

Western Development Commission Submission to Seanad Public Consultation Committee

Small and Medium Sized Businesses in Ireland

The Western Development Commission (WDC) is delighted to have been invited to make a submission to the Seanad Public Consultation Committee on the important topic of Small and Medium Sized Businesses in Ireland.

The WDC is a statutory agency which operates under the aegis of the Department of Rural and Community Development (DRCD). The WDC's aim is to foster and promote the economic and social development of the Western Region of Ireland (counties Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare). A number of its activities have direct relevance to the operation of Irish indigenous SMEs.

SMEs in the Western Region

The Western Region is a predominantly rural region with 65% of the population living in rural areas (outside centres of 1,500). Galway city (79,934), Ennis (25,276), Letterkenny (19,274) and Sligo (19,199) are the region's most significant urban centres, with most of the population living in small and medium-sized towns, villages and rural areas. Trends in the location of FDI investments, especially in the period of the recovery, have shown increasing concentration in Ireland's cities and their hinterlands, although this year has seen greater distribution (e.g. to Sligo) as Dublin's cost of living and housing shortages drive multinationals to seek other locations. Regardless of this however, FDI is only one element of job and enterprise growth and is not the solution for the vast majority of the Western Region. Therefore supporting the start-up, expansion and viability of Irish indigenous SMEs is at the core of both the region and Ireland's future growth.

In 2016 there were 51,574 SMEs (under 250 persons) registered in the seven-county Western Region, and only 50 larger enterprises.¹ **Between 2008 and 2016 there was a 4.3% decline in the number of active enterprise in the Western Region, compared with 3.9% growth in the Rest of State (all other counties).**² Despite the fact that recent years have seen some recovery in enterprise numbers, all counties in the Western Region have fewer enterprises now than they did in 2008. On a sectoral level, a higher share of the Western Region's enterprises operates in sectors which rely on domestic demand (construction, accommodation & food service, other services, wholesale & retail).

SMEs located in the Western Region, including those in small and medium-sized towns, villages and rural areas face some specific challenges:

¹ CSO (2018), Business Demography 2016

² CSO (2018), Business Demography 2016. Changes over time only refer to 'business economy' enterprises which excludes health, education, arts & entertainment and other services.

- Small local markets and distance from larger markets;
- Poor transport connectivity (for staff and freight) with no motorway in the Western Region north of Tuam and often poor quality local and regional roads linking to primary and secondary routes;
- Weaker broadband infrastructure (access and speed) constraining online operations;
- Poor mobile phone coverage for voice calls and data;
- Difficulties in identifying and recruiting suitably qualified staff, especially at senior managerial and technical levels;
- Lack of regional seed and early stage venture capital funders;
- Declining populations in some areas, especially in the economically active (and higher spending) age categories;
- Reduced activity and footfall in smaller town centres with the growth of online retail and improved transport access to larger urban centres offering greater retail and service choice;
- Isolation and lack of networking opportunities;
- For SMEs based around Galway city, traffic congestion can be a major constraint;
- SMEs in Border counties and throughout the Western Region currently face uncertainty regarding the implications of BREXIT. After March 2019 there may be very significant impacts on their businesses. These smaller businesses are most vulnerable, lacking staff and resources to change and develop in response to changes in their commercial relationships with the UK.

Role of the WDC in supporting SMEs

One objective of this consultation is to review the business environment, including the role and effectiveness of State Agencies. The main ways in which the WDC supports Irish SMEs in the Western Region are as follows:

WDC Investment Fund

The WDC Investment Fund provides seed and venture capital and loan finance to SMEs. It also provides low interest loan finance to community and social enterprises. It has a dedicated micro-loan fund for the Creative Industries sector and a dedicated investment fund for the Audio-Visual sector called the WRAP (Western Regional Audio-visual Producers) Fund. It also supports Accelerators focusing on the Lifescience and ICT sectors.

The WDC Investment Fund is an Evergreen Risk Capital Fund established by Government to address market failure in access to finance for enterprises in the Western Region. It is a much needed incentive to encourage entrepreneurship in a region which has historically had a low level of business start-ups. Its local knowledge and extensive network allows it to add value and commercialise investments.

Originally funded by the Exchequer – totalling €32m between 2001 and 2009 – it has been self-funded since 2010 with the returns on investment being reinvested back into new enterprises in the region. **This commercial investment focus and self-funded model is unique among public agencies across Europe.** It works very closely with private sector investors, co-investing with VCs, business angels and business angels’ syndicates and **has invested more than €50 million and funded 150 enterprises** with the following socio-economic impacts:

- Over 5,000 jobs supported
- €63 million paid in salaries and wages annually
- €18 million paid to Exchequer in payroll taxes annually
- 73% of turnover is exported supporting the export led recovery
- €24 million spent on R&D annually
- It has helped leverage over €250 million investment from other investors for enterprises in the region since its inception.

Sectoral EU co-funded projects

Since 2009, the WDC has been actively involved in winning and delivering a number of transnational EU co-funded projects within the Western Region, directly engaging with and supporting hundreds of micro-enterprises and SMEs in sectors of regional advantage. This has included six projects in renewable energy (wood heat, biomass, activated charcoal, innovation, community energy); two projects in creative industries; and four newly approved projects in tourism, blue economy, aquaculture and business mentoring.

Policy Analysis

The WDC undertakes analysis of a range of socio-economic and infrastructure issues of direct relevance to SMEs operating in the Western Region e.g. broadband, energy, enterprise, labour markets. This work involves submissions to national policy consultations and publication of outputs outlining policy proposals.

LookWest.ie

The WDC's LookWest.ie campaign is proactive in highlighting the advantages of a Western location for establishing or expanding a business. LookWest.ie incorporates a Skills Register where people interested in moving to the region can register their skills, information which can be hugely beneficial for SMEs considering locating or expanding in the region but concerned about staff availability. The WDC is currently working with stakeholders to develop an enhanced 'Talent Tool' (see below).

Key Issues for SMEs & Policy Recommendations

1. Access to finance

While the WDC Investment Fund has been a huge success in addressing the funding needs of enterprises in the Western Region, it must co-invest with private sector investors. There is a **lack of regional seed and early stage venture capital funds** which is curtailing the creation and development of the SME sector in the Western Region. If this is not addressed the region will lose projects to Dublin where there is a proliferation of funders.

Similarly the **incentives to encourage private investment into SMEs** must be looked at, as other jurisdictions, in particular the UK, are becoming much more attractive locations for companies looking for investment. The **tax regime in general must be structured to as to incentivise and reward risk taking by investors and entrepreneurs.**

The **WDC Investment Fund** has secured significant revolving funding for reinvestment. It is however curtailed in deploying these funds due to lack of staff and **urgently needs additional investment staff** to fully realise the potential of the Fund for SMEs in the Western Region. The WDC has made

an application to its parent Department for increased staffing resources. It would be invaluable if the Seanad Committee's national strategy proposal document supported this need.

2. Recruitment and retention of suitably qualified staff

Through consultation with employers, recruitment agencies and stakeholders, the WDC has identified an **information gap in data on skills availability** in the region. While there are official statistics on skills/education levels in the region, these do not capture 'potential' talent interested in relocating to the region (including returning emigrants) if suitable job opportunities existed. Official statistics also do not capture a person's mix of skills and competencies that are the key attributes of interest to employers. The WDC has carried out a Market Needs Analysis for the development of a Skills/Talent Register for the region to address this gap. The main findings were:

- **Talent availability is the #1 priority for indigenous/FDI companies** in site location/expansion.
- Employers are struggling to fill higher level management roles and more skilled technical positions (as opposed to entry level).
- Investor companies need robust evidence that suitably qualified staff will be available in the region/area they choose to locate in. This data is not easily available, with no single source providing talent data in sufficient quantities to be useful.
- Companies need confidence in the volume and reliability of the talent data as they will compare different site locations based on availability of talent for their needs.

The overwhelming response from those interviewed was the **need for a tool that could capture the availability of talent in the region and, most importantly, the 'potential' additional talent that could be attracted to the region**. The WDC is currently developing the 'Talent Tool', due for completion by end October 2018. It may be valuable for the Seanad Committee's strategy proposal document to identify this as a useful best practice model in helping SMEs, especially in more peripheral regions and smaller urban centres, to address their recruitment issues.

3. Infrastructure

SMEs in the Western Region can face significant infrastructural deficits which impact on their costs or capacity to run their businesses. The opportunity cost of poor infrastructure is hard to estimate but undoubtedly it can have a significant negative effect on SMEs.

Fast broadband and good quality mobile phone coverage are essential for those in business. In the Government's National Digital Strategy, it is estimated that 70% of online spending leaks out of Ireland. The most recent survey on Digital Health³, noted improvement in that 17% of SMEs are now 'offline', down from 25%. Irish consumers spend over €6.5 billion online but **only 29% of SME websites can take sales orders online and only 25% can process payments online**. Meanwhile 3 in 4 consumers say that they are more likely to purchase from a business that has an online presence.

One of the key constraints is poor internet access and **27% of SMEs without a website say it is because they do not have a good internet connection**. At a regional level the same survey found that 14% of Irish SMEs rate their internet connection as 'poor' or 'very poor' and this figure rises to 25% in Connacht and Ulster.

³ <https://www.iedr.ie/uploads/2014/04/dot-ie-Digital-Health-Index-Q2-2016.pdf>

SMEs located in rural and remote areas will benefit most from the **National Broadband Plan (NBP)** state investment, by enabling them to sustain businesses in rural locations and providing them with the infrastructure to enable or enhance their online sales and other activities. It will be important that **the NBP fibre rollout is as extensive and far reaching as possible** given the long-term implications of the build.

Metropolitan Area Networks (MANs) are a key component of the state's telecommunications assets, funded by the State, to be available on an open access basis. However some providers in regional and rural locations found the cost of accessing MAN infrastructure prohibitive. **The regulation of MANs as State funded and owned infrastructure needs to ensure all providers can access this infrastructure, especially those serving SMEs in rural and regional areas with limited competition.** The DCCAE is undertaking a review of the regulation of the MANs.

For many SMEs **poor mobile phone coverage** is a major constraint and a daily challenge in terms of dropped and missed calls. Low data speeds are also a problem, especially in the absence of a better broadband service, as data and 3/4/5G may be seen as a (temporary) solution to rural broadband. **Specific objectives are needed to improve mobile phone coverage in rural areas and the planning requirements to support infrastructural investment need to be developed.** The Mobile Phone and Broadband Coverage Taskforce is examining this and its critical importance should be stressed in the Committee's proposals.

Transport infrastructure is also essential. Many of our towns and villages have suffered from a lack of investment in the infrastructure which connects them locally. Such infrastructure could improve their capacity to support and enhance opportunities for SMEs. In many cases it is road infrastructure that is a priority. **Good quality roads between urban centres** (motorways, dual carriageways or quality national roads) are important, with the focus on linking urban centres, not just on access to the capital city. **Road infrastructure is also essential at a regional and local level**, for delivery and supply, as well as for staff access to the workplace and to other transport hubs. **Rail and quality bus links** are important for staff travel, while **air access** in the regions is essential to international business.

Similarly, energy is a crucial infrastructure, with many SMEs, particularly in manufacturing, requiring reliable **quality energy infrastructure** (both electricity and natural gas). Cost of energy is important, previous work by the WDC⁴ has found that businesses with access to natural gas have significantly lower energy costs than those relying on other energy sources. The Western Region currently has very limited natural gas infrastructure.

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⁴ <https://www.wdc.ie/wp-content/uploads/WDC-PolicyBrief-005-Nat-Gas-Sep11-Final1.pdf> (1.3MB)

Local Enterprise Office (LEO) response to Seanad Public Consultation Committee

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Small and medium sized Business in Ireland

Local Enterprise Office (LEO)

Irish Economy

This Irish economy is growing at a strong pace. Following an initially export led recovery a strong broad based growth in employment is now supporting the domestic economy. The numbers employed are now higher than they were at the previous peak helping earnings growth which coupled with a recovery in the construction sector (albeit from a low base) should support consumption and investment and underpin domestic economic growth. Nationally unemployment has fallen to its lowest rate since April 2008 and is approaching pre-recession levels consistent with full employment. The open, export orientated nature of the Irish economy has also benefited from solid global growth. However, this leaves Ireland vulnerable to geopolitical risks both known (Brexit, trade wars etc.) and unknown. A

resilient domestic economy supported by a resilient small and medium sized business eco system would help offset some of this risk.

Role of the state in support micro and small firm job creation

The Irish government provides support to start-ups and expanding businesses predominantly in the manufacturing and traded services area. Under this auspice the Local Enterprise Offices (formally the City and County Enterprise Boards) which are located in the local authority offices through a Service Level Agreement with Enterprise Ireland, provide support for the development of micro firms, i.e. businesses with up to 10 employees. Their role is to promote entrepreneurship, provide high quality support and foster business start-ups, existing micro and small businesses. This is done through a number of different channels including:

- 1) Direct financial assistance
- 2) Advice on funding options
- 3) Offer business information, advisory services and enterprise supports
- 4) Deliver a wide range of high quality business development training
- 5) Provide mentoring through matching the knowledge and skills of experienced business people with the needs of specific enterprises
- 6) Provide advice and/or a guide to other relevant services or progression pathways to other relevant agencies
- 7) Provide advice on enterprise space options
- 8) Facilitate events and networking opportunities to help underpin the micro enterprise eco-system
- 9) Brexit supports and advice

Dublin City Council LEO specifically supports enterprise development in the Dublin City local authority area with a view to strengthening the sustainability of the local economy.

LEOs at a glance

Nationally the LEO network supported the creation of 3,760 net new jobs in 2017 and provided €16.6m in direct financial assistance to 1,131 different business projects. This brought the overall total employed to 37,485 across 7,182 LEO supported companies. A total of 8,393 mentoring assignments were completed with 30,373 people trained across 1,891 different programmes.

Through the Lean for Micro programme the LEOs supported 179 companies as they reduced costs using the “lean” for business principles.

80 clients were supported in their progression (growth) to Enterprise Ireland.

The LEOs run or support a number of national events and programmes to promote entrepreneurship. These include:

- 1 Local Enterprise Week which saw 300 events showcase and provide networking opportunities for micro enterprises
- 2 National Women's Enterprise Day which saw 1,300 attendees at 15 LEO events promoting export opportunities for female led businesses
- 3 The Food Academy, in conjunction with Bord Bia and Supervalu, trains early stage food businesses with an estimated 329 Food Academy suppliers currently supporting 1,275 full-time and 561 part-time jobs
- 4 Showcase saw the LEOs support 112 creative start-up companies at Ireland's annual international creative expo
- 5 National Enterprise Awards celebrates achievement in micro-enterprises and 31 companies were shortlisted in 2017
- 6 Taking Care of Business 2017 was an event attended by 30 state bodies including the LEOs, organised by the Department of Business, Enterprise and Innovation, which allowed c.500 businesses access information about state supports
- 7 Building for the future, the LEOs support the annual Student Enterprise Programme involving 23.6k students in 2017
- 8 Ireland's Best Young Entrepreneur (IBYE) is a highly successful initiative which saw almost 1.5k applications in 2017 compete for a share of a €100k investment fund

The evolving enterprise eco-system

Food, Technology and the Creative Industries are the key sectors that seek financial support from the Dublin City Council LEO.

- 1) The food sector has grown strongly over the past number of years underpinned by the success of the Food Academy which was piloted in Dublin in 2013 and is now being rolled out nationally. Unfortunately, the lack of affordable commercial kitchen space in the city sees many of the LEO food companies move their manufacturing outside Dublin as they scale.
- 2) The technology sector is also growing strongly and is dominated by the development of apps which is a trend that is expected to continue.
- 3) The creative industries sector has seen a growth in start-ups seeking financial support in film, animation and video segments with the dominance of smart devices driving this.

On the training and mentoring side there has been a shift from “survival” entrepreneurship to “side “entrepreneurship” as Dublin approaches full employment. The number of entrepreneurs who are pursuing their enterprise ideas on a part time basis has increased. Extra income, pathways from current employment and balanced lifestyles are all drivers of this “sharing economy”. Smart technology trend is facilitating much of this with demand for digital skills to promote and distribute all enterprises high. That said the pursuit of tech skills for their own ends is also popular.

One of the strongest emerging trends is the drive towards more sustainable enterprise which is an area that will see further enlargement over the medium term dictated by both a stricter regulatory environment and the evolvement of a more climate focussed, socially minded society. This is leading to the merit in value driven entrepreneurship and the circular economy becoming more apparent. Already the LEO is experiencing green tech enterprises seeking support.

The enterprise eco-system is also facing some serious challenges. Firstly, the shortage of commercial space in Dublin has seen affordable working space become a problem which is more acute issue for micro enterprises. This impacts all business sectors from technology to artists. Secondly, there has been a shift in the employment landscape in Dublin over the past decade with service employment becoming more dominant and construction and industrial employment seeing their share of the market shrinking. Indeed, Industrial employment continues to shrink. Finally, but not exhaustively, there is the threat and opportunity of Brexit.

LEO Policy Recommendations

- a. Increase core funding to enhance and expand current LEO offerings with a view to providing innovative tailored solutions and stimulating increased micro entrepreneurial activities
- b. Review the start-up ecosystem in Dublin (including available, affordable start-up space) & benchmark it internationally
- c. Provide stable funding to micro enterprises specifically for commercial rents and review other options to provide longevity of leases and affordable spaces (rent controls?) and facilitate clustering
- d. Investigate the feasibility of funding enterprise space focussed on/located in unemployment blackspots in the city
- e. Benchmark the evolution of the industrial versus services industry employment trends in Dublin with other developed cities
- f. Investigate more agile responses to the specific employment needs of micro enterprises by considering funding for part-time as well as full-time jobs

- g. Alleviate some of the risk factors associated with starting or running a micro enterprise specifically in relation to more social welfare supports in the event that the business fails
- h. Encourage youth entrepreneurship by building on the very successful IBYE programme by developing and funding a national “Start-Up” programme aimed at funding young entrepreneurs
- i. Increase funding to e-trading initiatives to support the development of more innovative technology
- j. Enhance competitiveness and innovation in micro enterprises through a new funding stream specifically for smart technology/process improvement systems which could also be linked to the LEAN programme
- k. Increase access supports to international markets by providing specific supports to micro enterprises particularly for the “first time” exporter cohort



*“A supportive community where entrepreneurs with ambition
can grow their business”*

www.themilldrogheda.ie

Date: September 5th 2018

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Introduction / Expertise /About The Mill Enterprise Hub:

The Mill's mission is to promote a culture of innovation and enterprise to everybody in our community (Drogheda, South Louth, and East Meath area), and work with other relevant organisations across the region to promote these aims. The supports include training (personal & business skills), coaching and mentoring, access to state of the art office space, guidance from an experienced Centre Manager, sign-posting to sources of finance, and being part of a 'can-do' community. We're a registered Charity with a Board of voluntary Directors from the private and public sector. The Mill currently has 31 companies and 83 employees based here, ranging from hotdesk startups to expanding indigenous companies and emergent FDI multinationals.

