

The Chair  
**CABINET BUSINESS COMMITTEE**

## **FRAMEWORK FOR SECTOR ENGAGEMENT**

### **PROPOSAL**

1 This paper proposes the rationale and aims for, criteria for selecting and prioritising, and process for whole-of-government engagement with sectors.

### **EXECUTIVE SUMMARY**

2 Recent engagements with sectors have led to an appreciation that a government-facilitated process to address sector specific impediments to growth can be an effective economic development tool. The government has so far taken various approaches and used different selection criteria to identify sectors for potential engagement. A clear framework, specifying rationale and aims, criteria for selection and prioritising sectors, and a process for managing engagement, is needed to effectively prioritise and coordinate government resources involved in sector engagement.

3 The government will continue to engage with vertical sectors at three levels: whole-of-government engagement involving all appropriate agencies to develop a sector led strategy in partnership with the sector, ongoing business as usual engagement through the delivery agencies (NZTE, FRST and TEC), and issue specific engagement. The government should also remain open to identifying and promoting general-purpose technologies on a case-by-case basis because of their potential impact on productivity across sectors (e.g. ICT).

4 The aim of whole-of-government vertical sector engagement should be to help the sector develop a clear vision of how it might improve its sustainable economic growth. Because raising the rate of sustainable economic growth requires all sectors to contribute to higher growth, it is proposed that the government engage with all “economically significant sectors” i.e. all sectors which do, or could potentially, make a substantial contribution to sustainable economic growth based on their contribution to GDP or potential to grow and the value they can add across a range of other sectors. Sector selection should also be based on the commitment and ability of the sector to work in partnership with government and the ability of the government to add value.

5 High-level sector engagement should not normally result in any substantial shift in resource allocations to favour specific sectors. As a general principle, interventions that aim to improve the implementation of existing policies and programmes, or improve the quality of regulation, should be favoured over interventions involving sector-specific direct assistance. Exceptions should only be made where there are compelling and overriding reasons, such as an identifiable market failure or spillover that is specific to a particular sector.

6 A three-stage implementation process for high-level engagement with vertical sectors is proposed: sector selection and preliminary planning, the development of a sector-led strategy, followed by an implementation phase. Each engagement would be designed on a case-by-case basis, according to the requirements of the individual sector. Each would also need Cabinet approval and decisions on specific issues including the lead agency and Ministerial leadership. It is proposed that MED will be responsible for overseeing the coordination and alignment of sector engagement across government and the evaluation of sector engagements.

7 Subject to approval of the framework, further preliminary work and discussion with the sector, it is recommended that the food and beverage sector should be the focus of the next high-level engagement.

## **INTRODUCTION**

8 This paper responds to the Cabinet's request for two reports on government's engagement with sectors:

- i In March 2003, Cabinet noted that: "Government, through Industry New Zealand, maintains an ongoing engagement with a number of non-GIF sectors as part of its pre-GIF sector policy, and that MED officials in consultation with Industry NZ will provide a preliminary report to Cabinet on a more robust framework for this sector engagement, including sector selection, by August 2003 (CAB Min (03) 13/4A)". This was subsequently amended to a full report due at the end of February 2004.
- ii The suite of GIF Taskforce papers submitted to EDC in September 2003, directed that "MED, NZTE and Treasury jointly develop a research and evaluation strategy and framework on sector prioritisation, sector engagement and sector performance (including an implementation plan), initially focused on the GIF sectors, with a report back to the joint Ministers of Finance and Economic Development by 31 December 2003".

9 This paper responds to these directives. It focuses on establishing a policy framework for implementing government engagement with "vertical" sectors. It also briefly discusses the government's role in promoting the "horizontal" impacts of technologies that can contribute to productivity improvement across many or all sectors.

## **BACKGROUND**

10 Sector engagement is one of the four original pillars<sup>1</sup> of the Growth and Innovation Framework (GIF). Under GIF, sector engagement is focussed on sectors that would have maximum impact on the economy as a whole, because of their own (vertical) growth potential. They were also chosen because of their potential to raise productivity across the economy as a whole (horizontal impacts).

11 Sector engagements (stretching back, in some cases, to the nineteenth century) have taken place for reasons as varied as environmental impacts, effects on social

<sup>1</sup> The others being enhancing skills and talent, global connections and innovation. In 2002 infrastructure was designated as an additional pillar.

wellbeing or involvement of public goods, as well as the sector's economic size and importance. Examples include forestry, agriculture, fisheries, tourism, energy, transport, telecommunications, and education and training.

12 More recently, New Zealand Trade and Enterprise (NZTE), in partnership with other agencies, has engaged with sectors in the development of sector-specific strategies. The first such engagement, starting in January 2001, was with the Wood Processing sector. This has been followed by strategy development in other sectors such as the Textiles, Clothing, Footwear and Carpet industries (TCFC) as well as the GIF sectors themselves. Engagements have addressed systemic barriers to business growth such as skill shortages or inadequate infrastructure, and the provision of business assistance such as international market intelligence and market development services.

## **Problem Identification**

### *Rationale and aims of sector engagement*

13 Recent engagements have led to an appreciation that a government-facilitated process to address sector specific impediments to growth can be an effective economic development tool. These various engagements are now at the point where it is timely to review the overall rationale for, and aims of, engagement, given that these have varied from sector to sector.

