Reserve Bank of New Zealand
Te Pūtea Matua

Improving Māori Access to Capital

Issues Paper

ISSUES PAPER

Contents

Foreword

The Reserve Bank's legal purpose is outlined in the Reserve Bank of New Zealand Act 2021 (the Act). The purpose of this Act is to '*promote the prosperity and wellbeing of New Zealanders and contribute to a sustainable and productive economy*'. The Reserve Bank's (RBNZ) legislative objectives relate to financial stability, price stability and maximum sustainable employment, and central banking. The matters the RBNZ must have regard to when undertaking our work are provided in the Monetary Policy Remit and Financial Policy Remit issued by the Minister of Finance in accordance with the Act. These remits can be found on our website[1].

Combined, these Remits require RBNZ to have regard to, amongst other things:

- where employment is relative to its maximum sustainable level, taking into account that the level of maximum sustainable employment is largely determined by non-monetary factors that affect the structure and dynamics of the labour market and is not directly measureable;
- encouraging new investment and financial innovation that raise the productive potential of the economy; and
- encouraging the allocation of financial resources in a way that maximises the sustainable long-term growth of the New Zealand economy.

The work presented in this document "*Improving Māori Access to Capital*" is motivated by these expectations.

The financial system in its entirety is a powerful engine for identifying, pricing, and allocating risk and reward between people and through time. For the most part, the financial system works effectively. However, there are known limitations that, if left unfettered, can generate a vicious, rather than virtuous, relationship between economic prosperity, environmental sustainability, social cohesion and cultural inclusion. Competition between financial service providers is critical to the innovation and efficiency of a financial system. This is necessary, but not sufficient, to ensure a 'virtuous' relationship. For example, the ability to identify and price risk is partly determined by:

- the horizon people are considering;
- the ability to measure risks and be aware of the impact of future risk on today's pricing; and
- the existence of markets in which people can exchange risk at a price that suits all participants.

These challenges, amongst others, mean that

- allocative, dynamic, and cost efficiency can be compromised;
- personal, institutional, and system financial stability can be unduly and unwittingly threatened; and
- parts of society can be excluded from participating in the significant benefits of the financial system – leaving people with less opportunity to prosper.

1 See rbnz.govt.nz/monetary-policy/about-monetary-policy/monetary-policy-framework and rbnz.govt.nz/about-us/responsibility-and-accountability/our-financial-policy-remit

The unique nature of some Māori economic activity put Māori at risk of missing the full benefits of the financial system and carrying unrewarded risk and cost. Negative outcomes could include rising exclusion, inequality, and the degradation of general wellbeing.

This Issues Paper outlines some of the causal factors that may act as barriers between Māori and specific forms of capital in the financial system, and identifies potential pathways to manage this risk. This paper outlines compelling reasons to come together to design a comprehensive pathway towards a better financial system for all New Zealanders.

Adrian Orr,
Governor

Acknowledgments

Te Pūtea Matua | Reserve Bank of New Zealand would like to thank everyone who participated in the engagements that have led to this paper. These first started in early 2021 with the launch of Te Ōhanga Māori (Māori economy report) followed by individual hui, and continued into 2022 with the solutions wānanga and further hui. A total of forty-two Māori formal participants (individuals and collectives), fourteen different banks and capital providers, and eight government agencies were engaged over the past 15 months and counting. The collective feedback was invaluable to guiding the formation of our analysis.

First and foremost, a special mihi to our Māori participants from across the motu who took the time to share their experience and ideas to help shape a better future in this space for whānau, hapū, iwi and wider communities. Without your voice, this project would not have depth or meaning.

Secondly, we would like to acknowledge the banks and capital providers, with a special mention to Tāwhia the Māori bankers' rōpū. There is plenty of energy and enthusiasm for this kaupapa, and a desire to see positive change.

We would also like to thank our co-executive sponsor, Treasury Secretary Dr Caralee McLiesh, the Steering committee and the working group including representatives from Te Pūtea Matua, Te Puni Kōkiri, Treasury and Ministry for Business, Innovation and Employment (MBIE). Engagement has also occurred with partner government agencies including Ministry for Primary Industries (MPI), New Zealand Trade and Enterprise (NZTE), Te Tumu Paeroa, the Ministry of Foreign Affairs and Trade (MFAT) and the Ministry of Housing and Urban Development.

Finally, we acknowledge the leadership and collegial work shown by a multi-disciplinary team at the RBNZ, including Ashleigh Brown, Adam Richardson, Anthony Schutzenhofer, Cavan O'Connor-Close, David Craigie, Dean Hill, Emma Brown, Emily Laws, Natalia Fareti, Ngarangi Haewera, Ngarimu Parata, Nick Jeffs, Omar Aziz, Sage Bird, Samuel Kirk-Reeve, Te Puritanga Jefferies and Toni Kerr.

Ka hoki ake ki ngā mihi e hika mā, tēnā koutou katoa.
Kia tau ngā manaakitanga o te wāhi ngaro ki runga ki a koutou katoa,
Nā mātou o Te Pūtea Matua – Reserve Bank of New Zealand.

Overview

The Māori economy has grown in complexity and depth and is an integral part of the New Zealand economy. Māori businesses often have ambitions that go beyond profit generation, so a thriving Māori economy driven by dynamic businesses would bring many benefits, including improved socioeconomic outcomes for Māori. However, notwithstanding recent progress, and due to a variety of reasons, the Māori economy still lags in a number of ways.

Given that Te Pūtea Matua is tasked with enhancing the wellbeing of New Zealanders, and as kaitiaki of the financial system, we have done some work on Māori access to capital. This work pulls together and combines quantitative analysis using data on individual firms, with qualitative insights gained from extensive stakeholder engagement.

In this setting, the term 'capital' refers to both debt and equity finance. Our intention is to explore Māori access across the range of possible sources of capital – from start-up funding for new firms to bank lending to established businesses.

Previous work has highlighted that Māori businesses see a lack of access to capital as a key factor constraining their growth.[2] Consistent with the policy goals of Te Pūtea Matua, we have undertaken a review of the financial system landscape faced by Māori entities. The aim of the review is to explore two wide-ranging questions:

1. What barriers do Māori firms face when seeking finance?
2. What are the potential options available to Māori entities, the private sector and wider government to address any barriers to capital access?

We have taken three key approaches to answering these key questions. First, we have conducted some empirical research at the firm level on Māori and non-Māori businesses to better understand and quantify any differences in access to capital. We have paired this with a review of the international literature on minority and indigenous groups in accessing finance.

We have also undertaken an extensive consultation with Māori entities, financial institutions and government agencies to get a first-hand record of the financial landscape facing Māori businesses. Finally, we have worked with these groups in a series of 'solutions' wānanga – where participants have explored options available to the private sector, Māori entities and government to support capital access for Māori businesses.

