An Roinn Fiontar,
Trádála agus Fostaíochta
Department of Enterprise,
Trade and Employment

The Use of Finance as a Catalyst to Develop a Scaling Ecosystem

A report of the findings of the Finance for Scale-ups Working Group

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Foreword

This Government has a plan set out in our White Paper on Enterprise for a vibrant, resilient, regionally balanced, and sustainable economy made up of a diversified mix of leading global companies, internationally competitive Irish enterprises and thriving local businesses.

Ireland has a very open economy, enjoying a trade surplus with huge exports relative to our size, but we have relatively few large indigenous exporters compared to our peers. There are some extraordinary Irish-owned companies who are the best at what they do globally, but these are too few in number.

One of the strengths of our indigenous enterprises is their agility and an ability to respond quickly to changing conditions. This has been seen with the global disruption of the last number of years, which has seen our enterprises, and our economy challenged by Brexit, Covid-19 and the war in Ukraine. Going forward, we will face new challenges. However, as Minister for Enterprise, Trade and Employment, I want to ensure that we have a strong funding ecosystem for those who create high potential and innovative companies and have an ambition to scale.

At present, there are a range of supports available to innovative, high potential companies in Ireland at the early and seed stage, that aim to help them succeed and grow in Ireland. We have seen the success of the Seed and Venture Capital Scheme, which has invested over €700 million into early stage, innovative Irish companies. We have also seen the launch of the €90 million Irish Innovation Seed Fund Programme.

This report recognises the work and support available to companies during their early stages and recognises that for high potential and innovative firms that have the potential to scale up to become global players, the next step in the growth journey can be challenging.

Since 2022, my Department has chaired the Finance for Scale Ups Working Group. This cross departmental group has worked to produce this report on how Government policy can act as a catalyst in fostering and developing a scaling ecosystem that will allow a whole cohort of start-ups to take their next growth steps in Ireland.

Key to this ambition is for Government to develop a suite of State backed scaling instruments, as well as conducting a review of potential changes to the State's tax model that would encourage equity investment in Ireland from a wider base of investors and funds.

Government is committed to continually reviewing what supports are available to ensure the Irish equity ecosystem survives and strives through any future geopolitical or economic impacts.

My Department will continue to build on the strong foundations already in place and ensure businesses in Ireland are positioned to seize opportunities to grow and succeed. To effectively deliver on the recommendations of this report my Department will continue this work by establishing an implementation steering group to develop the recommendations into practical actions. I look forward to seeing the outcome of that work in due course.

Minister Peter Burke T.D.
Department of Enterprise, Trade, and Employment

Executive Summary

Ireland has a vibrant start-up ecosystem. State policy has supported over 30 years of growth and development. There is a strong ecosystem where entrepreneurs can find support and funding through a range of Government backed initiatives and private equity investors. According to Pitchbook, the total amount of equity investment in Ireland in 2022 was €7.4bn. Of this, €1.3 billion (18%) was Venture Capital (VC) investment followed by Private Equity (PE), with a small proportion associated with Initial Public Offerings (IPOs).

However, for Ireland's high potential start-ups, those firms that have the potential to scale-up to become global players, the next step in the growth journey can be challenging. In common with potential scale-ups all over Europe, Irish scale-ups often find that appropriate finance is not readily available.

The root cause is lack of investors willing to invest at the required level of risk and size of deal. This can often result in founders exiting early and hampers companies' ability to scale in larger numbers. International finance is an important part of the ecosystem, and is to be encouraged, but overreliance on international finance, controlled by international funds, leads to the locus of control of scale-ups leaving Ireland and Europe too early for local economies to benefit. And there is a risk that when the global economy contracts, international finance retreats, leaving a gap at this stage of funding. This creates an ecosystem where ambition is limited by lack of scaling finance, which in turn means that scaling capabilities do not develop.

Selling to overseas buyers is, in many respects, a success story for the entrepreneur and early-stage investors. However, should acquisition be the exit strategy for too many Irish start-ups, the Irish economy will miss out. After supporting and funding the high-risk seed and early stages, Ireland will lose out on employment, the opportunity to create long-term economic value, and the positive spill overs of developing world class firms who will boost the indigenous ecosystem.

The challenge for Ireland is to anchor more scale-ups in Ireland and central to this is ensuring that scale-ups can source capital in Ireland. Finance is a catalyst to developing a scale-up ecosystem that will allow a whole cohort of start-ups to take their next growth steps in Ireland. Truly global companies will flourish and grow outside of Ireland but retaining their control centre for as long as possible, or retaining core ownership of these companies in Ireland, will reap enormous benefits in terms of employment and growth of the indigenous business economy. International capital is positive and can be complimentary to indigenous investment; the issue is not the source of the capital, but the need to ensure that scale-ups have the option of accessing finance that allows them to continue to grow in Ireland.

This report provides recommendations for policy changes that will promote and enhance the existing scaling options in Ireland and prevent the State becoming an incubator for high potential companies, who then move out of the EU to scale. The recommendations are based on the work of the Finance for Scale-up Working Group. Two qualitative studies were completed:

- A consultation with key stakeholders in the Irish equity ecosystem that sought to understand the gaps and opportunities for improvement in the Irish market; and,
- A review of international best practice, to identify how other countries provide assistance to scale-ups.

All of the research supported the view that Government intervention should continue after the high-risk seed and early stages. All other countries studied in the best practice work continue to intervene at a policy level to foster scale-ups and they continue to innovate and respond as the market changes[1]. Recent years have seen shocks from Covid 19, Brexit, the Ukraine war and instability in the international banking markets, all of which have had impacts on confidence and risk levels in venture capital and equity markets. As a small open economy, Ireland is particularly susceptible to international shocks, which intensifies the need to have a health ecosystem of scaling companies that have their roots in Ireland.

In particular, deep and digital tech innovations are key to addressing the most pressing global challenges such as climate change, sustainable energy and health. Making sure that these sectors can innovate and scale-up as part of the economy is key to Ireland and the EU's overall competitiveness and productivity.

Therefore, availability of appropriate finance is needed to catalyse the growth of a scaling ecosystem in Ireland. Experience of developing the start-up ecosystem and research into other countries with successful scaleup ecosystems suggests that Government intervention is required to stimulate the availability of appropriate finance.

This report presents three key recommendations to increase the size and quality of the scale-up ecosystem in Ireland:

1. State Funding: Ensure that scaling finance is available by introducing and promoting a suite of Government-backed scaling instruments.
2. Private Funding: Investigate options for pension fund and institutional investor participation in scaling equity funds and encourage corporate venturing in Ireland.
3. Tax Incentives: Review the State's tax model and design instruments that incentivise investment into scaling companies.

1. Introduction

1.1 The Opportunity

Ireland is a great location for start-ups. However, for innovative firms seeking financing to scale, Ireland, and the EU as a whole, lag behind other locations such as the US.

Two-thirds of all venture capital (VC) in the US goes to scale-ups, compared with less than half in Europe[2]. US companies also receive more funding at the scale-up stage, with the average VC-backed US company received five times more than its EU counterpart[3].

This scale-up gap is particularly problematic since scale-ups represent a key enterprise development stage. As a result, Europe is not reaping the benefits of its most promising young companies during the crucial expansion stage, resulting in a loss of entrepreneurship, technological know-how and jobs.

The Government want to tackle the scale-up gap in Ireland. Not only because it presents a problem for enterprise development but also because it presents a significant opportunity to realise Ireland's full potential and allow the ecosystem to flourish as a home for exciting, disruptive companies. Ireland has the potential to grow indigenous, world leading enterprises, that provide financial value to their investors while also adding social and economic benefits to the State.

Finance is a key lever. In order for these companies to flourish and grow in size and number, they require substantial funding and Government support. This report examines how Ireland can develop an ecosystem where innovative firms seeking to scale can access the finance they need in Ireland. Anchoring these firms in Ireland, at this crucial point in their development, will be a strong driver of innovation and economic growth.

1.2 The Irish Start-Up Ecosystem

For many years, Government has recognised that high potential innovative start-ups have an important role to play in driving innovation and overall economic growth in Ireland. These firms, characterised by high levels of risk and intangible assets, often require large amounts of external finance in the early stages. Entrepreneurs can find support and funding through a range of Government backed initiatives, designed to help them develop their ideas and grow their emerging companies.

Since the mid-nineties, the Irish Government has placed a strong focus on incentivising seed and venture capital investments in Irish businesses by acting as a cornerstone investor in seed and early-stage funds, in order to achieve a level of consistent capital flow to the areas of the market that require the most risk-tolerant and patient capital.

The interventions, led by Enterprise Ireland[4] and the Ireland Strategic Investment Fund (ISIF)[5], along with other institutional investors such as the European Investment Fund, brought about a broader range of financing options for Irish companies, as capital markets have evolved both in Ireland and globally. Importantly, venture capital investors provide market discipline and expertise to early-stage businesses, in addition to finance.

However, the Irish market is small, and businesses find it difficult to access the larger investments, from investors with high-risk appetite, that are needed for the next stage of financial growth that will allow them to scale and achieve their full potential.

Quality businesses regularly seek investment from outside the jurisdiction and, more often than not, outside the EU, leading to a geographical shift in the locus of control and a potential loss of innovative technology and skills to other jurisdictions, in particular the US.

In addition, many founders exit their growing businesses through a trade sale because they do not see an alternative way to de-risk their personal finances.

Finance is an important catalyst for further development of the Irish scaling ecosystem. With more scale-up capital and the expertise from scale-up investors, high potential firms will continue to grow and deliver significant benefit to the Irish economy.

1.3 Background to this Report

In early 2022, following consistent feedback from the market that scale-ups are having difficulty accessing finance in Ireland, the Department of Enterprise, Trade, and Employment established a Finance for Scale-ups (FSU) working group. The objective of the group was to develop actionable recommendations to support high potential firms to access scaling finance, which will in turn allow them to internationalise and increase exports.

In addressing this objective, the group sought to answer three questions; Is there a scale-up financing gap in Ireland? If so, what characterises that gap? What can the Government and its agencies do to bridge the gap?

The Finance for Scale-ups Working Group (FSU) included representatives from the following:

Department of Enterprise, Trade, and Employment	Ireland Strategic Investment Fund/National Treasury Management Agency (ISIF/NTMA)
Department of Finance	European Investment Bank/European Investment Fund (EIB / EIF)
Enterprise Ireland	An International Independent Representative
Strategic Banking Corporation of Ireland (SBCI)	An expert group facilitator

Table 1 FSU Membership

The main group divided into two subgroups: international and domestic.

- The objective of the domestic subgroup was to conduct a domestic consultation of the Irish ecosystem to identify if there is a scale-up financing gap in Ireland, gain an understanding of where that gap might be and seek feedback from the market on causes of the gap. The research involved analysing data available from Enterprise Ireland, ISIF and publicly available sources such as IVCA reports and KPMG Venture

Pulse. It also involved surveying relevant representative bodies and stakeholders in the market to create a coherent picture of the Irish equity ecosystem.

- The objective of the international subgroup was to **review the international environment** and to identify jurisdictions that could offer insights to Ireland with respect to financing scale-ups. The group was required to undertake research on these markets, identify best practices and initiatives that could be implemented in Ireland. The jurisdictions studied were Spain, Denmark, Finland, Sweden, UK, France, and Singapore. EU wide opportunities were also reviewed.

1.4 What is Scaling?

Key Definitions:
The term **start-up** *refers to the first stage of a business venture exhibiting potential for significant business growth.*
A scale-up, *on the other hand, is a subset of start-ups that is well advanced in the validation of the necessary elements of a repeatable business model.*
Scale-up financing *in the amount of capital that a business venture needs to achieve this new stage of business, often with a higher valuation and a larger international commercial footprint.*

Table 2 Key Definitions

The stages that an SME must pass through to reach a point where it can be considered as scaling vary from sector to sector and even within the same sector. However, the following graph offers a generalised summary of SME growth stages.

