Evaluation of the Implementation of Investment New Zealand

A Review conducted by MFAT and MED in consultation with NZTE and Treasury

February 2004

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Executive Summary

Investment New Zealand (INZ) was established in July 2002, following a Cabinet decision to combine the Investment New Zealand function of Trade New Zealand and the Major Investment Service functions of Industry New Zealand. INZ was initially set up as a business unit with a CEO that reported direct to the Board of Industry New Zealand. With the subsequent merger of Industry New Zealand and Trade New Zealand into New Zealand Trade and Enterprise (NZTE), the CEO of INZ reported direct to the Board of NZTE.

This Implementation Review set out to evaluate the implementation of INZ promotion and facilitation support from a backward-looking perspective. The Review focused on INZ's governance arrangements; organisational structure; and, strategy, activities and services delivered. It looked in some detail at the Strategic Investment Fund and touched lightly on the Visiting Investor Programme. In addition, INZ's linkages with the broader NZTE, key stakeholders and clients were explored. The Review did not seek to form any judgements about INZ's current mandate, or provide guidance upon INZ's future strategy, activities or services. Nor did the Review set out to audit INZ's decisions in respect of individual incentives, grants or other services and support.

Overall the Review found that the implementation of INZ has been successful and it appears to be operating effectively. The establishment of INZ represents a significant increase in dedicated investment promotion personnel, to complement the work undertaken on trade promotion and facilitation. INZ staff numbers have grown from 12 at establishment to 34 currently. The increase in staff has enabled INZ to increase its offshore representation in key investment markets, boost its coverage of focus sectors, and develop an improved research and marketing capacity. An important achievement has been the development of a single culture across INZ within a relatively short period of time.

INZ has worked in line with its mandate from government, and its approach to investment work (for example sector and market specialisation) is consistent with international best practice. This Review considers that foreign investment attraction should continue to be the primary focus for INZ, with effort devoted to domestic investment where there are sound strategic reasons for doing so[1].

A good level of collaboration has been developed with the rest of NZTE. INZ and other parts of NZTE are collaborating to identify investment opportunities and significant information exchanges between relevant sector staff occurs on a regular basis. INZ is also heavily committed to implementing the Category Management approach and has a representative on each of the sector groups. NZTE consider that INZ is having a useful input into NZTE's sector work and that a good exchange of information takes place. This Review notes that

[1] This judgement is explored in more detail in the parallel work to develop a high-level policy framework for foreign investment attraction.

consideration is being given to how INZ work is further integrated into NZTE activities as part of the Global Review.

INZ also has good collaboration with other key public stakeholders including MED, MFAT, New Zealand Immigration Service (NZIS), Tourism New Zealand and the Ministry of Social Development (MSD). Overall, each of these stakeholders gave positive feedback on their dealings with INZ. For example, feedback was received from relevant offshore MFAT posts that investment promotion now has a higher profile, and is approached in a more strategic and better co-ordinated manner than previously. Feedback from INZ clients has also generally been positive, including about INZ's facilitation work and staff attitudes.

INZ has, however, undergone a fundamental reorganisation. And as would be expected with any organisation at a similar stage, there is room for further development.

The original governance arrangements created some ambiguity around overall responsibility for INZ performance at CEO level. As an early harvest of this Review, this has now been resolved. In October 2003, the Board of NZTE approved a new arrangement whereby the CEO of INZ reports to the Board through the CEO of NZTE, with INZ retaining its own brand and CEO title for promotional purposes. This decision was endorsed by relevant Ministers in a letter to the Chairman of the Board in December 2003.

The Review could find no evidence that INZ's strategy had been clearly articulated. In keeping with its new status, INZ's strategy should therefore be clearly articulated within future NZTE strategic documents. Of note, the roles and responsibilities of INZ alongside the broader NZTE vis-à-vis domestic investment should be made clear.

While feedback on the degree of interaction and co-operation with public stakeholders and clients was generally positive, there was a clear sense among stakeholders that more could be done. The Review recommends that, reflecting INZ's reorganised structure and focus, INZ should continue to consult with other parts of NZTE, MFAT and other relevant agencies regarding the contributions they can collectively make offshore to "NZ Inc" investment efforts. In addition, feedback received suggests that INZ's profile amongst the domestic business community is low, and there is a clear need for NZTE to articulate the role of INZ as part of its awareness raising activities.

In relation to the Strategic Investment Fund (SIF), this Review highlights some issues regarding the analytical quality of, and the administrative approval process for, SIF applications, and suggests a number of improvements.

This Review notes some examples of Visiting Investor Programme (VIP) clients investing in New Zealand. But it is both problematic and too early to assess the merits of the VIP. A follow up survey of clients assisted under the VIP process will be incorporated in the full efficiency and evaluation review of INZ scheduled for 2006.

It is too early to tell what real economic impact INZ is having (and this was beyond the scope of the Review). Most of the projects assisted by INZ have not yet progressed far enough to fully evaluate job creation or investment results. The Review did, however, find early indications of success in terms of headline measures of job and investment creation. Feedback from some clients suggests that INZ assistance was an important contributing factor in some investment decisions.

While INZ's key performance measurements for 2002/03 (FDI attracted and jobs created) exceeded targets, it is generally accepted that these measurements do not provide a complete framework to target and assess the performance of INZ. The current performance measures document expected rather than actual results. In addition, they do not capture the quality of the investment (spillovers and broader economic impacts) nor the degree to which INZ influences investment decisions. While this information is difficult to gauge, officials from MED, MFAT and NZTE (INZ) are working together to develop better performance measures for INZ as part of a broader initiative to improve NZTE's performance measurement and reporting.

The report due by December 2006 on the efficiency and effectiveness measures of strategic investment initiatives requested by Cabinet will provide a fuller evaluation. In the interim, NZTE's investment work will continue to be examined as part of MED's annual stocktake review of industry and regional development programmes.

1. Introduction

Background to the Review

Investment New Zealand (INZ) was established in July 2002. This followed a Cabinet decision to combine the Investment New Zealand function of Trade New Zealand and the Major Investment Service functions of Industry New Zealand. (Annex A provides information on investment promotion and facilitation prior to INZ, and the background and rationale for creating INZ). The new INZ was intended to operate as a separate unit within Industry New Zealand, with its own CEO reporting directly to the Industry New Zealand Board. Following the merger of Trade New Zealand and Industry New Zealand in July 2003, INZ remained as a separate unit within New Zealand Trade and Enterprise (NZTE).

In April 2003 (EDC Min (03) 7/3.2), Cabinet directed officials from the Ministries of Economic Development (MED) and Foreign Affairs and Trade (MFAT), in consultation with NZTE and the Treasury, to report back to relevant Ministers[2] by November 2003 on the:

- evaluation of the implementation of INZ promotion and facilitation support; and

- longer-term strategic direction of INZ within NZTE.

Cabinet noted at the time that a full evaluation of the effectiveness of investment promotion and facilitation (originally due by October 2003) would not produce useful results given the short time since implementation, and that the evaluation would be restricted to reviewing the implementation of INZ support and the Strategic Investment Fund. Officials were instead directed to undertake a comprehensive evaluation of INZ, and report back the results to the Ministers of Finance, Industry and Regional Development and Trade Negotiations by December 2006.

Scope

In responding to Cabinet's request, this Review evaluates the implementation of INZ promotion and facilitation support from a backward looking perspective. Specifically, the Review looks at:

- INZ's mandate (Part Two);

- INZ's governance arrangements (Part Three)

- INZ's organisational structure (Part Four);

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[2] The Ministers of Finance, Industry and Regional Development, Trade Negotiations and Associate Foreign Affairs and Trade (Hon Pete Hodgson).

- INZ's strategy, activities and services (Part Five);

- INZ's Strategic Investment Fund in some detail and touches lightly on the Visiting Investor Programme (Part Six); and

- INZ's linkages with the broader NZTE, other key stakeholders, and clients (Part Seven).

It is important to be clear also as to what was beyond the scope of this work:

- The Review did not seek to form any judgements about the current mandate provided to INZ by the government;

- The Review did not seek to audit INZ's decisions with respect to individual incentives, grants or other services and support provided; and

- The Review did not seek to provide guidance on INZ's future strategy, activities or services provided.

In a separate response to the second part of Cabinet's request, a high-level policy framework has been developed to inform, subject to Ministerial endorsement, INZ's future strategic direction. Budget initiatives to enable implementation of that strategy have also been developed.

Methodology

To build a picture of INZ's mandate and evaluate its implementation, this Review drew on the following sources of information:

- INZ publications and reports (internal and external);

- Cabinet papers, Ministerial reports and Ministerial letters;

- reports against the key performance indicators (KPIs) specified in INZ's Purchase Agreement;

- client access forms and client evaluation forms;

- interviews with the Chief Executives of NZTE and INZ, the Board of NZTE, and relevant staff of INZ and NZTE.

- interviews with key stakeholders, and a written survey of Ministry of Foreign Affairs and Trade (MFAT) Posts; and

- interviews and meetings with former and existing clients.

Interviews were conducted using an open-ended structure and were tailored according to the relationship of the interviewee with INZ.

Expected Outputs

This Review set out to add an implementation perspective to the consideration of INZ's long-term strategic direction, and provide Ministers, and the NZTE Board, with some recommendations for improving INZ. The Review also serves to document, in one place, both the background to the establishment of INZ, and what INZ has done to date.

2. INZs Mandate

INZ draws its mandate from the series of Cabinet and ministerial decisions that led to its establishment, its Purchase Agreement, and its first Business Plan. Relevant details of these are provided in Annex A. Through a synthesis of the main components of those decisions and documents it seems clear that Cabinet intended the role of INZ to be foreign investment promotion and facilitation through:

- marketing New Zealand as an investment destination through actively demonstrating the attractiveness of New Zealand for investment opportunities;

- lead generation through researching and identifying potential investors; and

- case management, through assistance, facilitation of the conclusion of a deal, and maintenance of ongoing relationships.

The attraction and retention of domestic investment within New Zealand was another component of INZ's role.

This Review evaluates INZ's implementation of promotion and facilitation support, against the backdrop of this mandate.

3. INZs Government Arrangements

Governance Arrangements when INZ was established

INZ was initially set up as a business unit within Industry New Zealand, with a CEO reporting direct to the Board of Industry New Zealand. With the merger of Industry New Zealand and Trade New Zealand into New Zealand Trade and Enterprise (NZTE), INZ's CEO reported direct to the Board of NZTE, which, in turn, was ultimately responsible for INZ's performance.

INZ, however, also draws on other parts of NZTE - for back office support services, both onshore and offshore, in areas including finance, information technology, marketing and human resources – for which the CEO of NZTE is responsible. Annex B provides background on these arrangements.

Changes to INZ Governance

It is important to note up front that the original governance arrangements for INZ did not lead to any issues of conflict requiring intervention by the Board of NZTE. Nevertheless, the governance arrangements created ambiguity as to where responsibility lay between the CEOs of NZTE and INZ for key management/accountability issues. While it could be said that the CEO of INZ was accountable for the actions of INZ staff "on paper", the CEO of NZTE would probably be seen to be accountable from a "legal" perspective.

This ambiguity led to a level of discomfort amongst NZTE Board members. In addition, both the CEOs of NZTE and INZ considered the arrangements were not ideal – but the structure had not proved an impediment because the two CEOs agreed early on to work constructively together. The CEO of INZ considered the main advantage of a separate CEO for INZ was purely marketing-related (i.e. it opened doors at the highest-level within large global corporations where engagement is at CEO to CEO level). Both CEOs recognised that governance/structural issues were primarily the prerogative of the Board of NZTE and that the Board should address this issue in due course.

As an early harvest from this Review, the governance issue was discussed at the October 2003 NZTE Board meeting, where agreement was reached to move to a structure where the CEO of INZ reported to the Board of NZTE through the CEO of NZTE. The Board also recognised that for promotional purposes, it was important that INZ retain its own brand and CEO title. This decision was endorsed by relevant Ministers[3] in a letter to the Chairman of the Board in December 2003.

[3] Industry and Regional Development, Trade Negotiations, Finance, and Associate Minister of Foreign Affairs and Trade (Hon Pete Hodgson)

4. INZs Organisational Structure

INZ was established by combining staff from Trade New Zealand's Investment New Zealand team (eight) and staff from Industry New Zealand's Major Investment Service (MIS) (four: three in Wellington, one in Auckland). The Trade New Zealand component included one investment specialist based offshore (New York).

Annex C presents the current INZ organisational chart showing the distribution of staff by region, and sector specialisation. From a base of 12 at establishment, INZ's staff positions have increased to 34. The changes have occurred through:

- the appointment of a CEO (one);
- the creation of a research capacity (three new staff);
- increased support staff (three);
- additional sector specialists (Biotechnology (one), ICT (two)); and
- increased offshore representation (New York (four), Los Angeles (two), Singapore (three), Sydney (one), Melbourne (one) and London (one)).

The cost of the additional staff has been met from within baseline funding (an allowance for expansion was made within INZ's initial funding allocation). An important achievement has been the development of a single culture across INZ within a relatively short period of time.

Onshore Representation

INZ has continued the practice of locating staff in both centres, as has NZTE following its establishment. Auckland is important for many of the sectors that INZ target, particularly biotechnology, ICT, screen production and niche manufacturing. Auckland is also the base for more multinational enterprises than other New Zealand regions. A presence in Wellington remains important to facilitate access to the full range of national organisations that INZ collaborate with, to simplify access to government, and because it is still the location of a number of multinational enterprises. It was also important to maintain alignment, originally with Trade New Zealand and Industry New Zealand, where the majority of client service and regional development staff were based. This continues to be the case with NZTE.