Our **firm-level research** has uncovered three key findings:

1. Māori are under-represented in business ownership. Only eight percent of companies have at least one Māori shareholder or director – despite Māori making up 17 percent of the population. This suggests there are factors constraining Māori business start-ups.
2. Māori businesses[3] face higher funding costs than non-Māori businesses. The implied annual interest rate on liabilities for Māori businesses is around 50 basis points higher than for non-Māori businesses.[4]

2 BDO (2020), Productivity Commission (2021)
3 For the purpose of this analysis, we identified a Māori business as a business that is owned by a person or people who have Māori whakapapa as identified in the NZ Census.
4 See Ball, Richardson and Zheng (2022).

3. Compared with non-Māori businesses, Māori firms tend to have business characteristics that raise financing costs. On average, Māori firms have higher debt ratios, less debt funding from shareholders, and slightly lower productivity compared to non-Māori businesses. Māori businesses are also more likely to operate with negative equity while the working proprietors of Māori firms tend to be younger compared to non-Māori businesses. Much of the difference in borrowing costs between Māori and non-Māori firms can be explained by these and related characteristics.

Further research would help shed light on the underlying drivers of these differences in business characteristics. Taking a cue from the insights of international literature, it will be important to further understand the role socio-economic disparities play in driving differences in businesses characteristics.

These data-driven insights are supported by the results of our **stakeholder engagement**, which reveals a number of factors constraining access to capital for Māori entities. At a high level, Māori capital seekers, financial providers and public sector stakeholders generally agree that capital markets in New Zealand fall short in supporting Māori businesses for the purposes of maximising Māori wellbeing.

The issues constraining capital access for Māori businesses can be summarised across different themes, including:

- limited recognition of the transformative effect successful Māori businesses can have on the wider community;
- challenges in borrowing against communally-held whenua Māori (land);
- a shortage of hard data on Māori businesses and the Māori economy in informing good policy outcomes;
- the growing but still comparatively limited capabilities of Māori firms;
- a lack of scale, coordination and understanding in the Māori business funding system; and
- systemic leadership and decision-making shortcomings in the financial sector.

With these themes established, our **solutions wānanga** explored actions that Māori, the private sector and the public sector can take to improve Māori access to capital. These possible solutions are summarised in Table 1.

Table 1: Issues and Potential Pathways to Improving Māori Access to Capital

Priority Area	Issues	Potential Pathways
Future goals, data and reporting	No identified goals or measures of financial efficiency and inclusion for Māori entities. No intermediate indicators of achieving identified efficiency and inclusion goals. No data or measurement being reported to advance business and policy making decisions.	Develop a forum of government, banking organisations and Māori to: • develop financial efficiency and inclusion goals for Māori access to capital, and indicators of these goals being achieved; • require banks and other financial services providers to identify and provide information on these indicators; and • establish long-term partnership relationships between financial firms and Māori entities, with Te Tiriti o Waitangi expectations embedded. The goal should be to enhance financial and cultural capabilities.
Market functioning	The complexity and breadth of the Māori economy means that it is necessary for all forms of capital (debt and equity) and financial innovation to be accessible and inclusive. At present, market, product, and expertise gaps exist in financial risk assessment, and product and partner solutions.	Widen the scope of investment opportunities made available to Māori entities – for example using government procurement frameworks; enabling 'right of first refusal' clauses to be exercised. Develop aggregated 'corporate treasury' capability and responsibility for Māori in assisting participants in the management of asset, liabilities, liquidity, and funding for Māori entities. Establish a Māori-owned and led capital investment fund with appropriate risk appetite, and cultural and financial capability. Increase investment, tailoring and availability of lending products and services – such as the Kāinga Whenua Loans and Cash-flow lending.
		Promote and provide access to seed capital – whether from Government, philanthropic trusts, individuals, or broader Māori organisations – to enable innovation, with a Māori led approach.

Priority Area	Issues	Potential Pathways
		Scale-up micro-finance and social enterprise. Assess longer-term pathways to operate more effectively within Te Ture Whenua Māori Act 1993 e.g., financial products that use future cashflows as collateral.
Long-term Focus and Leadership	Focusing capital on the short-term can promote negative longer-term outcomes and missed investment opportunities. It can also promote a vicious circle of profit maximisation at the cost of longer-term growth, sustainability, inclusion and cohesion. Currently decision-making is largely driven by short-term financial performance – often not factoring in cultural, social and environmental outcomes. A fundamental change to the business leadership and culture is needed to focus on long-term value creation for all stakeholders including Māori.	Promote greater representation of Māori across the governance, leadership and operation of organisations. Incorporate ESG (environmental, social and governance) criteria and cultural issues into business decision-making processes, including cultural awareness of customers' needs - 'He Ara Waiora' framework prototyped by Treasury will be instructive. Invest in cultural awareness education and targeted priority training across the sector. Invest in financial awareness training within Māori business.
Public Sector Interventions	The allocation of public sector initiatives to support access to capital and its allocation is complex, not well understood, and potentially sub-scale.	Partner with Māori to streamline the public sector interventions to make them known, accessible and relevant. Monitor the use and outcomes of these intervention to enhance policy decision making.

These options should not be seen as policy recommendations from Te Pūtea Matua. They are intended as a starting point for a conversation. All of these potential solutions need to be assessed and coordinated across a number of stakeholders.

Improving Māori access to capital is an integral step towards improving the prosperity and wellbeing of all New Zealanders. The private sector, Māori communities and a broad range of government organisations all have a role to play in exploring the best options to improve access to capital for Māori. Our intention with this paper is to bring together the issues and potential pathways in one place – to support future work amongst this broad set of stakeholders. In this spirit, we will also be seeking feedback on our Issues Paper from the public.

The Māori Economy and the New Zealand Financial System

Māori still face economic adversity relative to the general population. For example, tangata whenua make up 17% of our population, but earn less than 9% of our nation's income. This translates into average levels of GDP per capita – a measure of average income – that are more than 50% lower for Māori compared to the rest of the population (Table 2).

Similar to the international experience of other indigenous minorities, this income gap translates into a range of large socio-economic disparities for Māori compared to the rest of the population. This includes lower rates of savings and home ownership, greater financial hardship, and relatively poor Māori health and education outcomes (Table 3).

These poor socioeconomic outcomes all weigh into some of the fundamental challenges faced within the Māori economy. These outcomes potentially constrain access to capital. At the same time, barriers to capital access could contribute to poor socio-economic outcomes.

