

The Chair

CABINET ECONOMIC DEVELOPMENT COMMITTEE

NEW ZEALAND TRADE AND ENTERPRISE: PAPER 1 – OVERVIEW

INTRODUCTION

1 This paper provides an overview of the broad trade and economic development role of New Zealand Trade and Enterprise (NZTE), and proposed short- and long-term developments to NZTE's intended service range that will enhance its ability to deliver on its objective of developing internationally competitive business. It also discusses the consistency of the proposed services against key design principles.

EXECUTIVE SUMMARY

2 NZTE is a key element of the Growth and Innovation Framework (GIF) in terms of delivering, coordinating and aligning the delivery of services designed to implement GIF policy. NZTE's objective - to support the development of internationally competitive New Zealand business - derives from GIF's focus on internationalisation and the overarching objective to increase the long-term rate of sustainable economic growth. NZTE will also have specific roles in relation to the Sustainable Development Programme of Action.

3 NZTE will deliver initiatives in and across three broad service areas:

- *Enabling Services* primarily aim to foster collaboration and linkages between and among sectoral, regional and business groups, facilitate access to infrastructure and promote an enterprise and business culture.
- *Foundation Services* will build up the base of business by strengthening the management capability of the wider population of entrepreneurs, start-up, early stage and exporting small and medium enterprises, through the provision of more generic information and training assistance.
- *Growth Services* will provide customised business and international market development assistance, targeted at firms and groups of firms with growth potential in order to accelerate and enhance their development. Both foundation services and growth services will facilitate business access to key resources into the innovation process – skills, finance, technologies, and information.

4 In determining how services should be delivered, officials have considered and applied the service design principles agreed by Cabinet [CAB Min (02) 30/4 refers].

5 In the short-term, the focus for NZTE is on combining existing services of Industry NZ and Trade NZ. Major efforts over the next 12-18 months will be focused on bringing together operational systems, developing a single client interface and client management approach and ensuring continued high quality delivery.

6 NZTE is also developing a longer-term strategy to guide the organisation in meeting the overall objective of supporting internationally competitive New Zealand business. NZTE, in consultation with the Ministry of Economic Development (MED) and Ministry of Foreign Affairs and

Trade (MFAT), will report back to Integration Ministers (the Ministers of Finance, Industry and Regional Development, Trade Negotiations and Associate Foreign Affairs and Trade) by the end of June 2003 on progress with the development of the long-term strategic direction for the organisation.

7 The paper proposes a timetable for NZTE service evaluation report backs to the Ministers of Finance, Industry and Regional Development and Trade Negotiations. Ministers are invited to report to Cabinet Economic Development Committee on the outcomes of the evaluations at the time of the report backs.

8 A range of private and non-government organisations have been consulted on the merger and proposed service range enhancements and support the approach.

BACKGROUND

9 On 11 November 2002, Cabinet agreed to integrate Industry New Zealand and Trade New Zealand and that the overarching objective of the new organisation will be to support the development of internationally competitive New Zealand business. Cabinet directed officials to report to the Cabinet Economic Development Committee on detailed service content and delivery for the new organisation, including proposed changes to [CAB Min (02) 30/4 refers]:

- Enabling services, specifically opportunities for improving the consistency of, and linkages between, initiatives
- Foundation services, specifically improvements to the existing range of BIZ services
- Growth services, including broad criteria and the 'flexifund' proposal.

10 Cabinet agreed to a range of service design principles to guide further work on detailed service content and delivery, including:

- consideration of the interface with services offered by other government agencies
- monitoring and evaluation requirements
- accessibility and responsiveness to the needs of Maori, Pacific peoples and women
- New Zealand's international obligations.

11 Cabinet also directed officials to report to the Cabinet Economic Development Committee on Vote and Output Class structures for the new organisation.

12 The companion suite of papers details the proposed changes to service content and delivery, Vote and output class arrangements and transition costs.

THE INTENDED ROLE OF THE INTEGRATED AGENCY

13 The Growth and Innovation Framework (GIF) is central to setting the direction and further action for NZTE. GIF outlines a broad and coordinated policy approach aimed at lifting economic growth. The key areas are:

- strengthening the foundations for economic growth, including addressing the quality and burden of regulation for business and addressing the delivery of infrastructure to support growth
- addressing firm and sector-specific impediments to growth and exporting, and facilitating the uptake of development opportunities, particularly: enhancing the innovation framework, developing skills and talent, increasing global connectedness, and focusing effort through sector and network engagement.

14 GIF recognises the importance of growth taking place within a context of long-term, sustainable development and emphasises that environmental and social well-being are critical to the quality of economic growth. Since GIF was released, the Sustainable Development Programme of Action has also been produced, which further articulates this approach.

15 NZTE, as an integrated economic development agency, is itself a key element of GIF in terms of delivering, coordinating and aligning the delivery of services designed to implement GIF policy. NZTE's objective - to support the development of internationally competitive New Zealand business - derives from GIF's focus on internationalisation and the overarching objective to increase the long-term rate of sustainable economic growth.

16 The major roles of NZTE in relation to strengthening the foundations are as a facilitator of:

- the exchange of views on economic, regulatory and trade policies between businesses, regions and government
- solutions to impediments to the foundations, particularly through its enabling service range - sector strategies, regional partnerships and the work of Investment New Zealand.

