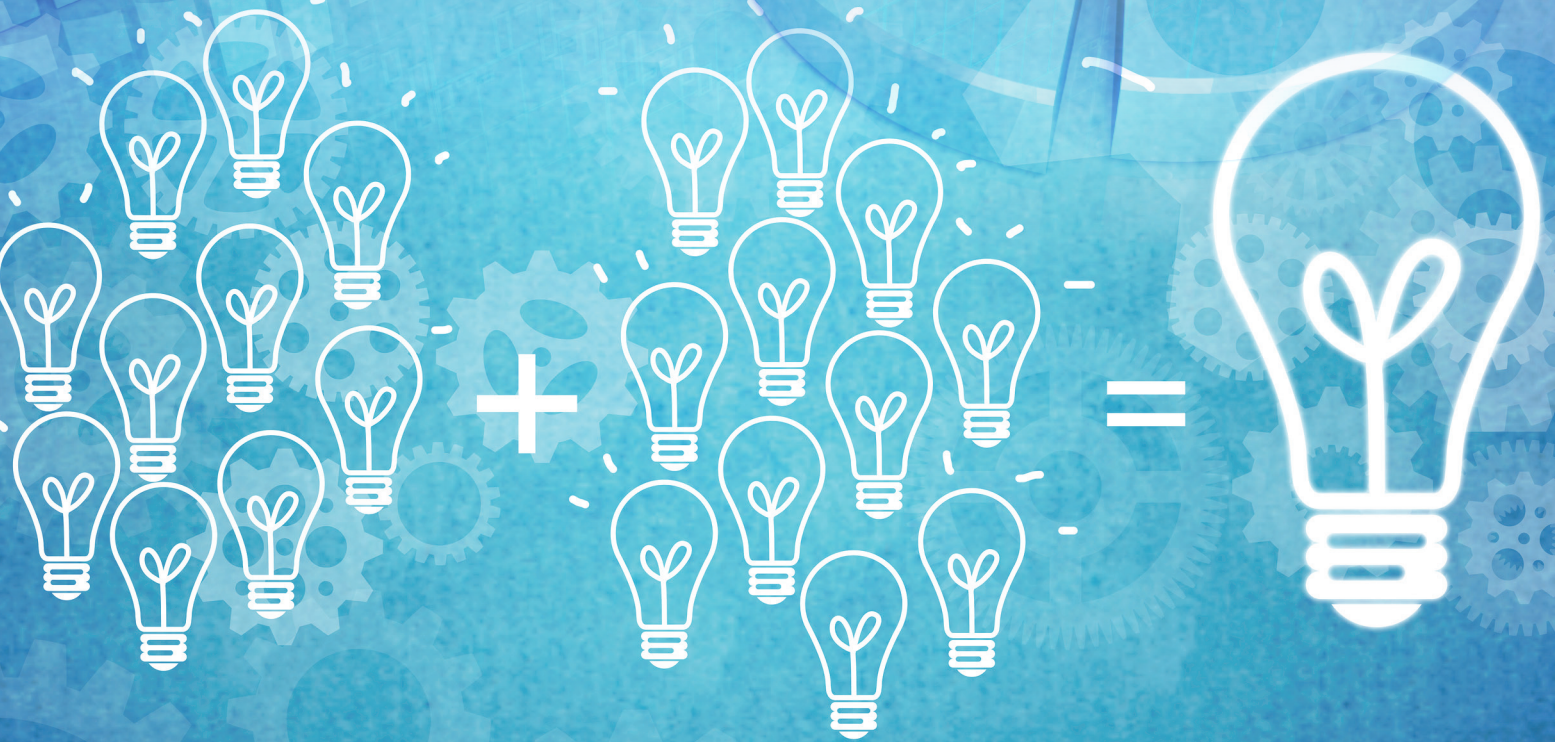




# *Sinn Féin*

Putting Ireland First | Éire Chun Cinn



**PUTTING SME'S FIRST**

# INTRODUCTION

Almost 70% of people employed in Ireland are employed in Small and Medium Enterprises (SMEs). The focus of successive Fine Gael, Labour and Fianna Fáil governments, however, has always been on Foreign Direct Investment (FDI) – something the current Government revisited again in its latest ‘Jobs action plan’. FDI has always been a crucial component of Irish industrial strategy. Almost 90% of all the State’s exports originate from foreign owned Multi National Corporations (MNCs) based in Ireland and this acts as a boost to our Gross Domestic Product (GDP) as well as being a significant job creator. SMEs, however, are the life-blood of the Irish economy, and cannot be neglected.

SMs made huge sacrifices throughout the recession. While large job losses in multi-national factories made headline news, SMEs saw a steady trickle of job losses and ultimate closures. Figures up to 2012 show 128,000 jobs lost in the sector since 2008. Those who survived are now clinging on, hoping the ‘recovery’ will lift them. There has been little debt write-off, few legislative changes to assist them and a clear lack of focus from Government when it comes to SMEs.

The greatest potential for jobs growth is within the SME sector. Sinn Féin believes that there are 10 steps that can be taken to effectively assist SMEs to develop and create jobs now. There are other steps we have proposed previously, but these steps will help alleviate the unemployment crisis now and ensure our SMEs retain a competitive advantage in the future. For Sinn Féin, SMEs are the priority when it comes to fostering indigenous industry and ensuring job creation.

## THE 10 STEPS TO SME AND MICRO-BUSINESS SUCCESS:

1. Increase consumer demand
2. Abolish upward only rents
3. Tackle utility costs and rates
4. Revive ‘Brand Ireland’
5. Open up procurement
6. End unnecessary license delays
7. Resolve SME debt distress and prioritise access to credit
8. Increase labour intensive infrastructure investment
9. Attack the scourge of black-market activity
10. Eradicate unfair cross border practices and tackle the costs of doing business on the border

