



# Tena koe

Te Taumata are the premiere voice for Maori on international trade through systematic engagement across the country over 2019-21.

Access to capital has arisen continuously as a barrier hindering Māori development enabled through international trade with essential high value markets of the world.

Te Taumata has been embedded into all international trade negotiations over 2019-2022 and responsible for representing Maori exporter interests into the newly signed FTA's with the United Kingdom and the European Union; two of the largest markets of the world.

Discussions are ongoing with other large and high value markets of the world.

I commend our submission to you.

Chris Karamea Insley  
Tiamana

**In just 2 years,  
we have increased engagement  
between Government and the Māori  
economy by 13,000%**

May 2021  
Te Taitokerau 600

February 2022  
Mātātua Rotorua 600

July 2022  
Waikato-Tainui 600

August 2022  
Te Tairāwhiti 600

October 2022  
Poneke Wellington 600

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Noku te whenua, kei a  
Noku te whenua, ko au  
Dr. Apirana Tuahae Mahutika (Ngāi Tahu)

# About Peter Rice

- Ngati Whakaue, Ngati Whaoa
- Born and raised in Putaruru, Aotearoa/New Zealand.
- LLB (Law) – University of Auckland, BBus (International Business Economics) - Queensland University of Technology, MSc (Economic Development Studies) - University of London.
- Peter is founder/director of a small boutique banking and finance advisory firm in London. He and his team provide advice and support to boards and executive management on corporate governance legal and regulatory risk for treasury operations, securities firms and asset managers issuing, investing, managing and trading in treasury funding products, investment funds, capital markets and derivatives.
- His work includes advising on the trade and development (industrial strategy policies) (see recent publications).
- In Aotearoa, Peter is an executive member of the Te Arawa Federation of Māori Authorities and a non-executive director for Te Arawa Fisheries group of companies and an advisor to Te Taumata.

## Recent Publications

- Meade, R and Rice, P. ‘Identifying Māori interests in a UK/NZ FTA’ Te Taumata, April 2021.
- ‘Finance and Climate Change: A progressive green finance strategy for the UK’, A report of the independent panel commissioned by the Shadow Chancellor of the Exchequer John McDonnell MP., Labour UK, 2 November 2019.
- Griffith-Jones, S. and Rice, P. ‘Taking a National Investment Bank Forward’, Progressive Economy Forum, 13 September 2019.
- Turner, G. Rice, P. et al. ‘Financing Investment: Final Report’ GFC Economics and Clearpoint Advisors, 20 June 2018.
- GFC Economics and Clearpoint Advisors, ‘Financing Investment: Interim Report’ GFC Economics and Clearpoint Advisors, 11 December 2017.

# Executive Summary



## Key points

- Te Taumata congratulates Te Pūtea Matua on its ‘Improving Māori Access to Capital’ issues paper (the ‘Paper’). The engagement process that developed this paper was extensive and welcomed.
- Developing a financial system that is also fit for purpose for Māori – whether to make good on the Te Tiriti partnership or because it makes economic sense - will more quickly grow the economy and improve resilience benefitting all of Aotearoa.
- Issues of bias do exist for Māori seeking to access capital. Resolution, while difficult, still needs to be attempted. More specific oversight on this issue by Te Pūtea Matua may be appropriate. It remains an issue for bank boards to be more actively engaged.
- A whenua Māori lending product would in our view, release pent up demand and substantially fulfil the housing aspirations of Māori.
- A Māori development bank model through creating a new division in Kiwibank would have the potential to solve many issues raised by the Paper. We encourage the RBNZ to explore a development bank option with further engagement including with Government.

## Submission

This submission presents a summary of our responses and solutions to the key feedback issues highlighted by Te Pūtea Matua for the development of a final issues paper we hope will spur some innovation in the finance space. It is headed under the key themes.