### *Identification and selection*

14 The government has taken various approaches and used different selection criteria, to identify sectors for potential engagement. Sectors have been selected for engagement as the result of a direct approach to government (TCFC), or specific targeting by government (the GIF sectors). The selection criteria have ranged from assisting those with high growth potential and perceived competitive advantage (wood processing), through to those that are undergoing structural change (TCFC).

### *Prioritisation and co-ordination*

15 Current policies do not provide for effective prioritisation and co-ordination of the management of government resources involved in sector engagement to achieve government's economic development objectives. The role that dedicated sector agencies, not currently tasked with specific economic development objectives, might play in facilitating sector growth is also not sufficiently clear.

## **DEFINITIONS: VERTICAL SECTORS AND GENERAL PURPOSE TECHNOLOGIES**

### **Vertical Sector**

16 The term "sector" is employed in a variety of ways in common usage. This paper proposes a working definition of a vertical sector as a national grouping of firms that have a coherence of interest, usually characterised by a high degree of commonality in the production of goods or services.

17 Commonalties exist at different levels. For example, the Growth and Innovation Advisory Board (GIAB) has suggested that there are some common issues for the

primary industries as a whole that could be addressed through engagement at this high level<sup>2</sup>. Within any broad vertical sector, there will, however, be narrower sub-sectors. For example, the Creative Sector, identified in GIF, has been disaggregated into more cohesive and compact sub-sectors<sup>3</sup>. Sectors may also have a geographic concentration in “clusters”, which may be a particular focus of regional economic development policy.

18 There are two potentially conflicting issues of scale when defining a vertical sector. These are whether the sector is sufficiently:

- compact or well-organised enough to facilitate efficient collective consideration and action; and
- large enough in terms of its current and potential economic impact to justify government engagement.

### **General Purpose Technologies**

19 “General purpose technologies” (GPTs) are technologies, or sets of technologies, that have the potential to impact across many or all sectors, eventually leading to widespread productivity gains. They include ‘technologies’ in the traditional sense, which may be produced by a sector (such as the internal combustion engine and electricity), but also ‘organisational’ technologies (such as mass production and flexible manufacturing techniques).

20 Typically these GPTs are often created for quite narrow purposes, but because of their potential widespread application across a variety of products and processes, they come to pervade an economy’s production, organisational, and social systems. ICT is an obvious example.

## **SECTOR ENGAGEMENT: VERTICAL SECTORS**

### **Levels of Sector Engagement**

21 Government engages with vertical sectors at a range of levels – a reflection of its different roles (for example, as a regulator, funder of RS&T and provider of education and training), the nature of different sectors and the changing issues confronting sectors over time.

22 This paper proposes a framework for the highest tier of vertical sector engagement – whole-of-government engagement involving all appropriate agencies to develop a sector-led strategy in partnership with the sector, with the aim of facilitating sustainable economic growth.

23 Below this highest tier of engagement are two further tiers of ongoing, “business as usual” engagement. There is the engagement by the delivery agencies (NZTE,

<sup>2</sup> The Ministry of Economic Development, Ministry of Agriculture and Forestry, and Ministry of Research, Science & Technology are working with GIAB to test this proposal and to identify whether the issues that confront these industries could only be addressed through engagement at a disaggregated level (for example, the forestry sector, wool sector etc.).

<sup>3</sup> The Creative Sector was disaggregated into Taskforces for Design and Film. Government is also currently engaging with the Music Sector.

Tertiary Education Commission (TEC) and the Foundation for Research, Science and Technology (FRST)). Based on the commonalities between firms, these agencies have adopted similar approaches to inform the delivery of their programmes and services<sup>4</sup>.

24 There is also “issue specific” engagement. This involves a wide range of policy and delivery agencies responding to issues raised by sectors and, where there is a role for government (subject to consideration of the economic costs), taking the appropriate action. This form of engagement may take place after the highest tier of sector engagement, as is occurring with the wood processing industry, or in response to a direct approach from a sector e.g. the minerals sector.

25 A key element of high-level sector engagement should be co-ordination and alignment across agencies, but it should not replace ongoing engagement by the delivery or policy agencies (or to address identified issues). Nor should it affect their operational decision-making.

### **Rationale and Aims**

26 There are four broad rationales for this highest tier of vertical sector engagement:

1. *A management tool for facilitating economic development*

The government’s economic development goal is to raise New Zealand’s sustainable rate of economic growth. This requires greater numbers of well functioning firms, rising productivity across the economy, and an increase in the proportion of firms pursuing higher value-added, higher growth, activities. Because of the commonality of interests between firms in a sector, sector engagement is one tool that government can use to identify how it can facilitate this outcome.

2. *Inform the development and improve the consistency of government activity influencing a sector*

The government significantly influences all sectors across the economy. It has a dominant role in funding education and training, infrastructure, and research, science and technology, as well as a regulatory role. It also exercises a range of other powers that impact on sectors. Collectively, these activities influence the disposition of a significant part of the economy’s resources.

Sector engagement can inform these activities, including the design and delivery of generic firm level programmes and the development of foundation policies (including regulatory and standard setting policies) that help shape the business environment. It can also enable government to assess whether all these activities are impacting on a sector in a consistent and mutually reinforcing way, and align them as necessary.

3. *Improve public and private sector co-ordination*

Public investment in areas such as education and training and RS&T, and private sector investment in physical and human capital, R&D and marketing should be complementary. But exploiting the gains from this requires good co-ordination and information flows on investment decisions and the provision of services.

