

Proactive Release

27/06/2023

The following Cabinet papers and related Cabinet minutes have been proactively released by the Minister of Foreign Affairs

Title	Reference
<i>Cabinet Minute of Decision – Report of the Cabinet External Relations and Security Committee: Period Ended 12 May 2023</i>	CAB-23-MIN-0165
<i>Cabinet External Relations and Security Committee – Minute of Decision – Business Link Pacific Phase II: Proposed Budget Increase</i>	ERS-23-MIN-0023
<i>Business Link Pacific Phase II: Proposed Budget Increase</i>	

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the OIA). Where this is the case, the relevant sections of the OIA that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to OIA redaction codes:

- 9(2)(ba): to protect the supply of confidential information by another party;
- 9(2)(f)(iv): to protect the confidentiality of advice tendered by Ministers of the Crown and officials;
- 9(2)(k): to prevent improper financial gain or advantage.



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Cabinet External Relations and Security Committee: Period Ended 12 May 2023

On 15 May 2023, Cabinet made the following decisions on the work of the Cabinet External Relations and Security Committee for the period ended 12 May 2023:

Out of scope

Out of scope

ERS-23-MIN-0023	Business Link Pacific Phase II: Proposed Budget Increase Portfolio: Foreign Affairs	CONFIRMED
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Rachel Hayward
Secretary of the Cabinet

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Cabinet External Relations and Security Committee

Minute of Decision

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Business Link Pacific Phase II: Proposed Budget Increase

Portfolio **Foreign Affairs**

On 9 May 2023, the Cabinet External Relations and Security Committee:

- 1 **noted** that Business Link Pacific supports small to medium enterprises in the Pacific by facilitating access to business advice and finance;
- 2 **approved** the increase in indicative budget for Business Link Pacific Phase II from \$23.5 million up to \$40 million;
- 3 **noted** that the budget increase will be funded through existing International Development Cooperation appropriation.

Janine Harvey
Committee Secretary

Present:

Rt Hon Chris Hipkins (Chair)
Hon Grant Robertson
Hon Andrew Little
Hon Nanaia Mahuta
Hon Kieran McAnulty
Hon Ginny Andersen

Officials present from:

Office of the Prime Minister
Officials Committee for ERS

Office of the Minister of Foreign Affairs

Cabinet ERS Committee

Budget increase for Business Link Pacific Phase II

Proposal

- 1 This paper seeks approval to significantly scale up New Zealand's support to facilitate Pacific small to medium enterprises (SMEs) access to business advice, grants and concessional loans. This would be achieved by increasing the indicative budget for the project from Business Link Pacific (BLP), Phase II, from \$23.5 million to \$40 million.

Relation to government priorities

- 2 BLP II delivers on the New Zealand Government's Pacific Resilience Approach by supporting economic, fiscal and climate change resilience in Pacific Island countries.

Executive Summary

- 3 BLP II supports SME development by facilitating access to quality, affordable and local business advice and finance. The first phase of BLP delivered significant impact, with over 1,100 new jobs created (more than 40% for women), \$42.4 million in new investment facilitated and over 590 jobs supported to respond to COVID-19 with \$4.4 million in adaptation grants. In April 2022, I approved \$23.5 million for a second five-year phase of BLP.

- 4 s9(2)(ba)(i) These challenges have been amplified by the COVID-19 pandemic, and more recently by the global economic slowdown, high inflation, labour shortages and ongoing supply chain issues. s9(2)(ba)(i)

- 5 BLP has responded to this need by repurposing budget initially earmarked for "build back better" initiatives such as climate resilience and economic inclusion. Additional budget is required to ensure that these strategic priorities continue to be resourced and implemented adequately over the five-year period. We also expect requests for further funding in future to support businesses in response to unforeseen adverse events (e.g. natural disasters).

- 6 s9(2)(ba)(i) we recommend increasing the BLP II indicative budget from \$23.5 million to \$40 million. This increased budget will enable support to other Pacific Island countries during the post-COVID recovery period and in response to future unforeseen events while maintaining delivery of priorities such as climate advisory services and economic inclusion.