17 NZTE will also have specific roles in relation to the Sustainable Development Programme of Action, for example, in contributing to the Sustainable Cities Programme through its work on regional development.

18 NZTE has a more direct role in addressing firm and sector specific impediments to growth and exporting, in coordination with other agencies, through direct business support (foundation and growth services).

PROPOSED SERVICES AND CONTRIBUTION TO ECONOMIC DEVELOPMENT

19 NZTE's enabling service range will help to strengthen the overall business and international trading environment in which businesses operate by identifying opportunities for, and constraints to, growth at a systemic level. As well as facilitating access to key resources (skills, capital, technologies etc), enabling services primarily aim to foster collaboration and linkages between and among sectoral, regional and business groups, facilitate access to infrastructure and promote an enterprise and business culture.

20 NZTE will provide two levels of business services:

- foundation services will build up the base of business by strengthening management capability of the wider population of entrepreneurs, start-up, early stage and exporting small and medium enterprises, through the provision of more generic information and training assistance
- growth services will provide customised business and international market development assistance, targeted at firms and groups of firms with growth potential in order to accelerate and enhance their development. Both foundation services and growth services will facilitate business access to key resources into the innovation process – skills, finance, technologies, and information.

21 While the three groups of services are designed to meet the needs of different client segments, the distinction between services within them is not as clear-cut as the categorisation suggests. For example, facilitation of a major investment opportunity may initially focus on improving collaboration and linkages between a sector and offshore investment partners, but could lead to specific projects requiring the facilitation of access to finance, skills and technologies between specific (onshore and offshore) businesses. As such, investment promotion and facilitation can straddle both enabling and growth services. Specific initiatives have been placed within each service range on the basis of their primary focus and targets.

22 There are also strong links between the enabling, foundation and growth service areas. By strengthening the capacity of business and other organisations to respond to the overall business and international trading environment, enabling services support business opportunities emerging through foundation and growth services. The foundation service range will also be a means for identifying and developing the capability of future growth service clients. Growth service client businesses will also have access to all of the foundation services and will tend to move between the two business service areas as their circumstances and needs change.

23 Appendix 1 illustrates the proposed service areas, their composition and primary targets.

SHORT AND LONG-TERM DEVELOPMENTS TO THE SERVICE RANGE

24 NZTE is developing a longer-term strategy to guide the organisation in meeting the overall objective of supporting internationally competitive New Zealand business. The Establishment Board held a strategy workshop on 29/30 January, to begin the process of developing a strategic business plan. The Board is currently considering taking a sectoral-driven approach to guide NZTE's business activities. NZTE, in consultation with MED and MFAT, will report back to the Ministers of Finance, Industry and Regional Development, Trade Negotiations and Associate Foreign Affairs and Trade by the end of June 2003 on progress with the development of the long-term strategic direction for the organisation.

25 In addition, a number of research and programme evaluation projects are underway or scheduled for completion over the next three years by MED, MFAT and NZTE (see paragraph 63). These will inform longer-term enhancements and changes to the existing service range and resource allocation, as well as informing the introduction of any new initiatives.

26 In the short-term, the focus for NZTE is on combining existing services. Major efforts over the next 12-18 months will be focused on bringing together operational systems, developing a single client interface and client management approach and ensuring continued high quality delivery. However, officials and NZTE have identified areas where there are opportunities for some changes to existing services in order to reduce overlaps, improve delivery, ensure consistency, and re-orient initiatives towards the key objective of internationalisation.

27 Most of the suggested changes to the current Industry NZ/Trade NZ service range are focused on improved integration and delivery of growth services. This is chiefly because the major synergies and overlaps between Industry NZ and Trade NZ initiatives lie within this service range. In the main, only minor enhancements are proposed for the enabling and foundation services range in the short-term. Similarly, the opportunities for savings largely arise from rationalisation of corporate services in the short-term, but it is expected that there will be greater efficiency gains over time.

28 With limited resources, there is a need to target assistance in the areas where it is likely to generate the greatest net benefits to New Zealand. Current experience suggests that the case for government-provided trade and economic development support is more readily apparent for the provision of broader capability development and facilitation services (e.g. training, sector strategies, regional partnerships), but that more caution needs to be taken in the delivery of firm specific services. This was also a key message arising from stakeholder consultation undertaken in developing these papers.

29 There can be significant benefits from firm specific support, in terms of accelerating growth and achieving high levels of 'spillover' benefits to the wider economy. There are also potentially greater risks that assistance will be provided to projects that would have proceeded anyway and/or for projects with high private returns but little public returns. Hence, substantive adjustments to both the design of and resource allocation to such services should be based on experience, research and evaluation on the value of this investment.

THE INTEGRATED SERVICE RANGE

30 Full descriptions of each service range and proposed developments are provided in the three companion papers. The key elements and proposed changes are summarised below.

Enabling Services (Paper 2)

31 Enabling services involve government working in partnership with key stakeholders (e.g. sectors, regions, collectives, clusters) to identify opportunities for, and constraints to, growth. No significant changes are proposed to the existing enabling service range, as many of the initiatives have been inherited from Industry New Zealand and have been operating for a relatively short-period. In addition, most of the initiatives are already subject to evaluation and review.

