

# 31. New Zealand

## Key facts on SME financing

In 2019, New Zealand was ranked as the number one country<sup>1</sup> in the world for ease of doing business as recognized by the World Bank. As a small open economy, with a population of 5 million, SMEs play a significant role in the New Zealand economy.

SMEs account for 98.8% of all New Zealand businesses. Additionally, Māori-led SMEs, who are indigenous in New Zealand and Treaty partners to the Crown, mostly fall into the sectors of agriculture, fisheries, or the technical and scientific space. In New Zealand, SMEs are defined as businesses with 0-49 employees.

Aligning with global economic inflationary trends, the New Zealand consumer price index peaked at 7.3% in June 2022. In addition, severe weather events have contributed to inflationary pressures. In January 2023, Auckland and surrounding areas experienced catastrophic flooding. In February 2023, Cyclone Gabrielle hit the Northern Island. Both events caused widespread damage to buildings, businesses, and infrastructure with damage to farms and orchards likely to see loss of primary production beyond 2023.

In response to inflationary pressures, the Reserve Bank of New Zealand increased the official cash rate (OCR) from 0.25% in 2020 to 5.5% in 2023. As a result, interest rates for SMEs increased from 8.7% to 11.5% during 2022. Despite these changes, the stock of SME outstanding business loans increased from NZD 74.3 billion in 2021 to NZD 77.6 billion in 2022, although the share of SME outstanding business loans as a percentage of the total outstanding business loans fell from 60.3% in 2021 to 58.4% in 2022.

Other indicators show a slight increase in SME non-performing loans, from 0.6% to 0.7% from 2021 to 2022. Business-to-business late payments increased from 5.9 days in 2020 to 6.0 days in 2021. The annual number of bankruptcies continues a downward trend from 1863.0 in 2017 to 525.0 in 2022. The decrease in bankruptcies, though goes against global trends, is also reflective of the various government policy responses to COVID-19 for SMEs referenced in the 2022 New Zealand profile.<sup>2</sup>

In alternative financing, New Zealand early-stage capital markets saw a decline in capital from NZD 411.8 million in 2021 to NZD 329 million in 2022. A decrease in investment was also prevalent in the mature and later stage ventures.

As mentioned in the previous New Zealand profile (2022), to cushion the impact of COVID-19, the New Zealand Government had implemented various policies to support SMEs. Recent policy responses have included grants and financing for businesses that were impacted by the cyclone as well as the continuing some COVID-19 programmes with adjustments.