INZ staff onshore are responsible for:

- identification of forms of government assistance and, where appropriate, help to access these;
- administration of the Strategic Investment Fund, which offers guarantees of assistance, cash grants, or part-funding of feasibility studies;

- facilitation - working to help reduce risks and address issues for parties on both sides of a project, and assisting to maintain negotiation momentum;

- introductions to New Zealand businesses and other potential strategic partners (e.g. universities); and

- research and marketing support – specifically identifying appropriate commercial opportunities in New Zealand and matching these with investors' interests and the latest offshore trends through the development of targeted investment pitches.

Offshore Representation

At the time of the merger INZ had one investment specialist based offshore – North America (New York). To generate a sufficient flow of genuine opportunities, INZ considered that representation was needed in each of the regions that were major sources of investment for New Zealand: North America, South East Asia, North Asia, Europe and Australia[4]. INZ representation has now been established in each of those regions, except for North Asia. (Annex D contains details.) Further changes are contingent on sufficient resourcing, and to this end INZ have prepared budget bids for satellite offices in North Asia (Hong Kong and Tokyo), as well as increased resources in the UK, and possibly Continental Europe (likely Germany).

INZ staff offshore, working with other members of the New Zealand government offshore network (see below), are responsible for:

- generic promotion, often arranged in conjunction with existing opportunities to promote New Zealand, for example the "Lord of the Rings" and "Whale Rider" films, or visits by New Zealand Ministers;

- identification of and contact with investors and management of ongoing relationships; and

- initial promotion of investment opportunities.

INZ's relationship with MFAT and other NZTE staff offshore

INZ works offshore with MFAT Posts and NZTE offices to identify, establish contact, and foster relationships with potential investors. The most highly developed network for New Zealand investment activity is in North America where there is an established Virtual Investment Team (see below) and a substantial agreed interagency work programme.

The North America example is broadly illustrative of the working arrangements followed offshore between the different agencies. In countries where INZ has staff on the ground, MFAT fills primarily a generic investment promotion role. But where INZ has no presence, MFAT staff can act also as lead generators.

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[4] Consistent with the "Attracting Intelligent Foreign Direct Investment" paper.

Operation of the North American Virtual Team

The Virtual Team (VT) is a collaboration of MFAT, INZ and NZTE staff involved in investment promotion. The Virtual Team meets physically every six months to coordinate planned corporate outreach activities and to discuss any issues (such as communication, resourcing and prioritisation) that may have been identified. In between times, progress is monitored through monthly conference calls (in which New Zealand based staff from MFAT, NZTE and INZ also participate) and on particular issues as required.

On the ground in the US, the Embassy in Washington and INZ approach companies in a symbiotic fashion. On occasion INZ will find it helpful to ride Ambassadorial coattails into meetings, opening doors that might otherwise remain closed. At other times, INZ will suggest senior US business people to meet as part of the Head of Mission's visit programmes and/or participate directly in those visits. Once contact has been established with a company at a senior level, issues that require detailed follow-up are referred to the appropriate New Zealand government agency, usually INZ onshore.

In a number of cases powerful investment results have been achieved when the INZ person, Trade Commissioner, and Head of Mission have worked in collaboration. However, at times, different New Zealand agencies will have different preoccupations offshore and, in these circumstances, it can sometimes be difficult to secure a "NZ Inc" approach to investment promotion.

Comments received from some MFAT Posts, as well as INZ and NZTE staff, also point to the need for a clearer understanding of the roles and responsibilities of the three agencies vis-à-vis investment promotion and facilitation. Work in this area is ongoing, including through the Global Review (see below) and as part of the Growth and Innovation Framework programme of work. Reflecting INZ's reorganised structure and focus, this Review recommends that INZ should continue to consult with other parts of NZTE, MFAT and other relevant agencies regarding the contributions they can collectively make offshore to "NZ Inc" investment efforts.

INZ's Future Organisational Structure

INZ consider that the configuration of its offshore representation is one of the biggest difficulties and a key management challenge going forward, the issue being whether to go "wide" or "deep". The current plan to expand INZ's network (i.e. Asia, Australia and Europe) might appear to aim to broaden the network. The real intention is, however, to establish a minimum "depth" (three to five people) in each of the three primary markets (i.e. North America, Asia and Europe[5]) augmented where appropriate by Lead Generators and Advisory

[5] INZ's presence in Australia is more of a defensive strategy. Australian firms typically do not need to be convinced of investment prospects in New Zealand, so the emphasis is on removing barriers to investment and making sure that investors are happy.

Boards. INZ believe that the payback will not be sufficient if the network is too thinly spread. The benefits of having both the trade and investment angles pushed within a single market means that it is becoming increasingly important for INZ to establish a broader presence than currently exists.

NZTE's Review of Globally Focused Activities

The question of the best configuration of INZ's offshore representation, and its broader organisational structure, is being considered as part of the ongoing NZTE Review of Globally Focused Activities (Global Review). In brief, the Global Review aims to assess what globally-focused activities NZTE should be involved in given the unique economic development challenges faced by New Zealand, to determine how those activities should be delivered, and assess where the priority global locations should be. The ultimate aim of the review is to ensure that NZTE's globally-focused activities are aligned to its objectives in relation to influencing higher levels of economic development for NZ.

That broader process notwithstanding, this Review supports sufficient resources being placed within the key investment regions for New Zealand of North America, South East Asia, Western Europe, Australia and North Asia. The virtual network that has been established for the North American market, the increased co-ordination of investment activity that has occurred as a result, and results to date (particularly the creative and niche manufacturing sectors) support this.

5. INZs Strategies, Services and Activities

This section of the report comments on:

- the strategy INZ have adopted to guide delivery of services and activities;
- how INZ's services and activities match up against its mandate;
- INZ's recorded performance against key performance indicators (KPIs) as set out in the INZ Purchase Agreement and Business Plan; and
- how INZ compares to two other IPAs (Australia and Ireland).

INZ Strategy

INZ have not produced a distinct strategy document. However, the INZ Business Plan establishes targets for focus sectors and regions to deliver on the key performance indicators set out in the INZ Purchase Agreement.

INZ's approach to sectors

INZ's approach has been to take the sectors of focus for NZTE as a whole, and identify which of those sectors have an investment dimension. The targets chosen were the three key industry sectors identified as priorities for growth in New Zealand's knowledge economy: Information and Communications Technology (ICT); Biotechnology; and Creative Industries (in particular the Screen Production Industry). INZ added Specialised Manufacturing (including Food Processing) and Wood Processing given the significant development opportunities that exist within those sectors. In practice, however, INZ retains flexibility to accommodate investment opportunities that do not align perfectly with the chosen sectors. Other IPAs that we have reviewed adopt a similar sector approach (see below).

INZ's approach to regions

INZ identify North America as New Zealand's most important target market for FDI in the future, followed by East Asia. Australia, New Zealand's largest source of FDI, is another key market, as is Western Europe, which INZ considers has much untapped potential for FDI. INZ's offshore representation has reflected the priority given to these markets. North Asia is also recognised as a priority, and INZ have sought funds through the upcoming Budget process to establish satellite offices in the region.

Gaps in the articulation of the INZ strategy

INZ's current Business Plan was written prior to the establishment of NZTE, limiting its evaluation. This aside, the Plan does not provide a clear sense of the broader strategic context within which INZ operates (how INZ's activities fit with other government activities, including those of the wider NZTE), where INZ intends to get to (and why); and how, specifically, it intends to get there.

The INZ Business Plan notes that an essential component of New Zealand's investment strategy will be attracting strong participation by international investors, both with direct investment and in support of emerging domestic businesses. Further, a broad range of investment[6] will be pursued to meet INZ's aim to increase the quality and quantity of sustainable FDI, and foreign investor participation, adding value to the New Zealand economy. It is unclear however how INZ have operationalised these objectives: how priorities have been set, resources allocated onshore, offshore and across different INZ activities (marketing and promotion, lead generation etc).

Future steps to address these issues

MED/MFAT, in consultation with INZ and other stakeholder agencies, have produced a high-level policy framework aimed at attracting more and better quality FDI to New Zealand. Subject to Ministerial endorsement, the policy framework would form the basis for delivery agencies to develop further their operational strategies. Given INZ's new status within NZTE, future NZTE strategy and business planning documents should also clearly articulate the strategy and contribution of INZ.

International comparison

The attraction, promotion and facilitation of FDI is a central component of economic development strategies in many countries. This Review compared INZ's approach with the IPAs of Ireland (Irish Development Agency) and Australia (Invest Australia), selected as examples of international best practice. Annex E briefly comments on IDA and Invest Australia's approaches.

In short, there are substantial similarities between the efforts made by INZ and its Irish and Australian counterparts in the area of investment promotion, attraction and facilitation. First and foremost, this is apparent in the high-level strategic approach underpinning efforts to attract higher levels of productive investment, as well as the allocation of resources in offshore networks, a sectoral focus, the process and criteria for approving incentives and the nature of these incentives. The motivation for targeting is that it offers the best growth potential and prospects for generating spillovers and long term sustainable employment. Building a national investment brand is also considered important.

INZ Activities and Services

Marketing New Zealand as an investment location

As set out in the Purchase Agreement, the delivery of this service entails researching and actively marketing the benefits of New Zealand as a location for FDI. INZ have articulated a "Value Proposition" that forms the basis of its

[6] greenfields investment; brownfields investment; venture capital; export industries; domestic investment; and infrastructure.

promotional activities. The value proposition draws on the specific advantages to international businesses that invest or locate in New Zealand. Separate documents, tailored to each of INZ's target sectors, have also been produced.

Foreign investors often seek detailed information from an IPA relevant to their particular needs - general information on the competitiveness of a country does not suffice. INZ has experienced some difficulty in obtaining the information required to effectively pitch investment propositions to investors. While some relevant information is held by government agencies, much of the information resides elsewhere and is not collected by government.

In identifying investment opportunities within different industries, INZ relies on other parts of NZTE (and prior to that Industry New Zealand). INZ are now working with NZTE and the network of economic development agencies to develop regional templates. The templates contain information on specific strengths within a region as well as details on any foreign investment already there. The intent is to build up a more detailed map of New Zealand capabilities and centres of concentration/excellence. This should assist in the international benchmarking of New Zealand from a national and regional perspective, as well as providing input to business cases.

INZ note that its current budget for generic marketing activities, including trade fairs, stands, advertising and conferences is limited because its operating budget has been used to fund increases in personnel and related costs (eg office accommodation, paid to NZTE, and travel) since establishment. INZ has, however, administered, on behalf of Tourism New Zealand, the Lord of the Rings promotional budget.

Lead generation

Lead generation involves researching and identifying potential investors to match the strategic priorities of INZ, NZTE and the needs of New Zealand companies, universities and research institutes. INZ staff offshore work closely with their NZTE and MFAT counterparts who can provide referrals and support in client meetings. In addition, INZ have contracted specific lead generators in North America and North Asia.

Case management

INZ's role is to act as a co-ordinator for whole of government engagement and support on major investment projects. Case managing major investments includes: acting as a single point of contact for the investor; providing assistance and research-based advice during the investigation/due diligence phase; mobilising the involvement of relevant private organisations and central/local government agencies; facilitating VIP visits to New Zealand by investment decision makers; and developing assistance packages for investors. To achieve this INZ has built, and continues to build, relationships within both the New Zealand public and private sector to try and meet the needs of international investors.

Retention and expansion of domestic investment

INZ's responsibility in the area of retention and expansion of domestic investment in New Zealand is somewhat ambiguous. In implementing its mandate INZ's judgement has been that returns are often better through the allocation of resources to attracting foreign investment. This seems appropriate. (The basis for this judgement is explored in more detail in detail in the parallel work by MED/MFAT, in conjunction with NZTE and the Treasury, to develop a high-level policy framework for foreign investment attraction[7].)

INZ acknowledge that they have had limited engagement with domestic investors. Domestic engagement to date has been when projects involve an investment amount in excess of US $5 million and/or has strong strategic significance. In addition, the broader NZTE also has a strong domestic investment role, for example through the Accelerator and Investment Ready programmes.

INZ's view is that it would be difficult to split cleanly the lines of responsibility for foreign and domestic investment between INZ and other parts of NZTE. While, ideally, it may be cleaner to formalise the split of foreign and domestic investment facilitation functions between INZ and other parts of NZTE, in reality it may make more sense to formalise INZ's existing practice. To do otherwise would require other parts of NZTE to replicate functions and networks that INZ have already developed. It is also expected that INZ would receive domestic investment leads through other parts of NZTE.

This approach has, however, not been made clear in INZ's publications, and could create confusion in the eyes of domestic firms as to where responsibilities for domestic investment lie. In practice INZ consider this has not been an issue. In such instances they have referred domestic firms to other parts of NZTE as the first point of contact.

Retention and expansion of existing foreign investment

INZ's mandate should be interpreted to include working with existing foreign investors onshore. INZ recognise this as an area in which there is substantial scope to do more, but considers this would require additional resources. To date INZ's efforts have included approaches to a number of multi-national

[7] To summarise here, domestic investors, as well as foreign investors that have already invested in New Zealand, are much more likely to be aware and take advantage of New Zealand investment opportunities than are new foreign investors. For domestic investors, efforts to promote and attract investment to New Zealand are usually neither needed nor relevant. Furthermore, since certain types of new FDI draw on a wider – and in many cases wiser - pool of knowledge, technology and skills than is available in New Zealand, the potential spillover benefits are likely to be greater than those associated with domestic investment. But when it comes to facilitating investments (e.g. using investment incentives and removing impediments to specific investments), there should be no a priori distinction between domestic and foreign investment. In practice, however, cost-benefit analysis to determine which projects to support will likely favour foreign investments because of the distinct capabilities which foreign investors possess.

enterprises with operations in New Zealand. INZ plans to build effort in this area. As noted above with respect to domestic investment, INZ should engage with existing foreign investors in New Zealand in line with the high-level policy framework that has been developed.

