

In Confidence

Office of the Minister for Regional Economic Development

Chair, Economic Development Committee

## **PROVINCIAL GROWTH FUND: UNLOCKING UNDERUTILISED WHENUA MĀORI**

### **Proposal**

1. The proposal is to promote a \$100 million allocation within the Provincial Growth Fund (PGF) for investment into Māori owned land. The aim is to address a current barrier to optimal regional economic growth by unlocking the economic potential of Māori owned land through access to financial capital for land development, or on-farm improvements.

### **Executive Summary**

2. In 2017, we established the PGF to achieve a lift in productivity potential in the regions and support our overall goal of productive, sustainable and inclusive growth. We agreed our investments would contribute to a range of objectives including: jobs and sustainable economic development; social inclusion and participation; and Māori development.
3. In October, we agreed a set of principles for the investment of PGF infrastructure, including water storage. Through these decisions, we acknowledged the important connection between lifting the productivity of Māori owned land, achieving optimal regional growth, and growing the national economy. The PGF is one mechanism for unlocking the potential of Māori owned land, and accelerating its contribution to national economic growth. There are others we are considering concurrently (e.g. Māori land regulation, and support for Māori land owners) that also seek to optimise economic returns and social and cultural benefits from better utilisation of Māori owned land.
4. The PGF has already received applications from a range of land owners seeking to unlock further potential in their land. However, there has been lower than anticipated interest from Māori land owners. The lack of interest to date signals a potentially sizable missed opportunity to grow regional economies through the PGF.
5. The underutilisation of Māori owned land is a significant issue for the primary sector, the regions, and the national economy. Ministry of Primary Industry (MPI) commissioned studies identified just under one million hectares of Māori land that was either unproductive or underutilised. Modelling of the potential impact of bringing this land into production showed an increase of up to nominal \$8 billion in gross output and \$3.7 billion in value added over 10 years above existing primary sector forecasts, and creation of an estimated 3600 jobs.

6. Through the work of Te Puni Kōkiri (TPK), MPI and others there is already significant government investment to support greater productivity from Māori owned land. Much of this work focuses on building governance and management capability within Trusts or in completing feasibility studies (i.e. in the pre-commercial area). The single biggest barrier to moving beyond that stage, and realising the potential economic benefits outlined above, has been identified as access to financial capital for land development, or on-farm improvements.
7. The proposal addresses that barrier and aims to stimulate applications to the PGF from Māori land owners who are investment ready but have been constrained in accessing financial capital to date. It intends to bridge the divide between investment readiness and tangible actions (e.g. 'a post in the ground') that will realise potential and accelerate growth in the regions. This proposal builds on the work of other agencies; will leverage and extend investments so far, and unblock what has become a barrier for many land owners in taking the next step in land utilisation, productivity and contribution to the national economy.
8. The key elements of this PGF proposal to unlock underutilised whenua Māori are:
  - a. promoting an allocation of \$100 million (grants or loans) over the life of the PGF to develop a subset of the one million hectares identified as unproductive or underutilised; with a review of the amount if demand is there;
  - b. inviting applications from the broadest catchment possible including Māori owned land in both Māori freehold or general title, and applications from surge or non-surge regions; and
  - c. establishing a set of investment principles to guide PGF investment in Māori owned land.
9. I anticipate that this proposal may appeal particularly to small and medium land holders who may be interested in up to \$10 million of investment. I anticipate that the majority of applications will come from surge regions – where there are significant Māori land holdings, and significant issues of underutilisation. I also anticipate that there will be a primary sector focus. However, other types of land use and development (e.g. tourism enterprises) could be possible.
10. Applications will be subject to the usual PGF processes. In addition, Regional Economic Development (RED) Delegated Ministers will consult with the Minister of Agriculture, the Minister for the Environment, and the Minister for Māori Development to ensure alignment with broader Government objectives for land use.
11. Success in attracting applicants to the PGF to unlock this land will require collaborative efforts from the Provincial Development Unit (PDU), across agencies and with partners. I will invite the Minister for Māori Development to bring an initial tranche of investment ready applicants to the PGF. I also anticipate having investment ready case studies to support the Prime Minister's announcement of this proposal on 3 February 2019.