According to the 2016 Census, Drogheda, with a population of 40,956 (up 6.2% since April 2011) is the largest town in Ireland. The Mill Phase 1 building, completed in October 2013 was a significant milestone and proved that the Drogheda region is truly entrepreneurial, and has delivered significant entrepreneurial support on the ground. The Phase 2 building was completed in December 2016, and has been equally successful with 95% occupancy from April 2017. Our Capital projects are now fully operational, comprising of a 15,000 sq. foot centre of excellence campus.

Drogheda is an ideal situation (geographically & economically) to complement Dublin's dominant economic position and absorb some of the strain on it's resources. As the town with the largest population in Ireland, we believe that we can mirror the 5 cities in offering a focal point to drive growth and to work with the large towns (Dundalk, Navan, Swords) in our hinterland to develop pockets of innovation and a wider distinct regional economy.

We have benefited from Capital and Programme donations from local large and small companies including CRH, Coca-Cola, State Street, Flogas and a plethora of smaller SMEs. In addition, we have been supported by Louth County Council and Enterprise Ireland.

In its short existence, the Mill has created a number of critical economic development programmes to foster entrepreneurship in the region, for example:

- M1 Payments Corridor (included in NorthEast Action Plan for Jobs) – Designated region for Digital Payments Industry
- FoodTech programme for companies providing IT and professional services to the Food & Beverage sector
- Illuminate Female Entrepreneurship (partnered with DCU Ryan Academy) for early-stage entrepreneurs,

- IgnYte programme - Supporting young unemployed sector to develop a business idea
- Drogheda Young Innovators – supporting innovative ideas from 9 local secondary schools.

Our BDM, Breannán Casey, was the NorthEast regional co-ordinator for the Startup Gathering in 2015, as part of the government’s Action Plan for Jobs.

SME Submission:

Challenges:

- Access to funding is still very difficult for startups and expanding SMEs. The process and timeframe for dealing with banks is arduous and the required collateral is too high. In general, banks are not interested in dealing with SME’s or early stage companies and are paying lip service to SMEs.
- EIS funding is also becoming very difficult to negotiate. Revenue are taking an inordinate time to deal with applications and when they do issue an outline approval, there is no guarantee that the investor will receive the tax relief after he/she has made an investment.
- Chasing Finance: A huge amount of management time spent going around in circles with banks and revenue instead of working in/on the business. The whole process needs to be streamlined.
- The SURE Tax relief (Startup Relief for Entrepreneurs) is highly restrictive. We have spoken to a number of companies that have failed in their application or dropped their application after speaking to their accountant. The criteria seem relatively open, but applicants are being met with restrictions / refusals.
- Assumptions / Cashflow – SMEs have a tendency to create ungrounded simplistic assumptions (Over Optimism) in Business Plans, Budgets, & Financial Forecasts. They struggle with Poor Cashflow Planning & Working Capital Management, and don’t have obvious early warning systems, especially if they don’t have full-time financial controller, which is unlikely in early stage of business. There is also a poor understanding of Product Cost / Service Delivery Costs. It would be interesting to see an initiative targeted at helping companies predict the future more accurately, rather than discussing past history. The benefit of a sustained approach over 3-5 years would then consequently be felt at a Macro

level in terms of more robust businesses surviving longer, benefitting the wider regional economy.

- Recruitment / Retaining employees: The improving economy has placed a strain on successful recruitment and retention of employees. SME's need to be able to increase motivation to staff. The Government / Revenue has got ball moving on this with their KEEP scheme (Key Employee Engagement Program), but we would ask for them to do more in this area. Small businesses struggle with the legal and financial costs of implementing rewards or shares scheme and have to resort to wage increases when someone comes knocking. In the longer term (5 years +), Initial Coin Offerings could potentially solve this problem as a company will issue coins and they can be given to staff / investors. There are a number of benefits to this - should be easy to set up, transfer, and increase / decrease in value if it is linked in some way to the business performance.
- Visas - The timeframe for processing applications is overly-long and restricts growth of SMEs and emergent FDIs.
- Poor communication perception of State agencies – seen by some SMEs as risk averse, non-specialist organisations. In reality, SMEs that engage with support agencies can receive strong support (financial and advisory), but SMEs appear to have difficulty ascertaining what agencies they should contact, and when they should contact them. The Economic Development Agencies need more staff as they cover large territories, especially on a regional basis. This also leaves an opportunity for Community Enterprise Centres (CEC) like The Mill to offer local support. In the past CEC's were able to apply to Enterprise Ireland for funding for key staff. This enabled CECs to deliver real value and support to SMEs as apposed to purely trying to meet the financial needs of operating an efficient Enterprise Centre.
- SMEs in the NorthEast are still pulled towards the Dublin region as that is where the largest amount of supports (incubators. specialised support agency staff) support are available. The Government needs to further prioritise regionalisation, but also recognise that support is not just for the other 4 main cities in Ireland or the Atlantic coast. SMEs in the Northeast should be able to access the same level of supports as any city in Ireland. We want to be able to harness the skilled mangers and owners that are currently

commuting to Dublin and ensure that they can establish businesses locally, and contribute to a sustainable regional economy.

- There is not enough suitable office accommodation for expanding SMES. Mill-ers (emergent FDIs and expanding startups) have experienced extreme difficulty in obtaining suitable accommodation in the town of Drogheda as they graduate from our building. This may be partially due to banks withholding finance to property developers, but could also be low-risk attitudes from property developers. There needs to be greater co-operation with state agencies, Councils, and developers to see the 'bigger picture'.
- Brexit. SMEs are still perplexed on implications of Brexit due to lack of certainty. The state agencies are providing some level of support but it's difficult due to overall lack of clarity.
- Slow payments / bad debts – This is still a major issue for SMEs and consumes a lot of time and energy. The government should implement and force new timeframes for ensuring prompt payment.
- PRSI – The safety net for startups is virtually non-existent with very limited social Insurance benefits in the case of a failed business. Improving the benefits would encourage more startups.

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Government Affairs Subcommittee of the EY Entrepreneur of the Year Alumni Board
Response to:
Seanad Public Consultation Committee
Small and Medium sized business in Ireland – public consultation

Background on the EY Entrepreneur Of The Year Alumni Board Government Affairs Subcommittee

The EY Entrepreneur Of The Year™ (EOY) is Ireland's longest running development programme that supports, advises and connects a community of entrepreneurs, throughout the island of Ireland. Over the past 21 years, the EOY programme has been on a mission to celebrate the success of so many ambitious Irish business people, bring together a community of likeminded peers, share disruptive ideas and support the very best of entrepreneurial businesses across the island of Ireland.

The EY Entrepreneur Of the Year Alumni Board represents the EOY Community consisting of almost 500 entrepreneurs and their businesses. Collectively these companies employ over 241,000 people in towns and cities across the island of Ireland; they have a combined turnover is €18.8billion – and through company and employer taxes they contribute significant revenues to the economies of the Republic of Ireland and Northern Ireland.

A Government Affairs Subcommittee of this board was established in 2017 with responsibility to look at four key areas on how Ireland can create a more competitive and sustainable entrepreneurial ecosystem. The four areas include:

- 1. Taxation**
- 2. Talent attraction, retention and job creation**
- 3. National and Regional Competitiveness**
- 4. Education, innovation and collaboration**

These four areas are equally significant in their own right and all play a major factor on the future of entrepreneurships in Ireland. They cannot all be tackled at once and prioritisation is key to make significant impact rather than tinkering around the edges on all.

Government Affairs Subcommittee Board members

We along with our alumni network are right at the heart of creating businesses and jobs across the island of Ireland. As business owners and job creators, we are also directly impacted by the challenges including: competitiveness, taxation, talent acquisition to name a few.

We are making a submission to the Seanad Consultation Committee with the hope that it will help deliver sustainable solutions that will encourage and support business growth, reinvestment, business and talent retention in Ireland.

The members of the subcommittee are:

1. John Purdy – CEO of Ergo a 25-year-old cloud and IT managed Services Company employing 450 people John is also Chair of the EY Entrepreneur Of The Year Government Affairs Subcommittee.
2. Michael Dawson - CEO of One for all vouchers.
3. Tommy Griffin - CEO of PEL who manufactures waste reduction equipment based in County Mayo.
4. Aldagh McDonogh – CEO Morgan McKinley the multinational professional services recruiter and was an EY Entrepreneur of the Year Finalist in 2006.

5. Barbara Nestor, Director of Communications and Public Affairs for EY and EY Entrepreneur Of The Year Programme

Responses from the EY Entrepreneur of the Year Alumni Board to the Seanad Public Consultation Committee

Increasing participation in entrepreneurship from underrepresented cohorts

Whilst in San Francisco on the Annual EY Entrepreneur Of the Year Annual CEO Retreat in 2017, we experienced two highly effective and impressive incubation units (hubs) – each run by a successful Irish Entrepreneur. The formula in these hubs is worth further exploration and may be a great solution to all entrepreneurs but perhaps, specifically to the underrepresented cohorts.

A number of startups apply to join the hub programme. They give them intense hands-on support and great facilities. They put them through their paces and coach them on every aspect of their businesses. The clock is ticking and they must reach each milestone at pace. They are schooled in how to position and sell their services to their customers. They have access to the very best advisory and consulting talent they require. They then pitch for investment from the myriad of investors who are motivated to invest in these well road-tested, researched, polished, hardworking start-ups.

A real win-win and a practical action-oriented ecosystem. The results are impressive with the encouraging numbers of start-ups getting their funding and successfully exiting the hubs. Incentivising successful entrepreneurs to create and support this version of a hub would be a good initiative. **This concept would be particularly effective with underrepresented groups who find access to resources particularly challenging.**

Recommendations on creating a supportive entrepreneurial ecosystem through tax measures

Taxation

There are three main areas of tax policy that would be helpful in further encouraging entrepreneurial activity. The pay back is in the form of job creation with attendant personal and employment taxes, with the benefit that those jobs are created across the entire country thereby bringing employment and economic activity to areas of the country often overlooked by FDI, and often relatively disadvantaged compared to the main population centres like Dublin and Cork.

Capital Gains Tax – Entrepreneurs' Relief

Following the complete or partial exit of an entrepreneur from their business, any funds that are subsequently re-invested in another entrepreneurial venture in Ireland should be treated tax efficiently. According to the EY Entrepreneur Of The Year 2018 Alumni Survey, 16% of entrepreneurs have exited a business. Of those, 90% of entrepreneurs have reinvested in another business. 49% of those surveyed said that a reduction in CGT would make an immediate tangible difference to their business or the island's economy. It is important to understand that the debate about capital gains tax entrepreneurs is not about enabling such individuals to pay tax at a lower rate than 33%, but is more fundamentally about the following three factors:

1. **Investment in employment creation and economic activity:** Many entrepreneurs who sell their businesses reinvest in new businesses, creating new jobs country wide; the reduced taxation on such gains facilitates the reinvestment of a larger amount of capital into such new businesses enhancing their ability to scale quicker and employ more people.

2. **Ireland's Need to be Competitive:** Ireland needs to be attractive in order to retain its entrepreneurial talent. The UK comparatively has a more attractive capital gains tax regime for entrepreneurs allowing gains to be taxed at a rate of 10% up to £10m on a lifetime basis; in Ireland, such gains are taxed at a rate of 10% with a much smaller lifetime limit of €1m. Entrepreneurs are increasingly global in their outlook and mobile in assessing opportunities, but it is important that Ireland's relative tax disadvantage does not become a reason for our younger entrepreneurial talent to locate and create economic activity and employment outside Ireland.
3. **Consistency of Treatment with Larger International Businesses:** Elaborating on the last bullet point, there is a disparity of treatment of capital gains for entrepreneurs as opposed to corporate shareholders. If an Irish plc sold off one of its subsidiaries, subject to certain conditions, any capital gain arising is tax free under our 'substantial shareholding exemption'. Entrepreneurs are instead subject to 33% tax with the limited relief described.

Self Employed Taxation

Efforts have been made to better align the taxation and benefits of self-employed individuals with employed persons, but there is more to be done. The marginal rate of taxation (including PRSI and USC) for self-employed above certain income levels is 55% versus 52% for those in employment, a significant difference. Less materially, the earned income credit for self-employed has yet to be equalised with the PAYE tax credit for those in employment.

Employee Taxation

The measures in last year's Finance Bill incentivising employee share ownership are welcomed by those in the entrepreneurial sector, and will allow entrepreneurial indigenous businesses compete more effectively with larger Irish and foreign multinationals for the key talent which is essential to driving businesses forward. With 48% of respondents to the EY Entrepreneur Of The Year Alumni Survey saying that they struggle to compete for talent against large multinationals, it is important that they are afforded every opportunity to do so.

We would also make the following recommendations relating to talent and encouraging increased entrepreneurship in Ireland

Current policy recognises the critical role that Entrepreneurs have played in Ireland's successful development to date. It states that establishing and scaling new businesses is mission critical.

It strongly resonates that the first influence on potential entrepreneurs is the **attitude of society towards enterprise** and the cultural values and **emphasis on entrepreneurship in the education system**. There are currently still too many signals that becoming an entrepreneur is, in some way, to be discouraged. (e.g. lack of social welfare supports and benefits). According to the EY Entrepreneur Of The Year Alumni Survey, 84% of respondents plan to increase headcount in the next 12 months and with 57% saying that finding recruiting experienced hires a challenge in the last 12 months, the need to look at the skills we are equipping our young people with is clear.

1. A significant **increase in entrepreneurial subjects and courses** throughout our second and third level education system would significantly move this attitude over time. It is not a subject to be taught in a

classroom setting alone, so it would ensure young people to have direct access to Entrepreneurial companies through learning in action initiatives. **The transition year** in the education cycle is a perfect opportunity for our young people – across all abilities and backgrounds - to be exposed to the exciting, creative and potentially financially-rewarding world of entrepreneurship. Third level needs more places on entrepreneur-related courses.

2. A very practical and useful initiative that could prove highly effective, **is to consider an entrepreneur “apprenticeship programme”**. Entrepreneurs hire many people to work in their businesses. In fact, the war for talent is very challenging for Irish entrepreneurs as they compete for skilled talent across several in-demand disciplines. Encouraging people to consider joining an indigenous company as an (entrepreneur) apprentice would be a very practical and positive incentive to indigenous employers. It could also go some way towards addressing the challenge of some underrepresented groups gaining exposure to a career in self-employment.
3. The next generation(s) are already exposed to the world of entrepreneurial opportunity in all their online interactions – many of their “heroes” these days are overseas Entrepreneurs. The energy, pace and scale of exposure to entrepreneurship needs to be substantially accelerated and dialled up if it is to have an impact in the coming decade. The key question is will the next generation(s) prevailing attitude be that they have to re-locate abroad to be successful? **The real key to creating our entrepreneurial future is to ensure they associate Ireland and successful entrepreneurship as we educate their entrepreneurial minds.**

These initiatives have the power – if they reach a critical mass of young people through the education routes - to turbo charge the cultural acceptance of entrepreneurship that is undoubtedly being seeded in Ireland today.

The impact of Brexit on the entrepreneurial community

Brexit is one of the largest events to hit the Irish business community in recent years. According to the EY Entrepreneur Of The Year Alumni Survey, 33% of businesses export to the UK and 47% of businesses have already been impacted by Brexit. While the AIB Brexit Sentiment Index for Q2 2018 found that 58% of SMEs in the Republic of Ireland believe Brexit will have a negative impact on future business. There are three main issues facing Irish SMEs at present in relation to Brexit:

1. Uncertainty
2. Supply chain issues
3. New market exploration

1. Uncertainty

As the March 2019 deadline approaches, there is still a huge amount of uncertainty around what the outcome of negotiations will be. Uncertainty of any type is potentially detrimental to future planning for Irish SMEs, many of whom do not have Brexit plans in place or are being forced to forge ahead with existing plans despite the uncertainty surrounding the potential outcomes of Brexit. It is extremely difficult for SMEs to invest resources in the necessary, revenue and demand forecasts that will be crucial for them to successfully trade through Brexit.

2. Supply chain issues

The UKs departure from the EU has placed a focus on cross border trade links on the island of Ireland. While the interdependence of the two economies is clear, less public attention has been given to the potential indirect impacts on supply chains. In particular the impact, any onerous customs paper work could have for smaller SMEs, many of whom rely on cross-border trade for as an integral part of their

daily business. According to **the** Intermediate Goods Inputs and The UK Content of Irish Goods Exports Report produced by the ESRI for Enterprise Ireland and The Department of Business Enterprise and Innovation, the UK accounts for 25.7% of total Irish goods imports. In comparison, 13.8% of Irish exports go to the UK. A recent report by InterTradelreland highlights that, whilst NI receives 10 – 12% of Irish exports, this is concentrated in a small proportion of firms. For 1 in every 4 Irish firms, NI receives 95% of all their exports.

3. New market exploration

In order to insure themselves against potential lost business as a result of Brexit, many SMEs are looking to diversify the markets they are operating in. According to the EY Entrepreneur Of The Year Alumni survey, 32% of businesses are looking at this as a course of action. This will be an important strategic move in securing Ireland's competitiveness into the future. While the Government has introduced the Brexit Loan Scheme, many SMEs are finding the application process overly burdensome, a point echoed by ISME and reflected in the low uptake in the scheme by SMEs. With 47% of respondents to the EY Entrepreneur Of The Year Alumni Survey saying they believe more European companies will look to do more business with Irish businesses, the scope given by this type of financial support to explore these opportunities is increasingly important.