32 For 2003/04, the enabling service range represents 45% (\$75 million, GST inclusive where applicable) of NZTE's funding for both services and grants. It is proposed that the following groups of initiatives comprise NZTE's enabling service range:

- Sector Facilitation - this includes the engagement and strategy development associated with the GIF taskforces and other sector groups, sector specialists offshore, beachheads and international networks. 2003/04 will see an increased emphasis on implementation of the taskforces' strategies and recommendations. Budget bids have been submitted as part of the GIF package to increase the number of offshore sector specialists and beachheads from 2003/04.
- Regional Facilitation - this service area includes the Regional Partnership Programme (RPP), Cluster Development Programme, Incubator Support Programme and Regional Polytechnic Programme. The RPP is under review, which is scheduled to be completed in July 2003. The review is considering linkages and alignment of the RPP with other regional facilitation initiatives. A budget bid has been submitted as part of the GIF package to expand the Incubator Support Programme. The Polytechnic Regional Development Programme and Cluster Development Programme have only recently been established and no changes are currently proposed.
- Marketing and Promotion Initiatives - This service area includes Brand New Zealand, the Business and Enterprise Culture Programme, major events support, as well as a range of export promotion activities (e.g. export awards, conferences, publications). The majority of these initiatives have only been recently established and no changes are currently proposed.
- Investment New Zealand - Investment New Zealand was the first step in the integration process, being formed by the merger of the Investment New Zealand team from Trade New Zealand and the Major Investment Service of Industry New Zealand in 2002. Investment New Zealand will work within NZTE in a seamless way and is increasingly focusing on investment opportunities associated with the sectoral and regional strategies facilitated by NZTE.

33 The key benefits arising from the integration of initiatives within this service range will be a consistent focus and approach to services that support sectoral and/or regional strategies. NZTE will progressively ensure that support for clusters and export networks are closely aligned, and that support for regional initiatives such as incubators and clusters is aligned with regional strategies supported through the RPP.

Business Services - Foundation Services (Paper 3)

34 Foundation services primarily aim to support general capability development in entrepreneurs and small businesses, particularly start-ups, early stage ventures and new exporters, through the provision of information, training and limited finance. The major changes proposed to the current initiatives provided within this service range are a redesign of the Enterprise Awards Scheme, due to concerns about a lack of flexibility and bureaucratic processes, and improved targeting of BIZ Training.

35 For 2003/04, foundation services represent 17% (\$28 million, GST inclusive where applicable) of NZTE's funding for services and grants. The following initiatives will comprise NZTE's foundation service range:

- Appraisal – entrepreneurs and businesses approaching NZTE for assistance will be provided with an initial, simple, standardised capability assessment to ensure that appropriate assistance is provided or facilitated. It is anticipated that the assessment will be offered through NZTE's contact centre, client managers, contracted providers, and on-line.
- Information and Referral – NZTE will provide generic business assistance and market intelligence information (e.g. how-to-guides, country briefs, checklists) through an integrated front-end client interface, including website, 0800 contact centre and regional offices.
- BIZ Training – It is proposed that BIZ Training be enhanced to provide better quality training and greater alignment with NZTE's objective of internationalisation. This would include delivering a proportion of BIZ Training to cluster and sector groups of clients (based on regional and sectoral strategies) to supplement the current open access delivery. It will also include administering and delivering basic investment ready and exporting workshops via the BIZ model of an open and contestable approach utilising regional providers. This will improve recognition and coverage and provide consistency in terms of delivery. These changes will be in place for delivery from 1 July 2003.
- Enterprise Development Grants scheme – It is proposed that the Enterprise Awards Scheme be redesigned into a more flexible and user-friendly grants scheme, amalgamating the awards scheme with Export Network funding and World Class New Zealanders support. Funding would be available for 50% of total costs to a maximum of \$20,000 per annum for businesses and entrepreneurs to engage the services of a business mentor for a period of time, undertake advanced management training, employ specific external advice and expertise, and for market development activities and business exchanges. Grant assessments would be devolved from the current centralised panel to NZTE's client managers and potentially regional economic development organisations and BIZ lead providers. The new grants scheme can be in place for delivery from 1 July 2003.

36 The main benefits to come from the integration of initiatives at this level are the development of the single customer interface, a greater focus to foundation services in support of internationalisation, and increased flexibility and reduced compliance costs in the administration and delivery of the proposed Enterprise Development Grants scheme.

Business Services - Growth Services (Paper 4)

37 Growth Services provide customised business and international market development assistance to firms and groups of firms that have clear growth potential and are committed to growth, through:

- client managers
- specialist in-house and contracted market development and investment readiness services
- a growth services fund.

38 For 2003/04, the growth services range represents 36% (\$61 million, GST inclusive where applicable) of NZTE's funding for both services and grants:

- Client management – it is envisaged that NZTE would operate a single new client management approach to growth services to cover all aspects of the service range from capability building to internationalisation. Client managers would undertake an appraisal of clients' needs and determine the appropriate mix of capability and international market development services that NZTE or other agencies could provide, provide appropriate mentoring or commercial counselling (not strategic business advice), and facilitate referrals to specialist services and other assistance. The single client management system will be implemented progressively over 2003/04.
- Specialist Services – NZTE will continue to deliver a range of specialist information and advisory services to support international market development, as currently delivered through Trade NZ. These services include market evaluation and selection, buyer/partner identification, market visits and market monitoring. The services will be delivered in-house, drawing on market development specialists both on-shore and offshore and through the ebusiness portal. Part of the costs of this service will be recovered through user charges, which will vary depending on the costs of different markets and the precise services provided.
- Growth Services Fund – it is proposed that NZTE will offer funding assistance for more substantive growth projects through a Growth Services Fund, enhancing the existing Business Growth Fund delivered by Industry NZ. Funding would be available to both firms and groups of firms, based on in-depth appraisal, to access specialist skills and expertise and for international market development activities. It is proposed that the Fund will be highly flexible in terms of the level of funding provided, although normally in the range of \$50,000 to \$500,000, for up to 50% of the costs of projects. The revised fund can be in place for delivery from 1 July 2003.