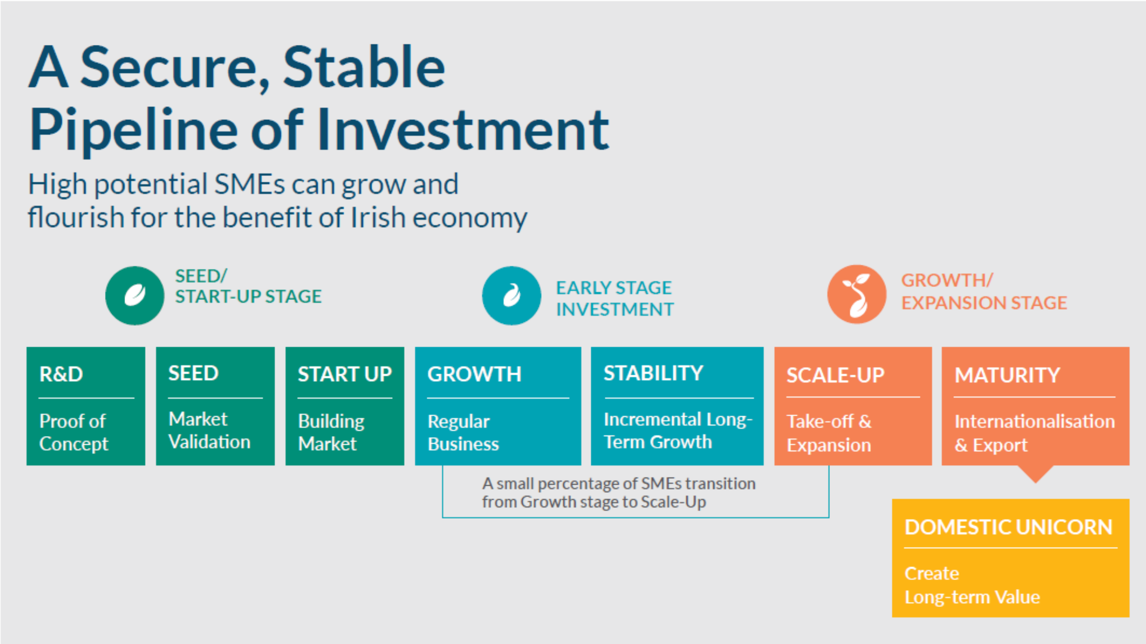

Figure 1 Typical pipeline of investment

An entrepreneur begins with an idea. Following a period of R&D, they determine if this idea is worth pursuing. If so, they often exchange some equity in the future of the company for seed funding that will allow them to grow to become a start-up. If they are successful, more equity can be offered, or follow-on financing can be sought in order to get the SME, now a start-up, to market with their product or service, and allow them space and time to refine their business model. They then begin a period of growth, known as early stage, where their business model has been verified, to some degree, by the market and they then often reach a period of stability where the management team are faced with the choice of remaining at this level of success, selling the company to a larger business, or taking the riskier path to begin a scaling journey where they expand into new markets, or products, and renew their focus on internationalisation.

1.4.1 Characteristics of a Scale-up

Entrepreneurship is an important driver of economic vitality and scaling companies in particular make a significant contribution to job creation, innovation, competitiveness, and overall economic growth. These companies are often referred to as 'gazelles'[6] based on MIT economist David Birch's findings that a small number of high growth firms generate most of the net jobs in the economy.

Regardless of the exact definition, a scaling company is one that exhibits the following characteristics:

- They have validated their business model and are consistently and significantly increasing their turnover over a period of years.
- They are ambitious to internationalise their company.
- Their employee numbers are consistently and significantly increasing over a period of years.
- They continue to invest in research and development.
- They have a dynamic and highly capable management team.

Each scale-up funding journey is different. Different categories of companies have requirements for different types of financing. For example, innovation driven companies like software, life sciences or medical technology will have high cash needs early in the venture. Manufacturing or others will have high upfront capital and expansion needs, whilst services-oriented businesses that are more labour intensive will trade themselves to profitability.

As part of the research undertaken by the FSU working group, representatives from Enterprise Ireland and ISIF developed a categorisation and distribution of scaling firms, which can be summarised as follows. The majority of firms who are pursuing a scaling journey come from the R&D intensive category (66%) followed by IP intensive firms (22%), followed by labour intensive or capital-intensive firms (12%). In line with Ireland's ambition to build an innovative, knowledge-based economy, the focus in this report will be on the first two categories.

1.5 Policy Context

The need for finance as a catalyst to develop a scaling ecosystem is relevant from several policy perspectives.

1.5.1 Programme for Government Commitment

The National Economic Plan chapter of 2020's *Programme for Government "Our Shared Future"* states that the Government will

> *"…continue to support entrepreneurs and investors in high-risk innovative start-ups … and set out a new programme, if required and … put in place the structures to enable a seamless transition from Local Enterprise Office (LEO) to Enterprise Ireland, so that ambitious and high-performing companies, regardless of size, are supported in scaling and achieving their potential"*[7]

1.5.2 National Economic Recovery Plan

In 2021 Government published the National Economic Recovery Plan, which includes a commitment to a systemic approach to sustaining and growing the domestic SME sector. The plan also calls out the importance of building an innovative, knowledge-based economy, including by placing a greater emphasis on encouraging innovative SMEs.

1.5.3 White Paper on Enterprise Policy

In 2022 the Department of Enterprise, Trade and Employment published the *White Paper on Enterprise 2022-2030*, which spells out the policy context for scaling as:

> *We will focus our efforts on developing an integrated system wide approach to create an ecosystem that accelerates start-up growth and scaling, that includes access to funding both public and private; investments in R&D and innovation; access to skills; and an appropriate regulatory environment as well as a tax system that encourages investment in start-ups and scaling*.[8]

The aim of the White Paper is to enable a vibrant, resilient, sustainable, and regionally balanced economy made up of a diversified mix of leading global companies, international competitive Irish enterprise and thriving local businesses.

The White Paper on Enterprise sets out an ambitious vision for enterprise policy in the period to 2030, which will work to enable Irish-based enterprise to succeed through competitive advantage founded on sustainability, innovation, and productivity, delivering rewarding jobs and livelihoods.

The Paper includes seven identified priority policy objectives:

1. integrating decarbonisation and net zero commitments;
2. placing digital transformation at the heart of enterprise policy;
3. advancing Ireland's FDI and trade value proposition;
4. strengthening the Irish-owned exporting sector;
5. enabling locally trading sectors to thrive;
6. stepping up enterprise innovation; and
7. building on Ireland`s existing strengths and opportunities.

As spelled out in the White Paper, it is critical that the Irish-owned exporting sector fulfils its potential and builds a strong domestic growth engine to support sustainable, diversified growth. Policy action will seek to encourage entrepreneurship and ensure Ireland is a viable and attractive location in which to scale companies for global success.

1.5.4 The Scale-up Opportunity

While scale-ups represent a small percentage of all businesses in Europe, they contribute disproportionately to employment and economic growth. Scaleups drive job creation, boost productivity, contribute to a more inclusive, diverse workforce, generate knowledge spill overs, and act as role models for other entrepreneurs.

Supporting scale-ups will provide considerable economic benefit to the Irish economy. An ideal equity ecosystem would follow the pattern visualised in Figure 1 and provide a secure and stable pipeline of investment for high potential SMEs to grow and flourish for the benefit of the Irish economy.

Figure 2 (below) depicts the scale-up ecosystem in Ireland and shows that some firms can reach the 'unicorn' stage but also that due to a lack of access to finance many fail to reach their full potential.

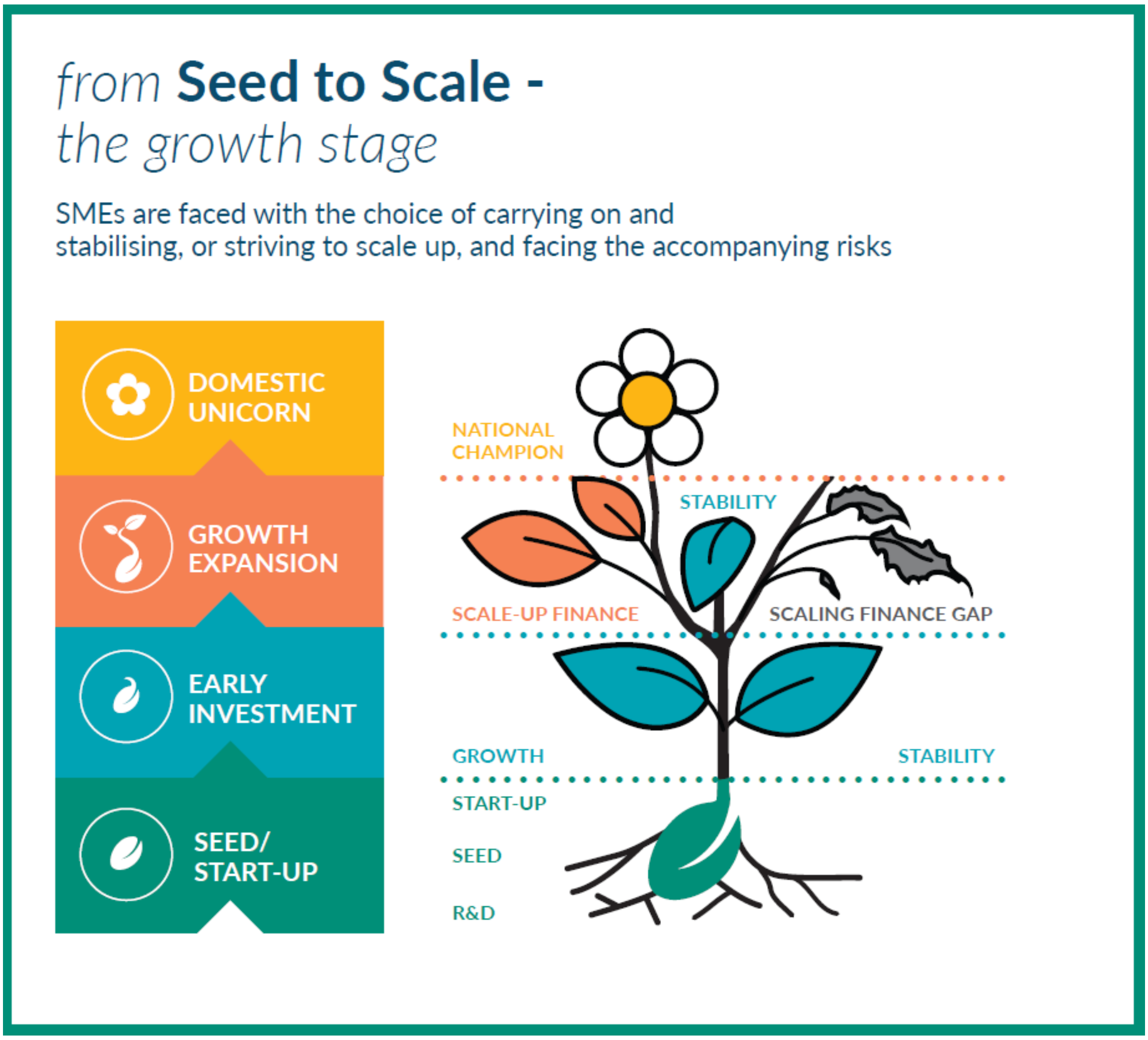

Figure 2 Stages of SME Growth

2. The Current Financing Ecosystem for Innovative Early-Stage Companies

2.1 Government Funding: Enterprise Ireland

Enterprise Ireland (EI) is the government agency responsible for the development and growth of world class Irish enterprises in global markets. To deliver on this mandate, EI supports entrepreneurs and leadership teams of innovative Irish owned businesses in expanding their global footprint. A key part of this mandate is ensuring that companies have adequate access to funding to start-up and scale. EI invests both directly and indirectly in high potential businesses.

2.1.1 Indirect Investment Activity

The *Halo Business Angel Network* (HBAN) is a joint initiative between EI and Intertrade Ireland, established to improve access to funding for early-stage start-ups across the island of Ireland. HBAN's primary role is to unlock angel investing as a source of funding for new and developing businesses by matching investors with high quality investment opportunities and providing a range of support services for existing members and syndicates.

