MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Access to growth capital

Date:	9 May 2025	**Priority:**	Medium
Security classification:	In Confidence	**Tracking number:**	REQ-0013608

Minister	Action sought	Deadline
Hon Nicola Willis **Minister for Economic Growth**	**Note** that government has a number of key initiatives in place to support access to growth capital for businesses. **Note** that there may be opportunities to leverage this existing support to further going for growth objectives. **Agree** to discuss this with officials on 14 May 2025.	14 May 2025

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Michael Contaldo	Manager, Investment Policy	Privacy of natural persons	✓
Privacy of natural persons	Policy Advisor, Investment Policy		

The following departments/agencies have been consulted
N/A

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- ☐ Withdrawn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 you with further information as you requested on Elevate and Aspire to understand how these funds fit into the wider access to capital landscape, as well as provide some of the considerations associated with businesses accessing growth capital more generally.

Recommendations

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

a **Note** that the Government has a number of key initiatives in place to support access to growth capital for businesses.

Noted

b **Note** that there may be opportunities to leverage this existing support to further going for growth objectives.

Noted

c **Agree** to discuss these issues, and next steps, at your upcoming meeting with officials on 14 May 2025**.**

Agree / Disagree

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

..... / ...... / ......

Hon Nicola Willis
Minister for Economic Growth

..... / ...... / ......

Background

1. Cabinet has agreed through Budget 2025 to provide additional capital of $100 million into the Elevate fund supporting high-growth businesses looking to scale-up through venture capital. Alongside this, you have agreed that officials initiate a review into Aspire to determine whether policy settings remain fit for purpose, and aligned with Elevate in terms of providing a pipeline of support. More detailed information on Aspire and Elevate funds are at **Annex Two.**

2. As you agreed, officials communicated these decisions to the New Zealand Growth Capital Partners (NZGCP) Board during its meeting on 6 May, where this information was well received. Officials also encouraged the Board to kick-start the process to recruit a new Chief Executive for NZGCP once Budget announcements have been made public

3. In response to previous advice [REQ-0014926 refers], you also asked for further clarification as to how Elevate and Aspire fit into the access to capital landscape, and what more the government might do to better leverage existing support mechanisms to unlock the growth potential of New Zealand businesses.

Access and availability of growth capital for New Zealand businesses

4. New Zealand's future economic growth is dependent on businesses growing, creating jobs and exporting to new markets, often in new and emerging industries. Access to capital for growth is a critical as it enables businesses to build capability, carry out research and development, invest in facilities and machinery, and access new markets.

Start-ups need access to seed and scale-up capital to establish themselves to grow

5. Start-ups are young highly scalable enterprises based on innovative business concepts that either disrupt existing markets of significant size or establishing a new market (through novel technologies and/or business models).

6. Most start-ups rely on equity capital through early-stage capital markets to finance their growth, as they are unable to utilise traditional commercial debt finance due to the inherent risk of novel business models and/or technologies. **Figure One** provides you a visualisation on start-up developments and funding from NZGCP.