## Background

- A. Our key points (in the executive summary) highlight solutions that are not difficult to implement. A lack of access to finance stifles economic and human development and reduces productivity. It directly impacts wellbeing in our communities. In the past we have solved the very issues of housing and SME financing with mass social and private housing initiatives and a development bank, the Development Finance Corporation, to spur innovation and venture capital for SMEs.
- B. Denmark, Finland, Singapore, Sweden and Norway still use development banks to support the transformation of their economies – trade is a key factor. The Productivity Commission highlights the weaknesses of our ‘frontier’ firms against these high performing small advanced economies.\*
- C. These issues do not occur in a vacuum. Te Taumata’s engagement with Iwi across Aotearoa on trade issues, highlights too the need for capital if Māori are to make any of the direct gains from the new UK-NZ FTA and the EU-NZ FTA. Our improved market access needs to be followed with improved capital access. For Māori, access to capital will solve housing deprivation and the need for innovation. It is a key driver for raising our national wellbeing.

\* [Productivity Commission | New Zealand firms: Reaching for the frontier](#)

Does this paper capture correctly and in full, the key challenges around Māori access to capital? If not, what could be improved or clarified?

## The barriers

1. The Paper highlights the barriers to access finance:
  - Socio-economic disparities;
  - Use of indigenous land as collateral for finance; and
  - Bias in the financial system; (together “Barriers”).
2. Regional access to branches and relationship managers is another direct barrier impacting Māori.
3. Although the analysis undertaken in relation to interest rate differentials is useful, the conclusions drawn in the Paper that:

*“there is no compelling evidence across established businesses that the financial sector penalises firms just because they have Māori ownership.”*

cannot be made.

4. The conclusion needs to be qualified. There is a difference between a capital seeker having secured a loan and a capital seeker applying for a loan.
5. Your analysis only refers to the capital seekers that successfully have taken on a loan. It does not address capital seekers who have not got through to that stage. You are using a data subset of capital seekers to draw your conclusions. We believe there is a cohort of ‘discouraged capital seekers’ that needs recognition in any assessment.<sup>1</sup>
6. We can agree that, of businesses having secured debt finance, there is no compelling evidence that the financial sector charges higher rates of interest to Māori owned firms.

1. ‘Banking on Growth: Closing the SME funding gap’, Close Brothers, Nov 2016 and ‘How can we address the SME funding gap?’ Real Business, April, 2022. <https://realbusiness.co.uk/can-address-sme-funding-gap>.

## Discouraged borrowers

7. The Barriers to access finance (paragraph 2), more than likely contribute to a cohort of Māori SME businesses that too are discouraged from applying for loans.
8. This ‘discouragement factor’ adds to the perception of declining credit demand, when the issue is one of lack of ‘access to finance’ Survey work should be undertaken to understand the magnitude and impact to the Māori economy. Studies undertaken in the UK shows this to be an issue for SME borrowers.<sup>2</sup>

## Bank behaviours

9. We propose to use home-lending to Māori as a proxy for the behaviours of the banking sector as it relates to Māori owned SME businesses seeking capital.
10. Results from a cohort of 200 Māori seeking home loans who met eligibility criteria but with some additional nuances showed significant dis-interest/bias by front-line banking staff in providing support.<sup>3</sup> These negative customer experiences are far too common.
11. Policies invoked by front line staff of some banks also negatively categorise Māori communities’ as ‘high risk’.

2. . ‘Evaluating changes in bank lending to UK SMEs over 2001- 2012 – ongoing tight credit?’, Department for Business Innovation and Skills, April 2013.

3. ‘Māori home lending experiences’ [unpublished], Indigenuity Limited, 2022.



12. The community of Murupara is an example. A tier one bank staff member explained how Murupara was high risk because such places are majority Māori communities and in the bank's view it is 'high risk'.<sup>4</sup> We acknowledge there is a risk in collateral recovery/saleability if non-Māori are not interested in purchasing homes.
13. On the face of it there is a logic, but that does not mean its ethical. Once the logic is tested the policy shows itself to be racially biased.
14. The 'high risk' factor might mean a 40% - 50% loan to value requirement, despite the fact that there is and continues to be demand for housing in Murupara and valuations and sales indicating such demand. Such policies strongly support rental investors rather than potential homeowners.

4. Some tier one banks have policies in place for Māori and Pacific communities because of their misperception of risk to the value of the home; Indigenuity Limited as advisor to client borrowers in Murupara and Tokoroa has had these policies invoked by certain banks to significantly raise LTV ratios.