Table 31.1. Scoreboard for New Zealand

| Indicator   | Unit                                  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|---|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Debt</b>   |                                       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Outstanding business loans, SMEs                                | NZD billion                           | ..    | ..    | 31.6  | 32.4  | 32.1  | 30.9  | 32.4  | 34.2  | 36.5  | 60.4  | 64.6  | 68.2  | 72.6  | 70.8  | 74.3  | 77.6  |
| Outstanding business loans, total                               | NZD billion                           | 80.0  | 87.6  | 80.4  | 78.9  | 79.9  | 83.0  | 85.4  | 89.0  | 95.0  | 101.6 | 107.7 | 113.0 | 120.5 | 116.3 | 123.2 | 132.9 |
| Share of SME outstanding loans                                  | % of total outstanding business loans | ..    | ..    | 39.3  | 41.1  | 40.2  | 37.2  | 37.9  | 38.4  | 38.4  | 59.4  | 60.0  | 60.4  | 60.2  | 60.9  | 60.3  | 58.4  |
| Non-performing loans, total                                     | % of all business loans               | ..    | ..    | 1.7   | 2.1   | 1.8   | 1.5   | 1.1   | 0.8   | 0.6   | 0.5   | 0.5   | 0.5   | 0.6   | 0.6   | 0.4   | 0.4   |
| Non-performing loans, SMEs                                      | % of all SME loans                    | ..    | ..    | 2.7   | 2.9   | 2.8   | 2.7   | 2.4   | 1.6   | 0.7   | 1.1   | 0.9   | 0.6   | 0.7   | 1.0   | 0.6   | 0.7   |
| Interest rate, SMEs   | %                                     | 12.2  | 11.2  | 9.8   | 10.1  | 10.0  | 9.6   | 9.5   | 10.3  | 9.4   | 9.2   | 9.3   | 9.4   | 9.0   | 8.4   | 8.7   | 11.5  |
| Interest rate, large firms                                      | %                                     | 9.0   | 8.2   | 5.7   | 6.3   | 6.1   | 6.0   | 5.4   | 6.0   | 5.4   | 4.6   | ..    | ..    | ..    | ..    | ..    | ..    |
| Interest rate spread  | % points                              | 3.2   | 3.0   | 4.1   | 3.8   | 4.0   | 3.5   | 4.2   | 4.3   | 4.0   | 4.6   | ..    | ..    | ..    | ..    | ..    | ..    |
| Rejection rate  | % (SME loans rejected/requested)      | 6.9   | 11.6  | 18.4  | 20.9  | 11.4  | 14.6  | 9.4   | 8.4   | 10.6  | 4.8   | 11.7  | 9.0   | 9.9   | 15.1  | 14.1  | 13.3  |
| <b>Non-bank finance</b>   |                                       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Venture and growth capital (seed and early stage)               | NZD million                           | 29.5  | 32.6  | 43.2  | 53.1  | 34.8  | 29.9  | 53.1  | 56.4  | 61.2  | 69.0  | 87.0  | 111.3 | 128.7 | 158.0 | 257.6 | 186.6 |
| Venture and growth capital (seed and early stage) (growth rate) | %, year-on-year growth rate           | ..    | 10.3  | 32.8  | 22.8  | 34.5  | 14.1  | 77.6  | 6.3   | 8.5   | 12.6  | 26.2  | 28.0  | 15.6  | 22.8  | 63.0  | -27.6 |
| <b>Other indicators</b>   |                                       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Payment delays, B2B   | number of days                        | ..    | ..    | ..    | ..    | 15.7  | 13.5  | 12.7  | 10.4  | 7.1   | 5.9   | 5.8   | 5.9   | 6.6   | 5.9   | 6.0   | ..    |
| Bankruptcies, total   | number                                | 3 585 | 2 504 | 2 564 | 3 054 | 2 714 | 2 417 | 2 188 | 1 921 | 1 979 | 1 996 | 1 863 | 1 486 | 1 319 | 1,102 | 782.0 | 525.0 |
| Bankruptcies, total (growth rate)                               | %, year-on-year growth rate           | ..    | -30.2 | 2.4   | 19.1  | -11.1 | -10.9 | -9.5  | -12.2 | 3.0   | 0.9   | -6.7  | -20.2 | 11.2  | -16.5 | 29.0  | 32.9  |

Source: See Table 31.3.

## Macroeconomic and financing conditions

### Inflationary pressure:

In 2022 and 2023 New Zealand faced a period of high inflation. The New Zealand economy began to slow after strong growth towards the end of the COVID-19 pandemic.

The annual consumer price index (CPI) peaked at 7.3% in June 2022, the highest CPI since June 1990's high of 7.6%. Inflation pressures are expected to fall to 4.5% by the end of 2023 and eventually reduce to the 1-3% target bracket by the end of 2024.

Global economic trends have led to higher inflationary pressures around the world. In New Zealand, rises in inbound tourism, increased net migration, and rebuild activity from severe weather events have either contributed to or are expected to contribute to increased demand post-pandemic.

In the first two months of 2023, the Northern Island of New Zealand experienced two severe weather events. In both events, flooding and storms caused widespread damage to buildings, businesses, and infrastructure. Damage to orchards and farms is likely to see some loss of primary production beyond 2023. Temporary price spikes, from limited availability of severely weather-affected goods are assumed to add 0.4 percentage points to inflation over the Q1 and Q2 2023 quarters.

