

# Improving Māori Access to Capital

## Motivation

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. 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.

Previous work has highlighted that Māori businesses see a lack of access to capital as a key factor constraining growth.<sup>1</sup>

The Reserve Bank of New Zealand has undertaken a review of the financial system landscape faced by Māori entities.

The project has involved quantitative analysis using data on individual firms, and an extensive series of stakeholder engagements. Our findings from this project were recently released as an Issues Paper.<sup>2</sup>

The project has explored 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?

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## References

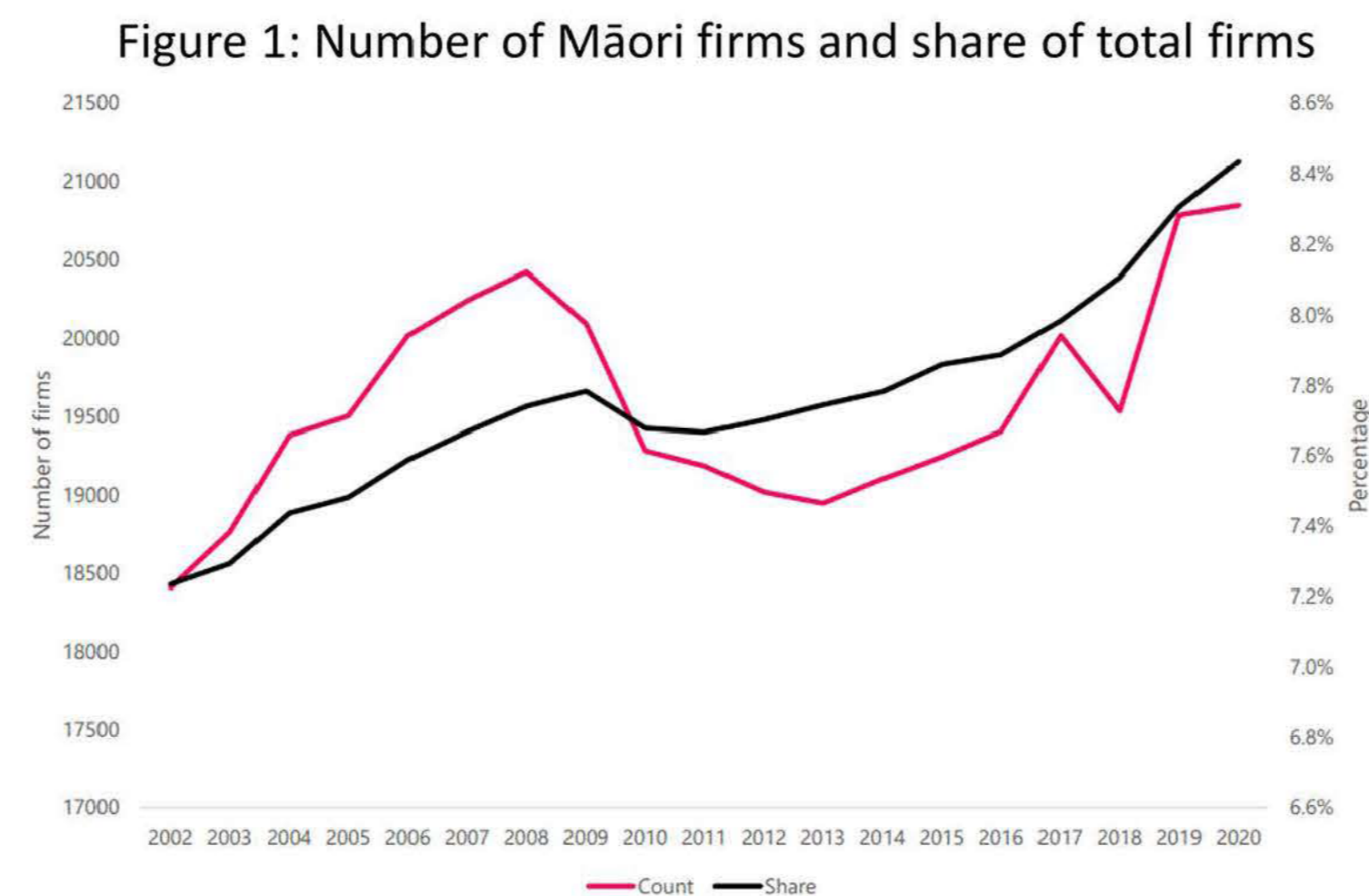
1. BDO. (2020). Māori Business Survey Report 2020; Productivity Commission. (April 2021). New Zealand firms: Reaching the frontier Final Report.
2. RBNZ (2022). Improving Māori Access to Capital Issues Paper
3. Ball, Richardson and Zheng (2022). "Ethnic variations in firm financing", Reserve Bank of New Zealand Analytical Note series

