrowing.

	Total Sample	
	N=	%
Insufficient secure income to service a loan	94	56
Board unwilling to take the risk	56	37
Trust Deed/Constitution/contract <sup>7</sup> prohibits	21	14
Timing of income unreliable	18	12
Philosophically opposed	15	10
No need	15	10
<b>Base</b>	<b>151</b>	

*“Income-generating activities goes against the ethos of an organisation like ours.”* Elder

<sup>6</sup> This chapter integrates the responses of survey respondents and focus group participants.

<sup>7</sup> Contracts with the Ministry of Education.

care

*“Wouldn’t want to carry that burden – don’t have a loan myself.”* Disability services

### **Q17. What kind of purpose would your organisation wish to borrow for? (Multiple answers possible)**

- Most common reasons were capital expenditure, commonly to upgrade or expand facilities of various kinds (including equipment), often for the purpose of expanding or enhancing income-generating services.

	Total Sample	
	N=	%
Capital expenditure – not buildings (e.g. vehicles, other assets)	66	66
Establish or expand an income-generating initiative	54	54
Purchase of building/s	36	36
Bridging finance	11	11
Other purpose (consolidate debt for easier repayment)	2	2
<b>Base</b>	<b>102</b>	

## **B) Reactions to suggested loan attributes**

### **i. Loan structure**

#### ***Time frame of a loan - 1 to 10 years to suit the project, applicant and lender***

- Sufficient and reasonable for all purposes envisaged by participants
- Loan period needs to be aligned with (1) borrower income and expenditure and (2) loan size
- Longer period not wise, given the fragile NFP funding environment
- Longer period could only be justified for a loan greater than \$200K – seen as risky to both lender and borrower in the NFP sector
- Many interested in short time frames (6 months to 2 years), due to caution and fluctuating NFP income context
- Shorter periods relevant to bridging finance (e.g. small capital purchases to advance income generation when funds not immediately available but income guaranteed [e.g. government contract])
- Only larger, well established organisations interested in larger amounts and longer loan periods
- Projects needing a longer period might best be divided into two projects and loans framed accordingly

#### **Q21. What loan duration might your organisation seek?**

- The term envisaged was directly related to the sum sought.
- Most respondents envisaged a loan period of more than two years.
- Some respondents envisaged a use for short-term bridging loans.

	Total Sample	
	N=	%
Less than 2 years	10	10
2-5 years	47	47

More than 5 years	43	43
<b>Base</b>	<b>100</b>	

**Amount of loan - \$5,000 to maximum \$200,000**

- \$200K seen as a reasonable cap
- Would like a potential to extend that cap if (1) borrower clearly able to service a larger loan and (2) strong demonstration of ability to service over a period (e.g. 2-3 years)
- Some interested in smaller loan amounts (e.g. for small capital purchases [delivery van; wages for additional staff; kitchen equipment] to advance income generation when funds not immediately available but income guaranteed [e.g. government contract])

**Q20. What sum might your organisation wish to borrow?**

- Respondents were mostly interested in sums over \$5,000; however 7% were also interested in sums less than \$5,000.
- Loans less than \$5,000 were typically wanted for bridging (e.g. to make an essential purchase before a guaranteed contract income payment came through), or small capital purchases essential to effective income generation (e.g. computer upgrade; delivery scooter).

	Total Sample	
	N=	%
Less than \$5,000	7	7
\$5,000 - \$20,000	30	30
\$20,000 - \$100,000	38	38
More than \$100,000	25	25
<b>Base</b>	<b>100</b>	

**Percentage available for a project loan – up to 90% of project cost**

- Expect E&CCT to be a wise lender in setting loan parameters
- 90% seen as valuable and useful where the borrower can *guarantee* ability to repay within the loan period (e.g. very short-term loans)
- For longer-term loans or where the organisation's income is not "100% guaranteed" over the loan period, a lower % recommended
- Important not to raise hopes or inadvertently encourage unsustainable borrowing or risk-taking by borrowers
- Suggest a sliding scale based on demonstrated ability to service the loan