Sector engagement provides an opportunity to improve this co-ordination, by facilitating the development of networks and linkages between government and the sector, as well as facilitating networking and co-operation between firms themselves.

4. *Assist sectors in transition*

A further rationale for sector engagement may arise when economic reform and rapidly changing patterns of international trade induce rapid structural change in a sector. Government may choose to engage with these sectors both to help find higher value activity that is sustainable in the new environment and help find an adjustment path to ease transitional social impacts.

27 These rationales suggest that the aim of the highest tier of vertical sector engagement should be to help the sector develop a clear vision of how it might improve its sustainable economic growth. This vision should be supported by a strategy and a plan of action that clearly identifies: the actions for the sector itself; the role of, and actions for, government (including any well-justified actions for modifying government activities impacting on the sector); and actions for the sector and government working in partnership (including any actions to improve public and private sector coordination).

### **Focusing Vertical Sector Engagement**

28 The question that then arises is which (and how many) sectors should the government engage with in this way?

*A Focus on sectors with potential for scale and specialisation?*

29 One school of thought is that productivity can be higher when economic activity is concentrated in a few sectors. Because of New Zealand's small size and distance from world markets, our sectors are mostly small by world standards. It has been argued that government might wish to focus resources on a limited number of sectors, to develop world-class scale and specialisation.

30 However, most sectors do not exhibit such scale effects on productivity and the circumstances under which they do vary across time and countries. It is also difficult for government to predict accurately when a sector is likely to "take-off", raising the risk of poor resource allocation. A focus on only a few sectors would also risk raising expectations about the outcomes of engagement, and may intensify demands for engagement. It may also have an adverse impact on investor confidence in those sectors not selected for engagement.

*B Focus on emerging high-value added sectors?*

31 Another school of thought is that, in the interests of facilitating economic transformation, government should focus engagement on and allocate resources to emerging higher value added sectors, particularly those with an apparent comparative advantage based on the application of new technologies.

32 But even (and perhaps especially) current low productivity sectors may offer significant potential for productivity growth through, for example, firms applying branding or research and development. Furthermore, for large sectors, even incremental improvements in productivity can have a significant overall economic impact.

33 On balance, the arguments do not support a sector engagement focus on either the development of scale and specialisation or on emerging higher value added sectors.

*C Focus on sectors that can make, or could make, a substantial contribution to sustainable economic growth*

34 Because raising the rate of sustainable economic growth requires all sectors to contribute to higher productivity, with as many firms as possible within these sectors engaging in higher value added activities, officials consider that the government should, over time, engage with all “economically significant sectors”, i.e. all sectors which do, or could potentially, make a substantial contribution to sustainable economic growth as determined by:

- i) the sector’s current contribution to GDP, and potential to grow (material impact)
- ii) the value that the sector can add across a range of other sectors (spillover effects).

35 Whole-of-government vertical sector engagement aimed at the development of a sector led-strategy is resource intensive, both for the sectors themselves and for government. Subject to the size of the sector and the scale of engagement, government is unlikely to be able to engage with more than two or three sectors at any one time. Engagement with all economically significant sectors over time could still be achieved by starting a new high-level engagement when the development phase of one engagement is concluded.

36 Although the number of engagements likely to take place over time will depend on the level at which the engagements are pitched, as well as the views of individual sectors, there will be a finite number of economically significant sectors that the government will engage with, given the criteria of material impact and spillover effects. A preliminary assessment by MED of the economic significance of different sectors suggests a short-list of potential candidates for whole of government vertical sector engagements over the medium-term (see paragraph 68), although initial engagements with broad sectors may then be divided into further engagements with sub-sectors within these. In addition, government will continue to engage with a much broader range of sectors on specific issues and through the activities of NZTE, FRST and TEC.

37 In addition to criteria (i) and (ii) above, the selection of sectors for each of these new engagements should be based on:

- iii) the commitment of the sector to work in partnership with government, and its preparation and ability to lead development of a vision and strategy, and to implement action points
- iv) the ability of government to add value (for example, by improving co-ordination across government agencies, developing better linkages between the sector and public sector training providers or by changing regulatory settings), recognising the costs and risks of government intervention.

38 There may also be timing considerations such as the need to respond to rapid change, enlivening existing sector strategies, or the interaction with government's other objectives, such as environmental sustainability.

39 Although each high-level engagement should have a clear exit strategy (see Appendix One: Section A), engagement is unlikely to have a "hard and fast" end. It may, in particular, be followed by agency specific engagement with the sector, either through the delivery agencies or on specific issues. For example, the wood-processing sector, which was the subject of high-level engagement, is now working with the Ministry of Agriculture and Forestry (MAF) and NZTE on specific issues.

### *Risks*

40 This process of rolling engagement and application of the selection and prioritisation criteria (i-iv in paragraphs 34 and 37) will ameliorate some of the potential risks and economic costs of sector engagement, including the risk of focusing engagement on sectors of limited economic importance or of engagements leading to poor decisions on resource allocation. The potential risks can also be mitigated through the careful design of sector engagement (see Appendix One, Section B).

## **IMPLEMENTING HIGH-LEVEL VERTICAL SECTOR ENGAGEMENT**

### **What will be required from sectors**

41 The strategy developed from sector engagements must be sector-led, developed in partnership with the government and jointly owned by the sector and government. The precise process for delivering this result is likely to vary from sector to sector and should be determined on a case-by-case basis.

