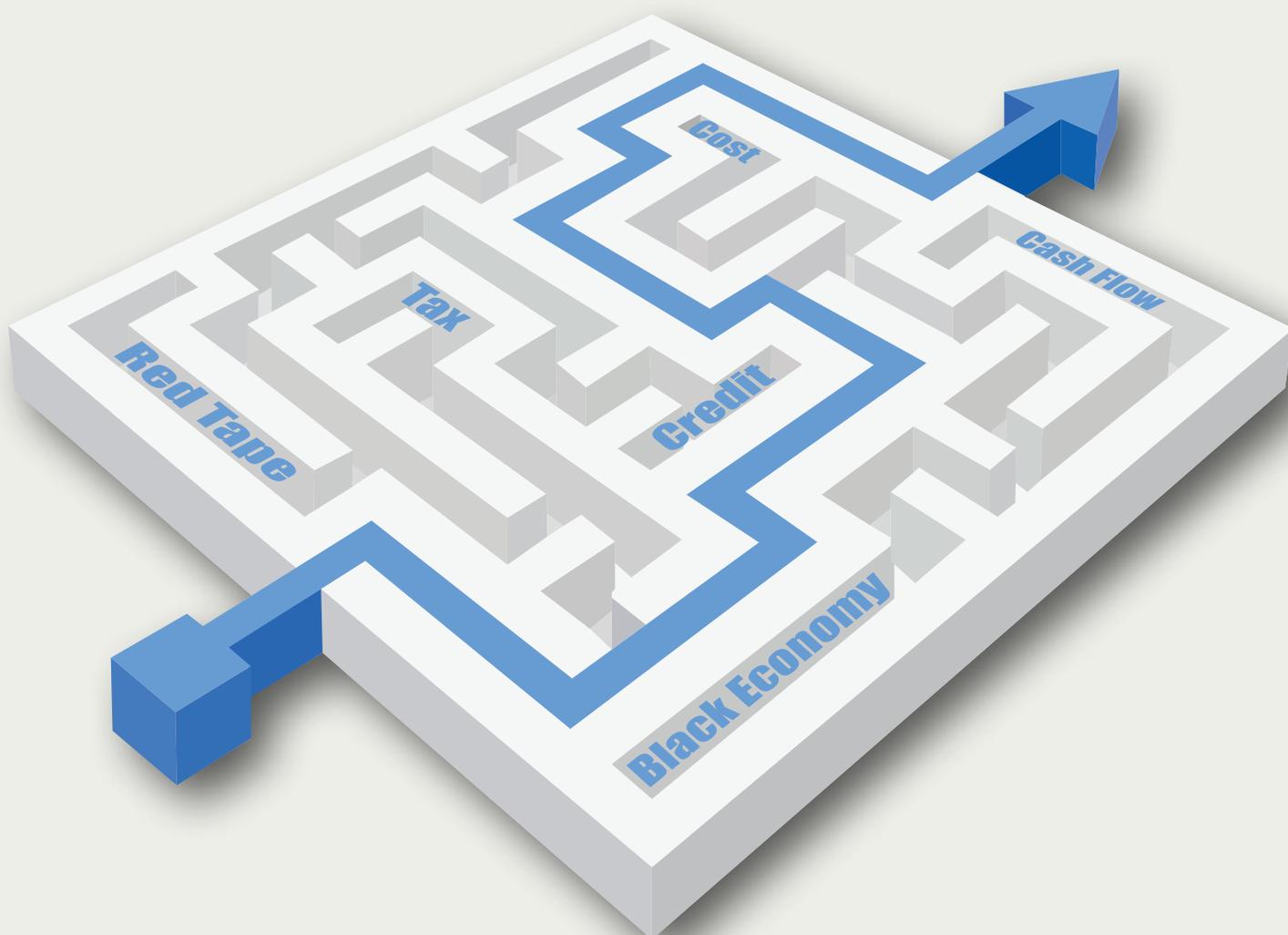


CPA | Entrepreneurship Report II



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Introduction

By Eamonn Siggins, CEO, Institute of Certified Public Accountants in Ireland (CPA Ireland)



It is now two years since the CPA published its first Entrepreneurship Report. The intention then was to establish how conducive the overall environment in Ireland is for entrepreneurship and to identify any steps which could be taken to improve it.

Our decision to produce the report was the result of feedback we were getting from members throughout the country, both in industry and in practice, who were telling us that the entrepreneurial spirit needed to drive Ireland's recovery was strongly in evidence but that not enough was being done to nurture it.

In preparing that first report we spoke to entrepreneurs, industry representatives, state bodies, the banks, and our own members to obtain a snapshot of the landscape for enterprise in the country at the time. What we found was a strong culture of entrepreneurship within the country but one that wasn't necessarily supported as much as it might be by government or the banks.

This resulted in a number of recommendations on actions which could be taken by government and others to improve the situation. Environments do not change overnight, however. Even the most radical actions take time to have an effect on the overall business climate.

It was for this reason that we waited until 2012 to produce the second CPA Entrepreneurship Report. A number of the more significant recommendations made in the 2010 report have become a reality. Particularly welcome have been the recent introduction of the loan guarantee scheme, the excellent work which has been done in relation to the simplification of employment and industrial relations machinery, and the greater clarity which has been brought to the bank credit situation.

The past two years have also seen a clear improvement in the climate for entrepreneurship as it is perceived by those that matter most, the entrepreneurs themselves. Once again we spoke to a broad cross-section of entrepreneurs as well as representatives of other key stakeholders in the compilation of this report and while there is still much to be done, as evidenced by the various recommendations, the mood is certainly more positive and optimistic.

This welcome change is probably a tribute to the indomitable spirit of Irish people generally and Irish entrepreneurs in particular. It is still less than a century since the foundation of the State but during that short period we have endured and recovered from some extraordinarily severe depressions and recessions, emerging from them stronger each time.

This second CPA Entrepreneurship Report offers further evidence of that resilience and will hopefully assist the Government and the other stakeholders involved in supporting entrepreneurship in making the policy and other decisions required to maintain this improvement in the environment for enterprise and entrepreneurship in Ireland.

Finally, I would like to take this opportunity to express CPA Ireland's gratitude to all those who gave of their time to participate in the preparation of this report.

Eamonn Siggins.

Eamonn Siggins
CEO, CPA Ireland

Foreword

By Niall Byrne, President, Institute of Certified Public Accountants in Ireland (CPA Ireland)



The past year has seen many welcome developments for the Irish economy. The unemployment rate appears to have stabilised following several years of rapid increases; a slow but steady improvement in the public finances is evident; exports by both the multinational and indigenous sectors remain buoyant and at record levels; and we have made an initial if tentative return to the international bond markets.

However, our troubles are far from behind us. Unemployment, despite its stabilisation, remains unacceptably high and we will not be in a position to say that recovery is truly under way until real progress has been made on that front and the achievement of that goal will be critically dependent on the performance of Irish enterprise in general and the SME sector in particular.

In this context, one of the most worrying findings in this the second CPA Entrepreneurship Report is the emergence of a two speed economy. A large number of contributors to the report noted the sharp contrast between the performance of those businesses dependent on the domestic economy and those with an export focus. The latter sector is in quite rude health while the former is still in severe difficulties.

Of greatest concern here is the fact that we are relying on the domestic economy dependent businesses for the bulk of new job creation in the coming years. But to achieve the virtuous circle which will see businesses grow and thrive and creating new jobs which will in turn stimulate further spending in the economy, the conditions must be created for entrepreneurship to thrive.

The good news on this score is that entrepreneurship is one area where our international standing remains exceptionally strong. Indeed, the latest Global Entrepreneurship Monitor (GEM) Report for Ireland for 2011 shows an increase in early stage entrepreneurial activity during that year. As a result more people started new businesses in 2011 than in the previous year. The GEM report estimates that approximately 2,200 enterprising individuals were setting up a new business each month during 2011.

The GEM report also reveals that successful entrepreneurs in Ireland have a high level of status and respect for them remains higher in Ireland than in many other countries. This mirrors one of the findings of this report in relation to the stigma which has tended to attach itself to unsuccessful business ventures and entrepreneurs in Ireland over the years. I am pleased to note that there has been some improvement in relation to this and most participants report a healthier attitude towards business failure in society in comparison to two years ago.

In this context progress on the introduction of the Personal Insolvency Bill is also to be welcomed as it will help free entrepreneurs from impossible debt burdens and allow them make a contribution to the recovery once again.

Of course, we still have some way to go before we arrive at the American situation where failure is actually viewed as a step along the path to ultimate success however; it is an important step in developing a supportive climate for entrepreneurship in Ireland.

The relatively low level of entrepreneurship among women was noted by a number of contributors to this year's CPA Entrepreneurship Report and the country clearly needs all the entrepreneurs it can get at the moment. In this regard it is proposed that the government and enterprise promotion agencies develop more programmes specifically aimed at supporting female entrepreneurs and assisting them overcome any particular barriers they may face. I especially welcome the most recent step by Enterprise Ireland in setting up the €500,000 Competitive Start Fund for Female Entrepreneurs to boost the number of innovative, export-orientated enterprises led by women.

Some traditional challenges and bugbears remain, however. Late payment was highlighted as a major difficulty for early stage businesses as was the ongoing and worrying resurgence of the black economy.

A particularly innovative recommendation in the report is in relation to funding for start-up and growth oriented enterprise. There was no particular desire for any additional public expenditure in this regard. Indeed, all of the enterprise agencies came in for high praise for their work on behalf of the SME sector.

The issue for many contributors was the attraction of additional private investment into businesses of all types and SMEs in particular. The power of the tax system to incentivise such investment was acknowledged as was the parlous nature of the nation's finances. The solution mooted has no initial cost to the State in that it proposes a tax credit being offered to investors in business which can only be claimed against dividends realised from that business.

This would have the effect of creating a self-regulating investment environment where investors would only hazard their money on growth oriented ventures likely to pay them a dividend in the longer term. The State would not be giving any tax relief upfront and the later relief granted would be more than offset by the benefits of the additional employment and trading activity generated by the business.

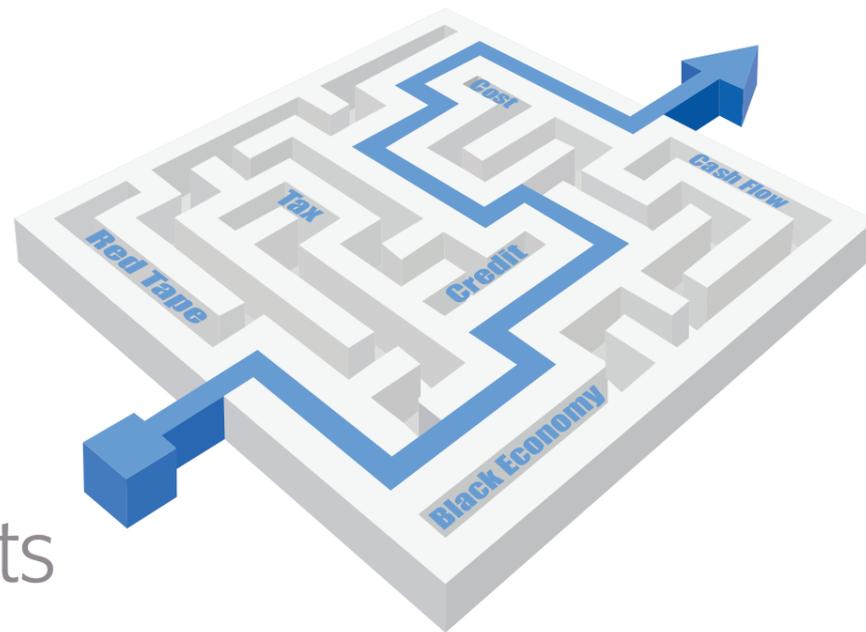
This is an example of the entrepreneurial thinking which underpins most of the recommendations made in this report. Overall, however, the most encouraging outcome of this year's report must be the perception that the climate for entrepreneurship in Ireland has improved over the past two years. But that is no cause for us to rest on our laurels. We must build on this improvement and ensure it is sustained and accountants have a particular role to play in this.

Many CPA members are themselves entrepreneurs, others are working alongside entrepreneurs in industry, while others play a key support role in terms of advising and guiding entrepreneurs in the development of their companies. The role played by our members in the economic recovery is one we should all be proud of – ultimately our clients' success will be Ireland's success.

Niall Byrne
President, CPA Ireland

Executive Summary

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Climate

Among the most encouraging overall findings of this year's CPA Entrepreneurship Report is the broad agreement that the climate for entrepreneurship in Ireland is not only positive, but has actually improved over the past two years. There was a feeling that many Irish businesspeople had now recovered from the initial shock of the banking crash and its accompanying economic crisis and are now much more in a mood just to get on with things. This, in turn, is feeding into improvements in the overall climate for entrepreneurship.

Another issue pointed to was the reduced costs of doing business now as compared to two years ago. Lower rents and labour costs, as well as more competitive input prices for many sectors have led to significant competitive gains and lowered barriers for entrepreneurs setting up new businesses. The advent of new technologies, such as cloud computing, has also assisted both in reducing costs for more traditional sectors, as well as opening up opportunities in new areas for Irish entrepreneurs.

However, the issue of late payments was again highlighted by participants as a major difficulty for early stage businesses. Other significant issues raised were the continued resurgence of the black economy, the depressed nature of the domestic economy, and the lack of an overall national entrepreneurship strategy.

One area highlighted, which was not alluded to in the 2010 Entrepreneurship Report, is the difficulties many start-up and early stage firms are experiencing in finding people with the right skills to work for them. This may be further evidence of increased optimism among Irish entrepreneurs, as it tends to indicate that they intend recruiting staff now or in the near future.

Key recommendations:

- A National Skills Register should be established to allow employers to find the people with the skills they need.

Culture

There is strong agreement that Ireland has a culture which supports and encourages entrepreneurship. The vast majority of contributors also agreed that the culture has improved over the past few years.

However, this was in marked contrast to the CPA Entrepreneurship Survey which found a much more divided view. Some 36% of the respondents to the CPA Entrepreneurship Survey disagreed with the proposition that Ireland has a culture which facilitates and strongly supports entrepreneurs, while just 45% agree with it. The main focus of dissatisfaction with the current culture tends to be the perceived iniquitous treatment of entrepreneurs under the social welfare and tax systems.

This more negative perception is probably due to the nature of professional accountants' role as advisers to and problem solvers for clients. In many cases, the clients they are working most closely with are those experiencing the greatest difficulties and this will necessarily colour their opinion of the prevailing culture for entrepreneurship here.