**Interest rates on a loan – from 0% to commercial rate e.g. 10%**

- Rationale called into question the basic purpose of social loans versus commercial bank loans
- General expectation that social loan rates would be lower than those offered by the commercial banks – consistent with the purposes of SL
- Sliding scale seen as reasonable, based on the borrower's ability to pay closer to a market interest rate
- Fairness principles of 'need', 'equity' and 'value to the community' approved – that is, each borrower paying back into the E&CCT fund accordingly to (1) their ability and (2) the value of their project to the local community

### ***Repayment of loan (principal and interest) on a monthly basis***

- Essential to be repaying principal, not interest-only; otherwise contrary to the purposes of SL
- Monthly basis acceptable
- Would also like option to pay fortnightly or weekly, if viable for the borrower, to reduce interest accrued; seen as requiring no additional cost to E&CCT, because all done electronically; also safer for E&CCT and allows funds to be recycled earlier

### ***No penalty for early repayment of a loan***

- Essential
- Consistent with the SL purpose of ‘recycling’ the funds
- Would encourage early repayment by borrowers, the majority of whom would opt for a “safe” loan period to avoid stress but would be at some level anxious to repay as soon as possible

### ***Adequate security on assets for a loan (loan up to 50%)***

- All agreed that having to provide some form of security was reasonable and expected, and would make borrowers think very seriously about the risks of borrowing
- Unsure what ‘adequate’ amounted to (e.g. some organisations have little in the way of capital assets)
- Several unsure what kind of security they might be able to offer, but open to suggestions from E&CCT
- Confused by the phrase ‘loan up to 50%’

### **Q18. What security would your organisation be willing and able to provide? (*Multiple answers possible*)**

	Total Sample	
	N=	%
General assets of the organisation	49	48
A specific high value asset	31	30
Guarantors	21	21
None	17	17
<b>Base</b>	<b>102</b>	

### **Q19. Are there any barriers to your organisation providing security for a loan? (*Open answer*)**

- *No barriers* (n=32) – commonly referred to a building owned as security
- *Most common barrier* (n=29) – perceived insufficient capital assets; people who gave this reason often seemed to regard it as insuperable
- *Other barriers* (n=25) – not seen as insuperable
  - ✧ Would require a Board agreement, and Board may need convincing
  - ✧ Would require a change to the Trust Deed or Constitution
  - ✧ Anxiety about the potential risks
  - ✧ The agency’s assets in shared ownership (e.g. marae, some buildings) or are taonga (marae and rūnanga)
  - ✧ Difficult to find guarantors
  - ✧ Cost of getting assets valued

- ✧ Unable to identify assets that would be seen as sufficient.

A common reason for perceiving barriers to providing security may well be that these organisations are not aware of ‘alternative’ options such as offering security over general assets or locating guarantors.

***Reporting requirements by organisation – quarterly basis***

- Quarterly reporting reasonable provided that the reporting format and information requirements were not onerous
- Unclear whether reporting would be on the loan or on progress on the project for which the loan was taken

***Foreclosure if loan payments in default – two months in arrears and without negotiation with the lender***

- No different from any other loan, and encourages responsible borrowing
- Important to form a good working relationship with the lender, so that borrowers feel comfortable to approach them if encountering difficulties
- Need contingencies for loan holiday if significant *unforeseen* difficulties arise (e.g. should borrowers have to plan for a major earthquake or global recession?)

**ii. Assessment to qualify for a loan**

***The project must be income-generating***

- Confusing – depends on how the term ‘project’ is defined, e.g. borrowing to fund part of an existing service that is already income-generating
- Better to simply require evidence of ability to service the loan

There was a perception amongst some participants that it was harder currently to get a grant if the organisation did have an income-generating service, because those organisations were seen as less in need of support. Some people expressed a concern that either (1) E&CCT might become willing to only lend (not grant) to organisations with income-generating services, and/or that (2) E&CCT might develop an expectation that *all* community service providers ought to have an income-generating service attached to their social service, which participants saw as inappropriate and untenable.

