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Franceska Banga: Now is the time to invest in the future we want

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Franceska Banga

As the world grapples with rapidly slowing economies, much focus is being given to ways to stimulate economic activity. As New Zealand develops its short-term responses to the current economic crisis, the opportunity also exists to think about the sort of economy and country we want to build for the next generation. If economic stimulus is required, let's make sure we invest in the right things.

We really need many more NZ companies producing high-end goods and services, commanding premium prices, earning larger export receipts, and creating more productive, higher-paying jobs. But how to get those companies is the vexed question, and one that has yet to be cracked.

There are many factors involved and we need to work on incremental improvements wherever we can - whether it's in the regulatory environment, tax, investment in research and development, workforce productivity, infrastructure, education and the fostering of a culture which values and supports entrepreneurship and innovation. Equally important is the state of our capital markets and their capacity and commitment to finance and build promising young companies from start-up to healthy, wealthy, successful middle-age.

Building a company from breakthrough science or technology conceived in a research lab, a suburban garage, or - just as likely - on the farm, through to a hundred million dollar company exporting to lucrative offshore markets is highly complex and expensive.

It is even more difficult when a country's capital markets are as small as ours. Having broad and deep capital markets becomes even more important if we want to avoid losing promising companies into foreign ownership.

I hear many people saying "there is always plenty of capital for good ideas".

Yes, a company with great prospects can often raise small amounts of capital in the New Zealand market - but rarely the large amounts of capital to fuel the next stage of their growth into overseas markets. Too often they are forced to find that capital offshore - and that means relocating.

If promising New Zealand companies could raise more growth capital here then, as a country, we all share in the benefits of success. It's a virtuous circle. Profits

are returned here. Taxes are paid here. Dividends are distributed among the New Zealand investors. Our balance of payments position improves.

And New Zealand-domiciled companies are more likely to purchase inputs from other NZ companies, further generating jobs and income.

As a venture capitalist, we are slowly building (what we hope will be) a thriving venture capital industry funding New Zealand high-growth companies. We are probably about a third of the way down a 20-year journey.

But venture capital is just one aspect of the broader capital markets we need. Our capital markets are hampered because our investing institutions do not have a history of investing in high-growth New Zealand companies.

One of our top universities recently entered into a commercial investment partnership, alongside four Australian universities, with an Australian pension fund. The pension fund is committing around A\$30 million (\$37 million) to commercialise the best intellectual property and breakthrough research from these universities. The transtasman commercialisation fund is a great prospect for the universities, giving them a ready pool of capital to start the process of turning intellectual property into new high-growth businesses.

It is also a clever idea for the pension fund. They get first look at the universities' emerging intellectual property and novel technologies. For a relatively small amount of capital they have the chance to build a portfolio of the best-of-the-best high-growth potential companies.

This is how Silicon Valley came into being: universities, pension (endowment) funds and entrepreneurs coming together to invest and build the most promising ideas coming out of university research into new technology companies.

The depressing aspect is the missed opportunity. Where are the New Zealand pension funds, taking a long-term perspective, investing to secure options over a portfolio of the best future high-growth investment opportunities? It would be great for New Zealanders to have the chance to share in future returns of intellectual property developed here. As a country, we have been investing in the development of the IP through the taxes which fund tertiary education and research and development.

Wouldn't it be preferable for at least some of the returns from that investment to come back to New Zealanders in the long term?

What is often regarded as being too nationalistic here is seen as common sense in many other economies. Here there has been some raising of eyebrows over the proposal to require the NZ Superannuation Fund to invest 40 per cent of its fund into local investments.

Many other small countries and state jurisdictions regard state pension funds as important elements in fuelling domestic growth.

I recently attended the North American Venture Capital Association conference in Quebec. It was eye-opening to hear of the willingness of these big funds to invest into their local capital markets. They invest in the gestation of an emerging intellectual property straight out of research, into a small start-up company, and onwards through the various stages of its expansion into significant businesses. And they want to do more of it. They have a 25-year horizon and regard part of their fiduciary responsibility to members is to ensure a vibrant future economy.

Can we replicate this model here? It is important we have a discussion now on how we can facilitate the investment of New Zealanders' retirement savings into the good opportunities which exist in our local market. We need the managers and trustees of these funds willing to engage on how we invest in our great intellectual property in a way that builds that investment into significant companies - the next generation of Fonterras, Fisher & Paykels, and Fletcher Buildings.

It is time the New Zealand investment community, the business community, the research community, and the Government and its various agencies involved in economic growth debated these issues. The Capital Markets Development Taskforce is a great start, but this issue needs wide engagement.

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