



BRIEFING

Invest NZ: Entity form, functions and establishment process

Date:	25 November 2024	Priority:	High
Security classification:	Sensitive	Tracking number:	REQ-0006664

Action sought		
	Action sought	Deadline
Hon Judith Collins KC Minister for Science, Innovation and Technology	Indicate your preferences on Invest NZ's entity form, functions, and establishment process for inclusion in the December Cabinet Paper.	29 November 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Michael Contaldo	Manager, Investment Policy	<small>Privacy of natural persons</small>	✓
Darius Paschke	Senior Policy Advisor, Innovation Policy		
Kiana Iva	Policy Advisor, Investment Policy		

The following departments/agencies have been consulted

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments



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Purpose

To provide initial advice and analysis of options for the form, functions, and establishment process of Invest NZ. We seek an indication of your preferences for inclusion in December's Cabinet Paper, *"Further decisions to drive economic growth through science, innovation and technology"*.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Agree** that Invest NZ's mandate is to act as a one-stop-shop for foreign direct investment, but will exclude public infrastructure investment from its remit.
- Agree / Disagree*
- b **Agree** that Invest NZ's outcomes should be focussed on attracting:
- Money – more investment into truly innovative activities in both "traditional" sectors as well as sectors with high potential to raise productivity and drive economic growth.
 - Businesses – more R&D investment and innovative activity in NZ by multi-national firms.
 - People – skilled professionals who will help foster innovation, raise domestic capabilities, and improve international connections.
- Agree / Disagree*
- c **Agree** that Invest NZ's core functions will be built around attracting highly productive foreign direct investment and providing end-to-end concierge services for foreign investors.
- Agree / Disagree*
- d **Note** that to achieve impact Invest NZ will need to be of sufficient scale and resourced accordingly.
- Noted*
- e **Note** that international evidence suggests that Invest NZ should be established as an Autonomous Crown Entity. Following the standard timeframe to do so (12-18 months from Cabinet decisions) would allow a transition that minimises risks to continuity of service and New Zealand's reputation as an investment destination.
- Noted*
- f **Note** that there are options to accelerate delivery:
- Accelerated legislation and set-up (minimum of 4 months after Cabinet decisions; legislative speed would be the main driver of timing).

- Departmental Agency hosted in MBIE for the medium term (possible from mid-2025 through Order in Council).
- Incubate within NZTE to spin out as an independent entity later (interim option only; can start as soon as Ministers agree, and requires directions from the Ministers for Trade and Economic Development).

Noted

g **Note** that there are significant risks and opportunities associated with these various options.

Noted

h **Agree** in principle that Invest NZ be ultimately established as an Autonomous Crown Entity.

Agree / Disagree

i **Indicate** your preference for Invest NZ's establishment process:

1. Non-accelerated process to establish Invest NZ as a statutory agency. Incubation within NZTE until established as an Autonomous Crown Agency by mid-2026.

Yes / No

2. Departmental Agency hosted in MBIE in place by mid-2025, with the option to develop into an Autonomous Crown Agency at a future date.

Yes / No

3. Accelerated legislative process. Incubation within NZTE until Invest NZ is established as an Autonomous Crown Agency from mid-2025. (MBIE recommended)

Yes / No

j **Note** that if you wish to incubate Invest NZ within NZTE, we recommend, and can support you, to engage with the Ministers for Economic Development and Trade in this process.

Noted

k **Confidential advice to Government**

[Redacted content]

Noted

Michael Contaldo
Manager, Investment Policy
 Labour, Science and Enterprise, MBIE

..... / /

Hon Judith Collins KC
Minister of Science, Innovation, and Technology

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Background

1. On 18 November 2024, Cabinet agreed to progress work to establish Invest NZ as an investment attraction agency [CAB-24-MIN-0445 refers]. You have been tasked with reporting back to Cabinet on options for its establishment. This briefing seeks your direction on the purpose, functions, form, and establishment process for Invest NZ.