***The project is unlikely to attract a normal bank loan***

- Agreed – otherwise E&CCT would be wasting valuable community funds
- Assumed that this would be a condition of social lending, for that reason

***The project has strong community benefit***

- Agreed in principle, but concern voiced that E&CCT might set itself up as the arbiter of what constitutes ‘community benefit’
- Should be sufficient that the funded project is consistent with the objectives of the organisation

***The project will strengthen the capability of a community organisation***

- Agreed that the project should strengthen the organisation’s *capacity*, but not necessarily capability (e.g. if the project is an extension of an existing service)

- Should not be a requirement of the loan, but perhaps one factor amongst many to be considered

### **iii. Risk assessment of borrower by E&CCT**

- Seen as ‘due diligence’; sensible and expected of a wise lender

#### ***Approval of budgets around expenditure and income***

- Agreed that this was a key aspect of any loan application
- Borrowers would expect their financial position to be open to scrutiny, and would appreciate *expert* advice; noted that E&CCT might not itself have that expertise, which might need to be provided by another agency with the relevant expertise and experience

#### ***Evidence of competent project management***

- Seen as part of due diligence by the lender to check management competence, but should focus on competence of the organisation’s management, rather than the project’s
- Organisations would like to see a checklist of parameters and standards for competent management provided

#### ***Evidence of Board governance and management capability***

- Comments as above – the loan application materials need to specify the level of capability required, so that applicants can provide relevant information
- Some of the information required might be best presented in a face-to-face or teleconference meeting between E&CCT and the applicant

#### ***Valuation of assets***

- Agreed that this was reasonable and sensible; query around who would pay for it, all hoping that E&CCT would cover this cost
- Organisations would like to see an option for the loan project to become included in the organisation’s assets at agreed points (e.g. increasing value of a renovation being undertaken in stages)

#### ***Frequent contact/dialogue between lender and borrower***

- Agreed that this was vital, but also concerned that it should not become onerous
- Suggested that contact should be clearly scheduled and agreed to, based on each individual contract, and include (i) regular reporting by the borrower, (ii) scheduled support contacts from E&CCT as lender, and (iii) the opportunity for the borrower to contact E&CCT on an ‘as needs’ basis for matters falling outside of regular reporting.

## 6. Enablers of successful social lending

Factors that were seen by participants and key informants as contributing to making borrowing successful were as follows:

### Lender and 'product' attributes

- Refer to the product as 'community development lending', rather than 'social lending' – the word 'social' seen in NZ as associated with handouts (e.g. 'social welfare'; Benedict, 2010)
- Lender trustees with strong business experience
- Lender flexibility (e.g. loan holidays option; willingness to renegotiate the loan terms)
- Personal relationship of trust between the lender and the borrower

### Loan management

- Distinguish *very clearly* between grants and loans products, for *all* parties – clarify that the lender will *not* provide a grant to cover loan default
- Outsource loan management, including loan applications management, to an agency with *proven* relevant expertise:
  - ✧ Avails *essential* expertise
  - ✧ Avoids lender naivety leading to stress and poor decision-making
  - ✧ No more expensive than in-house loans management
  - ✧ Distances the reputation of the lender from any problems that any arise (e.g. declining applications)
  - ✧ Avoids any potential conflicts of interest (e.g. lender trustees who are associated with loan applicants)
- Comprehensive and rigorous 'due diligence' in reviewing loan applications and determining the loan terms and conditions

### Loan features

- Maximum 10 year loans – keeps the funds in circulation; less risk to all parties
- Ensure loans structured to include all administration costs
- Low interest rates, or no interest (some Councils lend relatively small amounts to community organisations at no interest)
- Loans customised to the borrower and the loan project, in terms of:
  - ✧ A feasible loan period
  - ✧ A simple loan compliance system
  - ✧ Availability of a loan holiday in specified circumstances
  - ✧ Ability to repay early without penalty
  - ✧ E&CCT cover the costs of valuing securities
  - ✧ Timing repayments to align with the borrower's income
- Frequent repayments – monthly maximum, fortnightly/weekly available
- Access to the loan information online
- Mandatory regular meetings between lender management and borrower, timed to suit
- Mandatory insurance cover for the funded item/s (if capital items)



- Requirement that funded items meet any relevant compliance codes (buildings, vehicles)

## **Borrower attributes**

- Having a sufficient *secure* income to service the loan for the loan period
- Having assets with sufficient value to provide a viable security
- Having good financial and management capability
- Having strong governance and able management
- Visionary and innovative personnel with successful financial management and enterprise experience
- Ability to support through development of an additional income stream