Fortunately, there are encouraging signs that the gap between the Māori and non-Māori economies may be beginning to close. Over recent decades, the Māori economy has grown in its complexity and breadth. In 2018, the Māori economy accounted for around $69 billion in assets.[5] It is made up of a range of fast-growing businesses across a vast array of industries.[6]

Strong family and community ties in line with Te Ao Māori mean that when a Māori business succeeds, so does the large whānau around it. That is, the positive impact of Māori businesses provides benefits beyond private profits, assisting to eliminate the historical legacy of socio-economic disparities that have long undermined full realisation of the Māori economy potential.

Given the large and growing importance of the Māori economy, any barriers to Māori access to capital could undermine the efficiency of capital allocation in the financial system, and therefore limit New Zealand from attaining its full economic potential. As such, it is concerning that the *2020 BDO Māori Business Survey* found that funding and access to capital are two of the top three challenges facing Māori businesses.

5 BERL. (2021). Te Ohanga Māori 2018 | The Māori Economy 2018.
6 Te Puni Kōkiri (2022)

These challenges raise concerns about the ability of New Zealand's financial system to provide adequate capital for the Māori economy to flourish. These concerns are the focus of this paper, which investigates whether New Zealand's capital markets are fit for the purpose of allocating capital to Māori businesses.

The paper is structured as follows. Section 2 outlines the results of quantitative work done at Te Pūtea Matua to assess some of the differences between Māori and non-Māori businesses. This includes an assessment of the interest rate paid on liabilities across the two types of businesses. Section 3 summarises discussions with 'capital seekers' – Māori entities in need of capital – on the barriers most commonly encountered by Māori businesses trying to access capital through New Zealand's financial system. Section 4 discusses broader trends in New Zealand and international financial markets. Possible pathways for improving Māori access to capital are outlined in Section 5 while Section 6 concludes and outlines some next steps.

Table 2: Annual Gross Domestic Product (production) for Māori and Non-Māori populations in 2018

	GDP	Population	GDP per capita
New Zealand	$ 263 billion	4,699,755	$55,960
Māori	$ 17 billion	744,800	$22,824
Non-Māori	$ 246 billion	3,954,955	$62,200

Source: BERL. (2021). Te Ohanga Māori 2018 | The Māori Economy 2018.

Table 3: Economic and social outcomes – Māori and Total Population (averages)

	Māori	**Total Population**
Incomes		
Median weekly income (2021)[7]	$1,020	$1,093
Educational attainment		
Percentage of students gaining post-secondary school qualifications (2018)	20.7%	34.6%
Proportion of 15-24 year olds with at least a level 1 qualification or equivalent (such as School Certificate) (2018)	80.6%	85.8%
Proportion of 45-54 year olds with at least a level 1 qualification or equivalent (such as School Certificate) (2018)	73.0%	84.6%
Life expectancy – at birth in years (2017-2019)[8]		

7 Source: Income Survey adjusted by the Consumer Price Index, Stats NZ, June 2021. Individual median income from the main wage and salary is used to measure income. See: mbie.govt.nz/business-and-employment/employment-and-skills/employment-strategy/maori-employment-action-plan/annexes/overview-of-maori-employment-outcomes-in-aotearoa-new-zealand/

8 stats.govt.nz/information-releases/national-and-subnational-period-life-tables-2017-2019#:~:text=For%20non%2DM%C4%81ori%20males%2C%20life,for%20females%20in%202017%E2%80%932019.

	Māori	Total Population
Female	77.1	84.4
Male	73.4	80.9
Home ownership rates		
Proportion of people who own their home (2018)[9]	31%	52%

Source: StatsNZ

Insights from our Research

There is currently limited aggregate data available summarising the financial constraints facing Māori businesses. To help address this gap, we use the annual tax filing data of individual New Zealand businesses to calculate the interest rates businesses pay on their liabilities. This allows us to assess the average rates of interest paid by different types of companies, working proprietors and sole traders.[10]

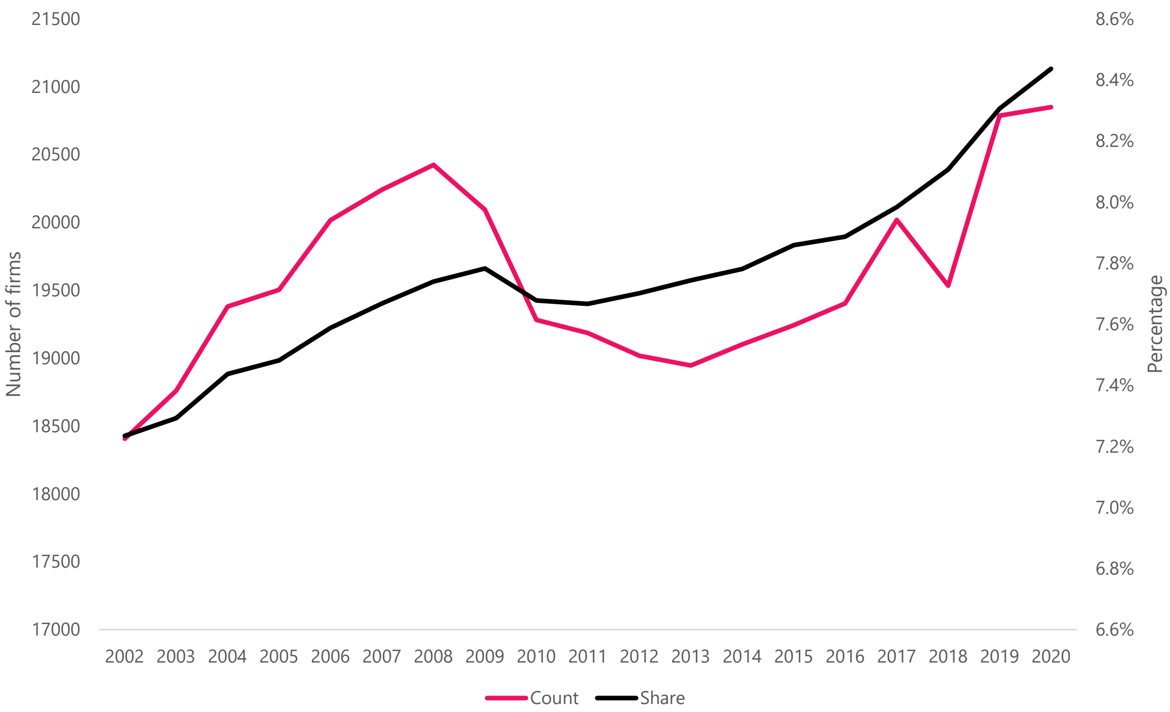
We split the sample into Māori and non-Māori businesses by linking the directors and shareholders of each company to their ethnicity, as stated in the Census and other records. This allows us to compare the cost of debt faced by businesses with Māori ownership with that of other New Zealand firms.