Despite the above concerns, what is evident from the EY Entrepreneur Of The Year Alumni Survey is that the entrepreneurial mind continues to work in the face of challenges such as Brexit with 62% of respondents believe that Brexit presents some opportunities for business. 58% believe that it will result in the relocation of more businesses and services to Ireland. However, in order to be able to take advantage of any opportunities at a time that is crucial for Irish Business, the correct supports must be in place.

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Submission of Údarás na Gaeltachta to
the Seanad Public Consultation
Committee in relation to Small & Medium
Sized Businesses in Ireland

5th September 2018

Contact Details:

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A brief introduction indicating any experience, expertise or background you may have in this area:

Established in 1980, Údarás na Gaeltachta (ÚnaG) is an enterprise development agency and the regional authority responsible for the economic, social and cultural development of the Gaeltacht. Its overall objective is to ensure that Irish remains the main communal language of the Gaeltacht and is passed on to future generations, and key to achieving this objective is funding and fostering a wide range of enterprise development and job creation initiatives, and by supporting strategic language, cultural and community based activities. (Appendix I)

Over the last 38 years ÚnaG have been involved in attracting businesses to the seven Gaeltacht regions under its remit, through provision of premises and various financial supports.

The organisation has support hundreds of businesses from concept stage, to start-up to grow to SME stage and where possible to global growth stage. These businesses receive, both financial and non-financial support, throughout the life cycle of the business and where possible, ÚnaG invests in infrastructural deficiencies within the enterprise ecosystem (buildings, skills, innovation, etc.) to enable entrepreneurs to start, to develop and grow their business in remote rural regions of Ireland.

There are 7,500 people currently employed full time in Údarás na Gaeltachta client companies and these companies have total national economic impact of nearly €900 million.

Factual information, observations or opinions that you believe will assist the Committee in drawing conclusions:

- Promoters who develop a concept/business idea will often focus on their own technical skill and knowledge over the requirements of the marketplace. Through years of working with micro/SMEs, ÚnaG has learnt the importance of providing good business advice through its own executives, external consultants or training courses. The need to have a strong business acumen is often underestimated by new entrepreneurs/promoters when starting a business, thus the following action can reduce the steep learning curve that is involved in running a new SME:
 - There is a need to build core business competencies (Financial, Sales, Marketing, Logistics) within the management team i.e. its promoter and executives;

- There is a need to build strong boards to lead companies from Start-up to small/medium stage to scaling into a large company. Having key strategic directors on a board can lead to faster business development where these directors have a strong acumen for both business and the specific sector in which they are involved.
- To start a business, entrepreneurs must have the courage of their convictions; that is they believe that they have the capability and technical skill to exploit opportunities within the marketplace, which will enable them to build a successful business. While it is imperative that they focus on this opportunity, they often underestimate the timelines to develop the product/service, bring it to market and grow its share within the market place while ensuring they are providing the customer with what they want in the market. Time delay can and does burn a sufficient amount of cash, which promoters often underestimate in the development stage. Thus, it is important to arm promoters/entrepreneurs with;
 - Strong financial knowhow to enable them to manage their scarce resources well at the difficult early stages
 - Enable Start Up/SME easier access to funds whether equity, grant-aid and loans. There is a need to reduce cumbersome paperwork (red tape) that discourages promoters/owners to engage with agencies, equity providers and financial institutions while ensuring that all necessary information is processed and commitments understood.
- The Global Talent crisis - We often see Irish SMEs as part of the Irish ecosystem while they are operating in the global market for talent to grow their business especially in the ICT sectors where they are competing with multinational companies. The Government has put in place significant resource to support companies to develop their own talent and to clutter within sectors to maximise the availability of the required skills – Regional Skills Forum, New apprenticeships scheme to name but a few.
- There is also the need to recognise the needs of rural SMEs when searching for talent as it can be difficult to attract young professionals to rural areas if they believe that there is a better quality of life in and around urban centres.
- There is need to support companies on how best to build the work force that embraces new technology which ensures long-term agility within the business. This will enable the SMEs to scale successfully.
- Further work is required to improve how government bodies communicate with the promoter/owner of SMEs who does not fall directly within the realm of State Agencies. State Agencies hold a vast amount of tacit knowledge, which supports companies through the various stages of development and growth.

As the seven Gaeltacht regions under ÚnaG's remit are situated in rural areas ÚnaG therefore has a key role in national strategies such as the **Rural Regeneration and Development Plan, Action Plan for Jobs (APJ), Plean Gníomhaíochta 2018-2022** and **Realising our Rural Potential (Action Plan for Rural Development)**, as well as sectoral strategies such as **Harnessing our Ocean Wealth**. ÚnaG see the following as key to achieving objectives laid out in the above-mentioned strategies.

- Despite improvements in recent years, the **physical and broadband infrastructure**, particularly in many Gaeltacht areas, is still insufficient, resulting in a significant challenge in attracting indigenous entrepreneurs and inward investors willing to fund and set up their businesses in the Gaeltacht.
 - Investment in international knowledge-based traded services client companies is mainly in urban areas, and few Gaeltacht or rural areas are capable of competing with such locations due to **deficiencies in the physical and telecommunications infrastructure**.
 - The quality and availability of telecommunications infrastructure has improved in certain areas in the last few years, but there is still a **need for the provision of a high-speed fibre-optic infrastructure at a reasonable cost** throughout the. This is necessary if enterprises are to set up and remain in the locality or be attracted to the Gaeltacht and other rural areas.
- There is an additional **need for significant investment in Údarás buildings**, as a proportion of these require **immediate renovation** so that they may be appropriate for today's entrepreneurs.
 - The provision of **high quality business premises** is of the utmost importance, in order to **attract** new businesses to the Gaeltacht areas. This will also allow current companies already located in the Gaeltacht to **compete, consolidate** and/or **expand** their businesses in these rural Gaeltacht areas.
- Particular attention must be paid to the **development of human resources** and emphasis placed on the development of skills at all levels.
 - Making and nurturing contact with the **Gaeltacht diaspora** and enticing the highly skilled workforce who have left the area to return in order to take up employment in Gaeltacht based companies, or avail of the remote working opportunities provided by a network of digital hubs across the Gaeltacht regions.

Economic Mission

Údarás encourages investment in the Gaeltacht through a range of generous financial and non-financial incentives for new and existing enterprises in the Gaeltacht.

The organisation supports businesses in developing new markets, technologies, products and strategic alliances through research and development. Gaeltacht companies span a range of commercial sectors, including life sciences, ICT, tourism, fish processing and aquaculture, renewable energy, food, niche manufacturing, audio visual and digital media, arts and crafts.

Over 7,000 people are currently employed full time in Údarás na Gaeltachta client companies and these companies have a significant economic impact and make a substantial contribution to the Irish economy

Operating Sectors

Life Sciences	Aquaculture
Food	Business Support Services
Digital	Renewable Energies
Language Based Enterprise	Cultural Tourism
Social Enterprise	Remote Working

Cultural Mission

All of the organisation's activities have the aim of preserving and promoting the Irish language at their core. Údarás funds a range of strategic language and cultural initiatives as well as supporting the Irish language through its own practices.

Social Mission

The people of the Gaeltacht play an active role in the economic, social and cultural development of their communities, largely through well-established groups such as community cooperatives and community development companies.

Gaeltacht Economy

Research carried out on the economic impact of Údarás na Gaeltachta in Gaeltacht areas shows that Údarás na Gaeltachta's client companies deliver an economic output of €1.7 billion.

Údarás client companies' expenditure has a total national economic impact of nearly €900 million. It is clear from the following economic indicators that the State is deriving value from Údarás' investment in the Gaeltacht (Indecon 2014, DJEI 2016).

Full Time Employment in Údarás Client Companies	7,500
Total Client Company sales	€844 million
Total Client Company Export Sales	€502 million
Added Value to Irish Economy	€318 million
Tax Payments to Irish Exchequer	€77 million
Direct Expenditure through Payroll, Services and Irish-sourced Materials	€425 million



**Chambers
Ireland**
Advancing business together

Chambers Ireland's Submission to the Seanad Public Consultation Committee on Fostering and Supporting the Irish SME Sector September 2018

Introduction

Chambers Ireland is the largest business network in Ireland, with 44 affiliated chambers in our network, located in every major town and city in Ireland and representing businesses across all sectors and of all sizes. We work to create a better environment for business by lobbying the Government and other stakeholders on policy issues across a wide-range of issues affecting Irish businesses. Given the nature of the Irish economy, we specifically focus our attention on proposing policy reforms that support's Ireland's large SME sector, which makes up almost 99% of the Irish economy.

Connectivity Challenges

Broadband

Rural businesses are particularly affected by lack of access to broadband and need to see progress on the National Broadband Plan as soon as possible. Government must act expediently to tackle the digital divide that currently exists between urban and rural Ireland. We must ensure that Irish businesses, in particular SMEs, can compete on an even playing field and have access to the manifold opportunities that trading online brings.

Access to broadband enables businesses to grow, create jobs and contribute to their local economies. Additionally, broadband is now a quality of life factor and enables modern arrangements for modern businesses that want to offer staff flexibility in working lives for employees and it is therefore a significant factor in attracting FDI companies to a region.

The National Broadband Plan, which has already been significantly delayed, must be rolled out as soon as possible in order to allow for Ireland's regions and rural areas to have access to high quality broadband and the benefits

Transport

Transport is one of the most tangible issues affecting organisations' day-to-day operations in all areas of the country and has been highlighted by the Chamber Network as a priority in capital expenditure. Good transport links enable regional networks to develop and stimulate economic growth in a region, while enhanced connectivity provides businesses with more opportunities to trade, as well as contributing to lower costs. Investment in public transport, both inter and intra urban, not only benefits urban centres; properly integrated and efficient transport links act as growth enablers for wider regions and ensure that cities can act as drivers of growth.

Chambers Ireland welcomed the transport projects announced under the National Development Plan and we are pleased with the increased investment being allocated towards transport infrastructure broadly. Failing to significantly increase investment in transport would undermine Ireland's ability to generate economic growth in a sustainable manner and would damage our national competitiveness.

The transport projects announced under Project Ireland 2040 must now be delivered upon. The importance of Ireland's road network and port infrastructure are likely to increase following the UK's exit of the European Union and delivery of these projects must happen in order to facilitate trade and economic growth.

Additionally, the public transport commitments for inter and intra urban transport made in the Project Ireland 2040 must be delivered upon. Government must invest in rapid transport corridors and rail routes for Ireland's growth driver cities as a means to tackle urban congestion and increase use of public transport. For intra-city public transport, we must make more use of hybrid and electric vehicles as much as possible.

High Cost of Doing Business

The high cost of living is a significant challenge facing SMEs across the country. The cost of living is being felt via wage demands of employees as they face increasing housing, childcare and insurance costs among others. This is having an impact upon business costs and staff retention, negatively impacting upon Irish SMEs' competitiveness. At present, businesses are continuously absorbing the high cost of living, rather than it being appropriately tacked by Government.

Housing

Housing is arguably the greatest challenge presently facing Ireland, and while a lack of access to affordable housing is undoubtedly a serious social issue, it is also a significant business issue. Housing issues are being felt by businesses via increased wage demands and challenges in recruiting staff where this is insufficient accommodation for them. Additionally, commercial rent increases are a problem for urban businesses, in particular for SMEs. The housing crisis is a major competitiveness issue for businesses of all sizes, greatly increasing costs, affecting the quality of life of employees and in some cases threatening businesses' operations. This is a major threat to Ireland's overall economic performance.

Cost of insurance

Businesses are finding it increasingly difficult to plan for the future without having a reasonable estimate of what their insurance costs are likely to be as such costs continue to increase significantly year on year. This uncertainty and inability to make accurate forecasts causes a curtailment of capital investment and many businesses cannot progress and develop as they should.

The high cost for insuring certain aspects of a business (for example a night club in a hotel) may make it impossible for the business to continue to engage in that activity, affecting their ability to expand operations and create new services for customers.

The constantly rising cost of insurance is also directly affecting business ability to maintain the correct level of insurance (under-insuring taking place). Liability insurance for certain types of activity is simply unavailable and can result in closure of potentially viable businesses simply because they cannot get cover at any price. This situation also tempts some businesses to operate without any or with inadequate insurance cover which is not good practice.

Childcare

The high cost of childcare in Ireland often means that for parents it is not cost effective to work after having children. Childcare costs in Ireland are the second highest in the OECD for couples and the highest in the

OECD for lone parents. This is impacting upon wage demands. It also makes it more difficult for employers to retain women in the workforce.

Chambers Ireland recommends that Government maintain investment in Early Childhood Education, deliver prompt roll out of the Affordable Childcare Scheme, deliver a value-for-money cost analysis of childcare provision and maximise the use of schools and existing community facilities for childcare provision.

The National Minimum Wage

The National Minimum Wage has increased for the last three years in a row, placing significant wage pressure on SMEs. Increases to the National Minimum Wage at a time of such uncertainty around the future performance of our economy, stemming from the international trading environment and Brexit, stand to hinder the competitiveness of Irish businesses, and in particular Ireland's SME sector.

Employee Share Ownership

In an increasingly competitive employment market, SMEs are often competing with and losing out to MNCs for talent attraction and retention. Chambers Ireland has previously advocated for the introduction of an Employee Share Ownership Scheme as an option for SMEs to attract and retain the right people. While we welcomed the introduction of the Key Employee Engagement Scheme in Budget 2018 as a means for Irish SMEs to attract and retain talent, feedback from our Network indicates that this scheme is not operating as well as it could and that overly restrictive conditions are making it unattractive to businesses.

Getting this scheme right could be hugely positive for Irish start-ups and scale-ups, as well as the wider economy, and as such Chambers Ireland recommends a number of changes which would make this scheme work better for business. As it currently stands, KEEP is overly complex and too restrictive, and it does not provide the easy-to-implement, productivity-enhancing incentives that would make it an attractive option for a start-up business or SME.

Skills and Training

Unfortunately, Ireland continues to lag behind other European countries in the participation of the workforce in lifelong education and training, a fact pointed out by SOLAS and by the European Commission in the Country Specific Recommendations for Ireland 2017.

A contributing factor to the low levels of engagement in life-long learning is the inaccessibility of many FET courses for small and medium sized enterprises. We would like to see a focus on increasing ease of access for small and medium sized enterprises to engage with skills and training providers. Feedback from our network and from stakeholders informs us that the administrative burden in accessing FET opportunities is too often a deterrent for SMEs. It is SMEs that stand to benefit the most from accessing FET courses and we should ensure that there are as few restrictive elements in place as possible. An evaluation of the barriers which exist in accessing courses and training opportunities for SMEs should be undertaken by DES or SOLAS.

As the National Training Fund employers' levy is set to increase by 0.1% a year over the next two budgets (following an increase of 0.1% in Budget 2018), employers must be given a greater say in how this Fund is spent. Businesses, in particular SMEs, stand to benefit hugely from a range of business-tailored training courses for employees, however at present there is a disconnect between skills provision and business' needs. Additionally, many businesses remain unaware of the skills and training opportunities currently available under the FET Strategy and how these might benefit their companies. Greater emphasis is required on the communication of FET opportunities which exist for businesses.

The most recent unemployment figures stand at 5.6% (August 2018) and as we rapidly approach 'full employment', employers face increased challenges related to productivity, sourcing employees with the

right training, and skills mismatches in the workforce. As such, it should be as administratively easy as possible for businesses to access skills and training provision for their employees.

Chambers Ireland advocates the introduction of a voucher model for skills and training courses would enable employers to choose educational providers from the private sector based on reputation and proven excellence. The voucher could be modelled on the 'Innovation Voucher' model, administered by Enterprise Ireland and accessible to SMEs that require the up-skilling or re-training of key employees.

Recommendations on for Supports for SMEs & Entrepreneurs

In Budget 2019, Government must do more to encourage and support SMEs and the self-employed to grow and ensure that we are celebrating and encouraging the job creators in our economy. More attention must be given to policies that support entrepreneurship and to programmes that ensure SMEs can recruit and retain staff. We must also ensure that the kinds of incentives and supports that are introduced support male and female entrepreneurs.

In our submission to the Department of Finance on Budget 2019, we called for a wide range of recommendations that will support SMEs, employers and start-ups around the country. Below we have outlined our recommendations to Government on how Ireland can better support SMEs, innovators and entrepreneurs.

Tax Equity

In this Budget cycle Government must, as previously committed, bring Earned Income Tax Credit for self-employed in line with the Employee Tax Credit. Following Budget 2018, the total earned income credit for self-employed individuals sits at €1,150 annually leaving a discrepancy of €500 with the Employee Tax Credit.

Self-employed earners earning more than €100,000 are faced with an additional USC burden of 3% more than a PAYE worker earning the same amount of income. Government should introduce full equity in taxation between the self-employed and PAYE workers.

Government should introduce a short-term tax credit on employer PRSI to enable microbusinesses to grow and increase employee numbers. If applied to businesses with less than 10 employees, the introduction of a 3-year tax credit on employer PRSI for each new hire would support microbusinesses to create jobs and enable them to grow.

Diversity in Business

According to a report by the Global Entrepreneurship Monitor on Ireland, a man is more than twice as likely as a woman to be an early stage entrepreneur. In addition, more than half of female entrepreneurs are focused entirely on the home market and have no markets overseas, while just one third of male entrepreneurs are similarly focused. We call on Government to support female entrepreneurs so that they start-up, scale-up and become more globally focused, in line with their male counterparts.

We recommend that Government support state agencies to expand funds, such as the Competitive Start Fund, that offer targeted supports for female entrepreneurs to include a broader range of business models and sectors.

Chambers Ireland calls on Government to introduce additional supports to increase the provision of management training to advise female-led companies on scaling up their businesses.

We are asking that Government support state agencies to provide training to female entrepreneurs on international trade and commit to increasing female participation in Irish overseas trade missions to access new markets.