Among the chief negative aspects of the culture mentioned by participants to the report were the stigma associated with business failure, the fact that entrepreneurs and self-employed individuals are disadvantaged by entitlements under the tax and social welfare systems, a lack of promotion for entrepreneurship as a valid career choice and a failure to foster the community spirit which already exists among Irish entrepreneurs.

A specific issue not raised in 2010, but given some prominence by many contributors to the current report, is the relatively low incidence of entrepreneurship among women in Ireland and the need to address this.

Key recommendations:

- Enterprise Ireland should facilitate the establishment of a membership organisation for successful entrepreneurs.
- Ireland's relatively low rate of entrepreneurship among women should be addressed by specific promotional and support programmes.
- Entrepreneurship should be seen as a valid career choice and should be included as part of standard careers guidance to Leaving Cert students, as well as being placed on the curriculums at both primary and second level. In addition, university students, should do an entrepreneurship module at some stage during their studies, where appropriate.
- Self-employed individuals and company owner managers should be allowed pay the full rate of PRSI and be eligible for Jobseeker's Benefit.

Supports

There is widespread agreement that Enterprise Ireland is doing an excellent job in supporting the companies and sectors for which it is responsible. Furthermore, many participants believe the agency has improved on its already strong performance of two years ago.

The Enterprise Boards too emerge with their reputations enhanced. There was a strong belief shown that the boards are doing a very good job and no participant was fully in favour of the Government move to bring them under centralised control of a small business unit within Enterprise Ireland and to be replaced by units within local authorities.

Indeed, such was the positive attitude to the range of supports provided by the State, that the main issue raised was difficulties which early stage businesses encounter in accessing the right one, such is the number and variety of services on offer. There was also a strong belief that the narrow qualification criteria for support should be expanded beyond those companies involved in manufacturing or exporting.

Interestingly, there were few, if any, suggestions that the State should do more in terms of direct service provision for enterprise. Instead, most of the proposals were in the area of what businesses and entrepreneurs could do for themselves and each other.

Key recommendations:

- A centralised referral service should be established to act as a single point of contact for entrepreneurs seeking State support or funding from either an agency or one of the several seed and early stage capital funds currently in existence.
- State supports should be available to all enterprises with the potential for job creation and not just those engaged in manufacturing or exporting activity.
- The decision to place the City and County Enterprise Boards under the control of the local authorities should, with a single point of contact for all Enterprise Boards, be created within Enterprise Ireland instead.

Funding

The generally positive mood of participants was maintained in the area of funding. There was overall agreement that there was a sufficiency of funding for SMEs in terms of State grants, seed funds and so on. However, there were concerns raised in relation to the lack of later stage, larger scale venture funding available in this country and perceived limitations to angel funding. There was also a belief that the Employment Investment Incentive Scheme, the successor to the BES, was poorly understood and required greater promotion.

The solutions proposed for these issues did not involve increased State involvement in the direct funding of enterprise, however. Instead the overall focus was on how the State could incentivise or facilitate greater private sector involvement in enterprise funding and investment.

Key recommendations:

- A tax incentive, in the form of a tax credit equal to the initial sum invested and claimable against future dividends, should be offered for investments in all employment generating businesses including, in certain circumstances, an entrepreneur's own business.
- An "entrepreneurs' investment fund" should be established to encourage existing successful entrepreneurs to invest in new start-up businesses.
- Individuals should be allowed to access their Pension Fund Additional Voluntary Contributions, or indeed a proportion of the fund itself, for the purpose of investing in employment generating enterprise.

Bank Credit

The attitude towards the banks appears to have improved somewhat over the past two years but this is probably not due to any increased quantum of lending, but to a change in attitude generally in relation to enterprise funding. Very few contributors believe the banks to be lending more than they were two years ago while several of them believe the opposite to be the case.

What appears to be happening is a growing recognition that traditional banks should not be in the enterprise funding or risk finance businesses. There is also a strong belief among most contributors that viable propositions backed by sound and robust business plans will get funded by the banks.

Key recommendation:

- It should be made mandatory for bank business staff to spend several days each year in Enterprise Ireland or with Enterprise Boards in order to gain a greater understanding of the needs of modern businesses.

Taxation

The vast majority of contributors to this report regard the Irish taxation system as fair, equitable and transparent and there were few, if any, calls for even minor changes to it. A continuing theme throughout many areas of the report, however, was the perceived inequitable treatment of entrepreneurs and self-employed individuals under the income tax system.

The issue of VAT thresholds was raised once again with the added dimension of the competitive disadvantage these put many businesses in the Republic of Ireland at in relation to their Northern Ireland counterparts. The other main issue raised was the burden of local authority rates on small businesses.

Key recommendations:

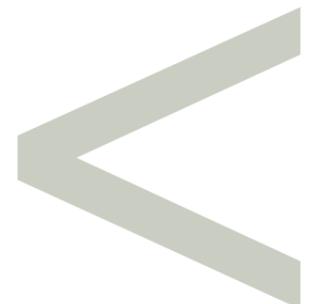
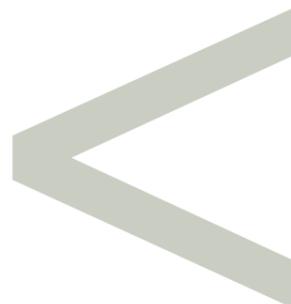
- VAT thresholds should be raised to at least the UK level, which currently stands at more than €85,000, as opposed to the Irish ones of €37,500 for service businesses and €75,000 for others.
- A national system of commercial rates be introduced as part of an overall reform and rationalisation of local government.

Compliance

Attitudes have changed greatly to red tape and compliance issues over the past two years. There is now fairly extensive agreement that Ireland is certainly no worse and probably better than most other European countries in this regard. The two main issues raised were licensing – particularly as it applies to the retail trade – and the bureaucracy involved in public procurement processes.

Key recommendations:

- The licensing system should be rationalised with the Department of Jobs, Enterprise and Innovation taking responsibility where possible for the issuing of all business licences.
- Public procurement systems should be overhauled to deliver the necessary transparency, as well as the flexibility required to deliver real commercial value to the taxpayer.



The Climate for Entrepreneurship in Ireland

CPA | Entrepreneurship Report II

It comes as little surprise that there is a wide spectrum of views on the current climate for entrepreneurship in Ireland. However, there is some consistency of opinion which supports the view of many participants that a degree of stability is returning to the economy.

The climate for entrepreneurship is not simply the economic outlook, however. While this is undoubtedly the most important factor for the majority of entrepreneurs, there are many other aspects to be taken into account, including credit and funding availability, state bureaucracy, the availability and cost of skilled labour, taxation and of course, overall consumer and business confidence.

These and a host of other minor elements feed into the mix and form the overall climate for entrepreneurship. Notwithstanding this, the state of the domestic economy was uppermost in the minds of many contributors to this report.

The Economic Environment

Participants pointed to different sectors and segments of the economy, which were performing well or badly depending on their individual circumstances. "The two parts of the economy which are performing well at the moment are the foreign direct investment sector and start-ups. The domestic services sector is under pressure", notes Michael Culligan of the Dublin Business Innovation Centre.

John Kelly of AIB supports this view. "The biggest factor is that most businesses are dependent on the domestic market and that's still depressed"

"SMEs dependent on the domestic market with five to ten employees and who are contending with paying wages and so on are finding the going very tough", adds Rebekah Brooks of Nubie.

On the other hand, export oriented businesses targeting international growth markets are having an altogether different experience. "There isn't one environment", Prof. Colm O'Gorman of DCU points out. "Not all entrepreneurs face the same market conditions. We are now working in a world economy and there is a lot more potential there."

Interestingly, there was a high level of acceptance that there were no simple or quick fixes for the economy as it relates to entrepreneurs. Indeed, the majority of participants agreed that stimulus packages, unless of quite enormous magnitude, would have little impact and the money released would probably end up disappearing into paying down bank debt.

One proposal put forward was for the Government to prioritise an overall mortgage debt solution in its discussions and negotiations with the EU and the Troika on a long term resolution to the country's bank debt issue. This would have the effect of enhancing the spending power of many households, thus delivering a direct stimulus to the domestic economy.

Also of interest was the fact that the majority of participants did not believe tough economic conditions were necessarily bad for entrepreneurship. "Recessionary or difficult economic times are the ideal time to establish a new business", says Laura Erskine, founder of the MumtrepreneurClub.



John Boyle,
Ulster Bank

"Businesses which start up successfully today will be of a higher quality with a greater likelihood of long term survival and growth, than many of the businesses which were started off in the so-called boom years."

ie community. "In the last year alone, I have seen more small businesses than ever set up and even more importantly, they are all helping in supporting one another to succeed. There is a great sense of support for local and small businesses in the communities and towns around Ireland, to buy Irish and shop local. People don't want to see a town with closed shutters for shops; they want local businesses to succeed for the sake of their own community, the jobs they create, and the ripple effect for the wider Irish economy."

Mark Fielding of ISME notes that the very disruption caused by a downturn is a source of opportunity. "There are excellent opportunities out there because costs are at a low and people have gone out of business where a market still exists. It is never a bad time to have a good idea and the finance to back it."

John Boyle of Ulster Bank agrees: "While a recession provides accompanying challenges, it can also provide a great deal of opportunity for the right idea when the cost of market entry and ongoing running costs can arguably be regarded as lower than in better economic times. Businesses which start up successfully today will be of a higher quality with a greater likelihood of long term survival and growth, than many of the businesses which were started off in the so-called boom years."

Bank of Ireland's Michael Lauhoff concurs. "Entrepreneurs will always see opportunities regardless of the economic environment", he says. "A downturn can inspire people to start up a business, either out of need or because they see an opportunity. New businesses are starting up every day of the week."

The Overall Climate

Even more interesting was the high level of uniformity among contributors with regard to the overall climate for entrepreneurship. Almost all believe it to be positive while there is also general agreement that it has improved over the past two years.

A representative view in this regard is that of Paddy Hayes of CST International. "Things are better than they were two years ago. In the first two years of the crash people had to get over the shock to the system which the nation had received. After two years, people started to recognise that the world hadn't ended and that there is a future. It is a slog, it is a struggle, but entrepreneurs are getting through it and we will get through it."



Laura Erskine,
MumtrepreneurClub.ie

"Recessionary or difficult economic times are the ideal time to establish a new business. In the last year alone, I have seen more small businesses than ever set up and even more importantly, they are all helping in supporting one another to succeed"

Margaret Hearty of InterTradeIreland is even more positive. "The climate has improved over the past two years and that is evidenced by the increase in the number of new companies starting up. A lot of new businesses are web and cloud-based and are much less costly to run and grow than older generation businesses. The climate is healthy but there are still challenges there."

A more measured view is held by AIB's John Kelly: "The people I speak to indicate there has been a marginal improvement over the past two years. The people who have made it through the past four years will make it through anything. I detect a small sense of optimism."

Against this quite optimistic backdrop a number of specific challenges and issues which are presenting difficulties for entrepreneurs were highlighted.

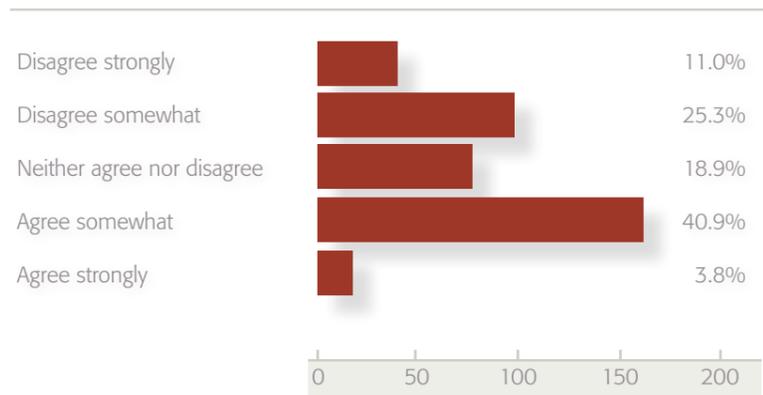
CPA Cormac Fitzgerald has a more mixed view. "Unfortunately I think the climate has disimproved over the past few years because of the negativity in the market", he says. "The confidence level among entrepreneurs has disimproved. However, I do think there has never been a better time to start a business. If you have the right business idea with a unique selling point and you have the funding and keep your overheads down, it's a great time to start a business."

Overall the views of contributors are in line with the latest Global Entrepreneurship Monitor (GEM) report for Ireland which indicated an increase in the rate of Total Early-Stage Entrepreneurial Activity (TEA) among the adult population aged 18-64 in Ireland in 2011. This was found to be 7.3%, up from 6.8% in 2010. While the rate of nascent entrepreneurs held steady (4.3%), the increase was accounted for by a rise in the number of those actually starting a new business; this was 3.1% in 2011 from 2.6% in 2010. This equates to an average of 2,200 individuals starting a new business every month.

CPA Entrepreneurship Survey

A key element of this report is a survey of the Institute of Certified Public Accountants members carried out during the month of June 2012 (see on the CPA Entrepreneurship Survey 2012). It is noteworthy that 62% of respondents believed the business climate has deteriorated on some level over the past 18 months, with just 16% saying it had improved somewhat. This is in sharp contrast to the views of the entrepreneurs who participated in the report.

Ireland has a culture which facilitates and strongly supports entrepreneurs. Do you -



CPA Members Survey 2012

This can quite possibly be explained by the fact that most accounting professionals, whether in practice or industry, are mainly focused on the trading environment as experienced by their clients and businesses. This means that while many entrepreneurs and others cite the existence of market opportunities for new start-ups as evidence of an improving climate those involved in dealing with existing businesses will not necessarily be concerned with this.

Altogether more encouraging is the fact that 40% of the respondents to the CPA Entrepreneurship Survey expect some improvement to the business environment over the coming year, while 40% envisage no change. This quite optimistic view is, in general, shared by other contributors to the report.

Global Entrepreneurship Report

The Global Entrepreneurship Monitor (GEM) provides an annual assessment of the entrepreneurial activity, aspirations and attitudes of individuals across a wide range of countries and is the largest on-going study of entrepreneurial dynamics in the world. Fifty four countries participated in the research in 2011.

One of the unique features of GEM is the comparison it provides between countries across a range of variables pertinent to entrepreneurship.