## Background

12. We established the PGF in December 2017 to achieve a lift in productivity potential in the regions and support our overall goal of productive, sustainable and inclusive growth. We agreed that our investments would contribute to most of the following objectives, with a particular focus on the first objective:
- a. *Jobs and sustainable economic development*: investments support increased jobs (with a focus on high quality jobs) and sustainable economic development over the long term, particularly in regions and sub-regions where unemployment is high and there are significant social challenges;
  - b. *Social inclusion and participation*: investments support increased social inclusion through effective training, work preparation and support that enables more people to fully participate in work and society;
  - c. *Māori development*: investments enable Māori to realise their aspirations through greater participation in all aspects of the economy;
  - d. *Climate change and environmental sustainability*: investments support opportunities to achieve New Zealand's climate change commitments and encourage more sustainable and productive use of land, water and other resources; and
  - e. *Resilience*: investments increase regional and national resilience by improving critical infrastructure and focusing on opportunities to grow and diversify our economy.
13. From the outset, the PGF has sought to support greater participation from Māori in all aspects of the economy and to enhance utilisation of Māori assets [CAB-17-MIN-0554 and CAB-18-MIN-0347 refer].
14. In October 2018 [CAB-18-MIN-0516 refers] we agreed to a set of principles for the investment of PGF infrastructure, including water storage. We agreed a priority focus for investment in water storage was the development of Māori owned land, reflecting the key role of productive Māori assets in regional growth.
15. Further, in consideration of issues related to Te Ture Whenua Māori Land Act, we agreed in April 2018 to explore options for better realising opportunities for Māori land, including greater support for Māori land owners to unlock potential in their land. [CAB-18-MIN-0143 refers]. A range of options relating to system and regulatory improvements and greater support for Māori land owners are being considered concurrently by the Cabinet Māori Crown Relations Committee and they complement this proposal.

## Lifting the Productivity of Māori Owned Land

16. Optimal regional growth depends on lifting the productivity of Māori owned land. It is identified as a significant opportunity for productivity enhancement in many of the regional economic action plans. The relationship between the health and productivity of the Māori economy and the health and productivity of the economy as a whole is recognised in the PGF and its criteria and investment principles.

17. While the PGF has received applications from a range of land owners seeking to unlock further potential in their land, there has been lower than anticipated interest from Māori land owners.
18. Māori own significant primary sector assets,<sup>1</sup> and the primary sector continues to provide a valuable opportunity for Māori to build wealth, improve community outcomes, and contribute to regional growth. However, there are a range of barriers impeding full utilisation of this land. Underutilisation of Māori land is a significant economic issue for land owners, the primary sector, and the regions, as it reduces the potential livelihoods that could be derived from this land.
19. Studies commissioned by MPI<sup>2</sup> in 2013 identified just under one million hectares of Māori land that was either unproductive or underutilised. Modelling of the potential impact of bringing this land into production showed an increase of up to nominal \$8 billion in gross output and \$3.7 billion in value added over 10 years above existing primary sector forecasts, and creation of an estimated 3600 jobs.
20. These figures give an indication of the latent potential in Māori owned land. This potential is one of the most sizable areas for growth in the primary sector. To achieve the benefit in growth in gross output value add above, the MPI study estimated set up and maintenance costs of just under \$3 billion. The study acknowledged this investment would realistically occur over an extended period of time; and it also noted the importance of good governance and management to realise the potential of the land. The availability of financial capital would act as a catalyst to accelerate the realisation of the productivity potential of this land.
21. In lifting the productivity of Māori owned land, experience of land owners and those working to support them, indicates the following success factors must be in place:
- a. Access to financial capital for land development;
  - b. Access to water for land development;
  - c. Enhanced skills in governance and management to support Māori land owners to make the best use of land for whānau; and
  - d. Improved regulatory environment for Māori land ownership to enable land to be utilised by whānau.
22. This proposal addresses the first element. The PGF approach to water storage investment addresses the second. Broader government work led by Te Puni Kōkiri (TPK) and the Ministry of Justice (Justice) addresses the third and fourth elements, as discussed further below.
23. *Access to financial capital* – this proposal addresses the first success factor, providing access to funds to land owners for land development or on-farm improvements through the PGF. Owners of Māori freehold land are constrained in borrowing from financial