A competitive landscape

Ireland's high rates of CGT are impeding entrepreneurship and competitiveness. Comparative data from the Tax Foundation shows Ireland had the 5th highest rate of capital gains tax in the OECD in 2016. The high rate of 33% remains in place and is potentially disincentivising investment in the economy and discouraging the release of underutilised assets such as land or property.

Chambers Ireland recommends that the Irish Capital Gains Tax rate of 33% be gradually reduced to be closer to the UK standard rates and to be more competitive against the UK CGT tax regime. Additionally, we recommend increasing the lifetime limit of €1 million in qualifying capital gains under Entrepreneur's Relief to €10 million to improve the attractiveness for repeat investors and to encourage increased investment in Irish business.

A culture of entrepreneurship

Strategic changes to the capital gains tax regime could encourage investment in Irish businesses and ensure support for entrepreneurs and innovative ideas in our economy. Chambers Ireland recommends CGT rollover relief to allow deferral of CGT where the proceeds of a sale are reinvested in an SME or business fund managed by a state enterprise agency. The aim of this initiative would be to encourage investment in Irish businesses and ensure that start-ups and scale-ups are able to access the finance needed to grow.

We recommend that Government consider the introduction of a mechanism where entrepreneurs can apply for a "small business rollover", similar to the Australian model, where an entrepreneur can apply for tax relief on the capital gain when reinvesting in an SME or new business.

External Challenges

As a small open economy, we are very exposed to international market volatility and this feeds down to even our smallest companies - if interest rates are increased, this will have consequences for investment, access to finance, exports, etc.

Brexit continues to be identified as a challenge for SMEs, as it forecasted that SMEs exporters are likely to find the UK's exit from the EU the most challenging. Once the UK leaves the EU, it will be a lot harder for SMEs to continue to do business with the UK. While larger multi-nationals which trade in international markets are likely to be better insulated from the consequences of a UK exit from the EU, smaller firms will feel a more profound impact and will be less capable of absorbing it. Some sectors have already felt the effects of the extreme currency fluctuations following the referendum result. As more disruption of this nature is likely to follow in the months and years to come, helping SMEs to diversify their markets will be very important.

In response to Brexit, Chambers Ireland recommends that Government work with and support the Chamber Network to communicate resources that will help businesses to prepare for Brexit. The Chamber Network is uniquely positioned to offer businesses expert guidance on export documentation and customs, and Chambers Ireland proposes that Government support the Network to provide training to exporting companies that stand to face additional customs issues in light of Brexit.

Chambers Ireland welcomed the introduction of the Brexit Loan Scheme, having called for this in previous submissions to Government. We recommend that Government continue to make funding available through the Brexit Loan Scheme in order to support more businesses who may wish to innovate in response to Brexit as we near the UK's exit of the European Union.



Submission to Seanad Public Consultation Committee

Public Consultation on the issue of fostering and sustaining the Irish Small and Medium-sized business sector

1. Submission Details

Bord Iascaigh Mhara

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2. Introduction

Bord Iascaigh Mhara (BIM) is the state agency charged with the development of Ireland seafood industry. BIM's mission is to support and enable an increase in value creation of a sustainable Irish seafood sector across the supply chain, from catch to consumer. Our vision is to lead the Irish Seafood sector through our effective support and deep expertise so that Ireland becomes the international leader in high value differentiated products that satisfy the growing demand for healthy, safe, responsibly and sustainably produced seafood.

BIM is highly active and very engaged with all sectors of the seafood industry through our client engagement model, providing technical expertise, business support, funding, training and promoting responsible environmental practice. Our clients across the fishing, aquaculture and processing sectors represent all classifications of SMEs.

Our client base covers the entire seafood sector, incorporating some 2,050 fishing vessels, 284 aquaculture production units and 163 seafood processors. Together these employed some 14,638 persons in 2017 either directly or indirectly. By scale, all are classified as micro, small, or medium enterprises with the vast majority being micro or small.

3. Factual

BIM recently engaged with sector representatives across the industry to hear their views on the main issues affecting them as seafood SMEs today. A summarised version of the responses received is set out below.

3.1 Access to finance

- **Cash Flow to Grow the Business:** Access to finance has proved very difficult for many in the sector over the past 5 – 7 years. This has impacted the entire sector to some degree but has been a particular problem for smaller enterprises, particularly inshore fishermen, small and medium sized offshore vessels and many of the smaller aquaculture and processing operators.

These companies/operators have grasped the need to better manage their cash flow and working capital in order to invest in their business and facilitate growth, however many fall short in this area (see below).

- **Financial Management:** Financial management tends to be underdeveloped with owners/ managers having an inadequate understanding of the finance function within the business and insufficient ability to interpret financial information to precisely identify where their businesses are most profitable.
- **Grant Aid:** While significant grant aid is available to the sector through the European Maritime and Fisheries Fund, uptake has been poor in recent years as operators struggle to find the co-financing necessary to draw down these grants. It should be noted that co-financing is most often provided through the normal banking system, and consequently, reluctance on the part of banks to make finance available ultimately undermines the ability of operators to successfully draw-down grants.

It should be noted that this problem has been partially addressed through micro-finance facilities; most often led by, *inter alia*, local enterprise boards. These loans however are usually in the range €5,000 – 10,000 and are inadequate for the majority of our bigger operators.

3.2 Recruitment of suitably qualified staff and ongoing training/skills development challenges (including mentoring)

- **Attracting Talent:** Due to the lack of training and staff development, the turnover of staff working in the seafood industry tends to be high. Bright, new talent is not attracted to work in the industry as it tends to have a negative image. Given the remote locations where fishermen, aquaculture producers and seafood processors tend to be based, attracting staff to these isolated locations continues to be a challenge.

Like many other European countries, the Irish seafood sector has, in recent years, become ever more reliant on workers from other EEA countries and further afield (non-EEA). For example, anecdotal evidence from seafood processors suggests that the supply of workers from other European Economic Area (EEA) countries is contracting and some processors report a shortage of locally available labour at current wage rates.

At the request of the Government Task Force on non-EEA workers in the Irish fishing fleet, the Department of Transport Tourism & Sport carried out an analysis of fishing vessel logbooks submitted for the first half of 2015. Based on the data provided, it was estimated that some 15% of those employed onboard Irish registered fishing vessels were non-EEA migrant workers. However, on the basis of inspections carried out by the Marine Survey Office (Department of Transport Tourism & Sport) this figure could be as high as 42%.

Accessing suitable and willing staff remains amongst the biggest challenges facing the seafood SME sector. Simply put, we do not have sufficient people in Ireland (or the wider EEA) to meet the labour demands of the sector and we will continue to rely on a steady flow on workers from outside the EEA to develop and grow the sector in line with its potential. It should be noted that finding ways to meet the current labour demand is a challenge for the seafood sector throughout Europe and by no means unique to Ireland.

- **Team Structure:** As many seafood SMEs are family owned and run, roles and responsibilities may be less formally structured and accordingly risk not always being best positioned to support the needs of the business. This may result in a skills deficit in a particular management discipline and lead to insufficient focus on company strategy and ambition.

- **Time Management:** Time management is a particular challenge for owners/ managers who are invariably involved in all aspects of everyday operations and the urgent can take precedence over the important.

3.3 Retaining staff

- **Skills Deficit:** Traditionally there has been a weaker training culture within the seafood industry with the result that skills deficits in areas such as IT, financial management, sales and marketing, food safety and strategic planning can curtail potential.
- **Staffing:** Due to the lack of training and staff development, the turnover of staff working in the seafood industry tends to be high. Bright, new, talent is not attracted to work in the industry as it tends to have a negative image. The often remote locations where fishermen, aquaculture producers and seafood processors are based, exacerbates the problem particularly when the local employment pool is very small.

BIM has set out an ambitious skills agenda in its current (2018 – 2020) strategy to address this problem and, with time, we are confident that these problems can be overcome.

3.4 Building strong routes to market

- **Collaboration:** Not only is competition from global seafood operators an issue, many Irish SMEs also have to contend with intense competition domestically. Fostering greater cooperation and consolidation (where appropriated) in the Irish industry can mitigate against SMEs operating in silos in order to realise potential gains from economies of scale.

BIM is addressing this problem through the creation of common interest groups within the sector. Our China Council (with a focus on seafood enterprises operating in the Chinese market) and Domestic Council brings together operators with common interest and has enabled the sector see, first hand, the benefits of co-operation in key aspects of their business model (e.g. freight costs etc).

- **Penetrating Export Markets:** There is a growing need to develop better expertise in the area of sales and marketing to assist SMEs to seek out and target new markets. Strategic planning and market prioritisation are essential in order to maximise market returns for end product.
- **Fluctuating Raw Material Supplies:** Given the nature of the supply and demand for seafood, raw material prices fluctuate frequently. This volatility makes it difficult to plan and price forward.
- **Aquaculture:** The licensing of aquaculture production operations remains a contentious issue and is regarded by the sector as an impediment to growth.
- **Market Regulations and Compliance:** The management effort required to effectively adhere to regulation and compliance around sustainable practises, food safety, hygiene, and labelling etc. is an additional resource constraint on SMEs.

3.5 Broadband and connectivity (including transport)

The rural, coastal, location of much of the seafood industry means accessing high speed broadband remains a challenge for some businesses in the sector.

3.6 Cost of doing business in Ireland (i.e. rates etc)

After crew wages, fuel (marine diesel) costs represent the next major expense item for fishing vessel operators. In 2008, at the height of the fuel crisis, fuel costs for the European fleet as a whole reached 24% of operating costs and much of the fleet was operating with little or low net profit. While today that figure is

closer to 14%, recent trends in the international price of oil suggest that this is an area that must be monitored closely.

3.7 Macro-economic and political challenges and volatility

BREXIT poses a major challenge for the seafood sector.

- ⇒ On average, 34% of the Irish landings are taken from UK waters.
- ⇒ Ireland lands at least some of all our main commercial quotas (40 plus stocks) from UK waters – for some stocks over 60% of landings are taken from the UK zone.
- ⇒ UK vessels land on average 20,000 tonnes into Irish ports each year.
- ⇒ Irish vessels land on average 12,000 tonnes of fish (mackerel & herring) into UK ports

- **Trade**

- ⇒ Irish seafood imports were valued at €335 million and amounted to 143,800 tonnes in 2017.
- ⇒ 68% of our imports at a value of €228 million (64,400 tonnes) were imported from the UK
- ⇒ Irish seafood exports were valued at €666 million (313,600 tonnes) in 2017.
- ⇒ 13% (€85 million) was exported to the UK, while almost double that was exported to France at €170 million (25% of total exports).

- **Tariffs**

- ⇒ In 2016 the top 16 exports by value to the UK would have had an average tariff of 12.7% - these ranged from 2% to 24% according to WTO tariffs.

3.8 Challenges in selling on, or transferring a business to family members

Succession Planning: Attracting new entrants into the industry continues to be a challenge, so succession planning tends to suffer. This is an issue right throughout the industry – from SMEs, to POs to small boat owners.

3.9 Poor integration and communication perception of State agencies

The seafood sector is serviced by a number of agencies: Bord Iascaigh Mhara (development), the Marine Institute (science), the Sea Fisheries Protection Authority (control), and Bord Bia (marketing). All of these agencies have clearly defined roles and provide a range of complementary services and supports to the seafood industry in an integrated manner. Inter-agency communication and co-operation remains excellent.

3.10 Other relevant challenges to be identified

BIM administers 13 European Maritime and fisheries Fund (EMFF) grant schemes directed at the seafood industry. Currently, public procurement policy requires recipients of grant aid in excess of €25,000 to obtain three quotations for any supplies, services, or work undertaken as part of the grant. If however the aid intensity exceeds 50%, grantee's are required to complete a Government E-tender for the same supplies, services, or work. Where the aid intensity exceeds 50% and the grant exceeds €209,000, they are, in addition, required to advertise in the Official Journal of the European Union. Where the aid intensity is below 50%, the three quotations rule applies.

This is proving difficult for the sector and many have asked that the rules in this area be harmonised with three quotations deemed sufficient in every case.

4. References

The Committee may wish to refer to the Business of Seafood report published by BIM for an overview of the Irish seafood sector:

<http://www.bim.ie/media/bim/content/publications/corporate-other-publications/7097-BIM-Business-of-Seafood-2017.pdf>).

BIM published its statement of strategy earlier this year and the Committee may wish to consider how we will support the seafood sector in addressing many of the issues identified:

<http://www.bim.ie/media/bim/content/publications/corporate-other-publications/BIM-statement-of-strategy-2018-2020-enabling-sustainable-growth.pdf>

The Committee may wish to refer to the recently published BREXIT AND THE IRISH FISHING INDUSTRY FACTSHEET, JUNE 2018. Dept of Agriculture, Food and Marine:

<https://www.agriculture.gov.ie/media/migration/seafood/sea-fisheriespolicymanagementdivision/brexit/FactSheetJune2018020718.pdf>



IFA

Submission No. 24

The Irish Farmers' Association

Submission to Seanad Public Consultation Committee on the issue of fostering and sustaining the Irish Small and Medium sized business sector.

5th September 2018

IFA is the representative organisation of over 70,000 members throughout the country and it is the recognised voice of Irish farmers in Europe and internationally. The Association promotes the ongoing development and competitiveness of Irish agriculture and the food industry.

Farmers are part of the SME sector and make significant contribution to rural Ireland, agriculture is our largest indigenous sector. It generates higher multiplier effects than all other sectors which has a significant positive effect in rural areas.

The larger economic return when compared to other sectors is due to sourcing locally, with a low import requirement per unit of output and a lower share of international ownership and repatriation of profits when compared to other sectors. The agri-food sector has strong linkages up and down the supply chain, from production to consumption.

It reflects 7.8% of GNI at €14.8bn and represents 21% of all industry turnover¹. In terms of employment 174,400 are directly employed (7.9%) in the agri-food sector while it is estimated the sector supports approximately 300,000 jobs indirectly.

Continued investment uncertainty and pressure on competitiveness remain significant challenges for the sector. These ongoing challenges are coupled with extreme weather events this year which have placed significant pressure on farmers, coupled with the possibility of a hard Brexit.

The political uncertainty is particularly worrying for the agri-food sector due to our reliance on the UK market, making the sector particularly exposed compared to other sectors in the economy. The agri-food sector exports 38% of their total export to the UK and import 48%, with a trade surplus of over €1bn.

The decision for the UK to exit Europe will cause significant market disturbance for Irish agriculture from tariff and non-tariff barriers, with price shocks and forecasted reductions in income. Further uncertainty from proposed cuts to the EU Common Agricultural Policy (CAP) budget is also a serious concern for farmers.

¹ DAFM Fact Sheet Irish Agri-Food Sector August 2018

<https://www.agriculture.gov.ie/media/migration/publications/2018/August2018Factsheet160818.pdf>

In light of these issues, there are a number of key areas the IFA highlight as being important to support and foster growth of indigenous Irish SMEs, particularly in the agri-food sector.

These include:

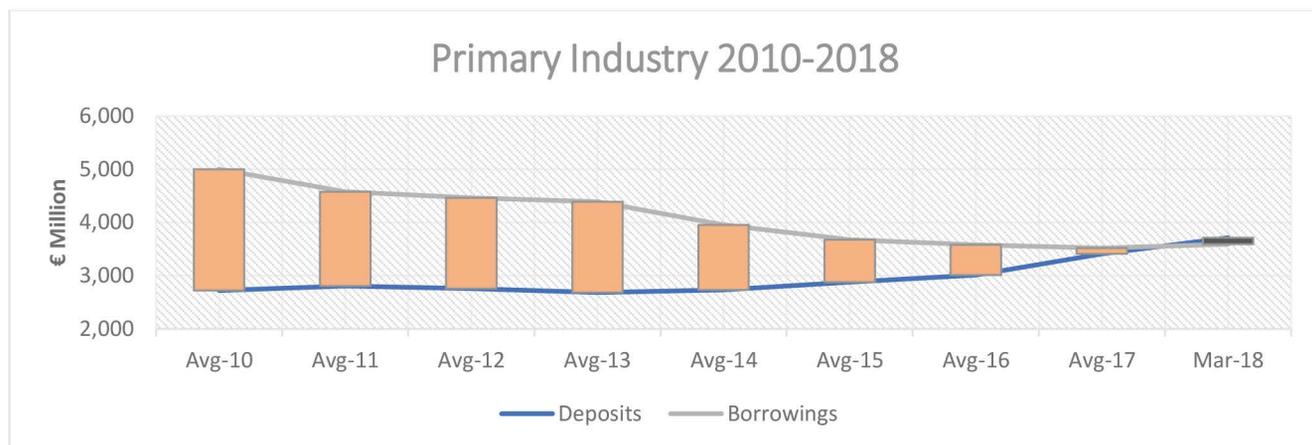
1. Affordable Finance
2. Taxation
3. Labour Availability
4. Generational renewal and business transfer
5. Achieving green credentials
6. National Broadband Plan
7. Insurance Costs

1. Finance

The level of borrowing² in primary industry³ (Figure 1) has been in decline over the past eight years. Falling from an annual average €5b in 2010 to €3.5 in 2017 figure.

Savings continue to grow in the sector, latest figures indicate an 18% increase since year ending 2015. The agricultural portfolio of borrowings performs very favourably in terms of their repayment capacity. A large proportion of borrowing in agriculture is driven by the dairy sector.

Figure 1: Stock of Borrowings and Deposits



(Source: Adapted from Central Bank Data⁴)

The Central Bank SME data also highlights the level of new lending⁵ in the Primary sector, this represents 22% of all new lending in the overall SME sector over the period 2010-2017.

² The level of borrowing reflects the level of outstanding borrowing in the sector

³ This includes Agriculture, Forestry and Fishing, where agriculture represents 88% of all borrowings and deposits in the category. Where specific agricultural data is available is it used.

⁴ <https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/business-credit-and-deposits>

⁵ New lending captures the proportion of borrowings which is new borrowing in that year.

Since 2010, the level of annual new lending in the sector is increasing slightly. The level of outstanding borrowings is falling over the same period, again emphasising the strong repayment capacity in agriculture and is primarily driven by the dairy sector.