42 It is important to acknowledge that sector engagement will place significant demands on the sector itself. Typically it is likely to require the sector to contribute (and if necessary develop) a leadership group to provide strategic direction and to work in partnership with government to develop the vision, strategy and plan of action. Working groups, which would analyse individual issues and develop recommendations, may support this process. The sector would also need subsequently to implement those actions that are the preserve of the sector itself, and contribute to sector and government joint actions.

## Vertical Sector Selection and Prioritisation

### *Prioritising sectors for high-level engagement*

43 The three delivery agencies with an overview across the whole economy (NZTE, TEC and FRST) are best placed to apply the criteria to select and prioritise sectors. These agencies should work together to develop recommendations in consultation with other departments and agencies that have an interest in the sectors being considered, with MED, as the lead agency for sector policy, acting as a co-ordinator. Where a sector identified for potential engagement has a dedicated sector agency, that agency should participate in this process from the beginning.

### *Approval process for sector engagement*

44 To ensure whole-of-government co-ordination and alignment, and a clear link to the aims and rationale set out in this paper, proposals for high-level engagement should receive Cabinet approval. As part of the development of Cabinet submissions, MED and the delivery agencies should work with other agencies across government to identify potential:

- policy and programme synergies;
- inconsistencies between the policy framework for sector engagement, ongoing engagement through the delivery agencies or issue-specific engagement;
- gaps in high-level sector engagement;
- sector support, and potential benefit for high-level engagement;
- areas of overlap between vertical sector engagement and relevant GPT and horizontal technology diffusion strategies; and
- areas of unnecessary overlap and duplication.<sup>5</sup>

45 Cabinet submissions seeking approval for high-level sector engagement should address the issues set out in Appendix One, Section C. The approval should be sought well in advance of proposed engagement to enable agencies to identify the resources required for engagement, build up knowledge of the sector and incorporate engagement into output planning.

### *Co-ordinating Engagement*

46 Following Cabinet approval, MED (in consultation with other agencies) should be responsible for overseeing the co-ordination and alignment of sector engagement

<sup>5</sup> This list is derived from and is consistent with the activities set out for MED in its GIF implementation monitoring role in the 2002 Cabinet paper, *Evaluating Implementation and Outcomes of the Growth and Innovation Framework*.

across government. NZTE should take the lead in co-ordinating and aligning sector engagement at the operational level, using the GIF focus areas<sup>6</sup> as organising themes.

### *Who should lead engagement?*

47 On a case-by-case basis, the lead agency (depending on its mandate<sup>7</sup>) should be that with the best overview of the issues and opportunities confronting the sector. Where this is a dedicated sector agency, it will need to have (or develop) the capability to focus on economic development objectives, and the resources to engage with the sector.

48 If the lead agency is not NZTE, then NZTE should play a supporting role by contributing its sector engagement expertise. TEC and FRST will also need to be closely involved in most, if not all, engagements.

49 The GIF Taskforces also highlighted the important role that Ministers can play in providing leadership for the sector to develop and own the strategy.

### **Life Cycle of Vertical Sector Engagement**

50 Whole-of-government vertical sector engagement will have three stages: i) the process of sector selection and prioritisation, an economic evaluation of the sector, and an approach to the sector to identify its willingness and capability to engage, culminating in a recommendation to Cabinet; ii) the development of a vision, strategy and action plan for the sector; and iii) the implementation phase (which may result in “issue specific” sector engagement).

51 The first two stages could take 12 to 18 months. Implementation of the action plan may take up to three (or more) years. While all stages will be resource intensive, policy agency involvement can be expected to drop off as implementation becomes embedded in the sector. High-level engagement may also end at stage two if it becomes apparent that implementation can be delivered through less intensive engagement.

52 Although high-level vertical sector engagement should reflect the needs of each sector, engagement will typically require government to:

- build an understanding of the sector – its economic significance and performance, structure, linkages (or lack thereof), and its skills and R&D capabilities and requirements. This is crucial both for sector selection and the success of any engagement;
- facilitate the building of governance capability (if necessary) and the development of a sector-led strategy and goals for making a substantial contribution to higher sustainable growth (some sectors will already have

<sup>6</sup> That is: Innovation, Skills and Talent, Global Connections, Infrastructure, and foundation policies (including regulatory and tax).

<sup>7</sup> For example, an agency with a purely regulatory function may not be well placed to deal with economic development issues.

some form of strategy which should inform, and may even be suitable for incorporation into, this sector-led strategy); and

- respond to the sector strategy by taking well-justified action to support its implementation and so facilitate sector growth.

### **Government Actions to Facilitate Sector Growth**

53 The question that then arises is what actions government should be prepared to take at this final implementation stage, given that the main focus of government's industry development policy is at the enterprise level, involving the design and delivery of programmes to individual firms, rather than sectors? The range of potential interventions includes, for example:

- initiatives to better co-ordinate existing public sector activity and programmes in respect of that sector, including RS&T and training activities;
- examination of the generic regulatory and tax environment in the light of the experience of that sector;
- review of sector specific regulation;
- initiatives to develop networks and linkages in that sector;
- initiatives to manage the costs of structural adjustment if required; and
- direct assistance to firms in that sector where there are clear spillovers to other parts of the economy that would justify such assistance.