EI financially supports the domestic seed and venture capital sector through the *Seed & Venture Capital Scheme*. Venture capital funds supported under this scheme play a key role in the achievement of EI's overarching strategic objectives to build scale, increase innovation and assist Irish companies diversify on global markets. The objective of these funds is to invest in the fastest growing and dynamic companies across all EI core sectors including Life Sciences, Digital Technologies & Fintech.

In 2022, EI in partnership with the European Investment Fund and ISIF launched the €90m *Irish Innovation Seed Fund Programme* to support innovative, early-stage companies to drive future jobs and economic growth. A key objective of this programme is to support seed stage Irish SMEs across the country prioritising areas such as sustainability, climate change and female entrepreneurship.

2.1.2 Direct Financial Supports

In the past 10 years, EI has made direct equity investments in over 1,500 start-ups. EI invests for equity in these businesses for the purpose of enterprise development and job creation, often at a very early stage when the risk profile is high.

EI's *High Potential Start-up (HPSU)* programme supports businesses with the potential to develop an innovative product or service for sale in international markets. Through the programme EI directly invests into seed stage rounds with cheques typically of €250k and upwards. These investments are matched with funding from venture capital firms or private investors.

To facilitate the development of Deep Tech start-ups, which often originate from university research, spinouts can access a range of financial and non-financial supports through EI's

Commercialisation Fund. EI is also the national point of contact for the Horizon Europe and the EIC Accelerator Programme, an integral part of the Innovative Europe pillar of Horizon Europe, which provides transformational funding for high-risk start-ups and scale-ups.

In 2022, to increase the number of high growth start-up companies in Ireland, EI launched the *Pre-Seed Start Fund (PSSF)* to provide up to €100,000 to pre-seed innovative start-ups from all sectors. This funding provides entrepreneurs and start-ups with critical early-stage funding to test the market for their products and services and to achieve the key technical and commercial milestones required to attract future seed funding within six to 18 months.

Growing Irish companies of scale is a key priority in the EI strategy 'Leading in a Changing World'. This targets a 10% increase in the number of companies achieving sales of €10m, €20m and €50m, mirroring the scaling journey, and access to appropriate capital is critical in enabling companies to reach international scale. For companies already on their scaling journey EI provides RD&I grants to support them develop the intellectual property and intangible assets that are linked to scaling success. At appropriate stages in their growth journey companies can also access grant funding for employment, training, and expansion.

2.2 Government Funding: Irish Strategic Investment Fund

The Ireland Strategic Investment Fund (ISIF) plays a significant role in equity investment by actively engaging in various forms of equity funding, including venture capital, growth equity, private equity, and private credit funds. These funds, in turn, invest in a diverse range of Irish businesses, spanning from early-stage start-ups to more established SMEs and high-growth companies.

When ISIF chooses to invest in these funds, it selects both Irish and international managers whose investment focus aligns with ISIF's objective of fostering the growth of Irish businesses. ISIF's commitment to these managers helps diversify the funding landscape in Ireland, complementing existing options. Additionally, ISIF directly invests in businesses where its involvement can unlock growth or economic impact opportunities that might otherwise go unrealised. When making direct investments, ISIF primarily focuses on providing capital support for growth opportunities, offering flexibility across the capital structure. Typically, ISIF assumes a minority shareholder position and co-invests alongside other stakeholders.

2.2.1 Leveraging Private Funding

Recognising that the private funding market will not always adequately support indigenous business development and scaling, ISIF seeks to fill these market gaps as an investor with a long-term time horizon. While there are currently several Irish-based funds available, offering different investment amounts and control requirements, they often focus on a larger number of smaller businesses across various industries. International private equity and buyout funds have also increased their activity in Ireland, predominantly targeting deals exceeding €20 million. ISIF complements the broader market by directly investing in businesses where its participation can unlock growth and economic impact opportunities that might otherwise remain untapped. ISIF's direct investment focus primarily centres on larger-scale firms, with investments typically starting at the €10 million range. When engaging in direct investments, ISIF primarily aims to provide primary capital to support growth opportunities, offering the flexibility to invest through either equity or debt instruments.

When investing in funds, ISIF looks to commit to managers (both Irish and international) that complement the funding landscape in Ireland and that have an investment focus aligned with ISIF's objective of growing Irish businesses. ISIF complements the funding options in the wider market by investing directly in businesses where ISIF's involvement helps unlock growth or economic impact opportunities that might not otherwise proceed. When investing directly, ISIF's focus is on investing primary capital to support growth opportunities. With the flexibility to invest across the capital structure, ISIF is always a minority shareholder and typically invests alongside other co-investors.

2.2.2 Fostering Innovation and Entrepreneurship

ISIF fosters innovation and entrepreneurship by actively engaging in seed and early-stage funds. These investments are targeted at supporting Irish start-ups and nascent businesses in their initial growth phases. By partnering with seed and early-stage funds, ISIF contributes to the creation of a robust ecosystem for early-stage entrepreneurs.

ISIF's commitment to seed and early-stage funds serves as a catalyst for the development of innovative and high-potential start-ups. These investments provide crucial capital that allows start-ups to take their first steps, validate their concepts, and build a foundation for growth. In addition to providing financial support, ISIF often brings strategic expertise and guidance to the table when investing in seed and early-stage funds. This collaborative approach helps maximize the chances of success for the start-ups within these portfolios. ISIF's involvement in this space is aligned with its mission to nurture Irish businesses from their inception, ensuring that they have access to the necessary resources to grow and thrive. These investments not only drive economic growth but also contribute to the creation of jobs and the cultivation of a vibrant entrepreneurial culture in Ireland.

Overall, ISIF's commitment to seed and early-stage funds underscores its dedication to the entire spectrum of the equity ecosystem, from start-ups to established companies, and underscores its vital role in shaping the future of Ireland's business landscape via a variety of financing options.

These financing options include venture capital, growth equity, private equity, and alternative lenders, each providing finance at different stages of a company's lifecycle in self-reinforcing cycles, along with strategic guidance, specialist industry expertise, and access to valuable networks.

2.3 Government Funding: The Strategic Banking Corporation of Ireland

While equity is the most logical choice of investment for most scaling companies, there are other alternatives that might be suitable for niche sectors or in specific situations.

The Strategic Banking Corporation of Ireland (SBCI) was established in September 2014 following Ireland's exit from the EU/IMF programme, to ensure that businesses could access funding when the private sector could not or would not provide funding. During the course of 2022, the SBCI supported 7,019 businesses, with the provision of €633 million through risk-sharing loan guarantee schemes and low-cost liquidity. The funding offered through the SBCI has helped Irish SMEs to adapt, innovate and grow their businesses through a volatile economic environment The SBCI's goal is to ensure access to flexible funding for Irish SMEs by facilitating the provision of:

- flexible products with longer maturity and capital repayment flexibility along with the provision of a partial guarantee subject to credit approval.
- lower cost funding to financial institutions, the benefit of which is passed on to SMEs.
- market access for new entrants to the SME lending market, creating real competition.

SBCI accesses European supported guarantee programmes[9] for debt through the European Investment Fund (EIF) or negotiates directly with the European Investment Bank (EIB) for bespoke programmes.

2.4 Private Funding

Companies requiring equity funding in Ireland can seek investment from private funds offering a range of products.

2.4. 1 Venture Capital

Venture capital (VC) funds play a crucial role in supporting early-stage, high-growth companies. These funds provide risk capital to early-stage ventures that have innovative ideas and significant growth potential. They help companies refine their business models, scale their operations, and navigate challenges specific to early-stage ventures. Venture capital funds play a vital role in fuelling innovation and driving economic growth by providing funding to companies at the early stages of their growth journey.

2.4.2 Growth Equity Funds

Growth equity funds focus on investing in more established companies (past the higher risk venture stage) that have demonstrated consistent revenue growth and are seeking capital to expand their operations or accelerate growth.

These funds target companies that have already proven their business model, achieved product-market fit, and are poised for further growth. Growth equity investors provide capital in exchange for an ownership stake in the company (typically a minority stake).

2.4.3 Private Equity

Private equity (PE) funds invest in more mature companies that are seeking capital to fund various initiatives, such as acquisitions, organic expansion, management buyouts, or corporate restructuring. In some cases, they will re-invigorate growth in firms that had previously stagnated.

PE funds typically seek majority ownership stakes in companies through leverage buyout transactions (acquisitions employing specialist bank debt and equity) and the PE managers work closely with management to improve operational efficiency, drive growth, and increase profitability. PE funds can play a critical role in supporting companies and founders with expansion, transformation, or ownership transition.

2.4.4 Private Credit & Venture Debt

Private credit and venture debt providers are becoming a feature of the Irish funding landscape and offer an alternative to traditional bank loans.

These alternative lenders often have more flexible lending criteria, faster approval processes, and a willingness to work with companies that may not meet the stringent requirements of traditional banks. They can provide a range of financing options which help to fill gaps in the lending market, offering accessible and innovative financing solutions to support companies' growth plans that can be particularly helpful for start-ups, small businesses, or companies with a limited ability to provide security to traditional lenders. While not equity investors per se, they frequently work in tandem with equity providers to design bespoke funding solutions for scale-up firms allowing equity investors to proceed with investments and growth strategies that will not otherwise be viable.

2.5 Exit Options

To gain insights into the typical trajectory of a high potential early-stage business in Ireland, research for this report included an examination of the data on exits from the Enterprise Ireland Seed and Venture Capital programme.

The 2018 Indecon review of the Enterprise Ireland Seed and Venture Capital Scheme analysed divestments from Seed and Venture capital portfolios in Ireland over a ten-year period from 2007 and found that the largest percentage (by far) of investee companies (40%) were divested through a trade sale. A further 23% failed (not surprising given the risk profile of highly innovative companies). 8% went on to IPO, and a further 5% were bought back by their founder/management.

Founders interviewed for an analysis on exits carried out by Enterprise Ireland in 2021 pointed to the lack of a well-developed secondary market that would allow them to release liquidity by selling a portion of their equity holdings. They also pointed to an underdeveloped funding eco-system in terms of the availability of long-term patient capital with low levels of private investment and a relatively inactive IPO market [10].

2.6 The Role of Secondary Capital

An often-overlooked factor that supports the scale-up ambition of innovative businesses is the importance of secondary capital to success on the scaling journey. At the early stage of a company's lifecycle, the majority of capital raised tends to be in the form of primary capital, i.e., new cash on balance sheet to fund expansion including hiring new employees, R & D expenditures, sales and marketing activities, and investments in capex and working capital. Companies at the start-up phase tend to be loss making, will have relatively unproven business models and generally carry more risk than mature companies. As such, investors in these companies seek to ensure that almost all the capital they invest goes toward establishing a viable business.

At the scale-up phase, companies tend to be more established and will be profitable or approaching profitability, with less inherent risk associated with the underlying business model. These businesses will still retain significant potential to grow and with the right investment and support from financial partners, founders and senior management can scale these businesses into sizable Irish headquartered companies.

However, the founders of these businesses will have invested many years into getting to this stage. The ambition to drive their business forward can in some cases be offset by a need to realise some value from their efforts and de-risk their personal financial situation. In many cases, founders face a difficult choice between taking on growth capital and remaining fully exposed to the future fortunes of the business or selling out entirely, usually to an international acquirer. Many founders choose the latter option with reluctance, despite retaining strong conviction on the future potential of the business. This scenario results in some of Ireland's most promising scale-ups being acquired by overseas investors.

Secondary capital can bring the following benefits:

- Improved capital structure: secondary capital can be used to buy out legacy and non-contributory shareholders.
- Risk tolerance: By relieving the financial pressure on the founder, secondary liquidity allows entrepreneurs to stay patient and focus on long-term growth goals; and,
- Capital efficiency: in some cases, putting too much capital on the balance sheet can lead to undisciplined and unproductive spending.

In more developed scale-up ecosystems, there are typically secondary capital options that enable a founder to take some of their personal resources out of the company, while still retaining control. This allows a founder, who might otherwise have to sell, to continue with the firm. In designing policy, consideration should be given to supporting funding options that allow founders to realise some value as their businesses scale while maintaining sufficient ownership and alignment to grow these businesses in Ireland for the long term.