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<sup>1</sup> Māori entities own an estimated 38% of fishing quota, 30% of land under commercial forestry, 30% of lamb production, 12% of sheep and beef units, 10% of dairy production, and 10% of kiwifruit production.

<sup>2</sup> *Mid-North (Northland) Multiple Maori Land Blocks – Land development opportunities for a sustainable and prosperous future* - KPMG, 2013; *Growing the Productive Base of Māori Land – Partial National Cost-Benefit Analysis* – PwC, 2014; *Growing the Productive Base of Māori Freehold Land – further evidence and analysis* - PwC, 2014.

institutions for land development because the land is to all intents inalienable; consequently banks are less willing to hold Māori freehold land as security for debt.

24. There are a number of programmes that support owners to understand the use potential of their lands, and prepare for further development. However, many land owners are not able to access funding to move beyond feasibility studies and accelerate growth or unlock the productive potential in their land.<sup>3</sup>
25. New Zealand financial markets have not found a way to address this gap in the market and consequently many Māori owned farms or other land holdings have not been developed in the way that other lands have been. A key consideration of this proposal is to give certainty to Māori land owners that accessing the PGF funding will not give rise to the risk that their land will be lost.
26. *Access to water for land development* - the PGF will also contribute to the second success factor, through investment in water storage proposals that will enable a number of Māori to bring their land into primary sector production. We anticipate the scale of this investment to be limited within the PGF's lifetime given the timeframes involved in constructing water storage infrastructure. We are also progressing this issue more broadly through our catchment by catchment approach to the Crown-Māori relationship for freshwater.
27. *Governance and regulatory environment* - TPK is leading the development of options to support Māori freehold land owners better manage and govern their land; alongside Justice led proposed amendments to the Te Ture Whenua Act to support the Māori Land Court and other aspects of the regulatory environment for Māori land ownership. These options are being considered at the Māori Crown Relations Cabinet Committee on 11 December 2018<sup>4</sup>. Those options, if agreed, would contribute to the third and fourth success factors noted above, and complement the proposal in this paper.
28. Through detailed block by block analysis, TPK estimates benefits of \$1.407 billion (present value (PV) \$387 million) to \$2.064 billion (PV \$650 million) over 40 years through increased value of the land through its proposed work programme on Māori land regulation, providing land owners with advisory services about deriving value from their whenua and assisting them to prepare proposals for investment.

### ***PGF investment in underutilised Māori land – leveraging and extending other investments***

29. For the PGF generally, this proposal will contribute to a number of its objectives. It will contribute to raising productivity, increasing jobs, strengthening Māori development, and the economic resilience of regions through deepening the regional capital base. Through the permanent association of whānau, hapū and iwi with particular whenua, Māori have a long term commitment to their regions and communities. As their

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<sup>3</sup> For example, MPI confirms this has been the case with many of the recipients of funding from its Māori Agribusiness Pathway to Increased Productivity programme who completed such studies.

<sup>4</sup> There are two related papers going to that Committee. The second paper "Support for Māori Freehold Land Owners: Whenua Māori Programme Business Case and Access to Contingency Funding" includes options that directly complement the proposal in this paper.

investments bear fruit regions benefit through higher income levels, more jobs and greater social inclusion.