54 The appropriate interventions will need to be considered on a case-by-case basis. Sector engagement should not normally result in any substantial shift in resource allocations to favour specific sectors. As a general principle, interventions that aim to improve the implementation of existing policies and programmes, or improve the quality of regulation, should be favoured over interventions involving sector-specific direct assistance. Exceptions should only be made where there are compelling and overriding reasons, such as an identifiable market failure or spillover that is specific to a particular sector. Even so, care needs to be taken to balance the benefits of using sector strategies to inform and refine existing interventions, against generating expectations that a sector might receive more favourable treatment than in the generic regulatory environment, for example, taxation.

## **SECTOR ENGAGEMENT: GENERAL PURPOSE TECHNOLOGIES**

### **Rationale for Promoting New GPTs**

55 The government should also remain open to identifying and promoting new GPTs because of their potential impact on productivity across sectors. The rationale for this promotion is based on:

- realising productivity improvements from a GPT may require a substantial reallocation and reorganisation of resources within firms and across the

economy. The same co-ordination imperatives that justify vertical sector engagement may be even more acute in these circumstances;

- not all firms will be aware of opportunities and best practice in adopting and adapting GPTs; and
- new GPTs often complement existing technologies, research systems and economic structures, generating spill-over benefits that are greater than any individual firm, or even sector, may be able to capture.

### **Role for Government in promoting GPTs**

56 It is unlikely that government will ever be certain that an emerging technology is, in fact, a GPT until it is starting to become pervasive. New Zealand is also unlikely to have the necessary comparative advantages to be successful in developing or applying an evolving technology that will become the next GPT.

57 This means that New Zealand is likely to a “follower” in adopting GPTs. Despite being a follower, government can promote rapid diffusion of GPTs through business policies that encourage firms to adopt and adapt new technologies at the same time as their international competitors. To this end, policies to facilitate general innovation in the economy will also encourage rapid diffusion of a GPT, including policies to:

- strengthen competition and provide the right regulatory frameworks that, for example, guard against anti-competitive behaviour and ensure regulatory frameworks are technology neutral; and
- foster a business environment for effective use of new technologies, for example, by strengthening education and training systems, facilitating firm entry and exit, and reducing barriers to organisational change.

58 As new technologies emerge and show potential scale and size effects on productivity growth, government should also pursue facilitative policies, on a case-by-case basis, to:

- spread the benefits of the GPT across the economy (for example, by helping small businesses assess the opportunities of e-business); and
- overcome information asymmetries by co-ordinating and disseminating information about the benefits of the GPT .

### **GIF Sectors: Lessons Learned**

59 Government selected the GIF sectors both because of their ability to have a horizontal impact on many parts of the economy (“GPT-type characteristics”), and to realise each sector’s own (“vertical”) growth potential. These distinctions will not always be clear-cut. For example, ICT is both a GPT and composed of vertical sectors. Government needs to be clear whether the objective of engagement is to facilitate vertical sector growth or to promote technology diffusion. If the objective is twofold, then the role for government should include a mix of policies designed to address both.

### *Biotechnology and Design*

60 Both biotechnology and design have some GPT characteristics, even though biotechnology is currently not pervasive across many or all vertical sectors, and design can be regarded as an input into production, rather than a organisational technology. Given these GPT characteristics, the government has a role to play in promoting the uptake of design and biotechnology by other vertical sectors.

61 The Design Taskforce focused entirely on the horizontal impact of design, and its use by firms to create sustainable competitive advantage. On the other hand, the Biotechnology Taskforce principally focussed on vertical growth of the sector. In response, Cabinet directed the Ministry of Research, Science and Technology (MoRST) and MED to address the horizontal uptake of biotechnology across the economy, and report to the Biotechnology Ministers on policy options [CAB Min (03) 31/4 refers].

### *ICT*

62 The main focus of the ICT Taskforce Report was also on vertical growth of the ICT sector – despite ICT being the only recent GPT<sup>8</sup>. MED is now, therefore, developing a strategy to provide a co-ordinated approach to ICT related activities across government and establish a holistic approach to the uptake and smart use of ICTs [CAB Min (03) 31/4B refers].

### **MONITORING AND EVALUATION OF SECTOR ENGAGEMENT**

63 Cabinet has agreed on principles to guide MED's monitoring and evaluation of NZTE interventions. These principles are not specific to MED and NZTE and can be used as a guide for monitoring and evaluation of sector engagement by government agencies (see Appendix Two).

64 Given MED's role in co-ordinating sector policy, and monitoring the implementation of GIF, MED would take the lead role in evaluating sector engagement. MED would draw and build upon the extensive monitoring and evaluation by Ministries and agencies of the implementation and outcomes of government interventions. This would include the performance expectations set out in statements of intent, purchase agreements and business plans, the reports on activities and performance outcomes across Votes and reports to responsible Ministers on policy and programme initiatives.

65 To minimise compliance costs, the monitoring and evaluation of sector engagement must be integrated into, and based on the data from this existing reporting. This means, for example, aligning it with MED's evaluation of NZTE's sector engagement and support activities, and evaluation of activities related to the implementation and outcomes of GIF, planned for 2006.

66 In the short term, evaluation activity will focus on monitoring the implementation of the sector engagement framework. In the longer term evaluation will, in conjunction with relevant research, assess whether sector engagement is making a worthwhile contribution to achieving government's economic development objectives.