## Impact on Māori SME lending

15. We would posit that behaviours of front line banking staff to Māori are unlikely to differ between home-lending services and business lending services.
16. Unnecessarily restricting access to home loan products has multi-generational impacts including reducing the opportunity to use one's home as security for a business loan.
17. We agree that the factors of:
  - 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;are key determinants of a bank's lending decisions; the question is whether bias factors are coming into play is not addressed by this Paper.
18. There are also factors that discourage supply of credit that impact regional Māori such as branch closures and the absence of local business bank managers. Lending decisions are now more likely taken through telephone banking. SME lending is always a more difficult proposition for banks.

19. The absence of an 'on the ground' relationship manager means some of the most important data points – the quality and drive of the SME owner – the business viability /competition within the local economy - are missed by lenders, who are likely to then take a more conservative lending approach.
20. The commodification of business banking services and the disconnection from business owners in the 'regions' and local economic conditions reduces access to finance for Māori.

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?

## Kāinga Whenua loans

21. Kiwibank has not been the right vehicle for Kāinga Whenua loans. Only 70 loans have been issued in 12 years <sup>5</sup>, with passive and active discouragement of Māori seeking Kāinga Whenua loans by front office Kiwibank staff. <sup>6</sup>
22. This is a failure. It speaks to the dis-interest of executive management of Kiwibank. We think the Government has not done nearly enough to address this issue. A specific mandate by the shareholder may be required to force change at this institution.

## Whenua Māori lending

23. We agree that the banking internal models-based approach to calculate risk-weighted asset in particular have a degree of flexibility could be better utilised in assessing whenua Māori. We do not see the RBNZ needing to make any changes to prudential regulations.
24. A whenua Māori lending product is viable. It would require ‘more moving parts’ in its design. It would use simple financial structuring to maintain security for the lender; ownership with Māori and opportunity for an Iwi investor fund or an ESG pension fund to take some ‘equity’ risk in the credit structure.

5. OIA request – Kāinga Ora, 13 June, 2022.

6. Client feedback survey, Indigenuity Limited, November 2021

25. We acknowledge there will be more credit structuring issues with such a product. Its development needs support in order to role this out.
26. Commoditising it and making the product structure fully transparent would spur the supply side (capital providers) and prepare the demand side – for example, ahu whenua landowners etc - to take up loans and develop their whenua.
27. Initially a whenua Māori product may be suitable for larger ahu whenua trusts and Māori enterprises primarily with the goal of housing development. Lenders would access a new market.
28. An ongoing issue is whether there is sufficient interest by the banks to take on such initiatives. In all likelihood this product development will only be taken forward by Iwi or government. We encourage Te Pūtea Matua to facilitate this process.
29. The absence of a whenua Māori product despite high Māori housing demand speaks to market failure.
30. We accept this is not just a banking issue. This is a legal issue around Māori landownership and governance and the role of the Māori Land Courts as adjudicator and often facilitator.
31. There are higher built-in costs (time and money) in preparation of whenua Māori for the taking of loans and giving of security. For some ahu whenua entities the Māori Land Court (MLC) will be a key element in the preparation of whenua Māori: adjudicating on owners rights and re-organising the legal structures. The MLC should be appropriately funded. We do not advocate any need for the transformation to general title land.
32. Nevertheless there are many ahu whenua entities that would be willing and ready to borrow through a whenua Māori lending product.

33. New Zealand banks have for decades been at the top end of most profitable in the world. The latest KPMG FIPS report 2021 confirms again record profits for the banking sector.<sup>7</sup>
34. This also perhaps speaks to a sector that is not taking sufficient risk to meet its systemic function to SMEs as a provider of credit in a market with too few competitors.

### Data and machine learning

35. We strongly support the issues raised by Te Pūtea Matua in the design and collection of data to fill in the ‘gaps’.
36. Like in the United Kingdom, ‘Open Banking’ presents many opportunities for more digitally agile banks to understand their customers.<sup>8</sup> Machine learning, a branch of Artificial intelligence (AI), increasingly provides an effective way to reduce credit risk and service customers needs.<sup>9</sup> Machine learning algorithms outperform traditional models in terms of predictive power for various applications, such as predicting defaults.<sup>10</sup> They often do require large data sets, but not always.