The first thing to note is that Māori are underrepresented as shareholders and directors of New Zealand companies. Overall, businesses with at least one Māori shareholder or director make up around 8.5% of all New Zealand businesses (figure 1). This is well below the share of Māori in the population, which currently sits at around 17%.

The growth rate in Māori businesses has been slightly faster than growth in the total number of businesses, and the share of Māori businesses has increased by about one percentage point over the 20 years to 2020. While this is encouraging, the overall sense from these numbers is that Māori business creation has been held back compared to non-Māori business creation.

9 stats.govt.nz/reports/te-pa-harakeke-maori-housing-and-wellbeing-2021
10 For greater detail, see Ball, Richardson and Zheng (2022)

Figure 1: Number of Māori firms and share of total firms



Source: RBNZ calculations using LBD and IDI data.

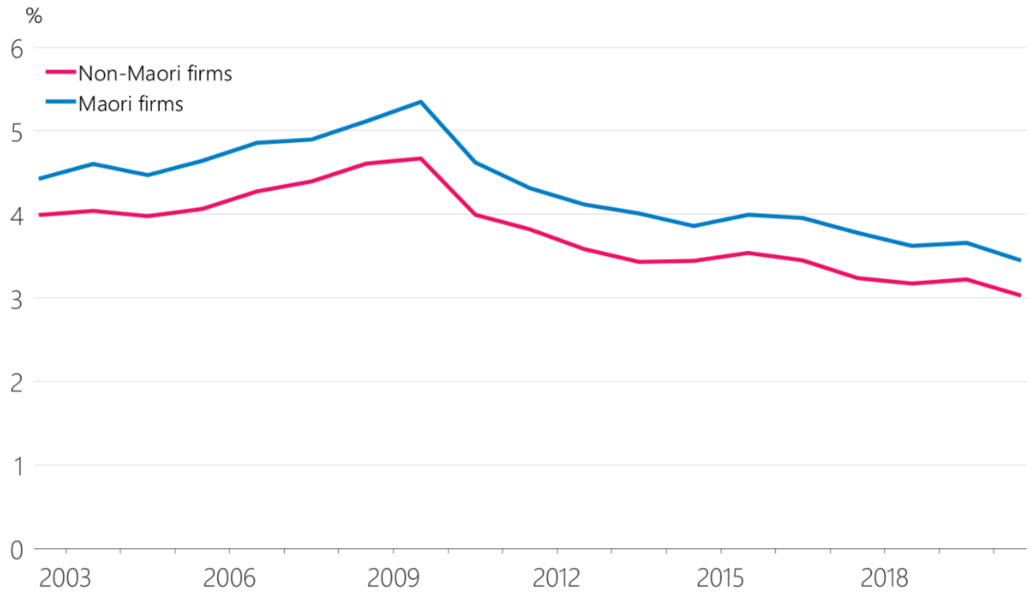
One proxy for the ease or difficulty firms face in raising capital is the interest rate they pay on their liabilities. All else equal, if debt is relatively easy to access, interest rates will be lower for the business. As part of our exploration into whether Māori firms face greater difficulties in raising capital, we look at the rate of interest paid on the liabilities of Māori and non-Māori firms.

As shown in figure 2, the data show that Māori businesses typically pay interest rates on their liabilities that are persistently higher than for other New Zealand businesses. Overall, Māori businesses, on average, are charged interest rates that are around 50 basis points higher than in other New Zealand businesses.

Of course, all else is very rarely equal. Differences in the rate of interest that firms pay can reflect a number of factors. For example, interest rate differentials across firms could suggest differences in factors such as:

- the leverage and risk businesses face;
- the quality of collateral provided for lending;
- the current and expected financial performance of the firm;
- the skills and experience of business owners and investors; and
- the quality of information provided to lenders on the business.

Figure 2: Interest rate on firm liabilities (annual)



Source: RBNZ calculations using LBD and IDI data. See Ball, Richardson and Zheng (2022).

To explore the possibility that business characteristics could explain the interest rate premium paid by Māori businesses, we use regression techniques to control for some of these differences across Māori and non-Māori firms. Overall, we find that Māori business characteristics do explain a fair portion of the difference in financing costs across Māori and non-Māori firms. Once these characteristics are taken into account in the modelling, the difference in interest rates paid by Māori and non-Māori businesses becomes statistically insignificant.

To highlight the intuition behind this result, Table 3 outlines a few of the broad characteristics – which likely influence interest rates paid on liabilities – of Māori and non-Māori firms. This shows that Māori businesses generally do tend to have characteristics consistent with higher financing costs relative to non-Māori businesses.

For instance, Māori firms tend to have higher debt ratios and slightly lower labour productivity than non- Māori businesses. Māori firms are also more likely to operate with negative equity and have a lower share of their liabilities made up of direct loans from shareholders – i.e. less of their loans come directly from the owners of the business. The working proprietors of Māori firms also tend to be relatively younger.

What conclusions can we draw from this analysis? First, and reassuringly, there is no compelling evidence across established businesses that the financial sector penalises firms just because they have Māori ownership.

Second, the start-up of Māori business is constrained, with Māori under-represented when it comes to business ownership. While this result indicates that something about the New Zealand environment is holding back Māori business development, it also highlights a limitation in our analysis. That is, the data only gives us insights into part of the Māori financial landscape – we can only 'see' Māori firms that are sufficiently well established to raise capital. We are missing information on how potential Māori business owners navigate the start-up process, including accessing early stage capital. We also lack visibility of the capital-raising process, such as the loan application stage. In addition, our data provides limited insight into how post-settlement governance entities and Māori land trusts and incorporations interact with the financial system.

Third, Māori businesses are more likely to have characteristics that result in higher borrowing costs compared to non-Māori businesses. This suggests that improving Māori access to capital is about lifting capability within Māori businesses as well as improving the ability of the New Zealand financial system to understand and appropriately price the risks associated with Māori firms.

Further research would help shed light on policy options that could help improve these business characteristics. Taking a cue from the insights from overseas research (Box A), exploring the role that socio-economic differences play in driving these business characteristics would be an important avenue of future work in this area.

Fourth, while the persistent wedge between the borrowing costs of Māori and non-Māori businesses is largely consistent with business characteristics, it is not conducive to narrowing socio-economic disparities between Māori and non-Māori. This also presents an opportunity – policies that address this interest rate differential could improve the wellbeing of both Māori entities and the New Zealand economy as a whole. In particular, many New Zealand SMEs highlight a lack of capital as a constraint on growth.[11] Policies aimed at improving New Zealand's capital market and business sector could have an outsized positive effect on Māori firms' access to capital.

