

Joint Oireachtas Committee on Enterprise, Trade and Employment

Martina Fitzgerald CEO, and Brian Caulfield, Chair, Scale Ireland

Martina Fitzgerald

Good morning, chair, members of the committee, clerk and the secretariat.

We are delighted to appear before the joint Oireachtas Committee on Enterprise, Trade and Employment at such an important time for the indigenous tech start-up and scaling sector.

This is my first time in Leinster House in over 4 years and I am here as CEO of Scale Ireland which is the independent not-for-profit representative organisation for Irish tech start-ups and scaling companies.

Scale Ireland was set up in late 2019 to support promote and represent the indigenous tech sector tech and it has an ambitious agenda and mission – to create the best conditions for start-ups to thrive and to make Ireland a leading location for innovation and entrepreneurship.

We are very clear that we want to ensure Ireland has the right conditions for entrepreneurs to start, grow and scale their businesses globally from here in Ireland.

This will benefit Irish society and the economy through new innovative solutions, and also through the creation of high quality jobs around the country and also through increased exports.

Before we look at the key issues raised by our recent State of Start-up survey for 2023, I would like to talk more about the sector here.

There are more than 2,200 indigenous tech start-up and scaling companies in Ireland, with almost 1000 situated outside of Dublin. In total more than 50,000 people are employed around the country in this sector and for every one job in a start-up, five more indirect jobs are created in the wider community.

Indeed according to Tech Ireland, there has been a significant expansion of the sector since 2017 with the number of innovation hubs around the country doubling since then. While the number of indigenous tech companies, and also the number of investors in Irish tech companies has increased threefold in the last 5 years.

The companies are situated around the country with a large number in Galway, Cork and Limerick and clusters in counties Waterford, Kerry, Clare, Kildare and Louth to name but a few. There are also regional tech hubs nationwide.

But these companies are all tech and export focused which underlies some of the key differences with traditional SMEs who also play a vital role in our communities.

The OECD noted that Ireland has one of the lowest ratios of exporters to total enterprise numbers in the EU, with only 6.3% of SME employer firms engaged in exporting activity. These findings were also highlighted in the report of the Government's SME Taskforce.

However tech start-ups are export focused from the beginning as the level of early stage investment for research and product development will require global markets.

The initial investment in research and product development also means start-up and scaling companies may not generate any revenue for several years and typically, have negative cash-flow in their early years.

And while there are exceptions, the majority of these companies will require a mixture of angel investors (including family and friends), state agency and VC investment to bring a product to market. So they are viewed as high potential and high risk by investors given the high failure rate.

Against this backdrop, Scale Ireland published its second national *State of Start-ups Survey 2023* in late February. Two hundred and forty eight tech start-up founders and CEOs completed the survey which gauged the sentiment of entrepreneurs on key issues.

The findings are very important to this committee's work as they set out the key issues facing leaders in this sector now.

More than half of the CEOs and founders surveyed (51.6%) considered funding to be their biggest challenge in 2022, up 5 points on last year reflecting the challenging investment landscape in the second half of 2022.

Despite job losses in the wider sector, recruitment and retention of staff was still the second biggest issue identified by founders – in fact 35% of start-ups found it more difficult to recruit and retain staff in 2022 – that's down from 2021. And while 40% of start-ups have lost staff in the last year, 22% of start-ups have let staff go.

In relation to attracting and retaining key staff – we believe further changes are needed to the Key Employee Engagement Programme - the share options scheme to ensure it meets its objectives of helping SMEs retain and attract staff.

And while we welcome that changes announced in the budget last year, clearly the low uptake of the scheme suggests more work is needed a view shared by the Government's White Paper on Enterprise.

On that note critically the uptake of state supports across the board remains unattractive.

83% of respondents to our survey are not availing of the KEEP share options scheme. Two thirds are not availing of the R&D Tax credit (which is similar to 2021). And 73% of those who availed or looked at availing of the Employment Investment Incentive Scheme (EIS) which is geared at incentivising more private investment

into start-ups, found the process difficult or not easy. Almost half (49%) of respondents found the R&D Tax Credit scheme complicated.

And the R&D tax credit scheme - which provides a refundable credit for R&D against corporation taxes - is very important for scaling tech companies. We believe that further changes which deliver the benefit of the credit more speedily to SMEs would enhance its attractiveness.

Separately Scale Ireland has also proposed a new tax credit (based on the R&D model) type scheme to incentivise companies to hire people who have lost their jobs recently.

Overall though, it is clear that many of these schemes not reaching their full potential - a view broadly supported by the *Commission on Taxation and Welfare* and the Government's *White Paper on Enterprise*.

We believe it is imperative that Revenue engages with the sector to look at ways to alleviate the administrative burden on companies trying to avail of EIS, KEEP share options and R&D tax credit schemes, while maintaining the necessary safeguards for the exchequer.

Otherwise any changes to these schemes won't have the intended consequence of benefiting companies.