3. Does Ireland have a Scale-up Financing Gap?

3.1 Evidence of a Gap

While there is no single established way to measure financing gaps, the weight of evidence and insights emerging from various studies and analyses by academic and financial experts, shows that the EU has a significant scale-up financing gap. The growth and expansion of innovative start-up companies is hampered when they reach a certain threshold.

There is empirical evidence that an increase in funding can have a substantial effect on the number and size of scale-ups. For example, in 2017, the UK Government's Patient Capital Review identified a gap in long-term finance which was preventing British SMEs from scaling. Based on the results of that review, the UK Government launched British Patient Capital (BPC): a £2.5 billion VC Investment Fund set up as a subsidiary of the British Business Bank with both policy and commercial objectives. It is expected that the BPC will unlock a further £5 billion of private investment, thus supporting a total of £7.5 billion of public and private equity in UK companies over 10 years.

The net value-added by the BPC financing demonstrates the gap by showing the growth achieved by a bridge. Thus, solving the problem of the gap is not only a solution, but an opportunity.

An interim evaluation of the BPC scheme done by SQW and published in February 2023 found that BPC-enabled funding has translated into increased innovation outcomes, including increased R&D investment, new product development and commercialisation. The evaluation also found that companies with investment from BPC-backed funds grew their employment by 55%, equivalent to approximately 4,600-5,000 additional jobs, and demonstrated an increase in additional turnover of between £4.7 million and £5.4 million per year.

3.1.1 The Irish Scale-up Gap

The relatively recent nature of Ireland's prosperity and its roots in an FDI orientated open economy have resulted in a lack of depth in the type of institutional and corporate investors often seen in other European countries. There are also relatively few domestic multinationals who invest in local ecosystems. Additionally, Ireland has significantly less developed family offices, endowment, and pension fund investments in domestic private capital. This absence of matching private capital has impacted on the size of Irish funds, and the level of capital they can deploy for scaling finance for Irish companies. (See Appendix 3 for more detail)

A large proportion of the domestic industry stakeholders consulted for this report assert that indigenous companies find it difficult to secure scaling finance.

This scaling stage is a critical time in the evolution of an innovative business. According to research completed for this report, the Irish domestic venture capital market does not have enough fund managers with the capacity to follow their money from the start-up stage to invest in scaleup and growth capital.

In terms of venture capital spending relative to national income (GNI), Ireland performs poorly compared to the leading EU countries. Using the Deep tech sector as an example, data from Pitchbook and British Business Bank suggests that there is a need for more than £300 million worth of investment at series A and more than £1 billion at series B in order for Ireland to achieve some degree of parity with the UK.

Risk Capital Investment in the United States and the EU (EURbn)

Figure 3 Risk Capital Investment in the US and EU

3.1.2 The European Scale-up Gap

While Europe has many start-ups, it struggles to scale them. Of the 2.4 million businesses created in Europe in 2011, by 2016 only 42% had survived and these surviving businesses grew only slightly, increasing average employee numbers from 1.67 in 2011 to 2.94 in 2016.[11]

As can be seen in Figure 4, US companies are funded by significantly larger VC funds at the scale-up stage and the average VC-backed US company received five times higher amounts than its EU counterpart. As a result of this, Europe is unable to reap the benefits of its most promising young companies during the crucial expansion stage and loses entrepreneurship, technological know-how and jobs.

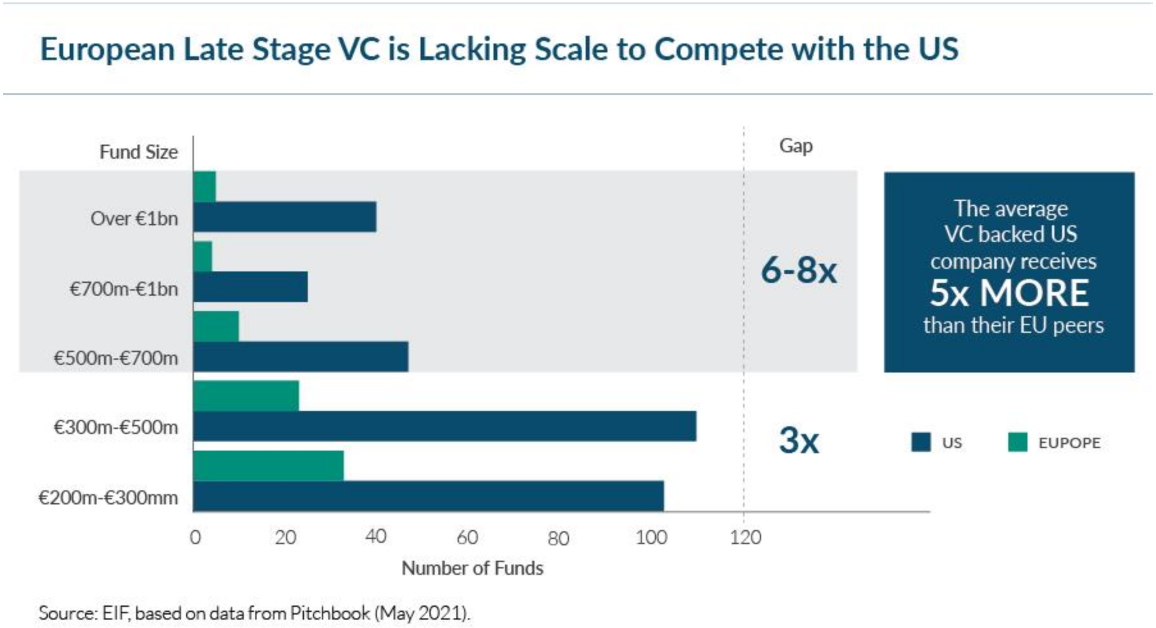

Figure 4EU vs US Late-Stage VC funding for 2021

The EU is acknowledging the importance of scale-ups, with much emphasis being put on the need to create a more favourable ecosystem for them to thrive in Europe. This is evident from many actions, such as the recent Scale-Up Europe Initiative, the new Capital Markets Union Action Plan, the SME Strategy, INVEST-EU, the European Scale-Up Action for Risk Capital (ESCALAR), the launch of the new European Innovation Council and the actions of the European Investment Fund.

While these EU initiatives are showing positive effects, there is still more to be done. Europe trails behind the US regarding the quantity of start-ups, after controlling for population size. These discrepancies intensify as firms grow; while start-ups are similar in many respects, such as size and funding, in the EU and the US, as they scale-up, European firms increasingly lag behind. It is estimated that closing this scaleup gap between the EU and the US will create up to one million new jobs and up to €2 trillion of extra GDP in the EU over the next 20 years.

European venture capital funds suffer from multiple supply-side failures and structural weaknesses; namely a lack of private-sector investors; fragmentation; small fund size; limited access to international money; low investment interest; low current and expected performance; leading to an increasing funding gap with the US.[12]

Based on the JRC's analysis, the EU has just 6.8% of the world's unicorns, which is less than an eighth of the number of scale-ups in the US and only a third of China's total. While there are a number of issues that are attributing to this gap, the paper outlines the lack of large EU-based VC funds capable of making 'big ticket' investments and so giving rise to the scale-up gap. The aggregate value of unicorns in the US was €1.2 trillion, compared to €253.3 billion for Q2 2021 in Europe.

Research suggests that Member States can contribute to the development of scale-ups and future unicorns by building supportive entrepreneurial ecosystems and ensuring the presence of supporting framework conditions such as enhancing the competences of workers, promoting relationships with academia and other grass-roots measures that nurture the 'pipeline' of start-ups with flagship innovative projects and technologies.[13]

3.2 Effects of the Gap

Left unchecked, the scale-up gap will result in a cohort of companies that will either plateau and never reach their potential, sell out to overseas buyers, or disproportionately fail. This has long term implications for the Irish economy.

At the broadest level, a failure to tackle the scale-up financing gap means a loss of potential employment opportunities and the economic growth and societal benefits that will flow from an expanding enterprise base.

From a policy perspective, developing and scaling indigenous enterprises is an important counter to Ireland's foreign direct investment concentration risk. The Irish economy is disproportionately dependent on corporation tax receipts from a small number of foreign direct investment companies. As noted in *Ireland's Competitiveness Challenge 2023*[14], in 2022, over 57% of corporation tax receipts were from the 10 largest payers. This leaves Ireland open to external shocks and decisions that individual foreign direct investment companies make will significantly affect corporation tax receipts. As noted, Ireland has a strong start-up culture, so not tackling the scale-up gap will mean that the opportunity to further develop the indigenous exporting sector and counteract the foreign direct investment concentration risk will be lost.

The further implication is that Ireland becomes an incubator for other regions and does not get a return on its investment and State support into start-ups. As many start-ups are to the forefront of innovation and new technologies, Ireland also loses out on the positive spillover from growing companies of scale in Ireland, including the positive effects of holding R&D intensive function in Ireland. This not only results in a loss of talent, but the further opportunities to develop new talent and to seed new ideas are also lost.

New technologies are particularly crucial in achieving the policy objectives of the twin transition areas of green and digital, so the implications of not addressing the scaling gap will have an impact here too.

Overall, Ireland, in common with Europe, risks missing out on exceptional companies, leading to technologies, knowledge and employment relocated elsewhere.

4. Learnings from Other Countries

4.1 International Government Support

The international best practice study completed as part of this report identified countries that have had success with scaling. The countries identified were Spain, Denmark, Finland, Sweden, UK, France, Singapore.

Each jurisdiction identified different barriers and gaps for their firms, particularly in the higher risk sectors such as Deep Tech. As detailed below, Irish Deep Tech start-ups are significantly underfunded when compared with their US and UK counterparts. They also utilise different modes of support (See Appendix 4) from which some common themes could be identified:

- Almost all see a funding gap, particularly in the higher risk sectors e.g., deep tech. Shortage of talent also regularly mentioned;
- A strong seed environment can create opportunities for scaling, but there is a need to operate up and down the funding landscape to improve the whole ecosystem;
- All are adapting, improving, and experimenting. It is an iterative process;
- Almost all rely on international investors working with the domestic market to provide growth capital and fund scaling;
- Most Net Promotional Institutions invest into international funds;
- All invest on a pari-passu basis, using commercial terms; and,
- Keeping successful companies anchored nationally is vitally important. This will be achieved where a domestic investor (private and/or public) has a meaningful shareholding.

4.2 Best Practice

The key best practice characteristics identified were:

- Acceptance that the Government has a role in catalysing private investment into early-stage companies and into deep tech sectors where the risks are higher and where intellectual property will be strategically important to a state. In markets of similar size to Ireland, such cheques are typically up to €10m, but cheque sizes can be much higher in larger markets.
- The fundamental role of a National Promotional Institution is to invest in a countercyclical manner and to offer a counterweight to anchor companies or strategic and high-value activities in those companies in their home market.
- Some countries have been very successful at tapping into their domestic savings market. Using a Fund of Funds (FoF) platform they have attracted pension funds, Family Offices, Insurance Companies and Corporates as co-investors.
- Most have some form of investment directly into companies. Direct intervention can be quicker, and the mandate and strategy is clear.

- Some provide a "one stop shop" along the funding spectrum, ensuring through closer co-ordination, a consistency of approach and optimisation of resources.

From a global perspective, venture funding reached $621 billion in 2021, more than double the 2020 mark of $294bn. Venture funds had been trending towards larger deal sizes at all stages of the funding journey with company valuations increasing (until the current market correction).

However, given the more conservative global risk funding appetite the private market may not be in a position to bridge gaps in the coming years. Indeed, it is possible that the existing scale-up financing gap will widen in the future.

The funding environment has become much more challenging since 2020. For example, the Financial Times suggests that more than €400 billion in market value has been wiped from European Tech companies, since the peak of the 2021 boom, as venture capital deal making hit a wall at the end of the summer, 2022[15].

In addition, this trend and funding crunch is a reflection of investor weariness, rising interest rates, inflation and the war in Ukraine, which is giving rise to geopolitical uncertainty.