INZ Performance against the Purchase Agreement

INZ's Purchase Agreement with the Minister for Trade Negotiations established Key Performance Indicators (KPIs) for INZ with respect to jobs and FDI brought to New Zealand by investment projects INZ has assisted. These targets were revised upwards as part of the development of INZ's 2002/03 Business Plan. For the purpose of this review, INZ's performance will be considered against the revised targets: 1,150 jobs created; $230.5 million FDI brought into New Zealand.

Performance against KPI targets for the 2002/03 year

INZ have recorded performance against these targets in the following table:

INZ KPI Performance by Sector

Sector*	FDI (NZ$ million)		Jobs	
	Target	*Projected*	*Target*	*Projected*
ICT	4	**18**	200	**120**
Biotech	2.5	**0**	10	**0**
Creative	85	**144**	400	**1120**
Niche manufacturing	9	**96**	40	**270**
Wood processing	130	**196**	500	**411**
Other	0	**30**	0	**0**
TOTAL	$230.5 million	**$484 million**	1150 jobs	**1921 jobs**

**targets for each sector as set out in the INZ Business Plan.*

While there is a significant positive variance recorded for FDI attracted and jobs created, it should be noted that these figures represent "best estimates" of projected jobs and investment to be created from a project. Individual INZ clients prepare these estimates. Figures also represent the accumulated benefits that are expected over the life of the investment project rather than the benefits that are expected to accrue in the first year of operation.

INZ assisted investors through origination (promotion of specific investment opportunities to offshore clients), introduction (matching of offshore and onshore opportunities), and/or facilitation (assistance towards deal execution).

INZ considered each to have spillover benefits, and considered this part of the motivation set.

INZ KPI Projects – Forms of Assistance Provided

Note: **O – Origination, I – Introduction, F – Facilitation**

Sector	**INZ's role**			**Comments**
	O	*I*	*F*	
Creative			✓	Assisted foreign production company overcome barriers during pre-production and production periods.
Creative	✓	✓	✓	Worked on the original pitch, introduced foreign production company to New Zealand counterpart and assisted in overcoming barriers during pre-production and production periods.
Creative			✓	Assisted foreign production company overcome barriers during pre-production and production periods.
Creative	✓	✓	✓	Worked on the original pitch, introduced foreign production company to New Zealand counterpart and assisted in overcoming barriers during pre-production and production periods.
Niche Man.			✓	Assisted foreign company overcome barriers by co-ordinating the resolution of major client and new market access issues, and facilitating engagement with local authorities, which led to the provision of major funding.
Niche Man.	✓	✓		Leveraged off INZ's established relationship to promote New Zealand and identify appropriate investment opportunities.
Wood			✓	Worked with the company, in conjunction with NZTE, to develop an investment case that is now leading to significant investments. A grant was provided under SIF to ascertain the viability of the expansion which is now planned and underway.
Wood			✓	INZ has been assisting the company throughout its expansion planning process. The project is progressing with RMA consent recently obtained.
Wood			✓	INZ has provided assistance to the company in the form of SIF funding for a feasibility study that has helped them determine characteristics of the resource they have and which, in turn, will drive the nature of future investments now planned.
ICT	✓		✓	Identified opportunity to New Zealand subsidiary of multinational to be a part of their global distribution network. Granted $1.5 million under SIF towards business case.
Other	✓	✓		Identified and introduced foreign investors to Venture Investment Fund.

The role played by INZ has been verified through interviews conducted as part of this Review and formal feedback provided to INZ through "client signoff forms". One investor in particular noted that

"INZ were very helpful in exposing us not only to the core of our interests, but to companies in the same market or adjacent markets. We would not have known this without them…..They brought credibility and contacts we could not have brought alone".

Case study

The information presented above provides a flavour of the kind of activities INZ undertake in line with its mandate. Further useful insights can be provided through examination of case studies – one such case study is presented below:

> INZ supported the management of a New Zealand company in its efforts to attract the production from one of the two factories that its parent company was closing offshore. This resulted in 165 jobs, paying $45 – 55,000 pa, in its existing New Zealand-based factory and lead to additional multiplier benefits for the region within which the company operates
>
> INZ provided information on business conditions in New Zealand to enhance the business case being promoted by New Zealand management, as well as details of potential assistance from central government. More importantly it introduced WINZ to the company and the WINZ Regional Office undertook initial screening of the more than 700 applicants, a task that was beyond the capacity of the small New Zealand management team. INZ also introduced Skill NZ and identified the appropriate industry training organisations. Industry bodies were also persuaded to work together, a first, to provide a comprehensive training programme for the new recruits. INZ also facilitated the company's engagement with IRD on the timing of GST payments on the imported equipment and Customs on a number of duty issues.

Constraints on evaluation

The case study above reveals actual benefits that have accrued to New Zealand through INZ's work. However in the majority of cases, it is difficult to evaluate the information provided as it often records "expected" as opposed to "actual" investment and "gross" versus "net" impacts.

Looking more broadly, it is widely accepted that INZ needs to develop better performance measures, including for evaluating INZ's contribution to final investment decisions. INZ note that work is already being done around better metrics to address the shortcomings of existing measures based upon two principal outcome targets measured annually (total project spend as a proxy for FDI and number of jobs as a proxy for value-added). The main issues are:

- they measure gross investment rather than value-added;
- they are based on the 'quantity' rather than the 'quality' of the outcome;
- they focus on short rather than long-term impact; and
- they do not provide an accurate measure of how important was the role of INZ in promoting and facilitating an investment decision.

In deciding what new measures to include and over what timeframe, consideration needs to be given to reinvestment/new investment activity generated from existing deals. INZ, with its stakeholders, should also look into new methodologies to measure value added, including:

- the economic impact/spill-over effect of specific investments;
- the value of new jobs created, not just in money terms but also skills;
- cost benefit analysis of particular transactions; and
- other benefits to New Zealand such as access to new supply and distribution channels, and increasing the country's global connectedness through the creation/establishment of new linkages/networks.

This Review recommends that, as part of a broader initiative to improve NZTE performance measurement and reporting, officials from MED and MFAT work with NZTE (including INZ) to develop an improved approach to performance measurement for INZ that reflects:

- INZ's degree of involvement in attracting investment;
- actual against expected outcomes from investment activities assisted by INZ; and
- short and long term impacts of investment activity assisted by INZ, including both direct economic impacts and spill-over effects.

6. Strategic Investment Fund and Visiting Investor Programme

The Strategic Investment Fund (SIF) and Visiting Investor Programme (VIP) are two distinct programmes of investor support delivered by INZ. Reflecting Cabinet's interest, the Review looked in some detail at the SIF. It also touched lightly on the Visiting Investor Programme.

Strategic Investment Fund (SIF)

SIF goals

Three types of assistance are available under the SIF: feasibility study grants, guarantees of funding for the implementation of significant projects, and cash grants. INZ uses the SIF programme to develop links between prospective major investors and major investment opportunities in New Zealand, as well as support New Zealand businesses to develop and manage strategic investment proposals. In meeting these objectives, the SIF aims to:

- provide a firm signal of commitment from the New Zealand Government that the investor is welcome in New Zealand;
- provide INZ with a "seat at the table" to ensure that the investor's needs are met and that any unreasonable impediments to investing are identified and addressed; and
- better enable New Zealand to benefit from investment by granting incentives to investment activities that generate significant economic benefits, particularly spillover benefits.

Background on the SIF is provided in Annex F.

SIF funding

Funding for the SIF budget is currently set around $4 million per annum. INZ decides how the funding is split across the three types of SIF assistance. INZ would like to see this arrangement continue, as they see value in maintaining flexibility to use the Fund in a way that best suits the projects INZ are involved in. From past experience, INZ have used the Fund as follows:

- 15-16 feasibility studies p.a. costing up to $100,000 each; and
- four to five grants or underwrites with an average value of $500,000.

In the 2002/03 year, the Fund was fully allocated, however, around $1.5 million of this remains unspent as not all guarantees and grants were called upon.

SIF criteria

Cabinet approved the following criteria for awarding SIF grants and underwrites:

1. investment projects involving net new investment of at least $50 million over five years, and/or able to create 200 new jobs over five years;

2. would not occur in New Zealand without support from the Fund;

3. would complement New Zealand's areas of competitive advantage;

4. has no negative competitive consequences domestically; and

5. would involve a high level of clear spillover benefits.

INZ have interpreted these criteria as follows (numbers correspond to above):

1. INZ note that it is often difficult to estimate the actual number of jobs created from a particular investment project. This is especially the case for intangible investment, such as investment to commercialise a new product. In such cases, to assess the potential number of jobs to be created by an investment project, INZ would look at similar overseas cases.

2. INZ consider this criterion is important in the context of feasibility studies. When INZ are trying to "entice" an overseas company to consider New Zealand as an option, INZ's experience suggests that the grant helps reduce the company's perceived risk of investigating a new environment. However, INZ consider this criterion is difficult to test against. In making a judgement, INZ look at whether the investment is right for New Zealand, in terms of its fit with wider government policies.

3. INZ interpret this as asking whether the proposed investment matches New Zealand's capabilities. INZ determines this by using sector people in the area, those who deal with the company concerned, and research undertaken in-house.

4. INZ interpret this as being not in direct competition with a New Zealand company, or as investment in a process that is currently not undertaken in New Zealand, for example a new niche market.

5. In making this assessment, INZ undertake, internally, a qualitative assessment, including from a public policy perspective, based on information provided by the company concerned. INZ note that Treasury, MED and MFAT opinions provide rigour for guarantee and grant decisions. However, MED and Treasury note INZ usually do not allow enough time for robust analysis to be undertaken. Further, that more information would need to be provided, as well as relevant sectoral expertise sourced to undertake a proper analysis of potential investment projects.

In addition, INZ notes that a SIF application may proceed even if one of the criteria ((2) to (5) above) is not met. INZ also note that even though the criteria are identical for each type of assistance, for feasibility studies it is more difficult to determine the probability of the targeted outcome. For feasibility studies, INZ will assume that an investment project will progress to the next stage.

If potential investments do not meet the above SIF criteria, INZ will look to help investors make contact with other organisations that may be able to help eg NZTE, regional economic development agencies, or other government agencies.

Practical operation of the SIF

In all investment cases INZ will establish the credibility and reputation of potential applicants. This is done in a number of ways, including via public information, a Standard and Poors credit check, and NZTE's offshore network. This is done as a matter of course to protect the credibility of the SIF.

When assistance under the SIF is approved the investor will enter into a contract with INZ that sets out, amongst other things, milestones that need to be met for the investor to continue to receive assistance. If a particular milestone is not met, any monies provided earlier do not have to be repaid.

The SIF is used to support INZ's engagement in projects that have the potential to make a substantial contribution to the growth of investment in targeted sectors. INZ (in line with NZTE) has FDI and job creation objectives for targeted sectors. However, INZ will consider applications beyond the targeted sectors, if they judge there are good reasons for doing so.

INZ note that the form of assistance offered to any one investor is case specific. Guarantees, for example, have their limitations, as some projects will not require or not be eligible for other forms of government assistance. Guarantees can however be useful in demonstrating to the investor that New Zealand recognises and welcomes FDI, and funding is not required up front, and would only be called upon if other forms of government assistance were subsequently declined. This has not been the case to date. For any form of funding under the SIF, payments will only be made if called upon by the investor. To date only about one in three SIF approvals have required disbursement.

INZ focus on providing support for early stage/facilitation projects that they believe will provide the greatest commitment. Leveraging value and further investment from existing relationships is also important.

SIF Approval process

Annex F outlines the relevant approval processes for feasibility studies, guarantees of funding, and cash grants. Of note, Ministerial approval is required for the latter two forms of SIF assistance (see below).

INZ's monitoring of the SIF

Monitoring is dependent on individual timings and circumstances. For feasibility studies, targeted outcomes are set eg production of a detailed business plan. Payments are usually made in three to four instalments (not linked to any milestones). For guarantees, disbursement is dependent on whether other government programme funding is drawn on and to what level. In the case of grants, payments are made against milestones achieved. The CEO/Auditors of the company concerned are required to certify that the milestones are correct.

Occasionally requests are made for changes in the timing of milestone delivery but such concessions would only rarely be granted, particularly if such a request is due only to a change in market conditions affecting the investment. If there is a genuine case for a change in milestones, the application will need to be resubmitted and reassessed.

Evaluation of INZ's Implementation of the SIF

INZ analysis and quality of SIF proposals

In approving the criteria and objectives for the SIF, Cabinet indicated that investment proposals would need to clearly identify and quantify direct and indirect:

- *benefits* in terms of financial injections, tax revenue, foreign exchange earnings, financial injections, tax revenue, foreign exchange earnings, employment, capital stock, skills, technologies, access to markets; and

- *costs* such as programme expenditure, crowding out of private sector activity, displacement effects, input prices, skills availability, environmental pollution, and strategies for mitigating risks and costs.

In terms of project proposals submitted to date, it is not evident that the ex-ante evaluation undertaken by INZ, particularly in terms of the assessment of externalities associated with a project meets the level of detailed analysis originally anticipated by Cabinet. Given the level of public funds dedicated to the SIF, we would expect to see more robust analysis being undertaken by INZ in support of proposals. As a general rule, we would also expect to see the level of analysis increase in proportion to the size of the investment project. For proposals to offer SIF assistance worth more than $1 million, INZ should consider seeking independent expert advice on the costs and benefits of the proposed investment, particularly the spillover benefits.

SIF administration

The key to the success of the SIF programme lies in the quality of decision-making. Importantly, decision-makers must not only have a feel for the commercial realities of the investment but also for the means by which New Zealand can benefit. The SIF should be seen as an instrument to align the commercial motives of investors with the wider public interest.