39 As noted in paragraph 22 above, all of the foundation services will also be available to NZTE's growth service clients, including the Enterprise Development Grants scheme. Client managers will determine which funding option, if any, is appropriate on a case-by-case basis.

40 The main benefits that will arise from integration of initiatives within this service range are the single client management approach which will be more effective and reduce transaction costs for businesses, and the bringing together of market development and management capability support which will facilitate the internationalisation of businesses.

CONSISTENCY OF THE PROPOSED SERVICES WITH AGREED DESIGN PRINCIPLES

41 The service design principles agreed by Cabinet [CAB Min (02) 30/4 refers] have been adopted in developing the integrated service range. Specific comments on key principles are as follows.

Services will be delivered by the provider(s) that offer the best value for money, with consideration given to capability development for providers

42 Trade and economic development assistance services supported by government can be funded and delivered through one or more of the following:

- services provided by the agency itself
- services provided by an external agent contracted to the agency
- funding support to businesses for the purchase of services.

43 In determining how services should be delivered, officials have considered whether there are existing or potential providers of different services, and the desire to encourage contestability and non-government provision of services over time wherever feasible. This can be achieved, even when directly providing services, by considering charging mechanisms and having low barriers to entry. In terms of the three service range areas:

- Foundation services of training and information and referral are and will continue to be largely contracted out to non-government providers on a contestable basis. It is also proposed that aspects of the administration of the new Enterprise Development Grants scheme be devolved to regional economic development organisations and BIZ lead providers. Enterprise Development Grants will also be directed at encouraging entrepreneurs and businesses to purchase external advice and expertise.
- Enabling services are largely facilitative, with sectoral, regional and cluster groups taking the major responsibility for determining their own outcomes.
- With the exception of specialist market development support, growth services are focused on diagnosis and referral to existing or contracted providers of services. Client managers will need to maintain strong relationships with partner organisations such as economic development agencies as well as private sector business advisors. Growth Service grants will also be directed at encouraging growth potential businesses to purchase external services.
- NZTE considers that the vast majority of the specialist international market development services are not and will not be available from other providers and need to be delivered in-house because:
 - offshore consultants do not understand the New Zealand business environment and are unlikely to build this competency given the relatively small size of the New Zealand market and the relatively small scale of many New Zealand exporters
 - an important part of the service offering is the ability to 'open doors', which is only possible through a government agency in some markets.

It is not clear that this is or will continue to be the case for all of the services provided in-house by NZTE. This issue will be considered as part of a review of the entire growth service range to be completed by June 2005.

- The points of connection from international market development services for individual clients to services relating to generic market development issues are not always clear. These latter issues are processed at times by MFAT because of their policy content or the nature of the problem being confronted. There needs to be close and productive linkages between MFAT and NZTE offshore.

44 There also needs to be a recognition that NZTE's role in delivery should evolve over time. For example, if a key issue in the provision and take-up of management training is one of building up levels of supply in regions, then contracts for service delivery might be initially used to encourage supply capability. As supply develops, and given the ultimate aim of all government trade and economic development assistance is to encourage market and non-government solutions wherever feasible, consideration might be given over-time to allowing part-charging and/or supporting firms directly to purchase the services on a contestable basis. Over the long-term little or no support might be required.

Subsidies reflect the mix of public and private benefits; charges and grants are simple and clear for clients to understand and for the organisation to administer

45 Officials have considered the issue of subsidisation of services as a continuum, based on assumptions about the level of public benefits and appropriability of private benefits from the assistance provided. Officials also consider that two additional principles should be adopted in shaping the level of support for different NZTE services over the long-term:

- support should be as transparent to firms and markets as possible
- there should be a consistent approach to support for similar services (whether provided in-house, through grants, or contracted delivery).

46 Enabling services are largely fully funded on the basis that there are major collective action problems and the private benefits of facilitation or promotion are highly dispersed and uncertain. As sectoral and regional facilitation services lead to the implementation of projects, and private benefits become more transparent, the services use partnership and part-funding arrangements.

47 Foundation services of information and training are also currently fully funded. There appear to be opportunities to move to part-funding arrangements for training, as the 2002 BIZ evaluation demonstrated that many firms are prepared to pay for additional training after a certain threshold of training has been reached and firms begin to recognise the benefits they gain, although this needs to be analysed further by region and client group. NZTE could test part-charging on some BIZ courses in 2003/04. It is also proposed that the Enterprise Development Grants scheme specify a clear 50% part-funding contribution. Officials consider the costs of administering a variable subsidy for this scheme would outweigh the benefits, given the level of grants.

48 Given that there will always be significant and reasonably clear private benefits from growth services, cost-sharing arrangements should be typical. The proposed Growth Services Fund will operate using a variable subsidy arrangement (up to 50%), with the proportion depending on the client manager's detailed appraisal of needs and benefits and the purpose to which the funding is used.