SMEs will see increases in some input costs or incur additional costs as a result of these disruptions. In response, they may need to increase the price of goods and services sold.

### **Official Cash Rate (OCR) rises:**

At the end of 2021, the Reserve Bank of New Zealand began to increase the official cash rate (OCR) from 0.25% in March 2020. In May 2023, the New Zealand OCR was 5.5%.

OCR rises attempted to reduce strong domestic demand and high inflationary pressures in the New Zealand economy.

### **Tight labour market:**

Employment declined in the onset of the COVID-19 pandemic, with unemployment reaching 5.2% in September 2020. From December 2021 to March 2022 unemployment sat at a low of 3.2% as the New Zealand economy experienced tight labour market conditions. Nearly a third of SMEs surveyed said they struggled to fill job vacancies, despite 59% offering wage increases.

## **SMEs in the national economy**

In New Zealand, there are over 620 000 SMEs, which account for 98.8% of New Zealand businesses. SMEs employ more than 679,000 people, 29.3% of total New Zealand employees. Table 33.2 shows the number and percentage of firms by employee count.<sup>3</sup>

SMEs contribute more than a quarter of New Zealand's total GDP. 12% of total goods exported are from SMEs with 16% of SMEs involved in goods exporting. As tariffs have been lowered and removed, SMEs have felt the impact through having to compete with foreign firms that have greater capacity to absorb increased costs and compliance requirements.

**Table 31.2. Firm sizes in New Zealand**

| Firm size by employees | Number  | Percent |
|------------------------|---------|---------|
| Zero employees         | 431,088 | 68.5%   |
| Micro(1-5)             | 118,413 | 18.8%   |
| Small (6-19)           | 57,087  | 9%      |
| Small-medium (20-49)   | 14,802  | 2.4%    |
| Medium (50-99)         | 4,584   | 0.7%    |
| Large (100+)           | 2,970   | 0.5%    |
| Total                  | 628,944 | 100%    |

Source: Infometrics, Business units by size 2022.

## SME lending and credit conditions

SME lending has been impacted by changing credit conditions. In response to high inflationary pressures, New Zealand's OCR was raised from its all-time low of 0.25% in March 2020 to 4.25% in December 2022. As a result of a rising OCR, interest rates for SMEs have increased from 8.7% to 11.5% (Figure 31.3 B).

According to the Reserve Bank of New Zealand, despite official cash raises, overall business loans increased from NZD 123.2 billion in 2021 to NZD 132.9 billion in 2022. SME business lending increased to NZD 77.6 billion in 2022 from NZD 74.3 billion in 2021 (Figure 31.3 A).<sup>4</sup>

SME demand for credit may increase for a range of reasons. These reasons can encompass SMEs having to substitute from COVID-19 relief funds, possibly face increased working capital costs from severe weather events, fronting greater liquidity needs from inflationary pressures increasing input costs, and could see increased staff turnover due to a tight labour market. Although, overall SME demand for credit could also decrease because of interest rate hikes and decreased business confidence in the economy. It is uncertain what the net effect of SME demand for credit will be.

Rejection rate for SME loans decreased from 14.1% in 2021 to 13.3% in 2022 (Figure 31.3 C). Going forward, supply of SME credit could fall due to a weaker economic outlook, inducing banks' inability to accept transactions outside of underwriting standards.

Like SMEs, corporate lending demand has increased in 2023. Although, it is expected that corporate demand will also decline due to the impact of interest rate increases on borrowing costs and the generally weak economic outlook. Corporate credit supply remains unchanged with no lending policy or credit terms changing.

Non-performing loans for SMEs increased from 0.6% in 2021 to 0.7% in 2022, while total non-performing loans stayed consistent at 0.4% (Figure 31.3 D).