## **Borrower support**

- ‘Wraparound’ support by the lender, tailored to each borrower (e.g. ‘technical’ support [assistance with project costing; going through the loan small print; business mentoring]; regular loan reviews [e.g. quarterly or half-yearly])
- Business mentoring support (e.g. loan management; fundraising; financial management; business planning; project management)
- Guarantor support from local Council

## **Contextual factors**

- An economic environment that provides support to community agencies
- An enterprise environment that supports social enterprise

## **What else might E&CCT do to enable successful borrowing?**

Participants suggested several potential support services that would assist organisations to become aware of and consider either social loans or enterprise development, as follows:

### **Business support**

- Business development and/or mentoring service – to build social enterprise skills amongst community organisations
- Better promotion of existing social lending opportunities in NZ – social loan products advertised on an appropriate website (e.g. Office of the Community and Voluntary Sector, MSD)
- A fund specifically for enterprise development – so more community agencies can build capacity and grow services

### **Loans support**

- Case examples of successful borrowing – available online
- A ‘loans facilitator’ role for community organisations – an agency providing information about how loans work; an online tool for organisations to assess their ‘loanability’
- Education for potential guarantors – for example, encouraging local bodies to act as guarantor for organisations in their communities

## 7. Possible impact of social lending on E&CCT's image

***Would becoming a lender (as well as donor) be likely to have an impact on E&CCT's image and reputation in its community?***

	Total Sample	
	N=	%
No impact	72	29
Yes, positive impact	131	52
Yes, negative impact	47	19
<b>Base</b>	<b>250</b>	

- Only 19% of survey respondents thought it might have a *negative impact*; their reasons were that social lending by E&CCT could or would be seen as:
  - ✧ Reducing the amount of funding available in grants
  - ✧ Disadvantaging smaller organisations
  - ✧ Taking a risk with community funds
  - ✧ Inconsistent with E&CCT's purposes, to provide 'no strings' grants to worthy community organisations
  - ✧ Having a commercial vs philanthropic goal
  - ✧ 'Heartless', if E&CCT had to foreclose on a well-liked organisation
- 29% thought it would have *no impact*; their reasons were that social lending is:
  - ✧ A natural extension of E&CCT's purpose of finding ways to best support community organisations financially
  - ✧ A valuable additional product in E&CCT's 'stable'
  - ✧ Part of E&CCT's role of developing best ways to support community organisations
- A further 52% thought it would have a *positive impact*; their reasons were that social lending would:
  - ✧ Be an excellent way of making the available fund go further, through 'recycling' them
  - ✧ Offer additional options to community organisations, and to E&CCT
  - ✧ Provide a service not currently available but needed, especially for large sums of money
  - ✧ Sit appropriately alongside grants, and might be used in conjunction with grants
  - ✧ Build the capability, capacity, innovation, forward thinking and responsibility of community organisations
  - ✧ Encourage community organisations to consider developing social enterprise
  - ✧ Be highly valuable for small-scale 'bridging' finance to fast-track the income-generating activities of organisations
  - ✧ Help more organisations in more ways than at present.
- Perception of a positive impact was greater amongst: organisations in the Manawatu and Taranaki (than other areas); organisations that had borrowed recently; organisations that had identifiable security available; and organisations that had not received a grant from E&CCT in the past three years.

- Perception of a negative impact was greater amongst organisations that were least interested in social lending.

## 8. Concluding summary

E&CCT had four key questions for this research:

- *The level of acceptance of social lending amongst community organisations in the E&CCT catchment*
- *The potential uptake of social lending in that catchment*
- *The type/s of social lending that would be attractive to community organisations*
- *The risk profile of potential borrowers in terms of their ability to service a social loan*

### **The level of acceptance of social lending amongst community organisations in the E&CCT catchment**

The level of acceptance of social lending in the E&CCT's catchment area was high. Social lending was seen by a majority of community agencies surveyed as an appropriate, valuable and desirable funding tool for community development. The majority of survey respondents believed that providing social loans would have either a positive impact on E&CCT's reputation or no impact. Perceptions of possible negative impact were mostly related to the potential for foreclosing, which can be mitigated.