The cost of doing business was also identified by 12% of founders who completed our survey as their biggest issue - up 3 points on last year with almost two-thirds saying inflation or cost of living issues had impacted their businesses.

So the issues facing start-up and scaling companies are clear as I hand over to the Chair of Scale Ireland Brian Caulfield for the remainder of our time.

BRIAN CAULFIELD

Thank you Martina – I have spent almost 30 years in this sector – as a founder, investor, and mentor for start-ups. I co-founded Scale Ireland to ensure the community had an organisation to support, promote and represent it as the issues facing the sector are very different to the general SME sector as Martina outlined.

The indigenous tech sector is also a very diverse sector with companies operating in enterprise and industrial solutions, fintech, e-commerce, Medtech, Cleantech, Agtech, security and the list continues.

As the leading representative organisation for the indigenous sector, we have welcomed a number of significant policy discussions in recent years – critically all recognise that tech innovation will play an increasing role in society and will be an important driver of our economic growth and resilience.

Last year saw the publication of the Commission on Taxation and Welfare Report, and also the Government's *White Paper on Enterprise*. We strongly welcome the targets the White Paper sets out for our sector. They include

-a 50% increase in the number of large Irish exporting companies by 2030;

-And a 20% increase in the number of high-potential start-ups by 2024.

We also welcome many of the Commission on Taxation and Welfare's recommendations to support the wider SME sector, and in particular the start-up sector.

The Commission also identified the difficulties faced by founders and early stage companies with limited resources, to avail of some of these supports – which again reflect the findings of our *Survey*.

In relation to our proposals, we welcome the invitation here today to discuss them with you, Chair, and the members of the Committee.

It is clear and not surprising given the challenging investment landscape internationally, that the most significant issue facing start-ups is securing finance. Scale Ireland is working with its sectoral partners in the Alliance for Innovation to make further proposals to address this.

Firstly, I want to say that Scale Ireland supports and acknowledges the considerable investment of public money through Enterprise Ireland and the Ireland Strategic Investment Fund, as well as state support for regional enterprise hubs and innovation in the third level sector.

Secondly we support all the major European initiatives to support start-ups including the European Commission's Start-up Nations Standards. Scale Ireland is also a signatory to President Macron's Scale-up Europe initiative and we strongly support EU Commissioner's Gabriel's New European Innovation Agenda.

In short, all of these initiatives acknowledge the increasing role of tech start-ups and scaling companies to the future of Europe and also set out roadmaps on how to achieve this, in terms of best practice regarding setting up a business, finance, visas, share options, red tape, diversity, regulation and supporting enterprise in our regions and in our third level institutions.

Ireland performs reasonably well in international comparison surveys, though there is increased competition in this sector across the European Union and globally, suggesting there is no room for complacency.

We also welcome the new 90 million euro Irish Innovation Seed Fund Programme (IISF) - announced by the government which will be supported by Enterprise Ireland, the European Investment Bank and the Ireland Strategic Investment Fund.

We believe it will play an important role for early stage start-ups when it comes into effect later this year. Enterprise Ireland's new Pre-Seed Start Fund has also been broadly welcomed by the sector. And finally, we welcome changes to the Employment Investment Incentive Scheme in recent years to incentivise further private sector investment into start-ups.

However the Commission on Taxation and Welfare report has detailed the complexity of this scheme and we believe further changes are needed - such as the introduction of CGT loss relief, and changes to the limits and periods of qualifying investments - that would make it more attractive to investors.

The scheme is comparatively uncompetitive relative to its counterpart in the UK which is being actively promoted here.

Separately it is also clear that there is a lack of funding available in the €3m to €10m space for scaling companies before they can tap into international capital markets. We will be making proposals in advance of the Budget in relation to this.

The Commission's Report also makes a number of interesting proposals around the Entrepreneur Relief Credit specifically with regard to making it available to a wider pool of investors including individual investors.

The White Paper contains a commitment to a review of Capital Gains Tax and we look forward to participating in that review.

Separately Scale Ireland has also proposed a new tax credit type scheme to incentivise companies to hire people who have lost their jobs recently.

We believe there is an opportunity to help these workers to continue to make a valuable contribution to Ireland's economic success and there is considerable merit in assisting those impacted by the recent redundancy announcements to direct their skills and experiences into the indigenous tech start-up sector.

And finally our recent survey suggested almost 70% of start-ups do not have a sustainability plan and we have consistently sought to address this.

Sustainability is becoming an increasingly important metric for investors, and climate tech is one of the fastest growing sectors. We have sought to bring the various supports available through state agencies to the attention of our companies. Nonetheless, as our survey indicates this remains very challenging and we are currently working on new proposals to address this.

Martina and I look forward to discussing these important issues with you and again, we welcome the invitation by you, chair and the committee to appear before it.

We believe that the feedback of our members is an important foundation for dialogue and the exchange of ideas at this committee at this critical time.