The falling level of borrowing may have consequences for future investment levels on farms.

Furthermore, the interest rates for the primary sector remain high, at 5.09% for new lending in Q1 of 2018. This rate is well above the average rate of 4.2% available across the SME sector. Considering the low levels of default in the agricultural sector and the low levels of interest available to European farmers, these rates are not competitive.

Table 1: Average interest rates on borrowings

	Enterprise	2015	2016	2017
Outstanding Amounts	Primary Agriculture	4.31	4.33	4.33
	Total SME	3.015	3.11	3.29
New Lending	Primary Agriculture	5.18	5.12	4.74
	Total SME	4.75	4.11	3.96

(Source: Adapted from Central Bank Data)

Access to finance particularly for small scale borrowing and access to cashflow at affordable prices is an issue. The cost of borrowing is approximately 5 - 6% in the main banking institutions for unsecured lending in the region of €70k or less, while overdraft rates are typically between 7 – 8%. The process of borrowing also presents challenges this is reflected in banking institutes less willing to engage with small SMEs with relatively small credit requirements.

The application process for borrowing smaller amounts of finance needs to be revised to encourage farmers to borrow.

A further issue for farmers is the level of knowledge in the banking sector of agricultural financing requirements. The larger institutes have dedicated trained staff however, they generally deal with larger levels of borrowings, which again presents issues for borrowings of smaller levels.

2. Taxation

Taxation is a key concern for Irish SMEs, including farm enterprises. SME incomes are most exposed to the markets in terms of the risk associated with entrepreneurship. Such risk must be recognised in the tax code through presenting SMEs with more flexible options.

The IFA 2019 Budget Submission⁶ contains a number of measures to assist in the management of income volatility, income tax discrimination, transfer of business, investment and VAT. Some not all are specific to agriculture.

These measures include:

- Income averaging and flexibility in the stepping out option.
- Deposit scheme
- Earned income tax credit
- Stamp duty and agricultural relief

⁶ Available at <https://www.ifa.ie/wp-content/uploads/2018/07/Budget-Submission-2018.pdf>

- Entrepreneur relief
- Farm safety measures

3. Labour availability

As the economy approaches full employment the availability of farm labour is a key issue. National unemployment at 5.1% presents difficulty on farms in attracting and retaining labour.

The announcement of the 2018 pilot quota-based work permit scheme⁷ is welcomed, however, for example requirements to remunerate labour above the minimum wage at €10.85 has resulted in operational difficulties due to differential levels of wages internally for farm business. Also, the process of application for these permits is particularly cumbersome for individual farmer employers and the waiting time to secure a permit can be up to twelve weeks.

The IFA also have campaigned for supports for SMEs who create employment in rural areas. The IFA 2019 Budget Submission proposes that incentives through the tax or Social Protection system should be provided for small business employers, who take on apprentices in an approved programme, such as an income tax credit similar to the Apprenticeship Job Creation operating in Canada, or the Jobs Plus employment incentive.

4. Generational renewal and business transfer

The inter-generational transfer of family businesses is a key challenge for Irish SMEs, which includes the transfer of family farms.

To ensure the success of business transfers to future generations, IFA holds the position that greater flexibility is required when businesses are in transition. Such cases, for example often require low cost financial support for reinvestment.

5. Achieving green credentials

Farmers are fully committed to reducing GHG emissions. This commitment is reflected in the IFA Smart Farming Programme run in conjunction with the Environmental Protection Agency, which last year realised average cost savings of €8,700, with average emissions reductions of 10% for participating farms. Such stakeholder led programmes should be further supported by Government.

In terms of renewables, the IFA 2019 Budget Submission focuses on climate and renewables reflecting a prosumer strategy and bottom up community lead approaches.

Part of the challenge is the uncertainty in the process of investing in renewable energy. The costs and benefits associated with investment in renewables such as roof-top, solar or micro energy are not made explicitly clear for SMEs. Increased emphases should be placed on encouraging uptake particularly for the agriculture sector, considering their contribution to emissions.

⁷ S.I. No. 163 of 2018 - Employment Permits (Amendment) (No.2) Regulations 2018

IFA 2019 Budget Proposals to supports the achievement of reduced emissions, include:

- Support Schemes for Renewable Heat (SSRH)
- Supports for emissions efficient equipment
- Renewable Electricity Support Scheme (RESS)
- Home Renovation Incentive (HRI)

6. National Broadband Plan

Increasingly, there is a strong movement towards digital in many aspects of agriculture including technology-based solutions for farming. The government must deliver on their commitment around the National Broadband Plan for rural Ireland. This will eliminate the existing rural-urban digital divide and allow rural dwellers access to core personal and business internet services. The key issues include:

- Affordability
- Delivery through a high-speed Fibre network for current and future use.
- Accessibility
- Clear roll-out plan
- Support from Local Authorities

7. Insurance Costs

Insurance costs to farm businesses and the agri-food industry generally are excessive and totally out of line with our main European competitors. This represents a significant competitive and cost disadvantage for Irish farmers and agri-food businesses.

Three main areas need to be addressed:

- The magnitude of awards
- The associated legal costs
- The number of fraudulent claims and the lack of sanctions

The issues involved and action measures required have been identified in recent recommendations to Government from The Cost of Insurance Working Group



Irish Rural Link
Nasc Tuaithe na hÉireann

Submission

SEANAD PUBLIC CONSULTATION COMMITTEE

SMALL AND MEDIUM SIZED BUSINESS IN IRELAND

September 2018

Fostering, growth and sustainability of indigenous Irish SMEs in becoming a key foundation block for the long-term success of the Irish economy.

Contact:

Seamus Boland/Noel Kinahan

Introduction and Overview

The impact of the recession and austerity budgets that followed is still being felt in many rural areas and have not seen the same level of economic growth or employment as more urban areas have over the past couple of years. Although unemployment in the state has fallen to 6% this masks some stark contrasts at a regional level, with a 9.7% rate in the Midlands and 7.2% in the South-East for example¹. Small and Medium sized companies are the backbone of rural areas and are a key employer. However, since the financial crash, a lack of credit circulating was the main factor affecting communities as SMEs in particular tried to survive the economic downturn. The closing of many rural bank branches compounded the feeling of abandonment by the banks in these communities.

Although there are slight improvements in lending by pillar banks to SME's, lending market remains highly concentrated with the combined market share of the three main lenders currently at 86%.² With these limited options of credit available to SME's, they are extremely vulnerable to any shocks, either within the three banks or external factors, such as Brexit or another financial crisis. The continued closure of bank branches, limited services and opening times of existing branches and more services moving to phone or online banking, it is becoming more and more difficult for SME's, particularly in rural areas, to access banking services. A recent report in the Irish Times highlighted the difficulties and frustrations by SME's about the level of interaction they have with their banks and the services they provide to business customers. They feel they no longer get the level of support or can build relationships with the bank, like they used to³.

Local Public Banking

Irish Rural Link (IRL) is the national network of rural community groups, representing over 1200 community groups and over 25,000 individuals committed to socially, environmentally and economically sustainable rural communities. As a result of decreased funding and credit lending to SME's after the financial crash and throughout the recession, IRL began to investigate whether there were other successful, more sustainable models of banking which could serve communities better. Research was carried out in conjunction with part-time university graduates as well as its own internal researchers during the course of which IRL identified the German Savings Bank (Sparkasse) banking model as being one which had been unaffected by the banking crash. IRL also found this model attractive due to its public mandate and the fact that its success was built on a strict regional principle which ensured the success of local SMEs in each bank's region and created a more uniform economic development across the country as a whole. Subsequently IRL developed a working relationship with the SBFIC to explore how this model could be introduced in Ireland and the

¹ CSO Labour Force Survey Q2 2018

<https://www.cso.ie/en/releasesandpublications/er/lfs/labourforcesurveyquarter22018/>

² Central Bank (2018) SME Market Report 2018

<http://www.centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2018.pdf?sfvrsn=4>

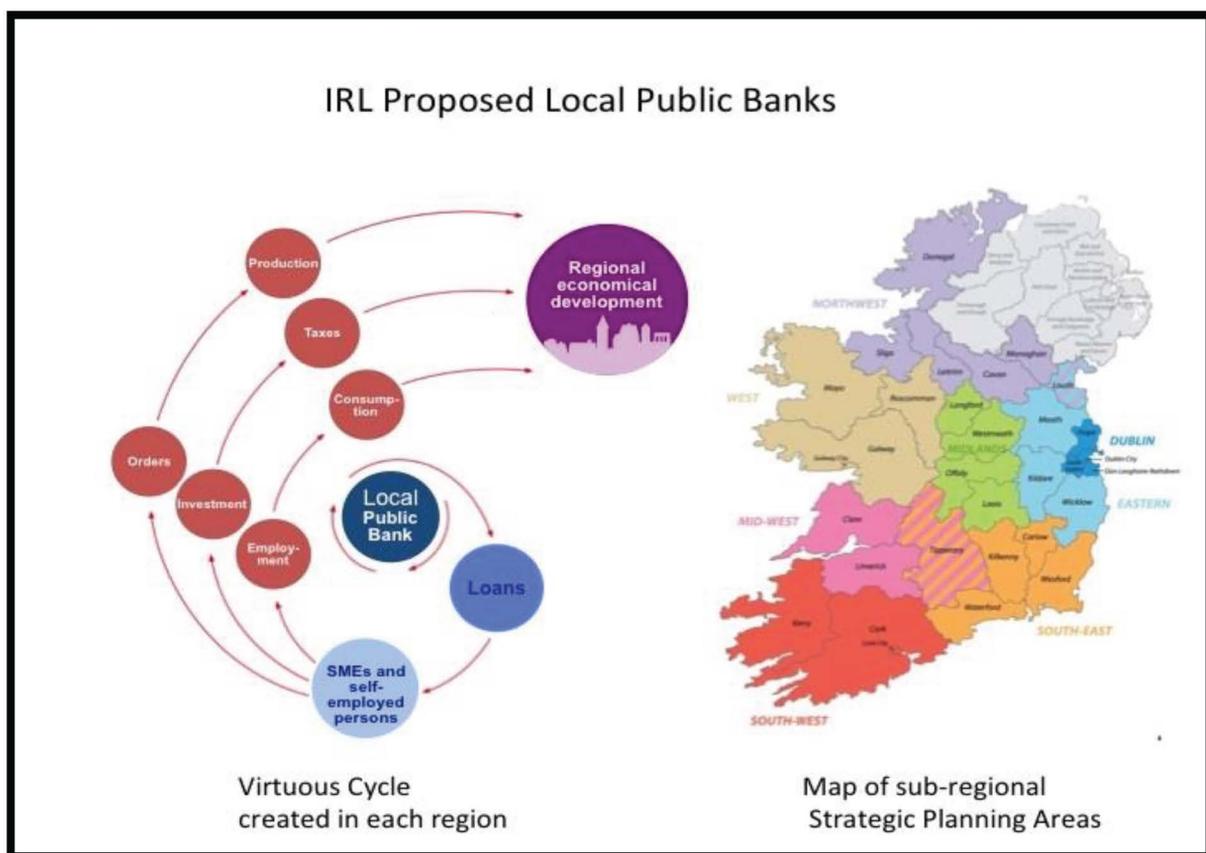
³ Irish Times 24th March 2017 "*Banks say SMEs get good service – not so say firms who feel abandoned*"

<http://www.irishtimes.com/business/work/banks-say-smes-get-good-service-not-so-say-firms-who-feel-abandoned-1.3018905>

SBFIC. The wider Sparkassen Group has expressed support for such a model to be established in Ireland to bring added value for regional development. IRL concludes, following in-depth research, that by incorporating the Sparkassen successes and characteristics including stakeholder values this model would act as a banking force for the “real economy”.

Workings of Banking Model

This model of banking covers the 26 counties nationally and works on a regional basis following key principles of the "Framework for the Development of Regional Enterprise Strategies." The model is not based on a theory but on an existing regional working banking model bringing prosperity by creating a virtuous cycle of money circulating in the local economy. This model of banking invigorates local communities particularly in the area of SME's and the Agri sectors that allow commerce to thrive.



Contribution to Regional Growth and Employment

Focusing on SME lending will have a direct positive influence on the level of regional employment. Finance for working capital and investment will allow local SMEs to grow and attract outside investors to the region. The Government’s vision for Ireland’s future as set out in the National Planning Framework⁴ clearly states a desire for more balanced economic development across all regions of Ireland, urban and rural. The model of bank we are proposing would complement and support these ambitions

⁴ Project Ireland 2040, National Planning Framework (2018) <http://npf.ie/wp-content/uploads/Project-Ireland-2040-NPF.pdf>

Farming and SME business is almost by definition local business. The business model of a Regional Public Bank offers the suitable product mix and efficient lending procedures for the rural business. Its credit risk management takes into account relevant local business information, including “soft” information which enables prudent and fair risk management and allows including start-up finance and finance for innovation into the business proposition of the lender.

The level of client information and business expertise due to the decentralized location of each Regional Public Bank are prerequisites for a successful assignment of public promotion funds to support the rural development.

Recommendations:

Irish Rural Link propose the following recommendations:

1. Nationwide Network of Local Public Banks

A nationwide network of 8 to 10 Local Public Banks which are managed independently but with an identical business model working under identical management principles. Initially 2 or 4 pilot banks are envisaged with a rollout of the entire network developed over the next 5 years.

2. Centralised Service Provider

A centralised service unit will provide internal services, including risk management and internal audit and will house a self-supervision unit for the new public banking system.

3. Distribution of funds to the Community (social mandate)

Earnings will partly be retained to strengthen their capital base and partly distributed to social projects, also surpluses will be partly distributed to social funds to benefit the local community.

4. Mentoring Services for SME's

SME competence teams should be established in each region to mentor start-ups and provide support. The Local Public Bank needs to also ensure that sustainability is a key function and will support renewable energy projects, like wind energy, local biogas plants and other innovative technologies within regions. Besides short- and long-term credit facilities the Local Public Bank will offer tailored finance solutions and private equity through local venture capital companies.

An agricultural expert team should also be established within each region to offer tailored services in finance, taxation, commercial law for the farming sector.

5. Stakeholders Forum

The following are some of the key stakeholders that should be considered to be involved in the discussion on how a local public banking model for Ireland could be designed.

- **Credit Union Representative bodies and Post Office Network**
Irish Rural Link appreciate and acknowledge the potential for both Credit Unions and Post Offices to play a role in any model specifically designed for the Irish market.
- **Strategic Banking Corporation of Ireland**
The SBCI have a mandate to increase competition in the market and should be one of the key stakeholder in this.
- **European Investment Bank**
The EIB is seeking to lend directly to Irish Businesses. At present they do not have suitable local partners for doing this with the Pillar Banks proving lethargic in their support for Irish SMEs despite the massive cash injections they have received to do this.

Conclusion

SME's in rural areas continue to face barriers and obstacles when accessing credit, services and supports from traditional banking market. This is hindering their potential to grow and expand.

The hollowing out of regional banking coverage will continue if no alternate structure is established to support regional SME and Personal banking needs. With the publication of the National Planning Framework, what better way to facilitate the development of the rural economy and enhance the competitiveness of rural areas than to provide a financial institution with a public mandate to provide financial services to these areas.

Now we have the chance to engage with a proven successful banking model to establish such an alternate regional pillar and Irish Rural Link strongly believe that the offer of expertise and support from SBFIC and the German Sparkassen Group should not become a missed opportunity.

The recent report on Local Public Banking in Ireland has recognised the potential of such a model and committed to evaluating ways in which the local public banking concept could be promoted in Ireland. Irish Rural Link looks forward to contributing to this and its associated stakeholder forum.

Irish Rural Link the Organisation

Irish Rural Link (IRL), formed in 1991, is a national network of organisations and individuals campaigning for sustainable rural development in Ireland and Europe. IRL, a non-profit organisation, has grown significantly since its inception and now directly represents over 300 community groups with a combined membership of 25,000.

The network provides a structure through which rural groups and individuals, representing disadvantaged rural communities, can articulate their common needs and priorities, share their experiences and present their case to policy-makers at local, national and European Level.

Irish Rural Link is the only group represented at the national social partnership talks solely representing rural communities' interests.

'Our vision is of vibrant, inclusive and sustainable rural communities that contribute to an equitable and just society'

Irish Rural Link's aims are:

- To articulate and facilitate the voices of rural communities in local, regional, national and European policy arenas, especially those experiencing poverty, social exclusion and the challenge of change in the 21st century.
- To promote local and community development in rural communities in order to strengthen and build the capacity of rural community groups to act as primary movers through practical assistance and advice.
- To research, critique and disseminate policies relating to rural communities including issues such as sustainability, social exclusion, equality and poverty
- To facilitate cross-border networking between rural communities

'Our mission is to influence and inform local, regional, national and European development policies and programmes in favour of rural communities especially those who are marginalised as a result of poverty and social exclusion in rural areas.'

Organisation	Contact Details
Enterprise Ireland	East Point Business Park Dublin 3 +353 1 727 2000 policy@enterprise-ireland.com

Key roles and Objectives

Established in 1988, Enterprise Ireland is the State Agency responsible for supporting Irish businesses in the manufacturing and internationally traded service sectors to build scale and expand reach in global markets.

We work with c. 5,000 businesses across the business development spectrum, from start-ups to Irish multi-national companies, through a network of market and sector advisers, based across 10 national offices and 33 international offices. Our teams at home and abroad, connect Irish companies to global customers, creating and sustaining jobs in Ireland.

We have a mandate from Government to foster research and innovation, working with research institutions to secure commercial purpose for technologies and ideas developed in Irish research institutions, providing direct funding to researchers to commercialise their research and drive the commercial return on the State's research investment.

We support entrepreneurship, leadership, competitiveness, innovation & networking and the development of the eco-system to meet business needs.

National network of Technology Centres and Technology Gateways (15), Innovation Partnerships (2017); A Centre of Excellence for 31 Local Enterprise Offices (LEOs), supporting small and micro-businesses. As part of this broader enterprise role, Enterprise Ireland has Service Level Agreements with the LEOs, Craft Council of Ireland and Business Innovation Centres (BICs).