### **The potential uptake of social lending in that catchment**

It is apparent that there is a significant market for a social lending product in E&CCT's catchment, with 40% of the agencies surveyed either definitely (10%) or possibly (30%) interested in taking up a social loan from E&CCT. The most common purposes for which loans would be sought were (1) capital expenditure, commonly to upgrade or expand facilities of various kinds (including equipment and technologies), often for the purpose of expanding or enhancing income-generating services, or (2) as short-term bridging finance. Interest was greater amongst organisations that: were in the cities (vs rural centres); provided community development, education and sports services (vs other service types); were 2-5 years old (vs older or younger); already provided income-generating services; had annual incomes of either less than \$100,000 (small loans) or more than \$250,000 (larger loans); had borrowed in the past 3-4 years; had assets obviously suitable for security and/or ready guarantors.

### **The type/s of social lending that would be attractive to community organisations**

Community agencies were interested in loans that were: low interest; tailored to their specific project needs; flexible in their terms and conditions, allowing for some unforeseen circumstances (e.g. major natural disaster); supported in additional ways by the lender (e.g. capacity-building; mentoring; enterprise development training).

### **The risk profile of potential borrowers in terms of their ability to service a social loan**

The main risks of social lending by E&CCT, as identified by community organisations and key informants, were as follows:

## **Lender**

- Lender naïvety or lack of expertise, and/or insufficient due diligence in assessing loan applications. These factors were seen as entirely avoidable by (1) establishing robust loan management systems, in particular by outsourcing loan management at least initially and (2) starting out with a limited loan fund.

## **Borrowers**

- Projects and innovations lacking market research or an evidence base
- Naïve borrowers
- Young organisations
- No track record in financial management
- Poor financial management previously (e.g. default of any kind)
- History of failed projects
- Poor management or governance capacity or continuity
- Unwillingness to make financial and management information transparent
- Other significant current loans
- Security not available as either 1<sup>st</sup> or 2<sup>nd</sup> mortgage

These factors were seen as able to be managed by (1) establishing robust loan management systems, including robust due diligence mechanisms and (2) setting up education and support functions for potential and actual borrowers.

## **Appendix 1: Interview guides**

### **Social lending interview – Key informants**

#### **Introduction**

- Clarify purposes of the research and the interview
- Background to the research and caveats – not an indication that E&CCT intends to provide social lending
- Confidentiality provisions
- Independence of the research team
- Intended uses of data and feedback to research participants

#### **Lender's goals and experience**

- How long have you been providing a social lending product/s?
- How much social lending do you engage in relative to other uses of your funds?
- What are the specific products that you offer?
- What aspects of the product/s are identical for all borrowers?
- What were your motives or goals for doing so?
- To what extent have those goals been realised?
- In what ways have you evaluated its success?
- Are you intending to continue social lending? If so, with what provisos?
- What might make you decide to stop providing social lending?

#### **Success factors in social lending**

- What resources does the lender need to have in place to engage successfully in social lending (e.g. financial, knowledge, systems, personnel, other)? Why? Are there any 'hidden' or unanticipated costs and resourcing?
- What resources does the borrower need to have in place or set up in order to engage successfully in social lending (e.g. financial, knowledge, systems, personnel, other)? Why?
- In your experience, what are the important eligibility criteria for social lending? Why?
- What are the important contraindications for social lending? In the lender organisation? In the borrower?
- What are the perceived benefits for borrowers of social lending? Why is that an advantage over a grant?

#### **Impacts of social lending for lenders**

- What have been the impacts of providing social lending for your organisation? Positives? Negatives? Unanticipated impacts?
- How might social lending with existing donees be affected by a new social loan relationship?
- What would the impacts of social lending be on the image of a NZ community trust?
- Would loans compromise the image of a community trust?

#### **Impacts of social lending for borrowers**

- What do organisations gain from social lending? In what ways?

#### **Risk management**

- What kinds of security can borrowers offer? What form of assets can be offered by way of security?