## 1. INCREASE CONSUMER DEMAND

According to the Central Statistics Office (CSO), retail sales fell by 0.3pc in November 2013 compared with the previous month in 2012. Retail Ireland believes the figures show the sector is still under pressure. Retail footfall in the North for February 2014 dropped by 5.1% with February being the 7th consecutive month to see a drop.

A trends survey for Q4 2013 by ISME shows further worrying results regarding future employment indicators for retailers, with a net 9% stating that they would employ less in 2014, according to ISME CEO Mark Fielding.

The retail trade is dependent on one thing - consumer demand.

The last six years have seen austerity compounded in budget after budget. Much of the billions of Euros that have been taken in tax increases and service cuts have disproportionately impacted the spending power of middle-to-low income families. These are the very families who spend in their local economies. More taxes and cuts are due at the end of this year.

The latest Irish League of Credit Union 'What's left?' tracker, found that while disposable income is on the rise for some, 800,000 adults are relying on their credit cards to make ends meet. It showed that 480,000 adults had no disposable income left at the end of the month and the average figure for those who did was €182, after bills were paid. Disposable incomes in the North dropped by 3.5% in 2013.

The Sinn Féin alternative budget submissions over the last six years have set out ways to stimulate the economy and reduce the deficit, without taking from low and middle-income families. As well as focusing on job creation, our policies have proposed deficit adjustments based on taxing higher earning categories and windfall taxes, as well as cutting waste from Government expenditure.

The Government can increase families' disposable income this year by ensuring two tax cuts in Budget 2015:

- » Abolishing the property tax will save 1.8 million households and average of €278 per annum
- » No new water charges (the Government has not revealed yet what these charges will be)

## 2. ABOLISH UPWARD ONLY RENTS

Upward only rent review leases are a leading problem for businesses. Being locked into contracts with rents fixed at boom-time levels, despite the subsequent 50% drop in property prices, and facing only increases in rent, while sales decline and costs rise, is a potent mix for business failure. The state itself is locked into contracts with upward only rent clauses costing approximately €53 million per year.

