

**Evaluation
of the
Enterprise Development Grants – Market
Development (EDG-MD) Scheme**

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Executive Summary

Overview of the Enterprise Development Grants - Market Development (EDG-MD) Scheme

The EDG-MD was established by Cabinet in November 2004, and commenced operation in January 2005, to encourage more firms to enter global markets. It is the largest grant scheme funded from Vote Economic Development, and is currently appropriated \$48.5m per year. Around 1000 firms have accessed the EDG-MD over the past 3 years, the majority applying for the first time in the 2006/07 year.

Policy rationale

The EDG-MD policy was developed to support export market development in response to research that suggested (a) that export growth led productivity growth and (b) that market failures restrained New Zealand firms' export performance, so affecting our growth performance. The scheme was closely modelled on the similar 'Export Market Development Grant' scheme that has been operated by the Australian Trade Commission (Austrade) since 1974.

The reasons for the fund that were given in the establishment Cabinet paper are summarised below [EDC (04) 179 refers].

To address information deficiencies: It is costly for firms, particularly small and medium enterprises (SMEs), to acquire the information needed to fully understand the costs and benefits of exporting. This can lead firms to take short-sighted decisions regarding whether and how to enter offshore markets.

To generate additional reputational spillovers: Firms that invest in marketing and other activities to develop new offshore markets do not capture all of the benefits of their investment; their efforts also boost the reputation and in-market presence of other New Zealand firms, including competitors. This may create a disincentive for firms to invest in such activities.

To generate additional knowledge spillovers: Information acquired by firms in the process of market development, such as whether new export markets are viable and how to operate successfully in them, can be acquired by other New Zealand firms at no or low cost. This can reduce the incentives for firms to move to develop new markets, even though the public returns to such activities may be substantial.

EDG-MD objectives

The EDG-MD has two stated objectives: to "increase the level of market development activity by firms (beyond the level they would otherwise undertake when assessing their own private costs and benefits), and hence increase the level of spillover benefits to the wider economy, by providing direct financial assistance to offset marketing and travel costs".

Review method

The evaluation gathered quantitative and qualitative data and focused largely on firm characteristics, funded activities and overall effectiveness of the scheme in delivering policy objectives.

Findings – Scheme Impacts

Analysis of supported firms

A substantial number of demographic and performance data were collected during the review, enabling EDG-MD firms' characteristics to be compared with those of the export and overall firm populations. The following conclusions were drawn from these data:

- EDG-MD firms' turnover distribution is very similar to that for the overall export population; the mean of both is far higher than for the overall business population. EDG-MD firms have more-rapid turnover growth than the exporter population.
- There are proportionately fewer small (less than 10 employees) firms amongst EDG-MD firms than amongst the total exporter population. EDG-MD firms tend to be younger than non-EDG-MD exporters.
- Proportionately more EDG-MD firms are in the 'manufacturing' and 'property & business service' sectors than is the case for the exporter population.
- Over the time horizons considered, EDG-MD firms have generated more of their revenues in new export markets than New Zealand exporters in general.

The data also reveal that many EDG-MD firms have received other business assistance from NZTE, the Foundation for Research, Science and Technology (FRST), and/or Te Puni Kokiri (TPK) within several years of receiving EDG-MD funding:

- In the 3 years prior to receipt of funding, 61 percent of all EDG-MD firms received other assistance from NZTE. Most commonly, firms accessed the Enterprise Networks and Growth Services schemes. A further 14 percent of firms accessed FRST or TPK business assistance schemes within 3 years of EDG-MD funding.
- In the year of receipt, 31 percent of EDG-MD firms simultaneously accessed other NZTE business assistance schemes; a further 14 percent of firms simultaneously accessed a FRST or TPK scheme.

Analysis of supported activities

Data collected on firm activities indicate that most of the co-funding has been used for in-market representation (24%), market visits (23%) and advertising (22%). On the other hand, demands for co-funding of marketing (15%), trade show (11%) and market research costs (4%) have been less common. This pattern is consistent with NZTE's focus on using the EDG-MD to implement, rather than develop, strategic market development plans.

Though limited quantitative data were available, interviews with firms and officials suggested that most EDG-MD firms are putting additional private resources into market development activities. These activities appear to be occurring mainly in established destinations such as North America, the United Kingdom and Europe, though targeted product markets may be new for New Zealand. EDG-MD firms' export revenues appear to be growing faster than overall exports in most targeted locations, albeit from a lower base.

Analysis of impacts on firms

On the basis of discussions with EDG-MD firms and officials, the scheme appears to have contributed to improving firm attitudes about the benefits of market development and how to go about it. The scheme also appears to have contributed to several measures of private firm performance. Limited evidence of spillover benefits to New Zealand firms was found, however.

In regard to reputational spillovers, around 25% of interviewees felt that their actions were likely to have generated benefits for other New Zealand firms. On the other hand, it is possible under the current eligibility rules that negative reputation risks from under-prepared firms are also possible. On balance, we do not consider reputational spillovers to be a compelling justification for a cash grant scheme of this type in the kinds of deep, competitive markets that the majority of firms have entered to date.

On the issue of information deficiencies, some firms indicated that EDG-MD had been beneficial in getting them to start engaging with foreign markets and to understand the process of exporting. On the other hand, the collected data suggests that a number of EDG-MD firms have also received other forms of business assistance that target broadly-similar policy problems. It is possible that firms lacking information about exporting in general and/or specific market opportunities could be handled through existing programmes and proposed initiatives.

In our view, knowledge spillovers to new market development are likely to be the strongest rationale for ongoing support for market development, and these benefits are likely to play a key role in maximising the public return on investment. Recent evidence from Australia supports this view. We did not find substantial evidence of knowledge spillover benefits during the review, but this could be due to the fact that such benefits accrue with a reasonably long lag; we note that the EDG-MD has been in operation for a relatively short period of time.

In our view, a greater ongoing focus on knowledge spillovers will be key to the scheme generating maximum return on investment.

Scheme efficiency

The Auditor-General recently audited NZTE's administration of grant schemes and was satisfied that the EDG-MD was being efficiently administered. We are satisfied that fraud risks associated with the EDG-MD have been minimised under current settings, and on the basis of discussions with EDG-MD firms and officials, support NZTE's work to review whether processes could be amended to improve efficiency without compromising the integrity of the scheme.

Conclusions

Some evidence of changes in firms' exporting behaviour and performance as a result of EDG-MD

On the basis of interviews with EDG-MD firms and officials, the scheme appears to have contributed to improving firm attitudes about the benefits of market development and how to go about it. Data collected during the review indicate that the EDG-MD has resulted in the overall level of market development activity undertaken by participant firms increasing over and above the level that would have occurred in the absence of the programme.

The scheme also appears to have contributed to improved firm performance, with some evidence of improved firm profitability and export growth relative to the broader exporting population. However, there is currently insufficient data to support these claims categorically.

Limited evidence of spillover benefits for the wider economy at this stage; knowledge spillovers strongest policy rationale for EDG-MD

Evidence of 'spillover benefits' from market development activities was limited, although interviews with firms and officials indicated that supported activities may be generating supply-chain spillover benefits for local non-EDG-MD firms.

In our view, *knowledge spillovers* to firms from new market development are likely to be the strongest rationale for ongoing support for market development, and these benefits are likely to be critical in showing value for money. Recent evidence from Australia supports this view.

We did not find substantial evidence of knowledge spillover benefits during the review, but are conscious that such benefits tend to accrue with reasonably long lags. We note that the EDG-MD has been in operation for a relatively short period of time, and would expect to find greater evidence of these benefits in subsequent evaluations. Potentially, 'spillover benefits' could provide a substantial net economic benefit to the government's investment in this scheme.

Opportunities exist to address overlaps between EDG-MD and other government assistance programmes

The evaluation shows that a number of EDG-MD firms have also received other forms of business assistance from NZTE and other government agencies that target broadly-similar constraints to firm internationalisation, such as information deficiencies.

This evidence suggests that firms lacking information about exporting in general and/or specific market opportunities may be able to be handled through existing NZTE services programmes. There may also be opportunities to reduce overlaps and better co-ordinate delivery of business assistance for exporters across government agencies.

Research insights on the links between exporting and firm productivity growth

The EDG-MD was designed to support the development of exporting firms partly because of an understanding that suggested that export growth caused productivity growth. While this is generally agreed at the macroeconomic level, recent firm-level evidence published by the Ministry of Economic Development indicates that exporting is entered into by firms that are generally already more productive than non-exporters.¹ This is consistent with recent research overseas that shows it is the more productive firms that can successfully absorb the additional costs of entering export markets. Other research shows the importance to firm productivity of related influences, particularly investments and innovations that firms make in the lead-up to internationalisation.

The recent New Zealand evidence also points to the likelihood of export growth only contributing modestly to further increases in domestic productivity growth in most situations. While there can be post-entry 'learning-by-exporting' benefits to firm performance, there are also managerial, financing product-development and logistical costs. Opportunities for economies of scale and scope exist for some exporters but will be limited for New Zealand firms with a niche market focus.

This evidence suggests that in addition to supporting market development activities of existing and emerging exporters, policies to support export growth should also focus on key constraints ('market failures') in the development of firm capabilities that are linked to improved productivity. The issues of management capability and firm access to capital may be particularly important in this context.

Recommendations

We recommend the following response by the Ministry to the evaluation conclusions:

1. Note that knowledge spillovers remain a strong justification for government support of new export market development activities; and
2. Officials should revisit the policy objective for the EDG-MD to determine whether the information deficiency rationale overlaps with other business assistance schemes and, if so, whether the EDG-MD objective should be refined to focus more explicitly on knowledge spillovers to market development. This could result in a tighter focus on firms' export development in new markets and lead to discretionary selection criteria.

Depending on the outcome of recommendation (2) above, we suggest that any advice to government on changes to the EDG-MD policy objectives and rationale will need to take the following factors into account:

- a. Any changes will need to be undertaken in the context of NZTE's strategic engagement with internationalising firms. The discrete requirements for leveraging knowledge spillovers would need explicit accountability
- b. New Zealand's obligations under international trade rules may affect the extent to which the EDG-MD could be operated in a more discretionary

¹ See MED Occasional Paper 08/01, *Some rise by sin and some by virtue fall: Firm dynamics, market structure and performance*, R. Fabling, A. Grimes, L. Sanderson and P. Stevens. Available for download from http://www.med.govt.nz/templates/MultipageDocumentTOC_34197.aspx.

manner. Officials will need to weigh-up the benefits of providing greater discretion to support able firms to enter markets that do not have an established New Zealand exporter presence against the administrative simplicity of existing settings, while continuing to satisfying our WTO obligations.

Table of Contents

Executive Summary.....	i
Table of Contents	1
Disclaimer.....	2
1. Introduction.....	3
1.1 Why has the Enterprise Development Grants - Market Development scheme been evaluated?.....	3
1.2 Evaluation Scope and Objectives.....	3
1.3 Structure of the Report.....	4
2. Policy Background and Overview.....	6
2.1 Policy Rationale.....	6
2.2 Policy Objectives.....	7
2.3 Programme Design	10
2.4 Austrade's Export Market Development Grant Scheme.....	12
2.5 EDG-MD Overview.....	13
2.6 Conclusion	14
3. Evaluation Methodology	15
3.1 Selection of quantitative and qualitative review methods.....	15
3.2 NZTE administrative data.....	16
3.3 Statistics New Zealand firm performance database	16
3.4 Interviews with Recipient Firms.....	18
3.5 Interviews and email survey of NZTE staff.....	19
3.6 Conclusion	19
4. Analysis of Supported Firms.....	20
4.1 EDG-MD firm characteristics.....	20
4.2 The relationship between EDG-MD and other business assistance programmes	23
4.3 Conclusion	24
5. Analysis of Supported Activities	25
5.1 Allocation of funding by activity	25
5.2 Additionality of funded activities	25
5.3 Location of funded activities	26
5.4 Conclusion	30
6. Analysis of Scheme Impacts	31
6.1 Achievement of intermediate outcomes	31
6.2 Firm performance outcomes	33
6.3 Impact of the EDG-MD on spillover benefits	40
6.4 Recent evidence on exporting-productivity linkages.....	42
6.5 Administrative efficiency.....	43
6.6 Conclusion	44
7. Conclusions and recommendations	45
7.1 Review conclusions.....	45
7.2 Recommendations	46
8. References.....	48
Appendix I: Initial programme logic.....	49
Appendix II: Current Schedule of Eligible and Ineligible Costs.....	50

Disclaimer

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Access to the data used in this study was provided by Statistics NZ in accordance with security and confidentiality provisions of the Statistics Act 1975. Only people authorised by the Statistics Act 1975 are allowed to see data about a particular, business or organisation. The results in this paper have been confidentialised to protect individual businesses from identification.

The results are based in part on tax data supplied by Inland Revenue to Statistics NZ under the Tax Administration Act 1994. This tax data must be used only for statistical purposes, and no individual information is published or disclosed in any other form, or provided back to Inland Revenue for administrative or regulatory purposes. Any person who had access to the unit-record data has certified that they have been shown, have read and have understood section 81 of the Tax Administration Act 1994, which relates to privacy and confidentiality. Any discussion of data limitations or weaknesses is not related to the data's ability to support Inland Revenue's core operational requirements.

Statistics NZ protocols were applied to the data sourced from the New Zealand Customs Service; the Foundation for Research, Science and Technology; New Zealand Trade and Enterprise; and Te Puni Kōkiri. Any discussion of data limitations is not related to the data's ability to support these government agencies' core operational requirements.

1. Introduction

This report presents findings, conclusions and recommendations arising from an initial evaluation of the Enterprise Development Grants – Market Development (EDG-MD) scheme administered by New Zealand Trade and Enterprise (NZTE).² The EDG-MD was established by Cabinet in November 2004, and commenced operation in January 2005, to encourage more New Zealand firms to enter global markets.

The EDG-MD is a co-funding grant scheme that enables internationalising firms to claim reimbursement of up-to 50 percent of their eligible market development costs. The EDG-MD is the largest grant scheme funded from Vote Economic Development, and is currently appropriated \$48.5 million per annum.³ As of February 2008, around 1000 firms have accessed the EDG-MD, the vast majority applying for the first time in the 2006/07 year.

1.1 Why has the Enterprise Development Grants – Market Development scheme been evaluated?

- 1.1.1 Industry and regional development policies are subject to regular monitoring and evaluation, to inform policy development by providing feedback on past and current performance.
- 1.1.2 Cabinet directed that the EDG-MD be subjected to an effectiveness and efficiency review by June 2008 [CAB Min (04) 38/4 refers]. This initial review has covered the period January 2005 to February 2008.

1.2 Evaluation Scope and Objectives

The scope of the review was agreed by the Ministry of Economic Development (MED), NZTE and the Ministry of Foreign Affairs and Trade (MFAT) to include analysis of supported firms, activities and outcomes. The objective of the review was to enable policymakers to determine the sufficiency of the existing policy direction and operational settings.

- 1.2.1 Our ability to draw on quantitative evaluation methods has been constrained by the limited amount of performance data available. Given the short history of the EDG-MD, the time required to collect and disseminate data, and the tendency for impacts to occur with a lag, it has not been possible to use econometric techniques to infer programme effectiveness. The review methodology is discussed in chapter 3.

² The scheme is marketed by NZTE as the Enterprise Development Grants for Market Development (EDG-MD).

³ Budget 2004 provided baseline funding for the EDG-MD of \$7.5 million for 04/05 05/06, and 06/07, rising to \$12.5 million in 2007/08 and \$15 million in outyears. Through Budget processes in 2006 and 2007, and a separate Export Year 2007 initiative, total baseline funding increased to \$36.3 million in 06/07, \$51.4m in 07/08, 54.3m in 08/09 and 53.6m in outyears. Several million was transferred from EDG-MD to other initiatives funded from the Vote in 07/08 and 08/09.