The research is carried out in exactly the same way in each country and is coordinated by the Global Entrepreneurship Research Association (GERA) based in Babson College in the United States. The authors of the Irish report are Paula Fitzsimons of Fitzsimons Consulting, who is the National GEM Co-ordinator, and Prof. Colm O’Gorman, Professor of Entrepreneurship, DCU Business School.

The GEM Report for Ireland for 2011 shows that there has been an increase in early stage entrepreneurial activity. As a result more people started new businesses in 2011 than in the previous year.

The findings of the 2011 GEM report indicate that almost three quarters of these entrepreneurs expect to become employers. While the majority of the businesses will remain small, the employment impact of these new enterprises is significant when taken together. The GEM report also highlights the relative ambitious growth aspirations of a significant minority of these entrepreneurs in Ireland compared to other countries across the EU and OECD.

Other findings of the report included that a relatively high proportion of Irish entrepreneurs are engaged in medium or high technology sectors (11%) compared to averages across the OECD (7.3%) and EU (7.9%). In addition, a high level of early stage entrepreneurs continue to be motivated by necessity (31%), as was the case in 2010.

Ireland has a higher rate of “necessity entrepreneurs” than is the norm across the OECD and the EU, including Spain and Greece.

Unsurprisingly, the report found that there has been a significant increase in the rate of owner managers closing a business; 2.8% in 2011 compared to 1.2% in 2010. This is a higher rate of closure than OECD or EU averages. Some 60% of those closing a business cite lack of profitability. This is at the highest rate noted in Ireland in the previous ten years but is to be expected given the overall economic environment.

The economy undoubtedly also had a significant influence on the very low prevalence rate at which people in Ireland are seeing opportunities for new businesses (26%). This showed no signs of any real increase in 2011 over 2010 (23%) and continued at historically low levels.

Late Payments

Outside of the poor state of health of the economy, the issue of late payments has emerged as possibly the largest single issue affecting the climate for entrepreneurship in Ireland at present. One owner manager spoken to said he and many of his peers were “living on the VAT receipts”.

The situation arises where on the one hand, money is going out to pay staff and suppliers and on the other, it is increasingly difficult to get paid by customers on the domestic market. Many businesses in this situation cannot get overdrafts to cover the shortfall and this leaves them having to dip into money which should be paid

to the Revenue Commissioners.

This is a problem which has also been noted by Rebekah Brooks of Nubie. “A lot of businesses which experience cash flow problems end up living off their VAT”, she says. “The banks could help here by offering separate business VAT accounts with no charges on them.”

It was also pointed out that the problem is twofold for those businesses with overseas suppliers. Many of these overseas suppliers are now demanding payment in advance or on delivery from Irish customers as a result of the country’s impaired credit rating, further exacerbating cash flow problems for those Irish companies in that position.

“Late debtor payments continue to compound an already tough financial environment for many businesses, imposing accompanying administrative burdens and cashflow pressures”, says John Boyle of Ulster Bank.

John Kelly of AIB agrees. “Cash is king. Getting money in and getting paid on time will be key to success in future. You’re not going to take a guy to court if you have been doing business with him for ten years. Slow payment is suffocating the economy. We are all going to have to take a fresh look at this and change the culture.”

The Black Economy

As in the case of the 2010 report, fears in relation to the re-emergence of a significant black economy in Ireland were expressed by a number of participants. Several referred to experiencing increased competition from traders offering VAT-free service and a resurgence in “cash discounting” activity.



Paddy Hayes, CST International.

“After two years, people started to recognise that the world hadn’t ended and that there is a future. It is a slog, it is a struggle, but entrepreneurs are getting through it and we will get through it.”

One practical suggestion for tackling this was put forward by Mark Fielding of ISME and received strong support from other participants. This was for a national information and publicity campaign to generate awareness of the real effects of the black economy, including job losses and cutbacks in public services as a result of reduced tax revenues. It would reflect the successful campaign against fraud run by the insurance industry. In this case, the campaign could be run on a partnership basis with government, industry and trade unions.

National Entrepreneurship Strategy

The lack of an overarching National Entrepreneurship Strategy to co-ordinate all areas of government policy in the area of entrepreneurship was

lamented in the 2010 report. This was raised again this year with many contributors complaining about the lack of co-ordination between different arms of the State. An absence of "joined up thinking" was mentioned more than once.

There was a general acknowledgement that there is only so much a government can do in terms of encouraging entrepreneurship. "But you shouldn't make it hard for entrepreneurs either", as Paddy Hayes of CST International put it.

Recent actions by the Minister for Jobs, Enterprise and Innovation, including the reform of the State's industrial relations services, were welcomed as steps in the right direction but there is a belief that more needs to be done to eliminate conflicts and inconsistencies wherever they might exist and that the Minister should lead the efforts in this regard.

"The whole approach to entrepreneurship in this country is too ad hoc. A National Entrepreneurship Policy is needed. Forfás did some work on this a few years ago but it hasn't moved on", says Patricia Callan of the Small Firms Association.

Skills Availability

One sign of a markedly more optimistic environment, if not a definitely improved one, is the fact that skills availability was mentioned by several contributors as a key challenge facing entrepreneurs and businesses at present. This suggests that businesses are at least considering growth once again.

Two specific issues which present difficulties in this area were highlighted.

The first was a fear on the part of employers in relation to hiring people and the consequent obligations in this regard. Businesses can ill afford mistakes at a time such as this and allowances should be made for this, according to Jerry Kennelly of Tweak.com. "We need a flexible employment model which would allow companies to take people off the dole for a while and try them out with no obligations beyond a specific term. If it doesn't work out the employee should be able to go back on benefits as if they had never stopped and the employer should be able to look for someone who is suitable with no penalties."

This problem is directly related to the skills issue. "The main challenge for people like me is getting the right people in Ireland", Kennelly adds. "You need to be able to put together an A-team in terms of talent if you want to compete with Silicon Valley. There is a global shortage of talent but we have lots of it here and there is global competition for it. We need a national skills register which everyone, whether they are out of work or in a job, can sign up to and this should be free and searchable for all businesses in Ireland."

This presupposes the existence of the people with the necessary skills and David Woolfson of Gabriel Scientific was one of a number of contributors who complained about a dearth of sales skills among Irish people. "We have brought up a generation of order takers and have forgotten the old fashioned skill of selling", he claims. "The biggest challenge for many early stage companies is finding good sales people.



Michael Lauhoff,
Bank of Ireland.

"Entrepreneurs will always see opportunities regardless of the economic environment. A downturn can inspire people to start up a business, either out of need or because they see an opportunity. New businesses are starting up every day of the week."

The lifeblood of any business is sales. Selling should be a module on business courses and on state training courses. A good salesperson is like gold dust."



David Woolfson,
Gabriel Scientific

"We have brought up a generation of order takers and have forgotten the old fashioned skill of selling"

Findings and Recommendations:

- The overall climate for entrepreneurship in Ireland appears to have improved somewhat over the past two years. However, more mature companies which are dependent on the domestic market are finding trading conditions increasingly difficult and will be reliant on an economic upturn for any improvement in their fortunes in the coming years.
- As in 2010, the biggest challenges facing many businesses remain late payments, credit availability and unfair competition from black economy operators. An additional challenge facing businesses on a growth trajectory is a difficulty in finding staff with the right skills.
- A national campaign aimed at promoting awareness of the damage the black economy can do to employment and legitimate business is required as part of the overall response to the threat. This campaign could be run by a partnership of affected stakeholders including industry organisations, Government and trade unions.
- An inter-departmental group led by the Minister for Jobs, Enterprise and Innovation should be established to develop a National Entrepreneurship Policy which would bring together social, employment, industrial, taxation, educational and enterprise policy, as they relate to entrepreneurship.
- Consideration should be given to introducing a flexible form of employment contract which allows an employer to recruit an unemployed individual on a form of extended trial. If the employee turns out to be unsuitable they should be able to resume claiming Jobseeker's Allowance as if they had never ceased and the employer should be free to search for a more suitable candidate with no penalties. This would overcome the fears many employers have in relation to recruitment.
- A National Skills Register should be established to allow employers to find the people with the skills they need. The register would be open to all people whether in work or not and would be free of charge to all users.
- The need for some form of economic stimulus was mentioned by many participants but the fear that the money would simply disappear into paying off bank debt was also acknowledged. In this context, several of them called on the Government to make a permanent resolution to the mortgage arrears situation a priority in its engagement with the EU and the Troika. Such a resolution would have the effect of increasing household spending power, thereby stimulating the domestic economy and relieving pressure on many businesses operating within it.
- A tax incentive in the form of double tax credits for a number of years should be offered to entrepreneurs who are leaving a job to start an employment generating business. This should not apply to people leaving a job to become self-employed.
- There is a perceived dearth of sales skills and talent available in Ireland at present. It is recommended that practical sales modules be included in all second and third level business courses.

CPA Entrepreneurship Survey 2012

CPA | Entrepreneurship Report II

A key element of the CPA Entrepreneurship Report 2010 was a survey of members of the Institute of Certified Public Accountants in Ireland (CPA) in relation to their views and attitudes on the climate for entrepreneurship in Ireland. A further survey was carried out as part of this year's report, both for comparison purposes and to ascertain if any new challenges have emerged over the past two years.

The survey was carried out during June and July 2012, with more than 436 members responding.

Culture

Opinion was divided on the question of whether Ireland has a culture which strongly encourages or supports entrepreneurship, with almost 45% agreeing and 36% disagreeing, and the remainder expressing no view.

Among the negative issues raised were the lack of incentives from the Government to anyone wanting to set up their own business, the

From CPA Members Survey June/July 2012

Opinion was divided on the question of whether Ireland has a culture which strongly encourages or supports entrepreneurship, with almost 45% agreeing and 36% disagreeing, and the remainder expressing no view.

absence of Jobseeker's Benefit for employers and the self-employed and the difficulties in obtaining credit and funding. The lack of support for businesses not involved in manufacturing or exporting was also raised.

"Poor insolvency laws for individuals or failed entrepreneurs, tax law that discriminates against entrepreneurs and a lack of social protection for failed entrepreneurs", was how one respondent summed it up.

Red tape was another source of

irritation. Entrepreneurs have to comply with so much red tape and regulation, employment, revenue, health and safety, insurances and so on.

"There is too much red tape with regard to setting up a new business and this has the effect of stopping people from starting new businesses", said one respondent.

A more positive comment from another respondent was: "Support structures are well developed and promoted to ensure that would-be start-up entrepreneurs are aware of the possibilities. Enterprise Ireland, County Enterprise Boards and other support agencies are identifiable through a quick web-trawl. Private equity is available for commercial projects and there are collaborative arrangements between the banks, agencies and equity groups. Mentoring is available for entry level aspirants. Financial supports are significant and help leverage equity participation. The focus on innovation, technology and exports is the right one."

Slightly more guarded was the respondent who said: "The state agencies provide reasonable support but could be much more proactive and target a wider range of potential entrepreneurs."

"Entrepreneurship is generally encouraged, but there is a lack of relevant supports", added another. "Entrepreneurs are supported by Government in order to give more employment. There are grants and tax concessions to encourage entrepreneurs", was a further positive comment.

Business Climate

In sharp contrast to the views of the majority of direct participants in this report, the views of the respondents to the CPA Entrepreneurship Survey in relation to the climate for business were decidedly negative. Overall, some 62% of respondents believe the climate for business has deteriorated since January 2011, while just 16% thought it had improved.

Difficulties in getting paid, continued lack of bank credit, higher energy costs, increased personal taxation, the depressed domestic economy, the on-going Eurozone uncertainty and a resurgence in the black economy were the chief reasons cited for the belief in a continued deterioration.

However, there were also many positive comments made, with several respondents claiming to have noted signs of a return of confidence to the economy, such as increased demand for housing in certain areas and an apparent stabilisation in consumer spending being pointed to. Furthermore, the buoyancy of exports

from both indigenous and overseas owned firms was also seen as a hopeful sign.

These views were reflected in an altogether more positive response to the question on how they envisaged the business climate performing over the next 12 months. Some 41% envisaged an improvement, while 40% saw no change. Less than 20% foresaw further deterioration.

Taxation

More than 76% of respondents believe more needs to be done to make the taxation regime less onerous on entrepreneurs. There was general agreement on the need for some form of income tax breaks for entrepreneurs in the early years of their business.

The logic underpinning this proposal is a reward for the increased risk which entrepreneurs are exposed to during the start-up phase of their businesses. Reward for this would encourage more people to consider this option and thereby help fuel job creation. There is also a strong belief that there

should be tax breaks associated with employment creation in order to add stimulus to that.

Other proposals were for increased VAT thresholds and for a simplification of the bureaucracy associated with taxation. Income tax rates came in for some criticism as did Universal Social Charge rates.

The broad view, therefore, was not that the taxation system is necessarily unfair in some way; merely that it could be used creatively to incentivise entrepreneurship.

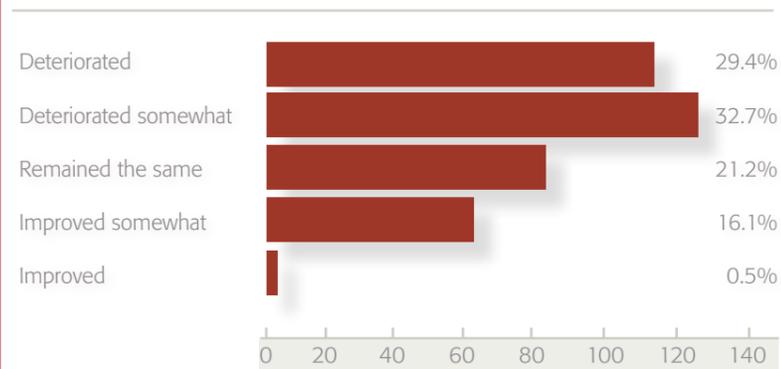
The Economy

When asked if other initiatives were needed to revitalise the economy, unsurprisingly 90% said yes. Given the current state of the domestic economy, possibly the only surprise here is that this figure was not even higher.

Incentives to start-up and grow businesses, particularly in the form of tax breaks, were also suggested by a number of respondents, while many others put forward suggestions on stimulus.