The Government recognizes the problem and in fact, during the 2011 general election campaign, the Labour party committed to introducing legislation to deal with upward only rents. That commitment merged with Fine Gael's commitment given in the Coalition Programme for Government. Yet in December 2011, that commitment was abandoned purportedly for constitutional reasons pertaining to property rights – no such concerns for constitutional property rights were made in the IBRC bill when it was brought before the Oireachtas. In the preamble of that bill, the Government stated: '...In the common good may require temporary or permanent interference with the rights, including property rights, of persons'.

The Government will not make public the advice concerning upward only rents upon which it relied, despite claims that constitutionally compliant reform is possible.

In February 2014 the Seanad passed a bill brought forward by Senator Fergal Quinn, that will now make its way to the Dail, to abolish upward only rent reviews. Sinn Féin has previously introduced legislation inserting the retrospective abolition of upward only rents and allowing companies to negotiate new rents on the basis of a new economic climate.

The concept is not without precedence. The state agency NAMA will engage with properties under its remit to reduce rent in upward only rent contracts.

The introduction of Real Estate Investment Trusts (REITs) to the Irish economy in Finance Bill (1) 2013 and the rise of rent yields in general, brings an added dimension to this crisis. Viable businesses are being squeezed out of existence because they are trying to meet ever-increasing landlord rental demands.

We urge the Government to revisit their original election promises, and support the Seanad Bill to deal with this problem when it comes to the Dáil.



### 3. TACKLE UTILITY COSTS AND RATES

The Forfas 'Cost of doing Business in Ireland' report, released in 2013, highlighted the significant costs facing SMEs and affecting the State's competitiveness.

In terms of diesel costs, it found Ireland is the fourth most expensive country in the euro area. Electricity costs for SMEs are the fourth highest amongst the euro area 15 countries. Waste costs remain high, particularly in relation to landfill fees. And while the cost of a bundle of telephone calls is relatively competitive, Ireland is expensive in terms of broadband costs – particularly when broadband quality is considered

There are a number of measures Sinn Féin believes the Government can undertake to facilitate the reduction in costs for businesses.

- » Cap utility costs for a period of two years. We believe that rather than selling state assets for short-term gain, a wiser move would be to put state assets such as ESB and Bord Gais to strategic use, through price caps and job creation.
- » Invest in broadband. As set out in the Sinn Féin job creation stimulus plan 2012, we would invest the €2.5 billion necessary for the rollout of next-generation broadband access throughout the state. This will take Ireland to the top of the broadband league and will boost our attractiveness for high-tech jobs.
- » Review commercial rates. Begin the process of reviewing commercial rates across the state in a cost-neutral reallocation exercise. We believe businesses should pay rates for the services provided by the state, but that rates should be reflective of the size and scale of a business, and should be affordable – not designed to plug the gap in Government funding for local authorities. This would be an enormous exercise that would require the co-operation of all the local authorities. It would be carried out under the aegis of the Department of the Environment.
- » Fuel costs. We proposed and the Government adopted the provision of a temporary rebate on fuel for transport firms. This rebate should be reviewed to ensure transport firms are consuming more fuel domestically, instead of cheaper fuel on the continent, but the Government also needs to look at the high excise duty on fuel and working towards alternative environmental friendly methods of freight transfer, such as freight rail lines. In the first instance, the Government needs to conduct a cost benefit analysis on the cost of high excise on fuel duty versus impact of revenue lost due to impact on businesses.

### 4. REVIVE 'BRAND IRELAND'

The Government has stated that it wants to see an export-driven recovery. However, 90% of all our exports originate from multinational companies based in Ireland. Indigenous companies full export potential has yet to be realised.

There are a number of measures that could add to the success of the Irish 'brand' both at home and abroad.