- What is the ideal length of a loan contract?
- What are the important terms and conditions in a SL contract? Why?
- What are the important processes and setting up and monitoring a SL agreement?
- What attributes do community organisations need for social lending to be viable (e.g. technical assistance, support with managing loan)?
- What supports do community organisations need to sustain a SL contract successfully (e.g. technical assistance, support with managing the loan)?
- What features of a loan make it viable to community agencies?
- Which community organisations are not in a position to undertake social lending? Why?

### **Uptake of social lending**

- What are the attributes of organisations that social lending is most attractive to (e.g. size, category, activity level)?
- What are the most common categories of actual recipients?
- What conditions support uptake of social lending?
- What are the barriers for community organisations in their ability to take up social lending?

## Social lending interview – Focus groups

### Introduction

- Clarify purposes of the research and the group interview
- Background to the research and caveats – not an indication that E&CCT intends to provide social lending
- Confidentiality provisions – note commercial sensitivity and the need to both self-monitor within the focus group and to keep the proceedings confidential
- Independence of the research team
- Intended uses of data and potential for feedback to research participants
- Koha and appreciation

### Funding sources

- What sources do your organisations obtain funding from currently? Explore all sources, including lenders.
- Has your organisation had to borrow funding in any form previously (e.g. including overdrafts)? If so, what kinds of lenders have you borrowed from? How satisfied have you been with those loan arrangements? Were there any issues or limitations?

### About social lending

- What do participants know already about SL? Did they know about SL before being invited to this group? Explore current knowledge levels, perceptions and accuracy of those perceptions.
- What are their *first reactions* to the relevance of SL to their organisations?
- Brief overview for participants of social lending in NZ and some SL products

*“Now I’d like to explore your thoughts in some more depth. Please feel free at this point to limit your answers to any of the questions if you feel that it’s verging on commercial sensitivity. You’re welcome to send me an email after this focus group if you’d like to offer some more information confidentially.”*

### Perceived relevance and potential uptake of social lending

- In principle, does the concept of social lending appeal to you? What is/isn’t attractive about it? Explore pros and cons in depth.
- In your view, what kinds of organisations would be most likely to see SL as viable and attractive to them? Why?
- Can you see any opportunity in your organisation’s goals now or in the future for SL? In what kinds of areas?
- In what ways do you think social lending might meet some of the needs of your organisation and/or provide additional benefits to your organisation and its clients/end users (e.g. extend the reach and type of work of organisations, build stronger social projects, provide better focus on sustainability in projects)?
- What would be the potential benefits of SL for your organisations?
- Would SL be a viable substitute for any of the grants that you have obtained previously?
- Can you see some advantages to it? What are they?
- What are the factors that would put you off using social lending?
- What form of assets could be offered by way of security?
- What conditions would support uptake of social lending?



### **Risks of social lending**

- What changes, if any, would have to occur within your organisations or the current funding/economic environment in order to make social lending a viable funding framework (e.g. culture of the organisation, management, change in the organisation's strategy)?
- What would be the main risks or barriers to community organisations using social lending?
- What would community organisations need for social lending to be viable (e.g. technical assistance, support with managing loan)? What features make a loan viable to community agencies?

### **Response to specific products**

- Outline E&CCT's proposed products and ask for feedback
  - ✧ Attractiveness
  - ✧ Problems

### **Potential benefits of social lending**

- What would you expect to gain from social lending? In what ways?
- Can you envisage any gains other than economic ones? (E.g. capability gains? credit reputation?)

### **Perceptions of E&CCT**

- Would offering SL in any way affect E&CCT's image as a community trust?
- Would it make any difference to your perception of E&CCT?

### **Other comments**

- Is there anything else that you'd like to say about either social lending or its potential in NZ?

## Appendix 2: Questionnaire content

### Introduction

Eastern and Central Community Trust is exploring the potential for a 'social lending' product - that is, loans specifically designed for not-for-profit organisations - as an addition to the donations that it provides currently. E&CCT has commissioned Pam Oliver Ltd to undertake a survey of previous applicants to E&CCT to gauge the level of interest in such a product and its feasibility.

Some of the questions that follow ask for information that may be commercially sensitive, so please be assured that your answers are completely anonymous. The section at the end for your email address is only for the purpose of informing you if you are one of the winners of the prize draw of two prizes of \$100 petrol vouchers.

