

Industry Development Strategy

Ministry for Economic Development

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To: The Chair
Cabinet Economic Development Committee

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Introduction

1. This paper seeks Cabinet Committee's agreement to the adoption of an Industry Development Strategy.

Executive Summary

2. Industry development initiatives aim to increase the international competitiveness of New Zealand's business environment in order to generate more wealth, create more jobs and promote New Zealand as an attractive place to invest and do business. They assist individuals, firms and industries to identify opportunities, develop capability to respond to the opportunities, and exploit the opportunities.

3. Industry development embraces all sectors of the economy and does not work in isolation. It is a key component of sustainable development and complements and is complemented by a range of policies such as those relating to regional development, human capability, the regulation of business, the provision of infrastructure services and the protection and sustainable use of natural resources.

4. Government has a key role to play in industry development by providing leadership to overcome the difficulties associated with our small scale and scope of activities (small firms, small regions, small markets) and in improving its own activities that constrain business activity (e.g. accessing government-held information).

5. It is proposed that Cabinet Committee agree to an industry development strategy with the following objectives:

- to make expertise and information available to improve industry performance and market prospects, and to provide access to key resources into the innovation process, such as capital
- to catalyse investments and major events in New Zealand to exploit significant opportunities that do not come often
- to develop effective partnerships between central and local government, industry organisations and individual enterprises
- to reduce costs and improve the effectiveness of government activity through better coordination between government agencies.

6. These objectives will be achieved by:

- Year One - Establish Industry NZ, develop new initiatives, review the effectiveness of existing industry development programmes and improve coordination between programmes providers.
- Year Two - Implement the outcomes of the review through an enhanced suite of industry development initiatives.

7. This approach can have important implications for Closing the Gaps. In particular, the review of existing industry development programmes will include consideration of the effectiveness of these programmes for Maori, Pacific peoples and women. The development of new initiatives will also need to be closely coordinated with the work on developing revised Maori business services.

8. Although Industry NZ will be responsible for delivering a range of new and existing industry development initiatives, it will have a wider role in promoting sustainable development.

Background

9. Both Labour and Alliance party manifestos outlined directions for industry development:

Labour believes that the role of modern government is: to offer leadership, strategy, vision, active partnerships, brokerage, procurement, a supportive

public sector apparatus and a series of programmes that collectively form industry policy (Labour Party Policy 1999 - Labour on Industry Development)

The era of partnerships has begun. The Government will work with the private sector, local authorities, Maori economic entities and community groups to meet economic, environmental and social needs at national, regional and local levels (Alliance Party Policy 1999 - Partnership 2000)

10. The Government has already taken a number of steps to implement an industry development strategy (CAB (00) M 12/3 and CAB (00) M 6/2 refer):

- agreed to refocus and rename the Ministry of Commerce as the Ministry of Economic Development, providing services to the portfolios of Economic Development, and Industry and Regional Development
- agreed that Industry NZ be established as a Crown entity with responsibility for the delivery of programmes
- directed officials from the Ministry of Economic Development, State Services Commission, Te Puni Kokiri and the Treasury to report back to the Cabinet Economic Development Committee by 1 October 2000 with a stocktake of business assistance activities currently undertaken by the Government.

11. Cabinet agreed that Vote Industry and Regional Development should cover three areas (CAB (00) M 12/3 refers):

- policy advice on the development of policies to directly assist industry and regional development
- the implementation of assistance measures
- the monitoring and evaluation of assistance measures.

12. This paper focuses on policies and assistance to industry. An accompanying paper indicates how industry development fits with sustainable development. Another accompanying paper addresses regional development.

Objectives of Industry Development

13. Industry development initiatives aim to increase the international competitiveness of New Zealand's business environment in order to generate more wealth, create more jobs and promote New Zealand as an attractive place to invest and do business. They assist individuals, firms and industries to identify opportunities, develop capability to respond to the opportunities, and exploit the opportunities.

14. Industry development embraces all sectors of the economy and does not work in isolation. It is a key component of sustainable development and complements and is complemented by a range of policies including those relating to regional development, human capability, the regulation of business, the provision of infrastructure services and the protection and sustainable use of natural resources.

