



COVERSHEET

Minister	Hon Dr Megan Woods	Portfolio	Research, Science and Innovation
Title of Cabinet paper	Update to the Founder Incubator and Accelerator Programmes	Date to be published	17 January 2022

List of documents that have been proactively released

Date	Title	Author
November 2021	Update to the Founder Incubator and Accelerator Programmes	Office of the Minister of Research, Science and Innovation
10 November 2021	Update to the Founder Incubator and Accelerator Programmes DEV-21-MIN-0223 Minute	Cabinet Office

Information redacted

YES / NO [select one]

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Some information has been withheld for the reason of commercial information.

In Confidence

Office of the Minister of Research, Science and Innovation

Chair, Cabinet Economic Development Committee

Update to the Founder Incubator and Accelerator Programmes

Proposal

- 1 This paper seeks Cabinet's agreement to combine the founder incubator and accelerator programmes and make a number of other changes to update the programmes.

Background

- 2 The Government's founder incubator and accelerator programmes award funding to startup support organisations to provide incubation or acceleration services to founders and startups, supporting the growth of New Zealand's startup ecosystem.
- 3 Founder incubators provide early stage support to founders, while accelerators help more established startups to develop their initial product during an intensive, fixed-term programme (usually 3-6 months). Both programmes help founders develop their skills and grow their startups and wider entrepreneurial businesses. They also play important roles in connecting entrepreneurs with mentors and investors, and building the startup community.
- 4 Cabinet established the founder incubator programme in 2001 [CAB Min (01) 11/2 refers] and the accelerator programme in 2011 [EGI Min (11) 13/7 refers]. In 2014, management of the programmes was transferred from New Zealand Trade & Enterprise to Callaghan Innovation.
- 5 The programmes are currently funded at a combined total of \$2.87 million per annum, and this level of funding has been largely unchanged since the 2016/17 financial year. \$2.87 million is currently used to fund five founder incubators at an average of around \$400,000 per annum, and four accelerators at an average of \$225,000 per annum.
- 6 The programmes are funded from the *Repayable Grants for Startups (M84)* appropriation, which was allocated \$20.746 million in Budget 2021. The majority of the appropriation is used to fund the Technology Incubator Programme, including operational costs of the technology incubators, Repayable and Pre-Incubation Grants. Cabinet previously agreed that up to 5 per cent of the funding may be used to administer the programmes (EGI Min (13) 25/6).
- 7 A 2016 review of the technology and founder incubator programmes concluded they were generating additional technology startups and contributing to the Government's economic objectives, and a 2015 review of the accelerator programme found it was developing entrepreneurs and performing on par with similar programmes internationally. Another review in 2018 concluded the founder incubator programme was performing satisfactorily, but noted issues with low funding and opportunities to better align with the accelerator programme.

- 8 There have been some notable startup success stories through the programmes, such as Sharesies, which went through the inaugural Lightning Labs Fintech accelerator in 2017. Sharesies makes it easy for New Zealanders to invest regardless of wealth; as of the end of 2020 it had grown to 250,000 customers with nearly \$1 billion invested.
- 9 During the 2018/19 financial year, the programmes supported 259 startup teams, of whom 125 went on to raise capital totalling \$180 million.
- 10 The programmes mostly support founders of digital tech startups, but they also support deep tech¹ emerging from New Zealand’s research and science system. Zincovery, a spin-out from the University of Canterbury that recovers zinc and reduces industrial waste, and winner of the Callaghan Innovation C-Prize in 2019/20, was a participant in the ThinkLab Growth Programme (one of the funded founder incubators). By helping researchers learn the business skills they need to build and grow a startup, the programmes complement other government programmes that support deep tech startups such as the Commercialisation Partner Network, PreSeed Accelerator Fund and the Technology Incubator Programme.

Comment

- 11 Startups, especially those that successfully scale up, grow our innovation-based economy and exports, and help raise productivity. At the same time, they make an outsized contribution to government objectives including climate change, industry transitions and wellbeing.
- 12 The main purpose of government support for founder incubators and accelerators is to build entrepreneurial capability in New Zealand’s startup ecosystem, equipping budding entrepreneurs with the mind-set, skills and networks to succeed. Building entrepreneurial capability provides the foundation of talent New Zealand needs to create and grow innovative startups and wider entrepreneurial businesses, commercialise deep tech coming out of our science system, and grow our research, science and innovation workforce.
- 13 Building entrepreneurial capability also benefits the business environment more generally. Even if they do not found a high growth startup, upskilling entrepreneurs helps them start and operate businesses more successfully, including social enterprises. While most of the companies that go through the programmes have a research and development or technology focus, this is not always the case, reflecting that entrepreneurial capability covers a wider range of skills than those used for startups.
- 14 The founder incubator and accelerator programmes have helped support founders and startups, and played a key role in the development of New Zealand’s startup ecosystem. However, there has been substantial growth in the startup ecosystem since the programmes were established. With contracts with the current founder incubators and accelerators ending on 30 June 2022, I have taken the opportunity to consider the programme settings and potential changes to target more ambitious growth in the quality and scale of the New Zealand startup ecosystem.

Most incubators and accelerators depend on government funding

¹ “Deep tech” refers to technology based on scientific discovery or meaningful engineering innovation. In contrast, “tech” generally refers to software and digital innovation.

- 15 When the founder incubator programme was established, Cabinet expected that incubators in the major centres would ultimately become self-sustaining, while incubators in the regions would require ongoing funding. However, a 2016 review of the programmes did not expect founder incubators to become self-funding in the medium term.
- 16 While incubators and accelerators can generate revenue from other sources, this can be a trade-off, distracting them from their core purpose of supporting founders and startups. Providers have taken various approaches to raising revenue: Icehouse Ventures invests and takes equity in its companies, Creative HQ provides innovation consultation services, and Sprout has attracted corporate sponsorship from the agriculture sector.