To further explore these issues, we have summarised the international literature on indigenous and minority access to capital (Box A). We also outline insights gained from Māori capital seekers in extensive consultation in the next section.

Table 4: Broad characteristics of Māori and Non-Māori businesses

	Māori firms	Non-Māori firms
Debt ratio	0.81	0.79
Proportion of firms with negative equity	0.23	0.19
Labour productivity	10.49	10.51
Average age of working proprietors	48.6	51.1
Current account as share of total liabilities	0.347	0.395

Source: RBNZ calculations using LBD and IDI data. See Ball, Richardson and Zheng (2022). Debt ratio is defined as Total Liabilities/(Total Labilities + Equity).

Note: The current account is the value of liabilities owed to business owners – i.e. business loans from business owners to their own firm. These loans have a higher probability of being recorded in financial statement at a below market rate. Labour productivity is the log ratio of value-added to full time equivalent employees. See Fabling and Mare (2019) for further detail.

11 The Capital Markets 2029 Steering Committee (2019),

Box A: Access to Finance for Indigenous and Minority Ethnic Groups

Lack of access to finance for business activities is not unique to indigenous people or minority ethnic groups. Researchers and policy makers have extensively studied access to finance for the population as a whole, with a particular interest in small and medium size enterprises.

However, in the international experience, some ethnic and demographic groups tend to face additional barriers to accessing finance that the general population does not. In the United States, for example, firms owned by African Americans and Latinos rely disproportionately on owner-equity investments relative to other ethnic groups, suggesting they have limited access to external debt and equity finance.[12]

Socio-economic barriers are a major driver of ethnic differences in access to finance. Many studies find that those minority groups with limited access to finance face a range of barriers that directly limit their credit worthiness and ability to access financial services, including:

- low personal income and wealth;
- low financial literacy;
- poor credit histories; and
- lack of access to financial institutions in their neighbourhoods.

In some parts of the world and in some contexts, researchers find that these socio-economic factors are the main driver of differences in access to finance. In the United Kingdom, studies find that while some minority groups accessed finance for business at a much lower rate than others, these differences could be fully explained by non-ethnic factors.[13] A German study finds similar results.[14]

However other studies, particularly those conducted in the United States, find evidence of differences in access to loans that cannot be explained by socio-economic differences or credit histories.[15] These studies generally attribute the unexplained difference to ethnic bias and discrimination within the financial system. Other explanations, such as low levels of trust and confidence in financial institutions, might also play a role.

Indigenous people appear to face similar challenges to other ethnic minorities in accessing financial services. In Canada, 56 percent of Aboriginal entrepreneurs had inadequate access to debt and/or equity capital to finance their businesses.[16] In 2013, more than 40 percent of Native Americans and Alaska Natives were unbanked or underbanked. In Australia, Aboriginal and Torres Strait Islander people are more likely to experience financial exclusion than the rest of the community, and are underrepresented in the small business sector.[17]

Indigenous people may face additional barriers to access finance due to the challenges associated with collectively or tribally-owned land, and other legal or regulatory factors unique to their tribal structures and ownership models. In the United States for example, a considerable amount of Native American land is held in trust by the federal government, either on behalf of collectives or individuals. Legal restrictions around the sale of this land mean that many banks will not accept the land as collateral against loans, and Native Americans systematically face higher mortgage costs.[18] Similar challenges are faced in Canada where inadequate land ownership rights make it difficult for First Nation governments to leverage their land resources appropriately.[19]

There are few, if any, papers that use statistical methods to determine which factors are likely to be the primary drivers of lack of access to finance for indigenous people. However, anecdotal and qualitative evidence suggests that in Australia, Canada, and the United States, socio-economic factors are key barriers, land ownership structures and legal barriers are an additional driver, and even after accounting for these challenges, discrimination may remain.

In summary, international literature tends to show indigenous and minority firms face significant barriers to access finance. The international literature highlights three broad classes of barriers in access to finance for indigenous firms. These include:

- socio-economic disparities
- use of indigenous land as collateral for finance; and
- bias in the financial system.

Insights from Capital Seekers

To help us build knowledge and test the insights from our quantitative work, we undertook a series of hui with Māori capital seekers, the finance industry and key government agencies. The purpose of these hui was to explore the barriers, potential solutions, challenges and opportunities that exist for Māori entities in accessing capital (Box B).

Most of these 42 Māori capital seeker groups identified barriers to accessing capital as a factor that constrains the growth of their business. These barriers were attributed to a broad range of factors, which can be summarised by the following key themes:

There is a limited understanding of Māori business values within the financial sector

Capital seekers touched on this issue in a number of ways. Many felt that the financial sector lacked an understanding of an intergenerational focus and investment horizon, with a high weight on long-term sustainability. This requires a broader focus beyond short-run profits and taking account of the transformative effect an entity may have on local employment and the broader community.

12 Robb, A. (2013); Robb, A. (2018) Fairlie, R., Robb, A., & Robinson, D. T., (2016).
13 Fraser (2009). Ministry of Housing, Communities & Local Government (2013).
14 Bruder, J., Neuberger, D. & Räthke-Döppner, S. (2011).
15 Fairlie et al. (2016), Bates & Robb (2013), Blanchflower, D. G., Levine, P. B., & Zimmerman, D.J. (2003).
16 Canada's Public Policy Forum (2016).
17 Royal Commission into Misconduct in the Banking, Superannuation, and Financial Services Industry. (2018)
18 Native Nations Institute. (2016); United States Government Accountability Office (2019)
19 Canada's Public Policy Forum (2016).

Māori business values also mean valuing strong partnerships with capital providers, with a preference that capital providers hold similar values and are willing to invest in understanding the business and its goals in depth.

Importantly, Māori business values do not mean that capital seekers were presenting lower return opportunities to the financial system – i.e. seekers were not sacrificing risk-adjusted returns for a greater weight on broader values and benefits. Instead, a number of seekers made the point that they felt investment in Māori businesses offered attractive investment options to investors with a longer-term investment horizon, willing to grow alongside the broader community.

Relatedly, a number of businesses highlighted their geographical isolation hampered the ability to build strong partnerships with capital providers.

Overall, seekers felt this information asymmetry – a lack of understanding of the value proposition of Māori firms – limited the availability of capital for some entities.

There is a financial capability gap within the Māori community

Capital seekers thought that a lack of financial sector experience and knowledge within Māori communities added to the difficulty in accessing capital. The drivers of this were seen as long-term structural issues. In particular, a number of capital seekers suggested New Zealand's education system was failing to deliver when it came to upskilling young Māori in financial capability. Broadly, many seekers felt that improving understanding of the financial sector, effective company governance, and leadership practices could lower the barriers to accessing capital.