<sup>8</sup> Unlike established GPTs, such as electricity, ICT is still being applied and adapted across the economy and society.

67 Attribution of high-level engagement to sector performance will, however, be difficult given the multiple factors affecting performance. The approach used will need to balance any expectation of quantifying the value added to sector performance, versus the benefit, ability and cost to government and the economy.

## **NEXT STEPS**

68 Implementation of recommendations from the GIF sector taskforces represents most of government's existing stock of high-level engagements. Using the sector selection and prioritisation criteria, MED has carried out some preliminary work with NZTE, FRST, TEC and MAF, with input from the Treasury and other agencies, to identify other sectors for possible high-level engagement. The initial list, based on contribution to GDP, potential to grow and likely spillover effects, included food and beverage, wholesale and retail, business services, construction, tourism, transport, electricity, gas and water supply, machinery and equipment manufacturing, metal product manufacturing, agri-tech, international education, medical technologies and environmental technologies/renewable energy.

69 After taking into account the ability of the government to add value and the need to prioritise, the sector with the strongest case for the *next* high-level engagement appears to be the food and beverage sector, although this does not preclude concurrent issue-focused engagement with the other sectors (for example, strategies have already been developed for tourism and international education, so engagement will be on specific issues and through delivery agencies; similarly, the government is already engaging with the transport and energy sectors on specific issues). Consistent with the rolling nature of engagement, other identified sectors can be engaged with on strategy development over time. Further work is required to develop the proposal for the food and beverage sector, including discussion with the sector to assess its willingness and commitment to engage.

70 If the sector is ready and willing to engage, MED, MAF and NZTE will report to the Ministers of Economic Development and Agriculture by the end of August 2004 with a fully developed proposal for such an engagement. Cabinet approval for high-level engagement would then be sought.

71 Food and beverage is a large sector, accounting for approximately ten percent of GDP. As discussion with the sector proceeds, it will become clearer how the sector might be disaggregated into more cohesive and compact sub-sectors for engagement. This process may also identify a few key issues that limit sector growth, which might be best addressed through more immediate lower tier, issue specific, engagement.

72 Given the size of the food and beverage sector, if this is to be engaged, officials propose that this should be the only new high-level engagement in 2004. MED, in conjunction with the delivery agencies and in consultation with other agencies, would report to Economic Development Ministers on further sectors for potential high-level engagement by December 2004.

## **CONSULTATION**

73 The following departments and agencies were consulted in the preparation of this paper: Treasury, Ministry of Foreign Affairs and Trade, New Zealand Trade and

Enterprise, Department of Prime Minister and Cabinet, Ministry of Research, Science and Technology, Foundation for Research Science and Technology, Tertiary Education Commission, Ministry of Agriculture and Forestry, Ministry for Culture and Heritage, the Ministry of Transport, the Ministry of Education, Ministry of Fisheries and Te Puni Kokiri.

### **FISCAL IMPLICATIONS**

74 This paper has no direct fiscal implications. Expectations about the level of funding available to meet the cost of any initiatives will need to be managed as sector engagement proceeds. It will be important to clarify at the outset of any engagement that the funding of any initiatives will be met through the reprioritisation of current funding or through GIF allocations in future budgets.

### **LEGISLATIVE IMPLICATIONS**

75 This paper has no legislative implications.

### **REGULATORY IMPACT AND COMPLIANCE COST STATEMENT**

76 Not required.

### **PUBLICITY**

77 If Cabinet agrees to the sector engagement framework, a communication strategy, developed in consultation with the Department of the Prime Minister and Cabinet, would be submitted to Economic Development Ministers (Finance, Economic Development, Research, Science and Technology, Trade Negotiations, Tertiary Education, and Associates Industry and Regional Development) for approval by 31 May 2004.

### **RECOMMENDATIONS**

It is recommended that the Committee:

- 1 **Note** that there are currently unresolved issues around sector engagement including the role of sector policy in economic development, inconsistent selection criteria and lack of effective prioritisation and co-ordination across government;

### **Vertical Sector Engagement**

- 2 **Agree** to continue high-level whole-of-government vertical sector engagement as an economic development tool with the objective of raising the sustainable rate of economic growth;
- 3 **Agree** that the rationale for high-level vertical sector engagement is to:
  - i facilitate economic development, by encouraging an increase in the proportion of firms in each sector pursuing high value added activities;
  - ii ensure that generic policies and institutional arrangements are impacting on a sector in a consistent and mutually reinforcing way;

- iii improve co-ordination, linkages and networks between government and the sector; and
  - iv ease the social impact of sectors in transition and help find sustainable activities in that sector;
- 4 **Agree** that high-level vertical sector engagement should be a rolling process with the objective of progressively engaging all sectors of economic significance over time;
- 5 **Agree** to the following criteria for selecting and prioritising vertical sectors and assessing requests for high-level engagement:
- i the sector's contribution to GDP, and potential to grow (material impact);
  - ii the value that a sector will add across a range of other sectors (spillover effects);
  - iii the commitment of the sector to work in partnership with government, its ability to develop a vision and strategy, and implement action points; and
  - iv the ability of the government agencies to add value, recognising the costs and risks of sector engagement;
- 6 **Agree** that the aim of high-level sector engagement should be the development of a vision for the sector, a sector-led strategy and supporting plan of action;
- 7 **Agree** that high-level vertical sector engagement should not preclude engagement with firms in regions, clusters (or other groupings), ongoing engagement with sectors by New Zealand Trade and Enterprise, the Foundation for Research Science and Technology and the Tertiary Education Commission, or ongoing issue-specific sector engagement;
- 8 **Agree** that high-level engagement should not lead to any substantial re-allocation of resources in favour of particular sectors, unless there are exceptional and overriding reasons for addressing a market failure or spillover;