7. <https://home.kpmg/nz/en/home/insights/2022/03/fips-banks-review-of-2021.html#profit>

8 <https://www.openbanking.org.uk/>

9. HKMA survey Q3, 2019. [https://www.hkma.gov.hk/media/eng/doc/key-functions/finanical-infrastructure/Artificial\\_Intelligence\\_\(AI\)\\_in\\_Retail\\_Banking.pdf](https://www.hkma.gov.hk/media/eng/doc/key-functions/finanical-infrastructure/Artificial_Intelligence_(AI)_in_Retail_Banking.pdf)

10 ‘Artificial Intelligence for Credit Risk Management’ <https://www2.deloitte.com/cn/en/pages/risk/articles/artificial-intelligence-for-credit-risk-management.html>

37. We support more research on uses of AI in banking, but very cognisant of the need for strong data privacy and ethics policies around AI use. This will require auditability of algorithms.
38. Banks will need to ensure that with the use of big data analytics they will have to appropriately cover off issues of governance and accountability, fairness, transparency and disclosures.
39. With our proposal of a Māori development bank, data surveys, collection and curation; all support building better awareness of the local economy and local businesses in the risk assessment phase.

### Capital markets

40. Building on finance capabilities within Māori SMEs is a vital step to secure bank lending and access capital markets.
41. Accessing capital markets is a more complex task for an equity or debt issuer with much higher transaction costs. Having an active secondary market for SME debt/equity is key to building such market.
42. The design of a SME listed equity/debt market with a template process and documentation to cap costs would strongly support well run and organised SMEs looking to expand their domestic and export markets.
43. Many Māori owned trusts and incorporations have low debt levels and could benefit from a funding and listing process that is more transparent to expand their business operations.



## Progressive Procurement Policy

44. The Te Kupenga Hao Pāuaua, Progressive Procurement Policy is a positive step. We hope to see my activity on this front. As of March 2022, there have been no new procurement contracts signed with Māori businesses since the policy's inception.<sup>10A</sup>

10A. See OIA: <https://www.treasury.govt.nz/sites/default/files/2022-03/oia-20210296.pdf>

Are there particular interventions that should be prioritised and by whom?

45. We support the prioritisation of Māori business development. A development bank model would be the preferred path.
46. It will be up to Māori to develop a whenua Māori lending product that could be rolled out through a development bank in the absence of tier one bank interest.
47. The Paper highlights the difficulty of a supporting Māori business at a Government level. We concur that collectively the government agencies are not set up or equipped to support Māori business development.
48. An alternative is urgently required. An appropriate development bank model would meet the issues that block access to finance for whenua Māori lending.

Do you have suggestions on the right leadership, structure and resourcing needed to support the delivery of potential pathways?



## Māori development bank

49. A dedicated Māori Development Bank <sup>11</sup> - would spur growth of Māori SME businesses. It would obviate the need for second best solutions of many and various Government agencies acting as grant providers and financiers.
50. The Government already have a bank – Kiwibank – creating a mandate for a new division of Kiwibank would be a highly cost effective way to take this forward.
51. There would have to be a sufficient allocation of capital to this new division. \$250 million of additional tier 1 regulatory capital sold to private investors/pension funds would allow a Māori Development Bank to lend to up to circa \$2 billion <sup>12</sup> to SMEs and Whenua housing development projects.
52. The fundamental change would be a new mandate in addressing the long-term funding and knowledge gaps for Māori SMEs.
53. Its mission would be to provide finance, training and skills support, including grant funding, to deal with the financial capability gaps.
54. Having a Māori Development Bank as a local source of expertise in communities would have significant flow-on effects in developing the rohe including supporting the transition to low carbon, climate change resilient sustainable businesses.