15. As part of this, Government has a key role to play in industry development by providing leadership to overcome the difficulties associated with our small scale and

scope of activities (small firms, small regions, small markets) and in improving its own activities that constrain business activity (e.g. accessing appropriate government-held information).

16. It can do this through providing access to resources (information, expertise, capital), building capability, creating a more responsive public sector and developing effective partnerships between central and local government, industry organisations and individual enterprises. This should be both at the regional level and across groups in society in the context of Closing the Gaps.

Reviewing Existing Programmes

17. The Government already has a range of industry and economic development initiatives. Some of these will be transferred to Industry NZ (BIZ, Industrial Supplies Office, and the soon to be launched Incubator Development Programme). Many others are administered by other agencies. The five key sets of questions the Government needs to ask in relation to these programmes are:

- What are the problem/s the programmes seek to address? How closely do the objectives of the programmes accord with the problem definition and the Government's objectives for industry development? Do the programmes effectively address the underlying problem/s?
- Are they effectively meeting the needs of Maori, Pacific peoples and women?
- Would the activity the programmes support have occurred in the absence of Government assistance i.e. are they adding value to industry development?
- Are they efficiently and effectively administered and delivered?
- Are they well coordinated?

18. The objective of the stocktake mandated by Cabinet (paragraph 10 above) should be to answer these questions. The outcomes of the stocktake will be reported to Cabinet Economic Development Committee by 1 October 2000. This will allow Ministers to make decisions on the future of these programmes in the context of the 2001 Budget, along with how the \$70 million of additional money for industry and regional development will be allocated.

New Programmes

19. However, Ministers also need to decide how to allocate the additional \$30 million for industry and regional development in the next financial year. It is important that early decisions are taken to enable Industry NZ to start delivering these initiatives as soon as possible.

20. These initial initiatives should focus on augmenting the existing menu of programmes in areas where an identified need is apparent and where the government has an important leadership and catalysing role. The major areas identified in recent research and consultation where government can play an important role include:

- Acting as a catalyst for investments and major events in New Zealand to exploit significant opportunities that do not come often. Identifying and

attracting such investments and events largely depends on being in the right place at the right time with the right marketing strategy. A central/regional partnership can provide a powerful resource and commitment to pursue such opportunities.

- Making expertise and information available to more firms to improve their performance and market prospects. Often firms are so focused on day to day survival that they need a helping hand to lift them to the next stage of development - or they are inexperienced entrepreneurs who benefit from guidance by those with more experience.
- Providing innovative and capable new firms with access to capital for 'early-stage' development activities, especially business, product and market development. There are gaps in the market here because of a combination of the relatively high risks and costs of assessment, investment and monitoring involved in investing in early stage innovations, and because small firms and innovators often overestimate value and underestimate risk, do not know how to present proposals, and are unwilling to share control or provide information on their ideas in return for capital. There are also gaps related to variability in access across sectors and regions.

Implementing the Strategy

21. It is proposed that the strategy be implemented in the first year through the following steps (this excludes the establishment of Industry NZ which is subject to its own implementation path (CAB (00) M 14/1C(1) refers)):

1. Review of Existing Programmes

22. Government agencies with responsibility for industry development programmes are asked to undertake a review of their own programmes with the purpose of answering the five sets of questions posed in paragraph 15 by 31 August. These reviews will produce the basis of the stocktake report on Government business assistance activities that Cabinet has requested by 1 October 2000. This will be coordinated by the Ministry of Economic Development, in consultation with Te Puni Kokiri, the State Services Commission and the Treasury.

2. Development of New Programmes

23. Development work will be undertaken on new industry development initiatives for implementation in 2000/2001, where an identified need is apparent and where the government has an important leadership and catalysing role, with a report back to Cabinet Committee by 31 May on design principles and parameters, delivery mechanisms and implementation processes. The specific initiatives, which will be managed by Industry NZ, to be subject to further work in the first instance include:

- Industry Specialists to work in Industry NZ
- Strategic Investment and Major Events Service - to identify and promote major investment and events opportunities
- Early-stage Financing initiatives, including consideration of a grants programme and angel networks.