Thank you for contributing your time and views.  
Pam Oliver, Evaluation Manager 09 3727749

Q1. Which of the following sectors is your organisation's services mainly focused on?  
*[Click ALL that apply. Multiple answers are possible]*

- 01 Arts
- 02 Community development
- 03 Education
- 04 Environment / conservation
- 05 Health
- 06 Kaupapa Māori
- 07 Social services
- 08 Migrant / refugee services
- 09 Pasifika services
- 10 Sports
- 11 Other (please tell us what...)

Q2. Which cultural populations does your organisation provide services to? *[Click one.]*

- 01 Māori primarily
- 02 Pacific primarily
- 03 Other culture(s) primarily (please tell us which...)
- 04 All cultures

Q3. In which area(s) is your organisation physically based? *[Click ALL that apply. Multiple answers are possible]*

- 01 Poverty Bay
- 02 Hawkes Bay
- 03 Tararua
- 04 Manawatu
- 05 Wairarapa
- 06 Horowhenua

Q4. Is your organisation based in a city or rural centre? *[Click ALL that apply, multiple answers possible]*

- 01 City
- 02 Rural

Q5. What is your organisation's legal status? *[Click one]*

- 01 Incorporated society
- 02 Charitable Trust

- 0 3 Limited liability company
  - 0 4 School
  - 0 5 Marae or runanga
  - 0 6 Local authority
  - 0 7 Church
  - 0 8 Something else (please describe...)
  - 0 9 Not a legal entity
- Q6. How many years has your organisation been in operation? *[Click one]*
- 0 1 Less than 2 years
  - 0 2 2-5 years
  - 0 3 More than 5 years
- Q7. Has your organisation received a grant from E&CCT in any of these last three years?  
*[Click ALL that apply. Multiple answers possible]*
- 0 1 Received grant in 2009
  - 0 2 Received grant in 2010
  - 0 3 Received grant in 2011
  - 0 4 No grants in last 3 years
- Q8. What was the main source of your organisation's income in the past two years? *[Click one only]*
- 0 1 Grants and sponsorship
  - 0 2 Donations from the public
  - 0 3 Contracts for services
  - 0 4 Income from services or products you provide
  - 0 5 Membership fees and subscriptions
  - 0 6 Other fundraising (e.g. raffles, games nights)
  - 0 7 Interest on investments
  - 0 8 Other (please describe...)
- Q9. And what other sources of income did your organisation have in the past two years?  
*[Click ALL that apply. Multiple answers possible]*
- 0 1 Grants and sponsorship
  - 0 2 Donations from the public
  - 0 3 Contracts for services
  - 0 4 Income from services or products you provide
  - 0 5 Membership fees and subscriptions
  - 0 6 Other fundraising (e.g. raffles, games nights)
  - 0 7 Interest on investments
  - 0 8 Other (please describe...)
  - 0 9 No other source
- Q10. What was your organisation's income from all sources in the 2010-2011 financial year? *[Optional but useful. Click one]*
- 0 1 Less than \$100,000
  - 0 2 \$100,000-\$250,000
  - 0 3 More than \$250,000
  - 0 4 Prefer not to answer
- Q11. Has your organisation borrowed money in the past 3-4 years (including overdrafts)?  
*[Click one]*
- 0 1 Yes
  - 0 2 No
  - 0 3 Not sure
- Q12. Whom did your organisation borrow from? *[Click ALL that apply. Multiple answers possible]*

*possible}*

- θ 1 Bank
- θ 2 Local Council
- θ 3 Private lender
- θ 4 Other source (please describe...)

Q13. How easy did your organisation find it to service that loan? *[Click one]*

- θ 1 Very easy
- θ 2 Easy
- θ 3 Not very easy
- θ 4 Hard

*[IF THE ANSWER IS Very easy or Easy, THEN SKIP TO QUESTION 15]*

Q14. What were the main reasons why your organisation had some difficulty servicing its previous borrowing? Please describe using your own words. *[Type in the box, click NEXT to continue]*

Q15. Please consider the loan concept described here and then answer the questions that follow.