1.2.2 In light of the review objectives, and following consultation with EDG-MD stakeholders, the following questions were developed:

A. Analysis of Supported Firms

- What are the important characteristics of supported firms? To what extent are EDG-MD-supported firms different from the broader population of eligible firms?
- Are EDG-MD-supported firms in receipt of other forms of government business assistance? To what extent does the EDG-MD overlap with other business assistance programmes?

B. Analysis of Supported Activities

- What types of activities are being funded?
- To what extent is the EDG-MD encouraging additional firm expenditure on marketing and promotion activities?
- Are supported firms entering markets that do not currently have a significant New Zealand business presence?

C. Analysis of Scheme Impacts

- Is the EDG-MD catalysing behavioural change in recipient firms?
- Has the EDG-MD contributed to improved performance of participant firms? For example, have participant firms' exports to market increased?
- Is there evidence of spillover benefits? That is, is there evidence that other firms have subsequently benefited from the initial investments of supported firms?

1.3 Structure of the Report

1.3.1 The remainder of this report is structured as follows:

Chapter 2 presents background to the policy and overviews the operation of the programme. The chapter revisits the rationale and objectives of the EDG-MD as articulated in initial policy documents, and describes the key design features of the programme.

Chapter 3 describes the review methodology. The chapter notes the methods and data sources that have been used to derive the demographic information and effectiveness and efficiency findings presented in subsequent chapters.

Chapter 4 responds to the terms of reference, drawing on quantitative and qualitative data to analyse the characteristics of EDG-MD firms and the fit between the EDG-MD and other business assistance schemes.

Chapter 5 reports on the activities being undertaken by EDG-MD firms. It presents a breakdown of the activities funded, the extent to which funding is

encouraging additional market development activity, and information about the markets that have been targeted by EDG-MD firms.

Chapter 6 considers the impacts of the EDG-MD on firms. This includes the intermediate (behavioural) and final (performance) impacts on EDG-MD firms as well as the effectiveness of the scheme in generating spillover benefits to other New Zealand firms.

Chapter 7 briefly considers the issue of scheme efficiency. It takes a broad view of scheme efficiency to consider overall levels of funding, and provides several insights on narrower, administrative efficiency issues.

Finally, **chapter 8** concludes the evaluation. The chapter summarises the findings of chapters 4-7, and recommends specific policy and operational actions for consideration by Ministers and officials.

2. Policy Background and Overview

This chapter provides an overview of the market development assistance policy context. First, the original policy rationale is presented, as outlined in initial policy documents. This is followed by a discussion of the objectives of the EDG-MD and the programme logic model. Operational parameters and eligibility criteria are briefly described.

2.1 Policy Rationale

- 2.1.1 The EDG-MD was developed in response to (a) evidence of ‘barriers’ to, and ‘spillovers’ from, New Zealand firms’ investments in developing new export markets, and (b) research suggesting that export performance was a key driver of productivity growth. In this context, the concern for policy makers would be that ‘market failures’ constraining our export performance could in turn constrain our productivity and growth performance. The nature of these barriers and spillovers is explained below.
- 2.1.2 The initial Cabinet paper referred to several barriers and spillover benefits that could cause New Zealand firms to under-invest in the development of new export markets.⁴ In acknowledging the potential linkages between exporting and productivity, the Cabinet paper also noted that “integration with international markets contributes to New Zealand’s economic growth performance by supporting and encouraging innovation, higher productivity and competition” [EDC (04) 179 refers].
- 2.1.3 The arguments for market development assistance that were presented in the Cabinet paper are summarised below. Recent evidence on firm linkages between exporting and productivity is discussed in section 6.4.

Barriers to market development

- 2.1.4 New Zealand’s small domestic market may not expose firms to the same competitive pressures that can be experienced by similar foreign firms operating in larger domestic markets. Firms may be disconnected from international markets because of distance to market, the lack of scale in the domestic economy, and legal, social and cultural differences from other jurisdictions.
- 2.1.5 Additionally, New Zealand firms, particularly small and medium enterprises (SMEs), may lack and/or face high costs in obtaining information about overseas markets and consumer demands. Informational deficiencies, regarding the costs and benefits of exporting, or how to go about exporting, can result in firms taking short-sighted decisions.

⁴ “While there are no robust empirical estimates to quantify the extent to which New Zealand firms are disadvantaged when entering offshore markets, it is safe to assume the presence of information deficiencies and spillovers. Considering the benefits to the economy of firms entering offshore markets, as identified by international research, and the similarly recognised information deficiencies and spillovers, there is a case for supporting and encouraging firms to enter offshore markets” [EDC (04) 179, para. 15].

Reputation spillovers from market development

- 2.1.6 New Zealand firms that invest resources into marketing and branding in new export markets may not capture all of the returns on their investments; other New Zealand firms – including competitors – may also benefit from an enhanced in-market presence and reputation.
- 2.1.7 Because investing firms will not be compensated for the benefits their actions provide other firms, they are likely to invest fewer resources into marketing and branding than will be best from a ‘New Zealand Inc.’ perspective.

Knowledge spillovers from market development

- 2.1.8 As with branding and marketing investments, information that is acquired by entrepreneurs in the process of developing new export markets may be acquired by other domestic firms at no, or low, cost. This information may include whether particular new markets are viable and how to successfully service them from New Zealand. Benefits can spill over to third parties via domestic supply chains.
- 2.1.9 When other firms take advantage of such information, they can dilute the return to the initial firm’s investment. This may discourage firms from investing resources into developing new export markets, even though their investments can yield substantial returns to the wider New Zealand economy that benefit numerous firms.

Linkages between exporting and productivity

- 2.1.10 The relationship between exporting and productivity has commonly been examined at the macroeconomic level, where economic theory suggests that increased trade openness can boost productivity and economic growth. This contention has received general support in the empirical literature, where measures of openness and exporting have been significant in explaining growth and productivity outcomes across a range of country contexts.
- 2.1.11 Evidence of productivity-exporting linkages at the enterprise level is less clear-cut. Findings from the recent literature are discussed later in the report.

2.2 Policy Objectives

- 2.2.1 In light of the rationales for government support of market development activities, the objectives of the EDG-MD were stated as follows:
“to increase the level of market development activity by firms (beyond the level they would otherwise undertake when assessing their own private costs and benefits), and hence increase the level of spillover benefits to the wider economy, by providing direct financial assistance to offset marketing and travel costs” [EDC (04) 179, para. 20 refers].
- 2.2.2 The immediate objective of the policy is to increase the number of firms undertaking market development activities. To this end, the EDG-MD lowers

the cost to firms of learning about and entering new markets by providing co-funding for eligible research, marketing and promotion activities.⁵

2.2.3 With more firms engaged in offshore market development, a greater number of domestic firms should benefit from improved knowledge of offshore markets and exporting behaviours. Such knowledge benefits should include:

- improved perceptions of the value of exporting in general;
- better knowledge of particular new markets;
- stronger relationships with existing customers, suppliers and partners; and
- development of relationships with new offshore customers, suppliers and partners.

2.2.4 Over time, these behavioural changes would be expected to contribute to firm-level performance improvements. Firms engaged directly in market development activities should benefit from increases in export revenues and profitability over what would have been achieved without funding support. In addition, a larger pool of domestic firms should benefit from reputation and knowledge spillovers.

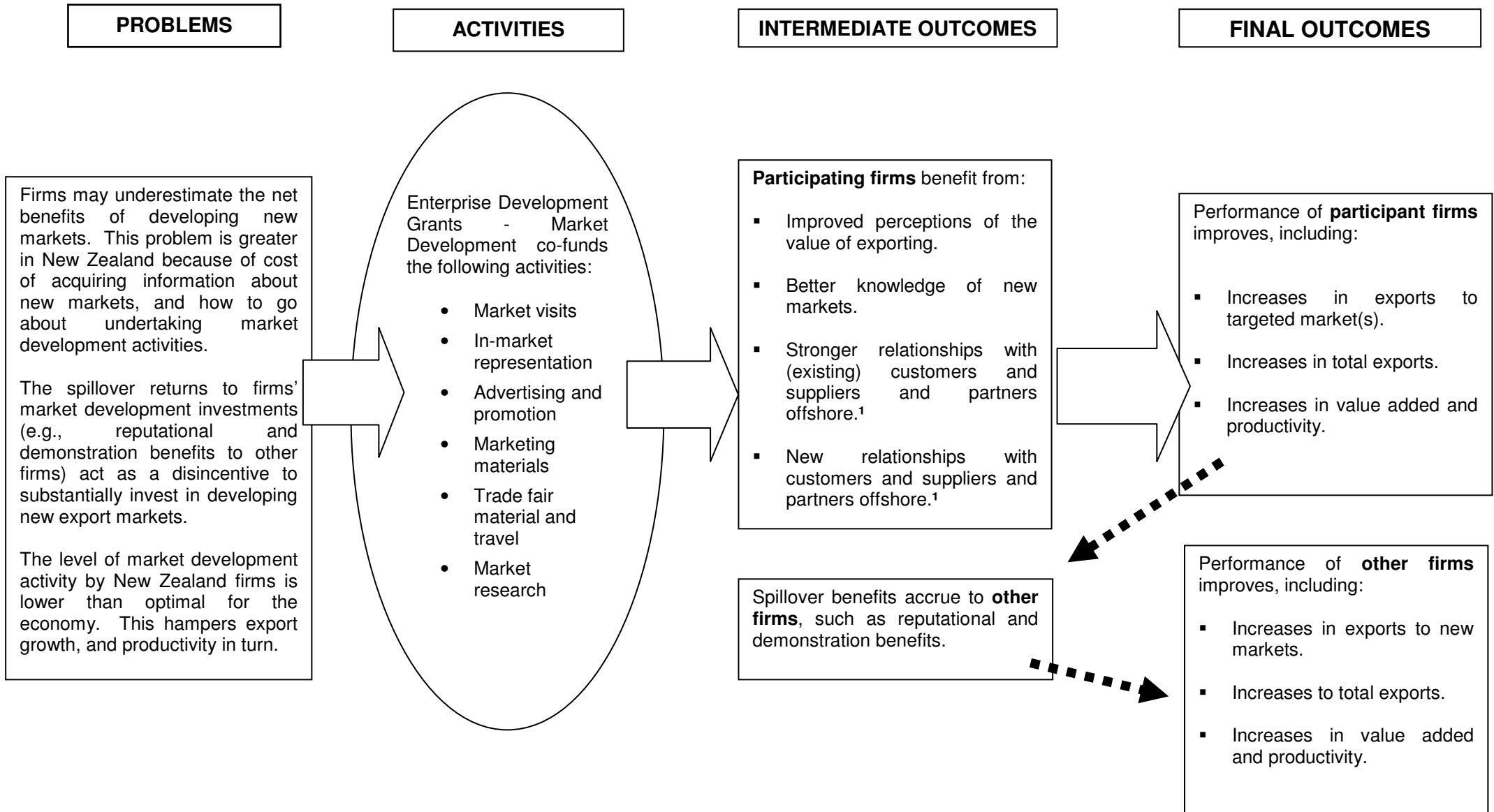
2.2.5 In terms of final outcomes, the EDG-MD should lead to an improved export performance for New Zealand, and higher business profits over and above would have occurred under a 'no EDG-MD' counterfactual.

2.2.6 These linkages are summarised in the logic model presented overleaf.⁶

⁵ Eligible activities include market visits; in-market representation; advertising and promotion; marketing materials; trade fair material and travel; and market research.

⁶ The logic model presented builds on an earlier version developed by NZTE officials, and makes the policy objective around spillover benefits, in addition to private firm benefits, explicit. The initial programme logic, as presented in the NZTE report back to Ministers of 26 November 2004, is attached as appendix I for comparison.

Logic Model: Enterprise Development Grants - Market Development



2.3 Programme Design

2.3.1 The Cabinet paper mandated several elements of the programme design, and directed NZTE to report-back to Ministers on further design details.⁷ Cabinet mandated that the programme would allow eligible firms to claim cash rebates, of up-to 50 percent, on a range of eligible market development activities and that funding would be managed across eligible firms by NZTE on a 'first come, first served' basis [EDC (04) 179 refers].

Eligible Activities

2.3.2 The list of eligible market development activities that was first agreed by Cabinet comprised the following broad categories:

- market visits, including travel costs;
- in-market representation;
- advertising and promotion;
- marketing materials;
- trade fairs and events; and
- market research [EDC (04) 179 refers].

2.3.3 NZTE's report-back to Ministers made clear that eligible expenditure would need to demonstrate a clear linkage to strategic international market development projects, and that the EDG-MD was not designed to target 'business as usual' activities.

2.3.4 That report-back also noted that eligibility for the scheme would not guarantee funding assistance. Firms eligible for EDG-MD funding would be required to re-apply each year, and to demonstrate that planned market development activities were additional to business as usual.

2.3.5 Detailed costs within each of the broad categories listed above were also elaborated by NZTE. The current list of eligible and ineligible costs is attached as Appendix Two.

Eligible Firms

2.3.6 Firm eligibility criteria were initially set out by Cabinet and refined by NZTE, and have been modified only slightly over time. The present eligibility criteria are:

- Turnover less than \$50 million^{8, 9}
- Operate in a commercial environment

⁷ NZTE, 'Report back on the Market Development component of the Enterprise Development Grant scheme', 26 November 2004.

⁸ The cap was initially set at \$20m to manage anticipated demand; Ministers lifted the cap to \$50m in April 2006.

⁹ Where firms are subsidiaries of a larger company, the turnover of the parent company is taken into account and must not exceed the eligibility cap of \$50 million.

- Be a limited liability company, or a Maori trust incorporated under Te Ture Whenua Maori Act 1993
- Be registered in New Zealand for income tax and GST purposes
- Have the financial resources to cover all costs up-front
- Have a commitment to retain the value of business in New Zealand
- Conduct business in a manner consistent with New Zealand laws and regulations
- Have a budgeted plan for market development activities

2.3.7 Since April 2006, groups of firms have been able to apply for EDG-MD funding for collaborative market development activities. Such firms must meet the following additional criteria:

- For every business within the group that has turnover of \$50 million or more, there must be at least two businesses with turnover of less than \$50 million
- Businesses must have a written legal agreement detailing the form and conditions of their collaborative group
- Businesses must be “unrelated”¹⁰

2.3.8 The review did not examine the efficacy of the collaborative grant, given its relatively more-recent introduction and lower uptake. Policy insights from the evidence of individual grant recipients should be sufficient to comment on the broader policy direction.

Policy Instruments

2.3.9 Cash grants are the only form of assistance offered under the EDG-MD, though firms can access the EDG-MD in conjunction with other business assistance programmes. The Cabinet paper noted that cash grants were preferable to alternative interventions because of their relatively low risk of crowding out private sector activity and their administrative simplicity [EDC (04) 179 refers].

2.3.10 Grants are reimbursed after activities have taken place and expense claims have been assessed. Minimum and maximum grant sizes are set at \$20,000 and \$100,000 per annum, respectively, so that firms must spend at least \$40,000 on approved market development activities to be eligible for the minimum rebate.

2.3.11 Since November 2007, firms have been able to submit claims once \$20,000 of eligible expenditure has taken place, though they are still required to spend a minimum of \$40,000 on eligible activities in any particular year.¹¹ This change in procedure was intended to provide greater flexibility for firms with tight cash flows. To minimise associated fraud risks, firms that make initial claims on

¹⁰ That means there must be less than 20% shareholding between any businesses within the group, and no common directorship or other inappropriate financial or personal links.

¹¹ As stated by the Prime Minister in her address to the 2007 Export Awards. See <http://www.beehive.govt.nz/speech/address+2007+export+awards>.