There are difficulties in lending on Māori land

A number of entities highlighted the difficulties in using Māori land as collateral to access capital within the New Zealand financial system. Compounding this, some capital seekers suggested that Māori entities had limited options in raising early-stage capital for new businesses. This partly reflects the low rate of home ownership amongst Māori – which limited the ability to leverage equity in the family home as a source of early-stage capital.

There is a lack of leadership in coordinating the issues faced by capital seekers, the financial sector and Government

Seekers highlighted a number of issues in this area, which hampered access to capital. The ecosystem of government advice and support was fragmented, and could be hard to navigate. Knowledge sharing between sophisticated Māori investment entities and small and medium size enterprises could be improved. Further, there is not a natural forum where Māori, the financial industry and government could work together on issues of capital access.

Box B: Extensive Consultation has gone into producing this Report

In the preparation of this report, a large number of hui were held to assess barriers to Māori access to capital. Once those themes were established, we then held a series of engagements to explore potential ways to improve access to capital for Māori. This process included:

- A series of solutions wānanga with seekers to dive deeper into some of the potential solutions. These wānanga were split into three distinct sessions, reflecting the difference in size and scale of seeker activities and experiences in accessing capital;
- During these three wānanga, key themes from preliminary findings were confirmed and ranked, with some possible solutions identified. The participation of potential partner agencies provided an opportunity for them to gain first-hand insights of the issues and potential solutions; and
- Post-wānanga we reflected back what we heard to the seekers and embarked on the process to identify champions willing to assist with further refinement of the solutions.

The approach

42	14	8	3
Initial engagements with Māori capital seekers	Different banks and capital providers engaged	Government agencies involved	Solutions wānanga with Māori

Context Matters

The insights outlined above need to be considered in the context of the New Zealand financial system and a growing understanding of the importance of environmental, social, and governance issues (ESG) as key in supporting long-term wellbeing.

Increased Focus on Environmental, Social and Governance Factors in Investing

The global emergence of responsible investment principles has seen the development of 'impact investing' where investment objectives are focussed on broader social outcomes, as well as financial returns. The normalising of ESG reporting has increased awareness of these broader investment choices and some of the world's largest asset managers routinely speak of the need to adopt a long-term and sustainable investment approach.

In the wake of the global financial crisis, thought leaders representing leading companies and investors worldwide founded Focusing Capital on the Long-Term (FCLT). Concerned about safeguarding the future needs of individual savers and their communities, they produced a number of seminal reports. The clear call to action was for those who participate in the capital markets to improve the system.

Panmure House[20] is another example of celebrating long-term investing and innovation. Alongside Edinburgh Business School and Heriot-Watt University the mission is to "provide world-influencing social and economic debate and research… to effect positive change and forge global, future focussed networks."

Investment horizon is a global phenomenon, which significantly affects some sectors of society more than others. The issues facing Māori are not unique but part of a global issue. Significant capital and effort is being directed towards research and tools to drive long-term value creation.

Given this shift, investors are increasingly assessing ESG factors as part of their analysis process to identify material risks and growth opportunities: "For companies, the stakes are real. ESG reporting can impact access to capital and the ability to attract new investors".[21]

"Te Ao Māori emphasises stewardship over ownership, collective and cooperative rights over individualism, duties and obligations towards current and future generations over individual gains in the present, and alertness to the need to manage resources in a fashion that is sustainable in the longterm."

Craig et al. (2012)

A number of factors have contributed to this shift in investment behaviour. The rise of the 'conscious investor' has resulted in positive ESG outcomes being increasingly valued by investors for their own sake. Further, the rise of the 'conscious consumer' has resulted in a stronger link between ESG outcomes and the financial performance of firms. In addition, changes in the regulatory environment – for example, the pricing of carbon emissions – are also resulting in ESG outcomes increasingly affecting a business's financial performance. What were previously

20 Panmure House | Panmure House
21 KPMG. (2020). *The time has come.*

externalities are now becoming internalised to the business. For these reasons, positive ESG outcomes are becoming increasingly valued by both the market and broader society.

ESG is a values-based approach to investment with strong parallels to Te Ao Māori. This includes a focus on long-term outcomes, sustainable management of resources, and a strong focus on the community outcomes of business practices. As such, increased focus on ESG factors presents an opportunity for Māori businesses to access a widening range of capital.

Research also tends to point to positive economic outcomes for businesses who adopt ESG practices. A number of meta-studies – studies that summarise the insights on a topic from a range of research – have found that firms with stronger ESG principles realise better economic returns.[22] This highlights the potential benefits investment in, and partnership with, Māori businesses may provide.

The New Zealand Financial System

Māori access to capital also needs to be considered in the context of New Zealand's capital markets. While positive change is underway, there have been some long-standing concerns that our capital markets are relatively underdeveloped.

For example, while noting improvements over the prior 10 years, a 2019 report characterised New Zealand's capital markets as:[23]

- "A two-tier public market that is working well for larger companies, but is less liquid and effective for smaller companies."
- "Private markets that are working well and growing, but not necessarily serving the full range of New Zealand investors, nor the full range of investment stages."
- New Zealand small businesses also report that a funding gap exists in the New Zealand capital market for firms looking to raise capital in the region of $2 million - $10 million.

Given the limitations of New Zealand capital markets, mortgaging residential property is often the go-to option for the owners of small and medium-sized enterprises (SMEs) accessing debt funding. The bulk of Māori-owned businesses are SMEs that almost exclusively seek capital from banks.[24] However, with relatively low home ownership rates, current arrangements do not suit many Māori businesses. As a result, many Māori households and small businesses access capital through second and third tier lending services, which offer loans with minimal credit checks and high interest rates.[25]

While noting these challenges, as discussed, the factors also present an opportunity. Improving the depth of New Zealand's capital markets would not only help create greater wealth for New Zealanders, but could also have an outsized positive effect on Māori firms, giving the unique capital access issues, and the higher costs of capital, that they face.

22 López-Arceiz, Bellostas, & Rivera (2018), Whelan, Atz, Van Holt, Clark (2021)
23 The Capital Markets 2029 Steering Committee (2019)
24 BERL. (2021). Te Ohanga Māori 2018 | The Māori Economy 2018.
25 Te Pou Matakana. (2017). Microfinance Research Summary. Te Puni Kōkiri.

The Way Forward?

This section summarises the feedback we received on improving Māori access to capital. A summary of potential pathways to improve Māori access to capital can also be found in Table 1 in of this paper.

Improve the Ability to use Whenua Māori as a Loan Collateral

There are many hurdles to be overcome in accessing finance to develop Māori land and other forms of collectively held assets. Māori land ownership is extremely fragmented, with an average of 111 owners per block of land. In addition, Te Ture Whenua Act 1993 protects whenua from being taken from Māori ownership. As a result, it is difficult to use whenua Māori as a loan security and fully realise the financial benefits the land could provide.