Officials' preferred model for SIF administration is to transfer the decision-making authority for SIF underwrites and cash grants to the Board of NZTE.[8] The NZTE Board not only has direct accountability for the activities of INZ but

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[8] It is anticipated that the Board will be able to consider urgent investment proposals outside of formal board meetings where necessary.

also embodies the mix of commercial and economic skill-sets required for high-quality decisions. This model also offers the benefit of eliminating any perception of political interference in individual decisions. Should the decision-making authority for SIF grants and underwrites be transferred to the Board of NZTE, INZ consider that key policy agencies (i.e. MED, MFAT and Treasury) should continue to provide second-opinion advice on the consistency of proposals with policy and international rules. Ministers should also be advised of decisions in advance of public announcements to avoid surprises.

Should Ministers decide to retain decision-making in respect of SIF applications, it is proposed that a protocol be developed that sets out minimum standards and requirements for proposals and the process to be followed for departmental consultation.

Regardless of where decision-making authority lies, there is a clear sense that INZ has not allowed sufficient time for central government agencies to fully evaluate investment proposals. This suggests that another look at the balance between timely decision making and considered policy input is warranted.

SIF Criteria

Separate to this review process, policy agencies and INZ are currently working on sharpening the wording of and assessment against the SIF criteria. This work will be recommending some changes to the process of assessment of incentive applications.

SIF Outcomes

As part of this review process, projects previously assisted under the SIF were followed up to identify what "actual" benefits in terms of job and investment creation have occurred to date. This was undertaken for both the 2001/02 and 2002/03 years. The 2001/02 year was included even though it falls outside the scope of the review period (prior to the establishment of INZ), because many of the benefits flowing from projects assisted in that year were only realised in the 2002/03 year. It is also useful to compare the activity of INZ in the two years, i.e. before and after establishment.

In many ways it is too early to tell what real impact INZ has had as most of the projects assisted by INZ have not yet progressed far enough along to result in significant job creation or investment. This is not to say that there have not been successes to date. A number of INZ interventions have all provided reasonable pay-offs in terms of the jobs and investment creation. There are many other cases that look hopeful of producing direct benefits for New Zealand, and these are currently being followed through by INZ in conjunction with the relevant agencies and the investors directly. An open question remains, however, about how important the assistance provided by INZ was to securing an investment decision, and consequently, the extent to which benefits flowing from a particular project should be attributed to the work of INZ. Feedback provided from clients would suggest that in many cases INZ assistance was a contributing factor to the investment decision.

It should also be noted that it would not always hold true that investment decisions will be made on whether or not New Zealand stacks up as a good business case. International conditions may also turn against a potential investment.

Visiting Investor Programme (VIP)

VIP goals

The Visiting Investor Programme has its origins in the Trade New Zealand "Special Investment Project" (SIP) 'red carpet' visitors' programme. The visitors' programme was part of a package of trade and investment initiatives launched by the then government in October 1998, intended to boost New Zealand's investment profile by taking advantage of a convergence of events at the time eg the Americas Cup, APEC, Millennium Events. The intent of the SIP visitors' programme was to profile New Zealand as a competitive destination for new investment, and to introduce selected guests – targeted at the highest possible level ie CEO or equivalent - to "pre-qualified" business opportunities, business networks and New Zealand's investment climate. On the face of it, the intent behind INZ's VIP programme is largely unchanged from the SIP visitors' programme. The VIP programme is applied either to "get the ball rolling" or at the point of "closing the deal". It is used to cover costs such as international airfares (usually one business class fare), domestic transport, food, accommodation and activities[9]. Annex H contains further information on the VIP.

VIP funding

Unlike the SIF, the VIP is funded directly from INZ's operating budget. Expenses incurred under the VIP therefore represent a commitment of INZ's budget that could have been allocated to other purposes. The costs incurred can vary widely from domestic-only costs through to the complete package, which is in the $20-25,000 range. Assistance under the VIP does not preclude other forms of INZ assistance.

VIP criteria

INZ aims to invite only top decision-makers that represent companies from strategic sectors with the capacity to invest, as well as having access to international networks. Occasionally, INZ may host key influencers who are not direct investors but have strategically valuable networks INZ can leverage.

VIP approval process

All visits under the VIP will be part of a comprehensive client promotion programme agreed by the relevant onshore and offshore Investment Managers and approved by the Director New Zealand of INZ. The internal process and principles for nominating/proposing visits under the VIP were notified to INZ

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[9] The only explicit expense not covered is the cost on international telecommunications.

Investment Managers in August 2003. A VIP expenditure request form should be completed and submitted to the Director New Zealand for approval, before an invitation is issued. Information required through this process includes: company background; investment interest in New Zealand; proposed programme; investment interests or intentions; type of investment (eg greenfields, joint venture etc); likely timeframe; financial capacity; spillover benefits to New Zealand; and an NZTE/INZ assessment.

VIP Evaluation

Assessing the outcomes of the VIP is problematic. It is not always possible to link the success of the programme - that is being used in many instances as a "constituency building" effort - to whether a potential investor goes on to make an investment, particularly as the VIP may be only one step in a long process. There are many other factors at play, in particular, the effectiveness of industry "partners" once VIP candidates have visited New Zealand, and the result of any feasibility work undertaken by the potential investor. Results can also take a long time to materialise.

It is, however, possible to make some preliminary observations about the programme and subsequent investment outcomes. Annex I contains information from INZ that summarises outcomes from VIP supported visits in the 2001/02 and 2002/03 financial years.

Of the 19 visits supported in 2001/02, only one visit has had realisable success to date. The visit resulted in a New Zealand company obtaining access to a US distribution system that has allowed the company to significantly expand its operations. Of the 18 remaining visits, possible investment opportunities are being pursued in 12 instances.

28 visits were supported in 2002/03. Subsequently, two visiting companies have invested to date. From the remaining 26 visits, 15 cases look likely to proceed further.

A follow up survey of clients assisted under the VIP process will be incorporated in the full efficiency and effectiveness review of INZ scheduled for 2006.

7. INZs Linkages with Key Stakeholders and Clients

It is essential that the private sector, public sector and local government "buy into" New Zealand's investment objectives and have an ownership role. The linkages that INZ develops will have an important bearing on its overall success, as it is dependent on the relationships it has for:

- development of investor leads (particularly through MFAT and NZTE);

- having a complete picture of the investment opportunities that exist for potential investors (business organisations, industry groups and NZTE);

- ensuring cooperation from the relevant agencies to overcome potential barriers to investment (local and central government);

- support for future work envisaged by INZ that will require additional resource allocation or significant collaboration from relevant players; and

- ensuring that potential investors do not receive a diluted, confused or conflicting message to that provided by INZ.

NZTE

It is important that INZ maintains a close working relationship with the rest of NZTE. As a specialist unit of NZTE, INZ's work should dovetail with the wider set of economic development activities undertaken by the broader NZTE. The INZ Business Plan provides a useful framework to assess the existing linkages with other parts of NZTE, as it sets out the areas for which INZ rely on other parts of NZTE and vice versa to achieve both mutual and individual goals.

Excerpt from INZ Business Plan 2003/04
As is the case now, INZ will aim to operate as one effective "virtual team" looking to NZTE to provide
• Strategic framework and industry expertise for investment attraction & promotion. • Introduction into substantial networks, both onshore and offshore, in all of the industry sectors being actively targeted. • Identification of industry gaps as the basis for proactive investment attraction. • Sector expertise as a contribution to investment proposal support. • Collectively we will work together to promote New Zealand's profile in targeted offshore markets. • Introductions to prospective clients, both prospective offshore investors and New Zealand companies ready and requiring international investors.
INZ will also seek to collaborate on research projects, whilst at the same time leverage off NZTE's international networks, and promotional events and activities. This model will ensure

that as a team INZ and NZTE will always be in a position to fit individuals with most appropriate skill sets & relationships to engage with our collective clients. For its part, INZ will take on the “project co-ordination” role taking on the sole responsibility for coordinating investment attraction/promotion activities providing:
• Market intelligence, including investment flows and rationale, to Sector Specialists. • Commercial advice and expertise for all major projects that NZTE has engagement in, including developing regional networks and delivery partners. • Access to all clients at the most senior level possible, both onshore and offshore

How INZ’s relationship with NZTE works in practice

At present, due to the different merger timetables, both INZ and NZTE as a whole have developed their own strategic/business plans. However, the two plans are broadly consistent, and both have been involved in the preparation of each other’s plans. Nevertheless, NZTE and INZ have expressed the view that separate strategy/planning documents make little sense and that, ideally, INZ’s strategy should be incorporated as a subset of NZTE’s strategic plan – a judgement that this Review agrees with. The process for achieving this is currently being established.

INZ is heavily committed to implementing the NZTE Sector/Category Management approach and has a representative on each of the sector groups. NZTE feel that INZ contribute usefully to NZTE’s sector work and that a good exchange of information takes place. With respect to sectoral alignment, INZ’s approach is to take the strategic sectors identified by NZTE, and focus on those sectors with an investment dimension. In practice, there is some flexibility to accommodate investments that don’t align perfectly with the chosen sectors.

Both INZ and NZTE as a whole seek to share networks and market intelligence. This is particularly the case in-country where the two work to reinforce each other’s networks. INZ and NZTE recognise that trade and investment are in many cases inextricably linked.

Offshore, INZ recognise the value of a “NZ Inc” approach and rely on the NZTE offshore network, particularly in the regions where INZ does not have a presence for investor referrals. The relationship, to date, has worked well as interests of INZ and NZTE have been closely aligned. Under the previous arrangement, INZ negotiated a Memorandum of Understanding with Trade New Zealand to ensure cooperation. A similar arrangement is currently being worked through with NZTE. Onshore, promotion seems to work equally well as demonstrated by the collaboration between INZ and NZTE on promotion of the Lord of the Rings Wellington Premiere.

Other Stakeholders

The INZ Business Plan (see below) also provides a useful framework to assess the existing linkages that have developed with other stakeholder agencies, both public and private. The Business Plan sets out the particular areas that INZ rely on for cooperation and collaboration.

Linkages with public stakeholders

A number of government stakeholder organisations were consulted on their relationship with INZ, including, MFAT, MED, Treasury, Ministry of Social Development, Tourism New Zealand, the Department of Prime Minister and Cabinet, the New Zealand Immigration Service (NZIS), Foundation for Research, Science and Technology, Te Puni Kokiri and the Overseas Investment Commission. Annex J draws together the comments received.

Excerpt from INZ Business Plan 2003/04

INZ relies heavily on maintaining engagement networks with other agencies and associations, including, but not limited to:

- onshore for the purposes of researching and promoting, VIP feasibility and evaluation, seeking investors and partners, and execution and delivery:
  - NZTE
  - MED, Tourism NZ and the NZ Immigration Service (NZIS)
  - WINZ and Skill NZ
  - Regional Economic Development Agencies
- Offshore for the purposes of researching and promoting, originating, finding and referring investors, and matching – hunting for specific fit for NZ companies
  - NZTE
  - MFAT, Tourism NZ and NZIS
  - Virtual teams
  - Kiwi Expats Association (KEA)
  - In-market Advisory Boards
  - In-market lead generators

Key public stakeholders for INZ, including MED, MFAT, NZIS, Tourism New Zealand and MSD, gave, overall, positive feedback on the degree of cooperation with INZ. While most agencies seemed satisfied with their interaction with INZ, there was a clear sense that more could be done. Potential areas identified for further collaboration include:

- better information sharing on potential investment opportunities; and

- more timely “heads up” on potential investment projects where assistance would be required.

A number of agencies also noted that they were unaware of the overall strategy that was driving INZ’s activities. In addition, very few agencies appear to have been consulted over the development of INZ’s Business Plan. Of those agencies that were consulted, the time available to make substantive input was limited. This has not been the case, however, with the development of INZ’s offshore strategy. Notably, consultation with relevant agencies on the offshore strategy appears to have improved in the areas where INZ has a regional position. Many public stakeholders also commented that they were yet to see any formal documentation of INZ’s achievements or results, limiting the base upon which judgements on INZ’s performance can be made.

Linkages with private stakeholders

INZ has developed close relationships with some private stakeholders, including Economic Development Association of New Zealand (EDANZ) and local Economic Development Agencies (EDAs), and industry associations. Feedback from industry associations and business groups did however identify some gaps in INZ's networks. And business groups consulted as part of this Review noted that INZ's profile within the New Zealand business community was currently low.

Coupled with INZ's not formally documenting its achievements or results, the lack of awareness in the New Zealand business community of INZ's activities has created a degree of scepticism about what INZ has been able to achieve to date. There is a clear need for NZTE to articulate the role of INZ as part of its awareness raising activities.

Feedback from clients

INZ obtain an independent, annual customer satisfaction survey (from NFO New Zealand). Results from the period 1 July to 31 December 2002 indicate an overall customer satisfaction of 83 percent (based on a representative group of 10 clients).

The following was a typical response to the survey:

> *"My general observations are that INZ are very focused and responsive. I've been very impressed on how they continue to follow up on our projects and how they continue to show interest in how they can help. They seem to have quite a number of ways in terms of how they can assist and they have been proactive in suggesting these. I appreciate their ability to reach inside the countries where we are working and offer representation there in addition to the obvious assistance through funding."*

Out of 10 respondents to the NFO survey, only two negative remarks were made. One, in particular, appears to be influenced by timing, made shortly after INZ was established.

> *"They (INZ) need to get their restructure complete and be able to communicate their reporting structure and the point of reference or contact and the roles people play."*

> *"They (INZ) should perhaps target their customers more and therefore give assistance which is perhaps more specific rather than providing blanket coverage."*

As part of this Review a number of interviews were conducted with former and existing INZ clients that were not part of the NFO survey. Again, feedback was overwhelmingly positive, particularly in relation to the facilitation work undertaken by INZ, and staff professionalism/attitude.

> *"INZ is a supporter, a business partner, a meeting facilitator and network builder providing a suite of connections at the highest and most-trusted levels".*

“INZ provides a very important and mission-critical service….New Zealand companies need greater connections with individuals within key target companies. This, in turn, requires individual attention. INZ provide such connection points”.