\$20,000 expenditure but fail to spend at least \$40,000 over the year risk cancellation of all future funding eligibility.

- 2.3.12 Eligible firms are able to claim EDG-MD funding for up to 5 years, to a maximum lifetime value of \$500,000. The purpose of this cap is to encourage sustainable market development and the building up of appropriate capability to undertake independent marketing activities over time. Applications that exceed \$300,000 cumulative funding, or three consecutive years, are subject to review by the Group General Manager Business Capability.
- 2.3.13 Firms that work together on market development projects must each stay within their individual funding limits. For each business, the minimum annual claim must be at least \$20,000 including GST, and the maximum must be no more than \$100,000 including GST a year, up to a lifetime limit for each business of \$500,000 including GST.

2.4 Austrade's Export Market Development Grant Scheme

- 2.4.1 Initial policy documents indicate that the objectives and design of the EDG-MD borrow heavily from the Export Market Development Grant (EMDG) scheme administered by the Australian Trade Commission (*Austrade*). The EMDG has been operating in Australia since 1974, encouraging small and medium sized Australian enterprises to seek new markets for their exports.
- 2.4.2 In its 34 year history, the EMDG scheme has been reviewed on 14 occasions. Given its similarity to the EDG-MD, insights from recent reviews of the Australian scheme may be relevant for the EDG-MD policy context. This section considers insights from Austrade's (2005) and (2008) reviews in particular.

EMDG Scheme Overview

- 2.4.3 The EMDG targets Australian enterprises that turn over less than A\$30m annually and are producing Australian goods and services for export. Firms are able to claim reimbursement on up-to 50 percent of market development costs over \$15,000. The maximum grant is currently set at \$150,000 per year, which is reimbursed after activities have been undertaken.
- 2.4.4 Seven categories of market development activity are eligible for reimbursement under the EMDG scheme. These are:
- 'overseas representatives and marketing consultants';
 - 'marketing visits';
 - 'communications';
 - 'free samples';
 - 'trade fairs, seminars and promotional events';
 - 'promotional literature and advertising'; and
 - 'overseas buyers'.¹²

¹² Detailed descriptions of eligible activities within each of these categories are listed online at <http://www.austrade.gov.au/What-can-you-claim/default.aspx>.

- 2.4.5 Firms are able to claim support for a maximum of 7 years, though applications from year three onwards are subject to an export performance test.¹³ This test allows continued funding to be allocated according to firm performance, and signals to firms that assistance beyond year two is only likely if their exports are growing.
- 2.4.6 The EMDG reimbursement model differs to the 'first-in, first-served' approach used for the EDG-MD, and is designed to ensure that all eligible firms receive some level of financial support. To achieve this goal with a fixed annual appropriation, reimbursement is made over two payment rounds.¹⁴

Recent reviews of the EMDG

- 2.4.7 Recent reviews have concluded that the EMDG is effective in supporting the development of Australia's exports and addressing information deficiencies and knowledge spillovers. Modelling results in the most-recent (2008) review also suggest that when substantial spillover benefits are generated, the scheme is capable of producing a small positive net benefit for the Australian economy.
- 2.4.8 Despite the similarity of the Australian scheme to the EDG-MD, the positive findings of reviews on the EMDG may not be directly transferable to the New Zealand context. This is due to the different roles that the EMDG and the EDG-MD play in each country's suite of industry development schemes.
- 2.4.9 In the case of Australia, the EMDG scheme is the central intervention targeted to offshore focused firms. Additional assistance is available to new exporters through the 'New Exporter Development Programme' and 'TradeStart', and general and tailored market advice is also available, but the primary role of the EMDG is clear.
- 2.4.10 In New Zealand, the EDG-MD sits within a much broader suite of export and business development initiatives offered by NZTE, the Foundation for Research, Science and Technology (FRST) and Te Puni Kokiri (TPK). Data presented in chapter 4 indicate that a high proportion of EDG-MD firms also access other business assistance schemes, making the judgement of scheme effectiveness more difficult. They also beg the question as to whether there is an overlap between the rationale and objectives of the EDG-MD and other schemes. These issues are discussed in more detail in later chapters of this report.

2.5 EDG-MD Overview

- 2.5.1 This section briefly summarises the uptake of the EDG-MD by firms in recent years.

¹³ Funding amounts are equal to the lesser of (a) 50 percent of firms' eligible market development costs or (b) a fixed percentage of firms' total exports that decreases over time (see Centre for International Economics, 2005).

¹⁴ An initial payment ceiling is set which fixes the amount of funding that firms can receive in the initial payment round. The ceiling is set to ensure that all eligible firms receive some level of funding. A second payment is then calculated in order to apportion the remaining pool of funds to eligible firms according to the size of their entitlement.

- 2.5.2 The number of firms approved into the scheme, and the amount of funding available, has increased substantially since establishment in early 2005. Table 2.1 below reports on the number of applications approved in each financial year. For clarity, firm numbers are presented as overall totals and total numbers of new firms.

Table 2.1 Number of Recipient Firms (as at 13/2/08)

Number of firms				
Funding year*	# of firms (recommended)	# of new firms (recommended)	# of firms (recommended + in progress)	# of new firms (recommended and in progress)
2004/05	81	81	81	81
2005/6	68	9	68	9
2006/7	617	559	626	567
2007/8	246	157	426	266
Total	1012	806	1201	923

* 'Funding Year' refers to the year (ending June) when an application was lodged

- 2.5.3 Table 2.1 indicates substantial growth in programme uptake since the 2006 year, consisting largely of new firms. A substantial proportion of these firms had also applied for funding in 07/08. These data suggest that around 33 percent of EDG-MD firms have accessed the scheme more than once.

Table 2.2 Approved funding (as at 13/02/08)

Funding year*	Grants approved		
	In progress	Recommended	Total approved
2004/05		\$6,637,105	\$6,637,105
2005/6		\$6,026,249	\$6,026,249
2006/7	\$843,670	\$50,390,268	\$51,233,938
2007/8	\$14,825,333	\$20,375,156	\$35,200,488
Total	\$15,669,002	\$83,428,777	\$99,097,779

* Funding year refers to the year (ending June) when an application was lodged.

- 2.5.4 Table 2.2 confirms the massive increase in supported market development activities in the period since July 2006 (refer chapter 1). The data imply that \$85m of funding was approved in the 20 months to February 2008, reflecting the substantial funding increases that have followed Budget 2006.

2.6 Conclusion

- 2.6.1 This chapter has presented a brief overview of the policy context surrounding the Enterprise Development Grants - Market Development, discussing the original policy rationale, objectives and programme design. It also noted the similarities of the EDG-MD with the comparable Australian EMDG scheme, and presented several summary statistics for the scheme to date. The next chapter discusses the review method underpinning the findings and conclusions presented in subsequent chapters of the report.

3. Evaluation Methodology

This chapter briefly discusses the approach taken to answer the questions of effectiveness and efficiency, and describes the data sources and selection processes used to derive the findings and conclusions presented in subsequent chapters.

3.1 *Selection of quantitative and qualitative review methods*

- 3.1.1 Quantitative data are presented in chapters 4, 5 and 6 to report on demographic trends and to compare EDG-MD recipients with non-recipients across various criteria. The review has not sought to use econometric or statistical techniques to infer programme effectiveness, however.
- 3.1.2 Although it *may* be possible to estimate the (average) contribution of government support to firm performance outcomes, it would be much more difficult to model the impact of the scheme in generating spillovers. This is particularly the case given that only two years' performance information is available. However, the report does refer to the results of modelling included in recent reviews of the Australian EMDG scheme, which has been operating for over 30 years, in later chapters.
- 3.1.3 Given these data constraints, qualitative methods based on interviews with EDG-MD firms and officials were deemed to be the best source of information currently available to infer scheme effectiveness. However, even these are unlikely to be fully informative because of the difficulty for stakeholders to accurately identify spillover benefits to specific firms and to attribute these spillovers to specific activities. We anticipate that greater data availability will allow subsequent reviews to draw on more sophisticated review methods.
- 3.1.4 On the question of efficiency, the review largely reflected on the findings of the Auditor-General's recent report and feedback from EDG-MD firms and administration staff. Opportunities to review the balance of risk versus simplicity of current administration processes have been recently identified by NZTE officials and communicated to Ministers through a separate process.¹⁵
- 3.1.5 The remaining sections describe the data sources and selection processes used to arrive at the results presented in this report. Sources discussed include NZTE administrative data and reports; firm performance data available from Statistics NZ; interviews with representatives from 20-30 firms that have received EDG-MD funding; and interviews with domestic and offshore NZTE staff involved in the operation of the scheme.

¹⁵ During the period 23/5/08 to 11/7/08, NZTE officials provided the Ministers of Economic Development and Trade with weekly updates on EDG-MD administration volumes and processes. These updates highlighted a package of improvements to the procedures for handling EDG-MD applications and funding claims.

3.2 NZTE administrative data

NZTE administrative data from Pivotal

- 3.2.1 Information was extracted from the Pivotal database in early February 2008. The database contains information on applications in progress and approved grants since the establishment of the EDG-MD.
- 3.2.2 Each application was assigned to a funding year (July through June) based on the lodgement date of the application or date of approval. This may have resulted in some discrepancies between summary statistics reported in this report and those produced by NZTE, because NZTE base their reporting on funding rounds, e.g. 'Round 3 – Export Year'.
- 3.2.3 Furthermore, applications are processed by NZTE throughout the year and so the number of applications being processed will reduce, and approvals increase, depending on the timing of data extraction.
- 3.2.4 The Pivotal database also contains limited demographic information about the firms, e.g. sector and number of employees, and segmentation data. The segmentation data identifies the type of client intervention received by the firm, including whether a firm is receiving intensive client management services from NZTE. The NZTE demographic and segmentation data were used to identify a representative sample of firms for our interviews (see below).

EDG-MD application data

- 3.2.5 A sample of EDG-MD applications were analysed to obtain a breakdown of funding by type of activity. These data are not usually recorded in the Pivotal database). We analysed 203 application forms between February 2007 and July 2007, with the choice of timeframe determined by data availability. The breakdown of funding by type of activity is shown in Section 4.2.

EDG-MD application tracking data

- 3.2.6 NZTE started to produce tracking spreadsheets for EDG-MD from April 2007 onwards. These contain information on the countries and/or regions targeted by firms as part of their EDG-MD activities (these data are not recorded in Pivotal). The 'location of funded activities' figure presented in chapter 4 was drawn from 263 first time application forms between April, 2007 and January 2008.

3.3 Statistics New Zealand firm performance database

Statistics New Zealand's prototype Longitudinal Business Database (LBD)

- 3.3.1 Most of the demographic data presented in Section 4.1 were taken from Statistics New Zealand's prototype Longitudinal Business Database (LBD). The LBD covers all economically significant New Zealand firms, which allows firms receiving EDG-MD funding to be compared with the broader business

population. It also tracks firms' exporting activities over time, allowing judgements to be made about the usefulness of the EDG-MD in encouraging the development of *new* markets abroad. LBD data are described in detail in SNZ (2007) and Fabling *et al.* (2008).

- 3.3.2 The LBD is a collection of administrative (IRD and Customs) and survey data.¹⁶ It also includes information on firms' receipt of business assistance from government agencies. It covers the period from 2000 to 2006. Data are provided at the enterprise level, which is defined as a business or service entity operating in New Zealand. We restricted our population to economically active firms in the private, for profit, sector.¹⁷
- 3.3.3 The LBD includes scheme data from NZTE, Foundation for Research, Science and Technology (FRST) and Te Puni Kokiri (TPK). We were able to identify firms that had received EDG-MD support and compare the aggregated characteristics of those firms with broader business populations. Approximately 85% of all firms receiving government assistance have been matched into the database.
- 3.3.4 The spine of the LBD consists of the Longitudinal Business Frame (LBF), to which are attached Goods and Services Tax (GST), financial returns (IR10) and aggregated Pay-As-You-Earn (PAYE) returns provided by the Inland Revenue Department (IRD). Customs data on merchandise imports and exports are also included. All data are annualised to firms' actual balance date, and then assigned to the closest year ending 31st March.
- 3.3.5 The LBD also records information about ownership, including the relationship of an enterprise to any parent or subsidiary enterprises. Most enterprises operate independently, however a small proportion of the population are part of a group structure sharing a common group-top enterprise with other enterprises. These groups, whilst few in number, account for a substantial proportion of total employment, value-added and exporting revenue (Fabling, Grimes and Sanderson, 2008). For the purposes of this review, we grouped together any firms that had ever shared a common group top between 2000 and 2006 and treated each group as one entity.
- 3.3.6 Turnover information is sourced from GST data which includes information on sales and purchases of goods and services. The current threshold for filing GST data is NZ \$40,000 p.a., resulting in less-than-complete coverage in the LBD of smaller firms. Information on firm level employment is sourced from the LEED (Linked Employer Employee Database) from IRD. Rolling mean employment values are calculated as the number of employees and the number of working proprietors.
- 3.3.7 Customs data include a monthly series of importing and exporting data between New Zealand and other countries from 1992 through to 2007. These

¹⁶ The database has been developed under the project name *Improved Business Understanding via Longitudinal Database development*.

¹⁷ The data cover approximately 750,000 firms between 2000 and 2007 with over 450,000 firms active in any one year. Many of these firms have zero employment over the entire period they were active.

data do not record exports of services. The shipment level data include the country of origin and destination of the goods, as well as detailed product information. Products are classified using the 10-digit Harmonized System (HS), however we aggregated to 4-digit HS chapters to distinguish separate products.

- 3.3.8 Throughout this review, we have been interested in distinguishing activities in new markets from those in other (i.e. established) markets. We have made this distinction by assuming that a firm can enter a new market in one of three ways: 1) by exporting a product it is already exporting to a new country; 2) by exporting a new product to a country where an exporting relationship already exists and 3) by exporting a new product to a new country.
- 3.3.9 All the tables in Sections 4 and 5 relating to exporting revenue by country, region or market type are based on LBD data. We show the aggregated values for the EDG-MD cohort compared with the business population. Each firm in the cohort was defined by the year of its first EDG-MD payment. The firms identified in the LBD received their first EDG-MD payments between 2005 and 2007 (year ending March), with the majority entering the cohort in 2007.
- 3.3.10 Because grant payments are received after completion of the funded activity, it is theoretically possible that sales or other performance metrics that are measured in the year of receipt of a first EDG-MD payment are at least partially attributable to the funded activities. Where growth rates are presented, these are the simple percentage changes from the year prior to receipt of first payment to the year of receipt (post completion of activity).

3.4 Interviews with Recipient Firms

- 3.4.1 The initial cohort of EDG-MD recipients was chosen as the sample population for face-to-face interviews. These firms were selected because of their relatively longer exposure to the EDG-MD, and their greater likelihood of being able to comment about scheme efficacy with respect to intermediate and final outcomes (see table 4.1, chapter 4). For these reasons, the performance outcomes of the sample group may be biased upwards relative to the broader population of EDG-MD firms.

Table 3.1 Comparison of sectoral composition of interview sample and population

Sector	Interview Sample		Total 2004/05 population	
	Number of firms	% of total	Number of firms	% of total
Bio-technology	4	19%	15	19%
Creative & Services	4	19%	16	20%
Education		0%	2	2%
Food & Beverage	3	14%	13	16%
Information, Communication & Technology	7	33%	26	32%
Manufacturing	3	14%	6	7%
Wood Processing		0%	3	4%
Total	21	100%	81	100%

- 3.4.2 Firms were targeted for interview to ensure the sample reflected the demographic composition of the broader cohort as closely as was practicable. The distribution of the cohort was characterised according to sector, client management status, and cumulative amount of approved EDG-MD support, and individual firms approached according to their fit with these characteristics. Table 3.1 presents a comparison of sample and population breakdowns by sector. Comparisons of firms' client management status and amounts approved were similarly matched to approximate the broader distribution as much as possible.