49 Although Trade NZ currently utilises part-charging arrangements for specialist international market development services, the precise level of support varies and in some cases is uncertain. It will be important in the longer-term that NZTE ensures the proportion of funding support attached to specialist services that have the potential for contestability, e.g. market research reports, is consistent with the level of support attached to grant monies that are paid out for similar purposes. As indicated in companion Paper 6 - Transition Costs, it is recommended that an output pricing review be considered for the full range of NZTE's services to gauge the level of funding support for and pricing of these services. Such a review would particularly assist in the evaluation of the growth services range of initiatives.

Services are consistent with New Zealand's international obligations

50 The broad design of the proposed services has taken into account international trade policy issues. The Growth Services Fund, in particular, represents an extension to the existing funding mechanism. Because most firms accessing this fund will have an export focus, NZTE and officials will need to pay careful attention to the design and implementation of this fund to avoid any risk that this fund is seen as an export subsidy. The Ministry of Foreign Affairs and Trade will work closely with NZTE to ensure that the implementation of all services will be consistent with New Zealand's international trade policy commitments.

Consideration of the interface with other agencies

51 NZTE will have an important role in building and maintaining linkages with business and other organisations. Through its engagement with business, sectors and regions, issues will emerge that come within other policy agencies' areas of influence e.g. Tertiary Education Commission (TEC) for skills related issues, MFAT on trade access issues and offshore network activities, and MED on business and regulatory policy issues. It is expected that NZTE will inform these agencies of and work with them on business issues of relevance.

52 More proactively, this role extends to helping to ensure that assistance is aligned, and delivery of services is seamless, across government. The foundation services range will need to be closely coordinated with the work of the Maori Business Facilitation Service and Pacific Business Trust. The Growth Services range, particularly the Fund, has potential for overlaps with Technology New Zealand services.

53 During the stakeholder consultation process, some groups queried how Tourism NZ and Technology NZ will work with NZTE and indicated strong support for a more coordinated approach across the three agencies.

54 NZTE will consult with other assistance agencies in the detailed design of its services. In addition, in September 2002, Cabinet directed the Department of the Prime Minister and Cabinet (DPMC), in consultation with a range of other departments and agencies, to report to POL and Cabinet by December 2002 on progress in enhancing wider co-ordination and alignment across broader business assistance functions – with any recommendations for further change, including whether a technology transfer component should be delivered by the new structure [CAB Min (02) 24/2 refers]. This report back has been deferred until September 2003 to allow the integration of Industry NZ and Trade NZ to be bedded down. The report back will include consideration of the interface between the new organisation's service range and the services to business delivered by the Maori Business Facilitation Service, Pacific Business Trust, TEC, Tourism NZ and Foundation for Research, Science and Technology.

Delivery to Maori, Pacific Peoples and other groups

55 A key principle for NZTE's programme design is that services are flexible to meet differing and evolving needs; in particular services are accessible and responsive to the needs of Maori, Pacific Peoples and women.

56 A number of stakeholders indicated during the consultation process that some economic development services have not always been responsive to Maori or Pacific Peoples' needs and that NZTE needs to have people within the organisation (across all services) that understand the dynamics of Maori and Pacific Peoples communities. There is clear support from Maori and Pacific People stakeholders for the Maori Enterprise Team (from Trade NZ) to continue in its role.

57 NZTE will work to ensure that each of the broad service areas will be accessible and responsive to Maori, Pacific Peoples and women:

- Foundation services – Participation, satisfaction and levels of effectiveness will continue to be monitored and assessed to ensure that the services deliver appropriate levels and quality of services to these groups. NZTE also proposes to expand BIZ Training services for Pacific people and Maori trustee training from 1 July 2003. The BIZ Training programme is also being audited by Te Puni Kokiri (TPK) to determine its effectiveness for Maori, with a report back to Cabinet by July 2003. Any recommended changes to delivery will be considered after the report back.

- Enabling services – regional and sectoral facilitation services specifically seek to involve iwi/Maori and Pacific Peoples in the development of collective strategies and initiatives. It is clear from the stakeholder consultation process that NZTE will need to give further attention to ensuring a partnership approach in the implementation of these services. The review of the Regional Partnership Programme, for completion in July 2003, will identify issues related to Maori and other groups' participation in the programme.
- Growth services – NZTE will maintain the dedicated Maori Enterprise Team as part of its client management team. In addition to export businesses and related assistance (which the Team currently services through Trade NZ), the Team will also deal with wider domestic capability issues and developing businesses.

58 Gathering statistics for Maori, Pacific People and women participation in Industry New Zealand's Enterprise Awards and Business Growth Services and Fund has been complicated, as it is difficult to determine the 'ethnicity' or 'gender' of a business (data can be collected at an individual and contact level but the individual does not necessarily represent the business as a whole) and some clients are unwilling to provide this information. Hence figures on these schemes by ethnicity and gender, for example by applicant, are not necessarily an accurate reflection of take-up by different groups. As part of the detailed design of services, NZTE will look at methods for improving the collection of this information to allow better analysis of the effectiveness of the Enterprise Development Grants scheme and Growth Services and Fund for Maori, Pacific People and women. Any methods will need to be balanced with the costs of collecting the information.