“We have not found any deficiency of knowledge, expertise, business acumen or facilitation skills with any INZ staff we have worked with. Furthermore we have been impressed with their 'can-do' attitude and practical input into building and maintaining our international investment, researcher and commercial base. Their discretion should also be complimented - particularly in working with high-value individuals coming to New Zealand”.

Some criticism was, however, received around INZ’s customer targeting. One research company noted that they had hosted many delegations arranged by INZ in the past, but that these were not always well targeted to the investor. In addition, from two of the sectors INZ targets, comments were made about recent announcements of assistance, noting concern amongst industry players about a lack of transparency as to why particular ventures were targeted over others. This suggests that there is a role for INZ to play in better communicating with industry where its priorities lie. However, there is an inherent difficulty here, as mentioned earlier, as even most industry associations are not fully representative of their sector. It is not always clear then whether INZ is hearing from or reaching the whole industry through its messages.

Some respondents also noted that more structured reporting should be implemented. This would be useful for INZ to follow up on to ensure that expectations of assistance provided are realistic, and that there is a shared understanding between the client and INZ about respective responsibilities.

8. Key Findings and Recommendations

The key findings from this Review are:

- Overall the implementation of INZ has been successful, and INZ has worked in line with its mandate from government and in a manner consistent with international best practice.

- INZ has undergone a fundamental reorganisation and, as would be expected with any organisation at a similar stage, there is room for further development.

- To clarify overall responsibility for INZ performance at CEO level, the NZTE Board has, in December 2003, revised the reporting structure of INZ so that the CEO of INZ reports to the Board through the CEO of NZTE, with INZ retaining its own brand and CEO for promotional purposes.

- It is too early to tell what real economic impact INZ is having, but there are early indications of success in terms of headline measures of job and investment creation, and feedback from some clients suggests that INZ assistance was an important contributing factor in some investment decisions.

- INZ's performance measures do not provide a sound framework to measure the performance of INZ and that officials from MED and MFAT are working with NZTE (including INZ) to develop an improved approach to performance measurement for INZ.

- The key recommendations from this Review are that:

- FDI attraction should continue to be the primary focus for INZ, but that INZ should also facilitate domestic investment projects of strategic importance, in line with the high-level policy framework for attracting high-quality FDI.

- Future NZTE documents should clearly articulate the strategy and contribution of INZ.

- INZ should continue to consult with other parts of NZTE, MFAT and other relevant agencies regarding the contributions they can collectively make offshore to "NZ Inc" investment efforts[11].

- Officials from MED and MFAT, in consultation with NZTE (INZ), work together to develop guidelines on the preparation of SIF proposals and criteria

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[11] Consideration is being given to how Investment NZ work will be integrated into NZTE activities offshore and onshore as part of the broader NZTE Review of Globally-Focussed Activities.

for deciding when independent expert advice on the costs and benefits of an investment proposal is appropriate.

- SIF is the only grant programme administered by NZTE where responsibility for awarding grants rests primarily with Ministers and that officials' preferred model for SIF administration is to transfer the decision-making authority for SIF underwrites and cash grants to the Board of NZTE. Should authority be transferred, key policy agencies would continue to provide second-opinion advice on the consistency of the proposals with policy and international rules, and Ministers would be advised of decisions in advance of public announcements. Should Ministers decide to retain decision-making in respect of SIF applications, it is proposed that a protocol be developed that sets out minimum standards and requirements for proposals and the process to be followed for departmental consultation.

Annex A: Background and Rationale for Establishing INZ

Investment promotion and facilitation prior to the establishment of INZ

The role of the Ministry of Foreign Affairs and Trade

Broadly, MFAT, through the work of its overseas Posts, has acted as a shop window for showcasing New Zealand as an attractive destination for investment. MFAT has also built an "investment constituency" via active engagement with companies and individuals in other countries, including through the use of speeches, seminars and targeted visits. MFAT Heads of Mission are accountable for all New Zealand government activities in countries of accreditation, and as such work together with other NZ agencies offshore to build a "NZ Inc" approach, including to investment work.

From 1993 to 1996 MFAT operated an Investment Relations Unit, whose policy advisory role was backed up through the appointment of a number of Investment Counsellors. These positions were located in key countries targeted by the government as likely sources for future investment (Singapore, Tokyo and Los Angeles). Investment Counsellors were tasked to promote New Zealand as an attractive investment location, while disseminating information about economic and political conditions in New Zealand that made for favourable inward investment. To facilitate this, MFAT produced a generic investment publication, in English and a number of other languages, entitled "Invest in New Zealand – the Right Choice". This complemented Trade New Zealand's CD ROM "Discover New Zealand – a unique business location", investment website, and other ad hoc Trade New Zealand publications.

The role of Trade New Zealand

In 1991 Trade New Zealand received a Cabinet mandate to establish an investment attraction team. The team had a staff of two from 1991 to 1994; expanded to three/four from 1995 to 1999. In the 2000 Budget, Trade New Zealand was given an expanded mandate to promote and facilitate international investment and business location into New Zealand, picking up the role that MFAT's Investment Counsellors had previously filled.

Trade New Zealand was tasked with actively identifying, targeting and promoting investment and business location opportunities as well as facilitating decisions by offshore corporates to locate and expand in New Zealand. These services were primarily aimed at attracting offshore companies to set up in New Zealand. In terms of strategic investment opportunities, Trade New Zealand was responsible for international investment in relation to:

- promoting New Zealand as an internationally attractive investment and business location environment;

- approaching offshore investors and international businesses through its network of investment specialists, offshore offices and domestic account managers;

- facilitating investigation visits to New Zealand by international investment decisions-makers, including international companies with an existing presence in New Zealand;

- co-ordinating government representational services offshore to establish and foster relationships with targeted offshore investors and international businesses; and

- contributing to and participating in negotiation and proposal development with any offshore investment decision-makers.

Trade New Zealand operated the Special Investment Project (launched in October 1998, this was the precursor to INZ's current Visiting Investor Programme), which aimed, through part or whole funded visits, to profile New Zealand as a competitive destination for new investment to key decision makers.

The establishment of Industry New Zealand

- In June 2000 Cabinet agreed on a number of industry development initiatives for delivery by the new Industry New Zealand. These included:

1. A Major Investment Service (MIS) (later renamed Strategic Investment Service) to identify and promote major New Zealand based investment opportunities, complementing Trade New Zealand's efforts to attract offshore investment into New Zealand, by:

    - partnering with Trade New Zealand to identify investment opportunities in New Zealand;

    - facilitating the development of links between prospective investors and commercial opportunities in New Zealand (complementing private sector activity);

    - reducing the transaction costs, of New Zealand firms undertaking significant investment decisions, in sourcing government information and dealing with government processes;

    - partnering with Trade New Zealand to facilitate both access by New Zealand and international investors to government programmes and compliance with regulatory requirements;

    - facilitating access for New Zealand businesses to services that will help them to become investment capable and provide advice on making significant investment decisions;

    - partnering with Trade New Zealand to promote New Zealand as a good place to invest in and do business; and

- promoting investment opportunities in New Zealand amongst New Zealand businesses.

2. A Major Investment Fund (MIF) (later renamed Strategic Investment Fund) established to support major investment projects to be undertaken in New Zealand by either New Zealand or overseas investors. For significant investment opportunities, the MIF made available:

   - grants for pre-feasibility and feasibility studies;

   - guarantees of funding for significant implementation costs; and

   - top-up funding to meet significant implementation costs.

Prior to the establishment of the MIF, there was no direct funding available to offer as an "incentive" to attract investment decisions to New Zealand.

The MIF formalised the process of providing government assistance to facilitate major investment projects. The MIF started up with $3 million of available funding, and was established on a model similar to what was then operating in Australia.

Factors leading to the establishment of INZ

In December 2000 Ministers agreed that the current delineation of responsibility for facilitating major investment between Trade New Zealand (international investment) and Industry New Zealand (domestic investment and management of government funding) was likely to create confusion about the goals and direction of New Zealand's investment facilitation efforts. The delineation was also likely to confuse potential clients about who they should deal with, reduce the efficiency of service delivery, and undermine the Investment New Zealand brand developed by Trade New Zealand. Agreement was given, in principle, to integrate Trade New Zealand's Investment New Zealand team and Industry New Zealand's MIS and MIF into a unified operation, no later than 1 July 2001.

Some anticipated benefits of the proposed merger were:

- greater clarity of identity and purpose, and consistency in approach;

- clear accountability for the performance of the government's investment facilitation services;

- "seamless" case management;

- more efficient service delivery;

- reinforcement of the Investment New Zealand brand developed by Trade New Zealand;

- greater scale in operations, thereby improving the capacity to allocate resources flexibly, and to offer a career structure which could attract and retain high calibre investment specialists;

- better capture of the learning benefits derived from ongoing interactions with investors, from pre-investment engagement through to post-investment support; and

- more effective assessment and evaluation of investment facilitation services, and data on clients, including whether the investment needs of Maori, Pacific peoples and women were being met.

In April 2001 Cabinet further considered the integration proposal but deferred a decision on the various options for integration. In May 2001 the Boston Consulting Group (BCG) was commissioned to undertake a strategic review of New Zealand's foreign direct investment (FDI) potential. The BCG report "Building the Future" identified the need for an integrated and focused economic development strategy, and proposed that a targeted FDI strategy and an Investment Promotion Agency (IPA) would be crucial components of its implementation. BCG noted that New Zealand's existing strengths as an investment location were not well known to potential investors. New Zealand's existing advantages could be promoted to much greater effect in the international investment community, through the IPA itself, and through the activities of overseas representatives of both MFAT and Trade New Zealand, utilising the core values of the Brand New Zealand initiative.

BCG recommended that the new IPA be established as a Crown entity by integrating the current investment promotion activities of Industry New Zealand and Trade New Zealand under the Investment New Zealand brand, and be significantly upgraded, upskilled and resourced.

Cabinet responded to the BCG report by agreeing to establish a new IPA that combined the Investment New Zealand function of Trade New Zealand and the MIF functions of Industry New Zealand. The IPA was, however, not set up as a Crown entity but as a separate business unit within Industry New Zealand, with its own CEO reporting direct to the Board of Industry New Zealand, but retaining the Investment New Zealand brand.

Following Cabinet's agreement to establish INZ, and at the same time, as part of the Budget process in 2002, a number of changes were made to the design and criteria of the Major Investment Fund. In making this decision, Cabinet noted that: "the strategy underpinning the Strategic Investment proposal is to attract more domestic and foreign direct investment to high growth and value-adding sectors" (CAB Min (02) 12/8 (49)). Cabinet asked the Industry New Zealand Board to report back to Ministers by the end of May 2002 on the detailed plan to establish the IPA and by December 2002 with the business plan for the IPA.

On 10 June 2002, the Industry New Zealand Board reported to Ministers on the detailed plan to establish the IPA. The focus of the IPA would be on increasing both the quantity and quality of investment through:

- greenfields investment - new investment from new parties;

- brownfields investment - new investment from existing companies and non-residents;

- venture capital - continuing to leverage the Venture Investment Fund and other venture capital related investments;

- export industries - investment offering a channel for growth beyond the domestic market;

- domestic investment - investment for the expansion of domestic industries; and

- infrastructure - investment in infrastructure that will overcome a barrier for other investments.

The report noted that, in part, there was also a focus on retaining investment in New Zealand and thereby avoiding disinvestment. Ministers agreed with the broad approach.

These earlier decisions were reconfirmed in April 2003, as part of the suite of papers establishing NZTE. Cabinet agreed that NZTE would include investment promotion and facilitation through INZ (EDC Min (03) 7/3.2). INZ's role was described (EDC (03) 53) as:

- promoting the benefits of investing in New Zealand;

- facilitating links between prospective investors and major New Zealand investment opportunities;

- supporting New Zealand businesses to develop and manage strategic investment proposals; and

- providing strategic investment funding to assist companies to assess and plan for New Zealand investment opportunities.

INZ should also have due regard for the government's broader economic development strategy, the basis for which is provided by the Growth and Innovation Framework and NZTE's Statement of Intent.

INZ 2002/03 Purchase Agreement

A further indication of the government's intent for the IPA is set out in the INZ Purchase Agreement, signed in July 2002 between the Minister for Trade Negotiations and Industry New Zealand. The Minister would purchase from INZ, through the Industry NZ Board:

> *"a range of facilitation services aimed at increasing foreign direct investment through the attraction of offshore companies to establish new operations (greenfield) in New Zealand, to encourage the expansion of existing investments*

in New Zealand (brownfield) and/or invest in a partnership with New Zealand exporters."

The agreement established areas of activity/services for which INZ would be responsible. These are described in the 2002/03 Estimates: Non-Departmental Output Class 02 – Facilitation of Investment and Business Locations within Vote Foreign Affairs and Trade. Specifically:

Marketing New Zealand as an investment location

Researching and actively marketing the benefits of New Zealand as a location for FDI.

Lead generation

Researching and identifying potential investors to match the strategic aims of Trade New Zealand and INZ and the needs of New Zealand companies.

Case management

Case managing major investments including:

- acting as a single point of contact for the investor;
- providing assistance and researched advice during the investigation/due diligence phase;
- mobilising the involvement of relevant private organisations and agencies of central and local government;
- facilitating visits to New Zealand by investment decision makers through the Visiting Investor Programme (VIP); and
- developing investment proposals on behalf of government to be presented to investors.

Investment for Development of Export Capability

Connecting New Zealand exporters with international investors for the purpose of capital injections and/or strategic alliances that bring access to markets, etc. These connections are provided through the VIP or direct introductions.

NZTE Output Agreement 2003/04

Following integration, the Ministers for Economic Development and Trade Negotiations purchased from NZTE, for 2003/04, the following investment-related services (Output 1.6: Investment Promotion and Facilitation):

"NZTE will:

i. Originate investment opportunities by:

- Proactively developing proposals for potential investors by matching New Zealand capabilities with potential investor requirements (onshore and offshore).