Enterprise Ireland is also responsible for:

- FDI in Food and Drinks into Ireland
- Education in Ireland - promotes Ireland as primary destination for higher education
- National Co-Ordinator for Horizon 2020 - EU's main instrument for funding research in Europe (€1.25 billion national drawdown target)

Enterprise Ireland is a commercial semi-state organisation. We take strategic investment decisions to maximise Own Resource Income (ORI) through strong due diligence / commercial evaluation of investment proposals, strict eligibility criteria (value for money, exports, jobs and level of technology, high standards of corporate governance, market and value proposition validation and Credit Committee approval (Board approval for large investments).

Enterprise Ireland has strong strategic relationships with key stakeholders including DBEI, Department of Finance, other Government departments, NTMA, EIF, EIB, IDA Ireland, and other stakeholders.

Strategy

Enterprise Ireland's Strategy for the period 2017-2020 objectives are to inspire and drive Irish enterprise to 'Build Scale and Expand Reach'. Under the strategy, EI aims to:

- Increase client exports from €21.6b in 2016, to €26b by 2020, with 2/3 of export growth targeted for outside the UK market. This includes a major focus on the Eurozone where we are targeting a 50 per cent increase in exports.
- Support the creation of 60,000 jobs, while sustaining existing jobs
- Driving innovation in Irish enterprise through new supports to reach the target of €1.25bn in R&D expenditure per annum by 2020
- Increase spend in the Irish economy by EI client companies from €23b to €24b

Result and Success Measures used

Enterprise Ireland's success is measured by client success in export markets, leading to job creation and maintenance in Ireland.

2017 was a strong year with both Exports (€22.71bn) and Jobs (209,338 directly employed in EI backed companies) reaching unprecedented levels.

- **Employment in EI Companies** increased to a record number of 209,338 – with net job creation of over 10,000
 - 64% of jobs created were outside Dublin. Employment growth occurred in every county and region.
- **Exports** of EI backed companies increased to €22.71b in 2017, growth of 7%. Food accounts for 51% of total exports.
- **Export market diversity:** Progress on reducing UK Market dependence by 1% in 2016-2017, down 10% in 10 years
 - 34% UK: €7.6bn, growth of 4%. Food accounts for 49% of total UK Exports
 - 20% Eurozone: €4.6bn, growth of 9%. Food accounts for 60% of Eurozone Exports
 - 17% USA/Canada: €3.9bn, growth of 7%. ICT accounts for 40% of US/Canada Exports.
 - 9% Asia Pacific: €1.970, growth of 9%
 - 19% ROW

- **Building Scale:**
 - Start-ups: 90 New High Potential Start Ups were supported by Enterprise Ireland, these are companies that have the potential to employ 10 people and generate sales of €1 million within 3years in 2017
 - Established companies: 232 EI Client investments in excess of €500,000 in 2017
 - Leadership development: 374 Participants on management training programmes
- **Fostering Innovation:**
 - 99 grant approvals in excess of €100,000 for clients’ Research and Development projects in 2017.
 - 1,065 collaborative innovation projects between industry and Higher Education Institutes in 2017 (a record)
 - €475m won through Horizon 2020
- **Expanding Reach:**
 - 1,391 new overseas contracts won by Enterprise Ireland clients which were backed by Enterprise Ireland
 - 878 International buyer visits with the help of Enterprise Ireland in 2017

Key Stakeholders	Outline of stakeholder engagement and relationship	Other comments
<p>Client Companies Irish owned companies in the manufacturing and internationally traded services sectors, who are exporting, or have potential to export</p>	<p>The client relationship is commensurate with client eligibility, growth aspiration and export potential. Eligible companies with high export growth potential are assigned a Development Advisor to identify and meet client needs and address growth inhibitors, according to an agreed development plan.</p>	<p>Supports can include:</p> <ul style="list-style-type: none"> • Grants • Equity investment • Training/Mentoring • R&D
<p>Global Buyers</p>	<p>Finding and winning global customers, particularly in markets beyond the UK market, is essential to success.</p> <p>Enterprise Ireland teams at home and abroad help to connect Irish companies to global buyers, opening doors of opportunity and helping to expand the global Irish export footprint.</p>	<p>Supports can include:</p> <ul style="list-style-type: none"> • ‘Irish Advantage’ Promotional campaign • Inward buyer missions • Outbound trade and ministerial missions - (200 international and domestic trade events by the end of 2018, a 50% increase on trade events that took place last year.) • Feasibility study supports (to test new product / market) • ‘Market Access’ supports

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		<ul style="list-style-type: none"> - supports to appoint in-market accelerators, set up an in-market office, attend and exhibit at trade shows, develop market research and marketing collateral; - 3 levels of funding available to companies: up to €35,000, up to €75,000 and up to €150,000
<p>Local Enterprise Offices Enterprise Ireland has Service Level Agreements with 31 LEOs</p>	<p>To ensure a co-ordinated and cohesive development of micro enterprise for Ireland which contributes to economic growth and job creation</p>	<p>Enterprise Development Plan for each LEO is developed annually.</p>
<p>Research Institutes</p>	<p>We have a mandate from Government to foster research and innovation, working with research institutions to secure commercial purpose for technologies and ideas developed in Irish research institutions.</p> <p>In this way, we help to shape and develop Ireland's market-driven research and development capabilities to meet business needs, sweating the assets of the state investment in research and innovation.</p>	<p>Supports can include:</p> <ul style="list-style-type: none"> - Supports for innovative start-ups that 'spin-out': from feasibility study to market visits, competitive start-up funding; - Driving market-focussed collaboration between business, HEIs and key stakeholders; - Commercialisation of state funded research into new products and processes; - International funding & linkages such as Horizon 2020 Programme (€135m won 2017) and European Space Agency and access to international expertise.
<p>Government Departments</p>	<p>Enterprise Ireland reports into the DBEI alongside its sister agencies, IDA Ireland and SFI.</p>	<p>An active culture of evaluation exists. Internal reviews and evaluations of operational and strategic programmes are conducted regularly.</p> <p>External evaluations are led by DBEI or the Department of Finance and Public Expenditure and Reform, they are typically carried out by independent consultants, focussed policy assessments, including value for money analysis & comprehensive reviews of expenditure.</p>
<p>Financial Institutions and Venture Capital Community</p>	<p>Enterprise Ireland works with financial institutions to ensure adequacy of funding, across the business life cycle / address market failure</p>	<p>As a 'Funder of Funds' Enterprise Ireland holds investments in seed and VC funds</p>

Key challenges – please provide evidence-based backup documentation	Proposed solution ¹	Result matrix
<p>1. Brexit:</p> <p>UK is #1 export market (35% of exports) & often 1st export market</p> <p>Export growth to UK market has contracted from 12% in 2016 to 4% in 2017</p> <p>Uncertainty is key driver (Brexit negotiations, Currency volatility)</p> <p>Implications for all sectors especially Traditional sectors - construction, timber, food 80%+ exposed</p> <p>1,400+ clients with high levels of sales into UK, employ 102,000+ 350 companies significantly exposed, employ c.25,000</p>	<p>Direct support for Brexit Exposed clients, including:</p> <ul style="list-style-type: none"> • Innovation supports under Agile Innovation Fund • Competitiveness supports (incl. key manager grant, and Lean Supports) • Diversification supports (incl. market discovery fund and graduates for international growth) and participation on trade missions <p>Dedicated Brexit Unit supports:</p> <ul style="list-style-type: none"> • Advisory Clinics (nationwide). • Brexit Scorecards: online self-assessment of exposure • Consultancy assignments (incl. financial & currency management, Strategic sourcing, Customs & Logistics). • Be Prepared grant <p>Sectoral initiatives / roundtable client discussions e.g. Brexit Challenges and Preparedness incl. Financial Services</p>	<ul style="list-style-type: none"> - To ensure that companies are Brexit ready - To make provision for ‘hard Brexit’ - To support export market diversification - Thereby, creating and sustaining jobs, particularly in regions outside Dublin.
<p>2. Scaling</p> <p>c. 90% of EI clients employ <50</p>	<p>Addressing the need for scale is a key pillar of Enterprise Ireland’s Corporate Strategy 2017-2020 because</p>	<ul style="list-style-type: none"> - More companies of scale - Fast time to scale - Positive impact on employment

¹ Please see Enterprise Ireland Strategy 2017-2020 for information on supports for competitiveness, innovation and diversification

<p>Scale is key to exports and builds resilience to market shocks such as Brexit.</p>	<p>companies of scale achieve more exports and create more jobs.</p> <p>We have a range of supports and services that are geared towards driving scale in our client base, from the start-up phase. Supports include:</p> <ul style="list-style-type: none"> • Direct investment • Competitiveness building • Fostering innovation • Leadership Development <p>These supports are underpinned by our client engagement model which includes a ‘deep dive diagnostic’ exercise with our most ambitious and capable clients, focused on their needs. The outcome is a joint action plan with clearly defined tasks and milestones. We are already seeing success from it.</p> <p>Our focus is not only on increasing the number of companies of scale, but also to speed up the time taken to achieve scale. We want to help companies achieve critical milestones faster and our client engagement model facilitates this acceleration.</p>	
<p>3. Competitiveness</p> <p>Operational excellence as essential to winning in global markets. While Ireland has seen good progress in our competitive position, and this is reflected in our global success, competitiveness continues to be a key priority for Irish</p>	<p>Enterprise Ireland supports companies, through its client engagement model, to identify and address competitiveness challenges.</p> <p>Supports include:</p> <ul style="list-style-type: none"> • EI Operational Excellence Offer to support investment in transformation projects including: <ul style="list-style-type: none"> - Agile Innovation Offer: to encourage the implementation of new and innovative production, delivery or organisational methods 	<ul style="list-style-type: none"> • Companies should find out what excellence looks like in their particular sector, so they know what they are up against • Companies should access the supports available to help them develop their competitive edge.

<p>companies. Competitiveness is linked to scale.</p>	<ul style="list-style-type: none"> - Capital equipment - Capability building through training • Lean Business Offer – to encourage clients to adopt Lean business principles in their organisation to increase performance and competitiveness. 	
<p>4. Research and Innovation</p> <p>Innovation is a key differentiator in competing and winning in global markets.</p> <p>We know that most of our clients do not spend enough on research and innovation.</p>	<p>Enterprise Ireland supports innovation by:</p> <ul style="list-style-type: none"> • Supporting innovative start-ups: a range of supports from feasibility study to market visits, competitive start-up funding; • Supporting in-company R&D: co-investing in R&D projects; • Driving market-focussed collaboration between business, HEIs and key stakeholders; • Commercialisation of state funded research into new products and processes; • International funding & linkages such as Horizon 2020 Programme (€135m won 2017) and European Space Agency and access to international expertise. <p>Enterprise Ireland administering, on behalf of the DBEI, the Disruptive Technologies Fund, introduced as part of Project Ireland 2040. This is a collaborative and competitive fund, which will support investment in the research, development and deployment of disruptive technologies and applications on a commercial basis. Eligible projects require participation of SMEs as part of the collaborative teams.</p>	<ul style="list-style-type: none"> • Drive innovation in Irish enterprise through new supports to reach the target of €1.25bn in R&D expenditure per annum by 2020

	<ul style="list-style-type: none"> • The Agile Innovation Offer introduced in late 2017 to encourage an increased uptake in R&D in client companies. • A new Innovation Communications Campaign as part of #GlobalAmbition was launched in Q4, 2017 positioning Innovation as a business imperative and promoting EI as a leader in Innovation. 	
<p>5. Attracting and retaining talent</p>	<p>National programme of Spotlight on Skills Workshops concluded – supporting companies to identify and address their critical skill needs (in conjunction with DES and Regional Skills Fora)</p> <p>Continued review and revision of EI Client Management and Development offers including:</p> <ul style="list-style-type: none"> • eiLearn Platform for Clients launched in mid 2018 - This client portal host content from EI’s flagship programmes, the short programme Excel series and will include open material for all clients • “GradStart” placement programme for graduates introduced in mid-2018 for SMEs to increase companies’ capacity to innovate and collaborate with others and Middle Management Pilot training programme • Technology Centres are collaborative entities established and led by industry. A joint initiative between Enterprise Ireland and IDA Ireland allowing Irish companies and multinationals to work together in these centres. • Enterprise Ireland Leadership development programmes. 374 Participants on management training programmes in 2017. 	<ul style="list-style-type: none"> • Outputs will inform direct action by Enterprise Ireland, engagement between enterprises and Regional Skills Fora and will contribute inputs to development of enterprise skills policy through the National Skills Council • Continuous review of Enterprise Ireland Management and skills training, to meet business need and to build talent and capacity within companies.

<p>6. Access to Finance</p>	<p>How EI helps to widen access to finance:</p> <p>Direct supports: Enterprise Ireland provides direct support to help clients to start and to scale.</p> <ul style="list-style-type: none"> • Funding for High Potential Start-ups (€36.9m invested in 90 High Potential Start Ups in 2017) • A further 91 start-ups received support under Competitive Start Funds. • Co-investment in established companies: 232 EI Client investments in excess of €500,000 in 2017 <p>Enterprise Ireland Seed & Venture Capital Schemes:</p> <ul style="list-style-type: none"> • Enterprise Ireland’s €75m commitment to the Development Capital Scheme has resulted in the creation of three funds which have with a combined total fund size of €492m. In 2017 these funds invested a total of €70m into companies in the food, healthcare and communications sectors in Ireland. • In partnership with InterTradeIreland, Enterprise Ireland supports the Halo Business Angel Network, which resulted in over €12.8m of business angel investment in 45 companies in 2017. • Enterprise Ireland-supported European Angel Fund has increased the availability of capital for early-stage Irish companies and leverages the expertise of some of Ireland’s most successful investors. 	<ul style="list-style-type: none"> - Widen the access to adequate sources of funding for growth - Encourage the widest participation possible from private sector funding sources
	<p>Advocacy: Enterprise Ireland advocates on issues that affect access to finance and to encourage wider</p>	

	<p>participation from the financial services sector as a platform for future growth.</p> <p>Market failures in funding for enterprises identified as a continuing issue in Project Ireland 2040.</p> <p>Ongoing work with DBEI and SBCI to develop business case for flexible longer-term lending products for companies</p>	
<p>7. Market Diversification</p> <p>Most exporting firms sell a few products to a few destinations.</p> <p>Export values are dominated by a relatively small group of export “superstars”.</p> <p>Source: ESRI</p>	<p>How EI supports market diversification:</p> <ul style="list-style-type: none"> • Market feasibility: on-going support for companies moving into new product and market areas. • Market-led innovation: on-going support for innovation, adjustment and experimentation of product / service which is key to meeting marketing demands • Market insights: monitoring and sharing of insights on global trends, to keep ahead of market developments and to be ready to exploit new opportunities. • Market Discovery Fund - to incentivise companies to research viable and sustainable market entry strategies in new geographic markets. It provides support towards internal and external costs incurred when researching new markets for products and services • Promotion: The #Irish Advantage campaign is a targeted sectoral digital campaign to promote Irish innovation and capability to international buyers. It supports Irish company diversification in the Eurozone, and beyond, in a targeted way, with key buyer focused messaging based on research. Irish 	<p>Reduced UK market dependence</p> <p>Greater market diversity</p>

	<p>Advantage is a new approach to providing clients with market insights, buyer intelligence, information and buyer leads and introductions.</p> <ul style="list-style-type: none"> • In-market presence: 33 Overseas offices provide ‘on the ground’ support. Proposals for further overseas expansion, as part of Government-led Global Ireland 2025. • Strategic targeting of markets: e.g. Eurozone Strategy (+50% exports to Eurozone by 2020 through targeted client identification and support, promotion of Eurozone opportunities, and development of market access guides) 	
<p>8. Regional Development</p>	<ul style="list-style-type: none"> • Second call of the Regional Development Fund ongoing – the objective of which is to support significant regional initiatives to build on sectoral strengths and/or to better leverage identified resources to improve enterprise capability • EI Investment in 4 Regional Accelerators – the purpose of which is to enhance the start-up ecosystem nationally and support the early stage development of start-up companies leading to increased growth overtime. • EI Investment in 14 industry-led Technology Centres • Achieve new FDI Food Investments • Competitive Start Fund (CSF) for Regional Entrepreneurs – CSF provides equity funding for early stage start-ups 	
<p>9. Business & Policy Environment</p>	<ul style="list-style-type: none"> • Enterprise Ireland is a member of the National Competitiveness Council, Expert Group on Future Skills Needs, and National Skills Council among others, to identify issues and advocate for clients on 	

	<p>issues related to competitiveness including: State Aids; Taxation for Enterprise; Access to Finance and Infrastructure such as housing and broadband.</p> <ul style="list-style-type: none"> • Policy reviews of relevance for SMEs in 2018 <ul style="list-style-type: none"> ○ DBEI review of work permits system ○ Department of Finance review of EIS scheme (risk capital) ○ Expert Group on Future Skills Needs – Brexit skills, Construction (forthcoming) <p>Taxation A competitive taxation regime is critical to support enterprise development, influencing decisions on starting and scaling companies, where they will be located, and how they will be structured. It is a key factor in the overall competitiveness of Ireland as a place to do business.</p> <p>Taxation measures that will impact on the development and decision making of SMEs over the next decade include:</p> <ul style="list-style-type: none"> • KEEP -Attracting and retaining talent • EIS – Risk capital for start-up innovative companies • CGT Entrepreneur’s Relief – impacting on location of mobile investment and entrepreneurship 	
<p>10. Driving Entrepreneurship – targeting under-represented sources of founders</p>	<ul style="list-style-type: none"> • Enterprise Ireland Female Entrepreneurship Unit was established in response to an underrepresentation of women entrepreneurs in Ireland. • Our purpose is to support ambitious women entrepreneurs to launch and grow High Potential Start-Ups, and to address the key challenges facing women in start-ups 	

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	<p>https://www.enterprise-ireland.com/en/Start-a-Business-in-Ireland/Startups%20led%20by%20Ambitious%20Women/</p>	
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Please also provide an organizational chart and a flow chart outlining engagement process with customers/clients.