Invest NZ will be a one-stop-shop to attract highly productive investment

2. Cabinet has agreed to progress reforms to improve inward investment attraction settings that will help lift New Zealand's productivity by establishing a new agency, Invest NZ.
3. Invest NZ is intended to work with multi-national corporations (MNCs) and foreign investors to attract people, businesses and capital with a particular interest in investing in science, innovation and technology to drive economic growth. We have interpreted Invest NZ's remit as *excluding*: public infrastructure, residual functions from Callaghan Innovation, preparing Māori assets for investment, and absorbing other domestic investment functions.¹
4. We suggest that Invest NZ's outcomes be focussed on attracting:
 - a. Money – more foreign investment into truly innovative activities in both “traditional” sectors as well as sectors with high potential to raise productivity and drive economic growth.
 - b. Businesses – more R&D investment and innovative activity in NZ by multi-national firms.
 - c. People – skilled professionals who will help foster innovation, raise domestic capabilities, and improve international connections.
5. Invest NZ needs to be set up for success through a strong and focused mandate that is aligned with its purpose, activities and wider strategic goals, the right institutional arrangement and form, and a clear set of effective functions and services. Functions could include setting foreign direct investment strategy, maintaining a network of global investors (including through offshore teams), prospectus development, developing greenfield and brownfield investment opportunities, match-making between investors and opportunities, and feasibility analysis.

Invest NZ could provide different types of services to help attract investment

6. Ireland's Industrial Development Agency (IDA) offers an excellent example of an effective investment promotion agency. We have tried to apply lessons for the development of Invest NZ. Key points of learning are for the agency to have a consistent focus on priorities, alongside a concierge approach that develops investible propositions and helps customers navigate regulatory pathways, facilitates conversations about government policies, and attracts and builds talent. An overview of IDA Ireland has been provided at **Annex One**. It is worth noting that IDA Ireland is around ten times larger in terms of budget than the current NZTE investment team, which is one of the likely explanations for its reach and impact.

¹ Naturally Invest NZ will need to be closely coordinated with these system players (e.g., National Infrastructure Agency, New Zealand Growth Capital Partners, Overseas Investment Office, Ministry for Primary Industries, Kānoa).

7. It should be noted that part of what IDA Ireland does is not easily replicable for New Zealand. Primarily, some of its strategic advantages are geographical. In addition, IDA Ireland leverages a wide range of financial and fiscal incentives to attract foreign investment.
8. Nonetheless, developing and providing more proactive services would align Invest NZ's functions with what other effective international promotion agencies offer, enabling it to be globally competitive. This will inevitably be resource intensive, but on balance provides useful gains.
9. In addition, an important part of driving FDI is originating and preparing commercially viable opportunities and promoting these to investors. Especially where these opportunities sit in sectors of competitive advantage for New Zealand, and which would best allow us to actively compete for capital. Cabinet has options on the extent to which Invest NZ carries out such functions or relies on other parts of government and the private sector.

The development of New Zealand's space sector offers an example of how government can create a more enabling environment for inward investment

10. The development of New Zealand's space sector offers an example of where a government with an engaged approach towards investment attraction, regulatory agility, and policy making has led to the emergence of a growing space industry. This includes an increasing number of global space and advanced aviation companies performing frontier research and development in New Zealand, including partnerships between New Zealand's leading researchers and development intensive business to conduct transformative research.
11. Early investors into New Zealand found they were constrained by the regulatory environment. The Outer Space and High-altitude Activities Act and the establishment of the New Zealand Space Agency created some clarity in terms of how launches into outer space, launch facilities, high-altitude vehicles, and payloads would be managed. This comparative advantage has led to industry being able to work more constructively with government, with firms such as Rocket Lab being able to rapidly develop its space sector services through close engagement with regulators.
12. Related to this, a number of global firms working on advanced aviation technologies have been attracted to New Zealand through the Airspace Integration Trials Programme (AITP) to conduct R&D, particularly testing and trialling of products. However, while the AITP has been successful from an R&D activity and investment attraction perspective, the main inhibitor has been the ability of our domestic regulatory system to keep pace with the demand this has created. This includes the need to adopt new approaches to certification, and how to further build capability and capacity within regulators so they can assess novel technologies and use-cases in a timely manner.
13. With this in mind, it is critical that Invest NZ has a clearly understood mandate from its inception in order to target the most impactful inbound investment for New Zealand and improve on the current fragmented nature of the ecosystem.