#### *Co-ordination and Alignment*

- 9 **Agree** that the Ministry of Economic Development take the lead role in the development and co-ordination of sector policy;
- 10 **Agree** that, on a case-by-case basis, the lead agency for high-level vertical sector engagement should be the agency with the best overview of the sector;
- 11 **Agree** that proposals for high-level vertical sector engagement require Cabinet approval, and that approval be sought well in advance of engagement to enable agencies to allocate or seek resources, build up sector expertise and incorporate sector engagement into output planning;
- 12 **Agree** that Cabinet submissions identify the lead agency, the rationale and objectives of engagement, the mechanisms for engagement and co-ordination,

provide a timeline for engagement, set key milestones (including disengagement), identify how the risks of engagement would be addressed, and include an evaluation plan;

#### *Managing the risks of sector engagement*

- 13 **Note** that high-level sector engagement raises a number of risks and costs including the risk of engagements leading to poor decisions on resource allocation;
- 14 **Agree** that to help ameliorate the risks and potential costs of high-level sector engagement, engagement should focus on:
- improving generic interventions that address impediments to growth and which do not distort investment decisions or programmes in favour of particular sectors;
  - improving co-ordination and utilisation of government resources already available to a sector; and
  - ensuring that initial interventions are modest in size, and that engagement is subject to evaluation;

#### **General Purpose Technologies**

- 15 **Note** that government should remain open to identifying and promoting new general purpose technologies (GPTs) because of their potential impact on productivity across sectors;
- 16 **Note** that the distinction between GPTs and vertical sectors will not always be clear-cut, and there will be some sectors that have general purpose technology characteristics that make them candidates for diffusion;
- 17 **Note** that government can promote diffusion of GPTs through facilitative policies to:
- spread the benefits of the GPT across the economy (for example, helping small business assess the opportunities of e-business); and
  - overcome information asymmetries by co-ordinating and disseminating information about the benefits of the GPT to sectors;
- 18 **Agree** that, at the outset of engagement, government needs to be clear whether the objective is to promote the uptake and adaptation of GPTs (or sectors with horizontal impacts), or whether the objective is facilitate vertical sector growth;
- 19 **Note** that the Ministry of Research, Science and Technology and the Ministry of Economic Development are developing policy options aimed at promoting the diffusion of biotechnology and will update Biotechnology Ministers (the Ministers for Research, Science and Technology, Finance, Health, Agriculture and Forestry, Environment and Economic Development) on this work by 30 May 2004;

- 20 **Note** that the Ministry of Economic Development is developing a new ICT strategy aimed at promoting the uptake and use of ICT in New Zealand and will report back to Cabinet with a draft strategy by 30 May 2004;

### **Monitoring and Evaluation**

- 21 **Agree** that the Ministry of Economic Development take the lead role in monitoring and evaluating high-level sector engagement by monitoring the performance of engaged sectors over a three to five year period against specified expectations and milestones set out in sector strategies;

### **Next Steps**

- 22 **Note** that, using the vertical sector selection and prioritisation criteria, a preliminary assessment of sectors for high-level engagement has identified the food and beverage sector;
- 23 **Direct** the Ministry of Economic Development, Ministry of Agriculture and Forestry and New Zealand Trade and Enterprise, in consultation with the Treasury, to report to the Ministers of Economic Development and Agriculture with a proposal for engaging with the food and beverage sector by 30 August 2004, with a subsequent report to Cabinet by 30 September 2004; and
- 24 **Direct** the Ministry of Economic Development, in conjunction with the Treasury, New Zealand Trade and Enterprise, the Foundation for Research Science and Technology and the Tertiary Education Commission, in consultation with other agencies, to report to Economic Development Ministers (Finance, Economic Development, Research, Science and Technology, Trade Negotiations, Tertiary Education, and Associates Industry and Regional Development) on further sectors for high-level engagement by 30 December 2004.

**HON JIM ANDERTON**  
**MINISTER FOR ECONOMIC DEVELOPMENT**

## **APPENDIX ONE: IMPLEMENTING HIGH- LEVEL SECTOR ENGAGEMENT**

### **Section A: Disengagement**

1 Whole-of-government sector engagement is resource intensive and requires a clearly articulated exit strategy. The performance of engaged sectors should be monitored over a two to five year period against specified expectations and milestones set out in the action plan.

2 Disengagement should be based on the following criteria:

- Sector engagement is no longer required, given that:
  - Identified impediments to growth have been addressed (the possibility of future issue-specific engagement is left open); and
  - government has reached the limits of what it can usefully do to at the time to assist the sector to establish a “virtuous configuration” of networks, linkages, research, innovation and commercialisation.
- engagement is not delivering the desired outcomes, the prospects for achieving those outcomes are not good, and better candidates for engagement have emerged; or
- the sector is not doing enough to help itself, is not committed to a partnership approach with government and key milestones have (or have not) been met.

