



SME RECOVERY BUDGET SUBMISSION

September 2020

About SME Recovery Ireland

SME Recovery Ireland is a platform representing Ireland's small and medium business sector to ensure that policy response to Covid-19 is designed to succeed for SMEs. The small business sector has and will continue to be disproportionately affected by the Covid-19 crisis. Small businesses provide most employment in Ireland and are critical to our social fabric. Small businesses were under-capitalised before the crisis and so lack the financial resilience to survive the force majeure crisis they are facing.

We have set out a series of policies and interventions that will help a broad population of SMEs with a focus on sustaining the recovery and building SME resilience. The policy interventions that we are advocating for will go a long way to stabilise and recapitalise the small business sector so that employment and economic activity can be restored.

The initiative is chaired by John Moran, former secretary general of the Department of Finance.

Steering group



John Moran
Chairman



Derek Foley Butler
Founder and
Coordinator



Ruth Andrews
Chairperson, ITIC



Charlotte Barker
CEO, Institute of Design
Ireland



Sarah Murphy
Managing Director
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Lucy Cronin
Managing Partner,
Instinctif Partners



Neil McDonnell
CEO ISME



Adrian Cummins
CEO RAI



Kathryn Meghen
CEO, RIAI



Duncan Graham
CEO REI

SME Recovery Ireland is backed and endorsed by the following



Introduction

SME Recovery Ireland is a platform representing the small and medium business sector in Ireland incorporated to ensure the policy response to the Covid pandemic is designed to succeed for small business. The sector employs 65% of the total national workforce and accounts for 99.8% of total active enterprises. The SME sector is vital to the social fabric of our communities and is a vital source of innovation in our economy. All big businesses were once small ones. Small businesses are unique in their ability to evolve and innovate and provide a major contribution to innovation, research and development in our economy. The Covid-19 pandemic has disproportionately impacted the sector, with 85% of businesses having closed to some degree, of which 34% have shut completely.

While a number of financial supports have been introduced by the Government since March, much remains to be done. Our recommended step to recapitalise the sector for losses was not taken and this leaves the sector very vulnerable. What has happened in many cases has only kicked the can down the road and problems will surface once creditor patience runs out and bills have to be paid.

As the Government works to finalise and publish its National Economic Plan and the 2021 Budget, the approach adopted must be based on the need to reboot the entire SME sector and not merely a smaller sub section of it and find a way for it to navigate choppy waters in an already perilous state. Many have called for sector-specific measures but pan-sectoral measures for the SME sector are equally as important as those targeted sector-specific ones. Financial resilience in the SME sector can only be built with the right blend of policies to create a financially strong and sustainable SME sector.

None of the proposals outlined below will work without proper and effective governance and political leadership. The State must ensure that the SME sector does not fail as a result of the pandemic, a natural disaster not of the making of the SME sector. It should implement, with immediate effect, streamlined governance structures to ensure a coordinated consultative response by government, agencies, and SME representative bodies.

As an umbrella platform representing the SME sector we stand ready to assist government in ensuring that policy interventions in the SME sector are sufficiently designed to have the impact and outcome that we collectively seek.



Derek Foley Butler
Founder and
Coordinator

A handwritten signature in black ink that reads "Derek Foley Butler".



John Moran
Chairman

A handwritten signature in black ink that reads "John A Moran".

Key Actions

Sustaining the economic recovery

The government should ensure that all government supported lending schemes have ease of access as a key requirement for small and micro businesses.

The COVID credit guarantee scheme should be extended to December 2021.

Tax incentives for company directors and private investors should be introduced to encourage long-term equity investment in businesses.

EIIS approvals with the Revenue Commissioners should be improved.

Capital Gains Tax should be waived on equity investments of €10m or less into domestically owned SME businesses.

The SURE scheme should be expanded – both the maximum size of the relief and the maximum value of income that can be invested.

The EWS should be extended to December 2021 and wound down on a phased basis.

All interest rates should be waived on warehoused PAYE/PRSI.

A fast track Examinership Lite model should be introduced in January 2021.

A fast track arbitration service for small businesses to negotiate a reduction in small business rent should be introduced.

SME decarbonisation grants should be introduced in 2021.

Public procurement rules should be simplified and streamlined to make access to public contracts easier for small businesses.

Building Long-term SME resilience

The introduction of a National Agency for Small Business.

The introduction of a dedicated Minister for Small Business.