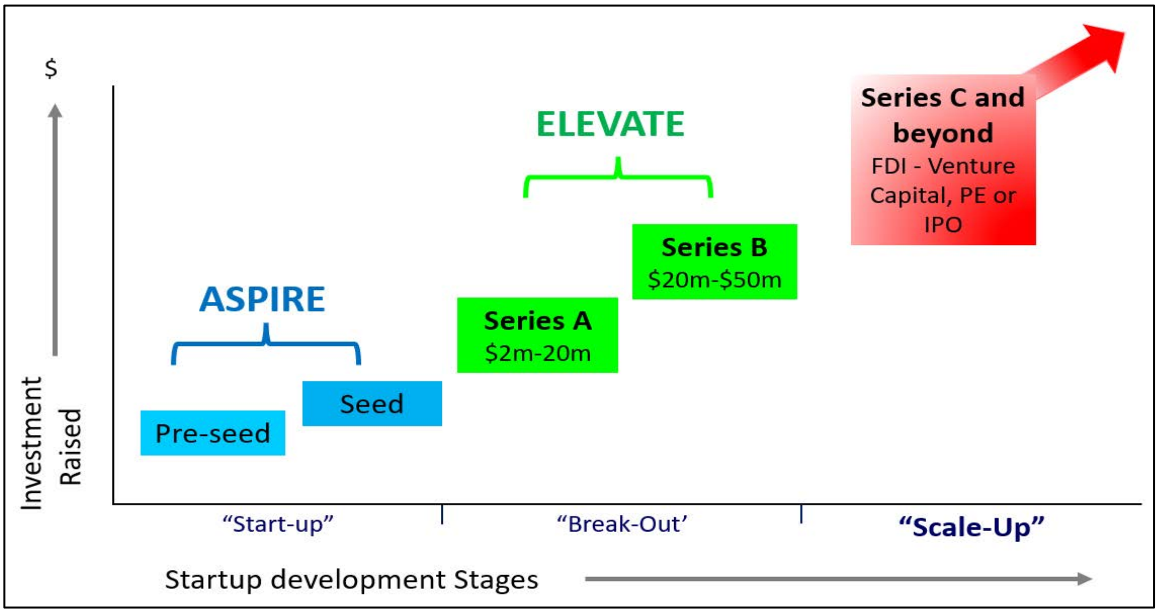

Figure One: Start-ups by growth stage and government support

However, there are market failures within New Zealand's capital markets

7. Market failures exist in our (and every other) capital market, i.e. private capital does not always reach good commercial opportunities due to information problems that naturally exist between entrepreneurs, lenders and investors. Below are a few key examples of capital market failures in New Zealand

Pre-seed and seed markets are fragile.

8. Early-stage capital markets deal in high-risk, high-reward investments in start-ups. The pre-seed and seed capital component of the market in inherently fragile and prone to downturns in times of economic uncertainty due to a high dependence on high-net-worth individual ('angel') investors. The Aspire fund (previously the Seed Co-investment Fund) has helped to crowd-in private-sector investment, strengthen this stage of the market and increase the number of start-ups. Note that there has been regression in this part of the market due to recent economic conditions and will therefore inform the review of Aspire policy settings.

Venture capital markets are underdeveloped

9. In 2019, the Treasury's '*Deepening New Zealand's Early Stage Capital Markets*' report identified that there was an estimated gap of $150 million in annual investment in Series A and B funding rounds for new start-ups entering their scaling and growth phases. Series A and B provides a bridge for many start-ups to scale to become investable for international venture capital (VC) and/or international private equity. This led to the establishment of Elevate. The Elevate fund, though its fund of funds model, has been successful in crowding-in an additional $550 million investment into this Series A and B capital market, investing into nine different VC funds. It is projected that sustained support will be required until 2035 to ensure the VC market has matured with active and sustained competition and investment of adequate levels of private growth capital investment.

Growth capital gap for established small- to medium-sized enterprises (SMEs)

10. A 2023 Deloitte study estimated that there were 500–1200 established SMEs (businesses with a more traditional and linear growth trajectory), sized between $1 million to $10 million, who could not access growth capital. In 2023, it was proposed that a "Business Growth Fund" could help fill this gap. This concept has found success in other jurisdictions like the United Kingdom, Canada and Australia.

11. The previous Government committed $100 million in equal partnership with the four major banks as co-shareholders to establish the New Zealand Business Growth Fund. However, due to competing priorities, discussions with the banks were not progressed through to implementation, and the committed funds were therefore reallocated with the BGF initiative suspended. **Figure Two** provides you a visualisation of sources of finance, by revenue, of SMEs.