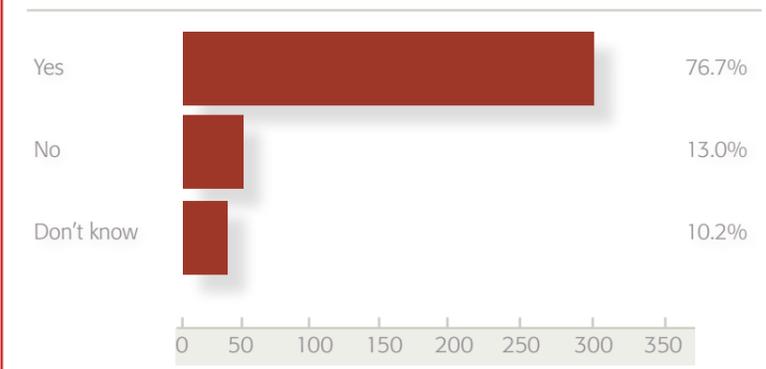
One particular suggestion was in relation to the Government's proposed €2 billion stimulus package. "A package of €20 billion is needed to make a difference and kick-start the economy. €2 billion is only going to keep us where we are. More needs to be invested in education in the areas of science and IT. It's a terrible shame that when multinationals such as PayPal come to Ireland we don't have the skill sets to take up the jobs on offer and PayPal end up having to recoup half their Irish staff from overseas."

Do you believe the business climate in Ireland over the past 18 months (since January 2011) has -



CPA Members Survey 2012

Does more need to be done to make the tax regime less onerous on entrepreneurs and early stage businesses?



CPA Members Survey 2012

Several others suggested measures to reduce the mortgage burden on homeowners in order to free up consumer spending.

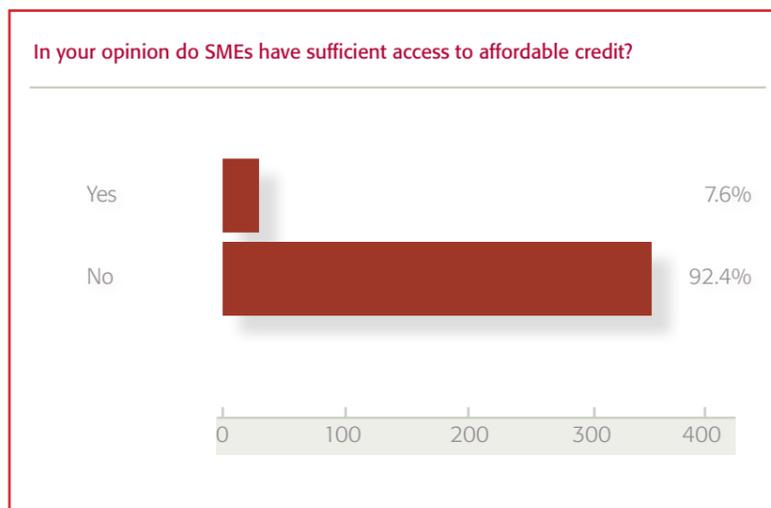
Banks and Credit

More than four in five respondents did not believe the banks were open for business. An even greater number, more than 92%, did not believe SMEs have access to affordable credit. A majority (52%) have had clients turned down for credit in the past 12 months. This is consistent with the finding that 66% of respondents had personally seen evidence of a viable business getting into trading difficulties as a result of a refusal of credit. Very seriously, 13% said the refusal led to job losses while 22% said it resulted in lost growth opportunities.

The recurrent theme here was that the banks are applying too rigorous a process for evaluating credit applications and that they are only lending to “businesses which don’t need it”.

Another common view was that the banks are relying on quite subjective criteria, such as five year business plans, in order to cherry-pick applications. However, there were suggestions that this may not be entirely the fault of the banks and that the regulator has had a part to play in imposing overly rigorous conditions on the banks.

Another frequent complaint related to the withdrawal of overdraft facilities and the high cost associated with them when obtained.

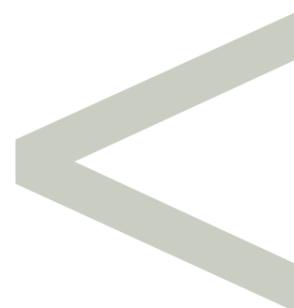


CPA Members Survey 2012

This is not to say that the views were entirely negative. Several respondents did see some signs of an improvement and others did report clients being successful with credit applications but these were in the minority. Others pointed to a belief that it was businesses already in difficulty which experienced the biggest problems as a result of the refusal of credit.

Some 90% of respondents feel the government should take action to address the lack of availability of credit – mainly by instructing the banks to do so. While this would probably make little difference in the current regulatory environment, there were some suggestions with regard to direct government financing of businesses through existing grant funds that might bear examination. However, measures like this would have to be capable of withstanding examination by EU authorities.

The overall negative view may appear at odds with the findings of the Bank Credit section of this report, but this probably reflects the differing environments of the people involved. In many cases practising accountants only see their clients when they have a tax return to submit or a problem to solve. This means that they will meet more than their fair share of businesspeople experiencing difficulties with their banks.



The Culture for Entrepreneurship in Ireland

CPA | Entrepreneurship Report II

The very word culture suggests something ephemeral and intangible. When it comes to enterprise and entrepreneurship however, culture is far more important than the more tradable assets represented on a balance sheet.

A positive culture in relation to entrepreneurship in a society can make a remarkable difference. The classic example to illustrate this is Silicon Valley. It has no physical natural resources which make it the world’s capital for IT innovation. It doesn’t even necessarily possess a natural supply of people for the industry; it instead attracts people from countries across the globe including Ireland.

What it does possess in abundance is access to funding but more importantly, it has a positive attitude and culture towards entrepreneurship. This is reflected in the enormous number of start-ups which emerge from the Valley every year. To make direct comparisons between Ireland and California would be unfair and dishonest. The differences between the two in terms of wealth and history are simply too great. However, when viewed in our own context it turns out that the culture in Ireland is quite a positive one as far as entrepreneurship is concerned.

A Radical Transformation

Paddy Hayes of CST International has founded several businesses over the past 40 years and has seen a radical transformation in the climate and culture for entrepreneurship in Ireland during that period. “There has been a



John Dea,
Enterprise Ireland

“We are talking to entrepreneurs from overseas as well and they say that the culture here is a good one”

huge change and improvement in the culture for entrepreneurship in Ireland over the past few decades. When I started out in 1972 I don’t think the word had been invented; now it is seen as the engine of growth, employment, and wealth.”

Mark Fielding of ISME has also witnessed sustained improvement over a long period. “When I started out in ISME 12 years ago, people didn’t know what an SME was. Small businesses, SOLOs and SMEs were not on the radar. There was a perception that small business owners were chancers. We now have improved understanding and the perception of SMEs has improved. The attitude to failure is also changing. But that’s a slow process.”

Confirmation of this comes from John O’Dea of Enterprise Ireland. While the agency’s remit mainly involves it in the support of Irish companies, it also seeks to attract overseas based entrepreneurs to start up

their businesses in this country. “We are talking to entrepreneurs from overseas as well and they say that the culture here is a good one”, says John O’Dea of Enterprise Ireland.

Kevin Sorohan of Careergro also believes that the culture for entrepreneurship in Ireland has improved over the years but believes there needs to be greater understanding and appreciation of product entrepreneurship rather than the service type activity which has tended to dominate the landscape in Ireland over the years.

“Ask anyone to name a US entrepreneur and they will mention the likes of Steve Jobs, Mark Zuckerberg, Bill Gates – all product business entrepreneurs”, says Sorohan. “Ask anyone to mention an Irish entrepreneur and they might mention Michael O’Leary, Denis O’Brien, Tony O’Reilly – all business and service entrepreneurs. I went to an event in Cork a couple of years back organised by Cork BIC to bring seasoned entrepreneurs and start-ups together for 24 hours of mentorship and advice. I was very surprised to find that most of the seasoned entrepreneurs came from food companies, hotel chains and service companies. It was all very interesting but I felt it wasn’t, at that time, directly relevant for me. As the founder of a software start-up I didn’t feel like I belonged, which was a strange experience. I have come to the belief since that these different types of entrepreneurs are on different journeys and have different lessons to learn.”

CPA Entrepreneurship Survey

The opinion of CPA members is divided on this issue. Some 45% of the respondents to the CPA Entrepreneurship Survey agreed with the proposition that Ireland has a culture which facilitates and strongly supports entrepreneurs while just 36% disagreed with it. The main focus of dissatisfaction with the current culture tends to be the perceived unfair treatment of entrepreneurs under the social welfare and tax systems.

The fact that entrepreneurs who fail do not qualify for Jobseeker's Benefit was cited as an example of this inequity, as was the lack of a PAYE tax credit.

One respondent stated that "no one or nobody supports the risk takers. Entrepreneurs have to comply with so much red tape and regulation, employment, revenue, health and safety, insurances, rates, and pays for all these things, including exorbitant bank charges. Where is the support?" Several others agreed, saying there is no incentive for people to take risks in starting a business.

CPA Niall Byrne puts it from the perspective of the entrepreneur. "The self-employed are the job creators and people who do that need to be encouraged and nurtured. Employment is not just about being employed. The whole attitude needs to be changed and people need to be encouraged to take the chance and get out there. We need to foster a positive attitude towards self-employment."

Even more trenchant was the respondent who said: "This situation needs to be reversed quickly. You

need a situation whereby risk takers are rewarded and non-risk taking is not rewarded."

This is not to say that the picture is entirely negative. This is a sample of the opinions of some of those who do not believe we have a positive culture for entrepreneurship. The fact that the numbers who do consider the culture to be supportive now outnumber those who do not is a positive sign in itself.

In 2010, when asked the same question some 52% disagreed while just 34% agreed. This positive agreement now of 45% is a significant turnaround in opinion and might indicate improvements in both the climate and culture for entrepreneurship in Ireland.

The GEM Report

These findings are borne out by the latest GEM report for Ireland which found that successful entrepreneurs in Ireland have a high level of status



Jerry Kennelly, *Tweak.com*

"There is a very small group who have become successful entrepreneurs and they are the most valuable people we have in terms of advising the next bunch of start-ups."

and respect for them remains higher in Ireland than in many other countries. However, there are worrying signs of decline in positive attitudes towards entrepreneurship among individuals generally.

The report found the prevalence of those aspiring to be an entrepreneur in Ireland in the future was at a very low level (8.5%) in 2011, continuing the low levels observed in 2010. This is a significant change to the relatively high levels of previous years and now places Ireland behind the average across the OECD and EU.

There is also a continued decrease in the perception of entrepreneurship as a desirable career. In Ireland less than half the adult population (46%) considers entrepreneurship to be a good career choice. This rate has been declining year on year since 2006, when it stood at 70%.

This indicates that a generally supportive culture may not in itself be enough to inspire the entrepreneurs of the future and additional, more concrete actions may be required.

Support from Within

Several contributors to the report spoke of the resources which exist within the entrepreneurial community in Ireland and the need to harness these. "There is a very small group who have become successful entrepreneurs and they are the most valuable people we have in terms of advising the next bunch of start-ups", says Jerry Kennelly, *Tweak.com*. "At present the group of people in Ireland able to start and grow a business internationally is very small in number – no more than 300. We have to increase that number. This

is not something the State can do. It's something for volunteerism within the entrepreneur community. "The State may have a role in facilitating and organising entrepreneurs who would help others."

Michael Lauhoff of Bank of Ireland agrees. "Business people have difficulties in preparing themselves for funding applications, either bank funding or other investments, and they may not be able to afford professional advice. Some system of assistance through mentors or fellow entrepreneurs or volunteer professionals could be set up."

InterTradeIreland's Margaret Hearty also concurs. "One of the things which has struck me as a judge in the Entrepreneur of the Year awards is the number of successful entrepreneurs all over the island who are ready and willing to help other entrepreneurs and up and coming companies by sharing their experiences and insights. This type of help is invaluable and there is a need to capture it and

formalise it, to enable entrepreneurs to gain access to this well of expertise and support."

Encouraging Women Entrepreneurs

One issue, which was barely mentioned at all in the previous Entrepreneurship Report and has since moved into the foreground, is that of women entrepreneurs and the relative lack of them in Ireland. This was also highlighted in the GEM report which found men to be 2.5 times more likely to be an early stage entrepreneur than women. There has been no narrowing of the ratio between the rate at which men and women are engaged as established and early stage entrepreneurs in Ireland, as there has been in many other countries. Compared to men, more women entrepreneurs are engaged in the services sector and their growth aspirations for their new enterprises are less ambitious, the GEM report adds.

Mumtrepreneur Club founder Laura Erskine points to the challenges facing mothers who wish to become entrepreneurs: "Traditional start-up or female networking groups can be intimidating for mothers who juggle a more diverse range of responsibilities, such as being a mum, a businessperson and a homemaker. Confidence is an issue. Men are much more confident than women that they have the necessary skills and knowledge to start a business. Inspiration is also a problem. Men are more likely to know someone who has become an entrepreneur in the previous two years (42%) than women (27%)."

This is reflected in the Enterprise Ireland experience. "When we look at the firms we support we see how few female entrepreneurs there are", says John O'Dea. "We are not too far out of line internationally but we think we could double the number of female entrepreneurs out there through targeted programmes."

Colm O'Gorman of DCU agrees. "Targeted activity at women to help them start up businesses could also be considered."

In this context there was a broad welcome for the establishment of the Competitive Feasibility Fund for Female Entrepreneurs. The €250,000 fund offered assistance of up to €25,000 to female entrepreneurs to investigate the viability of new growth orientated business propositions that had the potential to become High Growth Potential Start-ups (HPSUs). The fund closed for applications on September 4th 2012 and it is to be hoped that funds of a similar nature are established in the future.



CPA Members Survey 2012

Entrepreneurship Education

No one claims that people can be taught to be entrepreneurs. Most subscribe to the “born not made” or “nature plus nurture” views. The former holds that certain people will turn out to be entrepreneurs or at least entrepreneurial in their careers regardless of their education, upbringing and other factors. In the latter case the belief is that there is an entrepreneurial spark in many people but it has to be nurtured and encouraged through education and an environment which celebrates entrepreneurs, innovators and risk takers.

Regardless of the theory subscribed to, there was a strong level of agreement on the need to include entrepreneurship on the educational curriculum at all levels. The objective would not necessarily be to increase the number of entrepreneurs in society, although that would be a welcome side effect. Instead, it would be to foster understanding of entrepreneurs and their needs among the widest possible audience in order to improve the overall climate in the future.