4.3 Learnings for Ireland

All countries studied demonstrated that they were actively pursuing ways of developing or supporting financial pipelines for firms seeking to grow, internationalise, and export.

One type of government intervention is to provide additional support to the venture capital and funding ecosystem in either direct or Government Limited Partnerships (GLPs); where governments provide funds to VC general partners who are responsible for investing the funds. GLPs can play the important ''anchor investor'' role for VCs, helping them attract further investment from private limited partners. In addition, GLPs can provide a stable source of long-term funding for companies.

In the UK, British Business Bank (BBB) offers a range of supports for high growth companies including Loan Guarantees and Enterprise Capital Funds. British Business Investment (BBI), which is a commercial subsidiary of BBB, provides funding indirectly through partners.

In 2017, the UK Government's Patient Capital Review identified a similar gap in long-term finance preventing British SMEs from scaling. Based on the results of that review, the UK Government launched British Patient Capital (BPC): a £2.5 billion VC Investment Fund set up as a subsidiary of the British Business Bank with both policy and commercial objectives. BPC was designed to enable high-growth and innovative companies access the long-term finance they need to grow; and do this in a way that delivers value for money for the UK taxpayer. By increasing the number of funds of sufficient scale to invest in larger, later stage funding rounds, BPC is expected to enable more scaling companies to achieve their growth ambitions.[16]

With the second largest concentration of billion-dollar valuations per capita after Silicon Valley, Sweden has been dubbed the ''land of unicorns''. Almi is a Swedish state backed investor which provides loans and equity to Swedish companies. Also, Saninvest is a Swedish government fund that supports new venture capital funds (approx. €588m under management).

While Israel is to the forefront of this type of development, it has unique features and different drivers that make it difficult for comparison with Ireland. However, the Israeli Yozma fund created over 30 years ago set the blueprint for Israeli venture capital investment. It jump-started the Israeli ecosystem, which to date have led to 29 Israeli US IPOs. The Yozma fund has also helped to attract international investors to the Israeli market.

The EU have several schemes that are being put forward as potential solutions to this gap. For example, the new European Tech Champions Initiative (ETCI), which was launched in February 2023, and ESCALAR which began its pilot phase in 2020. They both builds on the EIF's extensive work in the venture capital markets in Europe and should help provide scale-up financing within the EU.

The STEP platform will improve access to finance for start-ups in the EU by pooling funding under existing programmes and mobilising untapped sources of private capital. This will support the new wave of deep tech innovation across the EU. This will include deep and digital technologies include microelectronics, high-performance computing, quantum computing, cloud computing, edge computing, artificial intelligence, cybersecurity, robotics, 5G and advanced connectivity, and virtual realities, including actions related to deep and digital technologies for the development of defence applications.

Deep and digital tech innovations are key to help address to the most pressing global challenges such as climate change, sustainable energy, or health. Making sure they are part of the economy is key to the EU's overall competitiveness and productivity.

What is clear from analysis completed as part of this report, is that no country is standing still. There is a strategic opportunity for the Irish State to be a cornerstone in developing a scale-up ecosystem, building on a successful start-up ecosystem and learning from other jurisdictions.

Based on the interviews and surveys conducted for this report, there is considerable qualitative date to affirm that the scale-up financing gap leads to quality businesses seeking investment from outside the jurisdiction and, more often than not, outside the EU. This leads to a flight of innovative technology and skills to other jurisdictions, in particular to the US.

5. Identify and access untapped sources of funding

While the discussion so far has centred on Government policy intervention to use finance as a catalyst to grow the scaling ecosystem in Ireland, the research and findings are clear that while the Government will need to be a catalyst, it cannot, and will not, be the sole source of finance for scaling investment.

Any instruments developed to grow the scaling ecosystem must seek to unlock untapped sources of finance. Private and international investors must be encouraged to considering Ireland's scaling ecosystem as a fertile ground for attract investments. During international research, it became clear that some countries have been very successful at attracting investment from their domestic savings market using an FoF platform. They have attracted Pension Funds, Family Offices, Insurance Companies, and Corporates as co-investors.

This section identifies some of the potential untapped sources.

5.1 International Capital

As part of the international subgroup's research, key stakeholders from comparator jurisdictions all stated that they welcomed capital inflows from abroad, viewing this as positive validation of their local entrepreneurs and technologies. The capital that international funds bring in is important and provides international connections, domain expertise, and global expansion and export opportunities that are particularly relevant to smaller markets, such as Finland and Denmark.

Conversely, while those interviewed recognised the importance of international capital, they also recognised the need to develop, foster, and support domestic funds. Such funds will complement any international capital which will aid in retaining jobs, maintaining research and development activities in domestic markets when an exit occurs, and deepening the firms' roots in the Irish ecosystem.

The level of international funding at play in Ireland not only provides entrepreneurs with opportunities that would likely not be otherwise forthcoming but is also an endorsement of the quality of companies in the Irish Ecosystem. The specialism, expertise and networks that are provided by this capital are often instrumental in driving successful outcomes that benefit Ireland and the Irish ecosystem, regardless of exit outcome.

However, international capital is, by definition, driven by the global market forces and its involvement in the Irish ecosystem fluctuates with the ebb and flow of international crises, policies, and foci. As such, an over-reliance on international funding will leave the Irish ecosystem exposed to the greater impacts of hazardous turns in the global markets.

This report considers a strengthening of the domestic sector, and a catalysis of the Irish ecosystem, as the best method to shore the Irish economy against global changes in direction or flow, while still complementing and accumulating the benefits from international funding.

If a stronger Irish ecosystem can operate in tandem with international capital, then it can:

- Anchor a firm's footprint and their leadership team in Ireland;
- Profit from their R&D functions within the State;
- Gain innovative technology and skill spill-overs;
- Benefit from potential employment and economic growth; and,
- Establish Ireland as a sectoral locus of control.

However, in order to achieve these outcomes, the existing stream of scaling finance will require some form of government support, if it is to grow and prevent future impediments for start-ups trying to scale.

It will be important that any intervention established under this review reflects the importance of crowding-in international investment, including in collaboration with EU bodies, such as the EIB and EIF.

5.2 Attracting Institutional Investors and Pension Funds

One key issue that arose repeatedly in domestic consultation responses was the potential for domestic pension funds to invest in Irish firms either directly or via funds with an Irish mandate. This is a source of scale-up funding available in many other markets but is largely absent from the Irish market.

With long-term investment horizons and a positive cash-flow pension funds have the potential to become key institutional investors. Therefore, there is value in exploring how pension funds can support long term investment in the real economy.

Current levels of pension investment in illiquid assets are low and tend to be focused on real estate. This contrasts with pension schemes in countries like Australia, where there is greater investment in high-growth alternative asset classes.

In Ireland, the asset allocation of Irish pension funds according to Central Bank figures show that there is €3.8 billion of equity holdings invested in a range of countries outside Ireland. The United States accounts for almost half of the holdings. IVCA figures show than less than 0.01% of the equity holdings of Irish Pension funds is allocated to Irish PE and VC funds.

Smaller pension funds find it difficult to justify building in-house venture investing expertise alongside the relevant governance and oversight capability, given the relatively small asset allocation; and pension funds with a poor asset / liability funding position and / or a weak covenant from the employer are less able to invest in risky or illiquid assets.

A small increase in pension fund investment into domestic venture and private equity allocation will have a significant impact on the availability of capital for high-growth scale-ups.

There are initiatives in other jurisdictions to unlock pension funding which could have learnings for Ireland.

For example, in July 2023, the Mayor of London announced the signing of The Mansion House Compact, a commitment by some of Britain's largest pension firms to allocate a minimum of 5% of defined contribution (DC) funds to unlisted equities by 2030, with the aim of unlocking over £50 billion of new capital by the end of the decade.

The two objectives of the compact are to secure better returns for savers and ensure fast-growing businesses in sectors like fintech and biotech can stay and scale in the UK.

5.3 Taxation to Encourage Investment

Several responses to the domestic consultation highlighted a desire to see changes to the Government's tax regime. For the most part these were to do with changes to the current tax model to make Ireland and investing in Irish firms more attractive to investors. The current tax model, as it relates to encouraging equity investing, includes the following schemes: Entrepreneur Relief, Employment Investment Incentive Scheme (EIIS), Start-up Capital Incentive (SCI), Start-Up Relief for Entrepreneurs (SURE), and Key Employee Engagement Programme (KEEP).

The Irish economy has been the beneficiary of innovative tax policy for FDI. Scale-ups will be the next engine of industrial growth and innovation in taxation and will be a contributor to encouraging broader participation in the funding ecosystem.

There are a number of possible taxation policy supports to be considered to assist companies that seek to access public markets to raise funds to grow their businesses. These are detailed in the 'Empowering EU Capital Markets for SMEs' report of the European Commission's Technical Expert Stakeholder Group (TESG) on SMEs.

In the 2021 National Economic Plan Government committed to "review the taxation environment for firms and entrepreneurs, with a view to introducing improvements to different schemes, so that Ireland remains an attractive place to sustain and grow an existing business or to start and scale up a new business."[17]

In 2022 the Department of Finance published "Capital & Savings Taxes" a report by the Tax Strategy Group. This report examined the pros and cons of any potential changes to the capital and savings tax regimes[18]. It also explained that the extent to which lowering the rate of CGT could drive investment decisions, improve returns for entrepreneurs and encourage serial and additional investment was significant and might need to be considered when determining future strategy. Conversely, the extent to which higher rates of CGT can "lock-in" investments and affect the timing of the sale or acquisition of assets is also a factor for consideration.

A lower rate of CGT would encourage innovation and risk taking, encourage the sale and purchase of assets, which drives investment activity, and will improve the returns for entrepreneurs[19].

The EIIS plays an important role in incentivising investment by individuals into companies. Applicants to the scheme can claim tax relief on their investment when certain conditions are met. Companies will issue shares based on the amount invested. These shares need to be held for at least four years.

However, while it has been tweaked in recent years, there is still room for improvement in how this tax incentive is structured. Respondents to the domestic consultation noted that the changes made to EIIS in recent years to have failed to simplify the process, long delays in approvals introduce unnecessary uncertainty for investments, and that there is an urgent need to rewrite the guidance for the scheme.

It is important to note that EIIS, SURE and SCI operate within the rules of EU General Block Exemption Regulation (GBER) which allows certain categories of State aid to be granted without prior notification by Member States to the EU Commission. The EU Commission has recently adopted an amended GBER which will necessitate changes to the EIIS, SCI and SURE incentives to ensure that they remain compatible with the GBER. EU State aid considerations must be borne in mind in considering any options for change to the schemes.

Lessons can be learned from the EIS system in the UK which allows for multiple EIS rounds which leverages significant levels of investment to early stage and scaling companies. The UK EIS also provides for collective fund structures amongst investors rather than just individuals availing of EIIS relief in single companies. This will enable funds to set aside follow-on investment for companies and could support a fund manager in investing in a portfolio of companies that could generate superior returns over the medium to long-term.

5.4 Corporate Investment into Funds

The market for later stage venture funding in Ireland is less well developed than other markets. The private finance market in Ireland is characterised by a lack of investing culture, which is exacerbated by an insufficient number of corporate investors. Alongside this there is relatively little domestic multinational equity investment compared to other countries.

The relatively recent nature of Ireland's prosperity and its roots in an FDI orientated open economy have resulted in a lack of depth in the type of institutional and corporate investors often seen in other European countries. There is also a lack of domestic multinationals who typically invest in local ecosystems. Additionally, Ireland has a significantly less developed family office, endowment, and pension fund investments in domestic private capital. This absence of matching private capital has impacted on the size of Irish funds, and the level of capital they can deploy for scaling finance for Irish companies.

6. Recommendations and Implementation

6.1. Recommendations

This report presents three key policy recommendations to support the development of a scaling finance ecosystem in Ireland.

6.1.1 State Funding to Catalyse Investment

All research completed for this report points to a need for the State to support investment into scaling. Countries with successful scaling ecosystems promote finance as a catalyst to developing exceptional indigenous companies. Access to appropriate finance is required across all stages of the company life cycle development.