3.5 Interviews and email survey of NZTE staff

- 3.5.1 Face-to-face interviews were conducted with several administration and client managers at NZTE's Wellington head office, and questionnaires were emailed to officials based at 6 offshore posts via email. The selection of targeted posts and the development of questions were done in agreement with NZTE, based on the location of EDG-MD-supported activities and the availability of in-market officials to respond.
- 3.5.2 Questionnaires were sent to NZTE staff based in the Vancouver, Los Angeles, Beijing, Middle East, Hong Kong and London offices. Responses were received from all posts except Beijing.¹⁸ In general, responses were aggregated and reflected the common views of multiple client-facing and strategic staff.
- 3.5.3 Officials provided information about the in-market performance of EDG-MD firms, as well as their perspectives on spillover benefits relating to their co-funded activities. Staff also commented on the fit of the EDG-MD with other grants and services offered by NZTE, and on other operational and process details.
- 3.5.4 Several responses were constrained by the difficulty of identifying whether particular firms had or had not received EDG-MD support and whether that was in isolation to, or in conjunction with, other business assistance programmes.¹⁹

3.6 Conclusion

- 3.6.1 This chapter has briefly outlined the reasons for adopting the chosen review methods and the data sources used to collect relevant quantitative and qualitative information. The next chapter presents demographic information and tentative findings based on an initial analysis of EDG-MD firm characteristics.

¹⁸ This was anticipated, given the coincidence of China FTA activities.

¹⁹ Firms in receipt of EDG-MD support need not declare their support to offshore staff upon their arrival in-market, making staff assessment of scheme additionality more difficult.

4. Analysis of Supported Firms

This chapter analyses the characteristics of EDG-MD firms and their use of government business assistance. The distribution of EDG-MD firms is compared to the total exporter and, where appropriate, total firm populations by turnover, turnover growth, employee count, firm age, and sector. The uptake amongst EDG-MD firms of other business assistance schemes administered by NZTE, the Foundation for Research, Science and Technology (FRST) and Te Puni Kokiri (TPK) is also considered.

4.1 EDG-MD firm characteristics

4.1.1 Table 4.1 below presents the distributions of EDG-MD firms, total exporter population, and total firm population by turnover in 2006.²⁰ The table shows that the turnover distribution profile of EDG-MD firms closely resembles the broader population of exporters; both are substantially different to the population of non-exporters.

Table 4.1 Distribution by firm turnover

Turnover band	EDG-MD firms in year prior to first grant		Total exporting population in 2006		Total non exporting population in 2006	
	Count	Percentage	Count	Percentage	Count	Percentage
<280k	54	24%	1,692	25%	326,307	77%
280k to \$3.5m	120	53%	3,507	52%	90,756	21%
>\$3.5m	48	21%	1,506	22%	5,643	1%
Total	225		6702		422703	

All numbers have been randomly rounded to base 3. Table only includes firms that have not been in a group or cluster between 2000 and 2005. Thus, totals may not match those presented in other tables.

4.1.2 The data indicate that 24% of EDG-MD recipients have annual turnover less than \$280,000. This suggests that recent changes allowing firms to claim for reimbursement on \$20,000 of eligible spending may benefit a substantial proportion of firms. Given the minimum annual expenditure level is \$40,000, these data also indicate that a large proportion of EDG-MD firms are directing a substantial proportion of their total annual income to export market development.

4.1.3 Table 4.2 presents data on the turnover *growth* of EDG-MD firms over several periods preceding the first receipt of EDG-MD funding. Comparable turnover growth data are also presented for the total exporter population. The data suggest that the turnover growth profile of EDG-MD recipients in the three years preceding receipt of first EDG-MD grant closely mirrors the growth pattern of the total exporter population.

²⁰ As noted in chapter 3, data on the total exporter population only capture merchandise exporters.

- 4.1.4 The one-year data for EDG-MD firms are more heavily weighted towards higher growth, however, suggesting that firms are utilising the EDG-MD to build export markets on the back of relatively high turnover growth.

Table 4.2 Firm distribution by percentage turnover growth (excluding firms in groups)

% growth	EDG-MD firms, growth over 3 years prior to first grant payment		EDG-MD firms, growth in year prior to first grant payment		Total exporting population, growth from 2006 to 2007	
	Count	Percentage	Count	Percentage	Count	Percentage
Less than -30%	33	18%	21	11%	870	13%
-29% to -10%	18	10%	24	12%	1020	16%
-9% to 9%	60	33%	33	17%	2139	33%
10% to 29%	33	18%	45	23%	1167	18%
More than 30%	36	20%	78	39%	1308	20%
Total	180		198		6501	

All numbers have been randomly rounded to base 3. Table excludes firms with zero turnover in the two years preceding receipt of first grant payment. Table only includes firms that have not been in a group or cluster between 2000 and 2005. Thus, totals may be lower than for other tables.

- 4.1.5 Table 4.3 below considers the distributions of EDG-MD firms and all exporters by employee count. The data suggest that the vast majority of EDG-MD firms employ fewer than 50 staff, i.e. are small and medium sized exporters. Comparing the data for both populations suggests that small firms (less than 10 employees) are under-represented, and large firms (51 to 100 employees) over-represented, amongst the EDG-MD firm population. It may be that some smaller exporters are servicing niche markets and do not devote sufficient amounts of funding on market development to qualify for funding. On the other hand, larger firms are likely to have greater market development budgets and more staff available to access government funding.²¹

Table 4.3 Firm distribution by employee count

RME	EDG-MD firms in year of receipt		Total exporting population in 2006	
	Count	Percentage	Count	Percentage
Less than 10	141	59%	3873	66%
10 to 50	78	33%	1719	29%
51 to 100	15	6%	186	3%
100-plus	3	1%	108	2%
Total	237		5886	

All numbers have been randomly rounded to base 3. Table excludes firms with missing RME values. RME is defined as the number of working proprietors and employees. Table only includes firms that have not been in a group or cluster between 2000 and 2005. Thus, numbers may be lower than other tables. Data are extrapolated from 2006 for firms receiving a first grant in 2007.

- 4.1.6 Table 4.4 considers the age distributions of EDG-MD firms and the total export population. The data suggest that EDG-MD firms are generally younger than most exporting firms; 63 percent of EDG-MD-supported firms are less than 9 years old, compared with only 45 percent of the broader export population. On the other hand, only 20 percent are older than 15 years, compared with 38 percent for the overall population.

²¹ The EDG-MD rules exclude very large firms (100-plus employees) from funding; the positive number presented in the second column of table 4.5 may be an artefact of random rounding by Statistics NZ and not significantly different from zero.

Table 4.4 Firm distribution by age

Age (years)	EDG-MD firms in year of receipt		Total exporting population in 2006	
	Count	Percentage	Count	Percentage
Less than 5	60	25%	1260	18%
5 to 9	90	38%	1884	27%
10 to 15	36	15%	1260	18%
15-plus	48	20%	2451	36%
Total	237		6852	

All numbers have been randomly rounded to base 3. Age is estimated from the first recorded year of activity. Table only includes firms that have not been in a group or cluster between 2000 and 2005. Thus, numbers may be lower than other tables. Data are extrapolated from 2006 for firms receiving a first grant in 2007.

- 4.1.7 Table 4.5 below considers the sectoral breakdown of EDG-MD recipients and compares this to the exporter and total firm populations, respectively. The data show that the EDG-MD population mainly comprises firms in the 'property and business services' and 'manufacturing' sectors. Manufacturing firms are particularly over-represented when compared to the population of exporters at large.

Table 4.5 Firm distribution by sector

Industry Sector	EDG-MD recipients in year of receipt of first grant		Total exporter population in 2007		Total business population in 2006	
	Count	Percentage	Count	Percentage	Count	Percentage
Property and Business Services	126	38%	816	10%	152,133	31%
Agriculture, Forestry and Fishing			312	4%	89,442	18%
Other	39	12%	375	4%	77,025	16%
Construction			219	3%	57,972	12%
Retail Trade			768	9%	50,586	10%
Manufacturing	120	36%	2,949	34%	28,599	6%
Wholesale Trade	48	14%	2,901	34%	22041	4%
Transport and Storage			216	3%	15873	3%
Total	333		8,556		493,671	

- 4.1.8 The tables presented so far have attempted to describe the population of EDG-MD firms according to various criteria and in comparison with the overall population of exporting firms. The remainder of this section considers EDG-MD firms' use of other forms of government business assistance, and is intended to provide information about the fit of the EDG-MD with different assistance programmes.

4.2 The relationship between EDG-MD and other business assistance programmes

4.2.1 Table 4.6 considers the receipt by EDG-MD firms of other business assistance grants offered by NZTE. Firms' business assistance is considered over three years prior to, one year prior to, and in the year of receipt of, EDG-MD funding.

Table 4.6 Firms in receipt of other NZTE business assistance grants

Time period	Firms in receipt of at least one other NZTE grant	Type of NZTE grant			
		EDG-CB	Enterprise Network Funding	GSF (BGF)	Enterprise Development Fund
In Year of receipt of EDG-MD grant	31%	8%	18%	7%	N/A*
During the year prior to receipt	41%	10%	19%	9%	4%
During the 3 years prior to receipt	61%	10%	28%	27%	14%

* The EDF was disestablished prior to the establishment of the EDG-MD. All numbers have been randomly rounded to base 3. Percentages have been calculated from rounded values.

4.2.2 The data indicate that 61 percent of EDG-MD firms received at least one other NZTE business assistance grant within 3 years of receiving EDG-MD funding, most commonly Enterprise Network and Growth Services funding.²² The data also show that nearly one third of EDG-MD firms received such funding while receiving EDG-MD funding.

4.2.3 In table 4.7 the scope of business assistance is broadened to include other agencies and services. The data indicate that 75 percent of EDG-MD firms received some form of government business assistance at least once in the 3 years prior to receiving EDG-MD funding. In the year of receipt of EDG-MD support, slightly less than half of all EDG-MD clients also had access to other forms of support, including 20 percent that were in receipt of market development services from NZTE.

Table 4.7 Firms in receipt of other government business assistance

Time period	Firm received MKDS related services	Firm received assistance from FRST	Total receiving any assistance from NZTE, FRST or TPK	Total Number of firms in cohort
In Year of receipt of EDG-MD grant	20%	10%	45%	345
During the year prior to receipt	21%	17%	52%	345
During the 3 years prior to receipt	39%	37%	75%	342

²² Support from the Industry NZ Business Growth Fund (BGF) is included with its successor, the current Growth Services Fund (GSF) category.

All numbers have been randomly rounded to base 3. Percentages have been calculated from rounded values.

- 4.2.4 The information presented in these tables provides insights into the relationship between the EDG-MD and other grants and services available to internationalising firms. The apparent overlap between EDG-MD and other forms of support implied by the data raises questions about (a) the fit between various schemes and (b) our ability to attribute outcomes to particular government schemes. Interviewed EDG-MD firms were asked to comment on their perceptions of the fit between particular schemes; their comments are summarised below.
- 4.2.5 The EDG-MD is seen by firms as separate to, and often, superior to, other business development grants because of the larger size of EDG-MD grants, and their greater scope. In situations where EDG-MD support has been used in conjunction with offshore NZTE services, the two forms of support appear to have worked well together. Firms suggested that there may be insufficient awareness, especially among less intensively managed firms, of the services available through NZTE that could be used in conjunction with the EDG-MD.
- 4.2.6 Technology for Business Growth (TBG) grants offered by FRST are seen by firms as complementary to the EDG-MD. New products developed with TBG assistance have provided firms with opportunities for export market expansion, and in turn, learning taken from market development activities has provided the impetus for several firms to undertake TBG-supported product development.

4.3 Conclusion

- 4.3.1 The results presented in this chapter indicate that EDG-MD firms are typically younger, have faster rates of turnover growth and are more likely to be manufacturers than export population averages would suggest.
- 4.3.2 The data also indicate that a substantial proportion of EDG-MD firms have accessed other forms of business assistance offered by NZTE, FRST and TPK within several years of accessing EDG-MD. Almost one-third have accessed other schemes at the same time as receiving EDG-MD funding.
- 4.3.3 The latter finding indicates that it may be difficult to attribute particular policy outcomes to one initiative or another. This issue is relevant to the analysis of scheme impacts that is discussed further in chapter 6.

5. Analysis of Supported Activities

This chapter briefly considers the allocation of funding to the various eligible activities, the extent to which government funding is encouraging firms to undertake additional export market development activities, and the location of those activities.

5.1 Allocation of funding by activity

- 5.1.1 Table 5.1 below apportions approved funding according to the six categories of eligible market development expenditure. The data indicate that nearly 70 percent of total funding has been approved for 'in-market representation', 'market visits' and 'advertising' activities, in approximately even shares.
- 5.1.2 On the other hand, only four percent of the total has been approved for eligible 'market research' expenditure. This likely reflects NZTE's operational focus on using EDG-MD funding to support the *implementation* of strategic market development plans as opposed to the *development* of such plans, where market research might be expected to make a greater contribution.

Table 5.1 Breakdown of approved funding by activity

Type of activity	Total	% share
In-Market Representation	\$9,289,305	24%
Market Visits	\$8,982,603	23%
Advertising	\$8,306,631	22%
Marketing	\$5,597,858	15%
Trade Shows	\$4,560,470	12%
Market Research	\$1,661,584	4%
Total Eligible Costs	\$38,398,452	100%

Application summary data based on 203 'recommended' or 'in progress' applications received between February and July 2007.

- 5.1.3 Given the operational focus of the funding approved to date, the next section considers how successful the co-funding incentive has been in encouraging additional market development investments, as opposed to crowding out private sector investment that would have otherwise occurred.