There is also strong agreement that entrepreneurship modules should be included on all second level business courses and that Leaving Cert students should receive career guidance on entrepreneurship. In addition, the third level sector should become much more proactive in terms of creating linkages with the SME sector and identifying potential entrepreneurs among the undergraduate population, with entrepreneurship modules

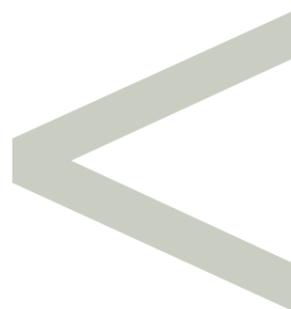
becoming a part of appropriate degree level courses.

“The climate for entrepreneurship can only be significantly improved by starting at grass roots level and fostering entrepreneurship in our education system”, says John Boyle of Ulster Bank. “We need to start educating children about entrepreneurship in the classroom”, adds Patricia Callan, of the Small Firms Association.

Findings and Recommendations:

- Ireland has a positive culture towards entrepreneurship which has been improving in recent years, but more needs to be done to promote the concept of entrepreneurship as a valid career choice.
- Enterprise Ireland should facilitate the establishment of a membership organisation for successful entrepreneurs. This organisation would be used to provide advice to up and coming entrepreneurs, and to promote entrepreneurship generally in the educational, social, economic and political spheres.
- Ireland’s relatively low rate of entrepreneurship among women should be addressed by specific promotional and support programmes. Consideration should also be given to carrying out a national survey to establish what additional supports maybe required to assist women overcome barriers to entrepreneurship which are specific to them.

- Entrepreneurship should be seen as a valid career choice and should be included as part of standard careers guidance to Leaving Cert students.
- Entrepreneurship should be placed on the school curriculum both at primary and secondary levels. The overall aim should be to educate students about the value of enterprise so that they are better equipped to support an enterprise culture in later life.
- Consideration should be given to introducing a specific entrepreneurship module to the Leaving Cert Business and Accounting courses and appropriate third level courses.
- Third level institutes should consider establishing entrepreneurship promotion units to identify and nurture potential entrepreneurs at undergraduate level and develop stronger linkages with the SME community.
- Self-employed individuals and company owner managers should be allowed pay the full rate of PRSI and be eligible for Jobseeker’s Benefit.



Supports and Funding for Entrepreneurship

CPA | Entrepreneurship Report II

State Supports

State supports for entrepreneurship in Ireland can be divided into two areas – those covered by Enterprise Ireland and the rest. Enterprise Ireland focuses its efforts on the achievement of export growth by Irish owned companies. Generally speaking, companies supported have to be High Potential Start-Ups (HPSUs), which show a capability to grow rapidly to become an exporting company; established manufacturing and internationally traded services companies employing 10 people or more; and all companies, in the food and natural resources sectors.

Companies that fall outside of these criteria have a number of avenues through which they can seek and avail of support. Bodies providing this support include InterTradeIreland, Údarás na Gaeltachta, Shannon Development, the City and County Enterprise Boards and the Business Innovation Centres. In addition, there is support available from Bord Bia and Bord Iascaigh Mhara (BIM) for companies in the food and seafood sectors respectively.

Enterprise Ireland

There is widespread agreement that Enterprise Ireland is doing an excellent job in supporting the companies and sectors for which it is responsible. Furthermore, many participants believe the agency has improved on its already strong performance of two years ago. This is supported by the fact that Enterprise Ireland provided assistance to over 90 HPSUs during 2011, up from less than 70 in previous years..

“The breadth of support offered by Enterprise Ireland is second to none”, says John Kelly of AIB. “A lot of lesser known agencies like BIM, Bord Bia and others are doing a great job as well.”

“Enterprise Ireland is very good at supporting HPSUs and has really improved over the past while. All of the emerging sectors are pretty well served now”, adds Michael Culligan of the Dublin Business Innovation Centre.

David Woolfson of Gabriel Scientific is even more fulsome in his praise. “The Enterprise Ireland HPSU programme has worked really well for us. They gave us great support; everything was explained to us. They invested in redeemable preference shares and this helped build the credibility of the company. It also showed others that a degree of due diligence had already been done. Enterprise Ireland has definitely improved over the past two years.”

“Enterprise Ireland is doing a terrific job at the moment, for HPSUs in particular”, adds Norah Casey. “They have also come up with a strategy to encourage more women entrepreneurs and that is good.”

CPA Cormac Fitzgerald also believes the agency is doing a good job. “State supports are helpful if you qualify for them. Enterprise Ireland, Bord Bia and BIM are very proactive. I have got funding and support for clients from them and found them very helpful.”

Enterprise Boards

There was much agreement in relation to the Government’s plans for the future of the City and County Enterprise Boards. No participant was

fully in favour of the move to bring them under the centralised control of a small business unit within Enterprise Ireland.

“The Enterprise Boards are probably the most useful part of the state support system; the first help I got was from an Enterprise Board”, recalls Jerry Kennelly, Tweak.com. “They work and shouldn’t be moved to local authorities.”

Mark Fielding of ISME puts the view of his members more strongly. “Many of our members are apoplectic in relation to what’s happening to the Enterprise Boards. Local authorities are not the place to look after enterprise.”

Patricia Callan of the SFA concurs. “Businesspeople are not impressed with the proposal to merge the enterprise boards into the local authorities. We don’t think it’s a good idea at all.”



Mark Fielding, ISME

“Many of our members are apoplectic in relation to what’s happening to the Enterprise Boards. Local authorities are not the place to look after enterprise.”

Centralised Referral Service

Interestingly, while participants are generally supportive of a continued independent existence for the Enterprise Boards, there is also a widespread belief that their activities should be subject to centralised co-ordination – by Enterprise Ireland. There is also a strong belief that the range of State and quasi-State supports for entrepreneurs is difficult to navigate and there is a requirement for an overarching guidance service to assist in this respect.

This service would act as a single point of contact for entrepreneurs seeking State support or funding from either an agency or one of the several seed and early stage capital funds currently in existence. It would also be a source of initial advice for would-be entrepreneurs who have basic questions to ask before making a decision on taking their idea further.

“I don’t think there is easy access to information”, says Rebekah Brooks of Nubie. “An awful lot of people fall between the cracks. There are 20,000 start-ups a year in Ireland; Enterprise Ireland looks after a few hundred and the Enterprise Boards look after a few thousand, what happens to the rest? There is so much fragmentation of support people don’t know where to start and are afraid of doing so. There is no basic advisory service for people in that position.”

John Boyle of Ulster Bank is in strong agreement: “While the support system provides valuable support it arguably remains somewhat fragmented. Support agencies have also been slow to adopt technology to support businesses. There

is no reason why there is not an online one-stop shop for business. Instead you have a wide range of local and county initiatives using traditional and sometimes overlapping approaches to enterprise support.”

“There are plenty of employment schemes and other support schemes around but they are not properly co-ordinated”, Mark Fielding adds. “There is confusion and a lack of co-ordination. There needs to be one co-ordinating department or body for all employment related support schemes.”

But Norah Casey speaks for many when she says, “It’s really important to have access to locally based advice. But something more centralised is needed without adding another tier.”



Margaret Hearty,
InterTradelreland

“The opportunity lies in the 61% of businesses who say they don’t export. They should be looked at and those that could export given the assistance to do so.”

Eligibility

An issue which was also raised in the 2010 survey is that of eligibility for State support. While the rationale for restricting support to export-led and manufacturing businesses was generally understood, it was neither appreciated nor accepted by many of the participants. In fact, there was a high level of agreement that this policy was actually anti-entrepreneurship in nature and not merely neutral.

“What is wrong with starting a business to serve your local market? Will that not provide jobs and contribute to the growth of the Irish economy?” asks Laura Erskine of MumtrepreneurClub.ie.

“Enterprise Ireland needs to concern itself with all levels of entrepreneurship, not just those who can go on to employ thousands”, adds Rebekah Brooks for Nubie. “There is a need to support entrepreneurship at all levels, in the community and so on, and to make it seamless.”

Paddy Hayes of CST International takes a contrary position, however. “There is a lot of support and encouragement out there for entrepreneurs and would-be owner managers now”, he says. “But the level of supports available should not make a difference to genuine entrepreneurs. The decision to be an entrepreneur or an owner manager is a lifestyle choice. It doesn’t matter whether you’re going around in a van fixing toilets or own a large export business; the motivation tends to be the same – the opportunity to live life on your own terms, to be your own person, to have no boss, to have no security but to be more in control of your destiny. It’s just the size of the payoff that’s different.”

Margaret Hearty of InterTradelreland says “The opportunity lies in the 61% of businesses who say they don’t export. They should be looked at and those that could export, given the assistance to do so. They are already in business and clearly have the expertise to grow. If given the assistance to export, they could make a major contribution to the economy.”

Michael Culligan of the Dublin Business Innovation Centre agrees. “The future potential of early stage firms needs to be looked at carefully to ensure that companies with a capacity to trade internationally later in their lives don’t fall through the cracks.”

Other Supports

In what is possibly a measure of the improvement in business confidence over the past two years, there were almost no calls for additional State funding for business. Instead calls were made for practical assistance such as advice or training, rather than hard cash.

One suggestion was for the State to facilitate the provision of training in key business areas to entrepreneurs. This training could be given either by professionals or fellow entrepreneurs. The recent training initiative by IBEC was welcomed but it was pointed out that this is mainly geared towards larger businesses.

“The main challenges are a lack of management skills and management training”, points out Mark Fielding of ISME. “So many people in business are lacking in basic skills. They don’t have the ability to put a business plan

together. Management development in all areas – finance, sales, marketing, management, HR – is needed for entrepreneurs.”

Patricia Callan of the SFA supports this view. “A major challenge is the lack of skills. There was support for in-company training in the past but this has largely disappeared. I am talking about sales, marketing, HR, and other skills.”

Prof. Colm O’Gorman of DCU suggests a cost-effective way of providing such training. “At a micro level, we might find ways of leveraging existing resources to assist people to become self-employed through grass roots, community efforts. For example, we could use the schools while they are closed to give courses on management, and so on.”

Also within this broad area several participants noted the fact that the majority of small businesses do not have the resources to afford the services of non-executive directors. This was seen as a significant issue for businesses who possess the capacity to grow if given the right guidance. There was also an imaginative proposal for the government to offer a voucher scheme jointly with some of the professional bodies, to assist small firms and entrepreneurs in preparing bankable business plans.

Other very innovative suggestions were for the facilitation of career breaks for people with job-creating business ideas to “road test” them, as well as for entrepreneurs to offer work experience programmes to other aspiring entrepreneurs.

CPA Entrepreneurship Survey

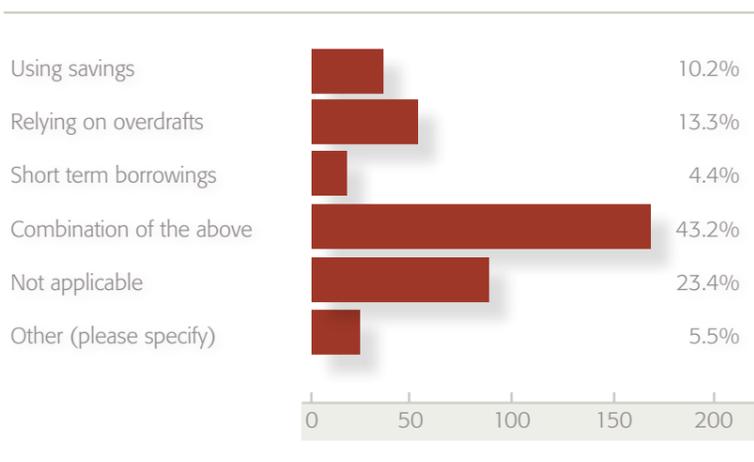
The positive view of the State agencies held by participants in this report was reflected in the CPA Entrepreneurship Survey, with many supportive opinions being expressed particularly for the work of Enterprise Ireland, IDA Ireland and the Enterprise Boards. Access to funding was seen as an issue and a number of respondents expressed dissatisfaction in relation to this. Overall, however, the state support and the non-bank funding structure for enterprise was seen in a positive light.

Funding

The broadly positive attitude in relation to State supports was maintained in relation to sources of funding, other than bank credit, currently available to entrepreneurs and start-up and growth phase businesses in Ireland. There was general agreement that there was sufficient funding available in the seed capital area in particular, but that more needed to be done to facilitate angel investment and investment in micro and start-up enterprises, which do not qualify as HPSUs. The need for additional venture capital to follow on from earlier rounds of funding was also noted.

However, interestingly no one advanced the proposition that additional investment should be funded by the State. The State was seen as a facilitator and provider of incentives, but not as a primary or even a co-founder of further investments.

Generally how are you or your clients financing business and dealing with cash flow pressures?



CPA Members Survey 2012

Availability

Norah Casey expresses a view shared by many when she says "If anyone has a good business model they'll get funding. A lot of business plans are not particularly well thought through. It's always going to be the cream of the crop that gets funding, but that doesn't mean the funding isn't there. There are a lot of people out there looking for good quality investments, but no one wants to give anything to a business that is not viable."

"There is €124 million available in four seed funds", adds AIB's John Kelly. "There is no shortage of seed capital in Ireland. What might be missing is a bit of private equity. A lot of people were cleaned out by the crash. But there is a lot of formal capital out there."

And there certainly has been a lot of activity in the venture and seed funding areas over the past few years. The recently published Enterprise Ireland Seed and Venture Capital Programme

Report 2011 showed that Irish venture capital firms supported by Enterprise Ireland made 131 investments in 93 companies with a value of €60 million in 2011. This marked a 43% increase on the value of investments in 2010 and represents a significant result, mirroring the strong performance by Irish exporters in 2011, as well as the increase in the number of start-up enterprises supported by Enterprise Ireland during the year.

In July it was reported that close to €155 million of the total €175 million under the Seed and Venture Capital Programme 2007 – 2012 has been committed to eleven Seed and Venture Funds. In total, these eleven funds have in excess of €630 million under management for investment in early stage and growing companies. Approximately €20 million is remaining and a call for expressions of interest was issued, with the objective of Enterprise Ireland making a number of commitments to fund managers

focussed on assisting investee companies to "go fast to market". Attracting international syndicates of investors is also an objective.

"This is a golden era for seed capital", says John O'Dea of Enterprise Ireland. "There won't be as much a few years down the road. Maybe now is the time to look at putting in place the next series of funds."

A New Incentive

When it comes to filling whatever gaps exist in the funding infrastructure, there was strong support for a new form of tax incentive to attract private investment in start-up and small businesses. There is a belief that existing forms of relief for investment in schemes such as the Employment and Investment Incentive Scheme (EIS) could be viewed as a tax shelter rather than a genuine incentive for investment in growth businesses.