Recommendation 1: Ensure that scaling finance is available by introducing and promoting funds that will provide scaling finance options to founders and startups. This should include:

- continuation and augmentation of the existing Seed and Venture Capital Scheme;
- supporting and promoting the secondary capital funds; and
- implementing a state-backed scaling fund, working with a partner that will enhance and deepen Ireland's links with European funding partners, including the European Investment Bank and the European Investment Fund.

6.1.2 Private Funding

State funding can be used to catalyse the market, but consistent matching private capital is required to build a healthy, self-sustaining ecosystem. Ireland lacks some of the private funding sources that are actors in the market in other countries.

Recommendation 2: Investigate options for pension fund and institutional investor participation in scaling equity funds and encourage corporate venturing in Ireland. This should include:

- investigation of options to make pension fund and institutional investor participation in scaling equity funds a reality in Ireland; (Pension funds might invest in EIB/EIF European Scaling funds)
- developing and promoting links between MNCs and indigenous business, in relation to both funding and skills transfer; and
- promotion of the equity market in Ireland by implementing publicly available metrics on equity investment. (IVCA)

6.1.3 Tax Incentives

Incentives to encourage private investment into equity funds and scaling companies are an important part of the ecosystem. This is particularly true when encouraging investors to diversify their portfolios and consider scaling companies as a potential investment. Budget 2024 introduced a range of initiatives and improvements to existing measures for angel and venture funding. [20]The State could further encourage participation by offering tax incentives that offer some measure of de-risking by making the taxation conditions on investment more favourable for investors.

Recommendation 3: Review the State's tax model and design instruments that incentivise investment into scaling companies. This should include:

- Commissioning a study to identify changes to the Government's tax model that support the entrepreneurship and scaling agenda; and,
- Consulting with industry on improving and streamlining the tax incentives that are already in place.

6.2. Implementation Steering Committee

Implementation of the recommendations proposed in this report will be delivered through a Scale-up steering committee comprising of senior officials from:

Department of Enterprise, Trade, and Employment

Enterprise Ireland

Strategic Banking Corporation Ireland

Ireland Strategic Investment Fund/National Treasury Management Agency.

The steering committee will be centrally coordinated by the Department of Enterprise, Trade and Employment. The committee will oversee and guide the strategic efforts related to supporting the growth and financing needs of high-potential, fast-growing companies and will be responsible for developing and refining strategies, growing from the recommendations contained within this report, to foster the growth of the scale-up ecosystem.

6.3 Governance and Reporting

The Scale-up Steering Committee will be chaired by a senior official from the Department of Enterprise, Trade and Employment and will meet quarterly. The Steering Committee will develop an implementation strategy for scaling built on the recommendations provided in this report. This strategy will maximise the opportunities for growth from Government intervention and drive delivery within a two-year implementation timeframe.

Implementation of each of the three recommendations will be managed by a subgroup consisting of relevant Government Departments and Agencies as well as key Industry representatives. Each subgroup will provide a quarterly report to the Scale-up steering committee.

Appendices

Appendix 1 A working definition of a scale-up

Scale-Ups are ambitious, have validated their business model and will display at least one of the following characteristics:

- Average annual turnover growth of at least 20% in the past 3 years subject to a current minimum annual turnover €1m.
- Minimum 10 employees with annual increase in Irish employees of 20% over the past 3 years
- R&D spend increases at 20% per annum from a base of €1 million

(NOTE: This should be used a guide as opposed to a strict definition, to avoid rigidity in classification and potentially excluding some businesses with potential to scale from the subject population but not necessarily displaying above characteristics.)

Appendix 2 ESCALAR and ETCI

ESCALAR will provide up to €300 million to increase the investment capacity of venture capital and private equity funds, triggering investments of up to €1.2 billion, or four times the original investment, to support promising companies. ESCALAR aims to support fund closing by committing up to 50% of the size of the fund. It targets both new funds focusing on financing scale-ups, as well as existing funds wishing to support high potential companies from their portfolio to further develop their growth.

The ETCI is a fund-of-funds structure with €3.75 billion of capital to tackle the European scale-up gap. It will invest in large-scale venture capital funds, which will in turn provide growth financing to European tech champions in in their late-stage growth phase. It is expected to make 10-15 investments in large VC funds of approx. € 1 billion. In doing so, ETCI seeks to mobilise more than € 10 billion of investments in innovative companies in their growth stage. This will boost funding for promising high-tech companies that to raise amounts of over €50 million to compete on a global scale whilst staying in Europe.

Appendix 3 Selected responses to the Domestic Survey

A number of responses to the consultation identified this funding gap as an issue and as a barrier to scaling. TechIreland wrote

> *"We consider Scale-up finance as equity rounds of at least €3 Million. Clearly these have been growing in recent years. However, the number of early-stage rounds has been falling pretty consistently for the past three years. This is the range that typically is being funded from the domestic market. In order to get companies to the €10M+ "International money" range there needs to be more support at the early scaling stage... Once businesses get to the stage where they are raising significant [€5-10 million and over] tranches of risk capital, effectively they are in the*

> *international funding arena, where investors have a global view, and it can be difficult for local businesses to engage on equal terms."*

While EY spelled it out in their response as follows

> *"Post the initial Series A round, growing, and successful indigenous businesses typically then seek a c€3million to €10 million round. There is a lack of domestic funds capable of supporting this level of financial support. In an international context, this level of capital is small and thus appetite is limited."*

Goodbody explained that their clients can generally secure the €3 million stage of funding with the range of domestic supports available to them and that above €10 they can attract foreign investment but the gap between those stages remains underserved.

> *"The typical view of our client base is that Irish companies experience a gap in the range €3-10m. Below that, they can typically bootstrap with friends, family, angel investors and early support from EI and other agencies. Funding above €10 million brings them into the space where international funds will be available."*

Pegasus Capital explain this gap from a slightly different perspective when they write,

> *"High growth R&D / IP companies generating <€1 million in revenue and services / capital intensive companies in more traditional sectors generating <€1 million in profit will often encounter difficulties in raising capital as it frequently falls below the scope of both domestic Irish and overseas funders i.e., it does not "move the needle" sufficiently given the required time vs. quantum of investment/returns."*

The responses to the consultation clearly indicate a gap in funding at the €3-10 million stage. Some responses offered their own suggestions as how to address this issue. EY write;

> *"The overriding barrier is the lack of "Series B" €3m-€10 million scaling finance within the domestic market. In our view, Ireland requires two to three "intermediate scaling funds" with a fund scale of c.€200 million and have the capability to lead funding transactions with a ticket range of €3 million to €15m. At the upper end, this will overlap with international based investment funds, many of which have been invested in by ISIF, thus providing full capital accessibility throughout the growth cycle."*

Even outside of Government funding, some of the responses expressed concern that there is a lack of domestic funding, of a corporate or high-net-worth-individual nature, that have longstanding traditions in other countries. The general lack of investing traditions or culture and the difficulties that surround corporate and family office investment mean that access to funding, in many ways, is more difficult in Ireland than it is in other countries.

Appendix 4 Examples of scaling products offered internationally

Country	Products Offered	Main Scaling Product
Spain	AXIS promotes financing complementary to bank financing for entrepreneurs and companies, with the aim of helping companies' and the entrepreneurial ecosystem's growth, development and internationalisation, particularly for technology-based companies. Axis offer four funds: 1. Fond-ICO Next Tech; 2. Fond-ICO Global; 3. Fond-ICO Pyme; and 4. FOND-ICO Infraestructuras	Fond-ICO Next Tech was created with the aim of promoting the development of innovative, high-impact digital projects and investment in growth companies (scale-ups). The fund was set up with the aim of mobilising up to 4 billion euros in public-private partnerships with the Spanish venture capital sector by taking stakes and investing in companies/funds specialising primarily in the digital and artificial intelligence sectors
Denmark	The Export and Investment Fund of Denmark (EIFO) provides different types of equity investments in Danish enterprises who are young, innovative, and highly scalable with an ambition for global growth. They are a patient investor with a long-term perspective.	The Danish Growth Fund (Vækstfonden) is an investment fund regulated by the Danish state, that provides access to investment capital for Danish companies, in particular SMEs. In more detail, it offers a range of financing options for start-ups. For instance, if your enterprise has an aggressive growth plan, then a convertible loan may be a suitable first step. Conversely, for more mature scale-ups, a traditional loan scheme may be a more attractive option to secure long-term finance without any risk of dilution.
Sweden	Saminvest helps stimulate private capital within areas of different industries and business sectors where, at the time of the investment, private capital is sufficiently lacking. The Organisation was established by the Swedish government in 2016 and actively works to establish new and sustainable venture capital funds	

	and angel investor programmes that expand the venture capital market in Sweden. Almi is a Swedish state backed investor which provides loans and equity to Swedish companies. Also, Saninvest is a Swedish government fund that supports new venture capital funds (approx. €588 million under management)	
Finland	Tesi (officially Finnish Industry Investment Ltd) is a state-owned investment company that invests in venture capital and private equity funds and directly in Finnish growth companies. Tesi make investments on the same terms and return expectations together with private investors, sharing financial risk, and accelerating international growth.	KRRs are funds-of-funds managed by Tesi. In addition to Tesi, investors in the funds include major Finnish institutional investors. KRR's typical investment in an individual fund is EUR 5–30 million, accounting for a maximum of 40% of the target fund's commitments. KRR IV will continue the successful investment activities of its predecessors. The fund-of-fund's capital is EUR 175 million. It targets to invest in 10-14 Finnish venture capital and private equity funds during 2020-2025.
UK	The mission of British Patient Capital (BPC) is to enable long-term investment in innovative UK companies led by ambitious entrepreneurs who want to build successful, world-class businesses. BPC invests in best-in-class venture and venture growth capital fund managers with a strong UK focus, as well as directly in the most promising later-stage businesses through: 1. Core funds and co-investment programme; 2. Life Sciences Investment Programme; and 3. Future Fund: Breakthrough	Core funds and co-investment programme: Through the core £2.5 billion funds and co-investment programme, BPC invest in venture and venture growth capital funds, and co-invest alongside those funds in the most promising later-stage UK businesses
France	Bpifrance is the French Sovereign Wealth Fund with over €36 billion assets under management. As such Bpifrance manages a large and diverse portfolio of direct participations in startups, small, medium, and large-sized companies, as well as participations in venture capital and private equity funds.	Tibi Initiative: A strategic recommendation that aims to transform investments in the tech sector through more late-stage and global tech funds managing a total of €20 billion The strategic aim is to have world-class, innovative technology companies located in France.

	Bpifrance's goal is to favour the growth of the French economy by helping entrepreneurs thrive.	The standard development model for such companies involves initially raising large amounts of money from venture capital firms, then an IPO on a stock exchange, currently NASDAQ or one in Asia. We want Paris to become Europe's hub for tech stock listings.
Singapore	Enterprise Singapore aim to champion enterprise development and work with committed companies to build capabilities, innovate and go global. They also support the growth of Singapore as a hub for global trading and startups. As the national standards and accreditation body, Enterprise Singapore continue to build trust in Singapore's products and services through quality and standards.	Scale-Up is Enterprise Singapore's flagship programme to support selected local companies with high-growth potential to scale effectively, become leaders in their fields, and become future global champions. As these companies grow, they will contribute to Singapore's economy, create good jobs for Singaporeans, and strengthen the Singapore brand. Lasting from 12-18 months, the programme aims to groom the next generation of Singapore Global Enterprises that are globally competitive and an inspiration to others.

Appendix 5 Details on existing EU approaches to scaling

EU Funding

The EU have several schemes and that are being put forward as potential solutions to the scaling gap. The new European Tech Champions Initiative (ETCI), and ESCALAR were mentioned earlier in this report. They both build on the EIF's extensive work in venture capital markets in Europe and aim to provide scale-up financing within the EU.

The European Investment Bank (EIB) - Is the lending arm of the European Union. Since its establishment in 1958, the EIB has invested over a trillion euros in projects covering areas such as small and medium-sized businesses, innovation, digital and human capital, sustainable cities and regions, and sustainable energy and natural resources.