#### **Parameters of a loan**

- Time frame of a loan - 1 to 10 years to suit the project, applicant and lender
- Amount of loan - \$5,000 to maximum \$200,000
- Percentage available for a project loan - up to 90% of project cost
- Interest rates on a loan - from 0% to commercial rate
- Repayment of loan (principal and interest) on a monthly basis
- No penalty for early repayment of a loan
- Appropriate security on assets for a loan
- Reporting requirements by organisation - quarterly basis
- Foreclosure if loan payments in default - two months in arrears and without negotiation with the lender

#### **Eligibility criteria**

- The project must be income-generating
- The project is unlikely to attract a normal bank loan
- The project has strong community benefit
- The project will strengthen the capability of a community organisation

#### **Risk assessment of borrower by E&CCT**

- Approval of budgets around expenditure and income
- Evidence of competent project management
- Valuation of assets
- Evidence of Board governance and management capability
- Frequent contact/dialogue between lender and borrower

Might your organisation ever be interested in a loan of this kind? *[Click one]*

- θ 1 Yes definitely
- θ 2 Maybe
- θ 3 Probably not
- θ 4 Definitely not

*[S - IF THE ANSWER IS Yes or Maybe, THEN SKIP TO QUESTION 17]*

Q16. What would be the reason(s) for that? *[Click ALL that apply. Multiple answers possible}*

- θ 1 Insufficient secure income to service a loan
- θ 2 Trust deed prohibits
- θ 3 Board unwilling to take the risk

- 0 4 Timing of income unreliable
- 0 5 Other reasons (please tell us...)

*[IF THE ANSWER TO QUESTION 15 IS Probably not or Definitely not, THEN SKIP TO QUESTION 23]*

Q17. What kind of purpose would your organisation wish to borrow for? *[Click ALL that could potentially apply. Multiple answers possible]*

- 0 1 Purchase of buildings
- 0 2 Other capital expenditure (e.g. vehicles, other assets)
- 0 3 Bridging finance
- 0 4 Establishing an income-generating initiative
- 0 5 Other purposes (please tell us...)

Q18. What security would your organisation be willing and able to provide? *[Click ALL that apply. Multiple answers possible]*

- 0 1 General assets of the organisation (e.g. chattels)
- 0 2 A specific high value asset (e.g. building)
- 0 3 Guarantors (please describe...)
- 0 4 Other security (please describe...)
- 0 5 None

Q19. Are there any barriers to your organisation providing security for the loan? *Please describe using your own words.*

Q20. What sum might your organisation wish to borrow?

- 0 1 Less than \$5,000
- 0 2 \$5,000-\$20,000
- 0 3 \$20,000-\$100,000
- 0 4 More than \$100,000

Q21. And what loan duration might your organisation seek?

- 0 1 Less than 2 years
- 0 2 2-5 years
- 0 3 More than 5 years

Q22. If your organisation were to undertake a loan of this kind, what kinds of supports or other factors would assist you to service that loan without unnecessary stress? *Please describe using your own words.*

Q23. Would becoming a lender (as well as donor) be likely to have an impact on E&CCT's image and reputation in its community?

- 0 1 No, it would have no impact
- 0 2 Yes, it would have a positive impact
- 0 3 Yes, it would have a negative impact

Q24. Please tell us why you gave that answer above. *Please describe using your own words.*

## **Appendix 3: Social loan test concept**

### **Parameters of a loan**

- Time frame of a loan - 1 to 10 years to suit the project, applicant and lender
- Amount of loan - \$5,000 to maximum \$200,000
- Percentage available for a project loan – up to 90% of project cost
- Interest rates on a loan – from 0% to commercial rate e.g. 10%
- Repayment of loan (principal and interest) on a monthly basis
- No penalty for early repayment of a loan
- Adequate security on assets for a loan (loan up to 50%)
- Reporting requirements by organisation – quarterly basis
- Foreclosure if loan payments in default – two months in arrears and without negotiation with the lender

### **Assessment to qualify for a loan**

- The project must be income-generating
- The project is unlikely to attract a normal bank loan
- The project has strong community benefit
- The project will strengthen the capability of a community organisation

### **Risk assessment of borrower by E&CCT**

- Approval of budgets around expenditure and income
- Evidence of competent project management
- Valuation of assets
- Evidence of Board governance and management capability
- Frequent contact/dialogue between lender and borrower