As one participant put it: "There is no linkage between the relief and the growth or performance of the investee firms; it works a bit like an interest free loan, with the investor getting very generous tax relief to compensate them for the risk of not getting their money back. It's a very useful scheme but we need something which links risk and reward much more effectively."

The proposal which receives most support is for a new form of relief which would be offset against dividend or other income arising from the investment. It would be directly related to the amount invested – possibly a double tax credit – but the business would have to perform and grow for the investor to reap the benefit of the tax relief.

The thinking behind this is that investors themselves would become the assessors and evaluators of the growth prospects of a business. It was suggested that this would be one means of making non-manufacturing or exporting companies more attractive to investors and that the relief should also be available to people to invest in their own businesses, under tightly controlled conditions.

Finally, the incentive would be made available as widely as possible in order to help stimulate the establishment of new enterprise investment funds within Ireland, whilst also encouraging traditional sources of early stage finance, such as friends and family.

CPA member Cormac Fitzgerald supports this proposal. "There are lots of incentives for investors out there but the one that really succeeds is tax", he says.

"It would be helpful to have new tax incentives for investors", adds Patricia Callan.

"Whether we like it or not, tax has a powerful stimulating effect", notes John Kelly. "Maybe taking the old tax break for the capital invested and turning it on its head by giving the tax break on the returns might work."

Angel Funding

There were mixed views on the effectiveness and availability of angel funding to entrepreneurs in Ireland. One viewpoint held that angels were only interested in businesses they already understood and weren't really in the market for investments in sectors outside of their previous experience. The main reason for this

is believed to be the lack of funding available to the individual angels. In short, Irish business angels tend not to be as wealthy as their international counterparts and are therefore more risk averse and want to remain in their comfort zone.

Another view was that angels don't have the time or the energy to keep learning about new sectors and business models and this is what prevents them from investing in them.

A solution to both issues which was proposed by a number of participants was the establishment of what might be termed a Fund of Angels. This would be a professionally managed investment fund which would invest in businesses on behalf of its angel investors, who could select which investee companies they wished to play a more active role in. Investors in the fund would be eligible for the new form of tax relief mooted above.

Patricia Callan is supportive of this proposal. "The only formal schemes for angels seem to be involved with state agencies; maybe some sort of fund structure with a tax incentive would help stimulate activity."

"I'd like the idea of angels getting into a fund", says Kevin Sorohan of Careergro. "That way companies would be dealing with professional people who would make the investment decisions."

"Angel investment has come on a bit over the past two years", notes John O'Dea. "The culture is changing and we are seeing more activity there. There may be a case for some kind of angel fund".

Venture Capital

The attitude of participants to Ireland's venture capital community was broadly positive, with some regretting the lack of capital available to it in the current climate. Others made the case that venture capital firms were actually complaining about a lack of deal flow and the dearth of investment opportunities available to them.

This mismatch in opinion is possibly inevitable given the different standpoints of the people involved. Venture capital is not generally suitable for small businesses which fall outside of the HPSU space and never will be. Seed and other funds are the way forward for those businesses and there were a number of very practical and creative suggestions made in relation to that.

Where a real gap was identified was for those firms looking to make a major leap into international markets and funding in excess of €10 million is required. Norah Casey points out that if the country wants to grow the next Kerry or CRH, this funding gap needs to be addressed.

David Woolfson of Gabriel Scientific is disappointed that the gap still exists. "It's a pity really because the Irish economy is good at producing good businesses, but which fail to grow or disappear out of the country due to lack of investment. We need to attract UK, Middle East and US venture capital firms to look at Irish companies."

Employment Investment Incentive Scheme

Any participants who mentioned the Employment Investment Incentive Scheme (EIS) spoke about it in very positive terms, but the majority of them lamented the lack of awareness of the scheme among the wider public. Michael Culligan summed up the general viewing, describing it as a “super scheme” and calling for a publicity programme to generate awareness and understanding of it.

New Investment Funds

The overall positive mood of participants was sustained in the area of new funds. There is a belief that Ireland has large numbers of entrepreneurs who would be willing to give financial backing to other entrepreneurs and become actively involved in advising them as well.

“Lots of successful entrepreneurs have money and would be interested in investing in start-ups. A means to tap into that source of funding should be developed”, says Margaret Hearty. “We need to establish a national network of successful entrepreneurs who are willing to invest in businesses or advise entrepreneurs or do both.”

Out of views such as this came the proposal for what might be termed an “entrepreneurs’ investment fund”, which would facilitate existing successful entrepreneurs to invest in new start-up businesses. It would also

facilitate the involvement of individual entrepreneur-investors in providing advice and other forms of non-financial assistance to investee companies, with events being held to bring the two parties together.

Guidance

Among the key issues raised by many participants in the report was the lack of a signposting or guidance service for entrepreneurs seeking funding. Several made the suggestion that the centralised referral service proposed to guide would-be applicants for State supports should be made responsible for this area as well.

New State Development Bank

Within the broad area of investment funding for early stage business, there were a small number of suggestions for the State to re-examine its role in the development banking arena. This is effectively proposing the re-establishment of the Industrial Credit Corporation which fulfilled this role for a long number of years. There was a reasonable degree of support for such a move which would see a specialist bank with a risk-taking mandate being established. However, it was also proposed that such a bank should be established on a public private partnership basis and should be mainly engaged in areas such as seed fund participation, rather than becoming what would effectively become an alternative grant giving agency through the provision of “soft loans”.



Michael Culligan,
*Dublin Business
Innovation Centre*

“The future potential of early stage firms needs to be looked at carefully to ensure that companies with a capacity to trade internationally later in their lives don’t fall through the cracks.”

Findings and Recommendations:

- The overwhelming view is that the State is doing a good job in supporting enterprise and entrepreneurship at the moment. There are of course some minor caveats to this but the main proposals and suggestions made are aimed either at making existing services more efficient and effective, or at supplementing them with private sector involvement.
- Similarly, the funding environment is regarded as healthy and the thrust of proposals in this regard is to attract additional private sector investment in start-up and early stage business in Ireland.

- The decision to place the City and County Enterprise Boards under the control of the local authorities should be rescinded. Instead, a single point of contact for all Enterprise Boards should be created within Enterprise Ireland to make them easier to access.

- The Employment and Investment Incentive and Seed Capital Scheme is not sufficiently well understood and hasn’t received adequate promotion. This needs to be done by the Department of Jobs, Enterprise and Innovation.

- A professionally managed Angel Fund should be established to enable risk to be spread and to put in place the expertise to assess investments in new sectors.

- The Department of Foreign Affairs and Trade should investigate the establishment of a specific “Diaspora Fund” which would be aimed at attracting investment in Irish enterprise by members of the Irish Diaspora worldwide.

- It is accepted that traditional banks should not be expected to provide risk finance to business. It is therefore recommended that Government investigate the re-establishment of specific development banks possibly in a public private partnership structure.

- A tax incentive, in the form of a tax credit equal to the initial sum invested and claimable against future dividends, should be offered for investments in

all employment generating businesses including, in certain circumstances, an entrepreneur’s own business.

- An “entrepreneurs’ investment fund” should be established to encourage existing successful entrepreneurs to invest in new start-up businesses.
- Individuals should be allowed to access their Pension Fund Additional Voluntary Contributions, or indeed a proportion of the fund itself, for the purpose of investing in employment generating enterprise.



Bank Credit

CPA | Entrepreneurship Report II

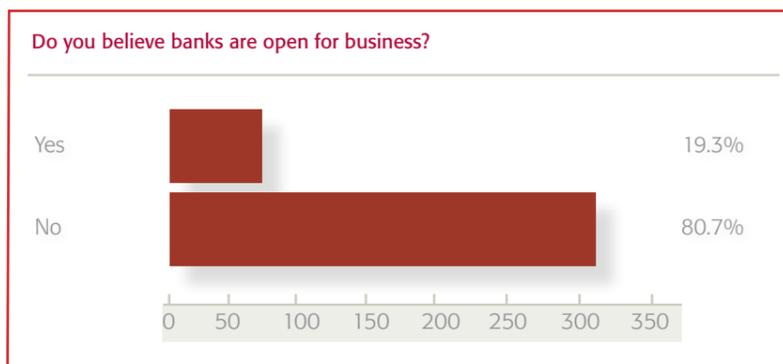
The issue of the availability of bank credit to business is most certainly not a new one. As far back as the 1930s, the government saw fit to address the difficulties faced by industry and agriculture in obtaining bank loans through the establishment of what became known as the Agricultural Credit Corporation and the Industrial Credit Corporation.

Despite the existence of the latter organisation, credit availability to business continued to be a thorny issue. Various efforts were made by governments to bridge the so-called "equity gap" – the piece of financing short of equity sale that it was believed was missing for business. For Teo was set up in the 1980s as a State rescue agency to lend money, or in reality give it, to ailing businesses while a central plank of the 1992 partnership government's programme was the establishment of a "third force" in banking which would address both business credit availability and the cost of consumer credit.



Patricia Callan, SFA

"I'd worry if the recession doesn't end soon and many business people's personal reserves start to run out."



CPA Members Survey 2012

Nothing seemed to work. Until we joined the euro, that is. The availability of money to Irish banks from the wholesale markets at hitherto unimaginably low rates was certainly a game changer. Just how much of one we had to wait until September 2008 to find out. In the meantime, the massive inflows of capital inflated a property bubble and made finance available to almost any business with a property backed investment to make. This meant that businesses fortunate enough to own their premises were able to borrow against them if necessary.

The overall boom in the economy also tended to disguise the fact that little had changed in relation to general unsecured bank lending to business. Buoyant trading conditions meant that many businesses were able to fund growth out of cash flow while many of the expansions which did attract bank support tended to be so-called property plays.

Of course, there was also ample funding for merger and acquisition activity, management buy-outs and so on and this also had the effect of pushing cash into the system.

This grounded to a shuddering halt towards the end of 2007 and by the end of 2008, the banking guarantee had been made, Anglo Irish had

been nationalised and the need for a significant recapitalisation of the whole indigenous Irish banking sector had been recognised.

This put bank lending to business into what one participant in this year's report describes as a "deep freeze". "It made what was a bad situation for businesses even worse. Their sales had fallen off a cliff but they weren't able to reduce costs at the same rate. When they went looking for facilities from the banks to tide them through, they couldn't get them. Many good businesses went to the wall because of this."

The 2010 Position

This was the context which underpinned some of the strong feelings expressed in relation to the banks in the 2010 Report. Two years ago, there was a veritable storm raging on the subject, with ISME claiming that 55% of credit applications from small firms were being refused and Mazars putting the figure at just 12.5%. There was no meeting of minds on this conflict with differences in research methodologies being the only explanation for the wide variance between the two figures.

That said, there was also a strong element of balance to the range of views

expressed, with general agreement that traditional banks should not be in the risk finance business. There will, of course, always be a difference of opinion on what exactly constitutes risk finance.

A Marked Shift

There has been a marked shift in attitude since 2010, with expressions of outright hostility to the banks almost completely absent among contributors, while even among those critical of the banks there is a stoicism, notable for its absence two years ago.

One example of this change is the reaction, or indeed lack of one, to the recently published Central Bank of Ireland research into bank credit availability. This compared Ireland very unfavourably to other European countries and claimed that Greece was the only country in Europe where businesses found it more difficult to obtain credit.

Two years ago this would have been greeted with predictable and justifiable outrage. This time out, however, it was barely even mentioned by participants and views were decidedly muted even when prompted.

On the other hand there was widespread support for the introduction by the Government of a partial loan guarantee scheme – something which was recommended in the 2010 Report.

Interestingly, there was quite strong support for the proposition that the banks should be cautious when it comes to business lending. One participant, who preferred not to be identified in relation to this topic, put it thus: "For years we complained that the banks were too risk averse and wouldn't lend

to anything or anyone and then they did what we wanted them to do and they nearly broke the country. Now they're doing what we want them to do again and we're complaining again. There are no winners in this one. I have money on deposit with a bank and I wouldn't like to think they were lending my money to someone like me without proper security. Maybe if we all looked at it that way, we'd have a different attitude towards the banks."

Colm O'Gorman of DCU holds a similar view. "Sometimes the banks are right; it does make sense that they are cautious when lending to early stage business. I like to be able to go to an ATM and get my money out. Banks should not be purveyors of risk finance."

Patricia Callan of the SFA reports that her members are reporting refusal rates well ahead of the official figures from the Credit Review Office (CRO). "We are seeing a 30% rejection rate at the micro level", she says. "27% of members say it's a key issue; the rest say it's fine. I'd worry if the recession doesn't end soon and many businesspeople's personal reserves start to run out. In the absence of a competitive banking market, it will be difficult for businesses to get the loans they need."

Mark Fielding of ISME says his members are having a similar experience. "Once you can get to the right person you have a chance. But how many people out there don't have a representative organisation or professional adviser to help them get to the right person?" he asks. "The relationship between the banks and small businesses is broken. There is a divergence between what our members are being told in the branches



Prof. Colm O'Gorman, DCU

"Banks should not be purveyors of risk finance."

and what the banks are saying publicly in HQ. There is a dichotomy between the public statements and the practice."

TV "dragon" and successful publisher Norah Casey holds a different opinion, however. "Perception and reality are two different things", she says. "I know that Bank of Ireland is working very hard for example. Banks have to lend, it's the only way they can make money. In my business clinics, I see many weak funding propositions and I can get annoyed when I see them. We encourage anyone who we feel has a good proposition to go to the bank. The banks are doing a good job."

Another quite positive view comes from CPA Cormac Fitzgerald. "It's very difficult to access finance from the banks but I have seen some improvement over the past six months", he notes. "I have some clients who have managed to get funding who wouldn't have wasted their time before this. The main banks are starting to reengage with their customers and this is a positive thing to see."

Business viability is a key question. "Banks have a bad reputation but businesses have to be viable", says Rebekah Brooks of Nubie.

"If you don't have the cash flow to pay the wages, you can't repay a loan. Good propositions aimed at generating sales will get the capital they need. You can't blame the banks for not filling holes in businesses' income; you have to be realistic about bank finance."

But that's a point that can be stretched too far, according to CPA Jimmy Sheehan, who sees an overemphasis by the banks on lending to strong businesses. "The standard reply to that question is that they are not lending. Bank managers say they are. It's almost comical when they say 'the computer says no'. Sometimes they put up impossible conditions. They are mainly lending to businesses that don't need it. That is the problem at the moment."