The European Investment Fund (EIF) - Form part of the EIB Group and a specialist provider of risk finance to benefit small and medium-sized enterprises (SME) across Europe. The EIFs mission is to support Europe's small and medium-sized businesses by helping them to access finance via equity or debt products. These products are complimentary to those offered by the EIB.

In total, the EIB has invested over €20 billion in both companies and projects since 1973.

Ireland's engagements with the EIB and EIF to date have been very successful and the positive and strong relationship with the Department of Enterprise, Trade & Employment has resulted in the development and deployment of strategic loan schemes and loan schemes in response to unpredictable economic shocks, such as those arising from the Covid-19 pandemic, the UK's withdrawal from the EU and more recently the Ukraine crisis.

Cooperation with the EIB has been critical in the development of initiatives including:

- Brexit Impact Loan Scheme;
- Covid-19 Loan Scheme;
- Future Growth Loan Scheme; and
- Growth and Sustainability Loan Scheme.

Ensuring that businesses have an option for appropriate access to finance in order to make investments in their businesses is crucial. To this end, February 2022 saw the launch of the Irish Innovation Seed Fund Programme, a €90 million fund-of-funds, made up of a €30 million investment from DETE, through Enterprise Ireland (EI), which is matched by a €30 million investment from the EIF, and a €30 million co-investment from Ireland Strategic Investment Fund (ISIF).

As a fund-of-funds, the programme will invest in other specialist fund managers who will target high growth innovative companies based on disruptive intellectual property, who are at the early stages of external funding for innovative, high growth, scalable sectors.

This programme was the first opportunity to collaborate with the EIF to provide a specific equity product for Irish companies at seed stage. The development of this programme has strengthened relationships between the Department and EIF and can potentially open up the opportunity to develop an equity programme that is focused on companies who struggle to gain financing to successfully scale.

It may also be wise to explore opportunities to invest in larger Growth Capital and PE Funds, which in some international instances are supported by the EU's ESCALAR programme that is administered by the EIF. These efforts will be explored further for relevance in an Irish context.

European Scaling Initiatives

Access to appropriate financing for scaling investment is also recognised as a pressing issue across Europe. In the 2021 research paper 'European Scale-Up Gap: Too few good companies or too few good investors?[21]' the European Commission acknowledged the importance of start-ups and scale-ups, and the need to create a more favourable ecosystem for them to thrive in Europe.

In response to this several initiatives have been launched including Scale-Up Europe Initiative[22], the SME Strategy[23], INVEST-EU[24], the European Scale-Up Action for Risk Capital (ESCALAR)[25] and the new European Innovation Council[26]. In addition to these more recent activities the EIF has been addressing SME financing gaps via investments in venture capital, private equity, and private credit funds for more than 25 years.

European National Promotional Institutions (NPI's) have a common mission to support the economy and contribute to sustainable growth in their respective nations. Over the years EI and ISIF have developed strong relationships with NPI's from comparator countries allowing them to stay informed of key developments in their funding ecosystems. Individual European countries unveiling supports for growth stage companies include:

Jan 2023 France announced €500 million into deep tech companies through BPI France.

Feb 2023 Germany announced its Deep Tech and Climate Fund. This €1 billion KFW fund supports growth-stage companies in these sectors.

Feb 2023 the European Tech Champions Fund was announced. This will invest in 10-15 late-stage VC funds (>€1bn) that participate in funding rounds > €50 million. It is initially being supported with commitments of €1 billion each from Germany, France, and Spain, €150m from Italy and €100 million from Belgium.

In the UK, the British Patient Capital Fund (BPC) is a £2.5 billion fund to invest in venture & growth capital funds. British Patient Capital also run the Breakthrough Fund. BPC activities were reviewed in 2022 and found to be effective.

Appendix 6 Details on possible approaches to pension scheme investment in Irish equity

One possible measure would be introducing an "opt-in" requirement on new payments into DC pension schemes to attract retail capital into the market. This would require that DC schemes offer members an option to allocate a small proportion of their pension to VC. The intent would be to emulate the successful implementation of the French LME Law in 2008 which mandated that Corporate Employee Savings Schemes must offer a Solidarity Investment Funds option.

One example of the UK pensions market's involvement in equity is the London LGPS Collective Investment Vehicle (LCIV). The LCIV is the regional asset pool for the 32 London administering authorities (including the City of London). The LCIV is a collaborative venture to enable the capital's LGPS pension funds to work closely together to deliver benefits of scale and efficiency savings to the participating authorities via a voluntary pooling arrangement.

Assets are managed by specialist external fund managers, appointed by the LCIV to mandates developed in concert with clients. As at the 31 May 2022, the London CIV's total assets under management amount to £26.7bn. This consists of:

- £12.5 billion invested in the "Authorised Contractual Scheme" (ACS) which houses actively managed, liquid asset classes (listed equities, fixed income, and multi asset);

- £2.2 billion funded commitments within private markets (infrastructure, private debt and property); and
- £12.0 billion which is invested in passively managed mandates with LGIM and Blackrock and deemed pooled.

Aside from existing funds, the LCIV has an active development pipeline for future funds. At present there are two funds in the pipeline – the LCIV Sterling Credit Fund and the London CIV UK Housing Fund. These funds are in early-stage development and the LCIV is currently assessing client demand.[27]

At an EU level, the ATP Group is Denmark's largest pension and processing company. ATP as an investor chooses to hedge its business risk when it invests its members' funds. Generally speaking, they invest 80 per cent of members' funds via a so-called "hedging portfolio". The remaining 20 per cent are invested into assets with higher risk profiles in order to ensure an inflation-adjusted value of the guaranteed pension.

ATP's investment strategy means that members will always get the pensions that we have guaranteed - both when markets go up or down. They invest both in Denmark and abroad - for example, in bonds, equities, real estate and infrastructure - in order to ensure the highest possible returns at the lowest possible risk.[28]

Appendix 7 Details on the current tax structure

Several responses to the domestic consultation highlighted a desire to see changes to the Government's tax regime. For the most part these were to do with changes to the current tax model to make Ireland and investing in Irish firms more attractive to investors. The current tax model is made up of the following schemes: Entrepreneur Relief, Employment Investment Incentive Scheme (EIIS), Start-up Capital Incentive (SCI), Start-Up Relief for Entrepreneurs (SURE), and Key Employee Engagement Programme (KEEP).

Entrepreneur Relief - This relief gives a Capital Gains Tax rate of 10% on gains from the disposal of qualifying business assets. This is reduced from the normal rate of 33%. The rate is 20% for disposals from 1 January to 31 December 2016. There is a lifetime limit of €1 million on the gains that relief can be claimed on. Only gains on disposals made on or after 1 January 2016 are counted in the limit.

The relief does not apply to disposals of:

- Shares (other than shares that qualify for relief under this section), securities or other assets held as investments;
- Development land;
- Assets on the disposal of which no chargeable gain would arise;
- Assets personally owned outside a company, even where such assets are used by the company;
- Goodwill which is disposed of to a connected company; or
- Shares or securities in a company where the individual remains connected with the company following the disposal.

Employment Investment Incentive Scheme (EIIS) - The EIIS provides tax relief to private investors for risk capital investments in qualifying SMEs, to assist companies to raise finance to allow them to expand and create or retain jobs. The majority of new SMEs can qualify. EII allows an individual investor to obtain Income Tax relief (of up to 40 percent) on investments for shares in qualifying companies up to certain limits each tax year.

Tax relief can be claimed on investments when certain conditions are met. For shares issued up to and including 8 October 2019, the relief is split into two tranches:

- Thirty fortieths (30/40) in the year of investment
- Ten fortieths (10/40) in the fourth year after the initial investment.

For shares issued after 8 October 2019, the relief is available in full in the year of the investment. Companies will issue shares for the amount invested. Investors need to hold those shares for at least four years. EII is available to qualifying individuals who make qualifying investments if the individual, or their family, do not own any capital in the company.

The maximum investment on which relief can be claimed in a year is:

- €150,000 in respect of the years up to and including 2019;
- €500,000 in respect of the years after 2019, subject to those shares being held for a minimum period of seven years; or
- €250,000 in respect of the years after 2019 where those shares are held for a minimum period of four years only.

Start-up Capital Incentive (SCI) - SCI, is a tax relief which allows early-stage micro companies to attract equity-based risk finance from connected parties including family members. The conditions to avail of relief under SCI are:

- The company should be carrying on a brand-new venture.
- None of the shareholders can carry on a similar venture.

Start-Up Relief for Entrepreneurs (SURE) - SURE is a tax relief that is targeted at entrepreneurs who leave an employment to start-up their own company. SURE provides a refund for Income Tax that individuals paid in previous years. Relief can be claimed if the individual is starting their own business and they are:

- An employee
- An unemployed person
- A person who has recently been made redundant.

The general conditions for SURE are individuals must:

- Establish a new company carrying on a new qualifying trading activity
- Have mainly PAYE income in the previous four years;
- Take up full-time employment in the new company as a director or an employee;
- Invest cash in the new company by purchasing new shares; and

- keep the purchased shares for at least four years.

Key Employee Engagement Programme (KEEP) - KEEP is a tax efficient share option scheme. Under the scheme, employees will be given an option to acquire shares at a future date, at a fixed price. Employees who exercise KEEP options are exempt from a liability to Income Tax, USC and PRSI on any gain arising, however they pay Capital Gains Tax (CGT) on subsequent disposal of the shares acquired. In addition, as with other share-based remuneration schemes, shares awarded through KEEP are exempt from employer PRSI. There are a number of qualifying conditions.

To qualify for the beneficial tax treatment, there are several conditions to be satisfied in relation to the:

- Share options;
- Employees; and
- Company.

The option cannot be:

- Held for longer than ten years; or
- Exercised within the first 12 months of the grant date.

To qualify for the beneficial tax treatment, the employee must:

- Be an employee or director throughout the exercise period; and
- Work at least 20 hours per week for the qualifying company.

Individuals are not eligible to participate if they hold a material interest (more than 15%) in:

- The ordinary share capital of the qualifying company; or
- In the case of a qualifying group, the qualifying holding company.

Glossary

Accelerator

An incubator's big brother. A cohort-based programme for scaling start-ups. Companies receive mentorship, learning, connections, and investment aimed at helping them grow rapidly, in return for equity in the company.

Angel

An Angel investor is a person of high-net-worth who invests their personal wealth in early-stage businesses either individually or as part of a syndicate. An Angel round is a fund raised from one or more Angel investors, usually anywhere between $10,000 and $1m.

Birth rate

The birth rate of a given reference period (usually one calendar year) is the number of births as a percentage of the population of active enterprises. This birth rate may vary depending on the birth concept that is used. The use of thresholds affects both the enumerator (births) and the denominator (population of active enterprises) but may do so to a different degree.

Bootstrapping

Keeping costs low and using personal investment and/or revenue to fuel company growth. Bootstrapped companies choose to grow organically and independently rather than take external investment, meaning they are likely to become revenue generating sooner rather than later.

Cap table

Short for capitalisation table. A document listing a company's equity shareholders, with details of who owns equity in the business, how many shares they own, the types of shares they own, and the combined total company valuation at the last point of investment.

Convertible note

An asset issued during an early-stage investment round, instead of shares, as a means of delaying the determination of company valuation. It acts as a loan with the intention of being repaid in equity, usually with certain discount conditions at the next investment round, in acknowledgement of the higher risk of the early investors.

Death rate

The death rate of a given reference period (usually one calendar year) is the number of deaths as a percentage of the population of active enterprises. This death rate may vary depending on the birth concept that is used. The use of thresholds affects both the enumerator (deaths) and the denominator (population of active enterprises) but may do so to a different degree.

Disruption

Innovation that creates a new market, upsetting and driving change in market status quo, first used in this context in 1995 by academic Clayton M. Christensen.

Ecosystem

The entrepreneurs, talent, start-ups, scaleups, corporates, investors, support organisations, academic institutions and government players operating in a sector whose interaction lead to the creation and growth of new companies. A start-up ecosystem needs as many of these players as possible in the same physical or virtual space in order to thrive.