- 7 While Cabinet approval is required to increase the indicative budget for BLP above \$25 million, we are not requesting new funding. Budget increases will be financed

from within existing international development cooperation (IDC) programme resources.

Background

- 8 The COVID-19 pandemic has heavily impacted Pacific economies, with border restrictions and outbreaks across the region severely reducing economic activity, employment, household incomes and public revenue. Pacific governments face the twin challenges of revitalising their economies while rebuilding their balance sheets in a highly uncertain global environment.
- 9 Aotearoa New Zealand has provided significant fiscal support to Pacific governments to strengthen economic resilience and to provide a financial safety net for basic government services, with approximately \$325 million committed in direct budget support over the last two years.
- 10 At the same time, Aotearoa New Zealand has supported economic recovery and long-term economic resilience in the Pacific by investing in local industries and businesses to stimulate trade, employment and investment. BLP has been critical in supporting SMEs by enabling them to access quality, affordable and local business advice and finance to respond and adapt to the challenges of COVID-19 while preparing for recovery and investment in long-term growth.

Business Link Pacific

- 11 BLP and the Pacific SME Finance Facility Pilot (BLP's COVID-19 business support scheme) delivered strong impact for Pacific businesses during the first phase (2017-2022), including:
 - Established a regional network of 160 quality-approved business advisory firms (203 individuals, 62 women) across six Pacific Island countries
 - Improved the availability of affordable, good quality advisory services and helped Pacific businesses to access these services. Total of 1864 business advisory engagements for at least 1,000 SMEs (and more than 40% women-led businesses) supported for a total value of **\$6.7 million in business advisory services**. Average **44% co-investment by Pacific SMEs**.
 - Over **1100 new jobs generated** (including just under 500 women) by Pacific SMEs supported by BLP
 - **\$42.4 million in new investment** reported by SMEs since working with BLP
 - 93% of SMEs reported benefits from BLP support:
 - 29% increased turnover
 - 28% increased profitability
 - 39% increased access to finance
 - **590 SMEs supported** (64% part-owned or managed by women) **to respond to COVID-19** for a total **\$4.4 million in support grants**.

- **\$2.65 million in wholesale capital committed to Pacific financial service providers** for concessional lending to Pacific businesses
- 12 In April 2022, I approved \$23.5 million in development cooperation funding for implementation of a second phase of BLP, which combined the services of BLP and the SME Finance Facility. BLP II operates in twelve Pacific Island countries (Cook Islands, Fiji, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu).
- 13 BLP II aims to continue to build the commercial market for business advisory services and to improve SME access to finance, with an enhanced focus on climate resilience and economic inclusion of vulnerable groups such as rural and indigenous businesses, women, youth and people with disabilities.
- 14 Expected long-term outcomes from BLP II are:
- Pacific SMEs are more prosperous and resilient
 - Increased employment and household incomes
 - Economic development is broad-based, inclusive, sustainable and climate-resilient.

Additional funding is required to support Pacific business recovery

- 15 While BLP II was intended to support post-COVID investment and growth, the global economic slowdown, high inflation, labour shortages and ongoing supply chain issues means that Pacific businesses are struggling to recover to pre-pandemic levels. s9(2)(ba)(i)
- 16 In response to Pacific business needs, BLP has reallocated budget initially earmarked for long-term “build back better” initiatives such as climate resilience and economic inclusion to help businesses address immediate issues such as upgrades for tourism accommodation providers in response to reopening of borders.
- 17 The Ministry has responded by allocating \$2.66 million in additional bilateral funding over the next two years to enable more businesses in Fiji and Solomon Islands to access BLP support grants. s9(2)(ba)(i)
- 18 Additional budget is required to ensure that BLP II strategic priority areas such as climate resilience and economic inclusion continue to be resourced and implemented adequately over the five-year period.