The difficulty in using whenua Māori to raise finance is a well-known, long-standing challenge for both capital seekers and financial providers: "Banks have been reluctant to lend money for mortgages on Māori land. Although they can take Māori land as security for a loan, if the bank needs to take the land because of default on the loan, it is difficult to sell the land to recover the money lent."[26]

31%

Māori homeownership rate, including family trusts, in 2018 (as opposed to 52% for non-Māori)

Recently, some finance providers have begun to experiment with innovative arrangements to unlock its potential and have made progress in this area. Banks' prudential requirements are generally flexible and do not limit such solutions. We note that banks accredited by Te Pūtea Matua to use the internal models-based approach to calculate risk-weighted asset in particular have a degree of flexibility that often could be better utilised. Some banks' loss given default and recovery rate estimates for loans given on whenua Māori may be too conservative and inconsistent with the underlying evidence.

Government has also been working to make it easier to use whenua Māori as a loan security, with programmes like the Kāinga Whenua loan scheme and recent amendments to Te Ture Whenua Act 1993 aiming to bridge the market gap.[27]

However, more can potentially be done to solve the credit market imperfections surrounding the use of whenua Māori and other forms of collectively held assets to access finance.

Collect More and Better Data on Māori Businesses

Informed decisions that are based on evidence are critical in driving strong outcomes. Unfortunately, however, when it comes to tangata whenua, there are still many gaps in the data. For one, stakeholders are yet to agree on the precise definition of a Māori business.

Of course, there are many inherent difficulties in collecting data by ethnicity, particular when it comes to the Māori economy. As noted by the Productivity Commission, "The Māori economy

26 Controller and Auditor-General. (2011).
27 The Kāinga Whenua Loan Scheme is an initiative between Kāinga Ora and Kiwibank to help Māori achieve home ownership on their multiple-owned land. The loans are available for both Māori land trusts, and individuals with a right to occupy their multiple-owned Māori land.

comprises a range of organisational forms, structured under various legal frameworks. There is no single or agreed definition of a Māori business or Māori firm. Depending on the purpose, definitions may consider the ethnicity of the business owners, the ethnicity of the employees, the legal status of the business, the nature of the products (goods or services), and whether the business has a kaupapa Māori focus or has adopted Māori values in the way it operates."[28]

Statistics New Zealand's current work on defining a Māori business and having a consistent measurement framework for Māori business will help address the issue.[29]

For banks, the issue of ethnicity - how to define Māori and then capture data, while respecting data sovereignty and privacy, has been a sensitive topic. As a result, with very limited data and reporting, it has been difficult to know, based on bank data, whether capital providers are responding to the particular needs and opportunities in the Māori economy.

Improve Māori Firm Capability, Scale and Coordination

Feedback from stakeholders has highlighted a need to lift the understanding and experience of some Māori businesses, particularly small and medium sized enterprises, in accessing capital markets. This includes a need to lift awareness, participation and involvement in the finance and wealth sectors by Māori whānau to improve their capability and capacity to participate effectively.

Given the complexity of capital markets, the type of capacity building needed differs across different types of firms. Some firms lack financial experience and knowledge, while others need to build understanding of lenders' expectations and requirements to more effectively access capital

Māori are keen to leverage existing pools of expertise and to create a self-sustaining platform where knowledge is stored and shared. As with capital providers in general, the preference is to partner with capability providers where there is clear values alignment and longer-term intergenerational thinking.

Importantly, stakeholders acknowledge that building capability across Māori businesses to improve access to capital markets needs to be a multi-led initiative. Bridging this gap requires the collaboration of the public sector, financial providers and Māori firms alike.

Capital seekers also pointed to the progressive procurement policy of the Government as an avenue that could help improve the scale of Māori businesses and capital access. Long-term contracts from this programme could help support capital access, as expected revenue could be used as collateral.

Build a Coherent Map for the Māori Funding Ecosystem

There is currently no coherent map for Māori business funding across the system. This lack of a clear view of the funding ecosystem is compounded by a lack of co-ordination between government agencies and poor visibility of the funding options available across the system.[30]

28 Productivity Commission. (April 2021)*t*.

29 See Consistent measurement of Māori businesses | Stats NZ

30 Similar remarks have been noted by the Productivity Commission (2021), "Māori business stakeholders interviewed for the inquiry expressed concerns about the difficulty navigating government agencies and supports for Māori business. Some expressed a desire for government to support a Māori-led approach to optimising the Māori business ecosystem, to better promote productivity, innovation and growth in the Māori economy."

In addition, the lack of a system-funding map may have the unwanted consequence of government agencies competing with banks, creating duplication or leaving needs unmet.

Helpfully, the Ministry of Business, Innovation and Employment is currently leading a cross-agency project to better understand the Māori business support (funding and services) landscape. This will improve visibility of the support available across agencies and identify any gaps. Government agencies should then be better able to complement each other's efforts in addressing gaps in Māori business support.

Greater visibility of the funding ecosystem should improve the efficiency with which funding is allocated across Māori businesses. It would also reduce the time and effort required of Māori businesses in navigating a multifaceted system across multiple agencies.

Reduce Myopia in Decision-Making and Leadership

To be effective, capital providers need to understand Māori businesses and the Māori economy. A good start would be for capital providers to increase their investment in cultural awareness education. While there has been much progress in this space for many banks, further investment in cultural awareness education would help break down some of the barriers that contribute to the financial exclusion of Māori.

As well as improving their cultural capability to better engage with Māori, greater cultural awareness could also contribute to an improved performance of the capital providers themselves.

Another key to improved decision making by capital providers would be to incorporate a strong customer focus into product and service design and reporting on Māori outcomes.[31] That means improving the overall product and service review process and having suitable products and services designed to meet the needs of Māori. The increased focus on ESG investment principles and business practices, and the potential for these to increase investment returns should support such a shift in product and service design.

31 FMA and RBNZ. (2018).

Conclusions

Te Pūtea Matua | Reserve Bank of New Zealand is tasked with promoting the prosperity and economic wellbeing of all New Zealanders and contributing to a sustainable and productive economy. As kaitiaki of the financial system, we have a mandate to promote a sound and efficient financial system.

We recognise that barriers to Māori access to capital can undermine the efficient allocation of capital and therefore limit New Zealand in reaching its full economic potential. It follows that improving Māori access to capital would improve the performance of the Māori economy and contribute to a significant boost in Māori and New Zealand's wellbeing.

This report identifies and analyses issues associated with the financial landscape faced by Māori firms. The analysis is based on a range of stakeholder engagements and quantitative work exploring the barriers to capital access, their causes, and potential intervention areas.