Enterprise

The enterprise is the smallest combination of legal units that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. An enterprise may be a sole legal unit.

Enterprise birth

A birth amounts to the creation of a combination of production factors with the restriction that no other enterprises are involved in the event. Births do not include entries into the population due to mergers, break-ups, split-off or restructuring of a set of enterprises. It does not include entries into a sub-population resulting only from a change of activity.

A birth occurs when and enterprise starts from scratch and actually starts activity. An enterprise creation can be considered an enterprise birth if new production factors, in particular new jobs, are created. If a dormant unit is reactivated within two years, this event is not considered a birth.

Exit

The point at which a company ceases to be an independent privately-owned venture, either because the company is acquired by or merges with another or because it becomes publicly tradable after a float on the stock exchange. This is the point at which investors will be able to liquidate their investment position and realise the returns that they invested for.

Friends and family round

Very early start-up investment raised from people in the founders' personal network.

Gazelle

A gazelle is a high-growth enterprise that is up to 5 years old.

Growth

The term growth is used in business demography to study how groups of enterprises develop. Growth is measured in terms of a change in size (in this case employment) over time. It is expected that growth for births will generally be positive (for those enterprises that have survived) as the vast majority are very small at the time of start-up.

There will be occasional cases for births, and more frequent cases for the population of active enterprises, where the growth measured in this way will be negative.

Incubator

An early-stage start-up support system, offering guidance, training and often office space. Support may be offered for free by non-profits or universities, or can be on a for-profit basis in return for a fee or company equity

IPO

Initial Public Offering. When a company offers stock for public sale on a stock exchange for the first time. The company will now be a publicly traded company. It is a form of start-up exit.

Iterate

To continuously improve and update a product in the development cycle. Start-ups tend to aim for rapid iteration, with development priorities based on feedback, and judgements of importance, resources, and opportunity cost. Each cycle of feature prioritisation, development, release, and feedback is an iteration. Repeat ad infinitum, or until the money runs out.

Joint venture

A joint venture is created when two or more independent enterprises agree to commit some of their resources to work together on a common project or towards a common goal. An important feature of a joint venture enterprise is that none of the original enterprises exercise outright control over the entity created, therefore it is considered to be an enterprise.

For business demography purposes, joint ventures may be considered to be real births if they involve the creation of new factors of production. The cessation of a joint venture mirrors the above. It can be considered a real death if less than half of the employment is transferred to the participating enterprises.

The proportion of the new factors of production necessary for a joint venture to be considered a real birth should be at least half, i.e., if less than half of the total employment of the joint venture enterprise is transferred from the participating enterprises, it is considered to be a real birth.

KPIs

Key Performance Indicators: measurable values that demonstrate how effectively a company is achieving key business objectives and help to focus work to the business strategy.

M&A

Mergers and Acquisitions. When a company is acquired by or merges with another. Major shareholders may have their shares bought out, acting as a form of exit for founders and early shareholders, when they cash out their value gains for the first time.

Patient Capital

What the rest of Financial Services call the type of investing that VCs do, that may be illiquid and might not see returns for a number of years, i.e., you have to be patient. Patient Capital may be offered by traditional Private Equity (PE) funds, or government-backed provisions such as the British Business Bank, in addition to VCs.

Pitch deck

Also, just “deck”. A slide presentation that can communicate your business and business plan to prospective partners and investors.

Pivot

A significant change of direction in a business’s strategy or offering, in reaction to changes in the competitive landscape, consumer demographics and adoption, or because a better opportunity materialises

Proof of concept

The successful piloting of an idea with a proposed market, gathering evidence than a project could be successful if launched in its full form, and providing enough encouragement to move forward and commit more resource.

Restructuring

Restructuring within an enterprise does not affect the continuity of the enterprise but changes its structure in the process. An example could be the creation or deletion of a local unit. Restructuring may affect key characteristics such as size or principal activity. It could be argued that this is not really a demographic event at the level of the enterprise and does not impact on the demographic variables relating to the enterprise, but it could affect the way the enterprise is included in demographic statistics. Restructuring will be reflected through changes to relationships or characteristics recorded in the register.

Runway

The amount of time until you run out of money. start-ups that raise investment will plan to spend it at a particular rate. Taking into account any revenue they're generating (if any), they will know when they will be due to run out, and therefore when they need to raise again.

Scaleup

A scaleup is a company at a distinct phase of growth. The company has now outgrown the early start-up years and is demonstrating high-growth and big potential. These are the companies that investors are looking to invest in, and that can go on to create a lot of jobs. The OECD defines high-growth as a company that has achieved growth of 20% or more in either employment or turnover year-on-year for at least two years and have a minimum employee count of 10 at the start of the observation period.

Seed round

The first formal equity investment in an early-stage company from industry investors such as Angels and VCs to fuel growth. Usually under $2m. If a company is "seed-stage", they have raised this round of investment. If they are "pre-seed", they have not raised this round of investment but are planning to do so.

Series A

This is the first scaleup investment round, for when a company has found product/market fit and is looking to ramp up operations and adoption. More than just a start-up idea, the company will have strong traction and growth metrics, and a clear growth strategy. Usually raising somewhere in the region of $2m-$15m, the capital will provide 6-24 months of growth runway. Subsequent VC funding rounds will be named alphabetically as they increase in value, i.e., Series B, Series C, etc.

Small and medium-sized enterprises

Enterprises that belong to size categories defined by staff headcount and financial ceilings.

1. The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

3. Within the SME category, a micro-enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

In addition, an SME must be ‘autonomous’, it cannot belong to an enterprise group or be a ‘partner enterprise’. The main criterion (with some exceptions that must not lead to dominant influence), is holding 25 % or more of the capital or voting rights of another enterprise.

Startup

A young business venture, under about 5 years old, with innovation at the core of their product or service offering and plans to rapidly scale. Their business model often aims to be disruptive to incumbent sectors. start-ups often share cultural similarities in working practices, conventions, and ambition.

Survival

Survival occurs when a unit is active and identifiable both before and after a specific (business) demographic event.

The unit may be changed in some way, e.g., in terms of economic activity, size, ownership or location, but there should be continuity of the unit reference number in the statistical business register.

Survival rate

The survival rate of newly born enterprises in a given reference period is the number of enterprises that were born in year xx-n and survived to year xx as a percentage of all enterprises born in year xx-n.

Term sheet

The agreement between an investor and start-up setting out the conditions of an investment deal. May cover aspects of valuation, share type (will investor have voting rights), board rights (will the investor sit on the board of directors), participation rights (option to participate in future investment rounds), redemption rights (a time period after which the company must repurchase the shares), and liquidation preferences (how proceeds of a liquidation event are distributed, and who gets paid in what order).

Unicorn

Coined by VC investor Aileen Lee in 2013, a unicorn is a privately-owned tech company valued at over a billion dollars, so called for their mythical rarity. A decacorn is a company valued at $10bn.

Venture Capital (VC)

A form of private equity with a focus on making long-term investments in high-growth-potential start-ups and scaleups, with an understanding of high levels of risk but also high reward. With a strong sector focus, often Venture Capitalists (also VC) and VC funds offer “value add” beyond the financial investment, in the form of network, insight and expertise.

X

As in 10x, 100x. Pronounced “ex”, and used to refer to how many times a start-up has increased in value. If it’s increased 10-fold, you don’t say 10-fold, 10 times, or 1000%, you say 10x.

Zombie

When a start-up stops growing significantly but is turning over enough to keep going. Investors are unlikely to see their returns, and the lack of progress leads to a brain drain, hence zombie.

1 For example, The ETCI is a fund-of-funds structure with €3.75 billion of capital to tackle the European scale-up gap. It will invest in large-scale venture capital funds, which will in turn provide growth financing to European tech champions in in their late-stage growth phase. It is expected to make 10-15 investments in large VC funds of approx. And ESCALAR will provide up to €300 million to increase the investment capacity of venture capital and private equity funds, triggering investments of up to €1.2 billion, or four times the original investment, to support promising companies.

2 (Duruflé et al., 2017)

3 (Kraemer-Eis & Lang, 2017)

4 Enterprise Ireland (EI) is the government agency responsible for the development and growth of world class Irish enterprises in global markets. Specifically, to seed the next generation of Irish scaling companies EI has made direct equity investments in over 1,500 start-ups in the last 10 years.

5 The Ireland Strategic Investment Fund (ISIF) provides significant investment indirectly via equity and debt funds that support a large number of firms across the business lifecycle and directly via investments of €10m+ into to larger-scale firms with significant growth potential, and indirectly into smaller businesses via ISIF's fund commitments. ISIF has supported in excess of 300 firms at this stage since its inception.

6 Author and economist David Birch developed the idea of gazelle companies in some of his early studies on employment and introduced the concept to a wider audience in his 1987 book, Job Creation in America: How Our Smallest Companies Put the Most People to Work. Recent studies and empirical observations including Henrekson, M., Johansson, D. 'Gazelles as job creators: a survey and interpretation of the evidence' https://doi.org/10.1007/s11187-009-9172-z validate this theory finding that a few rapidly growing firms generate a disproportionately large share of all new net jobs compared with non-high-growth firms.

7 gov.ie - Programme for Government: Our Shared Future (www.gov.ie)

8 White Paper on Enterprise 2022-2030 - DETE

9 https://single-market-economy.ec.europa.eu/smes/cosme_en,

https://www eif.org/what_we_do/guarantees/single_eu_debt_instrument/innovfin-guarantee-facility/

https://www.eif.org/what_we_do/guarantees/index.htm

10 Analysis of EI Exits 2018 to July 2021 13th October 2021

11 https://www.eif.org/news_centre/publications/EIF_Working_Paper_2021_69.htm

12 European scale-up gap - Publications Office of the EU (europa.eu)

13 JRC Publications Repository - Tackling the Scale-up Gap (europa.eu)

14 https://www.competitiveness.ie/publications/2023/ireland%20s%20competitiveness%20challenge%202023.pdf

15 https://www.ft.com/content/ac0805f2-292e-4e7c-8d2d-bec5af9c4577

16 British Patient Capital Interim Evaluation report - British Business Bank (british-business-bank.co.uk)

17 White Paper on Enterprise 2022-2030 - DETE

18 Currently there is CGT relief available for entrepreneurs selling business assets – there is a reduced rate of CGT (10% rather 33%) for gains on the disposals of qualifying business assets (by qualifying individuals) up to a lifetime limit of €1 million in chargeable gains. This relief is not available to external investors as there is a requirement for the individual claiming the relief to have spent a certain proportion of their time working in the business as a director or employee for three of the previous five years prior to disposal. There is also a requirement that that an individual must own at least 5% of the business. The relief applies to individuals only.

19 gov - Budget 2024 (www.gov.ie)

20 The introduction of a new, targeted capital gains tax relief for angel investors in innovative start -up SMEs. The relief offers a reduction in Capital Gains Tax rate (from 33% to 16%) for qualifying angel investors who invest in an 'innovative SME' on a gain up to twice the value of their initial investment (on a lifetime limit of €3 million on gains to which the reduced rate of CGT will apply).

Equalisation of the Employment and Investment Incentive Scheme, by increasing the maximum investment relief available from €250,000 to €500,000, whereby shares have been held for a minimum of 4 years.

Following EU State Aid approval, the extension of the Key Employee Engagement Programme (KEEP) until the end of 2025 and the increase in total Market Value of issued yet unexercised share options from €3m to €6m for the attraction and retention of staff.

21 European scale-up gap - Too few good companies or too few good investors? (europa.eu)

22 Scaling up with the European Innovation Council: launch of the new initiative to support Europe's future deep tech champions (europa.eu)

23 SME strategy (europa.eu)

24 Home (europa.eu)

25 European Scale-up Action for Risk Capital (ESCALAR) kicks off: First ESCALAR project signed with Swedish equity fund manager Equity (eif.org)

26 European Innovation Council (europa.eu)

27Committee Report Template (cityoflondon.gov.uk)

28 ATP – we work to ensure basic financial security in Denmark