## Alternative sources of SME financing

In addition to debt finance, three alternative sources of financing for SMEs are:

- Venture capital financing,
- Grants and supporting programs run by business accelerators, and
- Peer-to-peer lending platforms.

New Zealand's seed and early-stage venture capital industry, like other sectors, has felt the impacts of post-COVID-19 challenges and economic turbulence. In 2021, New Zealand's early-stage venture capital

market experienced an outstanding performance in terms of fund raising. In 2022, with global challenges and market volatility, New Zealand's early-stage venture capital industry saw a decline of 27.6% y-o-y compared to 2021's y-o-y growth of 63%. Moreover, NZD 186 million was invested in seed and early-stage startups in 2022 which marks a drop in investment of NZD 71 million from the volumes invested in 2021.

The venture growth capital data is obtained from New Zealand Private Capital and is defined as total investment in mature/late-stage ventures and expansion. This data only reports investments in formal venture funds (not angels). It does not include mid-market private equity. In 2022, NZD 143.2 million was invested, a decrease of 11% from the previous 2021 year (NZD 154.2 million) which was also the year that showed a significant 76% increase in investment from 2020 (NZD 37.5 million). It should be noted that there is considerable volatility in the figures reported for this indicator. Although previous years experienced year-on-year percentage growth.

Besides bank lending and venture capital investment, businesses can also seek finance through one of New Zealand's eight licensed peer-to-peer (P2P) lending and six crowd-funding providers<sup>5</sup>. In 2022 the total value of secondary markets trades of P2P lenders was NZD 28 million (NZD 14 million in 2021) for businesses and individuals. In 2022, the total capital raised by crowd-funding providers was NZD 16 million (NZD 18 million in 2021).

## Other indicators

SME non-performing business loans increased to 0.7% in 2022 from 0.6% in 2021. This represents decrease from the 2020 figure of 1.0%.

Based on financial year data, the annual number of bankruptcies continues its downward trend since 2017 to a new low of 525.0 in 2022. This figure only includes personal insolvencies and not corporate liquidations. However, many SME owners rely on their personal assets to finance their businesses.

## Government policy response

New Zealand's economy has faced various challenges from the implications of rising of inflation after the COVID-19 pandemic, severe weather events, and the large-scale aggression of Russia against Ukraine. Since the country-wide lockdowns and the challenge of COVID-19, policy responses have looked towards supporting businesses rebuilding post-pandemic, managing the rise of inflation and cost of living, improving access to finance for SMEs and supporting businesses overall who have been impacted by severe weather events.

The suite of initiatives that were previously outlined as government policy responses to COVID-19 in the 2022 New Zealand profile of the Scoreboard, have either had funding discontinued or program funding deadlines are nearing. An exception that has since been provided with further funding is the Digital Boost Skills Training and Support Programme, or Digital Boost, and the Small Business Cashflow Loan Scheme.

### ***North Island Weather Events loan guarantee scheme***

As New Zealand was greatly impacted by severe weather events, the Government approved an additional NZD 25 million for cyclone-affected businesses, taking the total support for business to NZD 75 million. Grants of up to a maximum of NZD 40 thousand per business were distributed through local organisations that were located in affected regions. The response of additional funding has been to assist the business community with their immediate cash flow needs.

### ***Early-stage capital markets response***

The Government continues to support the development of the early-stage capital markets through New Zealand Growth Capital Partners (NZGCP), a Crown entity that administers investment in seed and early-stage ventures. The establishment of NZGCP was a policy response to address the capital and investor capability gaps in New Zealand's technology startup ecosystem. NZGCP administers the Aspire NZ Seed Fund (Aspire) which invests directly in early-stage tech start-up companies at seed and angel stages (Series A/B). NZGCP also manages the Elevate NZ Venture Fund (Elevate), a NZD 300 million fund of funds strategy, which invests in venture capital funds on behalf of the Guardians of New Zealand Superannuation (the Guardians). This fund of funds was established in 2020 and in the recent 2023 Government budget, further NZD 40.5 million will be invested in venture capital funds. To date, Elevate has attracted over NZD 600 million of private capital and has NZD 77 million remaining to invest in other venture capital funds.