### **Section B: Managing sector engagement risks**

3 To manage the risks of high-level sector engagement, the following points should be fed into the case-by-case design of high-level sector engagement, and the implementation of action points:

- Favour policies that aim to get the benefits of well-targeted intervention, but which minimise the costs of poorly targeted intervention:
  - Focus on generic interventions that address barriers to growth and do not distort investment decisions in favour of particular sectors. Such interventions may be identified through sector engagement (for example, are there gaps in generic programmes for emerging sectors as opposed to existing sectors?);
  - Focus on the better co-ordination and utilisation of government resources already available to the sector;
  - Engage with broad, rather than narrow sectors; and
  - Keep interventions, particularly in vertical sectors, modest in size initially and subject to evaluation.

- Choose interventions that harness the incentives of individuals and firms, who are likely to have more information on the growth prospects of their sector than government agencies; and
- Articulate a clear disengagement strategy at the outset, including setting a timeline and milestones.

### **Section C: Content of Cabinet Submissions**

4 Cabinet submissions seeking approval for sector engagement should address the following issues:

- the agency that will lead the engagement and those agencies that would contribute to whole-of-government engagement;
- the rationale for high-level engagement, its objectives, and the government's role in achieving those objectives;
- analysis of the sector against the sector selection and prioritisation criteria;
- areas of overlap between vertical sector engagement and relevant GPT and horizontal technology diffusion strategies;
- existing interventions and lower tier engagement with the sector;
- a timeframe for engagement and set key milestones, including disengagement;
- resource requirements;
- the risks of engagement with the proposed sector, and how these would be addressed;
- the design of high-level sector engagement, and how the sector would work in partnership with government (for example through industry associations); and
- a plan for the evaluation of each sector engagement.

## **APPENDIX TWO: PRINCIPLES FOR EVALUATION OF INTERVENTIONS**

- 1 All evaluation should apply good practice evaluation principles. The principles agreed to by Cabinet for Industry and Regional Development interventions are:
  - using a range of methodologies to assess impacts of a programme or a suite of programmes where possible. This recognises the complexities in which a programme or suite of programmes operates, and how a single approach may only reveal part of the effects of a programme activity. This includes, more broadly, research to improve our understanding of policy foundations;
  - design - evaluations should be designed in tandem to policy development;
  - independence of approach - for objectivity; and
  - timeliness -to ensure that that value of new knowledge is maximised by being synchronised with decision making.
  
- 2 Evaluation should also meet generic standards of:
  - utility – that evaluation serves the information needs of users;
  - feasibility – evaluation should be realistic and prudent; and
  - accuracy – evaluation will reveal and convey technically adequate information about the features that determine worth or merit of the programme(s) being evaluated;

### **Issues to consider when developing an evaluation of government’s framework for sector engagement**

- 3 There are different types of evaluations focused on different aspects of programme/policy performance: implementation evaluation (has the programme/policy been implemented as specified); effectiveness evaluation (is the programme/policy meeting its objectives); and impact evaluation on broader government outcomes that may sit above this.
  
- 4 When considering effectiveness and broader outcome evaluation, stability and maturity of the government’s policy framework, along with recognition of time lags, are critical for meaningful design of outcome evaluation for sectors. Evaluation milestones must recognise the longer-term view. In the short term, evaluation activity is likely to focus on monitoring of achievement of sector engagement activities. In the longer term, evaluation, in conjunction with relevant research, is more likely to assess whether progress is being made towards policy objectives and broader outcomes.
  
- 5 Accuracy of attribution of the programme of government’s activities on sector performance (however defined) will be difficult given that multiple factors affect sector performance, as well as the potential multiplicity of activities which will support this policy initiative. The approach used will need to balance any expectation of quantifying the value added to sector performance, versus the benefit, ability and cost of doing so.
  
- 6 Evaluation activity does not need to be seen as an arbitrary quantification of “outcomes”. Other evaluation questions include “why” something is working in contrast to “whether” something is working. An investigation of why something is working may

be appropriate depending on whether we want to improve the instruments used to address the policy problem/opportunity.

7 The evaluation must take a wider-context and clear strategic direction. This means, among other things, interfacing and positioning any proposed evaluation with the current evaluations for sector engagement and support activities undertaken by NZTE (planned for 2006), and evaluation activities related to the implementation and outcomes of the GIF. This also means anticipating how future policy development work on the GIF will effect what is proposed as part of sector engagement evaluation.

8 Related to the previous point, the evaluation should use appropriate existing sources of information valid for the evaluation's defined purpose before commissioning new pieces of research and evaluation activities. There is an increasing expectation from Ministers and Treasury that selected evaluation of government expenditure is undertaken. In this context, we must ensure that synergies related to information currently being collected are used as appropriate. We wish to flag at the outset, however, that there are existing limitations to available data sets we use currently to monitor sector performance.

### **Approach to be taken**

9 It is inappropriate to specify an evaluation methodology within this position paper because the methodology must drop out of the policy development phase for sector engagement. A specific evaluation and research plan will be initiated through the policy phase, and will consider, among other issues:

- the evaluation purpose, questions to be answered, and how the evaluation results will be used;
- statement of outcomes to be assessed for the policy's objectives, and related effectiveness measures;
- statement of any aspects of delivery to be assessed, and related measures;
- an indicative evaluation methodology as to how added value from the policy will be evaluated;
- an indicative data collection and analysis strategy;
- what reports are to be produced, who are responsible for these, and when will they be produced; and
- the evaluation and research plan will reflect good practice principles for evaluation planning and design.