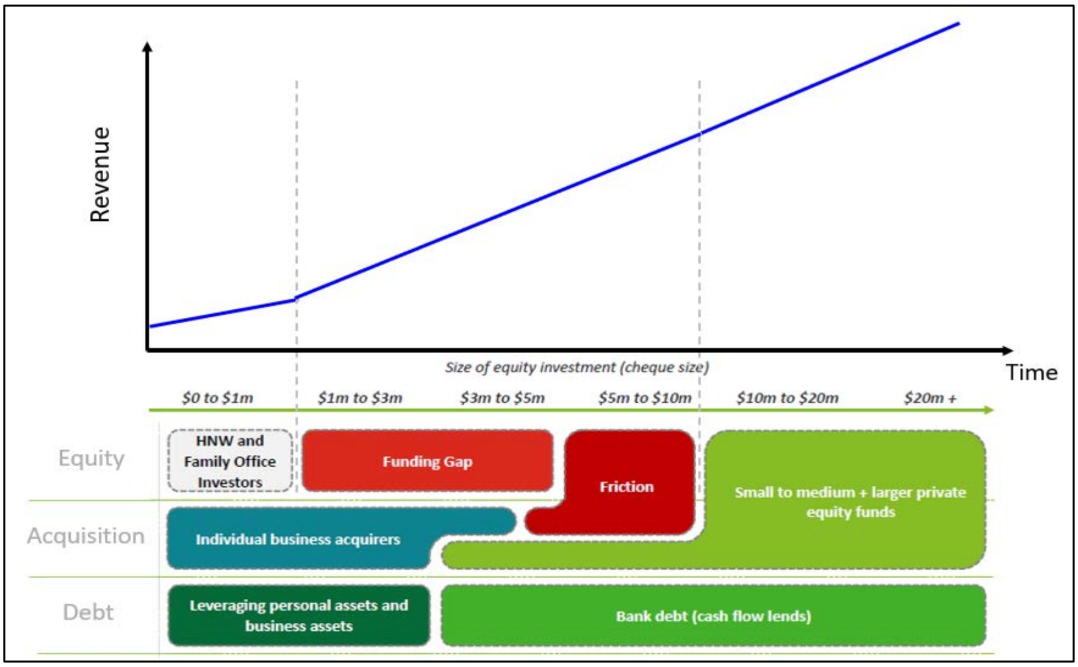

Figure Two: SMEs sources of finance, by revenue

Government interventions to increase New Zealand firms access to finance

12. The government have looked to address some of these capital market failures via numerous initiatives and funds to support New Zealand businesses access finance. However, such initiatives can appear fragmented making it difficult for businesses to navigate and effectively access the government supports intended to assist them.

13. Current interventions are, through distinctly different financial instruments (e.g. loans, equity, and grants), often industry-specific and originates from several different agencies and departments. Note that MBIE is currently undertaking policy work to examine the funds that government utilised to support businesses.

14. This fragmentation of funding, as well as the wider supporting framework, may be symptomatic of systemic fragmentation in service delivery and policy. In the 2023 Upstart Nation report, the Start-Up Advisors Council identified that a fragmented government support and lack of government engagement with the start-up ecosystem was a major constraint for growth and success of start-ups.

Opportunities to leverage existing government support

15. There are opportunities to leverage existing initiatives to make them more accessible to New Zealand businesses.

There is an opportunity for leadership in the start-up ecosystem

16. Your investment in Elevate fund is ultimately aimed at stimulating the growth and success of New Zealand start-ups and therefore the wider economy. However, VC and early-stage capital markets are only one part of the wider startup ecosystem. **Figure Three** provides you with the components of the start-up ecosystem.