- » Review the current sell-by date regulations which allow importers to avail of the same sell-by date as domestic producers, despite the fact their products actually take a longer shelf life after including the import process.
- » Tackle mis-use of 'Irish' branding. Initiate a campaign to urge the food catering industry to use domestic suppliers and increased monitoring of 'Irish goods' labeling (for years, the agri-food sector has provided evidence that the 'Ireland' brand is being mis-sold to confuse consumers who do wish to buy Irish, for example, by labeling something as 'Irish' when it is packaged here).
- » Tax credits for homegrown purchases. Examine the use of tax credits for Multi National Corporations, which source Irish produced materials as opposed to importing. The National Linkage Programme 1985 was established to develop a supply base in Ireland that would maximise local purchases of Irish materials, components and services by foreign-owned organizations located in Ireland. Reports show the programme was successful for a short period, but the inability of Irish companies to enlarge their scale deterred MNCs. In straitened times, the attractiveness of targeted tax credits could kick start this initiative back to life.

## 5. OPEN UP PROCUREMENT

Speaking at an Inter Trade Ireland 'Meet the buyer' event in October 2013, Minister for State Brian Hayes urged SMEs to tap into the €16 billion public sector procurement spend across the island of Ireland.

In reality, the Irish Government is making it increasingly harder for SMEs on the island to access procurement contracts because of a move to centralized purchasing and a sole focus on the bottom line.

The Small Firms Association and Chambers Ireland have warned that Government buying policies have the potential to eliminate small businesses from the tendering process, resulting in business closures, job losses, regional imbalance and ultimately less competition in the marketplace.

Public sector procurement policy is not aligned to its own enterprise support and job creation agenda. The Department of Public Expenditure and Reform, the OPW and the Department of Jobs, Enterprise and Innovation are not working together to ensure job creation and retention is a shared policy objective of both Departments.

Smart public procurement acts as a critical stimulus for the domestic economy as well as providing supplies and infrastructure cost effectively. The domestic SME and micro business sectors are finding it increasingly difficult to access public procurement contracts, specifically print, stationery and school supplies.

There are a number of specific blockages identified, which include:

- » Effective exclusion of micro-businesses from centralised rolled-up contracts
- » Need for an economic impact assessment prior to centralising contracts
- » Conflict between health & safety and price focus
- » No protection against anti-competitive practices

A different, job-focused approach to procurement is vital. Sinn Féin wants to see state procurement opened up to small companies.

There are ample examples of where the State has rode roughshod over SMEs and micro financing in the criteria it has set for procurement contracts. The criteria of a €40 million turn-over in the postal codes contract in 2013, effectively excluded SMEs from the process and the subsequent awarding of that contract, while the EU was investigating the contract criteria, showed the Government is happy to push ahead with awards for large companies and is only paying lip-service to SMEs.

There has to be a comprehensive review of State and Local Authority procurement projects with the aim of breaking them down and allowing smaller businesses to compete for tenders. Cost cutting is essential in the current climate, but this agenda cannot dominate, especially if it is having the side effect of destroying SMEs and local economies.

The practice of some unscrupulous contractors buying tenders still exists. This is a process whereby some contractors tender for a state project under the cost price and then seek to underpay or break sub-contractors to make up the short fall. Despite new legislation there is little or no monitoring of malpractice and as a result subcontractors are still vulnerable. Contractors should be rated on the basis of their track record of paying sub-contractors and those who offend should be prohibited from future state tenders. Also the state should research the potential of paying subcontractors directly.

Public procurement can and must play a critical role in the state's economic recovery.

## 6. END UNNECESSARY LICENSE DELAYS

With cuts to staffing levels in the civil service, many sectors have noticed administration delays, particularly in areas such as license issuing. This was brought starkly to public attention in 2012 when Irish Shellfish Association revealed that 600 aquaculture licenses were being held up in the Department of Agriculture, delaying the production of 2,000 jobs. Jerry Gallagher, the head of the organization, pointed out in January 2014, that this is an ongoing problem and in March 2014, the Irish Farmers' Association highlighted in a report that Delays in issuing fish farm licenses have cost an estimated EUR 60 million in investment over five years. If the Government has allegedly set job creation as a priority, beginning in 2014, license applications through departments must be dealt with speedily and appropriately.