NZGCP's investment mandate is to invest in companies raising capital between NZD 2 million and NZD 20 million. Because of the rise in average funding round sizes and the desire to continue supporting high-potential New Zealand start-up companies, work is underway to increase the limit to NZD 40 million without restrictions and up to NZD 50 million on a case-by-case basis. Alongside this support, incubator programmes such as Callaghan Innovation's Technology Incubator Programme, provides grants and repayable loans to innovative, high-growth companies. In 2022, the New Zealand Government established a Startup Advisors' Council, that will help identify and address the opportunities and challenges facing high-growth startups and recommend options to enable more startups to be created, scaled, and accelerate in New Zealand.

### ***Business Payment Practices Bill***

In November 2022, the New Zealand Government developed new measures to help small businesses get paid on time. Timely payment for goods and services is crucial for the financial health of any business. The average length of New Zealand's business-to-business late payments slightly declined as seen with previous scoreboard data on payment delays. In 2021, business-to-business late payments decreased to 5.9 days on average from 6.6 days in 2020. SME business-to-business late payments also decreased in 2021 from 6.0 days in 2019 to 5.1 days.

The introduction of timely pay measures through the Business Payment Practices Bill aids small businesses that are less resilient to poor payment practices. Considering the uncertainty and stress, SMEs are reluctant to push for on-time payments due to fear of damaging relationships. Additionally, delayed, or overdue payments may cause uncertainty and restrict investment and job creation.

The introduction of the Business Payment Practices Bill has passed its first reading in Parliament. In addition to the range of support the New Zealand Government has provided to small businesses during COVID-19, this Bill adds to the support for small businesses and improves the information and transparency around business-to-business payments across the economy.

### ***Māori access to capital***

A progressive procurement policy was introduced in 2020 to increase supplier diversity which starts with Māori businesses. Government procurement contracts for foods and services are awarded to Māori businesses annually and will increase from 5% to 8%. More targeted policy responses to SME financing are evident in the range of business support for Māori SMEs and entrepreneurs like the Māori Innovation Fund, the Māori Business Growth Fund and established Māori-business networks or accelerators like Kōkiri. The Māori Innovation Fund seeks to build the skills and knowledge of Māori collectives and trusts. Under the fund, collectives are given co-funding to work with commercial advisors who can help identify opportunities and support new ventures. Kōkiri is a Māori-led accelerator that enables Māori entrepreneurs

to accelerate their business and develop capabilities. They offer different grants for entrepreneurs alongside mentoring and coaching opportunities.

Moreover, work is currently underway with the Reserve Bank of New Zealand and key stakeholders on a policy paper on improving Māori access to capital. For Māori, and other underrepresented groups, there are various barriers between them and specific forms of capital in the financial system, and this research attempts to identify those issues and provide insights and potential solutions for the Māori economy, businesses, and communities.