Entrepreneur Jerry Kennelly shares this sense of frustration. "My general impression is that businesses are getting squeezed by the banks. They'll either refuse you outright or they'll kill you with time. I know someone who put in a loan request to do something fairly immediate that would reap very quick benefits. The bank said it would take six weeks – that was too late for them but doesn't count as a refusal by the bank."

Jimmy Sheehan is among several contributors who believe that applications refused at branch level may not be recorded as formal refusals at head office and this goes some way to explaining the discrepancy between the reported experiences of small businesses when seeking loans and the statistics produced by the CRO. On the other hand, Margaret Hearty of InterTradelreland points out that their research shows that only one in ten early stage businesses have approached a bank seeking finance.

John O'Dea of Enterprise Ireland points out that early stage, high risk ventures really aren't suitable for loan finance of any kind without some form of security.

On the other hand, he does believe the banks are doing their bit for early stage businesses. "A lot of early stage companies don't have sales and can't borrow", he notes. "The critical first two years when they are trying to build up sales is when they need money and banks are in that space through the seed funds."

The banks themselves have their own views on the situation. "We have sufficient capital to meet the needs of business", says John Kelly of AIB. "We went from being cash flow lenders to asset lenders and now we're going back to being cash flow lenders again. People have to provide us with a lot more information now if they want their credit application to be seriously considered. Is everyone satisfied? Absolutely not, but nine in ten applications that come in formally are being approved. We are very supportive of the CRO and have our own appeals process now."

Bank of Ireland's Michael Lauhoff makes broadly similar points. "We have the capital available to lend to businesses", he says. "If we don't lend to business, the economy won't recover and if the economy doesn't recover, we won't recover. And if we don't lend money, we don't make money."

"We didn't get enough information in the past from businesses applying for loans but now we have to get proper information and business plans", he concedes. "Business plans needn't be glossy documents that you spend thousands of euro on being prepared by consultants. What we want to know is what a business does, where it is going and how it is going to get there. We need to convince our customers that there are no negative implications whatsoever in having a credit application turned down. In fact, businesses can learn from having one turned down and this may help them with future applications."

John Boyle says Ulster Bank continues to make credit available to viable businesses. "We continue to assist the cash flow and working capital support needs of small businesses and have a defined appeals process in the event that a small business loan application is unsuccessful. We welcome recent initiatives such as the common loan application form and the upcoming government partial loan guarantee scheme and will be fully engaged in the rollout of this development."



Rebekah Brooks, Nubie

"You can't blame the banks for not filling holes in businesses income; you have to be realistic about bank finance."

CPA Entrepreneurship Survey

The results of the CPA Entrepreneurship Survey were far more negative, with 80% of respondents believing Irish banks are not open for business, while over 92% said SMEs do not have sufficient access to credit. Half of respondents' clients had been refused credit in the past twelve months, resulting in cash flow problems and lost growth opportunities.

In addition, some 43% said their clients were financing businesses through a combination of their personal savings,

overdrafts and short-term borrowings. More seriously, 66% said they had seen viable businesses getting into trading difficulties as a result of a lack of credit from the banks.

This strongly differing viewpoint is possibly explained by the situation in which many CPA members find themselves. Professional accountants tend to be problem solvers for their clients when not processing routine matters, such as tax returns and audits. Therefore, they will encounter businesses in difficulty far more frequently than people in other walks of life. This doesn't render the results of the survey any less accurate, quite the opposite, it points to the reality of life for many owner managers in Ireland today.

Improving the Situation

According to CPA Dick Blake, another positive initiative to improve access to credit has been taken by the Consultative Committee of Accountancy Bodies - Ireland (CCAB-I) and the Irish Banking Federation (IBF), who have joined together to produce a new Business Plan Guide for small businesses.

Developed by Ireland's four accountancy bodies represented by CCAB-I and the Irish Banking Federation, the guide will assist Irish SMEs in the development of business plans as part of applications to banks for credit. The guide contains practical support for local businesses to improve the quality and success of loan applications and speed the lending decision process.

CCAB-I comprises the four main accounting bodies in Ireland - Chartered Accountants Ireland, the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants and the Institute of Certified Public Accountants in Ireland.



CPA Members Survey 2012



Cormac Fitzgerald, CPA

"I have some clients who have managed to get funding who wouldn't have wasted their time before this. The main banks are starting to reengage with their customers and this is a positive thing to see."

"This will be helpful in that it will provide the basis for a more coherent approach to the banks", says CPA Niall Byrne, who is a member of the CCAB-I committee representing the Institute of Certified Public Accountants in Ireland.

This need for assistance with business planning and credit applications was identified by several contributors to the report. "What is needed is assistance for growth phase businesses to put together bankable business plans", says

Margaret Hearty. "The InterTradelreland Seedcorn Competition does this but there is a need for additional advisory services in this area."

Clash of Cultures

Another issue which was raised by a number of contributors was something of a clash of cultures between banks and the business community. The point was made that the banking business is so different to other business sectors that there is almost an inevitable disconnect or lack of understanding between the two. There was simultaneous appreciation for and frustration with the position of bank staff who are being asked to assess the risks of businesses they don't necessarily understand.

A solution put forward for this is for business banking staff to spend time with Enterprise Ireland and the Enterprise Boards on what might amount to training assignments. This would give the bank staff insights into not only the needs of business, but also how particular sectors work.

According to John O'Dea of Enterprise Ireland, there is already a much closer working relationship between the agency and the banks and that is to be welcomed. Furthermore, there were several compliments paid to

both AIB and Bank of Ireland for their efforts in recent years to engage and communicate more proactively with their SME customers.

There was also an acceptance that the cultures would always be different and that you could no more expect "a banker to think like a games developer than you can a games developer to think like an insurance broker", as one contributor put it.

"There needs to be a change in culture in the banks to make them see part of their role as supporting business", Paddy Hayes adds. "But business propositions are terribly difficult to assess in advance. Most people think they would be good at running a business but in the end they are not. We need a situation where banks do support more businesses without being forced to."

CPA Niall Byrne added, "The challenge for the banks is to retrain their staff to understand business lending propositions in an era of cash flow based repayments."

Nevertheless, there is strong support for formalised on-going training for business banking staff with Enterprise Ireland and other relevant organisations and agencies.

Online Reporting Service

One of the most interesting suggestions to come up during the course of the research for this report came from entrepreneur Jerry Kennelly, who mooted an online service for businesspeople to report their experiences of the credit application process. This would allow businesses to report, confidentially or otherwise, in a verifiable way, their experiences for good or ill.

This would specifically address the current difficulty which lies in the definition of a refusal. Businesses which claim that a delay was used to effectively



*Paddy Hayes,
CST International.*

"There needs to be a change in culture in the banks to make them see part of their role as supporting business."

refuse them credit, or that other obstacles were put in their way, could use the site. This would allow others to share their experiences of how they overcame such difficulties and the banks to respond.

When put to other contributors the idea received general support, with one suggestion for putting it into action as an initiative either by Enterprise Ireland or the Department of Jobs, Enterprise and Innovation and funded by the banks.

An additional suggestion is this respect is the creation of a "mystery shopper" style service which would be used to test problem areas should they be identified in any of the banks.

Centralised Lending

The other main issue raised during the research was the highly centralised nature of the bank credit approvals process. While all of the banks argue that the most important factor in deciding on a credit application is the recommendation from the local branch, this does not mean that the central lending department does not have the power of veto for any one of a number of reasons.

There were several calls to grant authority to local branches to approve business credit applications to certain limits.

In addition, many contributors lamented the degree to which the autonomy of local managers has been eroded in relation to personal as well as business credit. It was pointed out that in the past, a large degree of informal business lending took place in the form of personal credit advances to businesspeople. The local bank managers knew the true purpose of the loans but also knew the people they were lending to and regarded this as adequate security. A return of this level of autonomy, subject to strict limitations was called for by many contributors.

Findings and Recommendations:

- The overall level of satisfaction with the banks among entrepreneurs and CPA members appears to have improved over the past two years.
- There is broad agreement that banks should not be in the risk finance business but there is also a feeling that they might have become too risk averse as a result of their own recent experiences.
- The centralisation of bank lending to headquarters has led to the disappearance of a form of informal personal lending which played a vital role for many businesses in the past. The banks should examine the possibility of granting greater autonomy to local managers for personal credit applications subject to strict conditions.
- It should become mandatory for bank business staff to spend several days each year in Enterprise Ireland or with Enterprise Boards in order to gain a greater understanding of the evolving needs of modern businesses. Also, retraining is required to understand lending propositions in an era of cash flow based transactions."

The Taxation Environment

CPA | Entrepreneurship Report II



Jimmy Sheehan, CPA

"The tax system is as fair as it can be but it was wrong to raise VAT as this has eaten into retailers' margins",

Among the few areas where there was almost no dissent among contributors to this report was the taxation environment. There was widespread agreement that the Irish tax system is fair, equitable and transparent, with few if any calls for changes to it.

The Revenue Commissioners once again came in for high praise for their proactive and generally helpful attitude towards business. In addition, many contributors say that the Revenue Online Service (ROS) is an example of how all areas of Government should interact with business. They also point to the fact that Revenue is facing difficulties in ensuring taxes are paid in time in the current economic climate, but is dealing fairly with businesses which are in arrears.

"The tax system is not a problem", says entrepreneur Jerry Kennelly. "The 12.5% rate is still there and needs to be retained. I get the impression that Revenue does give people an even break. The system is run efficiently."

"The tax system is as fair as it can be but it was wrong to raise VAT as this

has eaten into retailers' margins", says CPA Jimmy Sheehan.

"There is nothing wrong with the tax system itself, it is just that the income tax rates are too high", adds CPA Niall Byrne. "People will accept this if they know there is a plan to bring them back down again at some point. People like to see light at the end of the tunnel."

Other Tax Issues

While the system of corporation tax is widely lauded, there is an issue relating to the level of income tax paid by entrepreneurs. Entrepreneurs, even if they are employees of their own companies, do not enjoy the same level of tax credits as other PAYE workers, meaning that they pay a higher effective rate of income tax on their earnings.

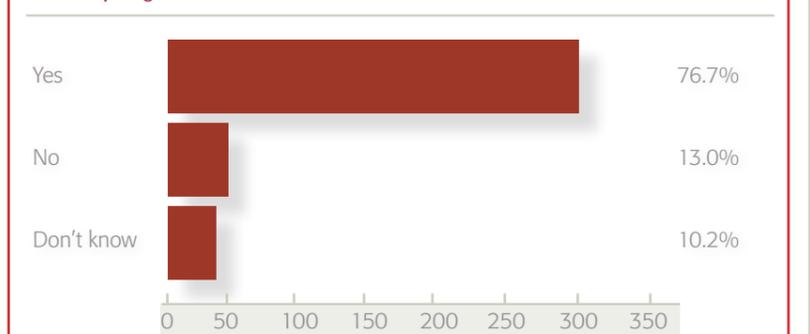
According to the Revenue Commissioners, "All PAYE taxpayers are entitled to a tax credit known as the PAYE Tax Credit. This is worth €1,650 in 2011 (from €1,830 in 2010). If you are married and taxed under joint assessment, then you and your spouse may both claim the PAYE Tax Credit."

This does not apply to self-employed persons and proprietary directors of companies, however. This is seen as a significant disincentive to entrepreneurs.

"The income tax system is unfair to self-employed people who don't get the same tax allowances as employees", says Niall Byrne. "Self-employed people lose out on the PAYE tax credit and this is unfair. They are also liable to the Universal Social Charge (USC) at rates up to 10%, unlike salaried workers whose maximum rate is 7%."

There is also widespread criticism of the fact that entrepreneurs are not entitled to Jobseekers Benefit should their businesses fail. In addition, some entrepreneurs referred to the lack of marginal relief for employees when they change rates of PRSI and the problems this can cause them as employers. Furthermore, the lack of tax credits and/or other incentives for entrepreneurs to subsidise their start-up businesses out of savings or other earnings was highlighted.

Does more need to be done to make the tax regime less onerous on entrepreneurs and early stage businesses?



CPA Members Survey 2012

On the question of VAT, there were a number of calls for thresholds to be raised to at least the UK level, which currently stands at more than €85,000 as opposed to the Irish threshold of €37,500 for service businesses and €75,000 for others. These calls were made mainly in the interests of simplifying business administration, rather than as a means of lowering the burden of taxation. Several contributors point out that Northern Ireland based businesses enjoy a competitive advantage in this regard.

These views find an echo in the CPA Entrepreneurship Survey where almost four in five respondents agreed that more should be done to make the tax system more favourable to entrepreneurs. This was also a finding of the 2010 Report.

Finally, a number of contributors referred to local authority commercial rates as representing quite a burden on small business. One small rural business reported an annual rent bill

of €10,000 and a local authority rates bill of €5,000. There were a number of calls for government to introduce a more equitable system and to ensure that cash strapped councils do not increase this burden still further.

Findings and Recommendations:

- The Irish system of corporation tax is positive for entrepreneurs and should not be changed.
- The Revenue acts fairly and reasonably where a business is in arrears in its taxes.
- The Revenue Online Service is extremely effective and its example should be followed by other Government Departments and agencies.
- Entrepreneurs who subsidise their start-up ventures through keeping on another job should receive additional tax credits to incentivise them to do so.
- There is a widespread perception that the burden of local authority funding is falling disproportionately on the shoulders of the SME sector. It is recommended that a national system of commercial rates be introduced as part of an overall reform and rationalisation of local government.
- VAT thresholds should be raised to at least the UK level, which currently stands at more than €85,000 as opposed to the Irish threshold of €37,500 for service businesses and €75,000 for others. This would both ease regulatory burdens

and address the competitive disadvantage experienced by some businesses in the Republic of Ireland compared to their Northern Ireland counterparts.

- The income tax system should be amended to grant the same tax credits to self-employed workers as those enjoyed by PAYE employees.
- As part of the current review of the PRSI system, anomalies such as the lack of marginal relief when changing rates and the non-qualification of self-employed individuals for Jobseeker's Benefit should be addressed.

Compliance and Regulation

CPA | Entrepreneurship Report II

Among the most noteworthy aspects of this year's CPA Entrepreneurship Report is the lack of complaints about red tape and the weight of compliance and regulation in Ireland.

More than one contributor noted the very different climate which existed in the latter part of 2010 and pointed to the pressing issues of the day as a reason for the change in attitude now.