Irish Enterprise
Development &
Applied Research



World-Class Research



Foreign Direct
Investment

Submission No. 27

Suggestions on changes to various aspects of public policy which would assist SMEs.

Joe Hogan, September 2018

Audience: Seanad public consultation committee on fostering and sustaining the Irish SME sector

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BACKGROUND

I would like to submit some suggestions on improvements to public policy which will help SMEs in Ireland. By way of background, I am the founder of Openet, an Irish telecommunications software company, which I founded in 1999.

Openet has been building high-speed decisions systems for mobile telecom networks for the last 20 years and has over 90 mobile operators as customers worldwide. We're headquartered in Parkwest Business Park, Dublin and have 800 people working in the business with just under 300 of those working in Ireland, and the remainder working in Reston (Virginia), Kuala Lumpur (Malaysia) and San Paulo (Brazil). As such, Openet is one of Ireland's largest indigenous software company's. As part of our development, we have raised four rounds of venture capital and expanded the business to address the needs of mobile companies as they look to address the emerging opportunities of 5G mobile networks. We have also acquired two other Irish software companies and merged them with our business during the course of our history.

I am also active in the business community in Ireland and am particularly interested in helping start-up SME companies survive to grow to scale. I am a board member of a number of other companies and have been actively involved in the government's Springboard initiative since 2010, the IBEC Technology Ireland board since 2017, the Department of Educations' Digital strategy for schools since 2016.

My linked-in profile is <http://www.linkedin.com/in/joe-hogan-16752b/>

MENTORING FOR SCALE INITIATIVE

In 2015 I co-founded, with Niamh Bushnell (then the Dublin Start-up commissioner), an initiative called Mentoring for Scale, which is specifically focused on having experienced entrepreneurs give advice to first time entrepreneurs. The program has been running for four years, it meets once per month, in private, with about 15-20 start-ups. The group is low profile, but the mentor panel includes people who own and run large businesses and in many cases are themselves on their 3rd or 4th successful start-up. The program is now run in conjunction with the DCU Ryan Academy in Citywest, and we filter start-ups to make sure that they actually have operations – and are making some money, before we bring them onto the panel of start-ups to which we will give regular advice. At any one time we have about 30 start-ups on our panel – which we are helping.

The reasons why start-ups fail – in my direct experience are:

- Their business model is not viable
- Lack of investors
- They are building a product that doesn't actually have a market
- The start-up team breaks up
- Technical product issues
- They cash-out
- Ignore customers feedback

- Hiring mistakes – their current team needs a makeover
- Inexperience of leadership

EI gives great support to start-ups through the CSF and HPSU programs but nothing substitutes for getting direct access to experienced entrepreneurs. Having an experienced entrepreneur hear your story and challenge you in a safe, private environment allows the start-up founders discuss issues, which in general – they would never discuss outside their business. The advice is direct, and all advice is with a motivation to making the business ten times bigger. Over the last four years we have materially helped many start-ups to avoid making many of the mistakes that we ourselves have made during our own start-ups.

What makes mentoring for scale different from some of the other start-up programs is the following:

1. We are not judging them nor are we investing anything other than time into making them successful. This is what I call a green jersey activity.
2. We meet the same start-up several times per year to track their progress.
3. There is a sufficiently broad panel of mentors that the advice can vary and the start-up founders gets exposed to several experienced entrepreneurs as part of the program.

Suggestions

1. EI should track and monitor the start-up community more actively.
 - a. Right now, there are many start-ups which don't approach EI or have not been successful in CSF or HPSU programs and are continuing to operate outside of EIs help.
 - b. EI does a great job, but there is a blind spot in terms of the SME market at the very early stages. Some start-ups begin operations with little to no support from EI and only connect with EI later. It would be good if EI deliberately collected and maintained the 'national start-up register' for the country in co-operation with someone like techireland.ie who already maps out the space in very fine detail.
2. EI should appoint a start-up commissioner for every major city and large town
 - a. There are direct benefits for their being, for example, a Drogheda Start-up commissioner, or a Dundalk Start commissioner. It may appear to be overkill – but someone working fulltime on helping start-ups would be a major boost.
 - b. A mentoring for scale type program should be started in every town - where local business people can take time out of their busy lives to support local entrepreneurs. The theme – '2nd timers helping 1st timers'. The 2nd and 1st timer do not have to be in the same industry and it works best when they are not – as they focus on the business issues rather than industry specific issues. For example, a cash flow problem is a cash flow problem no matter what industry you are in.
 - c. Mentors should not be paid – this is a green jersey initiative, but the start-up commissioner should have the budget to rent hotel conference rooms in central locations and provide a buffet breakfast/lunch. This is what we have been doing, for four years and it works.

STRATEGIC TARGETED CLUSTER BUILDING

I am on the advisory board of SportsTechIreland.com – an organisation founded in Limerick by Limerick people to drive the promotion of Ireland as a location for sports tech companies. Worldwide there are many sports tech companies and SportsTechIreland.com would like to have Ireland seen as having a particular focus on building an ecosystem here in Ireland where sports tech companies specifically come to Ireland because of the cluster of sports innovation and technology here. This is an initiative setup by Matina Skelly, Emily Ross and Grainne Barry. They do not get paid for running it (very similar to my Mentoring for Scale program), it is again social entrepreneurship to help the economy and in particular help Limerick – the destination of choice for sports tech companies coming to Ireland.

In Ireland we have opportunities to specifically build more clusters, not driven at the macro government level, but by industry within their industry.

Suggestion:

1. Have EI look at whether there are opportunities to partly fund initiatives like SportsTechIreland.com, where very specific verticals are targeted and that targeting also involves picking a location where these companies may cluster – whether they are FDI based companies coming into Ireland or Irish start-ups.
2. Have EI fund companies more significantly if they are in the cluster geographies, which are designated. So a sport technology company will get an extra 50-100k of funding if they are actively based where EI would like to drive a cluster creation.
3. For each industry – get the industry to identify which narrow clusters should be created – and provide advice to EI on which cluster they should be creating where, and why.

BANKS

It's common knowledge that banks don't lend to SMEs. This has been the case for many years now. With the banks recently in receipt of public funds, they should be firmly held to account for their lack of action in supporting SMEs. Running 'we are lending' advertisement campaigns is cynical when they are in fact not lending to SMEs at all.

Suggestions:

1. The CSO should be asked to collect information on when an SME receives a loan or is refused a loan from a bank. SMEs should be given the opportunity to document their local refusals on a special website, where they can report which bank refused which loans and on what basis. The government needs to be able to measure a problem before they can fix it – and using a reporting mechanism to measure how the banks are behaving would be useful. Once the report is verified, the SME should receive a small payment for making the report.
2. The information should be verified and then public reports made as to which banks are the best at supporting local business.
3. Larger businesses should be encouraged to only support banks which support smaller businesses – and this information can be provided by the loan reporting website and

through the media. Banks will listen if their bigger customers hold their banks to account for inaction.

4. Personal guarantees are a business prevention mechanism by banks to limit the number of loans and exposure they have. This is not the case in many European banks. Personal guarantees should be reviewed with an objective of removing them as an acceptable form of guarantee for business loans.

TAX INCENTIVES

The UK are running rings around Ireland with the incentives that they are offering for start-up founders. These incentives may be seen, by some, as the cosy middle class looking for a new way of reducing their tax obligations. However the risks of starting your own business should be balanced by society's appreciation that the creators are acknowledged for having done what few people have, by starting a business and employing people.

Suggestions

1. Match the Northern Ireland incentive schemes when it comes to reducing the amount of CGT that a founder pays if they sell some or all of their business. Start-up founders that make money – go on to start other businesses with that money. Collecting lots of tax revenues in the form of CGT on company sales, is completely counter productive to the affects we want – which is an explosion of wealth creation as a result of 2nd timers self funding start-ups
2. CGT at 30% is absolutely crazy - it needs to be very heavily reduced. The Department of Finance needs to be a lot more strategic with CGT and make a major corrective move in the rate as it will only have a positive affect on SMEs.
3. There should be specific taxable relief for investing in an Irish start-up. I have invested time and money in various start-ups and get no relief or acknowledgement for the risks I have taken to build a business, which while making a return for me (maybe), also has a very positive societal effect in terms of employment.

EDUCATION OF LEADERSHIP TEAMS

It is not EI's job to educate business leaders, but EI has ran the leadership for growth program at Stanford, for CEOs of EI HPSU companies, which was considered a huge success by ever CEO who went on the program. Start-up founders can be below the HPSU (high potential start-up) threshold, and yet they need specific education on the aspects of running a business which have real day to day issues which are generally not discussed in business courses/MBAs.

Suggestions

1. Government/EI should consider, running quick snapshot business programs in large towns/cities
 - a. This is not a MBA from EI! This is a program to give a quick snapshot on SME issues to business leaders in areas of leadership, financial planning, fund raising, scaling internationally, patenting inventions, employment law in Ireland and other European countries, and other areas, which are important to any entrepreneur.
 - b. It is very surprising the number of SMEs who have major deficits in these areas – and taking a business degree could be seen as a long path to getting the information which is needed, where focused sessions get straight to the point in question and both educate and warn SMEs of the need to consider the area in question and be prepared.
2. If attended, the attendance of these courses should be a factor in whether the business should receive further funding support from EI
3. EI should make available to companies; the business cases studies of major business schools such as Harvard Business School, Stanford, IMD and Insead. I attended Harvard Business School every year and their business cases studies are very valuable to help avoid the problems which have occurred in various companies and which are subject to business case write-ups.

EI USING THE BUSINESS COMMUNITY FOR ADVICE

Back in 2010, the government started the springboard jobs initiative <https://springboardcourses.ie/> to help cross train people with a third level degree in one area, where they could not get a job, into another area where they could. The funds involved were substantial with a budget in the €30m range annually. My company was asked to participate in the review panel to determine which courses got funded, because of the full range of courses ran under springboard, at least 30% were related to IT/Tech. For the last seven years, my company has had it's "national service day", where we wade into 300+ applications and try to help the Springboard group to identify which courses should and should not be funded, using our deep industry knowledge of the technologies involved and their relative usefulness in getting a job.

Suggestion

1. I believe EI should setup more industry forums. They currently have a CEO and CFO forum, and IBEC run a HR forum, but there is significant opportunity for EI to have a series of formal

industry advisory councils where they are advised on a regular and formal basis, of the dynamics that relate to one industry and what should be done to aid companies operating in these areas.

2. When it comes to funding PPPs EI should consider having independent panels to review the applications and decide whether funding should be given, as those with industry experience will know whether the proposed PPP has a particular merit.

APPRENTICESHIPS

For some industries, such as the software industry, there are significant challenges in recruiting experienced people because of the extreme competitiveness of the local employment market. One of the objectives of the government Solas agency, is to drive apprenticeships so that school leavers are aware that there are apprenticeships in industries which normally have never had apprenticeships. It will be important for the health of SMEs into the future that they make more deliberate efforts to embrace and invest in apprenticeships in areas where they did not exist previously.

My own business hired 14 graduates straight from college this year, they have just started in our business. However, we have also, through the FIT (Fast track to IT) program hired three apprenticeship programmers. There is a stigma to apprenticeships, which is a societal problem, where doing an apprenticeship is considered a recognition that you didn't have enough CAO points to go to college – whereas it may be a deliberate choice to enter the workforce earlier and be specifically trained for an industry rather than getting a broad 3rd level education in a discipline.

Suggestion:

- EI should specifically support SMEs which are at scale (not start-ups) to offer apprenticeships – as to my knowledge, there are none available.
- Government should put more weight behind the Solas program to actively market the existence of apprenticeships in non-traditional industries and confront head-on the societal stigma that apprenticeships are just for plumbers and builders. This could be done through an extensive advertisement campaign aimed at school leavers and those in employment who want to switch careers.

LACK OF RURAL BROADBAND STUNTS THE GROWTH OF RURAL BASED BUSINESS

As I have said in the opening section, I work in telecommunications systems and have been thinking about the approach Ireland should be taking to solving the rural broadband problem. One of the issues with connecting homes in rural locations is the effort required to trench every small road in Ireland to connect homes to the internet – the cost of which is very substantial. This issue directly affects the establishment of rural businesses, as they may have very limited broadband available.

Suggestion:

Instead of proceeding with a traditional broadband roll-out which could take years, we should be considering providing rural broadband from low earth orbit. There are several companies like Viasat and Dish who may be able to provide this service – and it would mean that we just need to send out a satellite broadband box, where the traffic is sent up to a mesh of satellites rather than down a fiber line. I don't know if this option has been considered for the scale of what is needed, but if it is viable, it would allow for a much faster rollout of the rural broadband service.

LACK OF EXPERIENCE ON SME BOARDS

EI should not support any business, which does not have

1. A properly constituted board
2. At least two independent directors, which are experienced in the area of operation.

Too many businesses suffer from having limited experience on their boards.

Suggestion

EI investment policy for SMEs should require the two points above to drive an experienced and capable boards across the SME sector.

Other aspects of SME board composition, which should be guided against by EI, if an SME wants state funding, are:

- No family members on a EI funded board. Some private companies load the board up with family members and after several years, they are still there adding very little value.
- At last 50% of the board should be international as there is little point in claiming to be an internationally focused company with an all Irish board.
- 50% of board should be non-executive, non-VC directors, from within your industry in your target markets.

USE OF VENTURE CAPITAL FOR FUNDING

- a. There is a view that taking VC money is not a good route to success, made popular by a small number of privately funded success stories. Bottom line is that, if you want to grow a company to scale quickly, you need to take VC investment, and a lot of it (more than you need), early in the cycle. It is far more effective to load up on VC capital early, rather than trying to explain to investors at year 7 that your 30 person company needs 5m euros investment. So the message is to take lots of money early, and get very used to dilution early.
- b. Many companies execute an organic approach to growing their business, from operating profits, or using the resources of the principals to fund the business. They may have good business ideas, and may already be executing the plan to develop the product and expand the customer base but this organic approach to revenue building allows these companies to be overtaken by larger companies prepared to invest more deeply (with VC cash) into their target markets. I have seen this many times. In these cases, smaller, less invested but domain competent companies get acquired for small money

Suggestion:

Leadership teams of smaller SME companies appear to have a weak understanding of finance options open to them and where to get these sources of funding

Debt, Venture debt, Straight Venture Capital, invoice discounting

Government should prepare information to make these options more understandable to companies.

RE-ENVIRORATE THE USE OF STOCK OPTIONS TO ENCOURAGE LOYALTY OF STAFF MEMBERS TO THEIR SME

Remarkably, there are many SMEs which are too closely held and do not share the stock frequently with their staff, resulting in very little loyalty with staff members. Often, founders and maybe one investor own the business with little staff participation. In my view, at least 10% of the fully diluted stock of the company should be issued in the form of stock options to staff members. In my own business we went out of our way back in 1999 to structure the business like this and it has stood to us.

The reality is that stock options engender a degree of loyalty by staff members. The stock options approach also gives a degree of senior staff stability, tribal knowledge retention and long reach vision execution which is difficult to do when there is significant staff turnover in senior staff.

Suggestion:

- Have the Department of Finance review the tax code to make the ownership of stock options in ordinary SME companies a much more normal mechanism of sharing wealth creation and ensuring that as an SME grows, it retains it's key personal.
- Currently stock options are taxed at income tax rates – this should be reviewed to make them much more attractive a scheme to run in ordinary businesses.



Submission No. 28

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Senator Pádraig Ó Ceidigh
Rapporteur
Public Consultation Committee on Small & Medium Sized Businesses.
Seanad Éireann
Kildare Street
Dublin 2

11 September 2018.

Dear Senator,

As an entrepreneur who has grown a company from 2 to over 600 people, I am pleased to make the following submission to the committee.

The establishment of a public consultation on the issues facing SMEs is both timely and long overdue. Over 98% of all businesses in Ireland are small. They employ well over 1 million people. Some 70% of the working population – those employed in private industry and in businesses – work for small or medium-sized interests.

While this is important for our cities, it is even more important for the long term survival of our rural communities. Despite the best efforts of IDA Ireland, it is difficult to persuade large multinational companies which like to cluster with their competitors, to establish in rural areas. However, successful Irish owned companies can grow to become substantial employers in their native counties.

Netwatch Group which we established in Carlow in 2003, is now one of the largest employers in the region. In addition to direct employment, we support many local enterprises, who supply our company with goods and services. We also support many local charities, schools and sporting organisations, bringing life to the wider community in which we are located. Loughrea (Chanelle Pharmaceuticals); Tralee (Kerry Group), Burnfoot, Donegal (E&I Engineering), Galway (Smyths Toys), Cavan (Kingspan) are just some of the rural locations benefiting from the endeavours of successful Irish entrepreneurs.



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Infrastructure

We are fortunate that Carlow has a good road infrastructure and excellent broadband facilities, making it easy for us to maintain our headquarters in Carlow as we grew globally. However, one of the greatest challenges encountered by Netwatch during our set up was the unavailability of broadband outside Dublin. While this has improved here in Carlow, many rural communities still do not have access to resilient broadband, which is the most basic requirement for any company operating today.

Investment in infrastructure, and the roll-out of the National Broadband Plan (NBP) by Government, which has pledged to roll out high-speed broadband to 540,000 rural homes and businesses, must be completed without delay. If the Government does not succeed, we risk creating a two tier society whereby those living in rural areas are left behind - due to a lack of viable businesses in rural areas and due to their inability to access the benefits of the digital economy.

According to the Consumer Market Monitor, published by the Marketing Institute of Ireland and UCD Michael Smurfit Graduate Business School, some €5 billion was spent online by Irish consumers in 2017. With an estimated 60% of that spend going overseas, and just 14% of SME's with an ecommerce capability¹, the availability of broadband, together with continued supports to enable SMEs to establish digital businesses must remain a priority.

Supporting Innovation

Netwatch is one of the largest providers of proactive monitoring services specialising in providing risk management, business continuity and security services to clients across the world. We were the first company to use the then emerging internet based technologies to provide real time security monitoring services. Innovation continues to lead our company and today we protect hundreds of thousands of customers across the US, Europe, Middle East and Africa. Our network of six global

¹ IEDR Research Report, October 2017



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communications hubs are connected by CRATOS, a technology platform developed by the Netwatch R&D team in Carlow.