5.2 Additionality of funded activities

- 5.2.1 Because of a lack of quantitative data, we were reliant on the views of interviewees to form judgements about the effectiveness of the EDG-MD in encouraging firms to take on additional market development activities. Common threads from these discussions are summarised below.
- 5.2.2 Most interviewees believed that EDG-MD support had enabled them to increase the amount of market development undertaken and to accelerate the implementation of their export strategies, in some cases by up to one to two years. Several firms reported that the EDG-MD had encouraged them to invest additional resources into market development than would have happened if the scheme had not existed. Others attributed an increase in confidence to the EDG-MD, and implied that the availability of funding had

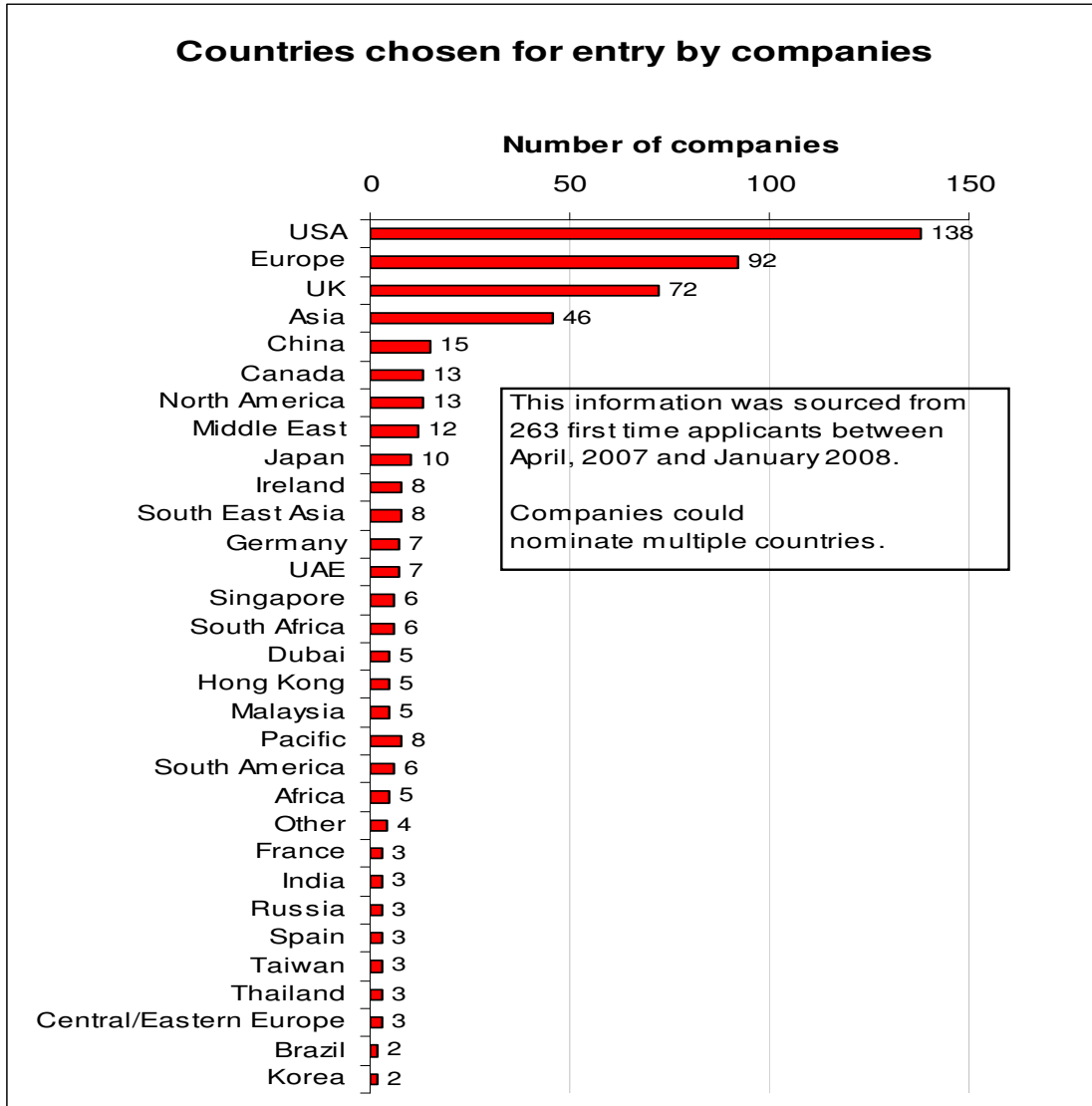
encouraged them into offshore marketing activities that would not otherwise have been undertaken.

- 5.2.3 Some firms said that the extra support from the EDG-MD had enabled them to “*put the polish on things*”, resulting in marketing that was better tailored or presented at a higher quality. Several said that the EDG-MD assisted by enabling staff to focus on marketing rather than seeking funds from other sources.
- 5.2.4 The EDG-MD appears to have encouraged some firms to undertake riskier export market development activities that they would otherwise have been reluctant to spend money on. For several firms this resulted in major benefits, while for several it was a cautionary learning experience.
- 5.2.5 Two of the interviewees said that the EDG-MD had not resulted in any change to the amount or type of export market development activities they undertook.

5.3 Location of funded activities

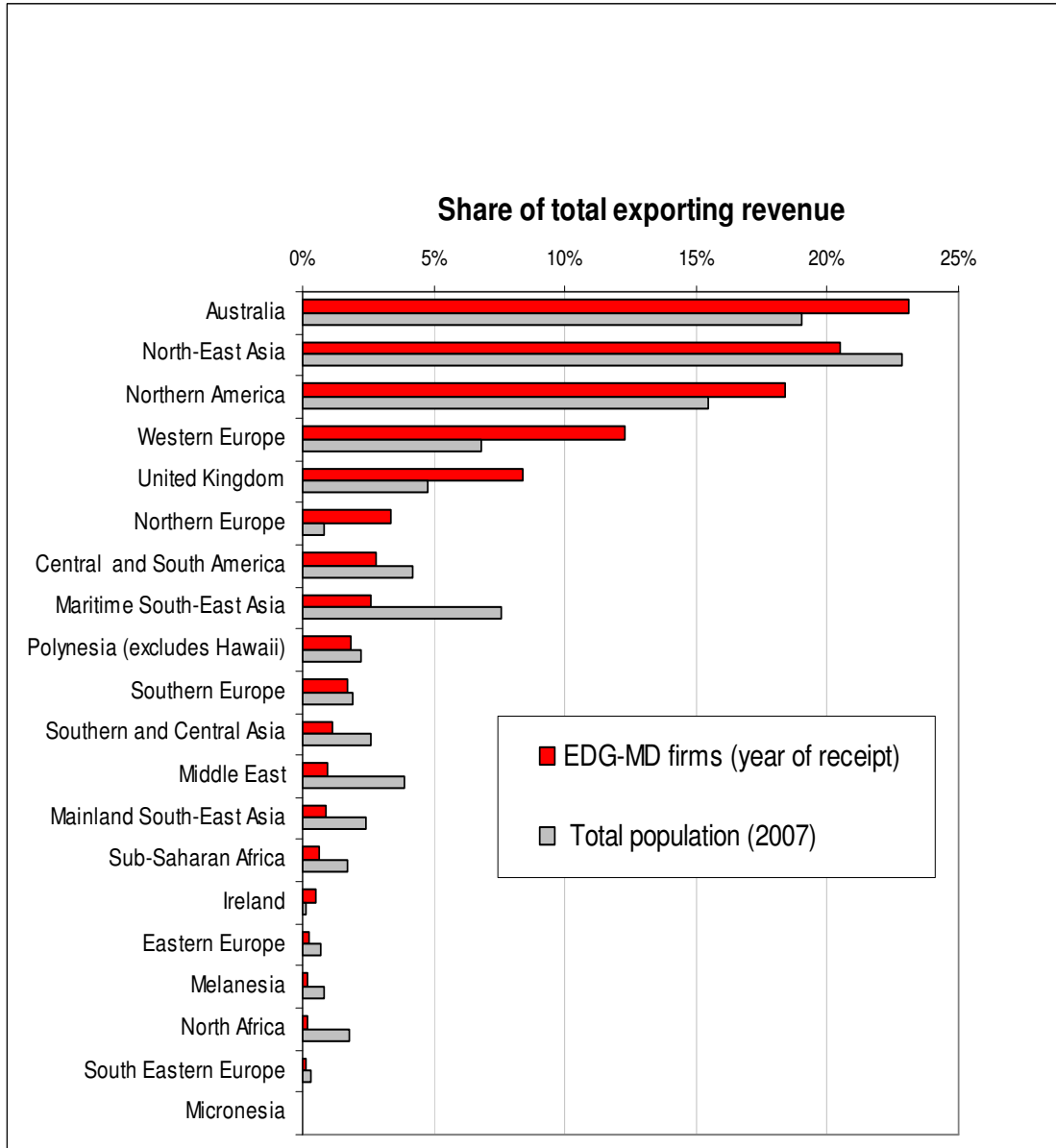
- 5.3.1 This section analyses the location of funded activities. The location of activities is of interest because knowledge spillover benefits in particular are likely to be greatest in markets that do *not* already have a significant presence by New Zealand exporters. In this context, ‘new market’ can be interpreted as a new product market to an established export destination, a new geographic market for an established good or service, or the export of a new product to a new destination for New Zealand exports.
- 5.3.2 Figure 5.1 below considers the location of funded activity by geographic region. The figure suggests that the majority of EDG-MD firms are targeting locations in the United States, continental Europe, the United Kingdom and Asia. A lack of more-detailed data prevents us from drilling further into this information.

Figure 5.1 Location of funded activities by geographic market



5.3.3 Figure 5.2 considers the export revenue of EDG-MD firms by geographic market, in comparison to the broader exporting population. The purpose of presenting these data is to consider the degree to which EDG-MD-supported firms are diverging from conventional geographic markets to develop new export markets.

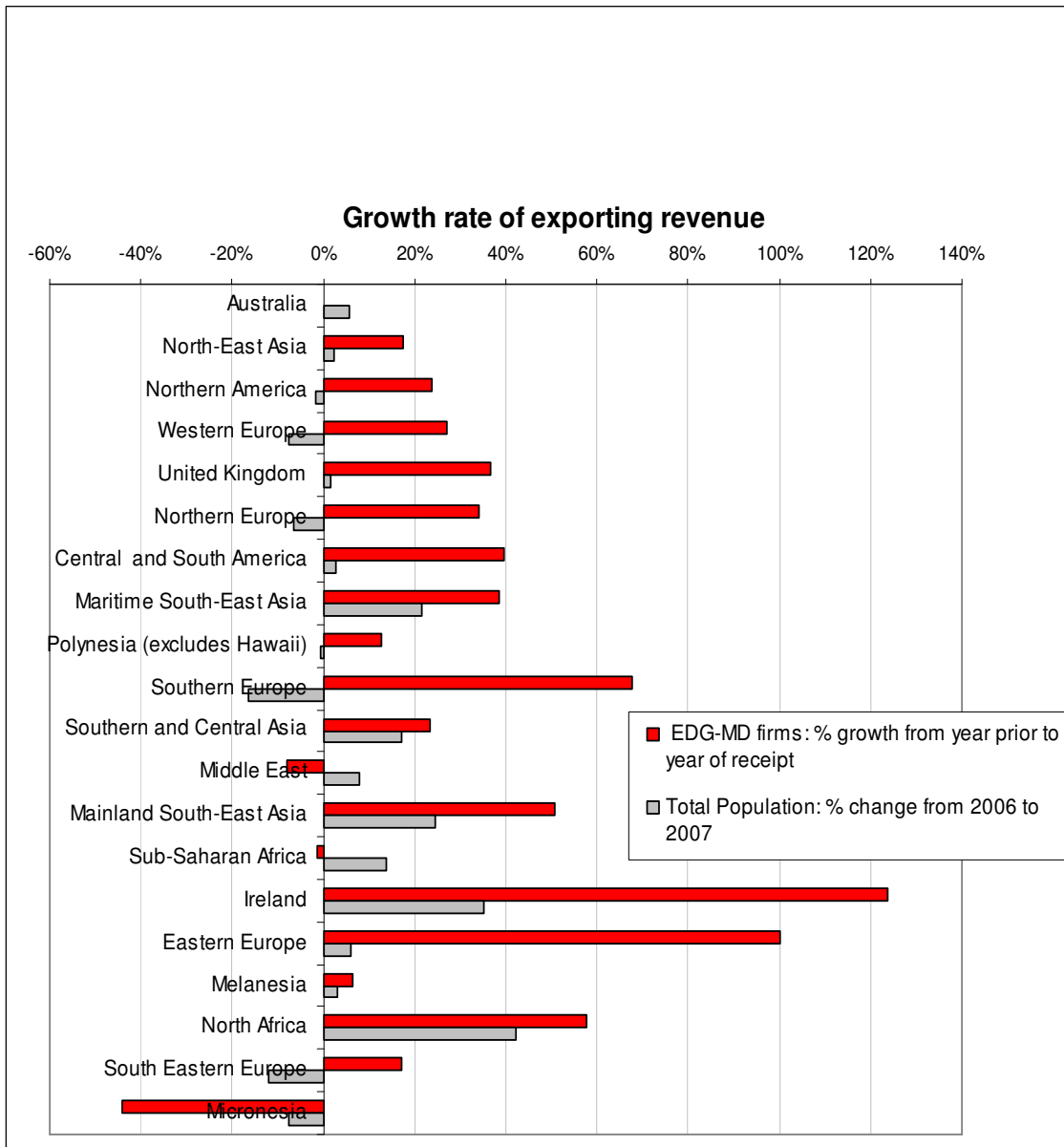
Figure 5.2: Exporting revenue by region EDG-MD clients and total export population



5.3.4 The figure above suggests that EDG-MD firms are represented disproportionately in the North American, Western Europe, United Kingdom, and Northern Europe markets, relative to the exporter population. However, as these data reflect revenues, they may not capture the full extent of firms' market development efforts (which can lead revenues by several years, and sometimes not appear in revenue data at all).

5.3.5 Figure 5.3 below considers rates-of-change in export revenue by geographic market, in order to ascertain whether revenues are growing more-or-less quickly in those markets identified in figure 5.1 as being targeted by EDG-MD firms.

Figure 5.3 Growth rate of export revenue by geographic market



5.3.6 Figure 5.3 reveals substantially higher growth in export revenues for EDG-MD recipients in those markets identified as being targeted by EDG-MD clients. Some interesting trends are present in these data.

5.3.7 The 0 percent growth in revenue to Australia for EDG-MD recipients, given substantial growth in most other markets, may reflect that the EDG-MD is encouraging firms to undertake market development activities in other markets where co-funding is on offer. This is consistent with messages received during interviews with EDG-MD firms. At the same time, however, high growth rates are more easy to obtain when starting from a low base; the fact that Australia is our largest trading partner may also explain why no growth is registered in the above figure (the size-growth rate argument would also explain the substantial growth registered for a number of smaller trade locations).

- 5.3.8 Another interesting picture that emerges from figure 5.3 is the growth of export revenues for EDG-MD firms in geographic markets that are targeted by EDG-MD firms (refer figure 5.1) and which contribute substantially to those firms' total export revenues (refer figure 5.2). These include North-East Asia, Northern America, Europe, and the United Kingdom. In a number of instances, positive export revenue growth for EDG-MD recipients is in contrast to broader negative trends amongst the general population of merchandise exporters.
- 5.3.9 The information presented in this section is consistent with, but not conclusive on, the EDG-MD having a positive impact on firm export revenues. Over time, as more data become available for longer periods of time, it may be possible to reach a judgement on that point conclusively.
- 5.3.10 The degree to which firm export revenue growth can be attributed to EDG-MD support is considered further in the next section, which addresses the impact of the EDG-MD on firms, both directly and via spillovers.

5.4 Conclusion

- 5.4.1 The chapter has analysed various aspects of EDG-MD firms' co-funded activities. The data indicate that funding is largely being spent on implementation activities, namely in-market representation, market visits, and advertising. On the other hand, only 4 percent of funding analysed had been spent on market research.
- 5.4.2 Interviews with EDG-MD firms suggest that funding has encouraged them to undertake more market development than would have otherwise been the case. Activities have been spread across a range of international locations.

6. Analysis of Scheme Impacts

This chapter considers the achievement of the policy objectives as presented in the logic model in chapter 2. It draws on quantitative information and interviews with firms and officials to determine the extent to which intermediate and final outcomes have been achieved.

6.1 Achievement of intermediate outcomes

6.1.1 In order to form judgements about the effectiveness of the EDG-MD in achieving anticipated intermediate outcomes, the review drew heavily on interviews with 22 firms that have received EDG-MD support, interviews with several administration and client managers, and the aggregated responses of NZTE staff located at 6 offshore offices. Co-funded activities appear to be resulting in anticipated behavioural changes for supported firms.

Improved perceptions of the value of exporting and how to export successfully

6.1.2 Most interviewees believed that EDG-MD activities had improved their knowledge of how to expand into new markets successfully. Some developed an improved understanding of how to go about export successfully, and the risks involved in servicing new offshore markets. All of the interviewed firms, however, perceived that they had a belief in the value of exporting that pre-dated EDG-MD support.

6.1.3 Knowledge about how to export successfully was developed in a number of areas. Interviewees described gaining knowledge of different countries' regulatory conditions, compliance procedures, product distribution and sale mechanisms, as well as cultural differences. Though consistent with export knowledge development, it may be that this information could be provided through other existing interventions.