An orderly transition to an Autonomous Crown Entity (ACE) by mid-2026

14. It is important that any move towards establishing Invest NZ is managed in an orderly way to give ongoing confidence to overseas investors so that they may continue to make investments into the country. There is a high-risk that a poorly designed or executed

transition could have long-term detrimental impacts on perceptions of New Zealand as an investment destination.

15. While we are working to shift our investment attraction settings significantly, we do recommend sending clear signals to ensure NZTE's existing investment-related staff and relationships are retained. This will give options for how investment attraction services are delivered. If the future for investment staff is unclear, they may be lost as they are a highly mobile workforce. Note that, regardless of new settings, there will be some continuity from NZTE: investment agencies work similarly globally, New Zealand-based overseas-facing agencies work together and in an aligned way, and there is a limited labour pool in New Zealand for this type of work. Losing NZTE's staff or relationships would mean having to rebuild these, likely at increased cost and with detrimental impact on service for new and existing customers.
16. International evidence recommends that high-performing investment agencies have an autonomy from government, while being connected to both high-level government decision makers as well as private sector actors. This gives long-term stability as well as the right connections for influence to provide investor confidence. The IDA is mostly autonomous from the Irish government and its model matches most closely to that of an ACE.
17. We consider an ACE is a strong fit for Invest NZ's form.² An ACE gives Ministers good oversight with an arms-length relationship. It can remain well-connected to key parts of government, which means it can act as both a good representative of the government while also working with investors to understand their needs and desires and taking these to other parts of government to constructively work alongside them. Overall, we consider entity form provides a strong foundation, but equally important to success will be leadership, staff, culture, and continuous performance management and improvement.

Setting up a statutory entity usually takes 12-18 months

18. To set up the new entity for success, an establishment working group would need to work through issues before the entity comes into force. This includes, for example, developing the entity's business model, strategy, organisational needs (e.g. back-office support), and transitional arrangements alongside NZTE (particularly to ensure customers receive continuity of service and understand what is happening and when).
19. The establishment working group would likely include an establishment Chair and others who could be carried into the agency's executive. It might also include secondees from NZTE, MBIE, and Treasury to facilitate knowledge exchange and provide oversight. We would also suggest a representative from Ireland could help share experiences.
20. While legislation would not come into force until mid-2026 at the earliest (depending on legislative timeframes), work on setting up a new statutory entity would need to begin soon after Cabinet decisions are taken on drafting instructions. Establishing a statutory entity typically takes around 12-18 months.

² We considered two other main forms: Independent Crown Entity (ICE) and Crown Agent.

But there are also three faster alternative approaches

21. There are three options to shift towards new investment attraction delivery settings sooner than mid-2026, which would signal momentum on delivering reforms. The key consideration for these options is whether their additional effort is worth the impact that they may achieve earlier.

Confidential advice to Government

Accelerated legislation

22. Legislation could be progressed faster (likely under urgency) to establish Invest NZ sooner. We consider the minimum timeframe between Cabinet decisions and Invest NZ being established is 4 months, which allows for a smooth transition from NZTE to Invest NZ to be planned and delivered. Ultimately, timeframes would be mainly driven by legislative speed. This process would require additional resource from across MBIE and NZTE and could pose risks to a smooth transition.

Departmental Agency for the medium-term (3-5 years)

23. A Departmental Agency (DA) could be hosted in MBIE, established through an Order in Council. A DA has its own chief executive accountable to Ministers and is responsive to changing priorities as its settings are not locked into legislation. It has low overhead costs as it relies on an existing back-office. An example is the Social Investment Agency, within the State Services Commission, which supports the Government to achieve better outcomes from social service expenditure.
24. A DA could be established by mid-2025 but delivery would need to ramp up over time as funding becomes available and the organisation builds up. NZTE's Investment function could be transferred to the DA to 'kickstart' the process but this would not be a guaranteed smooth transfer as it would not be through primary legislation.
25. We would still recommend an ACE as the likely best long-term form for Invest NZ (in line with international best practice) but would recommend waiting a few years to establish an ACE as there will be duplicated transaction costs from the change. Consequently, this option would involve two transitions – one from NZTE to an MBIE-hosted DA, and a second from the MBIE-hosted DA to a new ACE, albeit spread over several years.

