

## **Direction to Callaghan Innovation—Administration of the Ārohia / Innovation Trailblazer Grant**

Under section 103 of the Crown Entities Act 2004, I direct Callaghan Innovation to give effect to the policy parameters for the Ārohia / Innovation Trailblazer Grant as specified in this Direction.

### **Policy Objective**

The **Policy Objective** of this initiative is to encourage New Zealand businesses to engage in innovative activity at the global innovation frontier that is likely to generate significant spillover benefits to the rest of the New Zealand innovation system and the economy more broadly.

This initiative seeks to achieve this objective by supporting non-R&D innovative activity that has the potential to generate significant spillover benefits.

### **RS&T Funding to be allocated by Callaghan Innovation**

Pursuant to section 5(2) of the Research, Science and Technology Act 2010, the allocation of Research, Science and Technology (RS&T) funding from the following appropriation administered by the Ministry of Business, Innovation & Employment (MBIE) will be subject to the decision-making process specified in this Direction:

- Research, Science and Innovation: Innovation Development Grant

Callaghan Innovation will use funds from this appropriation to cover:

- the funding provided to businesses; and
- the operational cost to Callaghan Innovation of administering this initiative.

Callaghan Innovation must allocate funds under this initiative in accordance with the following:

- Public Finance Act 1989;
- The rules specified in this Direction; and
- Any guidance published by Callaghan Innovation in accordance with and consistent with this Direction.

### **Defined Terms**

**Eligible Entity** means an entity that is:

- A Company registered in New Zealand under the Companies Act 1993 that is not controlled by the government or one or more government agencies; or
- A Limited Partnership registered in New Zealand under the Limited Partnerships Act 2008 that is not controlled by the government or one or more government agencies; or
- A Māori Trust or Incorporation under the Te Ture Whenua Māori Act 1993, or a similar organisation managing Māori assets under multiple ownership.

**Eligible Non-R&D Expenditure** means expenditure that

- is associated with innovative activities other than R&D;
- is ineligible for support under the Research and Development Tax Incentive (RDTI) or any other government initiative;
- is essential to the success of the innovation; and
- enables Spillover Benefits.

**Full Grant** means a grant that supports businesses to perform non-R&D innovative activities associated with engaging in innovation at the global innovation frontier.

**Innovation** means a new or significantly enhanced product, service, process, or business model.

**Maximum Allowable Percentage** means the maximum percentage of annual funds that may be allocated to provide support to Foreign Entities.

**Maximum Grant Amount** means the maximum value in dollars that an entity can receive per opportunity as a recipient of the Full Grant.

**Minimum Grant Amount** means the minimum value in dollars that an entity can receive per opportunity as a recipient of the Full Grant.

**Research and Development (R&D)** means the set of activities classified as research and development activities under the RDTI.

**Seed Grant** means a grant that supports businesses to gather evidence necessary to support an application for the Full Grant.

**Seed Grant Maximum Amount** means the maximum value in dollars that an entity can receive per opportunity as a recipient of the Seed Grant.

**Spillover Benefits** means benefits that are likely to arise as a result of the innovative activity and that will accrue outside the business to others in the wider New Zealand innovation ecosystem. In many instances, Spillover Benefits will be inherent to engaging in innovative activity at the global innovation frontier as engaging in that activity is likely to demonstrate or unlock innovative opportunities for others.

#### **Authority to issue a Grant**

Callaghan Innovation may only issue a Full Grant or a Seed Grant to a business if:

- The business is an Eligible Entity;
- The business has been selected in accordance with the assessment process specified in this Direction;
- Callaghan Innovation is satisfied that issuing a grant to the business would not bring the reputation of the initiative, Callaghan Innovation, or the Government into disrepute; and
- The business will not receive support for the Eligible Non-R&D Expenditure through any other government initiative.

Callaghan Innovation may issue no more than the Maximum Allowable Percentage of annual grant funding to Foreign Entities. I will specify the Maximum Allowable Percentage in writing to Callaghan Innovation. For the avoidance of doubt, a Foreign Entity may qualify as an Eligible Entity if it satisfies the definition of Eligible Entity specified in this Direction.

#### **Full Grant**

The Full Grant is intended to support businesses that are either:

- engaging in innovative activity at the global innovation frontier; or
- enabling other New Zealand businesses to engage in innovative activity at the global innovation frontier.

#### *Evaluation Criteria*

Callaghan Innovation will use the following **Evaluation Criteria** to assess and evaluate applications for the Full Grant:

- The degree of novelty of the innovation proposed by the applicant;
- The potential of the proposed innovation to generate Spillover Benefits;
- The business's potential to deliver the proposed innovation; and
- Other factors specified by Callaghan Innovation that are consistent with the Policy Objective.

#### *Assessment Process*

Callaghan Innovation will select recipients of the Full Grant through a contestable selection process in which applicants are evaluated based on the Evaluation Criteria.

Callaghan Innovation will run assessment rounds on a regular basis. The period between assessment rounds will balance the need to pool applications for assessment with the need to provide timely funding decisions for businesses.

Callaghan Innovation will not issue any grants in an assessment round if it determines the current set of applications are not of sufficient merit to achieve the Policy Objective.

#### *Support to be Provided*

The total value of support provided to the Full Grant recipient will be no more than 30 percent of the Eligible Non-R&D Expenditure or the Maximum Grant Amount, whichever is smaller.

Callaghan Innovation may issue more than one Full Grant to the same business as long as each grant is for a distinct opportunity.

If I do not specify the Maximum Grant Amount and the Minimum Grant Amount to Callaghan Innovation in writing, Callaghan Innovation will set these parameters at a level that:

- enables grant recipients to achieve impact from their innovation activities; and
- achieves the Policy Objective.