11. This is premised on a development bank model with appropriate capability to finance lending at Government debt rates. It would be peopled with strong finance, business and tikanga Māori skills at the local level presence in certain designated with a Kiwibank branches. It would have a head office with that is designed as a business development bank –for example the British Business Bank. See <https://www.british-business-bank.co.uk/>

12. Assuming risk weighted assets are categorised at 100% and including the RBNZ capital requirements.

55. The ability of a Māori Development Bank to carry out local data surveys and collection through time will be invaluable to development of the Māori economy.
56. A Māori Development Bank would present co-investment opportunities for local investors too. Its mere presence signals support for private and iwi investment into local and regional development. The absence means private and Iwi capital sits on the side-lines.
57. With its technical skills and know-how, it would support business project viability and help de-risk private sector and iwi investment.
58. The Ngā Iwi I Te Rohe o Te Waiariki aquaculture programme <sup>13</sup> is a prime example of how a development bank could engage from grant funding and scoping of the projects to supporting the investment process and operationalising the project.
59. Dealing with multiple government agencies as is required for new and large infrastructure projects. Even with the best efforts of the bureaucracies, project viability and economic development is put at risk. The government agencies are not project finance specialists; are not as well funded as development banks.

13. <https://smartmaoriaquaculture.co.nz/>



Development bank funded aquaculture - Europe

Do you have views on the role for Te Pūtea Matua, broader government, capital providers including banks, and Māori?

## Supporting access to finance

60. We commend Te Pūtea Matua for the undertaking of this work.
61. In its unique position, Te Pūtea Matua as facilitator presents invaluable opportunities for stakeholders to come together to explore and research new ideas to these on-going issues.
62. Supporting faster growth of Māori enterprises and therefore Māori employment helps solve issues of equity and fairness.
63. We are very supportive of Te Pūtea Matua continuing to raise issues and promote broader access to finance generally and for Māori.



## A Māori development bank

64. The Government as the new owner of Kiwibank should upgrade its mandate. Kiwibank does nothing that a standard tier one bank doesn't already do.
65. We do not need more of the same banking - we need transformational banking.
66. A mandate to improve Māori access to finance through the creation of a development banking division, would more actively contribute to faster economic growth of Māori businesses. Done right this would support productivity, a key ingredient of wealth creation.
67. It requires the Government to recognise that the absence of a development bank in Aotearoa is an anomaly for a modern economy and that there are good economic reasons why we need one in Aotearoa.
68. Aotearoa needs scale businesses. They need to have the skills to produce high value add export products. Exporting logs will not transform our economy.
69. A development bank with a long term investment horizon would support private sector businesses to invest in infrastructure needed for value add production.
70. The private sector on its own cannot fund large infrastructure investments, but a development bank and pension funds with a long term outlook – patient capital – would provide a base for private sector and iwi co-investment.



Support co-investment opportunities

Does this paper capture correctly and in full the key challenges around Māori access to capital?

If not, what could be improved or clarified?

## Bias

71. Te Pūtea Matua and the Government still need to seek ways of identifying bias through appropriate surveys.
72. There is clearly a lack of understanding and oversight by bank executives of what happens on the ‘shop floor’.
73. There is in our view insufficient understanding of how standard policies can create bias by not taking into account Māori societal values, with a desire for banks to use a ‘cookie cutter’ approach to bank lending.
74. Recruiting more Māori bank staff to support Māori customers would be a good step to overcome the continuing cultural bias within banks.
75. Racial bias needs to become a governance issue that capital providers are actively measured on by Te Pūtea Matua.

## Māori business and finance skills

76. Improving business and finance skills in Māori enterprise is critical. More work is needed by our Māori Trusts and incorporations to empower Māori business graduates to take on manager and leaderships roles in Māori business.
77. More structured training is need to develop Māori graduates in new business roles, which should be supported by Māori enterprises and relevant Government agencies to raise the pool of skills in Aotearoa.

## 4Pou

78. The alignment of business and 4 Pou principles<sup>14</sup> already sets up many Māori enterprises to be ESG ready. A Māori development bank could work on actualising 4 Pou into metrics to promote the sustainability and ESG characteristics of the business and its products for export to sophisticated consumer markets.
79. Financing for such innovations will be required to allow Māori enterprises to combine best business practices and 4 Pou principles to secure higher value add markets.

14. 4 Pou means:

Te pou tuatahi, ko te pou tangata - The importance of growing our people

Te pou tuarua, ko te pou Taiao – Taking care of our land, our rivers and our moana

Pou Tikanga – Is embedding our culture into everything we do.

Pou Tahua – Is maximising returns to our shareholders and providing the highest quality products