6.1.4 Firms have used EDG-MD support to develop their understanding of how to export more efficiently and effectively. Several described specific lessons that have enabled them to be more effective in their market development activities. These included:

- becoming more strategic about where to focus market development efforts, rather than *“grabbing the first opportunity”*;

“exporting turned out to be more difficult than we first thought ... helped identify where we should most put in our effort”

- learning, through experience, which trade shows or sales channels are more-or-less effective for their business;
- learning how to provide better quality marketing collateral and information for customers;
- improved planning of market visits; and

- discovering ways to undertake market development activities more cost-effectively (such as exhibiting at trade shows and setting up in-market offices).

6.1.5 Two of the firms interviewed had been less successful in their EDG-MD-supported export market development, and had overstretched themselves. Both had nevertheless learned from the experience, discovering that they needed a new model for their export activities. After a period of retrenchment and reassessment, both are planning to attempt to export again, with the benefit of the lessons they have learned.

New and strengthened relationships

6.1.6 Most firms claimed that EDG-MD assistance had enabled them to develop new and/or to strengthen existing relationships with offshore suppliers, distributors, and/or customers. Several exceptions did not attribute any increase in market development activities to the EDG-MD and/or had discontinued exporting for the time being.²³

6.1.7 Interviewees identified face-to-face contact as a key element of developing relationships, building trust and showing commitment. The EDG-MD has been particularly helpful in this respect because it has enabled recipient firms to undertake more in-market activities, increasing their ability to make face to face visits to clients and offshore partners.

"You can't underestimate the importance of face to face visits for relationship development"
"Travelling to these places is what makes the difference in these things and that has been down to the grant"
"All of those things are building the relationship, and building the ability of the channel to provide product to the end user. It's just made the relationship closer, and allowed us to provide a greater level of support and information to those customers or dealers".

6.1.8 Interviewees also said that they had acquired new customers, and some had developed licensing agreements as a result of the increased quantity and quality of market development activities they have been able to undertake with EDG-MD support.

6.1.9 A few firms had experienced a change in the *"power dynamic"* between themselves and their suppliers, as their firm has become bigger and more successful. These firms now find that they have more leverage with suppliers.

"as we get more and more successful, we are more important to them"

Increased market knowledge and presence

6.1.10 Interview results suggest that supported firms have been able to develop an increased market presence through being able to undertake a greater quantity of higher-quality market development activities.

²³ These findings should be considered in the context of substantial business-as-usual 'churn' in New Zealand firms' entry to, and exist from, new and existing export markets. See Fabling and Sanderson (2008) for a quantitative analysis of firm-level patterns in New Zealand's merchandise trade.

6.1.11 Attending more trade shows, making more market visits, employing in-market staff, and developing better marketing collateral was described as having directly led to more export sales. Several firms described evidence of an increased awareness of their firm within their target markets.

"You go back to 2004, we had one in-market rep, and now we've got nine. We would have gone to two trade shows, and now, in market, in those two markets, we may go to fourteen per year. Obviously, the company's grown, and obviously part of the question is how much does that pay into that, and it's really hard when you're growing as quickly as we are to be able to say exactly, but we certainly do know that it's been beneficial to us especially earlier on, when you don't, just don't have the resources"

"If you mention our brand to our target audience, you'll find most of them know who we are and what we do."

Other behavioural outcomes

6.1.12 Interviewees also attributed several behavioural outcomes to EDG-MD-supported activities that have not been targeted explicitly by the policy. These included increased confidence; improved planning of export market development activities, undertaken to comply with the requirements of EDG-MD funding; and improvements in processes such as quality assurance.

6.1.13 Outcomes identified in firm interviews are summarised in table 6.1 below.

Table 6.1 Summary of behavioural outcomes identified by interviewed firms

Behavioural outcome	# firms* (n=21)
Improved perceptions of the value of exporting and how to export successfully	18
New or strengthened relationships	18
Increased market knowledge and presence	17
Other behavioural benefits	18

* Number of interviewed firms who said that they had attained the intermediate outcome.

6.2 Firm performance outcomes

6.2.1 This section addresses firm performance impacts attributed to the EDG-MD. The majority of interviewees perceived that EDG-MD support had led, or would lead, to increased export revenues in targeted markets, as well as better profitability overall.

6.2.2 The available performance data suggests that EDG-MD recipients' export revenue growth has been greater than the total population of exporting firms, though attribution of this difference to the EDG-MD has not been possible with the limited amount of data available.

Impacts of EDG-MD support on firm export revenues

6.2.3 Most of the interviewed firms claimed to have achieved increases in their export sales which they attributed, at least in part, to EDG-MD support. Firms found it difficult to be specific about the proportion of the increase that was attributable to the EDG-MD, but felt that a significant proportion of the growth or acceleration of export sales could be attributed to EDG-MD support.

- 6.2.4 Two firms said that the EDG-MD accelerated their sales growth by one to two years. One said that the EDG-MD accelerated their sales growth by six to nine months.

“Where would we have been without the grant? That’s another \$64,000 question, certainly not where we are. The grant meant we freed up shareholder funds to put into assets instead of marketing so without it we would have been six, maybe nine months behind on our marketing plan”.

- 6.2.5 A further two firms said that *most* or *all* of their increases in exports could be attributed to the EDG-MD. One said that they may not have got off the ground without the EDG-MD. The other had tried a new market development activity that worked extremely well, and that they would not have had the courage to undertake without EDG-MD support. One firm said that the EDG-MD support had raised their chances of success by 30 to 40 percent.

- 6.2.6 Several firms had not experienced increases in export sales yet, but anticipated future increases as a result of their market development activities and new/strengthened relationships.

- 6.2.7 Four firms could not attribute any changes or anticipated changes in export sales to EDG-MD. For two, this was because they had to cease exporting after finding out that they were unready or overstretched. For the other two, this was because they did not attribute any change in their market development activities to EDG-MD support; though one commented that without the EDG-MD they would have used *“massive overdrafts”* to fund the implementation of their export strategy.

- 6.2.8 Several firms said that the EDG-MD-funded activities had positive effects on their exports to other markets. These effects came about in the following ways:

- Increased credibility in other markets as a result of export success in their targeted market;
- Use of EDG-MD support to undertake a limited amount of export market development in non-target countries;
- Increased success in other markets as a result of the confidence developed from experience in the target market; and
- Enquiries or interest from other markets, generated through EDG-MD-supported activities, such as trade show attendance.

- 6.2.9 It is possible that there has been some displacement of export market development effort from Australia to other countries as a result of the EDG-MD, given that the EDG-MD does not fund market development activities in Australia. Three firms said that without EDG-MD funding they would have had a more limited export market development strategy, with a greater focus on exporting to Australia.

- 6.2.10 Firm export outcomes that were identified by firm interviewees are summarised in table 6.2.

Table 6.2 Summary of firm export outcomes identified by interviewed firms

Exporting outcomes attributed to EDG-MD support	# firms* (n=21)
Increased exports to target market/s	15
No attributable change in exports to target market/s	4
Anticipate increases in exports to target market/s	2

6.2.11 Firm export revenue data taken from the prototype Longitudinal Business Database (LBD) are presented in several tables below. Table 6.3 below considers export revenue growth in 'new markets' by geographical region. This breakdown combines new products being sold in established locations, existing products being sold in new locations, and new products being sold into new locations, all of which constitute new markets for the purposes of this grant.

Table 6.3 Growth in exporting revenue by region – EDG-MD clients compared with total population of New Zealand exporting firms

Location	EDG-MD firms – growth between year prior and year of receipt of first grant	Total population - Growth between 2006 and 2007
Australia	0%	6%
North-East Asia	17%	2%
Northern America	24%	-2%
Western Europe	27%	-7%
United Kingdom	37%	2%
Northern Europe	34%	-6%
Central and South America	40%	3%
Maritime South-East Asia	39%	21%
Polynesia (excludes Hawaii)	13%	-1%
Southern Europe	68%	-16%
Southern and Central Asia	23%	17%
Middle East	-8%	8%
Mainland South-East Asia	51%	25%
Sub-Saharan Africa	-1%	14%
Ireland	124%	35%
Eastern Europe	100%	6%
Melanesia	7%	3%
North Africa	58%	42%
South Eastern Europe	17%	-12%
Micronesia	-44%	-7%
Total	19%	4%

Aggregate growth between year prior to receipt and year of receipt is quite high 19%. Growth of total population between 2006 and 2007 is only 4% (Note EDG-MD cohort is spread between 2005 and 2007 but most firms received first grant in the 2007 year)

6.2.12 Table 6.3 above indicates higher average growth in all regions for EDG-MD firms than for the exporter population. On average, EDG-MD firms' export revenues increased by 19% compared with an average of 4% for the total

population.²⁴ The individual results in table 6.3 indicate that EDG-MD firms' revenues grew faster than average exporter revenues in all of the listed regions except for Australia, the Middle East, Sub-Saharan Africa and Micronesia.

- 6.2.13 The result for Australia is consistent with the possibility of a 'market substitution' effect driven by Australia's exclusion from EDG-MD support. On the other hand, it is also consistent with the maturity of the Australian market as a location for New Zealand exports. The available data do not yet allow us to establish which of these situations is playing out.
- 6.2.14 Table 6.4 below compares the market focus of EDG-MD firms with the total exporter population. We compare the proportion of total revenue generated by EDG-MD firms in new export markets in the year *before* receiving EDG-MD with the proportion generated in the first year of EDG-MD support. The purpose of this comparison is to provide insights on the effectiveness of the EDG-MD in successfully getting firms into *new* export markets. To partially control for the impact of general market conditions, such as exchange rate fluctuation, we compare EDG-MD firms' performance with that of the overall exporter population over a comparable period.

Table 6.4 Export revenue in new export markets

New Market Type	All EDG-MD recipients		Total exporter population	
	Year prior to receipt	Year of receipt	2006	2007
New Product, Established Location	2%	2%	1%	1%
New Location, Established Product	4%	3%	1%	1%
New Location, New Product	1%	1%	1%	1%
Total New Market	8%	5%	4%	2%
Total exporting revenue	\$457m	\$541m	\$26,900m	\$27,970m

- 6.2.15 The data in table 6.4 suggest that new markets make a greater contribution to total export revenue for EDG-MD clients than for the general population of exporters.²⁵ This is consistent with EDG-MD clients having a stronger focus on new market development than the broader population of exporters. The data indicate a decrease in the proportional contribution of new markets to EDG-MD firms' total export revenue that is similar to the decrease evident for the exporter population overall.
- 6.2.16 When the dollar value of new exports is considered, the proportionate increase for the EDG-MD firms is substantially higher than for the exporter population. Though one year of data will not capture all of the impact of the EDG-MD on

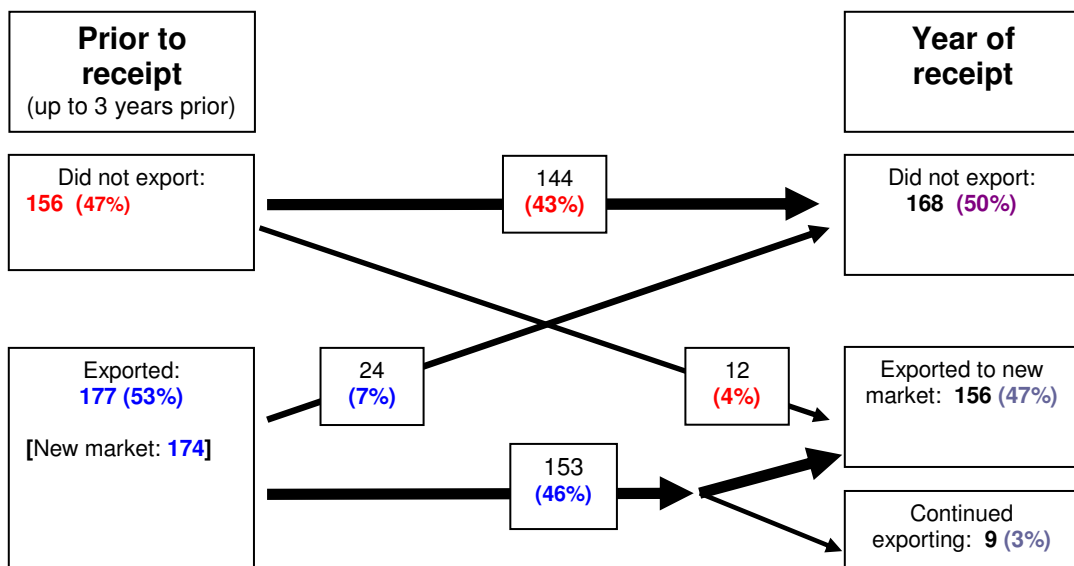
²⁴ It is very likely, however, that many EDG-MD firms' revenues are growing from smaller bases than for non-EDG-MD exporters, in which cases small absolute increases can result in large percentage changes.

²⁵ The contributions of new markets to New Zealand export revenue over the period 1996-2005 is considered by Fabling and Sanderson (2008).

new export receipts, the data are supportive of increased revenues by EDG-MD firms in new markets.

6.2.17 We attempted to analyse whether firms' market development activities had lead to systematic changes in general exporting outcomes and in new export markets. As indicated in figure 6.1, the data do not indicate clear changes in behaviour in the short term. However, it may be the case that firm performance outcomes will take longer to emerge than we can presently test for; these flows offer only limited information.

Figure 6.1 Export behaviour of EDG-MD clients, pre- and post-market development



6.2.18 Interpretation of figure 6.1 is also constrained by a lack of knowledge of firms' likely actions in the absence of the grant (i.e. a counterfactual scenario), and an inability to apply robust controls for the impacts of external factors such as exchange rate and transport cost fluctuation.

6.2.19 The issue of firm profitability is considered below. Findings draw largely on interviews with EDG-MD firms and NZTE officials.

Impact of EDG-MD on firm profitability

6.2.20 A number of interviewees stated that they had increased their profits as a result of EDG-MD support. Profit increases were usually said to be due to increased export sales.

" It's had a huge impact on the ability of the company to grow from a market development perspective, and that has knock-on effects on revenue, and ultimately profitability, but it's not the only contributor to that ... it's definitely had a good contribution."

6.2.21 Three firms attributed increases in profit directly to EDG-MD support, where funding from EDG-MD was used as a replacement for the firm's own spending (e.g. via overdraft facilities) on market development. One firm said that in their early days the EDG-MD had kept them afloat, allowing them to undertake

important market development activities without putting them into a risky position financially.

6.2.22 A small number of firms did not perceive that EDG-MD support had increased their profit, though this might be attributable in some cases to the use of an accounting, rather than economic, sense of 'profit'.

- For two firms, the market development activities were unsuccessful and the firms had to discontinue exporting. Both of these firms made losses, but stated that they would have undertaken the market development activities with or without EDG-MD support.
- One firm attributed a recent decrease in profitability to EDG-MD, because of increased spending on market development. However they anticipated future benefits from this spending.
- Three firms said that they had saved on costs through their increased knowledge (e.g. learning to avoid loss-making activities) or improved products developed as a result of EDG-MD support.

6.2.23 Profit outcomes attributed to EDG-MD support, as identified by interviewees, are summarised in table 6.5 below.

Table 6.5 Profit outcomes identified by interviewed firms

Profit outcomes attributed to EDG-MD	# firms* (n=21)
Increased profit	14
No change in profit	3
Decreased profit	1
Anticipate increases in profits (no actual change yet)	3

* The number of interviewed firms who said that they had attained the outcome.

6.2.24 Interviewed NZTE staff commonly noted the importance of good planning and preparation by firms, prior to commencing EDG-MD-funded market development activities, in order to gain maximum benefit from market development opportunities.

6.2.25 Under the present rules of the scheme, firms are not required to undergo any 'readiness' testing before funding eligibility is confirmed, nor do they need to. When funding is allocated to firms that are lacking basic preparedness, market development outcomes – private returns and spillover benefits – may be of limited value.