### **Seed Grant**

The Seed Grant is intended to support businesses to gather evidence necessary to support an application for the Full Grant. This includes engaging in the following activities:

- Market validation (i.e., assessing whether a market opportunity exists for the proposed innovation);
- Early-stage prototype testing to support undertaking an initial evaluation of whether the innovation might be possible; and
- Obtaining professional and technical advice and services that enable the business to develop evidence to support whether the proposed innovation represents an opportunity.

#### *Evaluation Criteria*

Callaghan Innovation may only issue a Seed Grant to a business if it is satisfied that the innovation proposed by the Seed Grant applicant has the potential to be eligible for the Full Grant once the proposed evidence has been gathered.

#### *Support to be Provided*

The level of support provided by the Seed Grant will be an order of magnitude smaller than the level of support provided by the Full Grant.

The total value of support provided to the Seed Grant recipient will be no more than 50 percent of total Eligible Non-R&D Expenditure associated with the activities supported by the Seed Grant or the Seed Grant Maximum Amount, whichever is smaller.

Callaghan Innovation may provide the support provided under the Seed Grant as cash co-funding or as a voucher for services provided by a third-party provider or providers.

Callaghan Innovation may issue more than one Seed Grant to the same business as long as each Seed Grant is for a distinct opportunity.

If I do not specify the Seed Grant Maximum Amount to Callaghan Innovation in writing, Callaghan Innovation will set the Seed Grant Maximum Amount at a level that it considers satisfies the intent of the Seed Grant to support the creation of early-stage evidence to justify further investment in the proposed innovation.

### **Additional Guidance**

Callaghan Innovation will issue and maintain further guidance to applicants on:

- the entities that will qualify as Eligible Entity;
- the expenditure that will qualify as Eligible Non-R&D Expenditure;
- the entities that will qualify as a Foreign Entity;
- the Evaluation Criteria; and
- the meaning of Spillover Benefits.

### **Adaptive Approach**

As this grant is initially funded for a four-year period and covers a set of activities for which the New Zealand Government has previously not provided significant support, Callaghan Innovation will take an adaptive approach to applying the policy parameters set out in this Direction to ensure it achieves the Policy Objective. This may require the refining of operational parameters over time based on an evaluation of the initiative's performance.

Any adjustment to the operational parameters over time must be consistent with section 15 of the Callaghan Innovation Act 2012.

Callaghan Innovation and MBIE will conduct a review of the initiative after one year of operation and inform me of the lessons learnt. This review will evaluate the performance of the initiative and examine the factors that impact that performance, including the weighting of assessment criteria and variation in demand throughout the year.

Callaghan Innovation and MBIE will conduct a further review of the initiative's performance after two years of operation.

### **Administrative Processes**

Callaghan Innovation must make sure it has processes in place to:

- Market and call for proposals on the initiative;
- Carry out appropriate due diligence on grant applicants;
- Refer grant applicants to other complementary advice and services;
- Capture data insights to evaluate the initiative;
- Monitor grant recipients to ensure that the funding is used appropriately; and

- Seek to recover funding as appropriate and in line with clawback provisions.

Callaghan Innovation must inform MBIE prior to making any material changes to guidance or making changes to the Maximum Grant Amount, the Minimum Grant Amount, or the Seed Grant Maximum Amount.

#### **Consideration of Government Priorities**

I may, at my discretion, specify to Callaghan Innovation in writing specific New Zealand Government priorities that Callaghan Innovation must consider when assessing grant applications and selecting grant recipients. If I specify Government priorities to be considered, Callaghan Innovation will publish the document setting out those priorities on its website.

For the avoidance of doubt, if I have not specified Government priorities to be considered, Callaghan Innovation will not infer any Government priorities to be considered as a factor in decision making.

#### **Clawback of Funding**

To ensure the appropriate use of public funding, Callaghan Innovation will ensure that its agreement with grant recipients contains provisions that require the return of grant funding to Callaghan Innovation if the recipient's use of the grant funding is not consistent with the Policy Objective or in other circumstances prescribed by Callaghan Innovation in accordance with this Direction.

Callaghan Innovation may require a grant recipient to return some or all grant funding during or following a grant agreement if:

- the business breaches any term of a grant agreement, misappropriates funding, provides incorrect information to Callaghan Innovation, or claims ineligible expenditure; or
- the grant funding is unspent and the business has not yet incurred contractual liabilities for that funding.

Callaghan Innovation may specify additional conditions under which the business will be required to return some or all of the funding. These conditions must be consistent with the Policy Objective or significantly improve Callaghan Innovation's ability to administer the initiative.

#### **Collection and Provision of Information**

Callaghan Innovation will collect information relevant to the monitoring and evaluation of this initiative, policy development more generally, analysis of business performance, and other related research, including business-level information on all applicants for funding under this initiative.

Callaghan Innovation will make the information described above, and any other information collected or generated as a consequence of administering the programme, available:

- to MBIE, upon request, for the purposes of monitoring and evaluation of the initiative and policy development more generally;
- to Statistics New Zealand, on an annual basis, for the purpose of making it available to researchers on a de-identified basis through the Longitudinal Business Database (for business-level information) or the Integrated Data Infrastructure (for individual-level information); and
- to other Government Departments or Agencies for the purposes of achieving wider Government policy objectives.

Callaghan Innovation will ensure that it obtains the necessary consent from all applicants to collect and share the information described above.

Dated this 16th day of November 2022.

HON DR AYESHA VERRALL, Minister of Research, Science and Innovation.