Options Analysis

- 19 Options to provide additional economic recovery support to Pacific businesses include:
- 19.1 Tag a portion of budget support to Pacific governments to provide direct support for Pacific businesses;

- 19.2 Provide additional funding through BLP II;
- 19.3 Provide additional funding through other Ministry/donor programmes;
- 19.4 Develop and implement new bilateral or regional activities to respond to Pacific business needs.
- 20 Providing additional support through BLP II is the preferred option because:
- 20.1 BLP directly supports Pacific businesses in response to their needs. While business support could be tagged under budget support to Pacific governments, s9(2)(ba)(i)
- 20.2 BLP possesses the infrastructure and systems to scale up funding quickly in response to additional funding. This approach was proven with the implementation of the Pacific SME Finance Facility Pilot, which enabled the New Zealand and Australian governments to channel NZ\$10 million and AU\$2.5 million respectively in COVID-19 support to more than 1000 viable but financially distressed Pacific businesses.
- 20.3 BLP has demonstrated the ability to deliver support effectively and efficiently, working with local partners through a market systems approach. Other SME support programmes tend to offer fully-subsidised services from international consultants that are not sustainable and crowd out local business advisors.
- 20.4 Developing new activities for each Pacific Island country involves significant time and cost. While this approach may be appropriate for large scale or complex initiatives, the costs outweigh the benefits for smaller amounts of funding where desired outputs and outcomes are clear. As a regional activity, BLP is flexible enough to tailor support to the needs of individual countries while maximising operational efficiencies.

Financial Implications

- 21 Given the current high and expected future demand for advisory and financial support to Pacific businesses over the next five years, I am requesting approval to increase the BLP II indicative budget from \$23.5 million to \$40 million.
- 22 This increased budget will enable support to other Pacific Island countries during the post-COVID recovery period and in response to future unforeseen events while maintaining delivery of priorities such as climate advisory services and economic inclusion. s9(2)(ba)(i)
- 23 The proposed NZD 40 million budget¹ is projected as follows:

¹ Assumptions underpinning the budget:

- s9(2)(k)
- s9(2)(k)
- s9(2)(k)

Approved Budget	23,500,000
Committed Fiji bilateral funding to support post-COVID recovery	1,500,000
Committed Solomon Islands bilateral funding to support post-COVID recovery in tourism sector	1,160,000
Additional SME Support Grants to support post-COVID recovery	5,000,000
SME Support Grants for unforeseen events	6,750,000
Additional wholesale capital	2,500,000
Total	40,410,000

- 24 While Cabinet approval is required to increase the indicative budget for BLP above \$25 million, we are not requesting new funding. Budget increases will be financed from within existing IDC programme resources.
- 25 The Ministry of Foreign Affairs and Trade (MFAT) bilateral and sector divisions will monitor the management of additional budget through MFAT programme governance processes and BLP II Joint Steering Committees with Pacific government counterparts.
- 26 Budget increases are expected to increase the scale of services provided, delivering to an increased number of businesses and accelerating delivery of outputs. For example, the immediate \$2.66 million bilateral funding for Fiji and Solomon Islands is expected to support an additional 135 businesses in post-COVID economic recovery, accelerate development of climate advisory services and increase support for vulnerable population groups such as women-led, rural or indigenous businesses.

Legislative Implications

- 27 No legislative action is required for this proposal.

Impact Analysis

Regulatory Impact Statement

- 28 A Regulatory Impact Statement is not required.

Climate Implications of Policy Assessment

- 29 A Climate Implications of Policy Assessment is not required.

Population Implications

- 30 BLP II targets populations in Pacific Island countries, with a strong focus on inclusion of vulnerable groups such as rural and indigenous businesses, women, youth and people with disabilities.

Human Rights

- 31 No inconsistency with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

- 32 This paper was consulted with Department of the Prime Minister and Cabinet, the Treasury New Zealand and Ministry for Pacific Peoples.

Communications

- 33 s9(2)(f)(iv)

Proactive Release

- 34 I propose to release this paper and appendices proactively, subject to redactions as appropriate under the Official Information Act 1982, on the website Ministry of Foreign Affairs and Trade.

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Recommendations

The Minister of Foreign Affairs recommends that the Committee:

- 1 **approve** the increase in indicative budget for Business Link Pacific Phase II from \$23.5 million up to \$40 million; and
- 2 **note** that budget increases will be funded through existing International Development Cooperation appropriation.

Authorised for lodgement

Hon Nanaia Mahuta

Minister of Foreign Affairs

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