59 TPK also indicated in POL (02) 169 that, to ensure services meet the needs of Maori, the following additional issues need to be considered: appropriate targets and outcome statements which flow right through the organisation; communication strategies to engage Maori stakeholders; quality tracking and reporting data; appropriate monitoring and evaluation frameworks; and, appropriate staffing strategies to ensure quality service delivery for Maori. MED, MFAT and NZTE will consult with TPK in the development of the output agreement and other relationship documents, detailed service design and monitoring and evaluation arrangements, and communication strategies.

60 The Ministry of Women's Affairs (MWA) has identified that although women are enrolling in BIZ training (55%) and Investment Ready training (30%), only a small proportion of women appear to apply for growth services and funding (around 10%) – notwithstanding the difficulties in obtaining accurate data. Low take-up may be due to a focus on particular sectors and/or the mechanisms by which the services are delivered. NZTE will consult with MWA in developing the detailed design of the growth services. In addition, the effectiveness and responsiveness of services for women will be assessed as part of the evaluation of each of the service areas as indicated in paragraph 63. Evaluations also typically involve background research on key issues associated with the objectives of the programmes and services (e.g. access to finance) and MED will consult with MWA, TPK and the Ministry of Pacific Island Affairs (MPIA) on the research programme underlying the evaluations.

Service design will include consideration of monitoring and evaluation requirements

61 The Ministry of Economic Development and Ministry of Foreign Affairs and Trade will be jointly responsible for monitoring and evaluating NZTE's services, working closely with NZTE. Consistent with the principles of effective evaluations [CAB Min (00) M 19/2 refers], the evaluations will include assessment of the adequacy of delivery and administration, the effectiveness of the various services and whether they meet their objectives, whether services provide value for money, and whether services are still necessary. In addition, MFAT will work closely with NZTE to ensure services continue to be consistent with international obligations.

62 A number of stakeholders emphasised that clear performance measures for NZTE will be critical for evaluating the success and value of the Government's investment in trade and economic development assistance. Performance measures need to align with NZTE's objective of supporting internationally competitive business and the wider GIF indicators agreed by Cabinet [CAB Min (02) 34/5 refers]. These measures will be developed as part of long-term strategy and accountability documents for the organisation.

63 The accompanying papers specify the following milestones for evaluation of and report backs to the Ministers of Finance, Industry and Regional Development and Trade Negotiations on different components of NZTE's service range:

- Regional Partnership Programme – by July 2003
- Investment New Zealand – evaluation of the implementation of Investment New Zealand support and the Strategic Investment Fund – by November 2003; full evaluation of the effectiveness of Investment New Zealand by December 2006
- Industrial Supplies Office – by June 2004
- Incubator Support Programme – by October 2004
- Polytechnic Regional Development Fund – by December 2004
- Growth Services and Fund – by June 2005
- Enterprise Development Grants scheme – by June 2005
- Cluster Development Programme, incorporating Export Networks – by November 2005
- Promoting an Enterprise and Business Culture initiative, Brand New Zealand, Major Events Support – by December 2005
- BIZInfo and BIZ Training – by December 2005
- Sector Facilitation, Beachheads, International Sector Specialists – by June 2006.

64 In addition to these formal evaluations, MED and MFAT will work with NZTE to undertake an annual stocktake to summarise available information on service implementation, delivery and performance, which can then be used to improve delivery (without changes to agreed policy parameters) or to direct further research or policy development work.

PRIVATE AND NON-GOVERNMENT SECTOR CONSULTATION

65 A consultation exercise was undertaken in March 2003 to gauge stakeholder views on the proposed approach to integration. Representatives from MED, MFAT, Trade NZ and Industry NZ met with a range of groups to discuss the proposed service range, including: Business New Zealand, Chambers of Commerce, Export New Zealand, EDANZ, Employers and Manufacturers Associations, Council of Trade Unions, Local Government New Zealand, FOMA, Ngai Tahu, Pacific Business Trust, and a range of industry groups (a full list is attached in Appendix 2).

66 Feedback on the proposed service design was positive. Some key issues have been canvassed in other sections of this paper. Other common messages include:

- Groups have been very supportive of the merger. There is an overwhelming view that linking internationalisation with capability development makes clear sense. There is clear support for the objective and functions of the organisation as already agreed by Cabinet.
- Services and the structure of NZTE need to be relevant and flexible to local conditions – one size does not fit all and should not be centrally dictated. Concern has been expressed by some stakeholders as to the risk of crowding out the role of other providers such as Economic Development Agencies (EDAs) or industry associations, through regional services and offices or sector strategy work. There were a number of comments that some of the sector strategy or regional work of Industry New Zealand has not really embodied a partnership approach. There was the suggestion that NZTE engage in discussions with key regional economic development

groups before establishing a regional structure and making final decisions on resource allocation.

- There is clear support and understanding of the role of NZTE in providing foundation and enabling services. In particular, the sector strategy processes have been regarded as generally successful, although a number of groups emphasised that this should not be limited to the GIF sectors. There is also strong support for the market development aspect of the growth services. There was more uncertainty about the value and nature of the higher level grants and a caution against NZTE providing business management 'consultancy' services in the business growth area. When questioned, a number of groups supported bringing more contestability into the market development services (e.g. option of using a grant or purchasing an internal service) but not if the level of charging currently utilised by Trade NZ increased.
- Communication with the broader business community needs to be improved, particularly on:
 - the precise nature of services offered - information on schemes and basic advisory information needs to be more intelligible for businesses
 - transparency in relation to grants (criteria, allocation and benefits derived)
 - NZTE being broad based and not just dealing with a few chosen sectors
 - clarifying the policy role of MED/MFAT versus the delivery role of NZTE.