### ***Continued SME COVID-19 policy responses:***

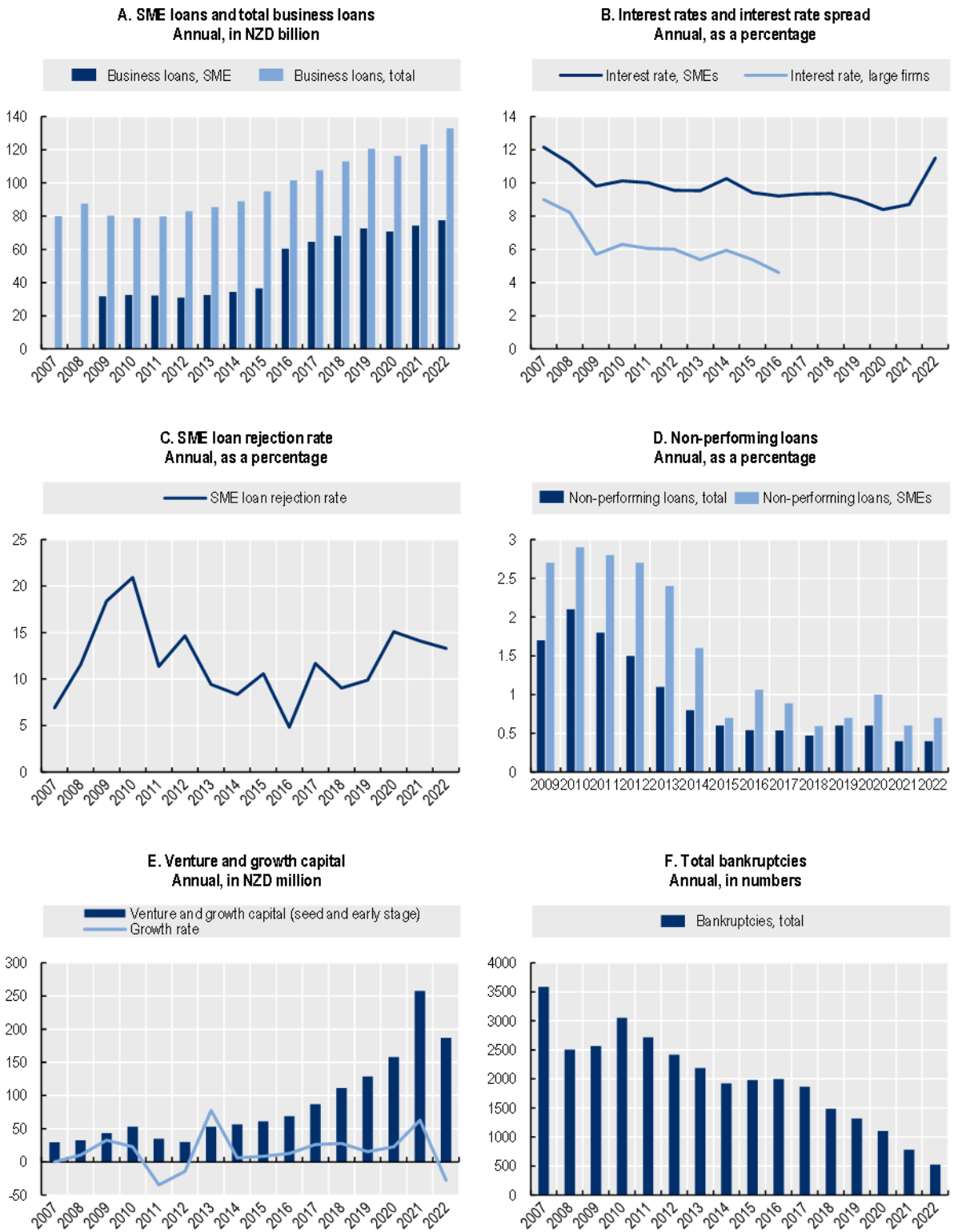
#### *Digital Boost Skills Training and Support Programme*

As sub-set of the Better for Business programme, the Digital Boost initiative provides training and benefits to help businesses grow and thrive in today's fast paced digital world. This initiative provides free assistance for business to create a digital strategy, improve online sales, use digital tools for growth, use app-based software and streamline their businesses. An evaluation of the initiative found it is a resounding success, measured by the positive impact for people participating in Digital Boost Educare. As a result, additional funding for the Digital Boost programme was provided during Budget 2021 for two more years (until 30 June 2023).

#### *Small Business Cashflow Loan Scheme*

The Small Business Cashflow Loan Scheme was introduced in 2020 to help business who are struggling with revenue loss due to COVID-19. This scheme provides interest free loans to support their cash flow needs and meet fixed costs. In 2022, the Government had announced that the loans through the scheme would be increased from NZD 10,000 to NZD 20,000.