6.2.26 There is also a risk that poorly-prepared firms will convey a negative reputation of New Zealand firms in-market, which may justify greater discretion on the part of client and sector managers to vet firms for basic preparedness before funding is approved. This is discussed later in the report.

Impact of the EDG-MD on firm productivity

6.2.27 Anecdotally, NZTE officials have noted that the quality of applications to the EDG-MD has decreased since the size of funding was increased. To consider whether this has flowed through into lower quality firms receiving support, several statistical tests were performed.

6.2.28 These tests use average productivity data to compare (a) the average productivity levels of EDG-MD firms in different years and (b) the average productivity of EDG-MD firms and the average productivity of the firm population overall. They can provide information on the relative quality of EDG-MD firms across time and in comparison to the population of firms overall.

6.2.29 Table 6.6 compares the average (log) value-added of the 2006 and 2007 EDG-MD cohorts, in order to compare the performance of EDG-MD firms across time. It also compares each EDG-MD cohort with the total population in the relevant year, to compare the performance of each group of EDG-MD firms with the overall firm population.

Table 6.6 Comparison of log of value-added over time for EDG-MD cohorts

	2006 EDG-MD cohort		2007 EDG-MD cohort	
	Cohort mean: Xc1	Total population mean: Xt1	Cohort mean: Xc2	Total population mean: Xt2
Mean	13.076	10.691	12.876	10.716
Std dev	1.313	1.657	1.951	1.667
	Diff= Xc1-Xt1	Diff= Xc2-Xt2	Diff=Xc1-Xc2	Diff=Xt1-Xt2
t statistic	7.1966	15.2174	0.4921	-6.2431
Prob: diff <0	1	1	0.6883	0
Prob: diff !=0	0	0	0.6233	0
Prob: diff >0	0	0	0.3117	1
Conclusion:	Xc1 > Xt1	Xc2 > Xt2	Xc1=Xc2	Xt1 < Xt2

Table only includes firms that have not been in a group or cluster between 2000 and 2005. Value added is measured in the year preceding the first year of grant (i.e. in 2005 for the 2006 cohort). 2006 (2007) EDG-MD cohort refers to firms receiving their first EDG-MD grant in 2006 (2007).

6.2.30 The data in table 6.6 indicate that there is not a statistically significant difference in the average value-added of the 2006 and 2007 EDG-MD firm cohorts. However, the average value added of each intake of EDG-MD firms appears to be significantly higher than the average value-added of the overall firm population in each year. Table 6.7 below reports the results of a similar comparison of firm productivity that is based on an average labour productivity measure.

Table 6.7 Comparison of log of productivity over time for EDG-MD cohorts

	2006 EDG-MD cohort		2007 EDG-MD cohort	
	Cohort mean: Xc1	Total population mean: Xt1	Cohort mean: Xc2	Total population mean: Xt2
Mean	10.9447	10.17389	10.72248	10.22751
Std dev	0.8667403	1.267928	1.39751	1.265945
	Diff= Xc1-Xt1	Diff= Xc2-Xt2	Diff=Xc1-Xc2	Diff=Xt1-Xt2
t statistic	3.0396	4.3875	0.7652	-15.0506
Prob: diff <0	0.9988	1	0.7773	0
Prob: diff != 0	0.0024	0	0.4454	0
Prob: diff >0	0.0012	0	0.2227	1
Conclusion:	Xc1 > Xt1	Xc2 > Xt2	Xc1=Xc2	Xt1 < Xt2

Table only includes firms that have not been in a group or cluster between 2000 and 2005. Value added is measured in the year preceding the first year of grant (i.e. in 2005 for the 2006 cohort). 2006 (2007) EDG-MD cohort refers to firms receiving their first EDG-MD grant

in 2006 (2007).

- 6.2.31 The results indicate a similar outcome to the data in table 6.6. That is, there is no statistical difference in the average labour productivity of the 2006 and 2007 EDG-MD firm cohorts, but the average labour productivity of both groups is significantly higher than the average labour productivity level of the overall firm population in each year. The results of table 6.6 and 6.7 imply that EDG-MD firms are, generally speaking, more productive than the average firm and that the average productivity of EDG-MD recipients has not decreased in recent years.
- 6.2.32 Although we cannot conclude from these results that EDG-MD funding has caused EDG-MD firms to be more productive, on average, than the overall population, we can conclude that increases in the scheme's appropriation over recent Budgets have not resulted in lower-performing firms receiving support (on average).
- 6.2.33 The next section of this chapter addresses the spillover benefits to market development activities. Though very difficult to measure, these benefits are a crucial aspect of scheme effectiveness. Insights presented below are based largely on interviews with EDG-MD firms and officials.

6.3 Impact of the EDG-MD on spillover benefits

- 6.3.1 Interviews with supported firms and NZTE staff revealed limited evidence of spillover benefits. This is not necessarily surprising. A lack of evidence may reflect the difficulty of identifying spillover benefits that are the result of EDG-MD support; it may also be the case that spillover benefits take a number of years to surface.
- 6.3.2 We know of no robust estimates of the size of spillover from exporting generally, or of spillovers from exporting to new products or into new markets. However, there are (qualitative) studies that point to substantial benefits from the discovery of new knowledge about successful new products or markets that is then exploited by a range of domestic firms (Hausmann and Rodrik, 2003; Rodrik, 2004).
- 6.3.3 The importance of spillover benefits to the success of schemes like the EDG-MD has been demonstrated by Austrade's (2008) review of the EMDG scheme. Modelling results published by Austrade indicate that the scheme generates a small positive net benefit when a spillover of at least 50 percent of the value of firms' private returns is assumed. Without that assumption, however, the private performance benefits of recipient firms are more-or-less offset by the various costs associated with administering the scheme.
- 6.3.4 The result of the Austrade modelling suggests that spillover benefits are critical to the effectiveness of market development support. Available evidence of the spillovers noted in chapter 2 is presented below.

Evidence of reputational spillover benefits

- 6.3.5 Reputational spillovers to other New Zealand firms may occur if an EDG-MD firm's export activities advance New Zealand's reputation as a country with high capability in particular areas. This would manifest itself as a decrease in the costs and difficulty for other New Zealand firms to become established in export markets because of the reputation of a successful pioneer exporter.
- 6.3.6 One quarter of firms identified possible reputational spillovers, though none were able to specify other firms that had benefited from reputational spillovers. The following situations summarise firms' responses:
- A firm markets itself as a New Zealand company, and considers that reputational spillovers are likely to benefit other New Zealand firms;
 - A firm considers that their activities are likely to contribute to the image of New Zealand as clean, green and safe; and
 - A firm considers that their activities are likely to contribute to the reputation of New Zealanders as innovative.

"We get a lot of feedback from people: what are you crazy kiwis up to now?... You always think of such inventive things"

- 6.3.7 Several firms commented that reputational spillovers from their activities are unlikely, as they deliberately do not market themselves as New Zealanders. This is particularly prevalent among ICT and other technology-focused companies, and is part of their strategy to gain acceptance in the market. New Zealand's distance from export markets and its "mountains and sheep" reputation is felt by some to be a hindrance, rather than a help, to being accepted in new export markets.
- 6.3.8 NZTE officials cited possible examples of reputational spillovers resulting from successful market development. However, they also noted the prospect of negative reputational spillovers arising from the activities of under-prepared firms entering new markets. Given that NZTE currently have limited powers to make EDG-MD funding conditional on preparedness, there is a risk that funding could prematurely encourage firms into new export markets, possibly resulting in negative reputational outcomes for 'brand New Zealand'.
- 6.3.9 Overall, our judgement is that reputational effects are not likely to be significant in deep and competitive offshore markets. Spillovers may be occurring at the margin in some situations, but the non-discretionary allocation model means that negative reputational spillovers from under-prepared firms, as well as positive spillovers from successful New Zealand firms, are possible outcomes.

Evidence of knowledge spillover benefits

- 6.3.10 Knowledge spillovers may benefit the economy when an EDG-MD firm enters a new export market and captures valuable information about that market, which is then acquired by other firms at no or low cost. Such information may

include whether it is viable for domestic firms to be successful in a particular new market and how to service that market from New Zealand.²⁶

- 6.3.11 Other firms can gain access to new knowledge by observing and engaging with the EDG-MD firm, without having to invest additional funding into risky market development activities. In this way, the market development investments of one firm can result in numerous New Zealand firms benefiting from new market knowledge, and, potentially, new export revenues.
- 6.3.12 Five firms attributed knowledge spillovers to their experience gained through EDG-MD-supported activities, though none were able to provide specific details. All described activities that could credibly lead to knowledge spillovers, including:
- Freely sharing the export knowledge they have gained with other firms and in some cases presenting this knowledge at industry fora;
 - Identifying a niche opportunity in their export markets and encouraging a domestic firm to leverage the opportunity; and
 - Working to inspire other small firms in the same sector to export

"little upstarts, if they can do that, we can do that too"

- 6.3.13 Activities that can lead to knowledge spillovers may be more prevalent among firms in the Information, Communication & Technology sector. A higher proportion of these firms described possible knowledge spillovers, and there appears to be substantial local networking between firms in these sectors, which allows such knowledge spillovers to be transmitted more easily.
- 6.3.14 Just over half of the interviewed firms said that their EDG-MD-supported export success had benefits for their suppliers, sub-contractors and distributors. Firms also noted that they had been able to increase the quality or attention to detail of their suppliers' work. Several firms said that their success had led to benefits for employees, such as promotions and more jobs becoming available. Several NZTE officials cited examples where they had witnessed supply chain benefits to other New Zealand firms. However, it is very difficult to confirm such benefit flows and to attribute these to activities undertaken by firms with EDG-MD funding.
- 6.3.15 Overall, limited evidence of knowledge spillovers was gathered during interviews with firms and officials. This was not surprising, given the difficulty of identifying spillovers after a short period of activity. The next section draws on recent research and insights from the interviews to consider how current policy settings are placed to generate spillovers.

6.4 Recent evidence on exporting-productivity linkages

²⁶ Knowledge spillovers may also occur where a firm demonstrates to others that particular markets are *not* viable export propositions. In reality, however, finding evidence of those spillovers is near impossible as it requires knowing that a firm was going to enter a market, but didn't, as a result of another firm's actions – that is, it is not directly observable.

- 6.4.1 Government support for export promotion is often based on a positive relationship between exporting and output growth that is backed up by macroeconomic evidence in a wide range of contexts (Greenaway and Kneller, 2007). As noted in chapter 2, this relationship between exporting and productivity was one of several rationales for the establishment of the EDG-MD.
- 6.4.2 Over the past decade, a large number of studies have extended the macroeconomic literature to consider *firm-level* relationships between exporting and productivity outcomes. These studies are almost unanimous in finding that (a) more productive firms self-select into exporting and (b) productivity growth amongst incumbent exporters is not significantly more-rapid than for non-exporters. In other words, firms appear to become more productive before they export, and causality runs from productivity to exporting (Greenaway and Kneller, 2007; Wagner, 2005).
- 6.4.3 To our knowledge, the only (preliminary) study of New Zealand merchandise exporters is by Fabling *et al.* (2008), who show that exporters (and new exporters in particular) appear to have higher levels of average labour productivity than non-exporters, but that there is no difference in the growth rates of labour productivity between exporters and non-exporters.
- 6.4.4 These findings are consistent with the bulk of the firm-level studies, and suggest that, firstly, more productive New Zealand firms self-select into exporting and that, secondly, possible 'learning-by-exporting' effects are not a significant source of firm productivity growth for exporters. Though these results are tentative, they contradict an important part of the initial policy premise and suggest that future policy should be more focused on the knowledge spillover rationale for market development assistance.

6.5 Administrative efficiency

- 6.5.1 A report into the efficiency of NZTE's administration of grant schemes was published by the Auditor-General in March 2008. The Auditor-General determined that NZTE was efficiently administering grant schemes including the EDG-MD, though noted as an operational risk that increases in programme funding over recent Budgets had not been accompanied by corresponding increases in funding for grant administration.
- 6.5.2 A common theme emerging from interviews with firms and officials was that the administrative burden of current application and claims procedures is onerous. Applicants have been required to provide a large volume of paperwork to support their applications, which must then be processed by administration staff. This process is then repeated *ex post*, when firms submit claims for the reimbursement of eligible expenditure.
- 6.5.3 Current administrative arrangements appear very heavily weighted towards minimising fraud risks. Though understandable, this appears to have resulted in firms enduring substantial wait times for their applications to be processed, and NZTE having to seek the assistance of external contract staff to clear a backlog of applications for the 2007/08 financial year.

- 6.5.4 As noted in an earlier footnote, during the review period, NZTE officials provided the Ministers of Economic Development and Trade with weekly updates on EDG-MD administration volumes and processes. These updates outlined a package of improvements to the procedures for handling EDG-MD applications and funding claims.
- 6.5.5 We support the proposals outlined by NZTE to improve the efficiency of existing processes. Efficiency considerations should seek to ensure that the amount of information needed to manage application risks adequately is minimised.

6.6 Conclusion

- 6.6.1 This chapter has considered the effectiveness of the scheme in achieving intermediate and final policy outcomes. Interviews with firms and officials provided insights on the achievement of intermediate and final outcomes.
- 6.6.2 Interview results suggest that firms have benefited from improved understanding of the value of exporting, and had developed new knowledge and exporting relationships. Some evidence was found of improvements to firm productivity and profitability, though our analysis also suggested that EDG-MD firms may already be more productive than average non-EDG-MD firms. Additionally, to the extent that many EDG-MD firms have received, or continue to receive, other forms of business assistance from government, it is difficult to attribute changes in behaviour and performance to the EDG-MD in particular.
- 6.6.3 On the important issue of spillover benefits, we found very limited tangible evidence of EDG-MD firms' activities generating benefits for domestic firms. Some EDG-MD firms identified supply chain benefits they perceived to be occurring, but we were not able to estimate the magnitude of these returns.
- 6.6.4 Evaluating whether particular activities are generating spillover benefits, establishing who is receiving those benefits and estimating the size of those benefits is extremely difficult, and we know of no robust estimates of the size and value of spillovers from exporting that have been published internationally. In the case of the EDG-MD, these difficulties are compounded by the relative short history of the scheme and the lack of quantitative and qualitative data on scheme impacts that is available at present.
- 6.6.5 Recent evidence from Australia, however, indicates that spillover benefits are critical to export market schemes' ability to deliver net economic benefits. This finding is compounded in the case of the EDG-MD by recent research which questions the presumption that supporting exporters would foster firm productivity growth. In our view, reputational spillovers are not likely to generate substantial public benefits, and so a greater focus on knowledge spillovers than exists presently may be justified.

7. Conclusions and recommendations

7.1 *Review conclusions*

7.1.1 This initial review of the EDG-MD has considered the ongoing relevance of the initial policy rationale and has analysed the characteristics of supported firms, activities and outcomes. The main conclusions of this review are presented below.

7.1.2 Chapter 4 analysed the characteristics of EDG-MD firms. Collected data indicated that:

- EDG-MD clients have a very similar turnover distribution to the population of exporters which is right-skewed relative to non-exporters.
- Turnover growth is higher amongst EDG-MD clients than broader export population, however.
- EDG-MD firms are typically younger than non-EDG-MD exporters;
- Proportionately more EDG-MD firms come from the manufacturing and property & business service sectors than is the case for the export population
- EDG-MD firms generated more of their revenue in new export markets than the broader population.

7.1.3 In terms of the overlap between EDG-MD and other schemes, the data reveal that:

- In the 3 years prior to receiving an EDG-MD, 61 percent of all recipients had received other NZTE assistance. Enterprise Network funding and Growth Services were the most commonly accessed schemes.
- When we expand our analysis to FRST and TPK, the proportion of firms receiving other business support from govt increases to 75% over the 3 years preceding first EDG-MD grant.
- Just under 1-in-3 EDG-MD firms (31 percent) received other NZTE assistance whilst receiving EDG-MD funding, particularly Enterprise Network funding.
- 45% of EDG-MD firms received some form of business assistance at the same time as the EDG-MD.