- Responding to potential investor enquiries about investment prospects in New Zealand.

Investment New Zealand will allocate 45% of its resources to the service.*

ii. Execute investment opportunities by:

- Facilitating potential investor access to information, relationships and contacts with potential partners and advisors, and central and local government.

- Managing introductions and organising the engagement indicated above.

- Identifying outstanding issues or impediments to the potential investment and assisting the resolution of such issues when possible/appropriate.

- Developing and gaining approval for assistance from government, including Strategic Investment Proposals, and following up on commitments.

Investment New Zealand will allocate 30% of its resources to this service.*

iii. Promote investment opportunities by marketing New Zealand as an investment destination by articulating its value both in a generic and deal specific sense.

Investment New Zealand will allocate 25% of its resources to the service.*

* % splits are indicative and subject to change during the year. "

INZ's Business Plans

In December 2002, INZ reported back to Ministers with their Business Plan for 2002/03. While noting the overall aim of the newly established IPA was to "increase the quality and quantity of sustainable 'foreign' direct investment, where there is a commitment to the growth and development of economic opportunities in New Zealand", the plan did not exclude promotion and facilitation services for "domestic (New Zealand) investors". These were specifically mentioned in descriptions of the Strategic Investment Fund (SIF).

INZ's 2003/04 Business Plan takes a similar approach. "INZ's primary objective.is to increase the quality and quantity of Foreign Direct Investment that *adds value* to the New Zealand economy". The Plan notes also that the SIF will provide support to New Zealand and overseas companies undertaking major projects in New Zealand, and will be used to support INZ's engagement in projects that have the potential to make a substantial contribution to the growth of investment in targeted sectors.

ANNEX B: Rationale for Governance Arrangements

The governance arrangements for INZ were established as part of Cabinet's response to the BCG report. Cabinet originally considered two broad options for placement of the IPA:

1. Option A – a subsidiary company or autonomous business unit reporting directly to the Industry New Zealand Board. Here the Industry New Zealand Board could either:

   - delegate a wide range of functions and responsibilities to the General Manager of the IPA, who would report directly to the Board. Some accountability responsibilities would remain with the CEO of Industry New Zealand, and protocols would need to be developed to clarify the relationship between the CEO and General Manager of the IPA; or

   - create a limited liability company to exercise the IPA's functions, with the Industry New Zealand Board serving as the company's directors.

The case for Option A rested on the following:

- that this model most closely approximated the advice received from BCG;

- that the IPA needed operational independence, a high profile and status to recruit and retain the best possible talent to work for it, particularly in its leadership;

- that the IPA needed a unique, commercially focussed culture, and that operational independence provided the best means for achieving this;

- that there was a need to get the IPA up and running as soon as possible, and given the heavy demands facing Industry New Zealand in other areas, the appointment of a General Manager reporting directly to the Board provided the best means for achieving this;

- that operational independence reinforced the Investment New Zealand brand;

- that a separate status would allow the IPA to more easily retain and build on INZ's existing relationships;

- that a separate status would allow the IPA to integrate more readily with Trade New Zealand and MFAT's off-shore networks, including the negotiation of service level agreements with these and other parties; and

- that establishing an IPA which is not fully embedded within Industry New Zealand provides flexibility for the IPA to adapt to any future evolution in the structure of the Government's economic development agencies

2. Option B - a business unit reporting to the Chief Executive of Industry New Zealand.

The case for Option B rested on the following:

- that the standard governance model already provided scope for providing operational independence for the IPA, and that it represented a good starting point for evolving the structure over time;

- that a focus on ownership independence was misplaced with respect to the attractiveness of the IPA to potential employees – their judgements are likely to be influenced by the wider set of constraints associated with working within government, including the perception of the IPA's outputs;

- that Industry New Zealand already had very high calibre people working for it, and their status within the organisation had not been an important consideration for investors;

- a more independent structure was likely to increase the administrative burden and overhead costs facing the IPA, which would detract from performing its core business; and

- a more independent structure could have impeded the IPA's ability to connect effectively with the other business units in Industry New Zealand.

Cabinet favoured Option A, agreeing that the following two principles were desirable for the IPA:

- the Industry New Zealand Board should appoint the Head of the IPA; and

- the Head of the IPA would report to and be directly accountable to the Industry New Zealand Board for the delivery of the Government's FDI Strategy.

Feedback from officials involved in the process suggests that the decision to create an autonomous business unit reporting direct to the Industry New Zealand Board was as much a "timing" issue as anything else. It was widely anticipated that, at some future point, Trade New Zealand and Industry New Zealand would be combined into one organisation.

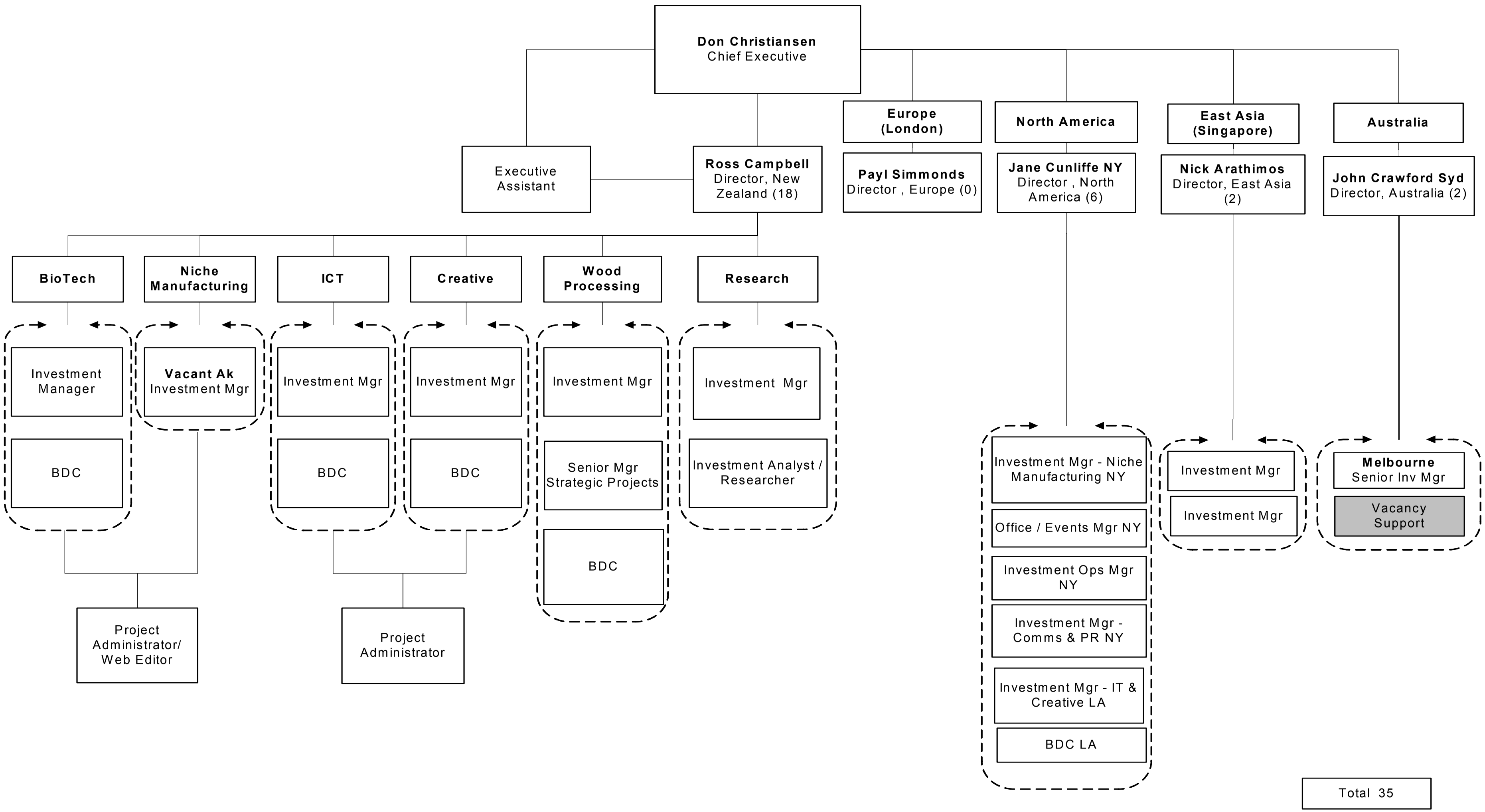
The BCG report also proposed a much broader role for the IPA, along the lines of the Irish model, which performed many of the functions NZTE is responsible for. From a broader economic development perspective there are also strong arguments for an integrated agency. Hosting the IPA within one of the existing business development agencies helps to promote alignment with broader economic development goals, take advantage of the specialised sector information and skills available in those agencies, and reduces overhead and co-ordination costs. It also simplifies engagement with the offshore network.

Arrangements post-NZTE establishment

The integration/establishment papers for NZTE refer to the existing structure of INZ, with a CEO reporting direct to the Board of Industry New Zealand. No recommendations were made regarding the future organisational structure of INZ. The terms of reference for the NZTE establishment Board did, however, note that the Board would need to address the issue of how activities of INZ would be effectively melded with the delivery of the broader NZTE service range in order to pursue the objectives of the new organisation.

ANNEX C: INZ's Organisational Structure

Investment New Zealand



ANNEX D: INZ Offshore Representation

Since establishment, INZ has made significant changes to their offshore representation, as follows:

North America

Two additional investment managers have been established during the 2002/03 financial year. Between the two of them they cover INZ's five key focus sectors (ICT, Biotechnology, Creative, Wood Processing and Niche (specialised) Manufacturing). A contracted resource leads INZ's public relations and marketing programme; INZ has recruited a business development manager in Los Angeles and an additional resource in New York. This completes INZ's envisaged North America expansion plan. INZ has drawn on additional sector-specific NZTE staff as needed during the build up phase but expect to significantly reduce this in the ensuing year.

East Asia

During the 2002/03 financial year INZ established a presence in Singapore. A number of factors influenced the selection of Singapore as the initial coordinating point for investment-attraction activity in the region including:

- NZTE have already established a beach-head[12] in Singapore. This creates potential for New Zealand companies looking for strategic partners and investors to facilitate their entry to Asian markets through Singapore;

- Singapore has made a determined and successful effort to attract multi-nationals to establish Asia-Pacific regional headquarters in Singapore. As a result INZ is able to advocate for investment decisions both in New Zealand as well as at the Asia-Pacific regional headquarters where key decision makers are located;

- the relationships INZ builds with these parties will facilitate network building in other East Asian markets;

- Singapore is a good base for covering most of East Asia and is easy to reach from New Zealand;

- the Singapore Government is strongly focused on growing biotechnology and creative sectors. This focus is expected to create opportunities for New Zealand companies in these sectors; and

- it builds on the foundation Agreement between New Zealand and Singapore on a Closer Economic Partnership.

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[12] As part of the 2002/03 budget round, Trade New Zealand agreed to set up some offshore facilities for New Zealand companies to develop forward marketing bases, and to help their establishment in new markets.

Two locally engaged Investment Managers and a part-time Assistant support the Director. During 2003/04 the in-market representation model used in North America will be replicated with the further development and leveraging of a Virtual Team and the establishment of a Regional Advisory Board and a lead generator appointed in selected markets.

Australia

INZ's presence in Australia will follow a similar model to North America and is in the process of being established. An Investment Director has been appointed and is based in Sydney, with support provided from a full-time Investment Manager. A local Investment Manager has also now been appointed in Melbourne. An Australian Advisory Board will also be instigated to replicate the North American model, using senior trans-Tasman business parties and expatriate New Zealanders.

Western Europe

The NZTE Board authorised the establishment of an INZ office in Europe in 2003/04. A Director is now located in New Zealand House, London. A permanent presence gives INZ greater capability to work with other NZTE and MFAT personnel to influence corporate decision-makers and attract investment from Europe.

ANNEX E: IPAs of Ireland and Australia

The attraction, promotion and facilitation of foreign direct investment is a central component of economic development strategies in many countries. This Annex briefly examines the degree to which INZ's mandate, strategy (objectives and criteria) and key performance indicators (KPIs) are consistent with other IPAs, most notably Invest Australia and the Irish Development Agency (IDA)[13].

INZ's KPIs relate to increasing foreign direct investment that adds value to the New Zealand economy (attracting offshore companies to establish 'greenfields' operations or relocate to New Zealand, and/or invest in a partnership with New Zealand exporters.) The subsequent increase in the GDP of New Zealand as a result of foreign direct investment and relationships will be measured in terms of:

- quantity – foreign direct investment brought into New Zealand by businesses locating in New Zealand or setting up joint ventures with New Zealand companies, and the number of jobs created in New Zealand as a result of INZ assistance with corporate location and inward direct investment; and

- customer satisfaction - on the basis of an independent survey every six months.

These measurements are in keeping with INZ's mandate.

This same approach is broadly apparent in other IPAs where a similar focus upon investment promotion, attraction and facilitation ensures that the rationale and strategy underlying efforts to attract and retain higher levels of productive investment are managed, alongside a sectoral and market prioritisation approach. The motivation is that this targeting offers the best growth potential and prospects for generating spillovers and long term sustainable employment.

The highly coordinated, strategic focus pursued by IDA Ireland builds strongly upon Ireland's existing strengths and capabilities. At the centre of this strategy are objectives including:

- attracting suitable, high quality, knowledge and skills based foreign direct investment to place Ireland in specific niches with the global economy;

- achieving a better regional balance in investment;

- developing clusters of excellence within a climate of innovation and entrepreneurship;

- working with existing investors to move up the value chain; and

[13] Note that IDA Ireland operates in a different institutional context performing many of the functions NZTE is now responsible for.

- encouraging more advanced technological processes with a greater focus on R&D; and, improving infrastructure and skills.

