

# Maori Development Corporation Report

## Chapter 3 - The Events Leading Up to Incorporation

### 3.1 - Hui Taumata

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The Events Leading Up To Incorporation

#### 3.1 Hui Taumata

During the 1970s and 1980s there was a powerful momentum for change in Maori society. An influential factor was concern over the growing socio-economic gap between Maori and Pakeha. The need for an accelerated drive to improve the economic position of the Maori people was becoming increasingly urgent.

The Hui Taumata (Maori Economic Summit Conference) in October 1984 was convened by the Minister of Maori Affairs, the Hon. Koro Wetere, to address the issues. The hui discussed the proposal for a development bank and recommended "as a matter of urgency, a professional study of the needs, role and means of creating a Maori Development Bank". (A1:100-1)

As a result, the Maori Development Commission was established and reported in February 1986 in favour of a development bank, incorporating the commercial activities of the Maori Trustee and Maori land development funds, together with additional support from the Crown. (A1:101)

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*Waitangi Tribunal, Department of Justice, Wellington.*

# Maori Development Corporation Report

## Chapter 3 - The Events Leading Up To Incorporation

### 3.2 - Hui Taumata

#### 3.2 The Steering Committee's Report

In response to the Maori Development Commission's report, a steering committee "to consider accelerating Maori economic development and the case for a Maori development bank" was appointed by the Minister of Maori Affairs and the Associate Minister of Finance in April to study the case further. (A1:1)

The terms of reference for the committee were:

- (a) What is the business climate for Maori economic development?
- (b) What are the obstacles to accelerating the development of Maori people and their resources?
- (c) What are the options available for the more efficient use of resources allocated to Maori economic development with a view to accelerating such development? What are seen as the advantages and disadvantages of each of these options?
- (d) What would be the preferred options?
- (e) How could these options be implemented? (A1:1)

In following the terms of reference the committee's primary objective was to "accelerate the economic development of the Maori people". (A1:1)

The steering committee presented its findings in an Interim Report to the Ministers on 16 September 1986. Because of their relevance to the MDC as it eventually emerged these findings are summarised below.

#### 3.2.1 Current status of Maori, their resources and business achievements

After stating that Maori resources comprised Maori people and their assets the committee noted that although Maori were largely urbanised, land in rural areas made up the major portion of Maori assets. Maori commercial organisations were usually communally owned with a "focus on pastoral farming in traditional tribal areas". Although heavily involved in the agricultural sector, Maori commercial organisations were poorly represented in the manufacturing and service sectors.

This focus on agriculture had meant that Maori economic returns were low. A comparison was made using 1983-1985 figures, between the rate of return of Maori commercial organisations and the rate of return on a survey of 618 corporates. The figures ranged between 2 and 5% for Maori organisations and between 4.9 and 13.9% for non Maori organisations. (A1:4)

The committee stated that there was little information on Maori involvement in small businesses although there were some examples of Maori success in the market place. Despite this there were disparities in the employment status between Maori and non Maori. There were also no Maori controlled publicly listed companies and few Maori company directors.

### 3.2.2 Obstacles to accelerated Maori economic development

The committee identified two "major facets" of accelerated Maori economic development. The first was the advance of Maori employed or self employed in the public or private sector. The second was the increased level of economic performance by Maori institutions. The committee concentrated on the second facet stating that it was "central to the issue of whether a new institution was required to help lift performance levels". (A1:5)

Three reasons for the failure of Maori institutions to generate significant investment returns were given by the committee. They were:

- o the weaknesses of management in Maori communally owned enterprises;
- o the existence of multiple objectives that impeded a commercial approach on the part of the enterprise; and
- o other limitations and constraints on economic development particularly where communal ownership or activity was involved. (A1:5-6)