Officials should undertake further analysis into the overlap of the EDG-MD with other business assistance schemes in dealing with an information deficiency problem in particular. In the case that a clear overlap is identified, officials should examine where rationalisation should occur.

7.1.4 Chapter 5 analysed supported activities. Table 5.1 indicated that EDG-MD funding is mainly being spent on in-market representation (24%), market visits (23%) and advertising (22%). Of the remaining 31%, marketing comprises 15%, trade shows 12% and market research just 4%. This distribution reflects NZTE's preference that funding be used to implement strategic plans, rather than to develop such plans.

- 7.1.5 It is difficult to quantify the extent to which firms are spending more on marketing and promotion, though the results of interviews reported in chapter 5 suggest that EDG-MD firms are devoting additional funds to market development activities.
- 7.1.6 In the main, firms appear to be targeted EDG-MD activities to conventional geographic markets. Figure 5.3 suggested that export revenues are increasing substantially for EDG-MD firms in a range of export markets relative to the broader exporting population. However, we do not have sufficient information to say whether or not the products being marketed are already exported to those markets by New Zealand firms.
- 7.1.7 Interviews reported in chapter 6 suggest that firms' behaviours toward market development, its value to firm growth, and how to go about it have all improved from EDG-MD supported activities. Qualitative and quantitative data collected during the review indicate that the EDG-MD has resulted in the overall level of market development activity undertaken by participant firms increasing over and above the level that would have occurred in the absence of the programme. We do not have sufficient data at this point in time to support this claim categorically, however.
- 7.1.8 Evidence of spillover benefits from market development activities was limited. Interviews with firms and officials indicated that supported activities may be generating supply-chain spillover benefits, but provided less evidence of knowledge spillovers.
- 7.1.9 In our judgement, knowledge spillovers provide the strongest justification for continued support for export market development. We acknowledge that conclusive evidence of knowledge spillovers will always be difficult to ascertain, though scope may exist to adjust the operational settings to target these benefits more directly. Recent evidence from the Australian Trade Commission suggests that spillover benefits are critical to market development support generating net economic benefits.

7.2 Recommendations

We recommend the following response by the Ministry to the evaluation conclusions:

1. Note that knowledge spillovers remain a strong justification for government support of new export market development activities; and
2. Officials should revisit the policy objective for the EDG-MD to determine whether the information deficiency rationale overlaps with other business assistance schemes and, if so, whether the EDG-MD objective should be refined to focus more explicitly on knowledge spillovers to market development. This could result in a tighter focus on firms' export development in new markets and lead to discretionary selection criteria.

Depending on the outcome of recommendation (2) above, we suggest that any advice to government on changes to the EDG-MD policy objectives and rationale will need to take the following factors into account:

3. Any changes will need to be undertaken in the context of NZTE's strategic engagement with internationalising firms. The discrete requirements for leveraging knowledge spillovers would need explicit accountability
4. New Zealand's obligations under international trade rules may affect the extent to which the EDG-MD could be operated in a more discretionary manner. Officials will need to weigh-up the benefits of providing greater discretion to support able firms to enter markets that do not have an established New Zealand exporter presence against the administrative simplicity of existing settings, while continuing to satisfying our WTO obligations.

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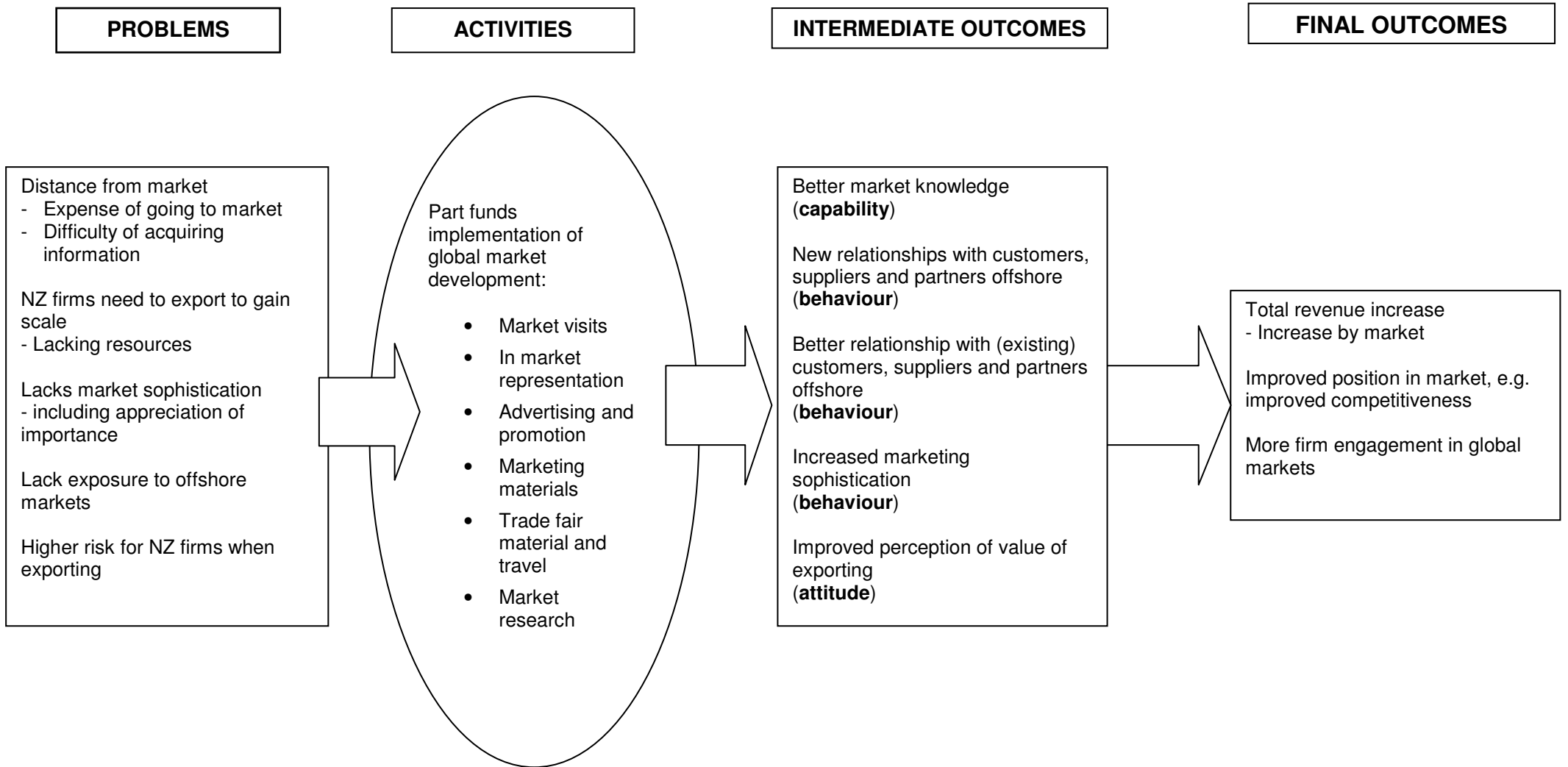
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Appendix I: Initial programme logic

as drafted by NZTE in their report-back to Ministers of 26 November 2004.



Appendix II: Current Schedule of Eligible and Ineligible Costs

Schedule 1 EDGMD TABLE OF ELIGIBLE AND INELIGIBLE COSTS FOR MARKET DEVELOPMENT ACTIVITY
<p>KEY POINTS</p> <ul style="list-style-type: none">• As of 16 November 2007, the minimum claim each year per Recipient is NZ\$10,000 inclusive of GST (i.e. at least NZ\$20,000 of eligible Market Development Activity costs incurred by the Recipient). Prior to this change, the minimum claim amount was \$20,000 incl. GST.• If costs are incurred by an individual on behalf of the Recipient company, NZTE requires: the original supplier invoice and proof that the individual paid the supplier.• This Schedule 1 forms part of the Financial Assistance Agreement between NZTE and the Recipient, and any claims for reimbursement are subject to the terms and conditions of the Financial Assistance Agreement.• Costs incurred for Market Development Activity provided by associated parties are ineligible for financial assistance, unless prior approval has been provided by NZTE (in writing).• Contra/internal invoicing arrangements are ineligible for financial assistance.• Services provided by NZTE are ineligible for financial assistance. <p>All claims must be submitted using the correct forms provided by NZTE and accompanied by the following:</p> <ul style="list-style-type: none">• Original invoices.• Original proof of payment i.e. original bank statements or original credit card statements (internet downloads unacceptable).• Original bank deposit slip (if not already provided).
<p>NZTE RESERVES THE RIGHT TO USE THIS SCHEDULE 1 AS A GUIDE ONLY, AND TO DECLINE CLAIMS FOR COSTS THAT ARE, IN NZTE'S OPINION, NOT CONSISTENT WITH THE PURPOSES OF THE EDG-MD PROGRAMME.</p> <p>IF YOUR PROPOSED MARKET DEVELOPMENT ACTIVITY COSTS ARE NOT INCLUDED IN THE TABLE BELOW, WE ENCOURAGE YOU TO CHECK WITH NZTE WHETHER THESE PROPOSED COSTS WILL BE ELIGIBLE FOR FINANCIAL ASSISTANCE <u>BEFORE INCURRING COSTS.</u></p>

CATEGORY	ELIGIBLE COSTS	INELIGIBLE COSTS
<p>In-market Representation This category covers the establishment of a new office in-market, to assist in implementing the strategy in that market. It covers some costs associated with providing customer services, distribution support and setting up physical office space.</p> <p>Additional claim documentation required for salary costs in this category:</p> <ol style="list-style-type: none"> 1. Copy of the employment contract 2. Original pay slips 	<ul style="list-style-type: none"> • Base salary for seconded full-time NZ employees to the market • Base salary for staff located in-market that are permanent and full-time • Base salary for in-market contractor or consultant • Customer service support <ul style="list-style-type: none"> - logistical costs - technical costs - administrative costs • Distribution support <ul style="list-style-type: none"> - legal costs associated with distribution contracts (one-off costs, not ongoing) - fulfilment operational costs (warehousing, basic logistical costs – excluding product delivery) • Setting up and maintaining physical office space <ul style="list-style-type: none"> - virtual office costs (i.e. local reception services) - company registration and incorporation costs (one-off costs, not ongoing) - legal costs (one-off costs, not ongoing) - rent and real estate agent fees - building management fees - utilities i.e. water, power 	<ul style="list-style-type: none"> • Employee or contractor commissions, bonuses and recruitment fee costs • Base salary for in-market part-time staff (or a proportion of the base salary for staff with only a partial focus on the market development initiative) • Airfares, visa requirements and living allowance for in-market representatives • In-market representatives whose role is to source or co-ordinate suppliers • Financial accounting fees • Intellectual property costs • Retail placement costs • Certification costs • Existing operation costs i.e. an existing office • Communication costs e.g. phone, internet costs • Capital items • Office fit out costs • Commissions and fees not associated with realty • Bond payments to secure building or office leases

CATEGORY	ELIGIBLE COSTS	INELIGIBLE COSTS
<p>Market Visits Please refer to the list of maximum daily allowance and airfare costs that are used in this category.</p> <p>Airfares are paid at 50% of: the purchase price plus GST, or the NZTE maximum allowance; whichever is the lesser.</p> <p>Additional claim documentation required for this category:</p> <ol style="list-style-type: none"> 1. Airfares: original boarding passes 2. Daily allowance: an itinerary, and named and dated invoices (such as hotel invoices) or credit card statements, to prove daily location. 	<ul style="list-style-type: none"> • Ex-NZ airfares and incidental travel costs for NZ based employees or contractors, undertaking market development activities in-market (for visits up to 30 days) • Inward visits to NZ by buyers or potential buyers using the maximum daily allowance and airfare costs 	<ul style="list-style-type: none"> • Flights purchased with Airpoints, Frequent Flyer programmes and similar loyalty programmes • Domestic flights/travel and car rental in-market • Personal costs while in-market e.g. sightseeing, foreign language training • Travel costs of a relative/partner travelling with employee/contractor or meeting employee/contractor (unless the relative/partner is employed by the business on a full-time basis, and focussed on market development) • Salaries for employees/contractors making the market visit • Market visits for more than 30 days (NZTE would pay a secondment salary; refer in-market representation category above) • Travel costs to, and within, Australia
<p>Trade Fairs and Events</p>	<ul style="list-style-type: none"> • Entry fees and exhibition costs including stand fees • Conference attendance fees • Setting up a private exhibition or in-store promotion 	<ul style="list-style-type: none"> • Costs related to NZTE-supported trade fairs and events • Capital goods for trade fairs • In-house labour costs
<p>Market Research</p>	<ul style="list-style-type: none"> • Market structure research • Competitive issues research • Customer characteristics research 	<ul style="list-style-type: none"> • Research that does not support the implementation of a strategic market development initiative • Research that supports the creation of a strategic market development plan • Push polling/cold calling campaigns for brand raising • In-house labour costs • NZTE market research

CATEGORY	ELIGIBLE COSTS	INELIGIBLE COSTS
<p data-bbox="203 233 795 323">Advertising and Promotion Category covers specific event/promotion activities including website development.</p> <p data-bbox="203 464 763 523">Additional Claim Documentation required for this category:</p> <ol data-bbox="253 528 763 619" style="list-style-type: none"> 1. Original Airway Bill/ Bill of Lading and Export Invoice for freighted samples and advertising materials. 	<ul data-bbox="864 233 1391 1326" style="list-style-type: none"> • Website development for new market • Website that serves as new in-market representation support i.e. some purchasing, sales and information functions (development cost) • Placement of advertisements in the new market • Consultants related to new marketing, brand, advertising and PR strategy, and advertising placement • Consultants related to design and production of new market advertising and promotional material • Costs for creation and production of new market material, graphic design, content creation and editing • Production of visual material for new market advertising and promotion activities including photography and filming • Translation costs for advertising and promotional material • Transportation costs – freight for samples and advertising materials that are not for sale 	<ul data-bbox="1476 233 2002 695" style="list-style-type: none"> • Generic advertising and promotion that is targeted for the NZ/Australian market • Website support for NZ/Australia and existing markets • Web based product/services which are regarded as capital expenditure. • Fees associated with the operation of the website i.e. domain name fees, web hosting fees • Sponsorship of teams/promotional events and activities • In-house labour costs

CATEGORY	ELIGIBLE COSTS	INELIGIBLE COSTS
<p>Marketing Collateral Category relates to the physical items associated with the new market strategy.</p> <p>Additional Claim Documentation required:</p> <ol style="list-style-type: none"> 1. Original Airway Bill/ Bill of Lading and Export Invoice for freighted samples and collateral. 	<ul style="list-style-type: none"> • Design and production consultant costs associated with new market marketing collateral • Printing and production costs associated with new market marketing collateral • Costs for creation and production of new market material, graphic design, content creation and editing • Translation costs for marketing collateral • Production of visual material for new market marketing collateral including photography and filming • Transportation costs – freight for samples and marketing collateral that is not for sale • Samples at cost price (production costs only) and able to be quantified • Costs associated with producing demonstration equipment for use at a particular trade show/promotional event • Design and production costs of trade show site stands 	<ul style="list-style-type: none"> • Generic marketing collateral that can be used in the NZ/Australian market • Prototype development and testing • Demonstration equipment which is intended for later sale, rent or lease • Purchase of software • Freight for goods sold or marketing collateral for sale • Cost of samples which include profit margin and not clearly stated at cost price per unit and quantified • Sample gifts which do not have the company's advertising logo • In-house labour costs • Business cards and letterhead stationery