In addition, while the Government is now dealing with the issue of 'on-time' payments from Government departments, there are still administration issues causing problems for business. Revenue refunds and rebates, as a rule of thumb, are quite slow. Cash flow is an ongoing problem for a lot of SMEs and delays in payments from Revenue can ultimately result in lay-offs. Rather than directing revenue resources to areas like property tax, the Government should be concentrating on making sure Revenue is performing for the benefit of taxpayers and businesses.

## 7. RESOLVE SME DISTRESS AND PRIORITISE ACCESS TO CREDIT

At the end of 2013, many SMEs were reporting that financing was not as big an issue for them as it had been in previous years (Inter Trade Ireland 4th 'Business monitor' quarterly report 2013). In the first few months of this year though, ISME released statistics showing the problem hasn't gone away, finding:

- » Refusal rate for SMEs has increased from 50% to 54%
- » Constructive refusal disguises extent of real problem
- » Demand for SME lending up to 39% from 37% in previous quarter
- » 60% experienced an increase in bank charges
- » 78% of owner/managers are in favour of an alternative Strategic Investment Bank

The Association expressed concern at this increase, in light of the recent ending of the requirement to lend up to €8 billion to SMEs and called on the Government to intervene immediately to ensure that SMEs had sufficient access to bank credit.

In the North, figures for 2012 showed that 30% of SMEs did not apply for a bank loan because they feared refusal and there was an overall 29% refusal rate for financing.

ISME head Mark Fielding has called on the Government, through the Central Bank to "investigate the inordinate delays in getting SME loan decisions, which can be up to 10 full weeks instead of 15 days as set out in the Code", saying the delays are a cynical method of refusing credit, without actually stating so. He also points out that awareness of the Credit Guarantee and Microfinance schemes is still far too low.

Businesses need a constant flow of credit to operate. The National Competitiveness Council has found that both the demand for credit and the supply have been on a steady decline since the beginning of the banking crisis.

Sinn Féin has long argued for a State bank. AIB has been all but nationalized, but still operates mainly independent of Government.

The Irish Credit Corporation (ICC) and the Agricultural Credit Corporation (ACC), despite having flaws, operated an invaluable service to domestic companies in the State. As well as

ensuring that bailed-out banks are lending properly to SMEs, the Government must seriously undertake an examination of a strategic industrial bank.

In addition, we want the role of the Credit Review Office (CRO) examined. The CRO allows for SMEs who are unsatisfied with the decision of a bank to a credit application to appeal that decision to the Office.

Currently only the State owned banks (except PTSB) are included in the scheme with Ulster Bank having its own internal review procedure. In its latest quarterly report the CRO states that '55% of appeals have been found in favour of borrowers and this has resulted in €18.5M credit being made available to SMEs and farms, helping to protect / create 1,521 jobs.'

The CRO has been in operation for 3 years but has only had 406 formal applications up to September 2013. Of these, 272 reached final conclusion and the Credit Review Office has upheld 55% of the appeals in favour of borrowers.

That compares very favourably to the only 11% in favour of businesses as a result of the Bank of Ireland's own appeal processes

- » A continued and increased publicity campaign is needed to raise awareness of the role of the CRO
- » The government should consider making the CRO's findings binding on banks and ask the banks currently not part of the scheme to join

In terms of legacy debts for businesses, Sinn Féin has called on the Government to direct a section of Enterprise Ireland to provide a service for these businesses before they fall off the debt cliff. Enterprise Ireland should help these businesses to allow them separate the toxic element of their debt, normally property assets, from the functioning and profitable sections of their businesses. If this does not happen with some urgency, viable businesses will continue to be drowned by legacy property debts. Jobs will continue to haemorrhage and a significant break on growth will remain.