Commercial Information

- 17 Self-sufficiency was probably an unrealistic goal; globally, few incubators or accelerators have found self-sustaining business models, and are generally reliant on government, university or corporate support. The only self-sufficient accelerators tend to be backed by venture capital firms, with a business model of seeking returns from investment in promising startups. This private sector model might support high potential, later stage startups already on their way to success, but is less likely to support earlier stage startups.
- 18 Startup sector stakeholders see the programmes as a key pillar of Government support for the startup ecosystem. They consider there is still a need for government-backed programmes, which they see as more effective, and as offering support for early stage startups unlikely to be supported by private sector programmes.
- 19 I consider there is value in continuing to fund founder incubators and accelerators given the achievements of the programmes to date and their dependence on external funding to provide services to founders and startups. Funding should continue to be drawn from the *Repayable Grants for Startups (M84)* appropriation.

Combine the founder incubator and accelerator programmes into a single programme

- 20 Programme providers have said the line between incubators and accelerators is increasingly blurred, and the distinction is no longer useful. Furthermore, these distinctions are forcing some providers to establish artificial boundaries between incubator and accelerator services, distorting how they operate their programmes.
- 21 I recommend combining the founder incubator and accelerator programmes into a single startup support programme, focused on founder capability outcomes. This will give providers more flexibility in how they achieve these outcomes, including more scope for activities that do not fall neatly into 'incubator' or 'accelerator' services.

Expand support to include entrepreneurial capability building

- 22 There is currently a gap in support for early stage founders and startups who have entrepreneurial leanings and business ideas, but are not yet ready for formal incubation or acceleration programmes.

- 23 I recommend the programmes address this gap by supporting entrepreneurial capability building and ecosystem building activities, such as pre-incubation programmes or connecting founders with national networks, in addition to support for incubator- and accelerator-style services.

Form a more cohesive national network

- 24 The contracted founder incubators and accelerators currently operate largely independently of one another. This has led to some unproductive local duplication of effort - such as in developing and testing programmes, and producing resources for startups – and there have been instances where incubators or accelerators try to retain their local startups rather than connect them to other locations where they might get more appropriate support.
- 25 I recommend the programmes seek to establish a more collaborative and cohesive nationally-branded network, where experience and resources are shared, and there is a common goal of achieving local and national startup objectives. Callaghan Innovation will manage this through its administration of the programmes.

Designing a more inclusive programme

- 26 The programmes currently provide support for Māori startups including through funding Kōkiri, a Māori accelerator programme based on kaupapa Māori values and focused on accelerating early stage Māori-led startups. I recommend that supporting Māori startups is identified as an important objective of the updated programme, and form part of the operational policy and procurement process run by Callaghan Innovation.
- 27 More generally I recommend that we look to ensure stronger outcomes through this programme in terms of building a more diverse and inclusive system, particularly when engaging with our women and Pacific founders and entrepreneurs.

Next steps

- 28 Callaghan Innovation will initiate a procurement process for a new startup support programme over the coming months to commence from July 2022. The procurement documentation will reflect the changes to the programmes, subject to Cabinet's agreement.
- 29 As part of the implementation of these changes, I recommend an early evaluation be undertaken in 2022, looking at how:
- Lessons and feedback from the previous programmes have been incorporated into operation of the new programme.
 - Appropriate metrics are being used to assess programme impact and determine how it is contributing to wider objectives to develop the New Zealand startup ecosystem.
 - Government funding is leveraging private sector contributions.
 - Diverse and inclusive participation is being supported by the programme.

Consultation

30 The Ministry of Business, Innovation and Employment (Economic Development and Transitions branch) and Te Puni Kōkiri were consulted in the preparation of this paper.

Financial Implications

31 There are no financial implications associated with this paper.

Human Rights

32 This proposal is consistent with the requirements under the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative Implications

33 There are no legislative implications associated with this proposal.

Publicity

34 Callaghan Innovation will communicate changes to the programmes to current providers and to startup ecosystem stakeholders, including engaging with parties potentially interested in the procurement process.

Proactive release

35 I intend to release this paper proactively. Any redactions made will be consistent with the *Official Information Act 1982*.

Recommendations

The Minister of Research, Science and Innovation recommends that the Committee:

- 1 **Note** the founder incubator and accelerator programmes help support founders and startups, and play a key part in the development of New Zealand's startup ecosystem.
- 2 **Note** there has been substantial growth in the startup ecosystem since the programmes were established. The contracts with the current founder incubators and accelerators end on 30 June 2022, providing an opportunity to update the programmes to target more ambitious growth in the quality and scale of the New Zealand startup ecosystem.
- 3 **Agree** to update the founder incubator and accelerator programmes to:
 - Combine the founder incubator and accelerator programmes into a single startup support programme
 - Expand support to include entrepreneurial capability building
 - Form a more cohesive national network
- 4 **Note** that the Ministry of Business, Innovation and Employment will continue to work with Callaghan Innovation on the operational policy for the programme, including ensuring that:
 - lessons and feedback from the previous programmes have been incorporated into operation of the new programme.

- appropriate metrics are being used to assess programme impact and determine how it is contributing to wider objectives to develop the New Zealand startup ecosystem.
- government funding leverages private sector contributions.
- the programme supports diverse and inclusive participation.

5 **Note** that I will report back to Cabinet in late 2022 with an early stage evaluation of the changes made to the founder incubator and accelerator programme, and how these changes are contributing to a longer-term vision to support growth in the quality and scale of the New Zealand startup ecosystem.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Research, Science and Innovation