Figure 31.1. Trends in SME and entrepreneurship finance in New Zealand



Source: See Table 31.1

StatLink  <https://stat.link/62783a>



**Table 31.3. Sources and definitions of New Zealand Scoreboard**

| Indicator   | Definition   | Source  |
|---|--|---|
| <b>Debt</b>                                       |  |   |
| Outstanding business loans, SMEs                  | Estimated lending to SMEs. There is a break in this series from 2016 when a new bank balance collection was introduced by Reserve Bank of New Zealand.   | Reserve Bank of New Zealand   |
| Outstanding business loans, total                 | Lending to the resident business sector by registered bank and non-bank lending institutions. Excludes agriculture, finance and insurance, general government, household and non-resident sector loans.  | Reserve Bank of New Zealand   |
| Non-performing loans, total                       | Non-performing loans as a percentage of total lending. Includes impaired and 90-days past due assets.  | Reserve Bank of New Zealand   |
| Non-performing loans, SMEs                        | Non-performing SME loans as a percentage of total SME lending. Includes impaired and 90-days past due assets.  | Reserve Bank of New Zealand   |
| Interest rate, SMEs                               | Base interest rate for new overdraft loans for SME non-farm enterprises.   | Reserve Bank of New Zealand   |
| Rejection rate                                    | Percentage of SMEs (firms with 6-49 employees) requesting debt finance that were not available or did not receive it on reasonable terms.  | Statistics New Zealand  |
| <b>Non-bank finance</b>                           |  |   |
| Venture and growth capital (seed and early stage) | Total investment in seed and startup ventures. Startup Magazine is a magazine for angel investors. It uses information from the Young Company Finance Index.   | Startup Magazine Published by PwC<br>pwc.co.nz/startupmagazine                  |
| Venture and growth capital (seed and early stage) | Total investment in mature/late stage and expansion ventures. Data is for all investment by formal funds in companies based in New Zealand; including international funds that are part of a syndicate. Does not include mid-market private equity.  | New Zealand Private Capital Association   |
| <b>Other indicators</b>                           |  |   |
| Payment delays, B2B                               | Average number of days it takes entities to pay for goods and services after payment is due, reported quarterly (averaged across all quarters for 2018. Averaged across only available quarters, June and September, for 2020).  | -   |
| Payment delays, B2B SMEs                          | Average number of days it takes entities (firms with 1-49 employees) to pay for goods and services after payment is due, reported quarterly (calculated on the basis of the average of the three groups: 1-5, 6-19 and 20-49 employees - and the average of the four quarters for 2018 Averaged across only available quarters, June and September, for 2020). | -   |
| Bankruptcies, total                               | Personal insolvencies including creditor and debtor applications, excluding no asset procedures and summary instalment orders for financial years.   | Ministry of Business, Innovation and Employment, Insolvency and Trustee Service |

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## Notes

<sup>1</sup> <https://data.worldbank.org/indicator/IC.BUS.EASE.XQ?locations=NZ>

<sup>2</sup> [New Zealand | READ online \(oecd-ilibrary.org\)](#)

<sup>3</sup> Definition of SME according to firm size by employees. Source under Table 31.2.

<sup>4</sup> The data on SME lending and credit conditions is provided by the Reserve Bank of New Zealand who define SMEs as businesses with annual turnover of less than NZD 50 million and/or businesses with fewer than 20 employees.

<sup>5</sup> Peer-to-peer lending involves a person issuing a debt security to another person, generally for personal charitable, or small business purposes. The primary purpose of P2P lending services is to match lenders with borrowers. Crowdfunding is a type of financial market service. An equity-based crowd funding service licence holder acts as an intermediary between companies issuing shares and investors purchasing shares. (<https://www.fma.govt.nz/business/services/crowdfunding/>)



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