Our work shows Māori are under-represented in business ownership. Only eight percent of companies have at least one Māori shareholder or director – despite Māori making up 17 percent of the population. This suggests there are factors constraining Māori business start-ups.

Our work also shows firms with higher rates of Māori ownership do face higher funding costs compared to non-Māori businesses. These higher funding costs reflect that Māori firms tend to have higher debt ratios, a larger proportion of firms with negative equity and lower labour productivity. The working proprietors of Māori firms also tend to be younger. Māori firms also have a lower share of their liabilities made up of direct loans from shareholders. Private sector, Māori and government initiatives that reduce these disparities could improve capital access for Māori entities.

Our solutions wānanga covered some potential pathways to improve access to capital for Māori entities. There were a broad range of approaches discussed, but these can be summarised into five key themes:

- improve the ability to use whenua Māori as loan collateral;
- collect more and better data on Māori businesses;
- improve Māori firm capability, scale and coordination;
- build a coherent map to the Māori firm funding ecosystem; and
- reduce myopia in decision-making and leadership.

Next steps

The insights delivered in this paper are a starting point. To help move the conversation towards action, a period of feedback and consultation will occur for six-weeks from 9 August 2022 through to 20 September 2022.

Throughout the consultation process we will continue to engage with stakeholders. Any feedback received will support the refinement of the Issues Paper and a suggested pathway towards action. As a direct outcome of this process, we intend to publish a final Issues Paper.

We are interested in broad feedback from the public on the issue of Māori access to capital. However, to help improve our understanding of the issues and potential pathways, we would value feedback on a number of key themes, including:

- Does this paper capture correctly and in full the key challenges around Māori access to capital? If not, what could be improved or clarified?
- Do the proposed pathways capture the key interventions needed to create a more equitable market for Māori in accessing capital? If not, what else could be included?
- Are there particular interventions that should be prioritised and by whom?
- Do you have suggestions on the right leadership, structure and resourcing needed to support the delivery of potential pathways?
- Do you have views on the role for Te Pūtea Matua, broader government, capital providers including banks, and Māori?

How to make a submission

Feedback is invited and can be provided by responding to the questions outlined above and/or providing additional feedback via email. Please submit your feedback by 5pm on 20 September 2022 to MaoriAccess2Capital@rbnz.govt.nz.

We will also host a series of online webinars in August and September, where participants can ask our RBNZ hosts questions and provide verbal feedback. If you are interested in attending, email MaoriAccess2Capital@rbnz.govt.nz and we will be in touch. We will also share webinar information on our website and across our social channels.

References

Ball, Richardson and Zheng (2022). “Ethnic variations in firm financing”, Reserve Bank of New Zealand Analytical Note series.

BDO. (2020). Māori Business Survey Report 2020. www.bdo.nz/en-nz/industries/Māori -business/Māori business-Survey

BERL. (2021). Te Ohanga Māori 2018 | The Māori Economy 2018.

Blanchflower, D. G., Levine, P. B., & Zimmerman, D.J. (2003) Discrimination in the small-business market for credit. The Review of Economics and Statistics, 85(4). Pp 930-943. MIT Press.

Bruder, J., Neuberger, D. & Räthke-Döppner, S. (2011), "Financial constraints of ethnic entrepreneurship: evidence from Germany", International Journal of Entrepreneurial Behavior & Research, 17 (3), pp. 296-313.

Canada’s Public Policy Forum (2016). Improving Access to capital for Canada’s First Nation Communities.

Controller and Auditor-General. (2011). Government planning and support for housing on Māori land.

Craig, R., Taonui, R., & Wild, S. (2012). The concept of taonga in Māori culture: insights for accounting. Accounting, Auditing & Accountability Journal, 25(6).

Fabling, R., & Mare, D., (2019) "Improved productivity measurement in New Zealand's Longitudinal Business Database," Motu Working Paper 19-3, Motu Economic and Public Policy Research.

Fairlie, R., Robb, A., & Robinson, D. T., (2016) Black and white: Access to capital among minority-owned startups. Stanford Institute for Economic Policy Research SIEPR Discussion Paper No. 17-03.

FMA and RBNZ. (November 2018). *Bank Conduct and Culture - Findings from an FMA and RBNZ review of conduct and culture in New Zealand retail banks.*

Fraser (2009). Is there ethnic discrimination in the UK market for small business credit? International Small Business Journal: Researching Entrepreneurship, 27(5).

KPMG. (2020). *The time has come.*

López-Arceiz, F.J., Bellostas, A.J. & Rivera, P. Twenty Years of Research on the Relationship Between Economic and Social Performance: A Meta-analysis Approach. Soc Indic Res 140, 453–484 (2018). https://doi.org/10.1007/s11205-017-1791-1

Ministry of Housing, Communities & Local Government (2013). Policy Paper: Ethnic Minority Businesses and Access to Finance Ethnic minority businesses and access to finance - GOV.UK (www.gov.uk).

Native Nations Institute. (2016) Access to capital and credit in native communities, digital version. Tucson, AZ: Native Nations Institute.

Productivity Commission. (April 2021). *New Zealand firms: Reaching the frontier Final Report.*

Robb, A. (2013) Access to capital among young firms, minority-owned firms, women-owned firms, and high-tech firms. Office of Advocacy, the United States Small Business Administration.

Robb, A. (2018) Financing patterns and credit market experiences: A comparison by race and ethnicity for U.S. employer firms. Office of Advocacy, the United States Small Business Administration.

Royal Commission into Misconduct in the Banking, Superannuation, and Financial Services Industry. (2018) Background Paper 19: Aboriginal and Torres Strait Islander Consumers of Financial Products.

Te Pou Matakana. (2017). Microfinance Research Summary. Te Puni Kōkiri.

Te Puni Kōkiri. (2022). 'Te Matapaeroa 2020'. https://www.tpk.govt.nz/en/o-matou-mohiotanga/maori-enterprise/te-matapaeroa-2020

The Capital Markets 2029 Steering Committee (2019), "The Growing New Zealand's Capital Markets 2029 Report", commissioned by the Financial Markets Authority (FMA) and the New Zealand Exchange (NZX), retrieved from https://www.fma.govt.nz/news-and-resources/reports-and-papers/growing-new-zealands-capital-markets-2029/

United States Government Accountability Office (2019) Indian Issues: Agricultural Credit Needs and Barriers to Lending on Tribal Lands. Report to Congressional Committees.

T Whelan, U Atz, T Van Holt, C Clark (2021). ESG and financial performance: Uncovering the relationship by aggregating evidence from 1,000 plus studies published between 2015-2020, New York: NYU STERN Center for sustainable business.