These toxic elements like genuine mortgage distress need to be restructured, written down or parked until such time that businesses can deal with it. Uncertainty over resolution is damaging to recovery.

The state needs to actively promote the growing area of Crowd Funding. In the sector's short existence it has managed to reduce the time it takes small enterprise to get loans and provide finance in at a competitive rate. A number of Crowd Fund

providers have emerged in the Irish Market and a state-funding partnership scheme with one or more of these would help accelerate the sectors growth. However, the development has to be monitored – Crowd Funding is innovative and exciting, but unregulated.

## 8. INCREASE LABOUR INTENSIVE INFRASTRUCTURE INVESTMENT

In October 2012, Sinn Féin produced a comprehensive job creation and retention document entitled 'Create Jobs, Create Growth'. This document set out a number of measures to facilitate SMEs, entrepreneurs, co-operatives and individual sectors. Its focus point, however, was a state-sponsored stimulus package, paid for from the National Pension Reserve Fund (NPRF), matched with funding by the European Investment Bank (EIB), Government capital expenditure (maintained at that year's rate, i.e., not targeted for cuts) and investment from the Private Pension Industry into a green fund focused on retrofitting homes (a benefit to both SMEs, the construction sector and domestic consumers).

We are pleased to say the Government took some of our recommendations on board. Despite initially ridiculing the concept of stimulus, the Government has now accepted that the NPRF should be used for job creation and that the European Investment Bank has more to offer (though it is still not accessing the EIB to the extent it could). Unfortunately, it has cut capital expenditure over a number of years, decreasing the State's annual spend on job creation.

In addition, it has also failed to grasp the necessity of spending the NPRF resources in a way that not only increases jobs but also heightens competitiveness. The first €500 million to be spent from the NPRF was towards the establishment of Irish Water. Domestic water charges will make us less competitive and lessen the disposable income of Irish consumers.

A state-sponsored stimulus, combined with steady Government capital spend, will be of huge benefit to SMEs. But the spend must be judged accurately – labour intensive projects, with regional spread and value for money must be the priority.

Among the measures proposed by Sinn Féin in our state stimulus package, were:

- » **Revive the sugar beet industry** and construct a new bio-refinery plant in the South East with the potential to create 5,000 jobs (€350million)
- » **Broadband** - Invest €2.5billion in the rollout of next generation broadband across the 26 Counties.
- » **Sequence investment in fixing water infrastructure** (currently 43% of water is wasted through leaks) with an initial investment of €500 million.
- » **Proceed with A5 dual carriageway** and open up the North West for real investment
- » **Regenerate the Cork dockland area.** This will see the building of the two gateway bridges, necessary road infrastructure, flood defence, district heating, public areas, education facilities and water supply- as outlined by the Engineers Ireland report on the dockland area, 2009 (€600 million)
- » **Social housing** - Buy, renovate and build where necessary, social housing. In addition to renovating suitable vacant housing stock and NAMA properties, initiate a social housing build of at least 5,000 houses at a cost of €1 billion
- » **Build an additional 100 schools** at a cost of €300 million and refurbish 75 more at a cost of €50 million over the next 3 years on top of current capital commitments
- » **50 new Primary Health Care Centres** at a cost of €250 million. At the start of the last decade, the plan was to build 200 primary care centres across the state. Up to 2012 only 32 centres had been completed and were in operation, despite the concept of local health care being at the heart of healthcare strategies.
- » **Deepen a berth at Rosslare Europort** from 7 metres to 9 metres. Rosslare Europort is a strategic asset supporting exports and tourism. In the future we would look at building a cargo depot on site and re-opening the Rosslare to Waterford rail line. Cost: €50 million
- » **Invest in capital infrastructure at Knock Airport.** IWA Knock shows real potential to develop as a hub for aviation related development for which there is a growing global market, a market in which airports such as Knock as well as Shannon are ideally placed to exploit. Cost: €74m

## 9. ATTACK THE SCOURGE OF BLACK-MARKET ACTIVITY

A study conducted by research group Grant Thornton in 2013 revealed that black-market activity, or illicit trade, could be costing the Irish economy as much as €1.4 billion a year, split approximately into a half billion cost for companies and a €900 million cost to the Irish exchequer.