One issue in particular which was raised in 2010 was employment regulations. It was claimed that these presented real difficulties for owner managers who didn't have the time or resources to become experts in labour law. However, that was in all likelihood because employers were forced to implement quite drastic cost cutting measures at the time, including staff and pay cuts.

The relative stabilisation in the economy, coupled with the fact that much of the cost paring has already been done, in the private sector at least, means that employment regulations are no longer top of mind for most entrepreneurs and SME owner managers.

"I meet people who say it is a problem but I don't think this is the case", says TV dragon Norah Casey. "I don't think we have any more red tape than anywhere else – maybe less."

This is not to say that more could not be done to improve the overall situation, of course, and several contributors made points in relation to specific issues.

Cormac Fitzgerald, CPA, commented, "For start-up businesses, things like fire and health and safety regulations can



Norah Casey, publisher

"I don't think we have any more red tape than anywhere else - maybe less."

be quite daunting. We have produced a 30 page guide for our own clients to help guide them through it. Standards have to be there of course, but maybe there could be some degree of flexibility for start-ups. Red tape can delay a start-up by six months. This is very bad; entrepreneurs need to be encouraged and this has to be tackled."

Mark Fielding of ISME points to the licences as representing a particular problem. "Overall it's not bad but the licence side of things is terrible. One member in Kerry needs twenty different licences to operate. This desperately needs to be rationalised. There needs to be a strong element of self-certification to much of it as well as automatic renewal. I have to say it is getting a bit easier and government is becoming more responsive. It is slightly easier to get the ear of officials."

The SFA's Patricia Callan concurs. "There has been good progress on this and starting up a business in Ireland is relatively cheap and easy in terms of regulation. One issue is on licences for the retail sector and this could be streamlined."

Rebekah Brooks of Nubie agrees in relation to the overall picture but says "business forms should be reassessed for their language and structure to be made easier to understand and complete".

The fact that a degree of form filling is required where taxpayers' money is concerned is pointed out by John O'Dea of Enterprise Ireland. "State supports are necessarily bureaucratic because it is taxpayers' money. We are getting better at explaining to them what they need but we need to improve further. Overseas entrepreneurs tell us that Ireland is a very easy and supportive place to start a business."

Another issue raised was the perceived overly bureaucratic nature of public procurement systems. It was pointed out by several contributors that private sector organisations are in the business of making profit and are therefore highly unlikely to run procurement systems with a view to getting less than the best value possible. It was also pointed out how flexible, quick and efficient private sector procurement systems tended to be for all parties concerned and it was suggested that the public sector had something to learn from this.

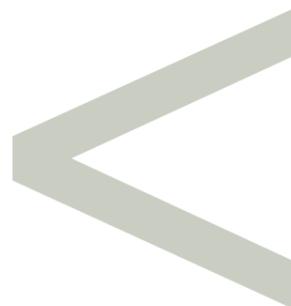
CPA Entrepreneurship Survey

The perceived fall in importance of labour law and employment regulations is reflected in the CPA Entrepreneurship Survey, where almost half of the respondents had no opinion on whether the reform of State industrial relations services would reduce red tape for business. Less than 40% thought it would.



Niall Byrne, CPA

"The income tax system is unfair to self-employed people who don't get the same tax allowances as employees."



CPA Entrepreneurship Report 2012 Recommendations

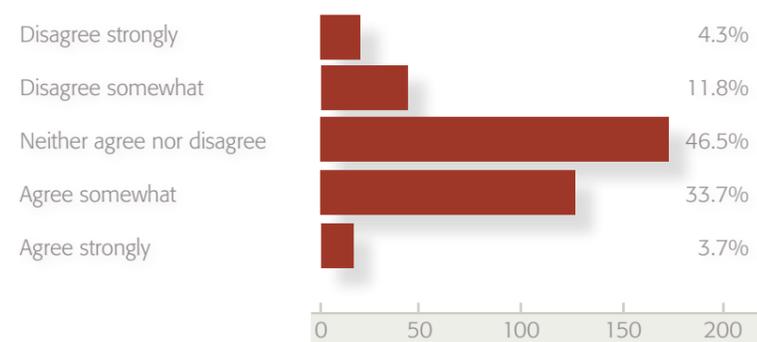
CPA | Entrepreneurship Report II

Findings and Recommendations:

- The overall situation regarding compliance and regulation in Ireland has improved in recent years and continues to improve.
- There is general agreement that licensing for retailers and other industries presents a problem for those unfamiliar with the systems and bodies involved. The system should be rationalised with the Department of Jobs, Enterprise and Innovation taking responsibility where possible for the issuing of all business licences and where that is not practical, for the co-ordination of their issuance by other departments and agencies.

- All State business forms and documentation should be reviewed for their ease of use and understanding and redesigned and rewritten to make them more accessible.
- Public procurement systems are perceived as far too cumbersome and bureaucratic to make commercial sense. The systems should be overhauled to deliver the required transparency as well as the flexibility required to deliver real commercial value to the taxpayer.

The Government reform of State industrial relations services is a significant step in reducing red tape for business -



CPA Members Survey 2012

Climate:

- A national campaign aimed at promoting awareness of the damage the black economy can do to employment and legitimate business is required. This campaign could be run by a partnership of affected stakeholders, including industry organisations, Government and trade unions.
- An inter-departmental group led by the Minister for Jobs, Enterprise and Innovation should be established to develop a National Entrepreneurship Policy, which would bring together social, employment, industrial, taxation, educational and enterprise policy as they relate to entrepreneurship.
- Local councils and Enterprise Boards should work with landlords with vacant premises on their hands to make them available on favourable terms to local would-be entrepreneurs.
- Consideration should be given to introducing a flexible form of employment contract, which allows an employer to recruit an unemployed individual on a form of extended trial. If the trial does not succeed, they can resume their Jobseekers Benefit without delay and the employer could look for a more suitable candidate without consequence.
- An unwelcome side effect of the difficult economic environment faced by entrepreneurs is the fact that many of them are no longer making adequate or any provision for their pensions. This needs to be taken into account by the Government

and other relevant agencies in the development of a national pensions policy.

- The need for some form of economic stimulus was mentioned by many participants - several called on the Government to make a permanent resolution to the mortgage arrears situation a priority in its engagement with the EU and the Troika. Such a resolution would have the effect of increasing household spending power, thereby stimulating the domestic economy and relieving pressure on many businesses operating within it.

Culture:

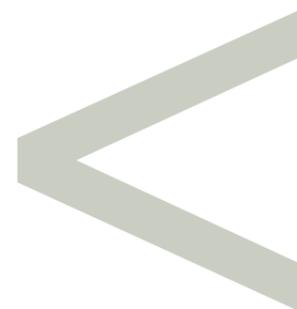
- Enterprise Ireland should facilitate the establishment of a membership organisation for successful entrepreneurs. This organisation would be utilised to provide advice to up and coming entrepreneurs, speakers to schools and universities and promote entrepreneurship generally.
- Ireland's relatively low rate of entrepreneurship among women should be addressed by specific promotional and support programmes. Consideration should also be given to carrying out a national survey to establish what additional supports may be required to assist women overcome barriers to entrepreneurship which may be specific to them.

Education and Skills:

- A National Skills Register should be established to allow employers to find the people with the skills they need. The register would be open to

all people whether in work or not and would be free of charge to all users.

- There is a perceived dearth of sales skills and talent available in Ireland at present. It is recommended that practical sales modules be included in all second and third level business courses.
- Entrepreneurship should be seen as a valid career choice and should be included as part of standard career guidance to Leaving Cert students.
- Consideration should be given to introducing a specific entrepreneurship module to the Leaving Cert Business and Accounting courses.
- Appropriate third level courses should contain a module on entrepreneurship.
- Third level institutes should consider establishing entrepreneurship promotion units to identify and nurture potential entrepreneurs at undergraduate level.
- The stronger linkages between business and the third level sector were acknowledged. However, many participants felt that the SME sector had been left behind in this and called on the third level institutions to make greater efforts to engage with SMEs in their local areas.
- Short management skills training courses should be offered to entrepreneurs by the State. These would cover areas such as finance, sales, marketing, HR, project management and so on and could be given in local schools during holiday periods or other public buildings with spare capacity.



Supports & Funding

- A centralised referral service should be established to act as a single point of contact for entrepreneurs seeking State support or funding, from either an agency or one of the several seed and early stage capital funds currently in existence.
- The centralised referral service should also be a source of initial advice to would-be entrepreneurs who have basic questions to ask before making a decision on taking their idea further.
- State supports should be available to all enterprises with the potential for job creation and not just those engaged in manufacturing or exporting activity.
- Payment of grants for activities such as feasibility studies in arrears poses cash flow difficulties for many early stage businesses. A change to a voucher scheme would alleviate this difficulty.
- The decision to place the City and County Enterprise Boards under the control of the local authorities should be rescinded. Instead, a single point of contact for all Enterprise Boards should be created within Enterprise Ireland to make them easier to access.
- A centralised informal advisory service should be established for business people who need advice on dealing with issues they may encounter. This should be operated by Enterprise Ireland.
- The Employment and Investment Incentive and Seed Capital Scheme is not sufficiently well understood

and hasn't received adequate promotion. This needs to be addressed through a publicity campaign led by the Department of Jobs, Enterprise and Innovation.

- An "entrepreneurs' investment fund" should be established to encourage existing successful entrepreneurs to invest in new start-up businesses. The fund would offer the new tax break recommended earlier and would also have mechanisms to facilitate the involvement of individual entrepreneur-investors in providing advice and other forms of non-financial assistance to investee companies. Specific "events" could be held where fund investors meet individual would-be entrepreneurs who have the ideas and the business plans, but lack the cash to back them.
- There is widespread agreement that Ireland is currently well served in terms of seed funds and other sources of early stage capital. However, these funds have a limited lifespan and priority needs to be given to putting in place successor funds, lest a quite dramatic funding gap emerge in the coming years.
- Many business angels do not have the wherewithal or the risk appetite to invest significant amounts of cash in single businesses, while others do not have the expertise to be comfortable investing large sums in emerging sector companies. It is therefore proposed that a professionally managed Angel Fund be established to enable risk to be spread and to put in place the expertise to assess investments in new sectors. Investors in this fund

would benefit from the proposed investment tax credit.

- Successful entrepreneurs should offer work experience to aspiring entrepreneurs, who could take holidays from work to avail of it if they are in a job.
- People should be allowed to access their Pension Fund Additional Voluntary Contributions or indeed a proportion of the fund itself for the purpose of investing in employment generating enterprise.
- Most small businesses tend not to be able to afford the services of experienced non-executive directors. A register of individuals willing to serve in such positions at no cost to small businesses should be established.
- Efforts should be made to attract venture capital funds from the UK, US and Middle East to invest in Irish firms. This might be achieved by Enterprise Ireland offering specific services to the funds.
- Enterprise Ireland should investigate "crowd sourced" funding mechanisms for business and put in place a pilot scheme during 2013. Once again, such schemes would benefit from the proposed investment tax credit.
- The Department of Foreign Affairs and Trade should investigate the establishment of a specific "Diaspora Fund" which would be aimed at attracting investment in Irish enterprise by members of the Irish Diaspora worldwide.

Banks & the Credit Environment

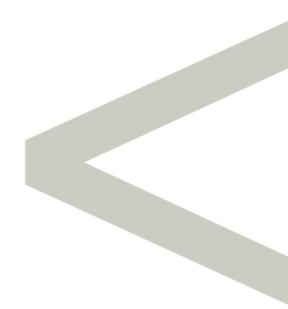
- Bank business staff should be retrained to deal with the challenge of handling business based lending in a new era of cash flow-based repayments.
- It should be made mandatory for bank business staff to spend several days each year in Enterprise Ireland or with Enterprise Boards in order to gain a greater understanding of the evolving needs of modern businesses.
- The centralisation of bank lending to headquarters has led to the disappearance of a form of informal personal lending which played a vital role for many businesses in the past. The banks should examine the possibility of granting greater autonomy to local managers for personal credit applications subject to strict conditions.
- It is accepted that traditional banks should not be expected to provide risk finance to business. It is therefore recommended that Government investigate the re-establishment of specific development banks possibly in a public private partnership structure.
- A key issue facing many start-up and early stage businesses is their lack of capability in preparing bankable proposals for bank credit applications or potential investors coupled with their inability to afford professional assistance. Consideration should be given to putting in place a voucher scheme to address this issue. This would

work by professionals and other relevant experts offering their time at a discount, or indeed free, while Enterprise Ireland via the Enterprise Boards distributed vouchers to qualifying businesses. The banks should also be expected to support this scheme both financially and by assisting clients to access it.

- The banks could provide practical support to businesses by offering them charge-free accounts for the purpose of putting aside VAT receipts. This would assist businesses in remaining VAT compliant and would be a reminder of the necessity to do so.

The Regulatory Regime

- There is general agreement that licensing for retailers and other industries presents a problem for those unfamiliar with the systems and bodies involved. The system should be rationalised, with the Department of Jobs, Enterprise and Innovation taking responsibility where possible for the issuing of all business licences and where that is not practical, for the co-ordination of their issuance by other departments and agencies.
- All State business forms and documentation should be reviewed for their ease of use and understanding and redesigned and rewritten to make them more accessible.
- Public procurement systems should be overhauled to deliver the required transparency, as well as the flexibility required to deliver real commercial value to the taxpayer.



The Institute of Certified Public Accountants in Ireland

The Institute of Certified Public Accountants in Ireland (CPA) is one of the main Irish accountancy bodies with in excess of 5,000 members and students. The CPA designation is the most commonly used designation worldwide for professional accountants and the Institute's qualification enjoys wide international recognition. Its current membership operates in public practice, industry, financial services and the public sector and CPAs work in over 40 countries around the world.

The Institute is active in the profession at national and international level, participating in the Consultative Committee of Accountancy Bodies – Ireland – CCAB (I) and together with other leading accountancy bodies, the Institute was a founding member of the International Federation of Accountants (IFAC) – the worldwide body. The Institute is also a member of the Federation des Experts Comptables Europeens (FEE), the representative body for the main accountancy bodies in 33 European countries, including all of the 27 EU Member States..

The Institute fulfils its statutory role as a recognised body by overseeing the professional activities of its members in practice and ensuring that education and training standards are maintained. As the first accountancy body to introduce a mandatory regime of Continuing Professional Education, the Institute ensures that all CPAs remain at the leading edge throughout their careers. The Institute provides a quality service to its members and students, which has been recognised through the award and maintenance of ISO 9001:2000.

For further information visit www.cpaireland.ie



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