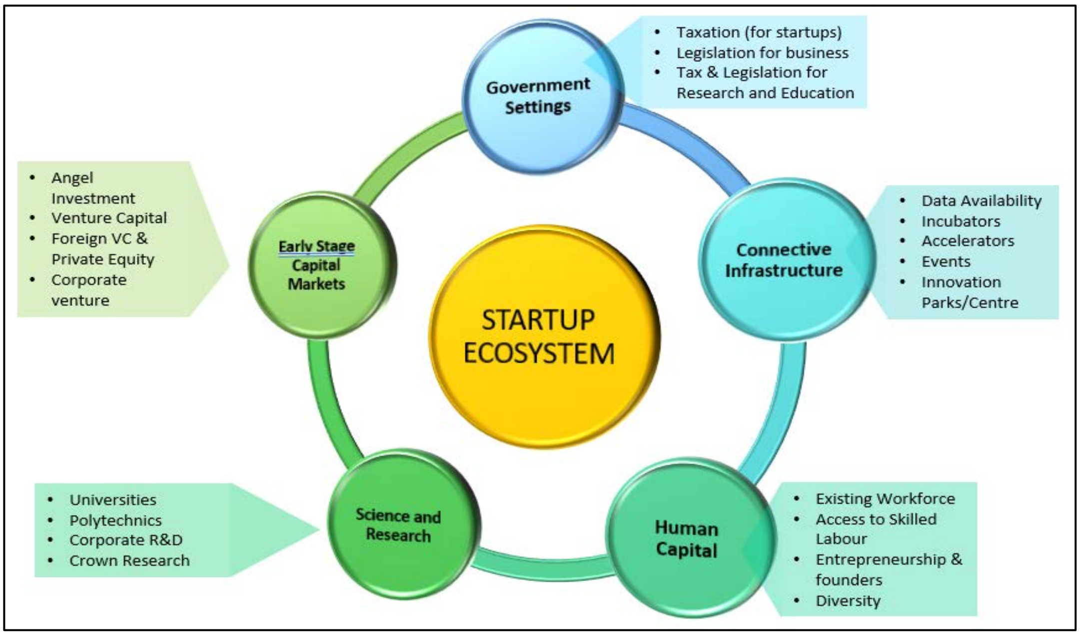

Figure Three: Components of the Startup Ecosystem

17. Across the different components of the ecosystem, there is a range of policy levers available to improve outcomes from the start-up ecosystem. There is an opportunity for leadership in this space, it will require collaboration across Ministers and portfolios to achieve the broader goals of growth and success for the ecosystem.

Next steps

18. We would like to meet with you and discuss the contents of this briefing at your upcoming officials meeting on 14 May.

Annexes

Annex One: OECD comparison of policies that support firms' access to finance in 2018/19

Annex Two: Differences between the Aspire and Elevate VC funds

Annex One: OECD comparison of policies that support firm’s access to finance in 2018/19

Note that this table is an overview of broad categories, not of policy instruments.

	Government loan guarantees	Direct lending to SMEs	Subsidised interest rates	SME banks	Support for start-up finance			SME equity investment
					Guarantees and loans for start-ups	Venture capital funds	Business angels’ co-investment	
Australia		✓			✓	✓	✓**	✓*
Austria	✓	✓	✓	✓	✓	✓*	✓	
Canada	✓	✓		✓	✓	✓	✓**	✓*
Chile	✓		✓	✓	✓	✓		
Denmark	✓	✓		✓	✓	✓	✓*	✓
Estonia	✓	✓	✓	✓	✓	✓	✓*	✓
Finland	✓		✓	✓	✓	✓	✓*	
France	✓	✓	✓	✓	✓	✓	✓	✓
Ireland	✓	✓		✓	✓	✓	✓*	✓*
Israel	✓	✓		✓	✓	✓	✓	
Japan	✓	✓		✓	✓	✓		
South Korea	✓	✓		✓	✓	✓	✓	
Netherlands	✓	✓		✓	✓	✓*	✓*	
New Zealand	✓*					✓	✓	
Norway	✓	✓		✓	✓	✓		
Poland	✓	✓*	✓*	✓	✓	✓*	✓*	✓
Sweden	✓	✓		✓	✓	✓*		
Switzerland	✓							
Turkey	✓	✓	✓	✓	✓	✓	✓	✓
UK	✓	✓		✓	✓	✓	✓	✓*
USA	✓	✓				✓		✓
	* For exporters only (via NZ Export Credit)	* In co-operation with the EU only					** At the regional level only	* Also have Business Growth Funds

Source: Adapted from the OECD Scoreboard on Financing SMEs and Entrepreneurs 2020

Annex Two: Differences between the Aspire and Elevate VC funds

		Aspire Fund	Elevate Fund
Target		Pre-seed and seed stage	Growth stage (Venture Capital)
Fund size		$179M ($ 50M remaining uncommitted)	$300M ($79M remaining uncommitted)
Investment Model		Direct co-investment in businesses alongside angel investors, at 1:1 on average	'Fund of funds': Co-investment in venture capital funds (on behalf of the Guardians), at 2.4:1on average
Characteristic(s)	**Stage**	Proof of concept, pre-seed, seed, and early expansion	Series A and B (early-stage growth, post-seed)
	Deal Size	$100,000 to $1 million	$2 million to $40 million
	Partners	High net worth individuals/angel investors, VCs, etc.	Fund-of-funds: invests into VC funds, not directly in start-ups
	Purpose	Build pipeline of early-stage New Zealand tech companies; support growth to Series	Fill Series A/B capital gap, grow and stimulate New Zealand VC industry
	Follow-on policy	Will follow-on in portfolio companies, but limits Series A participation to pro-rata to avoid crowding out VCs	No direct follow-on; relies on VC funds' investment decisions
	Current Investments	$20 million (recent fund size) predominantly in deep tech start-ups	Underlying investments of $440 million in 123 startups (in high-growth industries, such as software, advanced manufacturing, cleantech and medtech)
	Investment horizon	Long-term, often 10+ years due to early-stage and deep-tech focus	Long-term, aligned with VC fund horizons