The study concentrated on the areas of Intellectual Property crime (eg, DVD & music piracy); contraband (eg, cigarette/fuel smuggling) and illegal manufacturing (eg, pharmaceuticals).

There is no one solution to tackling illicit trade. Increasing or decreasing the price of a product, or increasing the number of customs officials, contribute in prevention but do not stop the highly lucrative black-market business.

Grant Thornton suggests a range of measures, which Sinn Féin supports, including:

- » Understanding the size of the problem and showing the political will to deal with it
- » Evaluation of the main facilitators of illicit trade
- » International co-operation
- » Education for the public
- » Strengthening enforcement
- » Effective legislation and regulation
- » Co-operation with the legitimate industry.

In addition, much of the illicit trade in fuel, cigarettes etc. that happens North/South happens as a result of a divergence in Northern and Southern taxes, excise, wages and regulation. This leads to one jurisdiction having an unfair competitive advantage over the other for a period of time. Sinn Féin is 100% in favour of growth and integration of cross border trade. The fairest way this can be achieved is through the harmonization of tax, excise, wages and regulation. Political will on both sides of the border is necessary to make this happen. Sinn Féin will continue to do all it can to drive this.

## 10. TACKLE THE COSTS OF DOING BUSINESS ON THE BORDER

SMEs have the most potential to benefit from an all-island economy, but to date, the different economic structures north and south have undermined growth. For example, companies are on record stating that the differences in currency have a sizeable impact on profit margins to the extent that they have been discouraged from having operations on both parts of the island.

Despite the interconnection and interdependence of the economies north and south, there has been a limited focus placed on promoting island wide growth and recovery. Island wide trade has yet to reach its full potential. Inter Trade Ireland does a sterling job, but receives limited funding support. Some businesses have taken the lead in cross border trading and investment over the last couple of years despite the impediments caused by cross border credit card transaction fees; telecommunication cross-border charges; and dual tax and pay roll systems. Sinn Féin is working to develop a harmonized tax system on the island. This will require fiscal powers to be devolved from Westminster to the Assembly.

The British Government is planning to cause further problems for businesses by introducing a levy on vehicles crossing the border from the south to the north. Under new Westminster legislation, all HGVs crossing the border into the North from this April will be liable to pay up to £10 a day levy. This would have a particularly negative impact on SMEs and the agri-food sector - our fastest growing sector north and south. Sinn Féin has been vocal in its opposition to this levy, and our representatives north and south have been to the forefront in highlighting the issue in every elected forum. The British Government needs to amend the legislation to exempt the north from this regressive charge and the Irish Government must ensure that they challenge their British counterparts to stop this charge.

Some steps that could be taken include:

- » A Border Development zone to harmonise trade and maximise returns for border businesses and the island economy and a Trade Forum to bring together SMEs to address common challenges including finance, logistics, business support etc. that would make use of local and external expertise including accountancy firms, business development bodies and other important supports including information on



the credit appeals process in both jurisdictions, using Inter Trade Ireland as a facilitator.

- » Upgrading island wide infrastructure. This means completing the A5, Narrow-water Bridge and developing an island wide rail network.
- » The Oireachtas and the Assembly to agree a strategy to get credit card and mobile phone companies to remove the border from their roaming charging systems and cross border administration costs and treat the island as one entity for costs. InterTrade Ireland could spearhead this work.
- » Re-examine the regulatory barriers to doing business on the border. InterTradeIreland has already conducted previous studies on this and made a number of recommendations, which can be reviewed and implemented.
- » Remove impediments for businesses transferring staff north and south - organize direct co-ordination between relevant government departments such as Revenue to make it easier for employees to work on either side of the border.