24. Any new initiatives will be designed to be consistent with New Zealand's international trade policy commitments.

Industry Development and the Role of Industry NZ

25. Although Industry NZ will be responsible for delivering a range of new and existing industry development initiatives, it will have a wider role in promoting sustainable development. For example, Industry NZ will have responsibility for implementing the regional development programme and will carry out a range of functions and duties relating to the promotion of economic development.

Implications for Closing the Gaps

26. This approach can have significant implications for Closing the Gaps. In particular, the review of existing industry development programmes will include consideration of the effectiveness of these programmes for Maori, Pacific peoples and women. The development of new initiatives will also need to be closely coordinated with the work on developing a revised Maori business service and investigation of options for improving access to finance by Maori.

Consultation

27. The following departments have been consulted in the preparation of this paper: The Treasury, the Ministries of Education, Agriculture and Forestry, Youth Affairs, Women's Affairs, Maori Affairs, Pacific Island Affairs, Environment, Fisheries, Foreign Affairs and Trade, Health, Housing, Justice, Research, Science and Technology, Transport, Cultural Affairs, Defence, Social Policy; the Departments of Prime Minister and Cabinet, Labour, Conservation, Inland Revenue, Internal Affairs, Corrections, Statistics, Courts, Child, Youth and Family; the State Services Commission, Audit Office, New Zealand Customs Service, Land Information New Zealand, National Library, Public Trust Office, Work and Income New Zealand, and the Education Review Office.

Fiscal Implications

28. There are no fiscal implications associated with this proposal.

Legislative Implications

29. There are no legislative implications associated with this proposal.

Compliance Cost Statement

30. There are no additional compliance costs associated with this proposal.

Publicity

31. A communications strategy around Economic, Industry and Regional Development issues is being prepared in consultation with my office.

Recommendations

32. It is recommended that the Cabinet Committee:

- a. **agree** that industry development aims to increase the international competitiveness of New Zealand's business environment in order to generate more wealth, create more jobs and promote New Zealand as an attractive place to invest and do business
- b. **agree** that Government has a key leadership and catalysing role to play in industry development by:
 - o making expertise and information available to improve industry performance and market prospects, and providing access to key resources into the innovation process such as capital
 - o catalysing investments and major events in New Zealand to exploit significant opportunities that do not come often
 - o developing effective partnerships between central and local government, industry organisations and individual enterprises
 - o reducing costs imposed by government through better coordination between government agencies;
- c. **agree** to a strategy for industry development that unfolds over two years:
 - o Year One - Establish Industry NZ, develop new initiatives, review the effectiveness of existing industry development programmes and improve coordination between programmes providers;
 - o Year Two - Implement the outcomes of the review through an enhanced suite of industry development initiatives;
- d. **agree** that Government agencies with responsibility for industry development programmes undertake a review of their own programmes by 31 August, including consideration of:
 - o What are the problem/s the programmes seek to address? How closely do the objectives of the programmes accord with problem definition and the Government's objectives for industry development? Do the programmes effectively address the underlying problem/s?
 - o Are they effectively meeting the needs of Maori, Pacific peoples and women?
 - o Would the activity the programmes support have occurred in the absence of Government assistance i.e. are they adding value to industry development?
 - o Are they efficiently and effectively administered and delivered?
 - o Are they well coordinated?
- e. **agree** that the Ministry of Economic Development, in consultation with other departments, report to Cabinet Economic Development Committee by 1 October, as part of the stocktake of Government assistance, on the outcomes of this work;
- f. **agree** that the Ministry of Economic Development develop new industry development initiatives for implementation by Industry NZ in 2000/2001, where an identified need is apparent and where the government has an important leadership and catalysing role. This will include work on:

- Industry Specialists to work in Industry NZ
 - Strategic Investment and Major Events Service - to identify and promote major investment and events opportunities
 - Early-stage Financing initiatives, including consideration of a grants programme and angel networks;
- g. **note** that any new initiatives will be designed to be consistent with New Zealand's international trade policy commitments;
- h. **agree** that the Ministry for Economic Development, in consultation with relevant departments, report back to Cabinet Economic Development Committee with detailed proposals on the new industry development initiatives referred to in recommendation (f) above by 31 May.

Jim Anderton MP

Minister for Industry and Regional Development