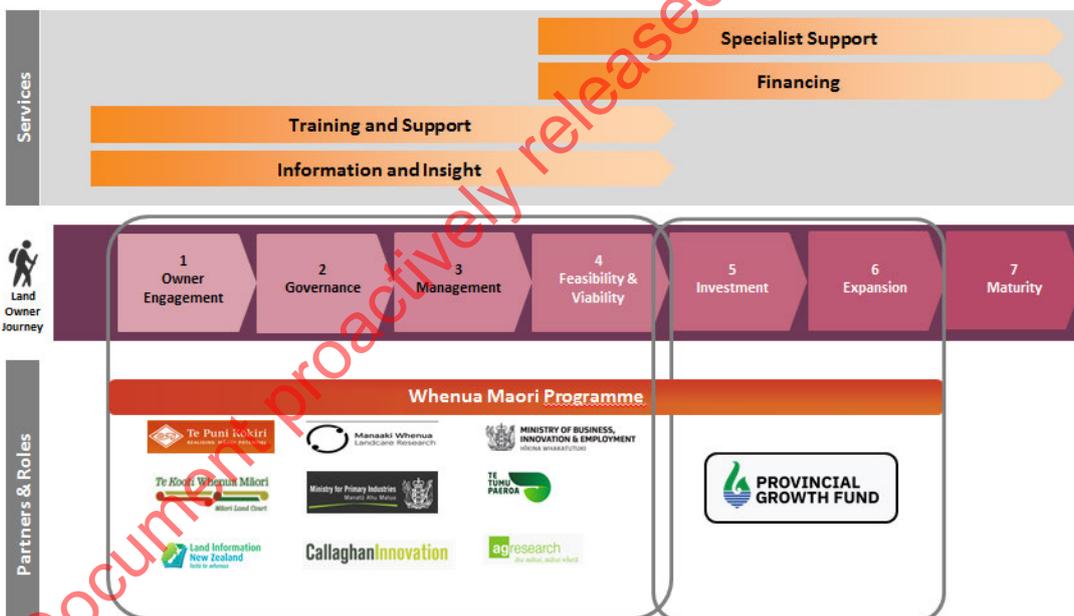
30. While other PGF investments focus on Māori participation in the workforce, this proposal focuses on Māori participation as owners of capital in the regions. It aims to increase the returns available to Māori from their assets as land owners by making available to Māori land owners the opportunities that other land owners have had to develop their land. There is scope to build on this to also offer opportunities for skills development programmes on Māori owned land.

31. TPK, MPI and others have been working with Māori land owners for some time to support them to get investment ready (stages 1-4 in Figure 1 below). Over the period May 2016 to May 2018,<sup>5</sup> Māori land owners accessed a total of \$8.78 million of funds through these programmes. The majority of applications received were to support development of business cases, project and feasibility plans.

32. The proposal in this paper would complement and extend current government investment through filling a current gap, (working at stages 5, 6 in Figure 1) of the land owner journey namely ‘investment and ‘expansion’ (including diversification)’.

Figure 1: Whenua Māori Development: stages and contributors<sup>6</sup>

Advisory functions and partner roles overlaid on the land owner journey (maturity curve)



<sup>5</sup> Analysis of funds managed by TPK, MBIE and MPI shows 152 applications from 117 Māori land entities were received at this time from across all regions.

<sup>6</sup> Diagram an adaptation of TPK’s ‘Whenua Māori development programme’