These messages will be focused on as part of the communication strategy for the launch of NZTE in July and in shaping the ongoing communications for the organisation.

- Not surprisingly, there is broad support for reducing compliance costs and bureaucracy and improving flexibility in the application of grants schemes (in addition to improving transparency). There was some support that the foundation level grants (Enterprise Development Grants scheme) be devolved to regional groups, as they are for a Technology NZ grant scheme. This will be considered during the detailed design phase of the grants scheme.

DEPARTMENTAL CONSULTATION

67 The following departments and agencies were consulted in the preparation of this paper: Department of the Prime Minister and Cabinet, Treasury, Department of Labour, Ministry of Research, Science and Technology, State Services Commission, Te Puni Kokiri, Ministry of Pacific Island Affairs, Ministry of Women's Affairs, Trade New Zealand, Industry New Zealand, Foundation for Research, Science and Technology, Tertiary Education Commission.

FISCAL IMPLICATIONS

68 The fiscal implications of the proposed service range and a new output class and other expense structure are detailed in the companion papers: Paper 5 – Transition Costs and Paper 6 – Accountability Framework. With the exception of the 2003 Budget Bids and the integration costs, all proposed changes to the service range in 2003/04 will be fiscally neutral.

69 NZTE's Board has estimated savings of \$2.700m (GST inclusive) being generated per annum as the result of the integration, with further additional savings also anticipated but yet to be identified. It is proposed that a proportion of these initial savings be applied in 2003/04 to integration costs and potentially in 2003/04 and outyears to enhanced delivery of existing services. Officials from MED and MFAT, in consultation with the NZTE Establishment Board and the Treasury, will report to the Ministers of Finance, Industry and Regional Development, Trade Negotiations and Associate Foreign Affairs and Trade by 30 May 2003 on an update of integration costs and savings and options for how on-going savings should be applied in 2003/04 and outyears (see Paper 5 – Transition Costs).

LEGISLATIVE IMPLICATIONS

70 There are no new legislative implications. A Bill providing for the establishment of NZTE was introduced into the House in March 2003.

REGULATORY IMPACT AND COMPLIANCE COST STATEMENT

71 There are no regulatory impacts associated with the proposals outlined in the suite of papers. Integrated service delivery and enhanced client management will reduce the compliance costs associated with accessing business assistance.

PUBLICITY

72 A communications strategy for the launch of NZTE's integrated service range in early July is being prepared by NZTE in consultation with the Ministries of Economic Development and Foreign Affairs and Trade and our offices.

RECOMMENDATIONS

73 We recommend that the Committee:

1 **Note** that, over the next 12-18 months, NZ Trade and Enterprise is focusing on bringing together operational systems, developing a single client interface and client management approach and ensuring continued high quality delivery;

2 **Note** that officials and NZ Trade and Enterprise have identified areas where there are opportunities for some changes to existing services in order to reduce overlaps, improve flexibility and reduce compliance costs, ensure consistency, and re-orient initiatives towards the key objective of internationalisation;

3 **Note** that NZ Trade and Enterprise is developing a longer-term strategy to guide the organisation in meeting the overall objective of supporting internationally competitive New Zealand business and is considering a sectoral approach to guide NZ Trade and Enterprise's operations;

4 **Direct** NZ Trade and Enterprise, in consultation with the Ministry of Economic Development, Ministry of Foreign Affairs and Trade and the Treasury, to report back to the Ministers of Finance, Industry and Regional Development, Trade Negotiations and Associate Foreign Affairs and Trade by 30 June 2003 on progress with the long-term strategic direction for NZ Trade and Enterprise;

5 **Note** that the service design principles agreed by Cabinet [CAB Min (02) 30/4 refers] have been adopted in developing NZ Trade and Enterprise's integrated service range;

6 **Agree** that the following additional principles be adopted in considering the level of funding support for different NZ Trade and Enterprise services:

6.1 Funding support should be as transparent to firms and markets as possible

6.2 There should be a consistent approach to funding support for similar services (whether provided in-house, through grants, or contracted delivery);

7 **Direct** officials from the Ministry of Economic Development and Ministry of Foreign Affairs and Trade, in consultation with NZ Trade and Enterprise and the Treasury, to report back to the Ministers of Finance, Industry and Regional Development and Trade Negotiations on the evaluation of the following initiatives:

- Regional Partnership Programme – by July 2003
- Investment New Zealand – evaluation of the implementation of Investment New Zealand support and the Strategic Investment Fund by November 2003 and a full evaluation of the effectiveness of Investment New Zealand by December 2006
- Industrial Supplies Office – by June 2004
- Incubator Support Programme – by October 2004
- Polytechnic Regional Development Fund – by December 2004
- Growth Services and Fund – by June 2005
- Enterprise Development Grants scheme – by June 2005
- Cluster Development Programme, incorporating Export Networks – by November 2005
- Promoting an Enterprise and Business Culture initiative, Brand New Zealand, Major Events Support – by December 2005
- BIZInfo and BIZ Training – by December 2005
- Sector Facilitation, Beachheads, International Sector Specialists – by June 2006;

8 **Invite** the Ministers for Industry and Regional Development and Trade Negotiations to report to Cabinet Economic Development Committee on the outcomes of the evaluations at the time of the report backs specified in recommendation (7);