### 3.2.3 Funding organisations that assist Maori resource development

Funding organisations and programmes that assisted Maori economic development were then examined by the committee. They included the Maori Authorities New Alliance (MANA), the Board of Maori Affairs, the Office of the Maori Trustee, the Small Cooperative Enterprises Scheme (SCOPE), the Rural Banking and Finance Corporation of New Zealand and the Development Finance Corporation of New Zealand (DFC). The committee stated that although the programmes met a range of development needs they did not deal with:

... the more commercial aspects of development including particularly, problems relating to management, corporate structures, and equity participation in medium/larger projects. In the committee's view these areas offer potential for improved rates of return on Maori resources. (A1:8)

### 3.2.4 Areas where development has lagged

Two areas where development has obviously lagged were then identified. The first was the "relative shortage of Maori enterprises outside of land based activities where modern management techniques were used". The committee stated that the success of a non-traditional project would not only require adequate equity and efficient management but "a more proactive role than had been traditional in lending institutions". (A1:9)

The second area where development had "lagged" was in the shortage of Maori management in companies. To counter this "management skills gap", the committee felt that Maori should be encouraged to establish their own businesses and supported the expansion of vocational training for Maori young people. Higher participation by Maori in business management courses to raise skill levels was also encouraged. (A1:9)

### 3.2.5 Options available for improving rate of development

The committee described the three options for "boosting" Maori enterprises that they had examined:

- o existing agencies being made more aware of the opportunities for lending to Maori people and commercial organisations for economic development. This could take the form of moral persuasion or the enforcement of positive discrimination programmes;
- o a management/packaging agency able to act in an advisory capacity to help put projects into a "bankable" form and to monitor their implementation. This agency could be located with the Maori Trustee, the Development Finance Corporation or elsewhere. However, it would have no loan or equity participation functions; and
- o a Maori Resource Development Corporation or investment company able to combine a management/ packaging function with funds for lending and equity participation in projects There are quite a few sub-options: the institution could be a subsidiary of the Maori Trustee or be established on a stand alone basis; it could be fully owned by the Maori Trustee and the Government or it could be owned in part by Maori Authorities; it could take over the Rural Lending and Land Development functions of the Maori Affairs Department or it could focus on other kinds of economic involvement including participation in ventures with top public companies as partners, without necessarily excluding a later expansion into rural lending. (A1:10)

The committee agreed that the promotion of lending by existing agencies to Maori enterprises was likely to be unproductive. The committee also had reservations about the proposal to establish a management/packaging agency. They felt that the lack of capital input would reduce its negotiating stance and readiness of Maori authorities to accept advice. There were also situations where an injection of equity was required to attract loan finance which may not be available elsewhere.

### 3.2.6 Preferred options

The committee recognised that although the first two options were necessary to improve the rates of return of Maori enterprises they were not sufficient to "translate Maori commercial projects from ideas to reality". Thus:

In view of a need for additional equity to be placed in some Maori commercial projects and for management support at all phases of development the committee has a preference for the Maori Resource Development Corporation or investment fund option. (A1:11)

The committee identified areas which should be excluded from the corporation's objectives. These included Maori housing, small urban Maori business loans, commercial projects under \$100,000 and the "current rural lending and land development activities of the Department of Maori Affairs". (A1:11)

The committee then considered three possible structures for a Maori Resource Development Corporation:

- o establishing a stand alone company, clearly separate from any arm of the Government;
- o a company which would in effect be a subsidiary of the Maori Trustee; and
- o placing more resources under the direct control of the Maori Trustee. (A1:12)

It explained that if the initial capital was to come from the Maori Trustee then it would be difficult to envisage how the stand alone company option could be achieved "in the short term". An advantage of this structure was that it could be "seen as a commercial entity standing completely separate from the government". Both the first and second options had the potential for a significant minority interest to be held by a major financial institution. This was seen as desirable by the committee to ensure "high quality financial analysis and management assistance". (A1:12)

The committee argued for the subsidiary of the Maori Trustee company structure for the short term. The reasons for this, rather than expanding the role of the Maori Trustee were:

... the Maori Trustee's roles are in conflict. As a trustee for general trust and agency work he must act strictly according to the terms of his administration and so is conservative; while as an entrepreneur seeking commercial returns on Maori resources he must be opportunity driven. By establishing a subsidiary company the Maori Trustee would be able to concentrate his funds for entrepreneurial activities and avoid a conflict of roles. People with appropriate financial skills could be brought to the company to assist with setting up and funding Maori corporates. This would allow people to be recruited and trained having regard to clear profit motives rather than imposing new objectives on existing staff. (A1:12)

The committee also felt that although the subsidiary company option was preferred in the short term, a stand alone company with some Maori ownership was desirable and should be an early priority.

### 3.2.7 Distinctive features of the preferred option

The committee then identified various features which they proposed should be incorporated into the corporation:

- o To ensure increased involvement by Maori in the manufacturing and service sector the Maori Resource Development Corporation or Investment Fund would need to identify "entrepreneurial opportunities", provide finance and assist with the development of the enterprise at all stages. A need for cultural sensitivity was deemed necessary as well as management support and training funded by revenues or subsidies.

- o Loans and equity should be available to individuals as well as to Maori communal economic organisations. However, given the focus on medium to large projects, Maori authorities "on a syndicate or joint venture basis" would more likely be involved than individuals.

- o Maori authorities should be given the option to become shareholders at some stage. However, the committee emphasised the need for careful consideration in view of the difference in wealth of tribal authorities and the possible expectation by wealthier authorities that they would "exercise a certain degree of leverage as significant shareholders". Top public companies could also be approached for shareholding.

- o The proposed corporation would "compete for funds in the market place and not receive concessionary loans from government". It would also be taxed like any comparable organisation.

- o Funding good investment opportunities was a high priority. The committee believed it was preferable to invest in other financial activities rather than "support doubtful projects". It was suggested that an equity analyst from a sharebroker be employed on a short term basis to develop hands on investment skills within the corporation.

The committee concluded:

The committee realises that the recommendations it is making may be seen as out of line with the current thrust of thinking on broader issues of Maori development. The recommendations do not rest directly on a framework of tribally based development. It may be seen as a way in which only a few, perhaps already privileged, Maori people will get direct help. It may in some respects suggest changing the people who make management decisions and the way in which those decisions are made. However, we see the corporation as only one component in an overall process of development policy. It should support tribal development by enhancing the profitability and management skills of tribally based enterprises. It is hoped that it will contribute to the faster

economic development of Maori people and enterprises, and enhance their ability to interact with and operate more successfully in the wider commercial sector. (A1:13-14)

### 3.2.8 Framework of the preferred option

The framework identified by the committee for the preferred option of a Maori Resource Development Corporation is set out below:

- (a) Market niche: The top end of Maori commercial business;
- (b) Mission goal: To accelerate the profitable development of Maori urban and rural corporate enterprises;
- (c) Objectives:
  - (i) to increase rates of return on Maori commercial enterprises;
  - (ii) to help strengthen Maori management skills;
  - (iii) to operate a successful Maori financial institution, achieving market rates of return;
  - (iv) to help accelerate Maori involvement in modern enterprises;
- (d) Structure: a private limited liability company as from 1.4.87 inviting from 1.4.88 Maori shareholding and possibly public corporate shareholding;
- (e) Shareholders: initially the Maori Trustee (through his general purposes fund) and when feasible the Crown with other options left open;
- (f) Capital: See below;
- (g) Staffing: a minimum of 8;
- (h) Leverage or gearing: a gearing of 4 is conservative and possible after year 2;
- (i) Profitability: depends on capital structure, costs and investment income. The aim is to achieve good commercial returns on shareholders' funds.
- (j) Maori management support: costs met either from Corporation revenues or subsidies; using the bank's staff supplemented by outside specialists. The Committee's preference would be an initial 3 years management support paid by the Government;
- (k) Board: a maximum of 5. Shareholders should be required to appoint directors with appropriate skills.
- (l) Client size: medium/large Maori enterprises: \$100,000 minimum advances unless special circumstances exist. (A1:14-15)

The committee proposed that the initial capital structure of the preferred option would be:

Maori Trustee: \$7.0 million.