## Provincial Growth Fund: Unlocking Underutilised Whenua Māori Proposal

33. Under this proposal, \$100 million of funding from the PGF would be made available, via grants or loans, to progress investment ready projects that develop land or provide on-farm improvements for Māori owned land. This proposal would target a subset of the one million hectares of this land identified as unproductive or underutilised.
34. Successful applications will be investment ready. They will have already completed their pre-commercial requirements such as feasibility studies. They would have good governance and management plans in place and would be clear about the benefits they will achieve within the PGF's timeframes. Successful applications will be compatible with the Government's objectives for land use.
35. The funding will be targeted at small to medium landholdings that require investment of financial capital to unlock and realise latent potential. I am not proposing to set specific parameters regarding land block size, or scale of investment. However, I anticipate applications in the up to \$1 million; \$1-5 million; and up to \$10 million range.
36. I propose an initial allocation of \$100 million over the life of the PGF, to be reviewed if indicated by demand.
37. While there may be a particular focus on primary sector initiatives, I anticipate the funds could also be invested for non-primary sector activities such as tourism ventures. I propose that proposals from both surge and non-surge regions be considered. I expect the investment will predominantly benefit land owners in surge regions, as 70% of Māori land is in surge regions.
38. I propose that this allocation be open to the broadest potential catchment of Māori owned land regardless of its land title type. That is, both Māori freehold and general title land owned by Māori would be considered.

### **Wider Government considerations**

39. The PGF's investment in underutilised whenua Māori will contribute to growing regional economies and complement and extend existing government investments in whenua Māori.
  40. The Government has indicated that it wishes to invest through the PGF alongside firms to strengthen regional economies and that it wishes to make use of a range of commercial, quasi-commercial and grant facilities to do so. It is important that the PGF investment is consistent with the Government's approach to complying with international trade obligations. New Zealand's approach on international trade obligations set out specific disciplines on the provision of subsidies, which includes the provision of any grant, concessionary loan, or an equity infusion made in circumstances inconsistent with usual investment practice. s 9(2)(d)
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41. The proposed investment principles outlined below balance guidance that relates specifically to this proposal, and guidance that reflects the PGF's alignment with broader government objectives relating to land use, including being cognisant of government approaches to climate change; water storage; and biodiversity.

### ***PGF Investment Principles***

42. For applications from Māori land owners to be successful they will meet the PGF criteria and investment principles.<sup>7</sup> Additional guidance relating to investment in Māori owned land includes the following:
- a. Lifts the productivity potential of the land;
  - b. The project will commence within the timeframes of the PGF;
  - c. Land owners will have established effective governance arrangements;
  - d. Land owners can demonstrate evidence of expert commercial advice on the best use of their land (e.g. they have completed feasibility studies and are investment ready);
  - e. Proposals demonstrate how projects will support land use that does not increase, and ideally reduces, negative impacts on water quality;
  - f. Where practicable, proposals will demonstrate how projects will contribute to mitigating or adapting to climate change effects, and a just transition to a low emissions economy; and
  - g. Where practicable, proposals will consider how investment could support protection and enhancement of indigenous biodiversity.

### ***Applications process***

43. Government agencies will build on their existing work with Māori land owners to determine the feasibility of developing their land. Agencies will engage with Māori land owners to make them aware of the opportunity through the PGF, assist those that are interested in preparing material for an application and inform them of what is needed to become investment ready for the PGF. Once an investment ready project has been developed, the land owners would submit an application to the PGF.
44. Applications will be subject to the same processes as other applications to the PGF. I do not anticipate proposals will exceed the delegations of RED Delegated Ministers (\$1 million - \$20 million). RED Delegated Ministers will consult with the Minister of Agriculture, the Minister for the Environment, and the Minister for Māori Development to ensure alignment with broader Government objectives for land use.

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<sup>7</sup>In October 2018, Cabinet agreed principles to guide PGF investment in: employment, skills, and capability; digital connectivity; water storage and infrastructure [CAB-18-MIN-0516 refers]. Any PGF Whenua Māori applications would be assessed in the context of those principles, alongside those proposed here for unlocking underutilised whenua Māori.

45. Through existing PDU and agency engagement with Māori land owners we are aware of a number of potential applications for the PGF. The PDU and other agencies are working actively now across the regions with a range of Māori land owners and Trusts to build awareness of the development opportunities via the PGF and to identify applications that are investment ready and would contribute towards provincial growth through whenua Māori development.

46. The Minister for Māori Development will be invited to identify and bring forward to the PGF a number of proposals for early consideration. I also anticipate having a number of investment ready case studies to support announcement of this proposal on 3 February 2019.

