Check Against Delivery

Opening Statement to the Joint Committee on Business, Enterprise and Innovation on the Industrial Development (Miscellaneous Provisions) Bill

7 November 2018

I welcome the opportunity to speak with the Committee today about the Industrial Development (Miscellaneous Provisions) Bill.

This Bill contains three separate groups of legislative amendments: one in relation to IDA Ireland (which is Head 1) and two related to Enterprise Ireland (which are Heads 2-5 and 6-9).

In broad terms, the Bill has two overarching aims. First, to ensure that Enterprise Ireland can flexibly deploy the widest array of interventions and supports so Irish firms can be as competitive as possible on world markets. Second, to enhance the IDA's capacity to secure foreign direct investment in regional locations and thereby improve our already compelling offering for multinationals to invest here.

I will first address the IDA Ireland-related amendments.

As the Committee will be aware, foreign direct investment remains an essential component of Ireland's economy. A core element of our value proposition to overseas firms is helping them identify suitable property solutions for their investments in the country. This is particularly key when it comes to attracting firms to regional locations.

In recent years, however, a difficulty has arisen in that private commercial construction of new buildings outside Dublin has significantly decreased. Existing stock has been virtually exhausted and there is a limited supply of the types of buildings required by potential investors. This supply shortage is now impacting on our ability to attract more FDI to regional locations.

Given the critical importance the Government attaches to regional development, it is proposed to address this infrastructural deficit by introducing statutory changes that would, in short, permit the IDA to invest in suitable opportunities to commercially develop the necessary property solutions, in partnership with other parties.

Initially, this would take the form of a partnership between the IDA and the Ireland Strategic Investment Fund, who have together developed a proposal to commercially develop two office blocks on IDA lands at the National Technology Park in Limerick and at Parkmore East Business Park in Galway. Once completed, those buildings will then be sold or leased to investors at their full commercial value. Assuming these initial pilot projects are a success, this legislative amendment would also allow the IDA to participate in other partnership structures to develop further properties in the regions.

Another important provision in the proposed amendments is to allow the IDA to enter into borrowing arrangements to help finance such projects. In the first instance such finance would be provided by the Ireland Strategic Investment Fund, with the possibility of the IDA securing loan financing from other commercial or institutional lenders in the future. Any

IDA borrowing for future such projects, it should be clear, would be subject to a statutory cap and would also require the explicit consent of the Ministers for Finance, Public Expenditure and Reform, and Business, Enterprise and Innovation. There would, to be clear, be no additional cost to the exchequer.

In summary, these amendments, if approved by the Oireachtas, would allow the IDA to better utilise their existing resources to help provide properties to investors and stimulate further economic activity in regional Ireland and create and sustain jobs.

I will now move on to describe the Enterprise Ireland-related legislative amendments, beginning with those that aim to improve that Agency's research, development and innovation supports to industry – which is a key objective of Government policy.

As the Committee may already be aware, Enterprise Ireland assists its client companies in developing new products, processes and services by supporting their in-company research, development and innovation. The Agency also helps them to access international sources of funding and expertise and to collaborate with each other and the higher education system.

Innovation is, in simple terms, one of the key pillars of Enterprise Ireland's current strategy. That is because, as the Agency's Annual Business Review survey makes clear, companies that are RDI active are higher performing in terms of employment, export sales and are more sustainable through recessionary and other economic shocks such as Brexit. It is essential therefore that the RDI supports and programmes for

Irish companies managed by Enterprise Ireland are appropriate, flexible and can be optimised to meet these and other evolving challenges.

In that context, four legislative amendments are proposed to EI's governing legislation that aim to optimise their RDI supports to industry.

The first aims to facilitate research grants to "non-industrial" processes with a focus on the horticulture sector.

The second would allow EI grants to support research activity overseas where those needs cannot be met in Ireland due to the nature of the work in question.

The third would remove legal uncertainty to allow EI to permit research grants up to EU state aid limits.

Finally, the fourth amendment would permit advance partial payment of R&D grants to companies regardless of size.

It is worth noting that the introduction of this suite of amendments does not mean that Enterprise Ireland would be obliged to always provide these supports to individual companies. Each project will still have to withstand rigorous evaluations, as is the norm, to be deemed eligible for Agency support.

It is important to emphasise that higher levels of R&D in Ireland – which ultimately these amendments aim to achieve – brings a range of benefits, whether it's greater skills level in the country, better quality exports or more revenues. These statutory changes would also allow

Irish companies to operate on a level playing field with their EU competitors.

Finally, I will now address the third group of amendments which would allow Enterprise Ireland to match the range of investment supports available from developmental agencies in other countries, particularly in a Brexit context. This will ensure that Irish exporters are not at a disadvantage in terms of the developmental supports available to them.

As it stands, Enterprise Ireland uses a number of investment instruments which provide companies with equity funding to support the company to start, build scale and deliver on its growth plans. However, the increasing trend is for investment into companies to be undertaken using more debt instruments and less long-term share capital. This also reflects the international experience in other start-ups ecosystems. Several of our European partners, including France and the Netherlands, for example, now lend to start-ups and do not always take equity in them.

Current legislation here, however, does not allow Enterprise Ireland to utilise loan instruments for investment purposes (as private investors do) and which provide greater security for that investment. As a result, EI is not able to invest in a way that mirrors the terms of private sector investors, or reflects new market norms for development supports.

Therefore, these legislative proposals aim to permit EI to:

- Lend by way of Non-Convertible Debt Instruments (as an alternative to share purchase);

- Issue Convertible Loan Notes – which are loans that can convert into equity; and

- Make follow-on investments in certain circumstances, without having to comply with all of the criteria in Section 21 of the current legislation.

It is proposed that the loan instruments would constitute medium to long term debt that is aimed at helping to scale companies, rather than short term loans to provide for working capital.

This will in no way change the developmental approach of EI. The amendments are simply aimed at increasing its flexibility to support enterprise development and ensure that EI is not at a financial disadvantage to the private sector when providing investment to a company in a funding round. Moreover, as lending is more secure than taking equity, the State's investment in these situations would be better protected.

For the avoidance of doubt, it is not intended to replace any current bank lending and EI will not displace existing business lending in the economy. Applicants, if these new arrangements are allowed under law, will be required to be EI clients and any Agency lending would be wholly consistent with its existing developmental mandate.

Finally, minor amendments are also proposed to take account of lending powers with regard to the existing requirement that EI must apply for Government approval for aggregate investments amounts provided to a

company in excess of €7.5 million and to make a technical amendment to the FOI Act 2015 to clarify EI's obligations under that legislation.

In conclusion, I would like to thank the Committee again for the invitation to engage with you today about these proposed legislative changes. I and my colleagues would now be happy to address any questions the Committee may have.