Introduce an SME Rainy day fund programme.

Introduce a National Small Business Resilience Fund.

A business owner financial literacy campaign should be launched.

A simplified SME R&D tax credit regime should be introduced.

Sustaining SME Recovery



SOURCE: Seanad Public Consultation on Small and Medium Sized Businesses Report 2019

As a result of the resilience of the SME sector and government intervention, the economic impact of the COVID crisis has been less than expected. That said, the SME sector still faces significant uncertainty with some businesses remaining closed. Businesses in urban centres, hospitality and those relying on tourism face a particularly uncertain future. Small businesses that rely on major capital projects continuing to be initiated and the availability of financing are nervous about the level of business they will experience and their employment needs in 2021. The SME sector supports the livelihoods of 1.5m people in Ireland. IBEC have identified that there are 100,000 small businesses that employ over 500,000 people that are particularly vulnerable to failure. Appropriately designed policy measures to sustain the recovery are vital to providing small business owners the confidence and certainty to continue to trade and employ as they do.

Access to loans and equity financing

The launch of the government guarantee scheme and microfinance initiatives has been a welcome measure. It is vital that these schemes are easy to access for the end user and that bank and non-bank lenders are mandated to provide ease of access. The special COVID Credit Guarantee scheme should be extended to December 2021.

Key Action: The government should ensure that all government supported lending schemes have ease of access as a key requirement for small and micro businesses.

Key Action: The COVID credit guarantee scheme should be extended to December 2021.

Equity financing for small and medium sized businesses has historically been underutilised and unavailable. The SME sector has been traditionally under-capitalised and the Covid crisis has served only to underline this reality. As businesses seek to recover from the Covid crisis, equity financing should be supported with a range of policy interventions and incentives should be introduced to support the development of equity financing in the SME sector.

Key Action: Tax incentives for company directors and private investors should be introduced to encourage long-term equity investment in businesses.

Key Action: EIS approvals with the Revenue Commissioners should be improved.

Key Action: Capital Gains Tax should be waived on equity investments of €10m or less into domestically owned SME businesses.

Key Action: The SURE scheme should be expanded – both the maximum size of the relief and the maximum value of income that can be invested.

Managing Costs

Small businesses have been carefully managing their costs and creditors in recent months against a background of closure and suppressed demand. Many small businesses have reopened with reduced capacity as a result of new public health regulations. Measures such as the TWSS and PUP have assisted with cost management but as these measures roll off, headcount needs and further cost reductions will be examined. Many small businesses have not received forbearance from their landlords. Others have suffered additional costs to ensure compliance with new public health guidance. Government measures to assist companies with managing the overhang of costs from the closure period and current cost base will provide confidence to small business owners.

The replacement of the TWSS and PUP scheme provided welcome certainty but the significant reduction in scale of the scheme will pose a challenge for many businesses. A further extension of this scheme to December 31st 2021 with a phased wind-down is key to ensure the recovery is sustained.

Key Action: The EWS should be extended to December 2021 and wound down on a phased basis.

The warehousing of tax liabilities from the Covid crisis is a welcome measure but will in 2021 create a cashflow demand for small businesses. Many small businesses may not be able to meet this or will require a scheme of arrangement to be put in place. Charging small businesses interest on this warehoused tax liability only serves to put additional unnecessary cashflow pressure on them.

Key Action: All interest rates should be waived on warehoused PAYE/PRSI.

A number of businesses with viable and functioning business models may not be able to trade their way into recovery despite the supports and measures put in place to date and proposed. For those businesses a fast-track, low cost Examinership model should be made available to them. For many small businesses the cost of examinership is a barrier to using this as a tool to save their business.

Key Action: A fast track Examinership Lite model should be introduced in January 2021.

Many small businesses have not received forbearance/flexibility from their landlords during and after the Covid crisis. This will result in many viable and functioning small businesses closing their doors. A fast-track arbitration service for small businesses to seek and receive reductions in this key fixed cost is a vital ingredient in sustaining SME recovery.

Key Action: A fast track arbitration service for small businesses to negotiate a reduction in small business rent

Other Measures

As businesses recover and seek to reduce costs, a grant incentive to encourage small businesses to reduce their carbon footprint would serve not only to reduce their environmental impact but also to reduce their costs.

Key Action: SME decarbonisation grants should be introduced in 2021.