IDA Ireland pursues a similar sectoral focus, targeting those areas of industry which produce sophisticated and high value products and services. These sectors include: Chemicals, Pharmaceuticals and Healthcare; e-commerce; Information and Communications Technology; Software; and Internationally Traded Services including Financial Services, Customer Centres and Shared Services Centres.

Like Ireland, the objectives of the Australian government's overall investment policy work to target, deliberately and consistently, specific industry sectors and potential foreign investors. Consistency is apparent in the National Investment Framework which states clearly that Australia should ensure that it maximises the benefits of foreign direct investment, particularly in terms of the quantity and quality of investment attracted to Australia, the sectors into which it is attracted and the sustainable benefits achieved. It reflects the concern that scarce resources should be used shrewdly to gain the best value for money. The strategic project criteria determine how these resources are allocated so as to maximise the return. These cover economic and industry development objectives, industry investment needs and market conditions.

There are substantial similarities between INZ's and overseas IPAs' efforts in the area of investment promotion, attraction and facilitation. First and foremost, these overlaps rest with the high-level strategic approach underpinning efforts to attract higher levels of productive investment, as well as the allocation of resources in offshore networks, the process and criteria for approving incentives and the nature of these incentives. Building a national investment brand is also considered important. However, compared to the other IPAs, INZ has taken a less aggressive approach to lead generation.

In summary, INZ's approach is broadly in line with these two examples of current international best practice. INZ is attempting to build a whole-of-government method to investment promotion, attraction and facilitation that is also highly strategic.

ANNEX F: SIF: Background information

History

The MIF, established in June 2000, formalised the process of providing government assistance in respect of facilitating major investment projects. The Fund was originally set up with $3 million of available funding, and based on a model very similar to what was operating in Australia at the time. Cabinet agreed on the objectives, principles, and operational details of the Fund in September 2000.

Objectives of the Fund

The objectives of the Fund as agreed to by Cabinet are:

- to support significant direct investment in New Zealand that has tangible benefits for New Zealand;

- demonstrate government's commitment to support major new investments;

- provide firms making significant investment decisions with an informed opportunity to compare the benefits of investing in New Zealand with other options; and

- identify any impediments to investments proceeding and, where appropriate, advise government of the need for procedural change.

Forms of assistance

Under the SIF there are three forms of assistance INZ can offer to help facilitate an investment project. It should be noted that none of these are mutually exclusive in that an investment project could potentially receive assistance in all three forms. The cumulative amount of assistance can not, however, exceed $1 million p.a. or an aggregate of $5 million over five years.

1. Feasibility study grant

A feasibility study allows the potential investor to investigate the short and long-term potential, benefits, and costs for specific substantial investment opportunities. Grants will be available for up to 50 percent of the costs of a study, to a maximum of $100,000 GST inclusive. While grants above this level can be considered, such a case would require the approval of Ministers. Grants can not be approved after the study being undertaken.

2. Guarantees of funding for the implementation of significant projects

The SIF will provide a guarantee of overall funding support for identified substantial investment opportunities. In effect, the guarantee will provide certainty of access to and a top up for investment projects to assistance which is expected to be available through existing programmes. Investments qualifying for a guarantee under the Fund will be expected to seek access to government funding through the existing programmes such as FRST, Tech NZ, WINZ, Skill NZ and NZTE. In terms of the operation of the Fund, SIF funding is expected to reduce as the level of funding from other government sources increases.

3. Cash grants

Cash grants are top-up funding to meet significant implementation costs. Cash grants can be applied to significant investment projects that would not otherwise qualify under other government programmes for assistance, or where such assistance would not necessarily suit the nature of the project.

SIF Approval Process

Feasibility studies

Step 1 A formal proposal is received from the client.

Step 2 An INZ Manager in charge of the sector concerned will originate a proposal for assistance under the SIF if this is appropriate.

Step 3 The application will be processed with input from the client to ensure that the criteria are met. It is often the case that the sector specialist from NZTE and INZ will work together to produce this.

Step 4 The proposal will be challenged internally by INZ.

Step 5 Updates are provided to the Board of NZTE through the INZ CEO's report to monthly Board Meetings.

Step 6 If an approval is granted[14], a formal contract will be entered into with the investor, which makes government funding through the SIF dependent on the investor delivering on the benefits expected of the project.

Guarantees of funding and cash grants

Steps 1 to 4 as above

Step 5 Once INZ internal consideration is complete a proposal will be sent to MED who co-ordinates comments from an inter-agency

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[14] For feasibility studies, the CEO of INZ can approve up to $100,000 towards the cost of a feasibility study. Ministers, as per footnote 10 below, must approve funds in excess of this.

[16] Originally, all proposals involving guarantees of funding were required to be fully considered and agreed by Cabinet. In December 2001 (DEV (01) 68), this was amended so that the Minister of Industry and Regional Development and the Minister of Finance, together with other Ministers if their portfolios were involved, could jointly approve grants and guarantees. This change intended to speed up the approval of Crown guarantees.

group. This group may involve the Treasury, MFAT, Te Puni Kokiri, MoRST, FRST, and/or MAF. The role of the group includes:

- reviewing intended investment proposals and related benefits, costs, risks, and opportunities;
- identifying and recommending processes for dealing with policy implications;
- preparing the proposal and recommendations as to whether or not to provide funding; and
- reviewing the agreement covering mutual obligations, conditions and audit procedures, especially milestones for progressive implementation of the investment and processes for reviewing progress.

Step 6 Once the proposal is finalised, MED send it to the Ministers of Industry and Regional Development and Finance, together with other Ministers if their portfolios are involved[16]. (Prior to this, INZ also go to the Board of NZTE for support.)

Step 7 If the application is approved by Ministers a press release will be issued notifying details of the approval.

ANNEX G: SIF Activities: 2001/02 and 2002/03

INZ projects assisted under the SIF in 2001/02[18]

Form of assistance	Amount approved	Amount paid to date	Purpose	Anticipated Outcomes	Status
SIF: underwrite	$750,000	$300,000	Underwrite of assistance from FRST.	creation of 200-320 jobs over 5 years	J/V restructure, downsized due to industry down turn. First payment of $300,000 made. 2 subsequent payments cancelled.
SIF: feasibility study	$50,000	$50,000	To demonstrate the economic advantages and benefits of manufacturing and exporting products for a potential major overseas joint venture partner.	Initial investment of $12m, annual exports of $65m in first year of operations, creation of 240 jobs	First phase of the project is on stream. Expansion has not been as rapid as expected due to slower sales growths. 196 long-term unemployed persons were recruited and trained. About 25-30 have since left.
SIF: underwrite	$500,000	$0 (not called on)	Underwrite of assistance to be provided by WINZ / Skill NZ.	(same as above)	Same as above
SIF: feasibility study	$45,000	$0 feasibility study not undertaken			Company will not proceed with an investment.
SIF: feasibility	$50,000	$50,000	To undertake detailed feasibility studies on two New Zealand sites for the	Large project requiring capital expenditure of $3-400m, expected to create	NZ project deferred until offshore plant completed. Unlikely to proceed in NZ due to changed power supply and price

[18] Information provided by INZ; verified through contact with clients.

study			establishment of a production plant.	200-300 jobs	situation.
SIF: feasibility study	$50,000	$50,000	To determine whether there is a sufficiently strong business case for the company to undertake trials and product development in NZ.	Establishment of R&D centre with 12-15 jobs and further jobs when downstream projects follow. R&D expenditure of $2-3m P.A	Company established technology and application units established in NZ.
SIF: feasibility study	$50,000	carried over to next f/y	To prepare a business plan report which will provide a map for the future direction of the venture	see 2002/03	See 2002/03
SIF: feasibility study	$50,000	carried over to next f/y	To determine the robustness of the business case for the establishment of the venture	see 2002/03	See 2002/03
SIF: feasibility study	$50,000	carried over to next f/y	To prepare and compile data to assist the company in making the decision to invest further in setting up a primary processing facility.	see 2002/03	See 2002/03
SIF: feasibility study	$50,000	$50,000	To demonstrate the business case for establishing a facility in Christchurch.	Testing facility with 10-15 jobs and 200-300 jobs in collaborating network	Project unlikely to proceed in isolation. May become part of Canterbury MRI.
SIF: feasibility study	$50,000	$50,000	To demonstrate the business case for establishing a research development and deployment facility as a necessary precursor for the establishment of a major manufacturing facility.	20-25 jobs in research institute and 400-500 jobs in manufacturing facility creating $250-300m in revenue p.a.	Major acquisition work underway, which will impact on structure/role of proposal
SIF: feasibility study	$200,000	$200,000	To develop a business plan to set up a world class production facility for television series.	250-300 jobs created	Project has evolved and is still in formative stages. A separate company has been established, and work commenced on 2 television serials.

					Capital structure now being worked up to raise required capital.

INZ projects assisted under the SIF in 2002/03[19]

Form of assistance	Amount approved	Amount paid to date	Purpose	Anticipated Outcomes	Status
SIF (MIF): Grant	$500,000	$350,000	Cash grant to help meet some of the establishment and operating costs	Stimulate more than 200 jobs over the next 5 years in member companies as a result of research projects commissioned	This project is underway but is under pressure to meet milestones agreed with INZ for job/investment creation.
SIF: feasibility study	$50,000	$50,000	To develop the business case for establishing a sustainable business	30 jobs mainly in R&D. Product specific companies emerging out of the initiative expected to create 110-130 jobs over 5 years.	
SIF: feasibility study	$100,000	$0 (study not undertaken)	To assist the Company in utilising the services of consultants to advise the company on the feasibility of a financial restructuring of the company.	Commercialisation of projects requiring investment of $200m over 5 years	$20m capital raised catalysed by $2m underwrite from SIF & FRST funding.
SIF: feasibility study	$20,000	$16,725.27	To enable a New Zealand based company to support the business case for attracting an offshore company to establish an operation in New Zealand.	Creation of 200-250 jobs	US exchange rate and changes in call centre rate competition in the US have affected this project. Project will still go ahead but will not involve an equity contribution from offshore company.

[19] Information provided by INZ; verified through contact with clients.

SIF: feasibility study	$50,000	$0 (study not undertaken in 02/03)	To enable a consortium to demonstrate the viability of setting up in NZ.	Retention of 71 positions, $10m of new capital investment and at least 200 new positions within participating companies.	Project did not proceed in 02/03 year (took place in 03/04).
SIF: feasibility study	$100,000	$100,000	To enable an offshore company to ascertain the viability of establishing its operations in New Zealand.	Between 350 and 500 jobs over the next 5 years. Export revenues of $250-500m over 5 years	Report due to be released. Establishment and implementation issues yet to be addressed.
SIF: feasibility study	$100,000	$65,254.42	To undertake an in-depth examination of the financial and practical feasibility of the implementation of initiatives and to quantify the benefits of the initiatives for the member companies and for New Zealand economy.	Initial estimates indicate the cluster would create more than 700 jobs by 2006.	Feasibility study identified a number of opportunities – working through them
SIF: feasibility study	$100,000	$70,867.28	To determine the viability of setting up a production facility in New Zealand	$50m in investments leading to a creation of 295 jobs over 5 years.	Land has been acquired and earth works consent obtained. Other consents have been applied for (RMA etc.)
SIF: feasibility study	$100,000	$0 (study not undertaken)	Study to enable offshore company to determine the viability of setting up a remanufacturing plant in New Zealand.	Creation of 300 new jobs and investments of $50m over 5 years	Project unlikely to proceed – parent company pursuing expansion elsewhere
SIF: Grant	$500,000	$250,000	Cash grant to help meet some of the establishment and operating costs.	20 FTEs within New Zealand facility. At least 200 new jobs in member companies of the consortium/spin off companies. $25m in net new investments	Facility successfully established. It has achieved strong engagement with NZ companies and MNC subsidiaries. Is also looking to form additional JVs in Australia, Singapore, USA and Japan.

SIF: Grant	$1,500,000	$1,500,000	Cash Grant to help meet part of the costs of consolidating operations in Auckland which will enable company to attract projects	360 jobs.	The company has won some significant projects and has created in excess of 100 new jobs to date.
SIF: feasibility study	$100,000	$11,835	To demonstrate the business case for expanding manufacturing capacity	200 new jobs over the next 5 years and $10m in investment.	Feasibility study underway.
SIF: feasibility study	$75,000	$75,000	To determine whether there is capacity at the company's New Zealand location to accommodate the transfer of operations from Australia to New Zealand and investigation of the availability of appropriate employees.	Capital expenditure of approximately $1.5m immediately. 150 new jobs (FTEs) immediately and a further 75-100 jobs over 3-5 years.	Transfer initiated, now evaluating transferring all of its back office operations and is now looking to attract contracts from its US parent company. More than 100 jobs created to date.
SIF: feasibility study	$80,000	$66,238.32	Feasibility Study to determine the viability of setting up a Marine Cluster development	Direct investment of approx $15m. In aggregate, capital expenditure of $50m in the proposed marine cluster over a 5 year period. Creation of 200 jobs expected on-site	Feasibility study underway
SIF: feasibility study	$300,000	$299,999.60	Feasibility study to determine the viability of supplying furniture and furniture components to a major European furniture design and marketing company.	Expected to require capex of about $10-15m in the first phase.	The new range of furniture proposed to be manufactured out of NZ pine was displayed at the Cologne Fair in January and INZ consider it was well received.
SIF: feasibility study	$100,000	$100,000	Feasibility Study to determine the viability of establishing a co-generation facility	If proceeds, project would require capital investment of $200-250m and will ensure retention of more than 200 jobs.	Feasibility study underway

SIF: feasibility study	$100,000	$0 (offer withdrawn)	Feasibility Study to evaluate the business case, investment and financial resources required. Company would require a substantial increase in research & development, manufacturing capacity, skilled labour and management to achieve this.	New investment of approx $50m over 5 years. Exports forecast to increase cumulative company revenues by $116m over 5 years and increase employment by approx 113 people	Offer withdrawn.
SIF: feasibility study	$84,375	$74,801.98	Feasibility Study to evaluate the expansion of company's New Zealand facility, re-engineering of the production process and financing.	Initial new investment of $10.5m and a further investment of $10m over 5 years. Approx $30m of forex and 200 new jobs over the next 5 years.	The offshore plant has been relocated to NZ.