### **Consultation**

47. This paper has been consulted with the Department of Conservation, the Department of Prime Minister and Cabinet, the Ministry for the Environment, the Ministry for Primary Industries, the Ministry of Business, Innovation and Employment, the Ministry of Foreign Affairs and Trade (MFAT), the Ministry of Justice, Te Puni Kōkiri, and Treasury.

### **Financial implications**

48. There are no financial implications associated with this proposal.

### **International obligations**

49. The Government has indicated that it wishes to invest through the PGF alongside firms to strengthen regional economies and that it wishes to make use of a range of commercial, quasi-commercial and grant facilities to do so. It is important that the PGF investment is consistent with the Government's approach to complying with international trade obligations. International trade obligations set out specific disciplines on the provision of subsidies, which includes the provision of any grant, concessionary loan, or an equity infusion made in circumstances inconsistent with usual investment practice. s 9(2)(d)

### **Human rights implications**

50. There are no human rights implications as a result of this Cabinet paper.

### **Legislative implications**

51. There are no legislative implications as a result of this Cabinet paper.

### **Regulatory impact analysis**

52. A regulatory impact analysis is not required.

### **Gender implications**

53. There are no gender implications as a result of this Cabinet paper.

## Disability perspective

54. There are no disability implications as a result of this Cabinet paper.

## Publicity

55. I propose that the Prime Minister announce this proposal on 3 February 2019 at Waitangi in the annual meeting with the Iwi Chairs Forum; with any investment ready case studies included to support the announcement.

56. This paper will be proactively released, with redactions as appropriate, after announcements are made at Waitangi.

## Recommendations

The Minister for Regional Economic Development recommends that the Committee:

1. **Note** that the objective of Provincial Growth Fund (PGF) is to invest in regional New Zealand to create jobs, enable long-term sustainable growth and Māori development, improve resilience, and enhance social inclusion [CAB-17-MIN-0554 refers];
2. **Note** that unlocking the latent potential of underutilised Māori owned land is key to optimal provincial growth, and to realising benefits of other government investments; and that while the PGF already provides for investment in Māori owned land, few applications have been received to date;
3. **Agree** that the following principles, alongside existing PGF criteria and guidance, guide PGF investment decisions in Māori owned Land:
  - 3.1. Lifts the productivity potential of the land;
  - 3.2. The project will commence within the timeframes of the PGF;
  - 3.3. Land owners will have established effective governance arrangements;
  - 3.4. Land owners can demonstrate evidence of expert commercial advice on the best use of their land (e.g. they have completed feasibility studies and are investment ready);
  - 3.5. Proposals demonstrate how projects will support land use that does not increase, and ideally reduces, negative impacts on water quality;
  - 3.6. Where practicable, proposals will demonstrate how projects will contribute to mitigating or adapting to climate change effects, and a just transition to a low emissions economy; and
  - 3.7. Where practicable, proposals will consider how investment could support protection and enhancement of indigenous biodiversity;
4. **Agree** to allocate \$100m from the PGF for investment in Māori owned land over the life of the PGF, with a review of that figure if demand warrants it;
5. **Note** that, under the agreed decision-making approach, initiatives between \$1 million and \$20 million can be approved by RED Ministers;
6. **Agree** that for initiatives between \$1 million and \$20 million Delegated RED Ministers will consult with the Minister of Agriculture, Minister for the Environment and the Minister for Māori Development on proposals relating to PGF investment in Māori owned land;

7. **Invite** the Minister for Māori Development to bring forward to the PGF an initial tranche of investment ready applicants;
8. **Agree** that the Prime Minister will announce the allocation of PGF investment in Māori land at Waitangi on 3 February 2019 at the annual meeting with the Iwi Chairs Forum;
9. **Agree** to proactively release this Cabinet paper with redactions as appropriate following the announcement by the Prime Minister on 3 February 2019; and
10. s 9(2)(d) [REDACTED]

Authorised for lodgement

Hon Shane Jones

Minister for Regional Economic Development

Document proactively released consistent with the OIA