



MEACTIVE – April 2009

CEO Comment

Government grants don't cut it

The Government is establishing a single grant scheme to assist businesses growing globally by combining three of New Zealand Trade and Enterprise (NZTE)'s existing grant schemes into one fund. The Market Development and Capability Building grants will be phased out to allow the Growth Services Fund to expand, but the same old 'picking winners' approach is still alive and kicking in Government thinking.

Economic Development Minister, Gerry Brownlee, said the new fund will be targeted at businesses with the potential for high growth in new markets, or which already have an established global presence but are seeking to expand or intensify their operations.

However, the decision leaves a team of Wellington bureaucrats deciding who gets what funding. Officials often have little understanding of the earning potential of firms so the money simply ends up in the hands of safe businesses they can understand. This makes any potential funding both unpredictable and unfair. Even those firms that are successful in applying for a NZTE grant dissipate a significant amount of resources to attain it. For those who are unsuccessful the effort put into applying for grants is wasted.

Tax incentives like the Research and Development Tax Credit assist firms that choose to risk investment in their own business. This means that the people who are most knowledgeable about the business (those who run it) are able to determine the likelihood of success – who would you prefer to bet on, bureaucrats or owners whose livelihoods are on the line?

The amount the Government is prepared to commit to the fund is economically insignificant. Once the fund is fully established in 2010, it will be worth \$30 million which amounts to \$2,200 per exporting firm. Even concentrated in a handful of firms this is tiny compared to the wild fluctuations in our exchange rate. It is even less than the proposed national cycle way and the funding spent on Export Year by the last Government. Clearly the tradeable sector is being overlooked.

If we are to exit this crisis stronger than when we went in, this attitude will have to change. Investment in the tradeable sector is the driver of productivity so this needs to be encouraged if New Zealand as a whole is to raise its standard of living.