Incubate within NZTE for the short-term (until independent entity is established)

26. NZTE's existing investment attraction services could be scaled up and pivoted towards new settings as funding frees up (mid-2025 at the earliest), in preparation for being spun out into an independent entity as set out above. NZTE's Board could manage the establishment process as Invest NZ's start date approaches, potentially with an incoming Chief Executive. If you are interested in pursuing this option, we suggest that you discuss with the Ministers for Trade and Economic Development the possibility of appointing to the NZTE Board a Director with investment experience who could report to you and act as lead Director for establishing Invest NZ.

27. This option carries low initial delivery risk as it relies on existing service delivery, and would enable continued usage of NZTE's back-office and international footprint. However, until NZTE can operationalise newly available funding, there may not be much that can be changed without risking NZTE's wider delivery. It is also possible that basing Invest NZ within NZTE could undermine a step shift to new settings if its existing model has been holding back investment attraction performance. We consider it likely that additional funding, a clearer mandate, and a stronger focus on this function will improve performance.
28. NZTE's investment function is ultimately intended to be transferred to Invest NZ. Decisions will therefore need to be made about the future of NZTE staff currently working in this area. Any accelerated delivery option may rely on NZTE Investment to provide the basis for delivery, from which to scale up. This would not lock in any decision but may make it harder to independently assess the function and move away from it if required.
29. On balance, we recommend an accelerated legislation process, alongside incubation of Invest NZ within NZTE in the short term – as this allows for establishment to happen expediently and with minimal disruption.

Next steps

30. We will start work on the Cabinet paper to seek decisions for Invest NZ's establishment, reflecting your preferences.
31. **Confidential advice to Government**



Annex One: Ireland's Investment Promotion Agency

Category	Description
Form	IDA Ireland is an autonomous state-sponsored agency that is supported by the Minister of Enterprise, Trade and Employment.
Purpose	To attract high value foreign direct investment into Ireland that will foster economic growth, create jobs, and enhance its global competitiveness.
Resources	Budget in 2024: €230m (\$412m NZD), of which €134m (\$240m NZD) consists of support grants. Staff: 340 employees, and a board with 15 members ³ .
Priority sectors (six total)	Technology, medical technologies, engineering, biopharmaceuticals and food, international financial services, and content, consumer, and business services.
Functions	International promotion/proposition development/networking: Marketing campaigns and business missions, including visits to business parks (e.g. Galway for medical devices/ Cork for life sciences/ Dublin for tech).
	Information provision: Information gathering for in-market decision-making, for example advice on locations where similar companies are located, or where specific skill-set requirements can be found.
	Concierge/Investment facilitation: Regulatory and legal guidance, site selection and assistance for navigating local regulations.
	Post investment support: Provides ongoing support once operations have been set up, including assistance to scale.
	Incentive programmes: Ireland has a wide range of financial incentives that have been developed over time, as outlined below.
Financial incentive examples	General: Funding via the Irish government's €500m (\$899m NZD) Disruptive Technologies Innovation Fund to support collaboration between international enterprises with operations in Ireland, Irish enterprises, higher education institutes and research centres.
	R&D support: Grants of up to 10-15% to cover salaries, overheads, equipment, materials, and other costs related to R&D investments
	Employment grants: For businesses establishing operations outside of Dublin or Cork, they offer to cover up to 10% of the average starting salary of employees.
	Tax incentives: Whilst not directly provided by IDA Ireland, the corporate tax rate (12.5%) and 25% R&D tax credit are a strong synchronous incentive.

³ "IDA Ireland: Annual Report", 2023. N.B exchange rates as of November 2024.

Table illustrating current key differences between NZTE Investment and IDA Ireland

	Current NZTE Investment	IDA Ireland
Size	Approx. 30 FTE	Approx. 340 FTE
Budget (including grants)	Approx. \$10 million	\$412 million
Grants programme	\$1.2 million SIF	\$240 million
Operating Model	<ul style="list-style-type: none"> • Originate deals • Prepare Investors and Opportunity • Connect Investor with Opportunity 	<ul style="list-style-type: none"> • Investment attraction and concierge service • Service directory of professional services to assist investors
International presence	5 locations	23 locations