For most small businesses access to public procurement contracts is a tangled web of complexity and compliance. By introducing a simplified public procurement process for contracts up to a certain level it increases the accessibility of these contracts to domestic small businesses. This is a win-win for government as increased competition for public contracts will also likely reduce the cost to government.

Key Action: Public procurement rules should be simplified and streamlined to make access to public contracts easier for small businesses.

Building Long-term SME Resilience

Although the small business sector was less indebted coming into the COVID crisis it remains undercapitalised to withstand external shocks and significant reductions in economic activity. Business owners are however enormously resilient, agile and open to change which when married with the correct policy interventions ensures businesses can be sustained, when they may otherwise fail in a crisis such as the Covid one.

A financially strong and resilient small business sector will benefit our economy and our communities throughout our country, particularly rural communities where small businesses have a disproportionately large impact. If our small businesses are more resilient, they are more sustainable, able to withstand shocks and have a stable base to grow and support the communities they operate within. If small businesses have a stronger capital base they can borrow and invest with confidence. Without it they are more likely to fail and more likely to stagnate. It is in society's interests to have a more resilient small business sector.

National Agency for Small Business

The domestic small business sector which employs over 1.5m people sits between two stools within the public sector. This results in a lack of coordination and joined up thinking within public policy design and implementation. The establishment of a National Agency for Small Business akin to Enterprise Ireland and the IDA is key to ensuring that domestic SME's that do not export are effectively serviced by government. We recommend that the LEO network, dedicated government resources and quangos (e.g. Microfinance Ireland) be incorporated into the National Agency for Small Business. By extension it would make sense that there is a dedicated Minister for Small Business that owns the policy and agenda for the Small Business sector. The introduction of a dedicated agency and minister for small business would sufficiently recognise the importance of the small business sector to the economy and our communities throughout the country.

Key Action: The introduction of a National Agency for Small Business

Key Action: The introduction of a dedicated Minister for Small Business.

Small Businesses Rainy Day-Fund

Most small businesses have little or no capital base sitting within their business. This recognises that most small business owners are hardworking but lack financial expertise that exists in bigger businesses.

As businesses recover, we need to incentivise them to set-aside cashflow for challenges and shocks that arise unexpectedly. By incentivising small businesses to set-aside 1% of their revenue on an annual basis as a rainy-day fund they are accumulating a capital reserve discretely and consistently. We recommend that this be matched/part matched by Government. Alternatively, they could get a credit against business taxation equal to such amounts which would make the benefit available only for profitable companies.

Segregated from the business operating account, each small business rainy-day fund would be held in a segregated bank account, separate from the core business. By building up a rainy day fund every small business would have a backstop when crisis hits. Contributions would continue until businesses reach a minimum level that covers fixed costs over a pre-defined period e.g. 6 months of wage costs.

Key Action: Introduce an SME Rainy day fund programme.

National Small Business Resilience Fund

'SME Recovery's' National Small Business Recovery Plan called for the introduction of a National Small Business Resilience Fund. This fund would recognise the importance of helping sustain small businesses to generate and sustain employment when they are faced with a force-majeure crisis or a crisis not of their making. This fund would be administered by the NTMA and capitalised using European Union Recovery funding. Any business that has suffered a force majeure crisis can apply for funding from the fund for a grant to recapitalise their business. For example, those businesses that were viable prior to the COVID crisis and have a recovery plan that needs financing can apply for grant aid to fund the recovery of their business. This grant aid will come with necessary conditions on the business but will crucially help it to survive and continue to contribute to the economy and society.

Key action: Introduce a National Small Business Resilience Fund.

Business Owner Finance Literacy Campaign

Our society is blessed with brave and courageous people who one day decide to start their own business and to build it up over many years. Many of these people are brilliant at knowing their product and service and taking care of their customers but lack the financial acumen to ensure their business is on a financially stable footing over the long-term. An allocation should be made from the National Training Fund to the network of Local Enterprise Offices throughout the country to run a basic business owner financial literacy campaign that helps build basic awareness of the importance of good cash management and building up reserves within their businesses.

Key Action: A business owner financial literacy campaign should be launched.

Research and Development tax credit regime.

Domestic small businesses are a hot bed of innovation and agility, particularly in a time of crisis. Our society benefits greatly from this. The existing R&D tax credit regime is complex and onerous for small businesses to access. A simplified expenditure qualification system should be introduced to allow for more SME's to get access to R&D tax credits

Key Action: A simplified SME R&D tax credit regime should be introduced.