2002/03 Summary

In the 2002/03 year, three grants totalling $2,500,000 and 15 feasibility studies involving $1,459,000 were approved. This represents a commitment of $3,959,000 against a full year budget of $3,975,000. To date $2,514,917 of this commitment has been drawn down, representing approximately 63 percent of the full SIF budget. All three grant projects are proceeding and two of these were the subject of feasibility studies in the previous year.

Feasibility studies

Of the 15 projects assisted through feasibility studies, one project will not proceed as the investor is looking at other possibilities, and two projects will not proceed this year while other possibilities are considered. Of the remaining 12, eight are currently being processed and investment possibilities are under consideration. The final four have had some pay-off to date.

ANNEX H: VIP: Background information

History

The Visiting Investor Programme has its origins in the Trade New Zealand "Special Investment Project" (SIP) 'red carpet' visitors' programme. The visitors' programme was part of a package of trade and investment initiatives launched by the then government in October 1998, intended to boost New Zealand's investment profile by taking advantage of a convergence of events at the time eg the Americas Cup, APEC, Millennium Events. The intent of the SIP visitors' programme was to profile New Zealand as a competitive destination for new investment, and to introduce selected guests – targeted at the highest possible level ie CEO or equivalent - to "pre-qualified" business opportunities, business networks and New Zealand's investment climate.

Marketing material profiling New Zealand was prepared to support the programme. Technology transfer and enhancement in industries such as Biotechnology and ICT received special attention in the profile data packs. Other areas recognised for investment were additional investments based on existing assets, mainly land based, such as Forestry, Food, Minerals, Infrastructure and Energy Generation, Transmission and Availability.

The performance outcomes established for the VIP was a target of 20 visitor programmes per year. The VIP was used more extensively when INZ did not have a direct offshore presence.

Forms of assistance

The VIP is not a cash grant (INZ purchase the services). All costs are expected to be "reasonable", but in line with the "red carpet" nature of the programme. Accommodation is therefore likely to be in suites rather than ordinary rooms and restaurant meals may be at the top end. The form of assistance provided is however dependent on the potential investor, and could therefore include coverage of all domestic costs as opposed to international travel or other selected costs.

The onshore Investment Manager will escort the visitor to all calls and is the individual who is responsible and accountable for the programme. The development of a programme and organisation of the logistical arrangements for a programme is typically outsourced to a Programme Coordinator. The responsible Investment Manager must ensure the contracted services are appropriate and the logistics and costs are tightly managed.

Unlike the SIF, the VIP is funded directly from INZ's operating budget. Expenses incurred under the VIP therefore represent a commitment of INZ's budget that could have been allocated to other purposes.

ANNEX I: VIP Activities: 2001/02 and 2002/03

Visiting Investor Programme activity 2001/02[20]

DATE	COMMENT
30/12/01 - 7/1/02	Potential investor in the New Zealand marine sector. Did not proceed with any investments.
8/01/02 - 10/01/02	Potential trade and/or manufacturing engagement with New Zealand based company. Did not proceed due to decision by local company not to seek additional investment.
28/01/02 - 1/02/02	Has resulted in the establishment of US distribution company which has enabled locally based company to grow from 5 to 60 staff
13/02/02 -16/02/02	Investigated establishment of major plant. Could not gain necessary confidence on power supply and price. Accordingly project did not proceed
14/02/02 -15/02/02	Venture Capitalist investigating investment opportunities in New Zealand. Undertook due diligence on New Zealand company
18/02/02 - 28/02/02	Investigation of investment prospects in New Zealand. Declined to invest but are now pursuing purchase of substantial quantities of New Zealand product.
9/03/02 - 12/03/02	Investigating potential manufacturing joint venture with New Zealand company. Local company is pursuing own growth path. Company remains interested in New Zealand

[20] Information provided by INZ; not verified by clients.

9/03/02 - 13/03/02	US investors looking at opportunities in the food and food technology areas. Have not yet invested but remain interested.
11/03/02 - 13/03/02	European private equity investor investigating opportunities in New Zealand
19/03/02 - 1/04/02	Canadian financial consultant investigating investment on behalf of a number of Canadian investment companies
17/03/02 - 21/03/02	Scouting trip for major US film project. Project is currently on hold
9/04/02 - 11/04/02	Investigated Joint Venture and sub-contracting opportunities with New Zealand company. Did not proceed due to decision by the New Zealand company not to seek additional investment.
10/04/02 - 18/04/02	Looking to transfer operations to New Zealand. Project did not proceed
Apr-02	
Apr-02	American entrepreneurs looking to invest in early stage New Zealand companies. They have emigrated to New Zealand and are currently evaluating several investment possibilities
28/04/02 - 4/05/02	Detailed investigation of plastic manufacturing plant joint venture with local company. Project did not proceed. Are having discussions with two other prospective New Zealand co-investors
20/05/02 - 24/05/02	Investigated several investment opportunities. Currently undertaking detailed due diligence of New Zealand company.
30/05/02 - 2/06/02	Investigated joint venture, sub-contracting and collaboration opportunities with New Zealand company. Project did not proceed.
May-02	Detailed investigation of establishing automotive component manufacturing plant in Auckland.

Visiting Investor Programme activity 2002/03[21]

DATE	COMMENT
28/06/02 - 1/07/02	Location investigation for US$30m film project. Project did not proceed.
28/06/02 - 1/07/02	Manufacturer investigating establishment of manufacturing plant in New Zealand. Project on hold until company resolves sourcing issues/opportunities
15/07/02 - 19/07/02	Undertook detailed investigation of establishing major processing plant in Canterbury. Project did not proceed due to decline in target market.
29/08/02 - 1/09/02	Investigated investment and out-sourcing opportunities in New Zealand.
8/09/02 - 12/09/02	Investigated feasibility of establishing a plant in association with local manufacturers to supply Australian, Asian and US markets. Company undertook a feasibility study but New Zealand was not a sufficiently attractive investment destination
21/08/02 - 30/08/02	USA consultants and investors. Looking to undertake a detailed feasibility study of a bio-manufacturing facility.
10/10/02 - 13/10/02	CEO and Head of manufacturing looking at investment and purchasing opportunities in New Zealand
8-Oct	Supporting NZ-based company in major pitch to financiers. This led to company successfully positioning itself in a global programme which has resulted in 120 new jobs YTD

[21] Information provided by INZ; not verified by clients.

6/10/02 - 12/10/02	Special effects company looking to establish operation in New Zealand and undertake major film project.
17/11/02 - 22/11/02	Initial visit from some of the potential partners/buyers from Europe as part of the European value-added Strategy in the Wood Processing Sector
24/11/02 - 29/11/02	Advisers on European Wood Processing Strategy
17/11/02 - 19/11/02	Company looking to relocate offshore operations to New Zealand. Project on hold due to availability of additional wood resource elsewhere
18/12/02 - 20/12/02	Investigating investment opportunities in wood processing. Looking to acquire an existing sawmilling operation and relocate moulding plant from USA.
15/01/03 - 17/01/03	Here to meet potential collaboration partners, and possible investee companies in bidding for major US projects. In discussion with several New Zealand companies about project collaboration and investment.
1/02/03	Were in NZ to review expansion locations and meet potential investors.
09/02/03 - 15/02/03	To participate in Investment Regatta and familiarisation programme.
10/02/03 - 19/02/03	To participate in Investment Regatta and World Consortia Conference. INZ currently exploring possibility of a strategic collaboration partnership between the company and they are looking at undertaking a major research project at Canterbury Univ.
27/01/03 - 1/02/03	One of the world's leading companies in its field. Showcasing of New Zealand biotech capability. Have set up a small office in NZ to investigate R&D and investment opportunities
8/02/03 - 16/02/03	CEO here to participate in Investment Regatta and view potential investee companies. Company has invested in local company and is undertaking due diligence on at least one other company.

20/02/03 - 24/02/03	Were in NZ to investigate opportunities in Aviation industry.

ANNEX J: Stakeholder comments

Ministry of Economic Development (MED)

Specific comments in relation to the operation of the SIF programme have been provided in this report. In addition to this MED commented that on a day to day basis, interaction with INZ was very co-operative, with regular information exchanges occurring. INZ's strong client focus was quite evident.

Ministry of Foreign Affairs and Trade (MFAT)

As part of this Review, key MFAT Posts for investment were surveyed on their interactions and existing relationship with INZ, both onshore and offshore. All Posts reported close working relationships with the INZ Regional Manager (where this position existed in the region). All Posts commented that the current approach to investment promotion was more rigorous than previously; targets for INZ activities were carefully selected; and there had been a substantial increase in investment promotion activities.

In the majority of cases, around five percent of a Head of Mission's time was allocated to investment work, but this varied according to country. For example, the New Zealand Ambassador in Washington spends 20 percent of time on investment-related activities, and the Los Angeles Consul General 25 percent. At Posts where INZ has a presence, or where there has been an increase of full time INZ staff, the result has been an increased ability to create and service a wider range of industries and activities. This has increased expectations on MFAT to participate in joint outreach activities.

Posts also made a number of suggestions for improvement. While existing resources were targeted towards investment attraction there was a general sense that more resources needed to go into investment maintenance work. A number of Posts also commented that they often do not have sufficient information on investment opportunities - if such information was available then investment promotion work undertaken by Posts could be more focused. The information provided by INZ on why New Zealand is a good place to invest was useful, but more investor-specific information would also be helpful.

Tourism New Zealand

Tourism New Zealand cooperate closely with INZ on both onshore and offshore promotion/marketing of New Zealand. Recent examples include the "Lord of the Rings" and "Whale Rider" films, where INZ administer, on behalf of Tourism New Zealand, the Lord of the Rings and Whale Rider promotional budget. To help avoid potential conflicts, given the differing interests of the various agencies involved, a Purchase Agreement has been established, as well as agreement on five key objections for promotional activities.

New Zealand Immigration Service (NZIS)

NZIS consider that the relationship with INZ has worked well to date. INZ, when required, will work with an investor to facilitate processing of residency or visa applications, for example by providing a letter of support. Under NZIS policy, NZIS are also required to consult with INZ over the potential benefits to New Zealand from investment occurring in relation to the residence category "Employees of Relocating Businesses". This category was set up to assist the promotion of New Zealand as a place to invest and locate business, by facilitating the granting of residence to employees of businesses relocating to New Zealand.

NZIS consider there are many areas for additional potential cooperation and see potential value in a more formalised relationship. This could for example, include linking investors under the business migration categories with potential investment opportunities in New Zealand.

Foundation for Research, Science and Technology (FRST) - Tech NZ

A good level of engagement with INZ has occurred to date. The Auckland presence of INZ has been particularly helpful given Tech NZ's Auckland location. Current collaboration includes work on a major study that examines the ways in which increase international collaboration, income, and investment can be increased in the New Zealand science system. There is also good cooperation with visiting delegations and, at times, INZ's offshore presence has proved useful for follow-up work. FRST see value in greater information sharing with NZTE and are now working on a joint portal referral system.

Overseas Investment Commission (OIC)

Interaction to date has been limited, however this is more likely due to potential legal issues if INZ actively pursued with OIC, as part of INZ's facilitation role, approval of specific investment applications through the OIC process.

Te Puni Kokiri (TPK)

Engagement with INZ has been limited. However, a new business development group has recently been established within TPK. The responsibility of this group includes acting as a contact for Maori organisations that wish to liase with NZTE and INZ. TPK are keen to increase the level of engagement with INZ.

Ministry of Social Development (MSD)

INZ interaction to date has been on a case-by-case basis, and at the level of Regional Branch Managers. MSD can assist investment projects through assisting with recruitment of staff, arranging pre-entry training for employees that will be employed as a result of the investment, as well as wage subsidies. Depending on the particular project this can be a significant incentive to attracting investment. A good working relationship has been developed based on investment projects facilitated to date, however MSD note that INZ's visibility outside of the main population centres has been low. MSD would see more value in INZ actively seeking to direct investment to regions with significant levels of labour surplus. MSD note that labour issues are a critical factor of success in any investment and early notification of a potential investment can assist planning and resource deployment.

Economic Development Association of New Zealand (EDANZ) and Local Economic Development Agencies (EDAs)

INZ have developed a close relationship with EDANZ at the national level and with individual EDAs. INZ are currently collaborating on the production of regional templates to assist investment promotion efforts. The increased level of engagement with INZ and the additional work that EDAs are required to do creates a potential issue going forward. EDANZ are currently negotiating with NZTE for a potential service fee, and the same may need to occur with INZ.

Industry associations

INZ[22] work closely with respective industry associations, with regular meetings and information exchanges occurring. INZ consult over potential investment opportunities and involve the relevant associations in the planning of visits by investment delegations. Most associations note, however, that membership is not all encompassing. ITANZ, for example, represent companies that contribute approximately 85 percent of the revenue generated by the ICT sector, but cover less than 10 percent of ICT firms. There are more than 100 groups or clusters representing the industry. This creates a problem for INZ in reaching all of the relevant industry participants.

Business groups

Business groups consulted as part of this review process noted that INZ's profile within the wider business community was low. These groups considered that, if provided with suitable information, they could play a role in raising awareness amongst their members of INZ services, as well as helping to source information on potential investment opportunities. It was also noted that INZ could play a useful role, if linked into other government processes, to provide feedback on where there are currently impediments to future FDI growth, such as infrastructure issues or skills shortages.

[22] Relationships are likely to be accessed through the broader NZTE.