## Quantitative analysis

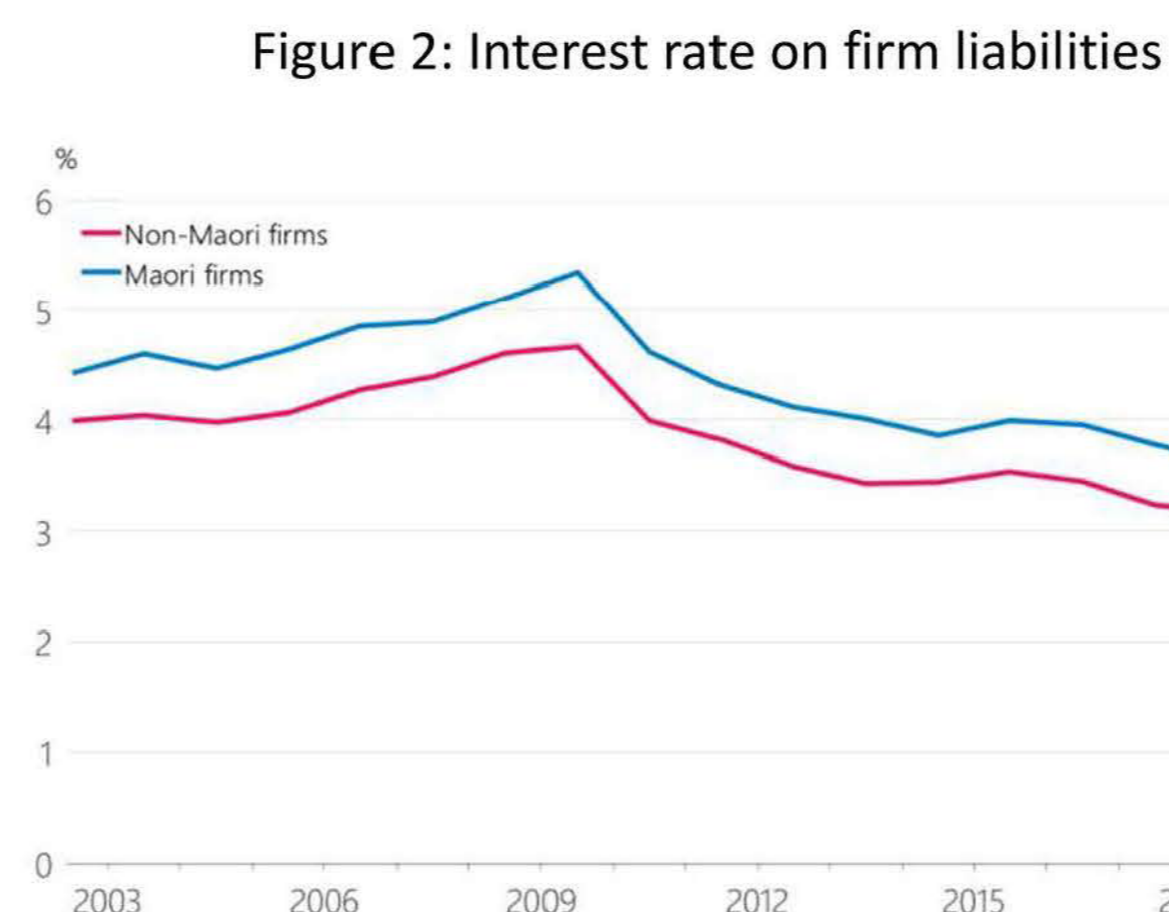
Our quantitative analysis<sup>3</sup> has focused on using firm-level data to explore the financial conditions faced by Māori firms. We use the annual tax filings of New Zealand businesses to build up a picture of New Zealand business financial characteristics and the interest rates New Zealand businesses pay. We then link this information to the ethnicity of the directors and shareholders to compare the experience of Māori and non-Māori businesses.

This firm-level research uncovers 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 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.



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.

## Stakeholder engagement

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 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.

## Potential pathways to improve access

Our stakeholders highlighted a number of options to improve access to capital for Māori. There were a broad range of approaches discussed, but these can be summarised into five key themes:

- improve the ability to use whenua Māori (land) 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.

## What next?

Our Issues Paper has been released, and the public has been asked to provide feedback on the topic. We will shortly release a summary of this feedback.

The Bank will use the insights from this process to help Māori, the private sector and government, where relevant, to design a comprehensive pathway towards a better financial system for all New Zealanders.