This could occur through a transfer to a limited liability company of the general purposes fund and the assets that entails as shareholder equity.

Crown liabilities: \$5.0 million, a non cash charge.

This could occur through the conversion of the debt the Maori Trustee owes to the Crown for monies he administers and advances for business lending to equity. No Crown guarantees would be available.

Capitalised Crown Finance: A cash charge for 1987-88.

#### Option One

The Maori Trustee administers an annual appropriation of \$800,000 for business lending. Capitalising that amount over 10 years at a 10% discount rate would be \$4.9 million.

Under this option, the Crown could be prepared to subscribe for shares totalling eventually \$10 million, with \$5 million being called up in 1987-88. This would ensure a good start up capital base. This is the preferred option ...

#### Option Two

Alternatively the Crown could provide a higher cash injection in 1987-88 to complement the resources of the Maori Trustee, ie, \$7.0 million. (A1:15)

### 3.2.9 Summary of findings

In summarising their findings the committee stated that lack of business expertise and the pressures of working to multiple objectives were the chief obstacles to Maori economic development. It was clear that there was a need for assistance with the packaging of Maori projects as well as ongoing management support and training. However, they committee felt that an agency with such a limited role would not make the desired impact on Maori economic development. Therefore an organisation which would provide Maori equity and loan finance was proposed.

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### 3.3 - Consideration by the Officials Committee

#### 3.3 Consideration by the Officials Committee

The steering committee's report was considered by the Ad Hoc Cabinet Committee on Maori Development and an Officials Committee convened by the State Services Commission in the months following. (A1:47-87)

Because of the report's significance to the Maori community, prominent Maori and Maori officials were added to the Officials Committee. In a memo to Cabinet, the Minister of State Services, Hon Stan Rodger, advised that the Maori officials and consultants had been critical of the process as there had not been the "extensive consultation and consensus-seeking" desired by Maori. He said it was a situation which should be avoided when dealing with major Maori issues in the future. (A1:40-41)

In one report from the Officials Committee, the convenor, Margaret Basley stated that "... the goals and objectives of the government should so far as possible be in harmony with those of Maoridom". (A1:42)

In another (30 January 1987) she noted that:

... officials are agreed that the Government has a major interest in encouraging the development of a viable economic basis for Maoridom that would reverse the pattern of over-dependence on the State. (A1:54)

The general thrust of the report was supported throughout the process of consultation although the financial details were subject to some modifications. A second option suggested a much higher level of funding - an authorised capital of \$100 million - but this was not approved. (A1:103)

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### 3.4 - Launch of the MDC

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On 1 July 1987 the Ministers of Finance and Maori Affairs released a press statement launching the new Maori Development Corporation and a trust fund of \$10 million, the Poutama Trust, to work in parallel with the MDC. The Corporation would have a paid up capital of \$24 million and authorised capital of \$50 million. The government was to contribute \$13 million of the paid up capital and the Maori Trustee's share was \$7 million. Fletcher Challenge and Brierley Investments were contributing \$2 million each. (A1:121)<sup>1</sup>

The aim of the Corporation and the rationale for the government's participation in it was to further the development of profitable commercial Maori business enterprises. The Ministers' background statement stressed the importance to the Maori people of developing their assets, many of which were presently bringing in below average returns, thus reducing the wealth available to them. (A1:101)

In line with the Steering Committee's original recommendation, it remained the intention that the Corporation should confine its attention to larger scale projects, leaving Mana Enterprises to assist in the development of smaller Maori businesses. (A1:123-4)

#### References

1. After the issue of the press statement, the Development Finance Corporation (NZ) Ltd became the owner of 2 million shares, lifting paid capital to \$26 million.

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*Waitangi Tribunal, Department of Justice, Wellington.*