9 **Note** that the Ministry of Economic Development and Ministry of Foreign Affairs and Trade will work with NZ Trade and Enterprise to undertake an annual stocktake to summarise available information on service implementation, delivery and performance to improve delivery or to direct further research or policy development work;

10 **Note** that a range of private and non-government organisations have been consulted on the merger and proposed service range enhancements and support the approach;

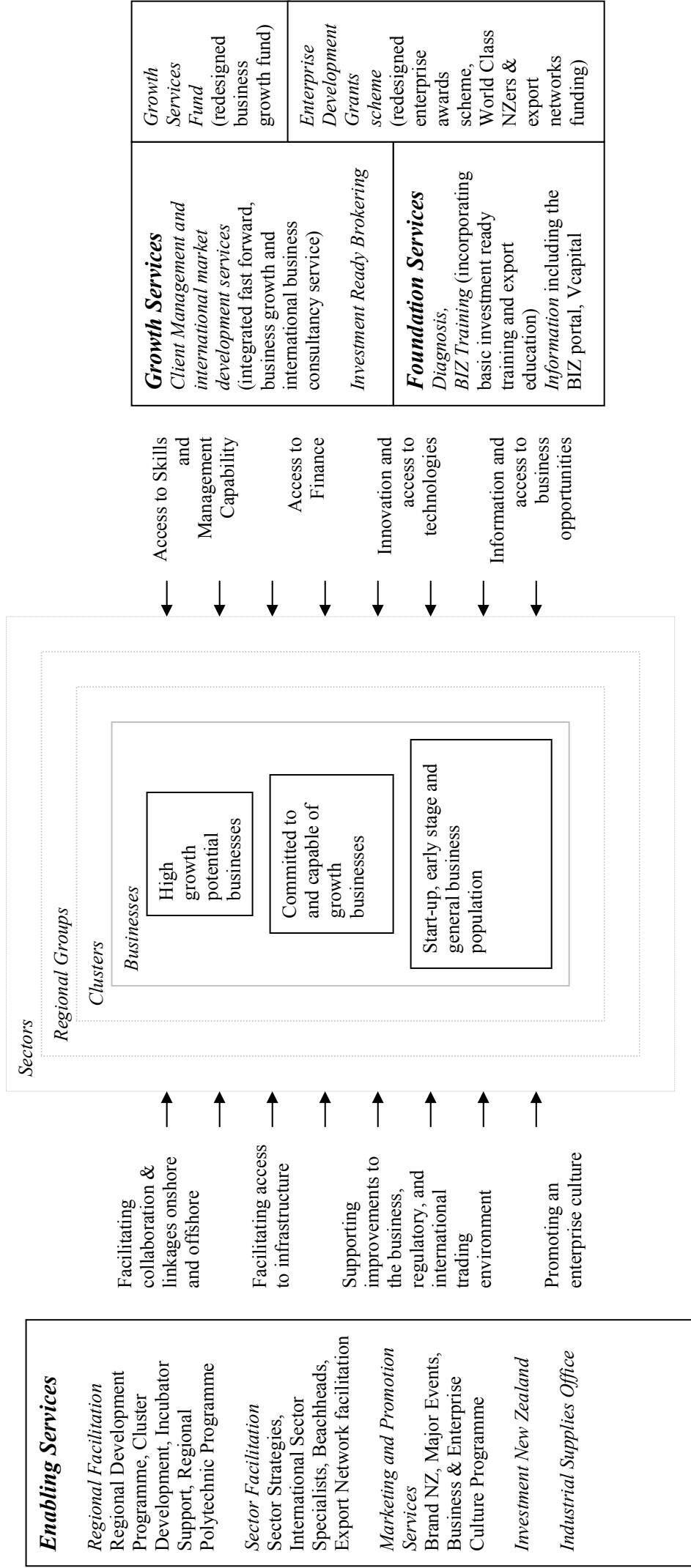
11 **Note** that, with the exception of the 2003 Budget Bids and integration costs, all proposed changes to the service range in 2003/04 will be fiscally neutral;

12 **Note** that the Department of the Prime Minister and Cabinet, in consultation with relevant departments and agencies, will report to POL by 30 September 2003 on progress in enhancing wider co-ordination and alignment across broader business assistance functions [CAB Min (02) 24/2 refers].

HON JIM ANDERTON
MINISTER FOR INDUSTRY AND
REGIONAL DEVELOPMENT

HON JIM SUTTON
MINISTER FOR TRADE NEGOTIATIONS

Appendix 1. Integrated Service Range for NZTE



Appendix 2. List of Organisations Consulted on NZTE Service Design

Business New Zealand
Wellington Employers and Manufacturers Association
Canterbury Manufacturers Association
Export New Zealand
Forestry Industries Council
EDANZ
Wellington Chambers of Commerce
Canterbury Employers Chambers of Commerce
Otago Southland Manufacturers Association
Otago Chambers of Commerce
Representatives from the Design, Biotechnology, ICT and Screen Production
Taskforces
Tourism Industry Association
Retail and Wholesale Merchants Association
Pacific Business Trust
Pacific Cluster Consultants
Federation of Maori Authorities
Council of Trade Unions
Local Government New Zealand
Ngai Tahu
Poutama Trust
Independent Business Foundation
Northern Employers and Manufacturers Association
Seafood Industry Council
Meat Industry Association