Not all SMEs have the resources to undertake this level of R&D investment, however continuous innovation is critical to compete in international markets and we need to see more indigenous companies putting R&D at the heart of their businesses. The R&D tax credit scheme which has been skewed towards multinational companies must become easier for SMEs to access.

Financial Supports

I left secure employment and took a risk in establishing Netwatch. The demand for personal guarantees from banks and financial institutions was a significant issue. I did not want to risk my family home, but without providing such a guarantee I could not access the finance I needed to start the business.

This is one of the biggest barriers for many people considering starting a business. Banks in the US, Germany, France and the UK operate a different funding model and are more aligned with the Entrepreneur to support what they are trying to achieve. A financing mechanism that removes the need for personal guarantees would be very significant in terms of encouraging more people to become self-employed and ultimately lead to more jobs being created.

Separately, the lack of supports for entrepreneurs should their business fail is a huge restraint on many people taking the leap to self-employment. The very limited support available in terms of unemployment assistance and other benefits is shocking. It makes a mockery of the Government's stated ambitions to create an entrepreneur led economy.

The current rate of Capital Gains Tax is penalising risk-taking entrepreneurs who have contributed to Ireland's economic success by creating valuable direct and indirect employment and have spent a lifetime building a business often at huge personal cost. Newry is only a few miles from Dundalk but the tax burden placed on a Dundalk Entrepreneur selling his or her business is far greater than their Newry counterpart. This is wrong and needs to be rectified.

Agency Support

In Enterprise Ireland, Irish SMEs who wish to export and grow into new markets have a fantastic resource. The calibre of executives in Enterprise Ireland is second to none. Their dedication to their client companies is superb and Netwatch has benefited from the deep expertise and knowledge within Enterprise Ireland as we grew our presence in the UK and US markets.

For companies with fewer than 10 employees the Local Enterprise Offices, now part of Enterprise Ireland, provide important state supports and expertise. Again, the executives in the Local Enterprise Offices can play a key role in supporting these entrepreneurs and business owners.

However, if you are an Irish SME with more than 10 employees, and are not export oriented you are in limbo, being unable to access support from the LEOs or from Enterprise Ireland. This gap needs to be filled so that these companies can be supported to grow, create employment and perhaps move into exports.

These are some practical issues which can be easily addressed by Government to help support small and medium enterprises in Ireland.

Developing an entrepreneurial culture

To move to the broader topic of 'Entrepreneurship': There has been much commentary on the over-reliance of the Irish economy on multinational and global corporations and of the need to develop and support a strong and vibrant SME sector.

As Taoiseach Enda Kenny, TD stated in 2014: 'As we move into a period of economic growth following one of the darkest periods in the history of the State, entrepreneurship has never been more important to the country, its people and its future. Home grown business ideas that display innovation and creativity will enable us to grow jobs, challenge for market share and demonstrate our ability to adapt in an ever more challenging global economic climate'².

To achieve this, we must first create a culture where entrepreneurship is feted and celebrated; where self-employment is seen as a career goal in its own right and where

² National Policy Statement Entrepreneurship in Ireland 2014



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failure is supported so that people are encouraged to take risk - whether that risk is within an existing company or in setting up a new company.

This last point is most important. To suggest that entrepreneurs are only those people who start their own company is a very narrow definition of entrepreneurship. One of Ireland's greatest entrepreneurs - Michael O'Leary, didn't establish a company. Rather he brought his entrepreneurial acumen to an existing business and created the most successful airline in the world.

In my view, as we enter a world where our children will be working in jobs not yet created, and where they can expect to have 3 or 4 different careers in their lifetime, we need to look at developing an **entrepreneurial mind set**. Marin Lackéus³ states: *"This is at the core of entrepreneurship and it is also a competence that all citizens increasingly need to have in today's society, regardless of career choice. Creating new organizations is then viewed as one of many different means for creating value"*.

Four years ago the Government launched a national policy statement on Entrepreneurship in Ireland which singled out the education system as having a critical role to play in promoting a *national spirit and culture of entrepreneurialism*⁴. While the inclusion of a module on entrepreneurship on the Junior Cycle in secondary school is welcome, and programmes such as Junior Entrepreneurship and YES are fantastic in terms of showing young people that they can consider self-employment as a career option, if we are to succeed in developing a true entrepreneurial culture we need to embed entrepreneurial education into our formal education system from primary school onwards.

That means developing a 'learning by doing' curriculum in primary schools that fosters an entrepreneurial mind set - creativity, curiosity, teamwork, resilience, problem solving and proactivity - in our young people as well as a desire to add value or do good for others.

³ OECD Report: Entrepreneurship in Education, What, Why, When, How. Entrepreneurship360 Background Paper. Martin Lackéus, 2015.

⁴ National Policy Statement Entrepreneurship in Ireland 2014



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Developing an entrepreneurial mind set provides individuals with a new way of thinking, flexibility and adaptability, and to become more open to opportunity - whether in becoming self-employed or becoming innovators in the organisations in which they work. We have to support our teachers and lecturers in doing this, giving it as much emphasis as on STEM education.

Establishing a National Sales Academy

The life blood of any company is its ability to monetise its product or service. The ability to sell is a unique skill that needs to be taught on a formal basis in our secondary schools and third level institutions. Too often I hear people saying 'sure everyone loves Ireland and with our gift of the gab we can sell anywhere'. That attitude is doing a disservice to Irish SMEs and holding them back from going global. Selling to large multinational companies is complex. Selling is a science and it needs to be viewed as such. I strongly believe that we need to formalise sales training for our undergraduates so that all students - whether engineers, commerce graduates, arts or science graduates - have the ability and confidence to be fantastic sales people when they leave university. It is for this reason that I have been campaigning for the establishment of a National Sales Training Academy.

I would welcome the opportunity to meet with the Committee and participate in their important deliberations on the challenges and opportunities for SMEs in Ireland.

Yours sincerely

David Walsh

CEO

Netwatch Group

Create a culture for start ups

Create an environment that it's easy to set up business and support at hand to get through the set up and red tape involved

Incentivise the tax system for entrepreneurs to make it worth their while taking the leap

Mentoring support

An easy visibility to funding and support, there are so many bodies and its difficult to see where one should start

A gap analysis for new entrepreneurs so for example I was a technical person and weak on finance so a key support gap for me was that area

Support on sales and growth

More local support and funding to prevent a lot of travel

Address the poor level of female confidence and empower more women from an earlier age in their career

Create more role models for women to make it the norm that females can be successful entrepreneurs

Give greater recognition to businesses in more remote locations who are accepting lower margins to survive there

Help more rural areas to develop business networks as some areas have none

Evelyn O'Toole

(Chief Executive Officer)

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TRADEMARK

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To:

The Seanad Public Consultation Committee

We respectfully request the opportunity to contribute to the hearings on the challenges facing the SME sector and specifically on the challenges facing the Cooperative SME sector. We have significant experience in the Cooperative SME sector in offering advice and guidance to business start-ups and in lobbying for legislative and institutional changes including:

1. Presentation to Oireachtas Committee on Jobs and Innovation Dáil Éireann (<http://www.oireachtas.ie/viewdoc.asp?DocID=21750&&CatID=127>)
2. Meetings with Forfás, Ireland's policy advisory board for enterprise, trade, science, technology and innovation on Cooperative development and its relationship to Social Enterprise
3. Meetings with Co-operative Legislation & PIAB Liaison Unit, Dept of Jobs, Enterprise & Innovation to discuss the Bill on Industrial and Provident Societies and submission of new 'Model Rules' for worker cooperatives with the Registrar of Friendly Societies.

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1. Consultation and networking meeting with Bruno Roelants, General Secretary of CECOP The European Confederation of Cooperatives and Worker Owned Enterprises active in Industry and Services.
2. We have secured through lobbying the inclusion of a specific category in the new IPS legislation a specific category for 'Worker Cooperatives.

In order for the Cooperative SME sector to develop, it must be supported by adequate legislation and access to finance. We would greatly appreciate the opportunity to outline to the committee the key challenges and opportunities relevant to our sector

We look forward to the opportunity to speak to the committee.

Yours

Dr Stephen Nolan

SEANAD PUBLIC CONSULTATION COMMITTEE
SMALL AND MEDIUM SIZED BUSINESS IN IRELAND
Response to Public Consultation Notice

Submission No. 31

Introduction

As Minister for Business, Enterprise and Innovation, one of my main responsibilities is to drive the development of indigenous enterprise through ensuring a progressive business environment. Micro, small and medium sized enterprises (SMEs) are a major contributor to the Irish economy, accounting for 99.8% of all businesses and for 68.4% of those engaged in the business sector¹. I am keenly aware of the importance of fostering the growth and sustainability of Irish SMEs. I have ongoing dialogue and engagement with SMEs and their representatives. My Department's supports for SMEs include access to finance, management development, mentoring supports, business development programmes, market supports and trade promotion, in addition to a range of progressive regulatory and oversight functions. The agencies and offices under the aegis of my Department that work directly with SMEs include Enterprise Ireland, IDA Ireland, Local Enterprise Offices, InterTradeIreland, Microfinance Ireland, the Companies Registration Office, Registry of Friendly Societies, National Standards Authority of Ireland, Workplace Relations Commission and the Labour Court, Science Foundation Ireland, the Patents Office, Office of the Director of Corporate Enforcement, Competition and Consumer Protection Commission and the Health and Safety Authority.

Information and observations

My Department take the lead in ensuring a whole of government approach to creating a high-quality business environment for SMEs, through legislation, regulation and supports. We work intensively with other Departments to ensure we meet the development and competitiveness needs of SMEs in all sectors. The comparative attractiveness of the business environment for Irish SMEs is measured in the European Commission's Small Business Act (SBA) Factsheet². Since 2008, Ireland has made substantial progress in implementing the EU's SBA policy roadmap. Ireland performs above or well above the EU average in eight of the SBA's principle areas including entrepreneurship, responsive

¹ Central Statistics Office, [Business Demography 2016](#)

² European Commission, [SME Performance Review](#)

administration, public procurement, access to finance, single market, skills and innovation and internationalisation.

Enterprise Ireland

To drive sustainable job creation among our SMEs, the policy focus of Enterprise Ireland (EI) is centred around the key areas of regionally balanced enterprise development, driving competitiveness and export diversification, and supporting the innovation and R&D agenda of firms.

Enterprise Ireland's funding in 2018 is c. €133 million to support a range of enterprise development initiatives. In 2017, 209,338 people were employed by the 5,000 companies that EI supports. Regional development and Brexit are significant components of our SME supports and feature strongly in the Action Plan for Jobs and the Regional Action Plans. I am committed to transforming the enterprise capacity of all regions. My Department, through Enterprise Ireland has rolled out a €60 million Regional Enterprise Development Fund (REDF) for new regional initiatives in the areas of entrepreneurship, clustering, innovation hubs and other enterprise infrastructure to incubate and grow new startups and to deliver new job creation projects.

Enterprise Ireland's Research & Innovation budget for 2018 is €122 million. This funding provides direct and indirect research development and innovation supports for indigenous companies. Innovation Vouchers worth €5,000 encourage SMEs and public knowledge providers to work together on specific innovation projects. In 2017, a new Agile Innovation Fund was introduced which allows companies to access up to 50% in support for a project with a total cost of up to €300,000. Other RD&I financial supports have been enhanced in 2018 including technical feasibility and IP Strategy.

I am highly focused on the critical need to protect the 100,000 jobs in the 1,500 EI companies exporting to the UK that are highly exposed in the wake of Brexit. Many of these companies are significant employers in regional and rural areas throughout Ireland, and the majority are SMEs. The long-term response to Brexit is for companies to become more

competitive, more innovative and to diversify their export footprint into more markets, and EI are actively supporting SMEs to achieve this. As of mid-2018, 85% of EI Brexit exposed firms are reporting they are taking some action to deal with challenges posed by the UK decision to leave the EU.

Local Enterprise Offices

The 31 Local Enterprise Offices (LEOs) provide a first point of contact for all enterprise related enquiries nationwide. I am fully supportive of their work with entrepreneurs, promoters, businesses and other relevant stakeholders in order to foster and sustain a culture of entrepreneurship. The LEOs also strive to create and maintain client centred business networks, and assist in developing progression pathways to Enterprise Ireland's High Potential Start Up (HPSU) and Established Industry Departments. The LEOs run the Ireland's Best Young Entrepreneur Competition which has a €2 million Investment Fund and is targeted business supports on offer to help young entrepreneurs turn their business idea into a reality.

The LEOs are the first-stop-shop for advice and guidance, financial assistance and other supports for those starting or growing their business. The LEOs offer direct financial assistance to microenterprises in the manufacturing and internationally traded services sectors which, over time, have the potential to develop into strong export entities. The LEOs also offer soft supports to micro and small businesses in the form of training and mentoring, and a signposting service to other relevant state supports. The funding allocation for the LEOs in 2018 amounted to €32.9 million, which comprised capital expenditure of €22.5 million and current expenditure of €10.4 million.

Other supports for SMEs

The Design and Crafts Council of Ireland (DCCOI) is the national body for the commercial development of Irish designers and craft makers, who are operating in every corner of the country and is supported by my Department.

The National Standards Authority (NSAI) of Ireland help and support SMEs by developing standards for the Irish and international marketplace, responding directly to SMEs needs. NSAI provides certification services, and upholds and enforces accuracy and transparency in trade measures.

Science Foundation Ireland (SFI) is the Irish government's largest competitive funder of scientific research in Ireland. Over 160 SMEs have engaged with the SFI Research Centres through collaborative research agreements. SFI and EI work together to build and strengthen the pipeline of spin-outs, which are SMEs, from academic research.

Access to Finance

Finance is the lifeblood of SMEs at all stages of development. One of my top priorities, and that of the Government, is to ensure that appropriate finance is easy to access for all businesses, be they startups, growing or more mature SMEs. My Department is leading, in conjunction with the wider Government, on providing a variety of financial supports to suit the needs of Irish SMEs. Some of the key supports are as follows:

- The Brexit Loan Guarantee Scheme was launched in March 2018 with a fund of €300 million and operated by the Strategic Banking Corporation of Ireland. By the end of September 2018 over 200 firms had successfully completed the eligibility requirements to participate in the Scheme.
- The Credit Guarantee Scheme encourages additional lending to SMEs by offering a partial Government guarantee (currently 80 percent) to banks against losses on qualifying loans to SMEs, which to end of Q2 2018 sanctioned facilities of €93.4m.
- Microfinance Ireland was set up to provide loans to micro enterprises who have been refused bank finance and as of end of Q2 2018, MFI has lent €25.4 million, supporting 4,277 jobs.
- The EI Seed and Venture Capital Scheme was established to increase the availability of risk capital for SMEs. As of 2018, EI has committed €510 million, which has raised a total of €1.19 billion in Seed and Venture capital funding.

Some Key Challenges for SMEs

Through my engagements with the SME sectoral representative bodies, and directly with businesses, I am well aware of the challenges facing small and medium enterprise at this time. Research by my Department has shown that there are reasons to be concerned about the levels of productivity in our SME base in Ireland, not just in comparison with the multinationals, but also that a small number of frontrunners firms are outperforming the broader base of SMEs.

The presence of leading multinationals in Ireland provides an opportunity to increase levels of collaboration with SMEs to boost productivity in the wider economy, in particular for access to supply chains and management and technology processes of the multinationals.

I am also aware that we continue to have an investment gap in the SME sector, with an over-reliance among SMEs on retained earnings for investment. I am taking a number of steps to get the message out about the range of finance options for SMEs and to promote greater take-up of the alternative forms of finance available in Ireland, including my Department's SupportingSMEs.ie toolkit, to get investment levels up to those of SMEs in other European countries.

Access to talent in a competitive labour market mean SMEs are often struggling to adapt to more efficient ways of working, latest technologies and having the ability to innovate and grow. Through the Expert Group on Future Skills Needs, which operates under the auspices of my Department, I am engaging with the education and training sector to ensure we have the skills needed for the future. I have also recently published the review of Ireland's Economic Migration Policy to ensure we address skills gaps through migration where appropriate.

Finally, I remain vigilant as to our overall competitiveness and on the cost of doing business for Irish SMEs. My Department supports the work of the National Competitiveness Council and I am acutely conscious of the need to ensure sustainable productivity and wage growth, and to retain our competitiveness in key cost areas of insurance, rates, personal tax, rent and utility costs.

A Strategy for SMEs

Building on the Government's national enterprise policy, *Enterprise 2025 Renewed*, I have decided to develop a dedicated SME strategy. I have invited the OECD to support this work by undertaking a review of SME and Entrepreneurship Issues and Policies in Ireland. I launched this review with my colleague Minister Breen and the OECD Secretary General, Angel Gurría on 8 March 2018 and it will be completed in 2019. Other countries such as Canada and Italy have used the analysis and work completed by the OECD to successfully direct effective policies to aid their own SME sectors. The key review objectives are to provide an assessment of current SME and entrepreneurship policies and programmes, strengthen policy design and implementation through recommendations and dialogue stimulation, including through a policy roadmap, and provide international comparison of successful SME and entrepreneurship policies. I will use the OECD's recommendations to form the basis of an SME Strategy for Ireland.

Conclusion

Ireland has a strong and burgeoning SME base, which compares well with their international counterparts in terms of entrepreneurship and innovation and our business environment for SMEs also compares favourably overall. However, there is room for improvement and I want to ensure we have the most competitive environment for starting, growing and scaling SMEs. My Department and its agencies are at the forefront of supporting indigenous SMEs. I am confident that the OECD review and roadmap which I have commissioned will be of the highest international standard and will allow us to create a comprehensive, dynamic and explicit national strategy for SMEs for the coming decade.

Now is the time for ambition, to support Irish SMEs to grow and scale and to build the confidence of more indigenous SMEs to extend their reach throughout the world.

I welcome the work of the Seanad Public Consultation Committee on SMEs in Ireland and I would welcome the Committee's input to the Department for consideration as part of the OECD review.

Heather Humphreys TD

Minister for Business, Innovation and Enterprise